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# **USING VIGNETTES IN HOSPITALITY MANAGEMENT CURRICULUM TO TEACH EMOTIONAL INTELLIGENCE**

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## **INTRODUCTION**

The hospitality industry requires that frontline employees, through senior management, have a high level of emotional intelligence that results in consistent customer satisfaction. Preparing future hospitality managers to navigate challenging and diverse situations in the workplace is a critical mission of hospitality management educators. Due to time and financial constraints in the hospitality management undergraduate curriculum, it is important to align and implement practical exercises within the current coursework that develop the emotional intelligence of the students. The current study used the vignette technique to assist educators in developing key competencies with regards to hospitality management best practices along with practical experience that build fundamental emotional intellect required to deliver ‘best in class’ service.

## **LITERATURE REVIEW**

Goleman (2000) (as cited by Benjamin, Gulliya, & Crispo, 2012) defines emotional intelligence as “the ability to manage ourselves and our relationships effectively and consists of four fundamental capabilities: self-awareness, self-management, social awareness, and social skills. Each capability, in turn, is composed of specific sets of competences” (p.78). Benjamin, Gulliya, and Crispo (2012) describe the four capabilities of emotional intelligence. Bay and McKeage (2006) further describe Mayer and Salovey’s model of emotional intelligence as two branches. The first capability or branch is described as self-awareness or the ability for one to recognize and manage their own and others emotions. Self-assessment and self-confidence are further traits that describe one's strengths, weaknesses, and self-worth (Benjamin et al., 2012). Self-management or self-control is the ability for one to control their emotions. This can be displayed by showing initiative, being able to adapt to change, being conscientiousness, and displaying the internal drive for achievement (Benjamin et al., 2012). Bay and McKeage (2006) further describe this branch as thinking more creatively and utilizing problem solving skills.

Social awareness is the ability for one to sense emotions from those around them, and with those emotions to listen and show concern for their perspective. Within the firm, organizational awareness is another factor that involves building networks, meeting customer needs through service, and understanding the workings of the organizational culture (Benjamin et al., 2012). The final capability involved in emotional intelligence is social skill. When one

possesses social skills they are able to lead and inspire others. This trait involves strong listening and feedback skills, conflict resolution, and the ability to build bonds and maintain healthy relationships. Essentially can one manage, not control, the emotions of others and oneself for internal personal growth (Bay & McKeage, 2006).

Bay and McKeage (2006), discuss the ability emotional intelligence can have on personal development as well as influencing quality relationship building with others. Along with leadership and intercultural communication skills, all of these attributes of a high emotional intelligence are important attributes to a successful leader in the workplace. Most industries require one to work with other people. People whom have emotions. There is pressure for higher education programs to not only focus on technical skill development, but to develop the “whole self.” To teach students to be mindful of how they let their emotions affect themselves and others (Bay & McKeage, 2006).

Bay and McKeage (2006) bring up an interesting and important point, “As soon as emotions become recognized as an unavoidable aspect of the workplace and even as constituting a valuable resource for furthering organizational goals, it is a short step to the idea of the need for emotional intelligence” (p. 442). All too often emotions are ignored in the workplace, the focus is on productivity. Yet, many organizations are realizing that emotions play an influential and fundamental role in the success and performance of our employees (Saxena & Saxena, 2012). In any industry, employees must constantly be aware of how their emotions, and demeanor are being portrayed towards guests, co-workers, and management. It is the job of the employee to read another’s emotion to better serve and create a positive experience.

In the hospitality workplace, teamwork, communication, and service are key attributes to a successful organization. “To achieve repeatedly successful results and to truly satisfy customers, it is crucial to look after the human side of the guest relationship” (Cavelzani, 2012). Emotions play a role in the ability of employees to work well with one another in order to provide the high level of service expected by employees (Cavelzani & Esposito, 2010). The theory of emotional intelligence requires one to be self-conscious about their emotions, to understand why they are exhibiting a particular emotion, and managing themselves to be able to focus on the job at hand (Cavelzani & Esposito, 2010). Self-motivating is another important skill, especially in jobs that typically are challenging and unmotivating. Front desk staff, housekeeping staff, and waitstaff are a few examples of these jobs that can benefit from self-motivation. Emotional intelligence can help employees to understand the value their job position plays to the success of the overall organization and customer satisfaction.

For example, in the context of casinos, “high-rollers” (that is guests that spend the majority of money and usually the guests that make the most money for the casino) expect high customer service. Employees often must have extensive emotional investment and management skills to meet the high demands of these influential guests (Prentice & King, 2013). These guests are winning and losing a substantial amount of money, which leads to a wide range of emotions that the casino host must be well trained to create a positive relationship, regardless of unfortunate circumstances.

As professionals in the hospitality industry it is our goal to create positive service experiences. Guests expect to experience positive interactions with employees and to have employees respond in a timely manner to their needs. Hospitality employees that have a greater

understanding how to manage their own emotions and perceive others are more likely to create these positive interactions (Cavelzani & Esposito, 2010).

### **Importance of Emotional Intelligence in hospitality university classrooms**

Educators need to be aware of the role emotions play in the education and overall development of their students in the classroom. Through key developmental years educators have an opportunity to address and educate students on effective emotional management. Saxena and Saxena (2012) discuss various moments within teaching students to address their emotions for different situations such as anxiety, depression, anger or fear. It is important for educators to teach students how to communicate why they are feeling these emotions. This provides an opportunity for the teacher and student to open up a dialog to search for support. First and foremost, the teacher must be emotionally intelligent in order to effectively model and teach emotional intelligence to students (Saxena & Saxena, 2012).

Another benefit of including emotional intelligence in education is the general increase in academic success and ability to navigate socially in the classroom. This is a benefit not only to the student but to the teacher as well (Ilkay & Omeroglu, 2007). Many stressful situations arise throughout the school year. Worry about passing an exam, stress about making friends, bullying, problems at home; situations such as these have a negative emotional effect on students. Emotions that can have a severe negative effect on their ability to focus on learning. The objective of emotional intelligence is not solely to teach children how to manage emotions so that they can focus on education. Managing emotions is a lifetime skill that can be a paramount benefit as these students move into the real world and must cope with everyday social situations (Ilkay & Omeroglu, 2007).

Along these lines, Fall, Kelly, MacDonald, Primm and Holmes (2013) address the multicultural nature of individual's present on a university campus. It is essential for today's students to be able to communicate with those from other cultures. Certain characteristics comprise intercultural communication (Fall et. al., 2013). For instance, cultures are fluid in nature, communication can be verbal and nonverbal, and makes the distinction that culture is not geography but rather an assimilation of beliefs and lifestyles. The researchers of this study imply that in order for students to become more competent in intercultural communication they must reduce their apprehension. The greater competence one has for intercultural communication the more willing and effective one is to communicate with those from other cultures (Fall et. al., 2013). With the growing diversity in our schools and work environments, teaching tolerance for other cultures through emotional intelligence is a becoming a necessity, rather than an option. Bay and McKeage (2006) describe how in today's working environment teamwork, networking, and leadership skills are becoming ever more important. Emotional intelligence is believed to be an effective means to predicting success in these important skill areas.

As discussed above, various levels of education can implement emotional intelligence into their curriculum. Emotional intelligence is a lifelong skill, which cannot be ignored. Universities have the potential to educate students at a very young age about the importance of respecting others and communicating their emotions. These skills can further be developed through developmental stages in education to aide in various skills needed to navigate a world full of never ending emotions.

Vignettes allow participants to react to a social situation or a short description of a person that focuses on the most important factors in a judgement-making process (Alexander & Becker, 1978). Alexander and Becker (1978) point out that only using surveys to collect data, respondents are asked to make judgments from abstract and limited information. Vignettes help to make the decision-making situation more real which is important when educating undergraduate hospitality management students related to emotional intelligence variables. "Vignette-based experimental designs offer a glimpse into how individuals' thoughts, feelings, behaviors, and decisions are affected by factors that may not be easily accessible in real-life situations because of confounding sources of variability that cannot be controlled" (Evans, Roberts, Keeley, Blossom, Amaro, Garcia & ... Reed, 2015). The purpose of this study is to understand the impact that emotional intelligence can have on the development of hospitality management students, and how effective the use of vignettes can be in that development.

Research questions:

1. What is the relationship between students' understanding of their own emotional intelligence and the use of vignettes as a learning tool?
2. Why is the use of vignettes in teaching emotional intelligence to hospitality management students effective?

## METHODOLOGY

The current study used vignettes to determine the level of emotional intelligence of hospitality management students enrolled in a sophomore level human resource management course. Four vignettes were created from examples experienced by the researchers while working in the hospitality industry. The vignettes were created specifically to focus on the four capabilities of emotional intelligence; self-awareness, self-management, social awareness, and social skills (Appendix A).

Construct validity has been addressed by using vignettes developed by the researchers from their personal experiences in the hospitality industry. The questions were created by the researchers to test the level of emotional intelligence of hospitality management students. The questions reflect the decisions managers must make when faced with the examples as presented in the vignettes. The researchers experienced these situations as hospitality managers, and observed decisions made by other professionals in the industry. These vignettes resemble scenarios hospitality management students will encounter as managers, and may have already experienced while working in the industry (Evans, et al., 2015).

Internal validity will be addressed in this study through similar techniques used by Gould (1996) and Flaskerud (1979) who advocated that vignettes should be developed from real cases, submitted to a panel of experts for review, and a pre-test conducted to strengthen the vignette questions. A panel of hospitality management professionals including faculty of a four year hospitality management program were used for the panel to clarify ambiguous questions used in the vignettes. An initial pre-test was conducted in the fall semester with approximately 25 students. In the spring semester, the same study was conducted with approximately 25 students enrolled in two sections of human resource course, in the same hospitality management degree program.

The researchers distributed hard copies of the vignettes to the students and asked them to read, and answer the five questions at the end of the vignettes. The vignettes were collected. A one hour lecture focused on emotional intelligence in the hospitality industry was then delivered as part of the human resource curriculum within an undergraduate hospitality management program. After the one-hour lecture, at the beginning of the next scheduled class, the researchers re-distributed hard copies of the vignettes to the students and ask them to read, and then answer the questions at the end of the vignettes (Appendix A). Comparisons of the students' responses from the first data collection and the second data collection were used to answer the research questions as to whether or not vignettes are a useful method in instructing students in emotional intelligence.

## **DATA ANALYSIS**

Five questions were asked at the end of each vignette. The respondents were asked to respond "yes", "no" or "I don't know". Two out of the five questions were orientated to prompt a response that reflects a high level of emotional intelligence, and three of the questions were oriented to prompt a low level of emotional intelligence. This similar technique was used by Finch (1987) to facilitate the statistical analysis and a meaningful interpretation of participants' responses.

The researchers tabulated the frequencies of change that occurred in the students' responses between the pre-test and the post-test. Table 1 data is the result of data collected as a pilot test in the fall semester with one human resource class. There were 14 useable tests, and 10 non-useable tests. Tests considered not useable were those tests that students completed in the pre-test stage, but not did not return to class on the following class period to take the post-test. Tests that did not include the coding numbers were also eliminated. In the pilot test phase the researchers found that there was a change in answers between the pre and post-tests, 17 total times. Although not all the changes were positive, meaning the students level of emotional intelligence did not increase all the time, however there was a change in their response. A change in response could indicate that they are thinking differently about the situation, which is a positive reaction to the lecture.

In Table 2, the students of two sections of a spring semester human resource class were given the pre and post-tests. There were 54 useable tests, and 16 non-useable tests. There were 59 positive changes (meaning the student's response was correct as to a low or high EI level). There were 31 negative changes in responses, and 19 responses that changed to "I don't know". A response of "I don't know" does not indicate necessarily that the student has a low level of EI, but does show that the student is thinking about the scenario, possibly more so after the lecture, and needs more knowledge about how to handle such a situation when in the past they would have made a different decision.

The researchers found that the frequency of changes between the pre and post tests were a positive indicator that a one-hour lecture made some type of impact on the students' response to the specific vignettes. Very interesting are the highest responses in the Self Awareness categories of both data sets. It appears that several student's reconsidered their initial response to



the scenario after hearing the EI lecture. This is a positive influence that could be explored further in future studies.

Future research that would include a longer lecture, in class activities, and even some type of assessment as part of the instrument to stimulate change in the students' responses would be beneficial to increase EI in hospitality management graduates.

Table 1. Fall semester pilot test in one human resource class

<b>EI Capability</b>	<b>+ change in questions</b>	<b>- Change in questions</b>
Social Awareness	4	2
Self Management	3	1
Self Awareness	5	0
Social Skills	1	1
Totals	13	4

N=14

Number of responses with No Change=4

Number of responses that moved to "I don't know"= 6

Non-useable = 10

Table 2. Spring semester 2 sections of human resource class

<b>EI Capability</b>	<b>+ change in questions</b>	<b>- Change in questions</b>
Social Awareness	9	5
Self Management	12	7
Self Awareness	21	11
Social Skills	17	8
Totals	59	31

N=54

Number of responses with No Change= 11

Number of responses that moved to "I don't know"=19

Non-useable = 16

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## APPENDIX A

### Emotional Intelligence in the restaurant industry vignettes

#### Social Awareness

Sally is a server in a fine dining restaurant in a major city. She has over ten years of serving experience and is one of the restaurant's best servers. On a busy Friday night a group of eight people walked into the restaurant without reservations. The hostess seats the party in Sally's section because she knows Sally is able to handle the large group even with an already full section. Sally greets the table and is able to immediately tell that the table is going to require a lot of extra attention. Sally passes by you, the manager, and makes a comment about how the party is going to need extra attention and she needs your help.

Questions:

1. Do you ask Sally how you can help her with her table? (high level)

2. Do you tell another server to help Sally because it is not your job to serve guests? (low level)
3. Do you feel Sally should be able to handle all of her tables herself without your assistance? (low level)
4. Do you ignore Sally's comment all together and go about what you were doing? (low level)
5. While serving your own tables do you help Sally out by refilling waters and clearing dirty dishes when walking past the large party? (high level)

### **Self Management**

You are a new assistant manager in a national chain hotel. In your hotel, you are one of two assistant managers who are supervised by a General Manager. You were told when you accepted your position your work schedule would consist of five work days, and two consecutive days off. After working three weeks, you receive a phone call from your General Manager on your first day off of two days that week, while hosting your child's birthday party at your house. He states that the other assistant manager, who was to be working that day, just called and quit. The GM tells you you have to go in and cover his shift or you will be fired. You decide you better go into work to save your job.

#### **Questions:**

1. Do you go happily go into work and jump right in to help the staff? (high level)
2. Do you enter the hotel angry and go straight to your office, shut the door and do not speak to anyone? (low level)
3. Do you turn in your 2 weeks notice? (low level)
4. Do you fake a smile and complain every chance you get to the staff and the customers? (low level)
5. Do you go into work and start reviewing applications to find a replacement for the assistant manager that just quit? (high level)

### **Self Awareness**

You are a manager in popular restaurant in a large city. There is buzz all over the city that major celebrities are coming into town to film a new movie. You receive a phone call from one of the event planners responsible for the film. A group of the celebrities from the film want to eat in your restaurant in 2 hours. It is a busy Saturday night, but you are still able to find a table to accommodate the party. You do not know exactly which celebrities from the film will be coming into the restaurant, but whoever comes in will definitely cause some excitement with the other customers, and the staff. You are excited and nervous about the party coming in on your shift, and all of the other managers have gone home for the evening.

#### **Questions:**

1. Do you get so excited you start texting all of your friends and family? (low level)
2. Do you loudly go around telling all of the staff and customers about the exciting news? (low level)

3. Do you keep the excitement to yourself and just tell the staff to prepare for a large group that just called in a reservation, and do not mention the celebrities until right before they are expected to arrive? (high level)
4. Do you confide in the host/hostess about the large group of celebrities to ensure the guests are greeted properly? (high level)
5. Do you go into the kitchen and yell to the Chef “Celebrities are coming. Be ready!” (low level)

### **Social Skills**

It is your first week as a casino host in a popular Las Vegas casino. Your supervisor assigns you to a regular guest (“high-roller”) who will be arriving that evening. You are excited to get started in your new job and want to make a great first impression on your client, and with your boss. Your client arrives and he immediately demands his favorite drink to be brought to him at his lucky poker table. You ask what is his favorite drink and he blows up “I spend thousands of dollars here! Why don’t you know my favorite drink?” How do you respond?

#### **Questions:**

1. Do you apologize and make excuses that it is your first day and no one told you? (low level)
2. Do you cry and run away? (low level)
3. Do you apologize and tell him you will be right there with his drink. Then go into his players club account and find out his favorite drink and order it right away? (high level)
4. Do you apologize and joke that you were just double checking to make sure it was the same as last time, then go into his players club account and find out his favorite drink? (high level)
5. Do you yell back “How am I supposed to know?” (low level)

# LEARNING *FOR* ENTREPRENEURSHIP: AN INTEGRATIVE COMPETENCY-BASED FRAMEWORK FOR GRADUATE ENTREPRENEURSHIP EDUCATION

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## ABSTRACT

*This paper has two primary aims. The first is to introduce an integrative conceptual framework for promoting the development of entrepreneurial competencies from the beginning to the end of a graduate study program. The second aim is to discuss critical findings from a longitudinal pilot study implemented within an online MBA program in Western Canada. The three and a half year pilot study was designed to examine key competencies that are being developed during the first phase of this graduate business program and to identify which specific curriculum activities best support the development of these competencies. Competencies investigated in this study were selected from a detailed review of the academic literature, with special emphasis on conceptual frameworks that have been applied in graduate business programs. Considering the overlap between entrepreneurial and generic competencies, the authors proposed an integrative conceptual framework for meaningfully linking them in first and second phase MBA courses, thus supporting entrepreneurial thinking and development throughout the program's duration. The pilot study methodology included an initial phase of 13 interviews with key stakeholders, followed by longitudinal surveys with twenty-two MBA students. After an initial pretest phase, student surveys were collected with three different MBA cohorts, both at the beginning and the middle of the study program. Survey findings revealed significant differences in graduate students' capability ratings of key generic competencies at these two specific times. In addition, content analysis of the 13 interviews with students, alumni, employers and faculty indicated that specific curriculum activities such as participation in online discussion forums, case studies and applied projects were considered critical in promoting students' competency development during their first phase of core courses. Implications for future research and curriculum development are discussed.*

## INTRODUCTION

There is a growing amount of research that underscores the importance of entrepreneurship education and training for promoting new venture development, including higher rates of new firm survival and growth (Bager, 2011; Katz, 2007; Kuratko, 2005). Within the context of entrepreneurship education - herein broadly conceived to include any pedagogical

program or process for supporting the creation of new enterprises, as well as for developing entrepreneurial skills and attitudes - Fayolle and Klandt (2006) suggested that entrepreneurship can be viewed from three different angles or dimensions. First, as a matter of *culture* or *state of mind*, entrepreneurship is primarily understood in terms of values, beliefs and attitudes and thus entrepreneurship education is designed to foster an entrepreneurial culture and to change individual mindsets (e.g., by developing a positive attitude towards entrepreneurship); second, as a matter of *behaviors*, wherein entrepreneurship is mainly conceived as a set of skills and behaviors and therefore entrepreneurship education is focused on developing these specific skills and behaviors (e.g., opportunity identification); and third, as a matter of *specific situations*, wherein entrepreneurship is viewed as a process for new venture creation and thus entrepreneurship education is directed towards helping individuals start their own new businesses (e.g., via business plan development).

According to a number of entrepreneurship scholars (e.g., Gibb, 2002; Honig, 2004; Kirby, 2007), the traditional entrepreneurship education paradigm has been focused on the creation of *specific situations* for exploiting a new business opportunity, whether this involved the creation of a new firm or some type of corporate venturing (e.g., a spin-off, a new joint venture). As these authors suggested, the real challenge and opportunity for entrepreneurship education can be derived from developing the first two dimensions (i.e., *culture/state of mind* and *behaviors*), since it could potentially shift the focus from learning *about* entrepreneurship to learning *for* entrepreneurship (Gibb, 2002; Honig, 2004; Lans, Hulsink, Baert, & Mulder, 2008). As Gibb (2002) acknowledged, due to increasing environmental complexity and uncertainty associated with globalization, there is a growing need for a ‘modern’ paradigm for entrepreneurship education, which does not exclude the creation of specific situations (third dimension), but instead broadens it and further concentrates it on the first two dimensions. This would assist individuals, organizations and governments who are struggling to cope with a VUCA world (i.e., volatile, uncertain, complex and ambiguous) to be able to gain deeper insights into how entrepreneurs think, learn and live their lives (Bennett & Lemoine, 2014; Fayolle & Klandt, 2006; Neck & Greene, 2011).

Lans et al. 2008 proposed that the concept of competence, by addressing the interconnectedness of knowledge, skills and attitudes, could help re-focus entrepreneurship education on the first two dimensions (i.e., *culture/state of mind* and *behaviors*). While there are different definitions of competence in academic literature, one of the two main existing perspectives, the so-called American approach, describes it in terms of key underlying personal characteristics, such as knowledge, skills, abilities and attitudes that help promote effective job performance (Boyatzis, 1982; McClelland, 1973; Spencer & Spencer, 1998). In line with this perspective, the acquisition of specific entrepreneurial competencies could assist entrepreneurs not only to be able to identify and exploit a new business opportunity, but also to be equipped to effectively manage a new venture through its different stages of growth. In addition, competency-based approaches, by emphasizing the link among “knowing, doing and reflecting”, can serve to deepen the process of learning *for* entrepreneurship in higher education (Hackett, 2001; Kolb, 1984), which can potentially bring benefits to a large group of individuals currently working (or aspiring to work) in highly-skilled jobs or knowledge-based occupations, considering the continuously evolving nature of their work requirements (Beckstead, & Vinodrai, 2003;

Davenport, 2013). Accordingly, both experiential learning theory (Kolb, 1984) and the broader literature on competence development support the effectiveness of direct experience and reflection on knowledge development (e.g., Azevedo, Apfelthaler, & Hurst, 2012; McNab, 2012; Ramsey & Lorenz, 2016), a three-way interconnection among theory, practice and reflection that may help promote significant changes in individual thinking and behavior.

This paper has two primary aims. The first is to suggest an integrative, competency-based conceptual framework for graduate entrepreneurship education. Specifically, we suggest that entrepreneurial competencies (i.e., cognitive, social and action-oriented) can be promoted from the beginning of a graduate study program, by focusing on the development of a broad set of skills that support entrepreneurial thinking and development (Boyles, 2012; Dierdorff, Rubin, & Morgeson, 2009). The second aim is to discuss critical findings from a longitudinal pilot study implemented within an online MBA program in Western Canada. This pilot study was designed to examine key competencies that are being developed during the first phase of the MBA program and to identify which curriculum activities were most critical in supporting their advancement.

This paper is organized as follows. We begin with a literature review to discuss the concept of competence and to further address existing frameworks that have been proposed for management and entrepreneurship education. Second, we provide a detailed discussion of the study methodology, including the design and implementation of a three and a half year pilot study within the context of an online university located in Western Canada. Third, we examine critical findings from the longitudinal surveys of twenty-two MBA students, as well as from the 13 qualitative interviews which were conducted with different stakeholders (i.e., students, alumni, faculty and employers). Finally, we conclude with recommendations for future research and curriculum development.

## **LITERATURE REVIEW**

There is widespread agreement that the twenty-first century economy, with its strong emphasis on knowledge and service, as well as its growing reliance on sophisticated information and communication technologies, will require an increasing number of highly skilled workers (Apte, Karmarkar, & Nath, 2008; Dede, 2010; Levy & Murnane, 2004). Economists Frank Levy and Richard Murnane (2004), for example, suggested that growing proportions of the workforce are engaged in non-routine jobs that require expert thinking and complex communication, since computers can handle most of the routine work (including routine cognitive and manual tasks). This demand for highly skilled workers is further accelerated by globalization, which strengthens the need for collaboration among individuals working in geographically dispersed or virtual teams (Karoly & Panis, 2004). The combined effect of these two environmental forces (ICT, globalization) has propelled the development of an emerging type of economy, i.e., one that is increasingly dependent on knowledge workers across a wide variety of occupations, such as management, technical and professional occupations (Beckstead & Gellatly, 2004; Davenport, 2013). Consequently, the need for a comprehensive approach to entrepreneurship education that can support entrepreneurs via new venture creation, as well as knowledge workers through the development of entrepreneurial mindsets and entrepreneurial capacity, has become critically

important (Bager, 2011; Kurby, 2004). In line with research by Lans et al. (2008) and Boyles (2012), we believe that the concept of competence provides a unique opportunity to carry out this broader agenda in higher education, by allowing the implementation of an integrative approach that effectively links entrepreneurial and other key competencies that support entrepreneurial thinking and development throughout the entire duration of a study program.

### **The Concept of Competence**

Research on the topic of competence has been growing since the 1970s and 1980s in a number of academic disciplines such as education, psychology and management (Boyatzis, 1982, 2008; McClelland, 1973, 1998; Eraut, 1994; Raelin, 2007). Despite this long history of development, there is still significant disagreement regarding how this concept should be defined and measured (Jackson, 2009; Mitchelmore & Rowley, 2010). Grzeda (2005) has identified two main approaches: The American and the British approaches. In the former, competence is defined as a set of underlying personal characteristics (e.g., knowledge, skills, abilities [KSAs]) that are expected to significantly influence job performance. In the latter, competence is defined as a 'performance standard' or a minimum set of tasks that a person is expected to perform in a given job. For the purpose of this paper, the authors will adopt the definition of competence employed by researchers following the American approach, considering that it more closely captures the idea of a person's capability; also, in this conceptualization, competence is clearly distinguishable from work performance (Azevedo et al., 2012). Furthermore, we favor a definition of competence that limits the list of underlying personal characteristics to KSAs, since these can be *learnable* through education and practice (Boyles, 2012; Lans et al., 2008). For the remaining of this paper, we will use the terms competence, skills and KSAs interchangeably, as it is common practice in the academic literature (Smith & Morse, 2005).

The concept of competence has been discussed in the entrepreneurship literature since the early 1990s (e.g., Bird, 1995; Chandler & Hanks, 1994a, 1994b; Chandler & Jansen, 1992). In a recent review of this literature, Mitchelmore and Rowley (2010) defined entrepreneurial competencies as "...a specific group of competencies relevant to the exercise of successful entrepreneurship" (p. 93). As these authors acknowledged, while the term entrepreneurship is typically related to the development of new businesses, it also includes other types of new ventures, such as corporate venturing (e.g., spin-offs, joint ventures), as well as intrapreneurship (i.e., entrepreneurship within existing organizations; Antoncic & Hisrich, 2001). Therefore, entrepreneurial competencies address the specific knowledge, skills and abilities required by individuals working either as entrepreneurs or innovators, in order to perform their work roles successfully (Man et al., 2002). Within the context of a new firm, these competencies are perceived as critical in assisting the entrepreneur throughout the different phases of the new venture development, including birth, survival and growth (Bird, 1995; Lerner & Almor, 2002). To exemplify, these competencies include what researchers have described as 'uniquely' entrepreneurial (e.g., creativity; entrepreneurial alertness; opportunity identification), business and management competencies (e.g., skills in key functional areas such as marketing, finance and operations; management skills; technical skills), human relations competencies (e.g., leadership skills; human resources management skills) and other generic competencies, such as cognitive and interpersonal competencies (e.g., analytical skills; problem-solving skills; written



and oral communication skills) (Chandler & Jansen, 1992; Man et al., 2002; Mitchelmore & Rowley, 2010).

As Brinckmann (2008) suggested, the topic of entrepreneurial competencies is still in early stages of research, considering the lack of consensus on definitions, measurement and terminology used; the under-examined relationship between (uniquely) entrepreneurial and managerial competencies; and the need for integrative entrepreneurial frameworks that can support future research and training. Regarding the relationship between entrepreneurial and managerial competencies, the authors of this paper disagree with the notion of an existing *dichotomy* between these two sets of competencies, given the widespread recognition that managerial competencies are needed for new venture survival and growth (Gabrielsson & Tell, 2009; Lewis & Churchill, 1983; Orser & Riding, 2003).

Within the context of undergraduate entrepreneurship education, Boyles (2012) introduced a new framework for linking entrepreneurial competencies to a set of generic competencies (i.e., 21<sup>st</sup> century KSAs) that are important for all students/working professionals, thus effectively transcending the perceived dichotomy between entrepreneurial and other key competencies. As the author explained, entrepreneurial competencies – i.e., cognitive (e.g., opportunity recognition), social (e.g., ability to develop social capital) and action-oriented (e.g., proactiveness) – are meaningfully overlapping or interconnected to generic competencies described in the ‘21<sup>st</sup> century skills’/KSA framework, such as ‘information, media and technology literacy’ (e.g., the ability to critically evaluate information), ‘inventive thinking’ (e.g., the ability to develop new solutions to complex problems), ‘communication and collaboration’ (e.g., the ability to cooperate and communicate effectively with others) and ‘productivity and results’ (e.g., the ability to use resources efficiently and effectively). Therefore, Boyles (2012) argued that it is possible to develop entrepreneurial thinking in undergraduate entrepreneurship education by emphasizing these interconnections within different program courses. For example, the author suggested that generic competencies such as complex problem-solving, creativity/innovative thinking, teamwork and collaboration, planning and executing, adaptability, self-direction and communication can be selected as key program learning outcomes to be introduced, developed and mastered during both entrepreneurship and non-entrepreneurship courses.

### **The Conceptual Framework**

This paper introduces a conceptual, competency-based framework for graduate entrepreneurship education that adapts and further expands on previous research conducted by Boyles (2012). Specifically, the present authors adopt the three entrepreneurial competency categories originally proposed by Boyles (2012) (i.e., cognitive, social and action-oriented competencies), but we extend the original list of competencies discussed under each of these categories. In addition, instead of using the 21<sup>st</sup> century KSAs, we interconnect the entrepreneurial competencies to a broad set of ‘worker skills’ (KSAs) that have been examined in graduate business education (e.g., Rubin, & Dierdorff, 2009, 2011). These so-called ‘worker skills’ consist of 35 *competencies* that are part of the Occupational Information Network (O\*NET), a conceptual model that has been developed for research on job and organizational analysis (Dierdorff, Rubin & Morgeson, 2009). The O\*NET model is comprised of both worker-

oriented factors (e.g., worker requirements, worker characteristics, experience requirements) and job-oriented factors (e.g., occupational requirements, workforce characteristics, occupation-specific information) which describe key occupational information that can be applied across a number of different jobs, sectors and industries (Morgeson & Dierdorff, 2011). Aside from this conceptual model, the O\*NET system further includes a comprehensive database that covers 974 occupations; this database is composed of survey data collected on an ongoing basis from three primary sources: job incumbents, occupational experts and occupational analysts.

**Table 1**  
**INTEGRATIVE COMPETENCY-BASED FRAMEWORK**  
**FOR GRADUATE ENTREPRENEURSHIP EDUCATION**

<b>Entrepreneurial Competencies</b>	<b>'Worker Skills' (KSAs)</b>
<b>Cognitive</b>	<b>Cognitive</b>
Ability to apply systematic search	Reading and Comprehension
Entrepreneurial Alertness	Active Listening
Opportunity Recognition	Writing and Speaking (*)
Visioning	Science
Creativity	Mathematics
Innovation	Critical Thinking
Strategic Formulation	Active Learning and Learning Strategies (*)
	Monitoring
	<b>Strategic</b>
	Systems Analysis and Evaluation (*)
	Complex Problem-Solving
	Judgment and Decision-Making
<b>Social</b>	<b>Interpersonal</b>
Relationship Building	Social Perceptiveness
Teamwork and Collaboration	Coordination
Ability to Develop and Leverage Social Capital	Persuasion
Emotional Intelligence	Negotiation
	Instructing
	Service Orientation
<b>Action-Oriented</b>	<b>Business</b>
Self-Management	Time Management
Initiative	Management of Financial Resources
Proactiveness	Management of Material Resources
Adaptability/Flexibility	Management of Personnel Resources
Planning, Monitoring, Evaluating	Operations Analysis, Monitoring and Control (**)
Controlling Outcomes	Quality Control Analysis
	Technology Design
	Programming
	Equipment Selection and Maintenance (*)
	Installation

\*Measured as two separate skills; \*\*Measured as three separate skills

The present authors selected the ‘worker skills’ to be included in our competency-based framework for two primary reasons. First, we wanted a group of competencies that have been examined in previous MBA studies. Consistent with this goal, during our literature review, we identified a few studies that employed the O\*NET model and its database in graduate business education. For example, Dierdorff et al. (2009) used the O\*NET database to examine 8,633 managers across 52 managerial occupations. After conducting parallel analysis in conjunction with principal components factor analysis, these authors concluded that it is possible to describe the requirements of managerial work roles in terms of a small set of: *Responsibilities* or behavioral requirements (e.g., Managing Decision-Making Processes; Managing Strategy and Innovation; Managing Human Capital; Managing the Task Environment; Managing Administration and Control; Managing Logistics and Technology); *Knowledge requirements* (e.g., Knowledge of Human Behavior and Society; Knowledge of Media Communications and Delivery; Knowledge of General Business Functions; Knowledge of Technology, Design and Production); *Skills* (e.g., Strategic and Systems Skills; Cognitive Skills; Interpersonal Skills; Operations and Technical skills); and *Traits* (e.g., Generative Thinking; Learning, Motivation and Leadership; Interpersonal Orientation; Conscientiousness). Also, on the basis of these findings, Rubin & Dierdorff (2009, 2011) provided evidence of a misalignment in the MBA curricula, considering that the behavioral competencies considered most important by managers (e.g., Managing Decision-making Processes, Managing Human Capital) are the ones that are least covered in the MBA program curricula.

Second, we wanted a broad set of skills that could be applicable across a number of professional occupations, with special emphasis on skills that are suitable for managerial and leadership roles. As evidenced by the work of Dierdorff and colleagues, as well as by Mumford, Campion and Morgeson (2007), who proposed a leadership skill requirement model based on the O\*NET worker skills, it is possible to use these skills to describe a variety of managerial and leadership roles. As it can be seen in Table 1, we organized these 35 KSAs under the following four categories suggested by Mumford et al. (2007): Cognitive (e.g., Reading and Comprehension; Critical Thinking), Strategic (e.g., Systems Analysis; Complex Problem-Solving), Interpersonal (Social Perceptiveness; Persuasion) and Business (e.g., Management of Personnel Resources; Operations Analysis). These four categories are fairly similar to the ones proposed by Dierdorff and his colleagues.

We believe that graduate business programs can use the interconnections described in our competency-based framework to promote entrepreneurial thinking and development during both non-entrepreneurship and entrepreneurship courses. This would be especially useful for promoting entrepreneurial competencies during first year program courses, which typically do not include entrepreneurship as a topic. For example, first year courses that emphasize complex

problem-solving as a learning outcome, can *combine* creativity as a key requirement in the problem-solving approaches introduced and assessed (e.g., in Marketing, Operations or Human Resources Management courses). Other cognitive entrepreneurial competencies such as visioning and opportunity recognition can also be introduced and developed *in combination* with systems analysis and evaluation, for example during Systems/Strategic thinking courses (e.g., Strategic Management, Organizational Theory). Similarly, social entrepreneurial competencies such as relationship building or teamwork and collaboration can be incorporated in the development of key Management/Human Resources skills, such negotiation and persuasion. Finally, action-oriented entrepreneurial competencies such as adaptability/flexibility, initiative and proactiveness can be developed and assessed *in combination* with knowledge and skills covered in all functional areas (e.g., skills in Marketing, Human Resources Management or Finance). This combined approach therefore offers a unique opportunity to develop entrepreneurial thinking throughout the whole program duration, by focusing on the interconnections between entrepreneurial and generic business skills.

The combined approach proposed in this paper is different than the one proposed by Boyles (2012). This author focused on selecting key generic skills as learning outcomes for undergraduate courses and then using them as an important foundation for the development of entrepreneurial competencies within a specific program, given the overlap between the two sets of competencies. Our approach seeks to build *synergy*, by combining the interconnected competencies in a way that maximizes the total learning effect. Thus, for example, if adaptability/flexibility is developed in combination with market research skills, there is an opportunity to simultaneously develop skills related to uncovering new customer demands *and* skills related to effectively adjusting and responding to these changing market circumstances, so that by the end of a specific course, there is greater progress in both of these skills, as compared to introducing them separately.

## METHODOLOGY

### Study Design, sample and procedures

The pilot study discussed in this paper employed a longitudinal approach with two distinct phases. During the first phase, researchers conducted extensive literature review to identify key competencies and relevant conceptual frameworks that have been applied in graduate business education. In addition, we conducted qualitative interviews with students, alumni, faculty and employers, using a standard interview protocol. A total of 13 interviews (including four MBA alumni, three MBA students, three faculty and three employers) were conducted by the two researchers during the summer of 2011. The primary goals for these interviews were to examine specific competencies that were being developed during the MBA program and to further investigate which curriculum activities were most relevant in promoting their development. The first goal allowed us to explore key aspects of our conceptual framework (e.g., to verify whether competencies frequently mentioned during the interviews were also included in the list of 'worker skills'/KSAs). The second goal provided us with critical

information for the next phase of our study (e.g., it offered insights as to *how* exactly these competencies were being developed).

At the beginning of the second phase, we adapted and then pretested the worker skills survey, which was originally developed for use in the O\*NET research (Mumford, Peterson, & Childs, 1999; Burrus, Jackson, & Steinberg, 2013). Specific changes made in the original questionnaire are discussed in the following paragraphs (please see 'Measures'). The pretest survey was entered into an online platform (i.e., Limesurvey) and an invitation to participate in the study was sent out to 82 MBA students currently enrolled in three elective courses. The final pretest sample included 24 MBA students, for a response rate of 29.3%. After the pretest data analysis, minor questionnaire modifications were made in the personal background session (i.e., minor adjustments were made in the age and industry response categories). The pretest data collection effort took place during the fall and early winter of 2011.

Following the pretest phase, the first round of data collection began. The final study surveys were sent out to three MBA cohorts, at three specific times (i.e., February-March 2012; May-June 2012; September-October 2012). This was done so that each MBA cohort would receive the first survey exactly after the completion of their first MBA course (i.e., approximately four months into the program). We wanted the first data collection effort to take place at the beginning of the MBA program, but in order to bypass students' challenging initial period of adjustment into their studies, we decided to send the first surveys shortly after their first course was completed. A total of 191 surveys were sent out to all students from the three cohorts and 44 of them were returned, for an average response rate of 23%.

The second and final round of data collection was conducted at approximately one and a half years into the study program. We chose this time because it followed the completion of students' comprehensive exams, which occur after students finish their first phase of core courses. Researchers believed that this data collection at the middle of the study program provided sufficient time to investigate students' progress in key competencies (the second round surveys were administered approximately one year and two months after the first round surveys) and it further ensured that students across the three cohorts had taken the exact *same* five courses, since the first year courses are all mandatory. We sent out surveys in three specific times (i.e., March-April 2013; May-June 2013; October-November 2013) to MBA students who had participated in the first data collection round *and* had successfully completed their comprehensive exams by this time (i.e., a total of 35 students, out of 44). We received a total of 22 survey responses, for an average response rate of 62.9%. Each of the two rounds of survey data collection was carried out in approximately nine months.

## Measures

During the first phase of the pilot study, researchers developed a standardized interview protocol. We created a list of 11 questions addressing a variety of topics such as motivation to join the MBA program, main expectations at program start, key managerial competencies developed during the program, specific curriculum activities as well as work-related factors considered influential in promoting competency development, and main program strengths and weaknesses. In addition, the final interview questions addressed the perceived impact of the MBA program in the students/alumni careers and the overall level of satisfaction with the

program. In order to gain diverse perspectives, we invited different stakeholders to participate in the interviews, including alumni and students who were near program completion, as well as employers and faculty. Employers selected for the interview had worked as direct supervisors of at least one MBA alumna and therefore they were able to provide feedback regarding how well the program impacted their work performance. The interviews lasted between 45-60 minutes.

In the second phase of the study, we employed a slightly modified version of the O\*NET worker skills questionnaire, which included questions related to the 35 competencies listed in Table 1. For each competence, there were two questions: One question addressing the perceived importance of the specific competence for the person's job performance (e.g., How important is ACTIVE LISTENING to the performance of your current job?; the response categories were ordered on a 5-point Likert scale ranging from 'Not Important' to 'Extremely Important') and one question addressing the perceived level of capability in the particular competence (e.g., What is your level of capability in ACTIVE LISTENING?; the response categories were ordered on a 7-point Likert scale ranging from 'Low Level' to 'High Level'). If respondents rated the first question as 'Not Important', they were instructed to skip the question regarding capability and move on to the next competence question.

Regarding the survey modifications, it is important to mention that, first of all, the survey instructions and competency definitions were exactly the same as those originally developed by Mumford et al., 1999. Also, the first question regarding the level of importance associated with each competence was not changed. The only modification made in the survey was in the second question related to the capability level. This was due to the fact that in the original questionnaire the response categories for the capability question applied to a specific job situation. For example, for the active listening competence, the question was 'What level of ACTIVE LISTENING is needed to perform your current job?' and the 1-7 response categories included the following explanations: 2 = Take a customer's order; 4= Answer inquiries regarding credit references; and 6= Preside as a judge in a complex legal disagreement. While the original survey response categories provided context for survey participants, we felt that these specific situations limited the applicability of the survey and could thus potentially lead to many incomplete survey answers. We therefore adapted this capability question so that it could be applied more generally (i.e., to any work situation).

## RESULTS

We will start this session by discussing the main findings from the longitudinal surveys. Considering that the content analysis of the interviews provided critical insights that helped us better understand the survey results, we will review them after the quantitative findings are discussed. It is worth mentioning that for the purpose of this pilot study, we focused our investigation on the broad set of worker skills, with the aim of examining the extent to which they were being promoted in the first year MBA courses. In the future, we plan to test how we can combine these KSAs with the key entrepreneurial competencies, so that we can further explore the interconnections proposed in our conceptual framework.

## Longitudinal Surveys

Researchers performed statistical tests in order to compare differences in survey responses between the first (i.e., beginning of the study program) and the second data collection (i.e., middle of the program) efforts for a *sub-group* of worker skills/KSAs. This was necessary, so that we would avoid running a large number of statistical tests that could substantially increase Type I error (i.e., finding a significant difference between two means or medians, when in fact there is none; Day & Quinn, 1989). Therefore, even though we were able to identify *positive* changes in the average scores of most of the 35 competencies – i.e., as expected, the average capability ratings in the middle of the program were higher than at the beginning of the program, for 32 out of the 35 competencies - we selected the competencies that had the highest mean differences for further analysis. Specifically, we chose to analyze seven competencies which had mean differences between the before and after scores of approximately *0.5 or higher* on the 7-point capability scale. These competencies were: Quality Control Analysis (i.e., “Conducting tests and inspections of products, services or processes to evaluate quality or performance”), Management of Personnel (i.e., “Motivating, developing and directing people as they work, identifying the best people for the job”), Instructing (i.e., “Teaching others how to do something”), Coordination (i.e., “Adjusting actions in relation to others’ actions”), Mathematics (i.e., “Using mathematics to solve problems”), Judgment and Decision-Making (i.e., “Considering the relative costs and benefits of potential actions to choose the most appropriate one”) and Operation and Control (i.e., “Controlling operations of equipment or systems”).

We examined the normality tests (Kolmogorov-Smirnov and Shapiro-Wilk) and normality plots (Normality Q-Q plot and Detrended Normal Q-Q plot) for the 14 variables of interest (i.e., the seven competencies described above at times 1 and 2) and they showed that the data were non-normal. Consequently, we chose the *Wilcoxon signed-ranks test* for subsequent data analysis, as it is the recommended non-parametric test for paired-samples, i.e., for conducting before and after comparisons of ratings given by the same respondent (e.g., LaMorte, 2016). The Wilcoxon signed ranks test investigates whether there is a *median* difference between time 1 (i.e., beginning of the program) and time 2 (i.e., middle of the program), with the null hypothesis stating that the median difference is zero.

Since the adjusted sample sizes in our case were typically smaller than 20 - final sample sizes were adjusted to exclude missing values, as well as any differences in ratings between time 1 and time 2 that equaled zero - it was not possible to assume that the test statistic *W* is approximately normally distributed (LaMorte, 2016). Hence, the *z*-test and corresponding *p*-values provided in SPSS cannot be used. Instead, it was necessary to calculate the actual *W* values found in our sample and then compare them with the critical values of the test statistic, according to a statistical table. We used the Wilcoxon signed-ranks test calculator available online (Stangroom, 2016) in order to generate the specific *W* values for our sample of respondents, as presented in Table 2. The Wilcoxon signed ranks test procedure works as follows: First, it calculates each respondents’ difference in ratings between time 1 and 2; second, it creates a rank order for the *absolute values* of these differences (i.e., from the lowest to highest); and third, after putting the positive and negative signs back into the numbers, it sums up all the positive values (i.e., sum of positive ranks or *W+*; this includes the sum of all cases with pretest scores higher than posttest scores) and all the negative values (i.e., sum of negative ranks

or W-; this includes the sum of all cases with posttest scores higher than pretest scores). The W-value chosen for comparison against the critical W-value is always the smallest number between W+ and W- (LaMorte, 2016; Stangroom, 2016).

**Table 2**  
**RESULTS FROM THE WILCOXON SIGNED RANKED TESTS**

Skill	N*	Sum of Positive Ranks (W+)	Sum of Negative Ranks (W-)**	W-Value*** (A)	Critical W-Value at 0.05 (B)	Significance (A < or = to B?)
Quality Control Analysis	10	2.5	52.5	2.5	10	yes
Management of Personnel	14	32.5	72.5	32.5	25	no
Instructing	9	8.5	36.5	8.5	8	no
Coordination	13	16.5	74.5	16.5	21	yes
Mathematics	10	9	46	9	10	yes
Judgment and Decision-Making	13	16.5	74.5	16.5	21	yes
Operations and Control	11	20	46	20	13	no

\*Adjusted; \*\*Post-test scores are higher than pre-test scores;\*\*\*Smallest of W+ or W-

As it can be seen in Table 2, there were significant differences in *four* out of the seven competencies tested, namely: *Quality Control Analysis*, *Coordination*, *Mathematics* and *Judgment and Decision-Making*. There was also one test which was fairly close to significance, i.e., for the competence *Instructing*. Taking together, we believe that these findings provide good evidence that it is possible to improve key competencies during the first phase of the MBA program. Although we cannot say for sure, we suspect that we would have been able to find other significant differences (e.g., *Instructing*), if our sample sizes were larger. Also, with larger samples it would have been possible to run additional tests on other competencies and to calculate their exact p-values, considering that the W test approximates a normal distribution for samples larger than 20 (e.g., LaMorte, 2016). Nonetheless, given the preliminary nature of this pilot study, we believe that these present findings provide sufficient evidence to support the notion that graduate business education can help improve students' competencies within a relatively short amount of time (i.e., within approximately one year).

### Qualitative Interviews

Researchers conducted a content analysis of the 13 interviews, in order to identify key curriculum activities that promoted competency development and to further investigate how competencies were being developed. According to interview participants (i.e., four alumni, three students, three faculty and three employers) the most frequently mentioned curriculum activity that contributed to the development of key competencies was participation in the online discussion forum. The 8-week discussion forum, a critical curriculum component of the online MBA program at this Canadian university, provided a structured process for students to “gather”



in small groups (i.e., typically composed of 7-9 students) and to discuss weekly topics, based on a set of pre-defined questions and reading materials. According to interviewees, four aspects were especially relevant in supporting competency development within these discussion forums: *Teamwork and collaboration*; *exposure to diverse perspectives*; *linking theory and practice*; and *in-depth self-reflection*. Regarding teamwork and collaboration, interview participants agreed that the opportunity to work in a team and to “think with others” was important in strengthening their skills (e.g., improve students’ ability to effectively collaborate in a team; increase students’ leadership capacity in globally dispersed teams). Concerning the exposure to diverse perspectives, interviewees mentioned that students’ diverse professional backgrounds (e.g., students’ work experience in different industries) allowed them to better identify and challenge their own biases and to further gain unique insights from their peers. According to interview participants, this strong peer-to-peer interaction, supplemented by the expertise and guidance of high quality faculty, created an extremely rich learning environment. In addition, the online discussion forum provided an opportunity to link theory and practice (i.e., to establish a strong connection between the knowledge acquired during the course and its application to the workplace) by for example, allowing students to present and discuss current work challenges. Finally, the discussion forum promoted in-depth self-reflection that increased students’ understanding of the course materials, as well as their knowledge of self and others.

The second group of curriculum activities that were frequently mentioned by interview participants related to key assignments, especially those involving case studies, introspective exercises and different types of applied projects (i.e., final course assignments, as well as the one comprehensive applied research project). The two aspects considered most critical in these assignments were: *Linking theory to practice*; and *in-depth self-reflection*. Considering the first aspect, interviewees mentioned the importance of key assignments that gave students an opportunity to directly and immediately apply the knowledge acquired in a course to their own work context (e.g., by investigating and solving an existing problem at work; by developing an innovative approach that brought benefit to the students’ organization). Regarding the second aspect, interviewees mentioned the importance of specific assignments in helping them learn more about themselves and others, as well as to reflect and contextualize the knowledge (e.g., by reflecting on how the knowledge is relevant to oneself and to his or her organization).

It is noteworthy that the interconnections among “knowing, doing and reflecting” (i.e., among knowledge, practice and reflection) are perceived by interview participants as critical in both sets of curriculum activities considered most important for competency development, namely, the online discussion forums and the key assignments. This finding is consistent with experiential learning theory and the competency development literature (Azevedo et al., 2012; Hackett, 2001; Kolb, 1984; McNab, 2012; Ramsey & Lorenz, 2016).

## DISCUSSION

In spite of growing recognition of the importance of entrepreneurship for economic growth and development, entrepreneurship education remains an *add-on activity* in most higher education institutions, instead of a top priority (Badawi, 2013). According to Bager (2011), one

of the reasons for this limited role of entrepreneurship education is the “...prevailing narrow understanding of the field” (p. 301), i.e., the perception that entrepreneurship is simply a process for new venture creation. Similarly, a number of entrepreneurship scholars suggested that the existing paradigm of entrepreneurship education is narrowly focused on new business development (i.e., learning *about* on entrepreneurship) and that this paradigm needs to be re-defined, in order to appropriately address how *all* students can develop entrepreneurial attitudes, mindsets, skills and behaviors (i.e., learning *for* entrepreneurship) (Gibb, 2002; Honig, 2004; Kirby, 2007). In line with Lans et al. (2008) and Boyles (2012), this paper proposed a competency-based framework that supports entrepreneurial thinking and development in graduate business education. We believe that by focusing on improving students’ competencies, there is an opportunity to shift the existing entrepreneurship education paradigm away from the creation of “specific situations” (i.e., new venture creation) and towards the two under-explored dimensions of “culture/state of mind” and “behaviors” (Fayolle & Klandt, 2006). We concur with Badawi (2013), Bager (2011) and other entrepreneurship scholars who underscored that there is still an unfulfilled potential in entrepreneurship education, namely, one which addresses how to adequately equip highly-skilled, knowledge workers to effectively cope with changing job demands, as well as with the increased volatility, uncertainty, complexity and ambiguity within their work environments (Bennett & Lemoine, 2014; Davenport, 2013; Manpower Group, 2014). We believe that to accomplish this, business education will need to place stronger emphasis on the development of entrepreneurial competencies such as creativity, entrepreneurial alertness and adaptability/ flexibility.

The integrative conceptual framework introduced in this paper could potentially assist in this paradigm shift, by highlighting the interconnections between generic and entrepreneurial competencies, within the context of graduate business education. This paper also presented the empirical results from a longitudinal pilot study, which already tested parts of the proposed competency-based framework. In particular, we investigated a group of seven ‘worker skills’ and the statistical results showed that there were significant differences in respondents’ ratings of four competencies (i.e., Quality Control Analysis, Coordination, Mathematics and Judgment and Decision-Making) between time 1 (i.e., beginning of the program) and time 2 (i.e., middle of the program). While these findings can be considered preliminary, given the exploratory nature of the study and the small sample sizes used, we believe that they provide sufficient evidence that competencies can be developed within the first year of a graduate study program.

In addition, this paper discussed key insights gained from the content analysis of the pilot study’s qualitative interviews with four different MBA program stakeholders (i.e., alumni, students, faculty and employers). Interview participants consistently indicated that two curriculum activities were especially important in promoting competency development: The online discussion forums and the use of key assignments such as applied projects, case studies and introspective exercises. The discussion forums helped students make progress in critical competencies by creating an effective learning environment for teamwork and collaboration, for

gaining exposure to diverse perspectives, for linking theory and practice and for stimulating in-depth self-reflection. The use of key assignments, including different types of applied projects, case studies and introspective exercises, further provided an opportunity for students to link theory and practice and to refine their understanding of the knowledge materials, as well as of themselves and others (e.g., peers, work colleagues) through in-depth self-reflection. We believe that these qualitative findings, by drawing attention to the specific curriculum activities considered most important for competency development, provide critical insights that may help support existing efforts to implement competency-based approaches throughout an entire study program.

Future research could investigate whether a combined approach for promoting the synergistic development of generic worker skills and entrepreneurial competencies, as suggested by the present authors, can be effectively implemented within graduate business programs. Specifically, researchers could examine whether key entrepreneurial competencies (e.g., visioning, creativity, innovation, initiative, proactiveness) could be introduced and assessed in different graduate courses, *in combination* with frequently adopted program learning outcomes such as problem-solving, communication or leadership. For example, in order to test the impact of adding entrepreneurial competencies, an experimental study design could be employed, wherein creativity is introduced within a first year MBA course (e.g., by adding a creativity module containing a combination of knowledge and experiential exercises) and then tested simultaneously with problem-solving knowledge and skills for one specific student cohort, while another student cohort is given the same first year course materials designed to promote knowledge and skills in problem-solving. If there is a synergistic effect, students in the first cohort would show more advanced problem-solving skills, compared to students in the second cohort. Similarly, leadership skills can be tested *in combination* with adaptability and flexibility skills (e.g., by adding a cultural intelligence module, containing a combination of knowledge and experiential exercises) and then by using the same kind of experimental approach, researchers could investigate whether there are differences between two separate MBA cohorts (i.e., one cohort that received only leadership course materials versus one cohort that received leadership *plus* adaptability and flexibility course materials). We believe that this combined approach to competency development could significantly promote entrepreneurial thinking and development throughout an entire study program, by building on existing program learning outcomes that are typically introduced, developed and assessed in different graduate courses. Under this scenario, key entrepreneurial competencies such as creativity and adaptability/flexibility would be developed and reinforced from the beginning to the end of a study program, in both entrepreneurship and non-entrepreneurship courses, thus leading to a more comprehensive approach to entrepreneurship education.

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## **THE TEMPTATION FOR ENTREPRENEURS TO USE ON-CALL EMPLOYEES MAY NOT BE WORTH THE LEGAL RISKS**

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### **ABSTRACT**

*Entrepreneurs, faced with limited startup capital, are constantly looking to control costs, and labor costs are perhaps the highest expense. There are two legal options for small businesses looking to save on the cost of workers. The first is to hire independent contractors instead of employees. This allows them to avoid unemployment insurance, payroll taxes, workers' compensation insurance premiums and a host of other costs associated with hiring workers as employees. Given the risks of a court reclassifying these workers as employees, some entrepreneurs might choose to bite the bullet and simply hire part-time workers instead.*

*While these employees may come with a higher cost compared to true independent contractors, managers now have a new slew of technological tools to manage employee scheduling, thus avoiding one of the biggest costs of having employees – overstaffing during slow periods.*

*Managers are now able to use apps to dictate when employees work, change employee schedules to meet business demands and allow them to send workers home or call them in as needed. This can result in tremendous cost savings over using traditional employee scheduling with hours set in advance by trying to predict customer demands. However, the impact of these “just-in-time” scheduling practices leaves workers in a permanent “on-call” status.*

*To combat this problem, some states have enacted legislation to curb the practice while others are considering instituting similar laws. One example of these laws requires employers to pay a minimum of four hours of work time to employees who are called into work but sent home. These laws are not new, but vigorous enforcement of them is now gaining steam as the media highlights the impact of on-call scheduling for part-time workers.*

*The Fair Labor Standards Act (FLSA), the federal law designed to cover minimum wage and other labor issues only has limitations on scheduling for child labor. The FLSA requires employers to pay overtime to certain workers, but it does not set rules for how to schedule part-time, hourly workers who do not exceed 40 hours per week, but otherwise relies only upon overtime rules to prevent abusive employer scheduling. This paper will explore the current status of federal and state laws concerning on-call, part-time employee scheduling and how it impacts entrepreneurs seeking a solution for high labor labor costs.*

**Key Words:** entrepreneurs, entrepreneurship, small business owner, small business, employees, scheduling, on-call, legal, risk

### **The Tricky Definition of On-Call Employees and Work**

An employee who works more than 40 hours a week is entitled to receive overtime compensation under the Fair Labor Standards Act (FLSA). This is due to the FLSA's rules on overtime compensation, but there is a big problem. The FLSA doesn't define what it means by "work" or "working." The FLSA's requirement to pay overtime to employees who work more than 40 hours per week is affected by the amount of time an employee works, not the amount of time the employee spends waiting to work. This is a subtle distinction. In interpreting the FLSA, the U.S. Department of Labor describes a difference between being engaged to wait versus waiting to be engaged. The former is work time. The latter is not. (U.S. Department of Labor 2008). Thus, there is great weight placed upon where the employee is waiting. If the waiting occurs on the employer's premises, then the time waiting qualifies as work time. (U.S. Department of Labor 2008).

Things get even more complicated if the employee is waiting at home rather than on the employer's premises. The U.S. Department of Labor considers this the "waiting to be engaged" scenario which is not normally considered work time. Instead the employee is "on-call" at his or her home, or anywhere not on the employer's premises. The interpretation of the FLSA under this scenario is that the time spent waiting to be called in to work is not work time, and thus is not included in the overtime calculations for the FLSA. (U.S. Department of Labor 2008).

However, the U.S. Department of Labor notes that it is not an absolute, steadfast rule. An important, and undefined, corollary to the U.S. Department of Labor's interpretation of the time spent by on-call employees waiting to be called into work is that is not an absolute rule. It left open the possibility that an employer's encroachment upon an on-call employee's time while away from the workplace could alter the determination that the on-call employee who is "waiting to work" is actually not working while waiting. Instead, too much encroachment by the employer

could transform “waiting to work” time into work time. As the Department noted in 2008, “[a]dditional constraints on the employee's freedom could require this time to be compensated.” (U.S. Department of Labor 2008).

Courts have recognized that defining an “on-call” employee is not an easy task mostly because the FLSA does not offer a definition in the statute itself. A legal test of what qualifies as “on-call” when an employee is not actually on the employer’s premises is found in the leading case of *Ingram v. County of Bucks*, 144 F.3d at 265 (3d Cir. 1998). In this case, the court enunciated a four-part test to determine whether an employee’s on-call time should be considered work time. (Ingram 1998). The four parts of the test includes “(1) whether the employee may carry a beeper or leave home; (2) the frequency of calls and the nature of the employer's demands; (3) the employee's ability to maintain a flexible on-call schedule and switch on-call shifts; and (4) whether the employee actually engaged in personal activities during on-call time.” (Ingram 1998). The end result is the court must determine whether an employer’s encroachment upon an employee’s on-call time is so onerous that it transformed the time spent waiting into work time. (Ingram 1998).

### **The Proliferation of New Technology Creates New Legal Questions**

While these have been the rules since at least 2008, technology has not waited for the legal rules to catch up. It was not until 2007 that the iPhone and its associated apps appeared in consumer society. (Bellis 2017). Suddenly employees became easier to reach for purposes of calling them in to work. Pagers were out. Smartphones were in. As the smartphone market and apps grew, it was only a matter of time before apps became the new way to reach employees and engage their services.

Entire companies such as Uber were born because of smartphones and apps. The apps gave Uber the ability to connect drivers and rides. The result was an entire new phrase, the “gig economy,” whereby workers and customers connect for services all through their cell phones via apps, and this type of new working relationship is predicted to grow in the future. (Jones 2016) This ability to reach, and potentially control, employees, via smartphone apps has not gone unnoticed by entrepreneurs or the court system. The U.S. District Court for the Eastern District of Pennsylvania recently allowed a lawsuit from Uber drivers who claimed they were “on-call” while waiting for assignments through the Uber app to continue rather than dismissing the lawsuit. (Razak 2016). The driver/plaintiffs argued they were on-call while logged in to the Uber app and waiting to give someone a ride. One problem with the plaintiff’s argument for the court is that the new language and processes brought on by smartphones left the court befuddled on how to resolve the issue. Not only does the FLSA not define on-call employees, it certainly has no definition for what it means to be “logged in” or what an “Uber app” is at all. Thus, the court refused to summarily reject the plaintiffs/Uber drivers’ argument that being “logged in” equates to being “on-call” and authorized additional discovery to resolve exactly what those terms mean. (Razak 2016).



While Uber touts itself as a cell phone app company, rather than a driver service or even an employer at all, other, more traditional employers are starting to use scheduling apps to streamline the employee scheduling process. (Uber 2018) These new scheduling apps allow employers to reach employees through a cell phone app, notify an employee of a schedule change and even call an employee into work. These new apps, such as “When I Work,” are sold to employers with the promise to “help you and your employees manage the schedule while on the go” and promise “24/7 [a]ccess [to employees] [b]y [t]ext [m]essage or [a]pps.” (Wheniwork.com 2017).

This may sound like a welcome innovation for employers and employees alike. Employers can make schedule changes anywhere, anytime. Employees can get text messages or instant access to schedule changes. (WhenIwork.com 2017). However, it may also create some unexpected legal risks including potentially transforming “waiting to work” time into “on-call” work time. The question to be resolved is whether instant, 24-hour access to employees through cell phone apps creates too much control such that the U.S. Department of Labor’s admonishment concerning encroachment upon an on-call employee’s personal time becomes too great and thus subjects an employer to unexpected overtime obligations under the FLSA.

### **The Rise of Abuses**

Although sold as a new app and system employees love, some employees have begun to feel the strain of these new scheduling apps in their personal lives. Employers who have the ability to call workers in for a shift at a moment’s notice and alter schedules to suit business demands can wreak havoc on an employee’s personal life. At least one organization estimates the percentage of employees impacted by irregular working shifts at 17 percent of the entire labor force. (Golden 2015).

A *N.Y. Times* article from 2014 highlighted the impact of suddenly shifting schedules on individual employees. The article noted employees’ difficulties managing public transportation, child care and elder care when managers shift schedules with little notice. (Kantor 2014). The advent of new technology enables employers like Starbucks to anticipate customer demand and engage in last-minute scheduling practices to limit labor costs and thus increase profits. (Kantor 2014). However, the impact on single mothers, for example, is that such abrupt work schedule changes results in insurmountable issues involving exhaustion and child care. (Kantor 2014). The article highlighted Starbucks and the scheduling of its 13,000 baristas but also pointed out many retail outlets and restaurants use such software for staffing changes to accommodate an influx of customers or the arrival of a delivery truck. (Kantor 2014).

The next day, in response to the *N.Y. Times* article, Starbucks voluntarily implemented some changes to its scheduling practices. Executives promised to give hourly workers at least a weeks’ notice of schedule changes. In addition, the company said workers would no longer be required to close and open a store back-to-back or commute more than an hour to a location.

Employees with longer commutes received a promise of a transfer to a closer store. (Rooney 2014).

While Starbucks' scheduling practices received media attention, they are not the only employer drawing criticism. In New York, the New York Attorney General began investigating the scheduling practices of major retailers in the city after receiving complaints from employees. The city office noted the proliferation of "on call shifts" whereby stores would require employees to call in to see if they were required to work only a few hours before they were scheduled to report to work.(Tabuchi 2015). Citing scheduling software as a reason for the increase in scheduling practices such as using on-call employees, the N.Y. Attorney General sent letters to Target, Gap and 11 other retailers asking them to divulge more detail on how they schedule their part-time workers because how these retailers were allegedly scheduling employees with little notice or pay for showing up may violated New York labor laws which require the payment of four hours of time to workers who are called in to work but are sent home.. (Weber 2015). Following the New York Attorney General's initial inquiry into retailers' scheduling practices, attorney generals in at least nine other states began sending similar letters to try and gain information on how employers schedule part-time employees in their states. (Greenberg 2016).

### **Lawmakers' Reactions to Scheduling Abuses**

With the rapid growth of scheduling software as a new tool for managing labor costs, lawmakers have struggled to keep up with the changes. The FLSA does not restrict an employer's ability to schedule employees with the exception of the traditional overtime rules. Despite the lack of federal law to address the problem, state legislatures and municipalities have implemented statutes and ordinances in an attempt to prevent scheduling abuses. (Greenberg 2015). The measures attempt to limit an employer's ability to use on-call scheduling practices by requiring more notice, forcing payment, such as four hours' time, if an employee shows up to work and is sent home due to low demand, or require employers to give a few weeks' notice of schedule changes. (Greenberg 2015).

In just one example, the state legislature in Connecticut introduced a bill in 2015 that would define the on-call status of employees as, "[o]n-call hours" means any time that an employer requires an employee to (A) be available to work, or (B) contact the employer, or a designee of such employer, or wait to be contacted by such employer or designee, in order to determine whether the employee is required to report to work." (Connecticut General Assembly 2015). Although unsuccessfully passed, the bill would have also included a provision for "predictability pay" whereby an employee can receive compensation for last-minute scheduling changes if notice of any scheduling change is given without 21 days' notice. (Connecticut General Assembly 2015).

Perhaps not willing to wait for federal or state action on the issue, some municipalities have been successful in passing ordinances to try and curb scheduling abuses. San Francisco passed such an ordinance in 2016, and Seattle's takes effect on July 1, 2017. (Nagele-Piazza 2016). Both

ordinances require, among other things, advance notice of scheduling changes, thereby limiting an employer's ability to make last minute schedule changes. (Nagele-Piazza 2016). Labor watch groups predict New York may be next to follow the West Coast cities' lead in enacting scheduling laws. (Nabele-Piazza 2016).

The actual effect of these laws on how employers utilize scheduling software and apps remains to be seen, but, so far, the determination of whether employees who must be available to be called in to work are engaging in work time remains unanswered. Presumably, an employer could give an employee the required advance notice that the employee must be available to work at a moment's notice during a certain time period and still call that employee into work during this on-call period. Without defining on-call time as work time, the effect could be the new laws do not change the practice of giving employees short notice of when they actually must report to work.

### **Does a Federal Remedy Already Exist?**

On the federal level, in 2015 Congress proposed a similar bill as the states called the Schedules that Work Act. (Congress.gov 2015). This unsuccessful bill would have given workers across the country the same protection as in New York whereby they would have received four hours of pay if called into work but sent home. Additionally, the bill would have provided for the payment of an hour of pay if a worker called into work to see if it was necessary to report to work but was told it was unnecessary for them to report. (Congress.gov 2015).

Although granting employees an hour of pay for needing to call in to see an employer required them is some remedy, there may already be a more significant remedy available. As noted, the FLSA does not specifically define work time. However, if an employer is forced to pay four hours or one hour of time to an employee as a penalty for scheduling abuses to an employee who does not actually work those hours, there remains an open question concerning whether that time should be included in FLSA overtime calculations.

The guidance from the U.S. Department of Labor dictates on-call time is generally not counted in overtime calculations, but the position could change if an employer is forced to pay in hour increments for unneeded employees who were on call. The U.S. Department of Labor notes it could also be different if an employer's intrusion into the personal lives of employees becomes too onerous. (U.S. Department of Labor 2008). Beyond giving employers immediate access to employees via their smartphones, which may still be a significant enough intrusion to warrant classifying wait time as work time, some new scheduling apps may go even further into invading the personal lives of employees.

Some employers may fire workers if they turn off the apps loaded onto their phones that employers use for scheduling or other purposes. (Peterson 2015). Thus, the implication is that employers insist upon 24-access to employees via their smartphone apps and potentially create an onerous intrusion into personal time formerly categorized as wait time.

Even more potentially onerous is the increasing number of apps employers can use to track an employee's whereabouts. These GPS-enabled apps allow employers to not only reach an employee instantaneously but also know where the employee is located by using the phone's GPS sensor. Apps such as TSheets, billed as a "mobile time tracking" software, contains this feature and markets the feature as a benefit to employers. "TSheets is more than just a time tracker. It keeps a timestamp for each clock in/out, job code change & GPS location. See who's on the clock, where, and their assigned schedule—in real-time." (TSheets 2017). The use of such software is rising and is also giving way to lawsuits based upon invasion of personal privacy theories. (Peterson 2015).

Although the U.S. Department of Labor did not elaborate in its fact sheet attempting to classify on-call time as non-work time, they left the door open to the possibility. (U.S. Department of Labor 2008). As courts are noting, the new technology gives employers unprecedented access into employees' lives and more legal development and interpretation is forthcoming on the issue. (Razak 2015).

### **The Potential Impact of FLSA Changes**

In 2016, President Barack Obama proposed an overhaul of FLSA rules concerning overtime calculations. The President proposed increasing the cutoff for overtime calculations from \$23,660 to \$47,476 for salaried workers. The impact of which would have been millions of hourly workers who were previously ineligible for overtime compensation suddenly receiving time and half overtime pay if they worked more than 40 hours in a week. (Garunay 2016). The additional effect of this rule change could have been the expansion of overtime pay for on-call employees who are subject to scheduling software should the courts, legislatures, the U.S. Department of Labor or other rule-making body determine on-call time equates to work time due to the app's intrusion into employees' lives. According to the Obama White House, the rule change would have affected 4.2 million workers who would suddenly become eligible for overtime pay. (Garunay 2016). Faced with having to monitor hours worked for millions more employees who were previously classified as exempt from overtime rules due to their level of salary, the impact of employee scheduling software may have become even more widespread than today.

While this may have been the impact of the FLSA rule change, it did not go into effect as originally ordered. Shortly after taking the oath of office, President Donald Trump received an extension to file a brief in a lawsuit challenging the rule change and then so did the U.S. Department of Labor. The rule change was forced into limbo with a decision expected around May 1, 2017. (McGovern 2017).

### **Conclusion and Further Research**

Technology is changing rapidly, and the workplace is no exception. In the past few years, employees have faced new challenges as employers try to save money on labor costs by using

scheduling apps. Now these apps are encroaching even more into employees' personal lives through the use of smartphone GPS technology. It is not unfathomable that the admonishment the U.S. Department of Labor gave that its interpretation of on-call time as non-work time could change if an employer intrudes too broadly into personal lives could come to fruition. Such a reclassification could spell the end of scheduling software altogether or force employers to use it in a manner that does not provide instant access to employees.

Further research in this area should focus on the development of new apps and their capabilities along with monitoring legislative and rule changes on just-in-time scheduling practices. Additionally, court decisions will follow as employees, tired of the toll scheduling abuses take in on their lives, seek a legal remedy to curb the abuses.

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# **THE EFFECT OF SECURITIZATION ANNOUNCEMENTS ON VACATION OWNERSHIP FIRMS' SHAREHOLDER WEALTH**

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## **ABSTRACT**

*The emphasis of this study deals with the vacation ownership industry, or otherwise known as the timeshare industry. The study examines the effect on shareholder wealth of the announcement of the sale of asset-backed securities in the timeshare industry. The cumulative abnormal returns of publicly traded lodging corporations that operate in the timeshare industry are calculated and analyzed for the study. The impact of mortgage-backed securitization announcements of lodging firms that have timeshare operations had significant, positive effects on the shareholder wealth of these firms.*

## **INTRODUCTION**

This study deals with the securitizations of mortgage-backed securities issued by both timeshare companies and traditional hotel companies that operate a timeshare business. An example of a traditional hotel company that operates a significant timeshare business is Wyndham Worldwide (WYN), and an example of a pure timeshare corporation is Marriot Vacation Club (VAC).

Studies have illustrated that traditional lodging corporations invest in timeshare operations because the product offers more diversity in the parent company's portfolio and can bolster the parent company's bottom line. Nabawanuka and Lee (2009) studied the relationship between timeshare operations within larger, traditional hotel corporations in terms of firm value, accounting performance, and firm risk. The authors found the existence of an "inverted U-shape" relationship between the degree of timeshare operation and the firm value and of the parent lodging firm, which suggests that there is an advantage for a traditional lodging firm to invest in the timeshare product/concept up to a certain point.

During the Great Recession, the timeshare industry experienced a sharp decline in sales from a historical peak sales volume of \$10.6 billion in 2007 to \$6.3 billion in 2009 (AIF, 2013). This recession also saw lenders tighten credit instruments and as a result, many timeshare buyers purchased mortgages with interest rates well over 15% (Murphy, 2008). Because the timeshare industry relies so heavily on sales of mortgages to generate cash flow, it has taken to the act of securitizing pooled mortgages (Fang & Long, 2009), just as in the residential housing sector, which was one of the harbingers of the Great Recession, to generate enough cash flow to continuously fund operations.



### Theoretical Framework

A typical securitization transaction occurs when a company, also called the originator, sells its assets that generate a steady stream of cash flows to a specially created corporation or trust, often called a special purpose vehicle (SPV), who then puts them into a pool that credit enhancements are then applied to (which are instruments used to raise the rating of the SPV), and finally finances the purchase via issuing tradable securities (Fang & Long, 2009).

The dribs and drabs hypothesis, or the information leakage theory, posited by Grace, Rose & Karafiath (1995), make the case that information is slowly leaked to the market over a period of time, instead of an abrupt announcement of an event. With the book-building process of assembling a complex financial transaction as the securitization of assets, it is reasonable to conclude that the market may be at least aware of a company's efforts to generate a securitization transaction well in advance of the actual date of the securitization issue's announcement. This theory ties into Thomas' (1999) statement about securitizations not being carried out "on an underwritten basis, but rather on a book-building basis," (p. 328), inferring that it takes weeks for a securitization deal to be constructed by the parties involved in the transaction and the market is aware of this process well in advance of the actual announcement date of a successful securitization deal.

### DATA AND METHODOLOGY

Event studies utilize financial security data to measure the impact a specific event has on a particular firm or industry. The financial security data in most cases is common equity, but debt securities can also be studied under the same procedural guidelines with minor adjustments (MacKinlay, 1997). Torchio (2009, p. 159) offers the following definition of an event study, "An event study is an empirical technique that measures the effect of new information on the market prices of a company's publicly traded securities".

The sample for this study was composed of the vacation ownership corporations and their corresponding securitization issues. Table 1 illustrates the firm, date of announcement of completion of the securitization deal itself, and the amount of the securitization.

This event study examines the change in the mean abnormal return in securities for the vacation ownership firms listed. The securities data, which is daily common stock price, were obtained from the Center for Research in Security Prices, or CRSP, at the University of Chicago, from July 15, 2004 to March 27, 2015. The calculation of the mean abnormal returns for the companies was carried out by the Eventus software package from Wharton Research Data Services of the Wharton School at the University of Pennsylvania.

To help account for what will be a relatively small sample size in this study, a 'Bootstrap' test (Efron, 1979) will be performed, as many of the assumptions concerning normality of distributions may not be valid because of the size of the sample. McWilliams and Siegel (1997) suggest using such a technique when a small sample is utilized because the Bootstrap method does not require assumptions of normality. Daily average abnormal returns for the sample of lodging firms with timeshare operations will be taken over the 255-day estimation window to reach a number of sets of daily abnormal, or excess, returns from which to draw a return.

Successful completion, or closing, of securitization deals announced in the Wall Street Journal will be the source of the dates of the securitization announcements, as well as each lodging/timeshare firm's annual reports or press releases.

<b>Table 1</b>		
<b>Major Timeshare Securitization Transactions 2004 - 2015</b>		
Company	Date of Securitization Announcement	Amount \$ millions
Bluegreen Vacations	1/15/2015	117.8
Bluegreen Vacations	9/13/2012	100.0
Bluegreen Vacations	7/15/2004	156.6
Diamond Resorts International	11/20/2014	260.0
Diamond Resorts International	11/20/2013	226.0
Diamond Resorts International	1/25/2013	93.6
Diamond Resorts International	10/20/2009	182.0
Elara (Hilton Grand Vacations)	11/24/2014	120.0
Marriott Vacation Club	10/10/2014	250.0
Marriott Vacation Club	8/9/2013	263.0
Marriott Vacation Club	7/3/2012	250.0
Silverleaf Resorts	9/12/2012	175.0
Silverleaf Resorts	6/8/2010	151.5
Silverleaf Resorts	4/13/2010	100.0
Starwood Vacation Ownership	11/3/2011	200.0
Starwood Vacation Ownership	12/10/2009	166.0
Wyndham Vacation Ownership	3/27/2015	350.0
Wyndham Vacation Ownership	11/5/2014	325.0
Wyndham Vacation Ownership	7/16/2014	350.0
Wyndham Vacation Ownership	3/19/2014	425.0
Wyndham Vacation Ownership	3/21/2013	300.0
Wyndham Vacation Ownership	3/21/2012	450.0
Wyndham Vacation Ownership	11/11/2011	300.0
Wyndham Vacation Ownership	3/28/2011	400.0
Wyndham Vacation Ownership	7/26/2010	350.0
Wyndham Vacation Ownership	3/19/2010	300.0
Wyndham Vacation Ownership	10/7/2009	300.0
Wyndham Vacation Ownership	5/28/2009	225.0
Wyndham Vacation Ownership	6/30/2008	450.0
Wyndham Vacation Ownership	5/1/2008	200.0
Wyndham Vacation Ownership	5/23/2007	600.0

While event studies have been performed in the lodging sector in terms of financial deregulation (Graddy, Reuben, Strickland, & Bass, 2004), state and federal laws and regulations (Ababneh & Tang, 2013), and mergers and acquisitions (Kwansa, 1994), little has been done in the timeshare industry, especially in the area of securitization announcements of mortgage-backed securities by lodging corporations with timeshare operations (and also purely timeshare corporations). The key research question addressed in this study is if announcements of successful securitizations by vacation ownership business, or that of lodging firms that operate a vacation ownership business, affect shareholder wealth of those firms? The hypothesis is listed below.

- H1 There is no significant difference in the size of the mean cumulative abnormal return, or shareholder wealth, for vacation ownership companies or hotel companies with vacation ownership interests upon announcement of a successful securitization transaction.*

## RESULTS

Utilizing the event windows preferred by Thomas (1999) to examine whether the market showed interest in the book-building of a securitization process that leads up to the actual date of the announcement, the event windows themselves were portioned into ten-day increments, as listed in Table 2.

It should be noted that Bluegreen Resorts, Diamond Resorts International, and Silverleaf Resorts announced securitization issuances that were not counted in the final sample of this study because the firms were privately held during some of their securitization announcements, thus no securities data was publicly available at the time. Therefore, five event dates were discarded, bringing the sample size of this study to 26.

This event study was performed employing the Fama French Time Series Model. The tests used in this model are the portfolio time-series CDA  $t$  value, the sign test, the rank test  $Z$  statistic, and the jackknife  $Z$  statistic. Bootstrap significance tests were also conducted with the primary test the portfolio time-series CDA  $t$  test.

The ten-day incremental event windows, which are listed as (-50, -41), (-40, -31), (-30, -21), (-20, -11), and (-10, -1) demonstrated no significant mean cumulative abnormal returns. The 10-day event window (-30, -21) showed the highest cumulative abnormal return of 1.37%, but was not significant at any level. The event window (-20, -11) showed a cumulative abnormal return of .73% and its corresponding sign test was 18:8 and was significant at the 5% level. This number denotes that 18 firms showed positive cumulative abnormal returns and eight firms showed negative cumulative abnormal returns for this particular event window.

Using the time parameters that Fang and Long (2009) suggested in their study of securitization announcements, an additional event window used for this study is three trading days prior to the announcement of the issuance of the securitization (-3) to five trading days post-event (+5). This event window (-3, +5) showed no significance at any level, although it did result in a 1.01% mean cumulative abnormal return.

<b>Table 2</b> <b>Securitization Announcement Event Windows -- Fama French Time-Series Model</b> <b>Value Weighted Index</b>							
Window	N	Mean Cumulative Abnormal Return	Positive Negative	Portfolio Time-Series (CDA) $t$	Cross Section Error $t$	Rank Test Z	Jackknife Z
(-50, +1)	26	3.30%	12:14	0.690	0.928	0.703	0.644
(-50, -41)	26	0.17%	11:15	0.080	0.142	0.909	0.661
(-40, -31)	26	0.60%	9:17	0.284	0.264	0.085	-0.476
(-30, -21)	26	1.37%	12:14	0.650	0.758	-0.688	0.080
(-20, -11)	26	0.73%	18:8 >	0.346	0.451	0.966	0.796
(-10, -1)	26	-0.88%	11:15	-0.419	-0.889	-0.464	-0.648
(-3, +5)	26	1.01%	14:12	0.505	1.033	1.434	1.545
(0, +1)	26	1.32%	17:9 )	1.411	1.972*	1.781\$	1.466

Note. The symbols \$, \*, \*\* and \*\*\* denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a two-tailed test. The symbols (, <, or ), >, etc. correspond to \$, \*, and show the direction and significance of the generalized sign test.

Moving to a more contracted event window, recommended by Ababneh and Tang (2013) and also Thomas (1999), wherein it is suggested the event window should be as short as possible, an event window of day = 0, which is the trading date of the event, through the first trading day post-event (day = +1), was employed. The event window (0, +1) showed a mean cumulative abnormal return of 1.32% and the corresponding portfolio time-series crude dependence adjustment (CDA)  $t$  test of 1.411 showed significance at the 1% level under the Bootstrap significance test, as shown in Table 3. In addition, this event window also showed a sign test of 17:9, and this test was significant at the 10% level. The rank test  $z$  statistic for this event window was 1.781 and was significant at the 10% level. These results indicate that the hypothesis is rejected. The Bootstrap significance levels are shown in Table 3.

**Table 3**  
**Parametric Statistics Repeated with**  
**Bootstrap Significance Levels**

Window	N	Mean Cumulative Abnormal Return	Portfolio Time-Series (CDA) $t$	Cross Section Error $t$
(-50, +1)	26	3.30%	0.690	0.928
(-50, -41)	26	0.17%	0.080	0.142
(-40, -31)	26	0.60%	0.284	0.264
(-30, -21)	26	1.37%	0.650	0.758
(-20, -11)	26	0.73%	0.346	0.451
(-10, -1)	26	-0.88%	-0.419	-0.889
(-3, +5)	26	1.01%	0.505	1.033
(0, +1)	26	1.32%	1.411**	1.972*

Note. The symbols \$, \*, \*\* and \*\*\* denote statistical significance at the 0.10, 0.05, 0.01 and 0.001 levels, respectively, using a two-tailed test. The symbols (, <, or), >, etc. correspond to \$, \*, and show the direction and significance of the generalized sign test.

## CONCLUSIONS

These results of this event study using the event windows specified above fall more in line with the new information theory, generally thought to have been brought into the financial literature by Fama, (1965), where new information is released to the market on a specific date, and the value of the stock at any given time reflects the value of future cash flows of that security (Torchio, 2009). In this event study, the date of the announcement (day 0) plus one day post-announcement indicate that the announcement of a successful securitization issuance represented new information to the market and a significant cumulative abnormal return was demonstrated.

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# **AN EXAMINATION OF ROI ON SERVICE INDUSTRY GROUPON PROMOTIONS**

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## **ABSTRACT**

*This study presents results of an exploratory study on the implications and return on investment of utilizing Groupon as a marketing tool for service industry businesses. The study seeks to establish a greater understanding of the Groupon mechanism and help practitioners navigate the implications on business practices. This form of marketing presents several challenges and benefits alike for service business owners to consider. If ignored or misunderstood, the effects could be devastating for small and large service industry businesses alike. Historical views, findings, implications and areas for further research are discussed.*

## **BACKGROUND**

The Groupon concept grew from the idea of a Pittsburgh native Andrew Mason and launched in the city of Chicago in November of 2008. In less than seven years the startup grew to over 500 cities worldwide with over 48 million active users and 425,000 or more active deals at any one time([www.grouponworks.com](http://www.grouponworks.com)). While the organization has seen great growth and success in the 'deal-brokerage' business, businesses have had mixed feelings about their experience utilizing Groupon campaigns. Dr. Utpal M. Dholakia reported in a 2010 study that respondents(150) experienced a profitable Groupon campaign in 66% of cases and unprofitable campaigns in 32% of cases(Dholakia 2010). What is the differentiator between these two groups of businesses? Is there truly a discrepancy or are service business owners not accounting for all of the ancillary benefits afforded to them through the Groupon campaign?

The Groupon model in its simplest form is a brokerage model where Groupon connects and facilitates the exchange of goods or services between a seller and a buyer taking a monetary commission off the top of the transaction. In a perfect scenario all three parties involved benefit from the transaction. The Seller would hopefully receive some if not all of the following: a sale, a sale with consumer spend in excess of the featured deal(overspend), implicit economic profits through a long term customer relationship and market exposure. The Buyer would receive the opportunity to experience a service or product at a deeply discounted rate and find an organization that they develop a loyalty to and prefer to do business with. Groupon receives a percentage of every transaction they broker between the buyer and seller and must keep both Buyer and Seller satisfied to continue to use the Groupon platform.

## **TERMS DEFINED**

- **Deal:** Agreed upon brokerage of the sale of a good or service between seller and buyer by Groupon.
- **Overspend:** This is the amount the Groupon buyer spends in addition to the value of the redeemed Groupon deal.
- **Buyer:** The individual purchasing the deal from Groupon.
- **Seller:** The individual or organization offering the product or service for sale through Groupon.
- **ROI:** Return on Investment: (gain from investment – cost of investment) / Cost of investment
- **Ancillary Benefit:** Any benefit in addition to monetary compensation that a buyer receives by participating in the Groupon deal, ie., the amount a seller is willing to pay for the marketing, demographic information, new customers and allocation of unredeemed Groupon deals

## REVIEW OF CURRENT LITERATURE

In a review of current literature it was found that the body of literature in this field seems to lose steam around the time that Groupon decided to make some changes to their business model. Up until May of 2012, Groupon required a certain number of transactions be committed to for the actual deal to transpire (Subramanian 2012). If this threshold was met, the deal would transpire. Buyers would exchange currency for the seller's product. If this threshold was not met, no deal would transpire and monies would return to their rightful owner and the only cost involved in this economic transaction would be the time and energy spent in researching the respective deal by the three aforementioned parties. After May of 2012, this threshold was lifted and now Groupon's Merchant Account Terms and Conditions obligate Sellers to accept whatever customer quantities Groupon provides (Edelmam et al 2014). This game changer left the seller vulnerable if they needed to obtain efficiency from volume and economies of scale while benefiting both Groupon and the buyer with certain and expedited sales. The seller is able to set a ceiling for the number of Groupon deals sold in any given month. This ceiling protects the seller from having sales in excess of their operational capacity which would compromise consumer experience and satisfaction alike.

The body of literature suggests that there is a misalignment between Groupon and some Seller expectations in terms of producing mutually beneficial agreements. These disconnects include arguments such as inopportune marketing cycles, overwhelming number of buyers redeeming in excess of operational capacity, buyers being deal seeking rather than experience seeking, low conversion from Groupon buyer to long term customer, low spend in excess of Groupon deal and buyers tipping service staff on the cost of the deal rather than the value of the product or service.

Dr. Utpal M. Dholakia from Rice University developed and empirically tested a conceptual framework studying the determinants of profitable Groupons. In his survey of over 150 businesses he received the following feedback from restaurant owners (Dholakia 2011):



‘The consumers were cheap’

– Restaurant, Western US.

‘Many of thegroupon user [sic] used it for only the value of the coupon (in our case \$50) and nothing more. The return business has been non-existent. It was very harmful to our bottom line during the months we ran it.’

– Restaurant, Midwestern US.

‘The only downsides to Groupon are you never see of the guests return because they are bargain shoppers, it can create a wait that negatively influences full-paying guests and it is difficult to track/redeem’

– Restaurant, Southern US.

‘waiters were frustrated by low sales & low tips since guests didn’t tip on the full amount.’

– Restaurant, Western US.

‘The people who bought our groupons were not out typical customer. They are only looking for a deal.’

– Restaurant, Southern US.

Dr. Dholakia’s survey had an impressive response rate of nearly 41.67% with 32.7% of respondents being in the restaurant industry(Dholakia 2011).

An example of inopportune marketing cycles would be if Groupon featured and pushed the sellers deal as the headline deal in a week that just happened to be the busiest week of the seller’s year with or without the deal. Jessie Burke, owner of Posies Café experienced just this when her deal launched the weekend that the neighborhood library opened. She explained: “Deals are scheduled based on factors that optimize the deal for Groupon, not the merchant”(Agrawal 2011). Due to this inopportune scheduling she had a line out the door the entire weekend which compromised all customers’ experience. A nail salon in Chicago had a similar experience when 4,000 manicures and pedicures were sold for their store which only had two stations to serve customers. Similarly, many customers left angered.

Interestingly there is this notion amongst sellers with Groupon scars that Groupon buyers are deal seeking rather than experience seeking. Essentially, the premise is that the pedigree of deal buyer through Groupon is not the same pedigree of person that would frequent the service normally and therefore there is little to no conversion rate into long-term or continued relationship with the customer. Dholakia operationalized this phenomenon as: “longer-term behavior of customers toward the firm” (Dholakia 2011). They tracked repeat purchases by Groupon customers for two weeks directly after the Groupon Deal ended at Gourmet Prep Meals in Houston, Texan and found that approximately 4% of Groupon users had returned(Dholakia 2011). Interestingly, it was found that these return customers spent significantly more than the average customer on their return visit.

One other noted anomaly in current literature is that the tipping habits of Groupon buyers is noticeably less than that of regular customers. Restaurant owners and servers alike comment that Groupon buyers tend to tip on the check total or overspend and not the entire total of good and service received. This anomaly creates a particularly problem for Sellers and practitioners as it has been found that employee satisfaction with the Groupon deal is the primary driver of the promotions profitability (Dholakia 2010).

While the previous section may have painted a dark and dismal experience for sellers utilizing the Groupon platform, this is definitely not the testament spoken by all sellers. The body of literature suggests a plethora of advantages: sales, advertising for start-up and entrepreneurial ventures, new customers, conversion of Groupon customers into long-term customers, overspend beyond the deal, key demographic information.

Dholakia & Tsabar described the exposure value received by a Houston-based startup: For GPM, the Groupon promotions value is approximately 140% of its baseline sales over the six month period. We also found that although the promotion itself has no material impact on the firm's profits, when the earnings from unredeemed Groupons are taken into account, GPM enjoyed a substantial 30% lift in profits compared to baseline levels. The firm lost a small amount of money on the average Groupon user, but more than made up for it from the increased rate of purchase – which was more than three times higher – by full price-paying customers from increased exposure(2011).

Two key deal components that need to be taken into consideration by service industry sellers in the decision making process is overspend and percentage of unredeemed Groupons. Each time a Groupon is redeemed in the service industry there is the opportunity to obtain overspend. Overspend is the amount spent in addition to the deal that the buyer makes when visiting the buyers establishment. For this reason it is essential for the seller to have staff trained and selling additional items to Groupon buyers. The servers interaction with the buyer can be the difference between zero and \$30 of overspend if the experience is enjoyable. Secondly, as with any coupon or gift card there is a certain percentage of buyers that simply forget to redeem. This amount of revenue should also be taken into account in the decision making process and can essentially be divided across all of the redeemed Groupons in additional revenue.

## **THE NEGOTIATION**

For a seller to become listed and utilize the Groupon platform they must reach out to Groupon and request to become a Groupon Merchant. Groupon researches the organization or client to ensure that there is a certain level of fit before moving into negotiating a deal between the two. For a deal to be effective and viewed favorably by buyers Groupon likes to offer the product or service to buyers at a greatly discounted rate. This rate is usually around 50% of the seller's advertised selling price. Similar to selling a house to a realtor, it is in Groupon's best interest to sell in high volume, not necessarily at the largest profit margins for sellers. The deeply discounted offering price to buyers allows them to make a sales push and hopefully entice high sales. The 50% discounted revenue that Groupon receives from buyers is then split in some proportion between the seller and Groupon. Obviously it is in both the Buyers and Sellers best interest to negotiate the highest percentage possible. The seller wants a high percentage to cover cost of goods and hopefully make a profit. Groupon also wants a high percentage to cover costs and hopefully make a profit. This is where negotiations come into play. Groupon likes to begin this conversation suggesting a 50:50 split between themselves and the seller of the good or service. They utilize data on the split of similar goods or services in the region to keep their percentage of the take as high as possible. Obviously it is in the best interests of both parties to have their respective side of the split as high as possible.

From the seller stand point, if you have offered a product or service to buyers for a 50% discount and then split the proceeds 50:50 with Groupon you are looking at receiving 25% of your normal asking price on the good or service. For some sellers this 25% is above their cost of goods and for others this is well below their cost of goods. If it is too far below the cost of goods it may not make economic sense to pursue a relationship with Groupon. However, other

ancillary benefits should be taken into consideration (overspend, customer conversion rate, advertising obtained, and key demographic information).

### PROPOSED ROI FORMULA FOR SELLERS

Basic financial acumen tells us that Return on Investment is equal to gain from investment minus cost of investment divided by cost of investment. Once all is said and done, we hope that this equation produces a positive number.

To better illustrate: (gain from investment – cost of investment) / (cost of investment).

In order to quantify gain from investment one must attempt to quantify all of the items gained and cost of investment into a monetary format. I suggest the following:

**Gain from Investment** = Seller take per item + estimated profit on overspend per item + Ancillary benefit per item

**Cost of Investment** = What the product or service actually costs the seller. (keep in mind, if the seller needs to add additional staff this should be extrapolated and added to the equation. However, if the seller would have the doors open anyways and not have to add additional staff then this should not be added to the cost of the investment).

### TWO EXAMPLES

**Example #1:** The seller offers a Groupon deal for \$15 where the consumer can enjoy a \$30 steak dinner. The seller negotiated a 50:50 split of the sales price, has a cost of goods of 33%, anticipates a \$20 overspend and has determined that their ancillary benefit per sale is \$2.

The Example #1 ROI equation would look like this:

$$ROI = ((.5(\$15) + .67(\$20) + 2) - (.33(\$30) + .33(\$20))) / (.33(\$30) + .33(\$20))$$

$$ROI = ((\$7.50 + \$13.40 + \$2) - (\$9.90 + \$6.60)) / (\$9.90 + \$6.60)$$

$$ROI = ((\$22.90) - (\$16.50)) / (\$16.50)$$

$$ROI = 38.79\% \text{ *based upon this ROI equation the seller should go through with offering the deal}$$

**Example #2:** The seller offers a Groupon for a Pitcher of craft beer(\$15) and a pizza (\$12) for the price of \$17. The seller negotiated a 70:30 split in sales price, has a cost of goods of 27%, anticipated a \$10 overspend and has determined that their ancillary benefit per sale is \$3.

The Example #2 ROI equation would look like this:

$$ROI = ((.7(\$17) + .73(\$10) + \$3) - (.27(\$27) + .27(\$10))) / (.27(\$27) + .27(\$10))$$

$$ROI = ((\$11.90 + \$7.30 + \$3) - (\$7.29 + \$2.70)) / (\$7.29 + \$2.70)$$

$$ROI = ((\$22.20) - (\$9.99)) / (\$9.99)$$

$$ROI = 122\% \text{ *based upon this ROI equation the seller should go through with offering the deal}$$

Notice how some very small differences created an ROI for Example #2 that was over three times greater than that of the ROI for Example #1.

### ASSUMPTIONS & LIMITATIONS

This simplistic ROI formula holds some very apparent assumptions. These ROI model assumptions, which include: overhead variable costs remain constant for the seller, the seller is able to accurately predict their ancillary benefit and the seller is able to accurately predict

average overspend. In addition to the three assumptions described above, there can be numerous other assumptions inherently implied which are fundamental in nature.

This study has a number of inherent limitations present that must be recognized in order to avoid misinterpretation and incorrect generalization of the ROI formula. The main limitation is the formula only being applicable to service industry sellers. Similarly, sellers will weigh the ancillary benefits provided based upon their past experiences which can produce a bias. Utilizing this formula outside of the service industry would produce results that are both inaccurate and non-generalizable. Furthermore, each service organization is inherently different and therefore may not be able to apply this proposed formula.

### **AREAS OF FUTURE RESEARCH**

With the growing technological savvy of the millennials it is without doubt that online couponing and daily deals will only grow in popularity. However, the form of offering and the mechanism will inevitably morph and transform overtime as we continue into the 22<sup>nd</sup> century. This research could be expanded into a plethora of scholarly areas including: an examination of ROI on goods sold via Groupon deals, a comparative study of the same organization utilizing two distinctly different Groupon deals and an ROI estimate for a specific service establishment.

There is a distinct difference between Groupon deals involving goods and Groupon deals involving service products. The most notable difference is that a Groupon deal for goods does not have the opportunity to collect ancillary benefits such as overspend, a returning customer or non-redeemed deals. For this reason an examination into the return on investment for goods sold through Groupon would expand the field of study.

Is it possible that one Groupon deal create better profitability and ancillary benefits for a service organization than another? An analysis of the same organization utilizing two distinctly different Groupon campaigns could shed a light on this question. If there is a distinct difference than there is evidence that sellers should put more emphasis and thought into the deal construction and buyer deliverable.

An in-depth examination of a service organizations campaign where actual historical data can be analyzed would provide a basis for the validity of the campaign. Until historic data is analyzed the field is stuck making assumptions based upon trend data. Obtaining a study of multiple organizations could suggest a mechanism or rubric for Groupon success from the standpoint of the seller.

In conclusion, the field of study surrounding Groupon deals and their structure and effectiveness as well as return on investment is still in its infancy stage. Future research holds significance to researchers and practitioners alike as it could lead the online daily deal/coupon industry into another delivery format as well as make the negotiation process and outcome beneficial for all parties involved.

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# A PHENOMENOLOGICAL INVESTIGATION OF SMALL BUSINESS CLOSURE IN CALIFORNIA: AN EXAMINATION OF THE LEADERSHIP PROCESS

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## ABSTRACT

*Small businesses are important to the United States economy, and yet the majority struggle to remain relevant and close prior to their fifth year. This qualitative phenomenological study explored small business closure in California by comparing the experiences of successful and unsuccessful small-business leaders, to understand their involvement with leadership during the early stages of the business, and the impact of this on the firms' ability to survive. Participants' experiences from two groups, successful and unsuccessful, were compared to glean an understanding of the leadership process, how leadership differs between the groups, and to see what themes or constructs emerged that could help to explain the high closure rate. This resulted in the development of 12 themes. The predominant themes were: small business closure can be caused by inability to motivate employees, by poor understanding and lack of attention to leadership, and by lack of relationship building skills. The data also showed that leadership shortfall directly impacted 65% of the companies studied, however leadership was not considered a priority in participating organizations but rather an afterthought to be considered only in times of crises. Yet leadership was perceived to be important when envisioning a path for the future and when providing a platform for employees to succeed. Those embracing leadership as a skillset were more likely to get through the challenges of the early developmental years while those ignoring the importance of leadership were more likely to close prematurely. These findings suggest a disconnect with regards to the understanding, role, and benefits of leadership in small organizations, particularly young organizations in the early stages of development.*

## INTRODUCTION

Small-business organizations make up more than 99% of all employer firms and account for approximately 63% of net new private-sector jobs created between 1993 and 2013 (Small Business Administration [SBA], 2014a). In 2011, there were approximately 28.2 million such businesses in the United States compared to 17,700 large businesses (SBA, 2012). As important as small businesses are to the United States economy, only approximately 50% will survive five

years or more and only approximately 33% will survive for more than 10 years. The high closure rate has remained unchanged for over than 30 years (Headd, 2003) and survival rate has changed very little, if any, over time (SBA, 2012).

The problem under investigation was the high closure rate of small business organizations within the first five years. This study explored small-business closure by comparing the experiences of 10 successful small-business leaders with those of 10 unsuccessful small-business leaders to understand their involvement with leadership during the early stages of the business. In particular, the study attempted to understand the leadership process during the first five years of development and the impact of this process on the ability of the firm to survive. Participants' experiences from the two groups were compared to glean an understanding of how leadership differs between the groups and to identify what themes and constructs emerged that could help to explain the high closure rate.

Monahan, Shah, and Mattare (2011), argued that the United States has more small businesses per capita than anywhere else in the world, it is therefore important to get a better understanding of what causes small business to close prematurely as reducing the rate of closure would be of great benefit to the nation as a whole. It is also important to further our understanding of the leadership process within small firms, as this process is "seldom a readily visible one" (Beaver & Jennings, 1996 p. 155). To provide visibility, interviews were conducted with 20 small-business leaders in two different groups and their responses compared and contrasted to understand what they had in common and where they differed. Group 1 comprised 10 successful small-business leaders and Group 2 comprised 10 unsuccessful small-business leaders. Unsuccessful businesses operated within the state of California and conducted business within the professional, scientific, and technical services industry, and in particular, within the information technology sector. The businesses closed before year 5 of operation. Successful businesses were currently on-going with 10 or more years of sustained business operation.

The goal was to understand the small-business leaders' experiences with leadership during the early formative years, specifically, during the first five years of the business. The state of California was chosen for this study because California ranks as the world's eighth largest economy, ranking higher than countries such as Russia and Italy (Legislative Analyst's Office, 2014). The state also has the largest concentration of small businesses within the United States (SBA, 2013). The 3.5 million small businesses in California have a big impact on the local economy, representing 99.2% of employer firms, more than 50% of the private-sector labor force, and employing 6.3 million workers in 2010. Closure rate in California is also significantly higher than other states. For example, closures within the state was 69% higher than the U.S. national average in 2010, according to a CNN Money (2011) report citing findings from a Dun and Bradstreet survey published during the same year, which examined approximately 23 million small businesses in its database. With California being the epicenter of the tech industry and arguably the entrepreneurial capital of the United States, getting a deeper understanding of small-

business closure may help the California economy and may provide useful information to the approximately 3.5 million small businesses that call the State of California home (SBA, 2014b).

Business success results from effective leadership (Lu, 2004) therefore, it was important to start by analyzing the leadership process. Small-business organizations are relatively very small in nature and have fewer employees which puts the small-business owner in more direct contact with their employees (Beaver & Jennings, 2005) and in a unique position of leadership and influence given their proximity to the activities being performed and the employee(s) performing them (Beaver & Jennings, 1996). A review of the leadership literature revealed very little information regarding leadership within the small-business context which highlighted the importance of completing the present study. The study sought answers to the following research questions:

Research question 1: What are the perceptions of small-business leaders regarding leadership and small-business closure?

Research question 2: What are the perceptions of small-business leaders regarding leadership and small-business success?

Research question 3: What do small-business leaders attribute in terms of leadership to the success or premature closure of their business?

A deeper understanding of leadership in small business organizations can be achieved by addressing these research questions. The economic and social development of many nations depend on a strong and robust small business community therefore understanding the factors that impact their performance and survival is critical. To achieve the goals of the research, it was first necessary to do a comprehensive review of the literature to understand prior research on leadership's impact on small business outcome.

## **LITERATURE REVIEW**

The main objective of the literature review is to help position the research within the context of the current relevant literature (Creswell, 2014). Rozas and Klein (2010) contended that the literature review can help us understand the existing literature in an entirely different way. As a result, researchers can avoid unintentional duplication of existing data by doing a comprehensive review of the literature and by positioning the research so that it contributes to the current relevant literature (Rhoades, 2011). The research questions and problem statement guided the literature review (Neely et al., 2010). Despite the importance of the small-business industry to both national and local economies, small-business closures have remained high and



have been a major problem in the United States for many years (Headd, 2003; Schweikart & Doti, 2010). When corporations let workers go, these workers often go on to open their own small businesses which was the case during the 1930's Great Depression, during the recessions of the mid-1970s, and more recently during the early 1980s, and 1990s where many larger companies laid off workers to keep their costs low (Conte, 2006). This has always allowed the number of start-ups to remain high and above the number of business deaths, which was the case through much of the 20<sup>th</sup> century (Miles, 2013). However, from 2001 through 2008, the average number of small-business births trended equal to the average number of small-business deaths (Politis & Gabrielsson, 2009). For example, in 2009 approximately 552,600 new employer firms opened but during that same year approximately 660,900 firms closed their doors permanently (SBA, 2011).

The first two years in the life of the business are critical to its survival, and approximately 34% of all new businesses close within these first two years (Yallapragada & Bhuiyan, 2011) with 50% closing by year 5. For some industries such as restaurants, the closure rate for new businesses within the first two years is higher than 90% (Miles, 2013; Valdiserri & Wilson, 2010). The 5-year survival rate for small businesses within the service industry is 47.6% (Small Business Trends, 2012), resulting in more than 52% of service companies closing before their 5th year. The average number of closures across all industries within the first five years of operation is approximately 75% according to some research (Miles, 2013). Only approximately 25% of new businesses will survive past five years and this poses tremendous threats to the overall United States economy as well as the economy of states such as California that are so heavily dependent on small-business organizations.

While small businesses vary widely in terms of size, industry, and capacity to grow, they often experience common problems at similar stages of development (Churchill & Lewis, 1983). According to Churchill and Lewis, if the small organization cannot adjust to changing circumstances, it will cease to exist. Leadership, which changes as the firm grows, may make a difference between success and closure as the organization makes the transition through the different stages of development (Kotter, 2012). This is important because the habits formed during the early entrepreneurial stages may not necessarily be compatible with the long-term success of the small-business organization and, as a result, the organization may fail (Baumard & Starbuck, 2005).

### **Leadership and Small-Business Outcome**

Identifying what contributes to success or closure may lead to better decision-making and increase the chances of business success (Philip, 2011). This knowledge is necessary because organizations rely heavily on the leadership within the firm to be successful (Enalls-Fenner, 2015; Frazier, 2014; Germano, 2010; Kalshoven, Den Hartog, & De Hoogh, 2013; Ruggieri & Abbate, 2013; Shin, Park, & Lim, 2013), with leadership playing an increasingly important role in the outcome of the organization (Enalls-Fenner, 2015; Kalshoven et al., 2013; McCrimmon, 2010). Leaders need to engage and empower followers to achieve organizational

objectives which drives the organization to become successful (Kalshoven et al., 2013; Kammeyer-Mueller, Wanberg, Rubenstein, & Song, 2013; McKinney, 2009; Shin et al., 2013). As new challenges and opportunities arise, the organization's leadership must be able to address the challenges while grasping the opportunities or they risk failing (Lester, 2011). Leadership must be a priority in 21<sup>st</sup> century organizations and must be able to adapt to meet the changing needs of the global economy (Inandi, Tunc, & Gilic, 2013).

While leadership's impact on an organization's success has been widely documented, leadership within the small-business context is more challenging to find in the literature. Earle (2009) noted that successful small-business leaders are self-aware and understand the challenges that the business faces. As such, they anticipate threats and opportunities and adapt to changing environments more quickly than unsuccessful small-business leaders. Peters (2005) noted that small-business leaders significantly influence how employees achieve organizational goals which is essential since leadership is what causes an organization to be effective in the first place. Successful small-business leaders are aware of their environment (McManus, White, & Botten, 2009; Svensson & Wood, 2006) which corroborates Beaver and Jennings' (1996) argument that the primary ingredient in small-business success must be the leadership competence of the small-business owner as the leader of the organization.

Notwithstanding, small-business leaders often lack the leadership skills needed to ensure the success of the enterprise (Ekanem, 2010). Leadership directly impacts the profitability and success of the small business (Valdiserri & Wilson, 2010). Miles (2013) argued that the actions of the business leader directly affect profitability and business outcome. Leadership is essential to successfully running a small business and is of critical importance to its survival (Fuller-Love, 2006). It is also key to the organization's success, and is important overall to avoid small-business closure (Van Dick & Schuh, 2010). Leadership is a factor required for success of not just the business, but also projects required for the business to succeed (Nixon, Harrington, & Parker, 2012). Leadership knowledge would, therefore, improve the small business's chances of success (Seleim & Khalil, 2011; Servage, 2009). Palmer (2009) noted that leadership skills such as empowerment, ethics, inclusiveness, and process orientation may contribute to small-business success. This was echoed by Osman, Rashid, Ahmad and Hussain (2011), who described entrepreneurial leaders as proactive, innovative, and averse to risk.

Small-business leaders usually have their own perception of what constitutes small-business success (Weinzimmer & Manmadhan, 2009). In this regard, Beaver and Jennings (1996) argued that to have a successful firm, the leader must plan and lead the organization against various internal and external challenges. The authors contended that the primary ingredient to ensure success and a key defense against closure is the leadership abilities of the owner (Beaver & Jennings, 1996; Gray, 1998; Thompson & Gray, 1999). Beaver (2003), placed the focus of small business survival directly on the leader by citing Dun and Bradstreet research published in 1991, which listed the primary reason for closure as the incompetence of the small-business owner in 66% of cases studied. Gibb and Webb (1980) examined more than

200 bankrupt firms and concluded that lack of knowledge was the primary cause of closure. Chung-Herrera, Goldschmidt and Hoffman (2004) agreed that lack of knowledge with regards to the leadership function plays a key role in small-business closure, adding that closure results from the inability to identify and solve problems within the small firm.

Small businesses often have limited internal capabilities and fail to implement leadership practices such as formal policies and procedures, that may help them succeed (Kotey, 2005). Operational decisions are usually based on how leaders react to change issues as they arise. Therefore, organizational growth and stability may be achieved if small-business leaders develop specific skills needed for effective leadership (Graetz, 2000). Leadership requires continuous improvement to effectively deal with the changing business environment (Lester, Parnell, & Carraher, 2003). It also requires good understanding of the factors that are critical for effective leadership, which is essential for business success (Theng & Boon, 1996). Leadership then can be instrumental in controlling internal factors cited in the literature as causes of small-business closure. Among them, financial control, strategic planning, and organizational control (Bruno & Leidecker, 1998; Theng & Boon, 1996). Effective leadership is essential to survival and sustainable operations and is the main reason a business succeeds or fails (Gaskill, Van Auken, & Manning, 1993). Organizational leadership involves development and implementation of business strategies and therefore, has control over whether strategies are effective or ineffective and whether the business succeeds or fails (O'Regan, Ghobadian, & Sims, 2005). Leadership is linked to strategy and to performance, which ultimately leads to business outcome. Small-business leaders often fail to adequately address leadership problems and often fail to make the difficult decisions needed to ensure survival and success of their organization during early entrepreneurial development.

Collins (2005) agreed that leadership affects the survival of small-business organizations as effective leadership impacts all aspects of the business operations and leads to more successful organizations (Keasey & Watson, 1993). The importance of good leadership is underscored by how financial institutions approach lending to small organizations. They often take into consideration the small business's track record to understand the leadership abilities of the small-business owner before rendering any kind of financial assistance. This indicates that effective leadership impacts all aspects of the business operations and leads to more successful organizations (Ekanem, 2010; Fuller-Love, 2006; Gaskill et al., 1993; Keasey & Watson, 1993; O'Regan et al., 2005; Svensson & Wood, 2006; Valdiserri & Wilson, 2010). Resources may be limited in the small business, but competent small-business leaders with good leadership practices are much more likely to exercise effective leadership including sound financial controls and practices that are aligned with the firm's reality.

Leading a small business means navigating many challenges and overcoming many obstacles. Small-business leaders who are able to engage their teams and accomplish results through others will be more successful (Siemens, 2010) despite pressures from internal and external factors at the same time (Pless & Maak, 2009). Notwithstanding the many challenges

these leaders face, successful leaders will use their experiences with both business success and closure as future opportunities arise (Elenurm & Oper, 2008; Madsen & Desai, 2010). Many small-business leaders however, continue to be characterized as lacking leadership skills and are known for autocratic leadership, abuse of power, and limited objectives (Beaver, 2003; Beaver & Jennings, 2005; Keasey & Watson, 1993). These and other such tendencies may be putting small organizations at greater risk of closure.

Corner (2013) contended that success or closure resides with the small-business leader and concluded that organizational leadership combined with diversity and inclusion may improve small firms' survival rate. Mtairek (2014) noted that success and closure of the small business depends on the effectiveness of leadership or lack thereof. To succeed in the changing global environment, small-business leaders need to demonstrate effective practices, involving the "dyadic exchange between leaders and followers" (p. 95). Kotey (2005) shared this view, noting that small-business leaders must be developed for the leadership role. They need to learn specific leadership skills that are helpful to the organization in achieving growth and stability (Cabrera-Suarez, 2005). Small business leaders often fail to strategize for the future because they are most often too concerned with the present (Graetz, 2000). Consequently, they do not think about the consequences of the decisions made today and the impact of those decisions on the future of the business. As the business grows the role of the leader is significantly different from the start-up phase (Sonfield & Lussier, 2004) and the leadership needed is different than those needed initially at the start of the business therefore the viability of the organization depends on the leaders' effectiveness (Sonfield & Lussier, 2004).

This highlights the need for effective leadership which is essential to the development of strategies and cultivation of an environment that will enhance organizational effectiveness. Van Dick and Schuh (2010) affirmed that strong evidence exists to support the finding that leadership is the key requirement for organizational efficiency and performance, while Chung-Wen (2008); Frazier (2013); Jackson, Meyer, and Wang (2013); and others (Khan, Ghouri, & Awang, 2013; Mitchelmore & Rowley, 2013; Sakiru, D'Silva, Othman, Silong, & Busayo, 2013; Tafvelin, Armelius, & Westerberg, 2011; Tsai, 2011; Yang, 2012) have been able to link leadership and successful small-business performance. Weatherly (2012) acknowledged the changing role of leadership and the need for strong leader-follower interaction, by arguing that shared vision of goal creation has replaced the traditional leadership role that existed in the past. Consequently, leaders must learn from closure and build strategies to navigate future obstacles that may impact business outcomes (Mason & Singh, 2009; Rusinko, 2010).

The literature review affirmed that leadership plays a significant role in the development of the small firm and demonstrated that it is important to further examine the role of leadership within the small-business context as a possible option for underperformance and ultimately enterprise closure (Beaver & Jennings, 1996; Collins, 2005; Fuller-Love, 2006; Rasheed, 2005). A leader's job is to create conditions necessary for the organization to be successful (Hughes, Ginnett, & Curphy, 1999). Leadership also entails setting the organization's directions and

finding the resources to get things accomplished (Kotter 2012) and is perhaps the most important role of the small-business owner to guarantee the future of the organization and avoid closure. As the head of the organization, the small-business leader is positioned in a critical role to combat any decline in organizational performance. However, the literature also shows that the leader is more likely to abuse the “consequences of absolute power” (Beaver & Jennings, 1996, p. 157) emanating from majority or sole ownership and ignore the importance of leadership. This abuse of power may lead to organizational decline (Beaver, 2003; Beaver & Jennings, 2005; Keasey & Watson, 1993; Storey, 1994) as evidenced by a growing number of researchers who have attributed small-business closure to leadership shortcomings by concluding that leadership is a core ingredient to business success (Beaver & Jennings, 1996; Chavan, 2005; Fuller-Love, 2006; Harris & Gibson, 2006; Harris, Grubb and Herbert, 2005; McCartan-Quinn & Carson, 2003; Valdiserri & Wilson, 2010; Whittington & Evans, 2005), and a key ingredient necessary for development of the small organization (Burstein, Sohal, Zyngier, & Sohal, 2010; Lu, 2004).

The review also affirmed that effective leadership is needed to get the organization through the initial years, where some researchers have argued, nine out of 10 small businesses are expected to fail before their third anniversary. (Headd, 2003; Valdiserri & Wilson, 2010). This implies that the chances to avoid closure are greater as the small business matures; specifically, after it has passed the 2-year milestone. The chances of closure are therefore greatest within the first 2 years (Cressy, 2006; Headd, 2003). As the small organization changes during these early years the leadership required to successfully guide the organization must also change (Beaver, 2003; Gaskill et al. 1993), but not much is known about the leadership in small organization during these early years, hence the focus of this study.

This research attempted to provide the clarity needed to better understand leadership within the small-business context during the early years of development. This understanding is important because more than half of the small businesses starting today will not exist in five years, with an even smaller number of existing businesses in operation each year thereafter (SBA, 2012). This research provides an opportunity to understand the lived experiences of the leaders of these organizations. It explored the leadership process, described by Pierce and Newstrom (2011) as the complex interactions and dynamic exchange among leader, follower, situation, and outcome (See Figure 1), and the impact of this leadership on the firm’s ability to survive. The methods and methodology used to conduct this study are described in the following section.



Figure 1. The leadership process. Reprinted from *Leaders and the Leadership Process* (p. 5) by J. L. Pierce and J. Newstrom, and interpreted by Mindtools, 2010, New York, NY: McGraw Hill. Copyright 1989 by J. L. Pierce and R. B. Dunham. Adopted with permission.

## METHOD

The research design connects the research by exploring the research questions and then drawing appropriate conclusions (Leedy & Ormrod, 2013). The research design is important to data collection and analysis because it strengthens the study (Wright & Craig, 2011). Phenomenology helps to understand common experiences shared by several individuals (Moustakas, 1994) and provides an understanding of the phenomenon by describing how a better understanding may assist individuals, organizations, or the society with the challenges faced (Leedy & Ormrod, 2013). Using a phenomenological design encourages participants to conceptualize ideas, pulling from their lived experiences. The issue under consideration was the high closure rate of small-business organizations within the first five years of operation (Moustakas, 1994). A qualitative phenomenological investigation was the best approach to understanding the experiences of the small-business leaders, given that more information is needed to determine what triggers closure, the factors contributing to success, and the role of leadership in this process. According to Creswell (2013), a phenomenological study “describes the common meaning for several individuals of their lived experiences of a concept or a phenomenon” (p. 76). Phenomenology “describes what participants have in common as they experience a phenomenon” (p. 76). A qualitative phenomenological design provided the breadth and depth needed to fully understand the essence of the experience of the small-business leaders in order to develop a composite description of what they experienced and how they experienced it (Creswell, 2013; Moustakas, 1994). A phenomenological design was therefore used for this study.

The research study population consisted of a defined group of individuals all possessing similar characteristics relevant to the research (Sokolowski, 2008). This consisted of 20 small-

business leaders within the State of California all experiencing the phenomenon of closure. A small-business leader is the founding member or current or past owner of a business enterprise with at least one but no more than 500 employees. Dworkin (2012) suggested that participant numbers in qualitative studies should range between five and 30 to get to a point where data redundancy may be achieved. Using a total of 20 participants achieves this objective. Denzin and Lincoln (2011) noted that the lived experiences of five to 20 participants suffice to provide new knowledge on the subject studied. Each participant in the study provided a variety of concepts and large samples were not necessary in generating significant data (Sokolowski, 2008). Mason (2010) argued that qualitative research uses a much smaller sample size than quantitative research, and other researchers such as Cronin-Gilmore (2012) agreed that 20 participants for qualitative research is an appropriate sample size along with semi-structured interview questions (Bahtsevani, Willman, Stoltz, & Ostman, 2010; Philip, 2011). The sample size of 20 participants was therefore appropriate for this study. The 20 small-business leaders had direct information on the leadership within small-business organizations during early entrepreneurial development, as they started and or led the business during the early formative years.

### **Participants**

An invitation to participate was extended by e-mail to 300 small-business owners. Small business networks, associations and group Web sites, the local Chambers of Commerce, Small Business Development Centers, and the State of California all maintain public records of small-business owners, which were used to identify and locate this study's initial participants. These public records were reviewed to identify small-business leaders within the State of California meeting the study criteria. Purposeful sampling techniques were used to select individuals who were able to provide the rich data needed to answer the research questions. Creswell (2013) recommended that researchers select participants who can "purposefully inform an understanding of the research problem and central phenomenon in the study" (p. 156). The purposeful selection of participants were guided by the following factors: (a) the small business had at least one but fewer than 500 employees at the time the interview was conducted or at the time of closure; (b) the small business was independently owned; (c) the small business was not a major player in the industry; (d) the small business operated within the information technology sector; and (e) the small-business owner experienced the phenomenon of closure, meaning that the business owner had at least one prior failed attempt at a business.

### **Data Collection**

Interviews were the primary source of data collection. Interviews lasting approximately 45 to 60 minutes in duration were scheduled and conducted with participants selected for the study. The interviews were conducted in person or by Skype or phone depending on availability and location of the participant. An interview template, containing 12 group specific interview questions was used to ensure consistency in the interview process. Purposive sampling and

snowball sampling techniques were used to identify the 20 participants. Purposive sampling allowed the researcher to select participants with the rich data necessary to inform the study (Miles, 2013). Snowball sampling, in which participants in the study provide recommendations on additional participants to further enrich the study (Richards & Morse, 2013) was also attempted but proved ineffective. Snowball sampling can be effective when the study population is hidden or difficult to gain access to such as in the case of homelessness, alcoholism, sex workers, or in this case, unsuccessful or failed small-business leaders who may be unwilling to discuss their experiences. This approach did not yield any participants in this particular study.

### **Coding the Data for Analysis**

Data analysis involved first collecting the data from the interviews then coding, analyzing, and reporting of the data obtained from the study participants. Coding included Saldana's (2011) coding methods, which were helpful in identifying patterns and themes that was helpful with the initial coding. Saldana's method involves: (a) initial coding, (b) axial coding, and (c) theoretical coding. The initial coding entailed making large quantities of data smaller by breaking down large quantities of data into smaller more manageable sections and coding all expressions from the participants relevant to the research questions. This initial coding was the starting point and provided guidance for the rest of the study. The data were placed into two groups and then each group was coded. Data were arranged into these groups based on themes and relationships. Themes and patterns that emerge were coded (Lasch et al., 2010; Sokolowski, 2008) and the data coding adjusted as needed. Central themes were identified, and these themes were used to place fragmented data (Tan, 2010).

Axial coding extended the analysis completed under the initial coding through which patterns and themes were identified and were used to link data and to identify additional patterns and reassemble any fragmented data (Kikooma, 2010). Categories and subcategories of data were also linked together to form themes (Saldana, 2011). The final step was theoretical coding, which involved placing the existing categories into one central category. Theoretical coding was done by identifying relationships among the categories so that the categories could be integrated into one central category. Emerging themes were compared to themes in peer-reviewed literature and then incorporated into the research findings (Cope, 2010). The researcher then analyzed and interpreted the data to draw conclusions and answer the research questions.

### **Data Analysis**

Data analysis was conducted utilizing a modified van Kaam approach, which consists of the following seven steps: listing and preliminary grouping, reduction and elimination, clustering and thematizing the invariant constituents, final identification of the invariant constituents, individual textural description of the experience, individual structural description of the experience, textural-structural description of the meanings and essences of the experiences.



**LISTING AND PRELIMINARY GROUPING.** This step involved identifying and listing all expressions made that were relevant to understanding the small-business leader's experience with leadership and small-business success and closure and its causes. The process is also called horizontalization where all relevant expressions were listed and given equal value (Moustakas, 1994).

**REDUCTION AND ELIMINATION.** The reduction and elimination stage calls for the analysis of relevant expressions to identify themes. Relevant expressions were tested to determine whether they represented a description of the experience necessary and sufficient for understanding leadership and small-business closure and whether they could be abstracted into groups and labeled as appropriate for understanding the experiences. Expressions not meeting these criteria were eliminated. Repetitious expressions were grouped together into a single group, and any expression not relevant to understanding the experience deleted.

**CLUSTERING AND THEMATIZING THE INVARIANT CONSTITUENTS.** This step involved associating data into themes and eliminating overlapping or redundant data or experiences. The remaining data represented the core themes.

**FINAL IDENTIFICATION OF THE INVARIANT CONSTITUENTS AND THEMES BY APPLICATION.** This step involved checking the invariant constituents and themes to ensure they were explicitly expressed or compatible if not explicitly expressed. Expressions and themes that were not compatible or explicitly expressed were deleted.

**INDIVIDUAL TEXTURAL DESCRIPTION OF THE EXPERIENCE.** This step involved identifying and listing verbatim examples of expressions from the transcribed transcripts.

**INDIVIDUAL STRUCTURAL DESCRIPTION OF THE EXPERIENCE BASED ON THE INDIVIDUAL TEXTURAL DESCRIPTION.** This step involved a structural description of the experience based on the individual textural description of the experience.

**TEXTURAL STRUCTURAL DESCRIPTION OF THE MEANINGS AND ESSENCES OF THE EXPERIENCE.** This step involved using or incorporating the invariant constituents and themes into a description of the meanings and essences of the experience.

### **Reliability and Validity**

Reliability and validity are important in research studies (Sokolowski, 2008) and are further enhanced by consistency and stability in the process (Leedy & Ormrod, 2013). Threats must be minimized so that accurate conclusions can be made about the data, and researchers

need to ensure that the measures they use are reliable. Reliability of the study affects the validity (Creswell, 2013). One threat to internal validity is the selection of study participants. Selection of participants can pose a threat affecting the study's outcome. Random selection of study participants can help to minimize this risk however for this study, purposeful sampling was used to identify information-rich participants, reduce the threat to internal validity, and ensure that the study findings remained accurate.

Validity of the data refers to the credibility and trustworthiness of the data (Lasch et al., 2010). It ensures that conclusions and interpretations are accurate and representative of the phenomenon (Frost et al., 2011). Validity is when a researcher can make trustworthy interpretations about the sample data (Cooper and Schindler, 2003; Lasch et al., 2010). To ensure validity, multiple sources of data were used in the form of triangulation. Triangulation helps to strengthen and ensure reliability of qualitative data (Ali & Yusof, 2011; Moustakas, 1994) and further supported reliability and validity of the study findings.

## **FINDINGS**

The study consisted of three research questions and 12 open-ended interview questions (see Appendix A), which were asked of participants in two groups: businesses that closed prior to year 5 of operation—Group 1, and businesses with ongoing operations for 10 years or more—Group 2. Participants in both groups had direct experience with the phenomenon of closure. The interview questions provided the basis for insights into the research questions. The interview questions were divided into two groups. The groups shared six questions in common, which helped to understand their experiences with business closure as well as where they differed. The remaining six questions were unique to the specific group to provide a more detailed analysis of leadership within the group.

### **Clustering Major Themes and Identification of Invariant Constituents**

From the review of invariant constituents, common patterns about leadership in small-business organizations emerged with regard to the success or closure of the organization. Those with common themes were grouped or clustered, which allowed for the development and identification of core themes that describe the participants' experiences (Moustakas, 1994) with the phenomenon of closure. The completed analysis generated several core themes. Final identification of invariant constituents and corresponding themes were selected if a minimum of 20% of participants' responses aligned, and based on these additional factors: (a) were they expressly stated in the interview transcript, (b) if not expressly stated, are they compatible? Invariant constituents that were not expressly stated or compatible were deleted (Moustakas, 1994). The following section presents the emergent themes associated with the research

questions and responses from participants that align with the theme. Textural descriptions of the experience were added along with the interviewee number.

### Emergent Themes

The study addressed the high closure rate of small -business organizations during the first five years of development. Three research questions guided the study from which 12 core themes were developed. The themes are presented below in random order along with textural description from the interview transcripts. Table 3 presents the phrase and/or expression used by participants to describe their experiences with closure and the inability to execute.

Table 3

*Small Business Closure Can Be Caused by the Inability to Execute*

Themes-Textural Description	Participants
Small-business closure can be caused from the inability to execute	001, 003, 004, 006, 0010

The following section summarizes direct quotes from participants in describing their experiences with small business closure and the inability to execute.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** Failure to execute is going to kill you—taking an idea and actually bringing it forward in the right way with the right customer audience is what I mean by execute; It is also about how well the team works together and does things; So much of what works and doesn't work has to do with ability to execute, which is somewhat of a leadership issue; Everyone can have an idea, but it is what you do with the idea is the key to success; People who are entrepreneurs have to execute fast or they may fail, others may out execute you. Table 4 below contains the phrase and/or expression used to describe small business leader's experiences with small business closure and lack of direction, focus and the inability to change.

Table 4

*Small Business Closure Can Be Caused by Lack of Direction, Focus, and the Inability to Change*

Themes-Textural Description	Participants
Small-business closure can be caused by lack of direction, focus, and the inability to change	001, 002, 004, 0010, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure and lack of direction, focus and the inability to change.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** Leaders need to have a strong stomach, a lot of resolve, clear vision of what they want to do, but also the flexibility to change that vision to match what is happening in the marketplace; Entrepreneurial leadership requires more flexibility and a willingness to adapt and change; requires willingness to roll with the punches because it is a roller coaster every day and you have to be able to deal with that level of uncertainty which doesn't exist in the large company. Table 5 captures the phrase and/or expression used to describe participant's experiences with perseverance, patience, and small business closure.

Table 5

*Small Business Closure Can Be Caused by Lack of Perseverance, Persistence, and Patience*

Themes-Textural Description	Participants
Small-business closure can be caused by lack of perseverance, persistence, patience	009, 0013, 0012, 0021

The following section summarizes direct quotes from participants in describing their experiences with small business closure and lack of perseverance, persistence and patience.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** Failure in small companies is always the biggest challenge, many companies fail because they don't have the ability or capability or endurance to bring a product to the right target group; Perseverance and patience are important in building a business; The early years are difficult, you have to persevere through the tough times; Small-business leaders need to have a thick skin and be able to overcome negative situations. Table 6 provides the phrase and/or expression used by participants to describe their experiences with lack of trust and small business closure.

Table 6

*Small Business Closure Can Be Caused by Lack of Trust*

Themes-Textural Description	Participants
Small-business closure can be caused by lack of trust	002, 003, 0010, 0013, 0018

The following section summarizes direct quotes from participants in describing their experiences with small business closure and lack of trust.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** As the leader, you are the ambassador of your business. Trust is gained over time and lost in no time and it is one thing you cannot afford to mess up. This makes going the extra mile the norm; Don't feed people fluff, smart people discern that; You inspire through delegating work and it took me years to learn to let go of things and trust; It took a while and took a lot of trust to let people do the job that I

could do; You just have to trust and see the good in everyone. Table 7 contains the phrase and/or expression small business leaders used to describe their experiences with listening and communication and small business closure.

Table 7

*Small Business Closure Can Be Caused by Poor Listening and Communication Skills*

Themes-Textural Description	Participants
Small-business closure can be caused by poor listening and communications skills	001, 002, 004, 0012; 0017, 0018, 0019, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure and poor listening and communications skills.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** You need to reach out to other people who have done it and listen to them; I've talked to a lot of first-time entrepreneurs who won't take advice, think they know it all and that's a bad thing; You need to hear everybody out and listen to people who have been through it before; You don't have to take every advice you get, but you need to listen; if employees are not involved, they turn off; I think this is common sense but in order to be a leader, you have to involve the other people and the only way to do that is to listen. Table 8 contains the phrase and/or expression small business leaders used to describe their experiences with selfishness, greed and ego.

Table 8

*Small Business Closure Can Be Caused by Selfishness, Greed, and Ego*

Themes-Textural Description	Participants
Small-business closure can be caused by selfishness, greed, ego	002, 004, 0011, 0013, 0015, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure and selfishness, greed and ego.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** Put ego on the side and get the best people for the job and empower them, that's why you hired them and that's why you want to keep them; Don't try to be something you're not; Your number one goal as a small-business leaders is to make yourself irrelevant; There is no way you will succeed if you try to do everything yourself; Too much ego, close-mindedness, not willing to share information that is what causes failure; Being too secretive; Not being honest that would destroy your business; Selfishness, greed, doing things for money; Money is important, but when you're so focused on money you lose sight of what you're actually doing. Table 9 contains the phrase and/or

expression small business leaders used to describe their experiences with leadership and relationship building skills.

Table 9

*Small Business Closure Can Be Caused by Lack of Relationship Building Skills and Poor Leader-Follower Interactions*

Themes-Textural Description	Participants
Small-business closure can be caused by lack of relationship-building skills and poor leader-follower interactions	000, 001, 002, 004, 006, 008, 0011, 0013, 0015, 0018, 0021, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure, lack of relationship building skills, and poor leader-follower interactions.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** You are acting as the captain of the ship and as such have to make sure people are motivated and engaged, if you're not able to do that, then people are not likely to follow your path. Show the way and you'll quickly find which ones will follow what you're doing and which ones won't but you have to start by leading the way. Do not prescribe solutions, build relations and give employees ownership, give them a sense of what it takes to build the product or company together; Have people take ownership of what they build and what they believe in. Table 10 contains the phrase and/or expression small business leaders used to describe their experiences with other factors besides leadership.

Table 10

*Small Business Closure Can Be Caused by Other Factors Besides Leadership*

Themes-Textural Description	Participants
Small-business failure can be caused by other factors besides leadership	001, 008, 0012, 0018, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure and other factors besides leadership.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** I've done start-ups where culture was fantastic and leadership and everything, but we couldn't raise money so the company couldn't go forward. Leadership is part of the success, but not the only factor; Leadership is one element and leadership alone would not result in a successful business. From my perspective, leadership is about pointing people in the right direction, but there are lots of other factors

besides leadership, the economy is one of them, the economy is important especially if it starts to tank and people don't want to spend money, that will affect you; You also have to watch the competitors. Table 11 contains the phrase and/or expression small business leaders used to describe their experiences with employee motivation and small business closure.

Table 11

*Small Business Closure Can Be Caused by the Inability to Motivate Employees*

Themes-Textural Description	Participants
Small-business failure can be caused by the inability to motivate employees to achieve	002, 003, 004, 006, 0010, 0013, 0014, 0015, 0016, 0017, 0019, 0021, 0022, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure and the inability to motivate employees.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** As the leaders, you are the ambassador of your business, you are the one who knows where you're going with it and you're responsible to ensure new hires are the right fit but you also need to motivate them; Hiring is the most important role; Hire for people that can do the job, want to do the job, and would enjoy being part of the business then motivate them; We have to find the right employees with the right type of expertise and right culture bearing to fit within the company. Table 12 contains the phrase and/or expression used to describe the experiences of small business leaders with vision, strategy, and small business closure.

Table 12

*Small Business Closure Can Be Caused by Lack of Vision and Strategy*

Themes-Textural Description	Participants
Small-business closure can be caused by lack of vision and strategy	001, 003, 004, 0010, 0015, 0018

The following section summarizes direct quotes from participants in describing their experiences with small business closure and lack of vision and strategy.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** Have a clear vision of what you want but the flexibility to change that vision to match what is happening in the marketplace; Vision and strategy are very important; A believable vision and strategy in terms of starting a company is necessary; One of the things that was very important was making sure I attracted the right people with necessary skills but individuals who also bought into the vision of the company because so often vision can become so esoteric, especially for the employees, so it is very

important to articulate a vision and strategy employees can trust. Table 13 contains the phrase and/or expression small business leaders used to describe their experiences with customer satisfaction and small business closure.

Table 13

*Small Business Closure Can Be Caused by Failure to Ensure Customer Satisfaction*

Themes-Textural Description	Participants
Small-business closure can be caused by failure to ensure customer satisfaction	0012, 0014, 0016; 0018

The following section summarizes direct quotes from participants in describing their experiences with small business closure and failure to ensure customer satisfaction.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** The success of a business lies in how fast you get feedback from your customers and bring it basically back into a product; If you don't have a process in place flexible enough to get what the customer want, if the leader is not customer centric, by listening to the customer, hearing the customer, or having the ability to collaborate with customer, it can have an impact on the business; Managing expectation of the customer is key; Having a good customer base, cultivating that base, and constantly evolving our skill set as technology advances and thinking strategically was critical to our success. Table 14 contains the phrase and/or expression small-business leaders used to describe their experiences with leadership.

Table 14

*Small Business Closure Can Be Caused by Poor Understanding of and Lack of Attention to Leadership*

Themes-Textural Description	Participants
Small-business closure can be caused by poor understanding of and lack of attention to leadership	002, 003, 006, 008, 0011, 0015, 0016, 0017, 0018, 0019, 0021, 0022, 0023

The following section summarizes direct quotes from participants in describing their experiences with small business closure and poor understanding of and lack of attention to leadership.

**TEXTURAL DESCRIPTION OF EXPERIENCE.** Leadership is extremely important in thinking about anything that you as a teammate is not thinking about; We trust the leader to be responsible for the welfare of the company; You trust the leader to raise money and make



connections; When it comes to any organization, the leadership has to be there; Leaders who don't know how to lead are far more likely to fail, whereas leaders who are better at leading people are far more likely to succeed; There are a lot of people that are starting companies with not much experience with leadership, they need to recognize that leadership itself is a skill set and that communicating with people is a skill set so either read a book, hire a coach, and get the help needed because everyone working for you will benefit from you being a better leader.

## DISCUSSION

The previous section identified 12 themes that help to provide insights into the lived experiences of small business owners. The themes are interpreted and discussed in the next section. While no defined or established leadership process was noted during this investigation, findings from the study may lead to increases in the effectiveness of leadership in small-business organizations and consequently may contribute to successful turnaround of ailing firms. The study may also result in a better understanding of leadership in small business organizations and may provide clarity with regard to how small business leaders perform the critical role of leadership which helps to fill this gap in the literature. This section also presents a summary of the essence of the lived experience of participants with regards to business closure and ends with a discussion on the implications of the study findings and recommendations for further research.

### Discussion of Themes

There is a paucity of studies investigating the impact of leadership on the success or closure of small-business organizations. The conclusions drawn in this study are based on the lived experiences of the 20 small-business owners who participated in the interviews and provided their feedback for this study. All participants were asked 12 research questions; however, the participants were divided into two groups: successful and unsuccessful. The two groups shared six questions, which helped the researcher to understand their experiences with closure and helped to identify what they had in common. The remaining six questions were unique to each specific group and provided a more detailed analysis of leadership within the group. Reviewing the data revealed common patterns about leadership and the phenomenon of small-business closure. The 12 themes are now discussed in order of importance based on participants' responses and alignment with the themes.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY THE INABILITY TO MOTIVATE EMPLOYEES TO ACHIEVE.** One of the most important roles of leadership, and perhaps the most important role is the role of employee selection and performance. Of the respondents, 70% indicate that this is a critical role for the small-business leader especially at the time of start-up since teams during the early days are rarely defined and employees look to

leadership for guidance and motivation. This aligns with Lorsch (2010) who noted that employees who are motivated and inspired are usually more productive than those who are not. This is a challenge for leadership in small firms. It also aligns with Bass (1990), O'Regan et al. (2005), Temtime and Pansiri (2005), Visser, Coning, and Smit (2005), and the discussions regarding transformational leadership, and aligns with the strategic contingencies theory that forms the conceptual framework for this study. The data suggest that small-business leaders lack the ability to motivate and get work accomplished through others. However, this is critical for small business survival. Participants noted the need for small business leaders to have the ability to energize and lead people, to get them pointed in the right direction and enable them to achieve common goals.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY POOR UNDERSTANDING OF AND LACK OF ATTENTION TO LEADERSHIP.** Leadership shortfalls were noted as factors leading to and contributing to small-business closure (Chavan, 2005; Harris & Gibson, 2006; Marmaya et al. 2011; McCartan-Quinn & Carson, 2003; Valdiserri & Wilson, 2010; Wang et al., 2010). Leadership shortfall included a lack of understanding of leadership, the role of leadership, and why it is necessary in small organizations and affected 65% of participants in this study. A unique finding is that leadership is often considered an afterthought with participants responding that they've never thought of leadership because it lacked substance and they were more interested in actions. Participants also noted that initially the focus is on survival of the company and on getting the next order of business to ensure survival. Small business leaders are not really setting their goals on becoming better leaders because leadership is just not a priority at startup. This finding is very telling given various research studies that have positively aligned leadership with successful outcomes of organizations of all sizes. An opportunity exists to help small-business leaders develop the mindset necessary to embrace leadership and the positive impact of this on small business development. One participant noted that there were a lot of entrepreneurs who were starting companies but did not have much experience with leadership. Those individuals would benefit from recognizing that leadership is a skill set that should be learned to improve the chances of business survival.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY LACK OF RELATIONSHIP-BUILDING SKILLS AND LACK OF LEADER-FOLLOWER INTERACTIONS.** It is difficult for the small-business owner to do everything to support the small organization at the same time. Resources are often limited and it is, therefore, necessary to rely on others in order to grow the business. Over one half of small-business leaders believe that relationship-building skills and positive leader-follower interactions are necessary for success of the small organization. The theme aligns with Matzler, Schwarz, Deutinger, and Harms (2008) and Visser et al. (2005), who argued that leadership helps to create organizational culture, which

allows employees to reach their full potential and contribute to organizational performance. Hughes et al. (1999) noted that a leader's job is to create the overall conditions necessary for the team to be successful. Leadership entails setting the organization's directions and finding the resources to get things accomplished (Kotter, 2012).

Participants noted that they are around people all the time and are therefore in a prime position to influence and impact others. There are interactions among individuals and the leader is providing guidance and feedback on a daily basis therefore relationships are important. One participant compared it to being a captain of a ship noting that it is important that individuals work together to ensure a safe voyage. Small business leaders need to make sure they are leading and motivating their employees because if they are not doing this then it is unlikely that they will be creating followers.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY LACK OF LISTENING AND COMMUNICATION SKILLS.** Listening and communication are skills required for effective leadership. Poor listening can often lead to misinterpretation and poor communication often leads to chaos and confusion in an organization and can therefore lead to business closure according to 40% of study participants. Sarros and Santora (2001) argued that leaders develop followers through listening and inspiring, while Sopow (2006) noted that leadership begins with communication built through trust. Acquiring the critical skills of listening and communication may help small-business leaders build the relationships needed to create and motivate followers. One participant reflected that communication in small companies can be a challenge therefore methods, tools and habits must be in place for information to flow freely so decisions can be made quickly. Small businesses are known for their ability to adapt quickly and turn on short order therefore having the tools in place to facilitate communication will prove beneficial in the small firm. Failure in communication can compromise this ability to adapt quickly and to do so successfully.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY A LACK OF VISION AND STRATEGY.** The ability of a business to adapt successfully to the changing environment is dependent on the vision set forth by its leader (Cross, 2008). Given the complexity of small-business organizations and the rapid pace of change in today's global environment, small-business organizations need to have a clear and highly focused vision (Hamel, 2002; Kotter, 1995) of what is needed to take the organization to the next stage of development. Approximately 30% of participants stated that their closure was directly related to not having a clear vision and strategy for their business to move forward. Small business leaders not only need to have a clear vision but must also have the flexibility to adapt that vision to match what is happening in the marketplace. Part of the strategy should involve finding the right people and hiring them, then motivating them to do the best job they can possibly do to achieve organizational objectives. Hiring during the early years is the most critical task of the small-

business leader as the team in place can make or break the company. The small organization must attract the right people with the right skill sets, therefore the leader has to make the right hiring decisions and involve others in the decision-making process. This takes leadership. It is also in line with Weatherly (2012) who contends that shared vision of goal creation has replaced the traditional leadership role that existed in the past therefore leaders need to involve their employees in all aspects of the business. Leaders then can learn from closure and build strategies to navigate future obstacles that may impact business outcomes (Mason & Singh, 2009; Rusinko, 2010).

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY SELFISHNESS, GREED, AND EGO.** Beaver and Jennings (1996) argued that the abuse of egotistical power in small-business organizations may contribute directly to the failure of these organizations and it may have a bigger impact than financial costs, which have been considered a leading cause of small-business closure. Approximately 30% of participants stated that it was often difficult to share information and that they often twist others' opinions to fit their own thoughts and considerations on an issue. Participants noted the need for small business leaders to not get wrapped up in their own egos and to hire the best individuals available to do the job then empower them to do exactly that. Failure to do this is not conducive to creating successful firms.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY LACK OF TRUST.** Trust is extremely important for an organization of any size. Bennis (2007) argued that effective leaders generate trust and optimism. Of the participants in this study, 25% noted that it was difficult for them to delegate and trust the employees to do the work they were hired to perform. Participants also noted that they often overreached by taking on too many responsibilities and working too hard because they failed to allow their employees to take ownership of the work. These leaders declared that they often delegated tasks instead of responsibilities so that they could remain in charge, often taking on too much of the burden and ignoring other employees better suited to perform the work. Trust is underscored by participants who noted that as a leader you are the ambassador of your business and as such you are responsible to ensure everyone, including new hires, have trust in you as their leader.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY LACK OF FOCUS, DIRECTION, AND THE INABILITY TO CHANGE.** The high level of uncertainty and changeability existing in small-business organizations was noted and described by participants as being similar to riding a roller coaster. A leader needs to know where the business is headed and must remain focused despite the changing environment, noted 25% of participants. This aligns with Simmons's (2007) findings that small-business failure may be caused by a lack of focus. Small business leaders who are not focused and adaptable run the risk of being out of business very quickly when changes occur. The unpredictable nature of the small firm is unique to these

organizations so they must adapt quickly or fail. The level of uncertainty and changeability is both good and bad and can present an advantage or disadvantage if the firm is able to move quickly as needed. If they fail to do so it will be to their disadvantage. Given the uncertain nature of small-business firms good and bad things are likely to happen on a daily basis as the business adapts and changes to the circumstances presented which are not as smooth or predictable as those of the large firm. Small companies that are unable to change with the changing environment run the risk of closure.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY OTHER FACTORS BESIDES LEADERSHIP.** Of the participants, 25% noted that other factors such as the economy, financials, and competitors also contribute to failure. Figuring out the market, making sure the product or service being offered is in demand, is valued, and can be performed for a fair price that is adequate to succeed over time, are all important considerations to ensure longevity. For example, if small business leaders are not pricing their products correctly, they are unlikely to attract customers and the company is therefore not likely to make enough income to survive the long term. Participants in this group argued that leadership by itself does not lead to success or failure as there are many other factors, such as the ones discussed in this section, that may impact company outcome. It is important to keep in mind the moderating role of leadership as these factors may be compounded by lack of leadership knowledge to identify the problems and address them effectively so as not to impact the business. One participant echoed this sentiment by noting that leaders who do not know how to lead are far more likely to fail than those who are comfortable in the leadership role.

Other reasons cited in the literature for closure include lack of planning (Beaver, 2003), emotional stress and depression (Law et al., 2012), inadequate sales (Walsh & Bartunek, 2011), and lack of capital or financial performance (Baixauli & Modica-Milo, 2010; Law et al., 2012; Schiff et al., 2010; Yallapragada & Bhuiyan, 2011). However, Berson (2011) noted that financial ratios are not good predictors when the company is young or in the early developmental stage. Other factors highlighted in this study are the economy and competitors. Understanding the other aspects of the business is also important to avoid closure. One participant reflected that when he started out he did not understand logistics, supply chain, networking, channel sales, and marketing and it took him and his team some time to connect all the dots.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY THE INABILITY TO EXECUTE.** Anyone can start a business according to 25% of participants, however not everyone can follow through with the execution of that business. Execution in this context refers to taking an idea and bringing it forward to fruition. What an individual does with the idea is the key to success. There are several equations that all have to fall into place to make companies successful and not every entrepreneur or small-business leader will be able to follow through on execution. Notwithstanding, failure to do this, failure to execute, will kill a burgeoning company with potential. This is in line with Cressy's (2006) argument that the chances of failure are

greatest during the first two years. Thornhill and Amit (2003) noted that closures are more likely during the early developmental years as a result of business size and inexperience, and Simmons (2007) found that small-business closure could be caused by start-up difficulties, that are confirmed by findings in this study.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY LACK OF PERSEVERANCE, PERSISTENCE, AND PATIENCE.** Participants cited the need for perseverance and persistence specifically to get through the early years. Buckley (1994) identified emotionality, involving perseverance, as one of the primary influences on leadership. Of the participants, 20% noted the need to have a thick skin to bounce back from negative situations given the uncertain and changing business environment during the early years of a business. Participants perceived that the business would undoubtedly fail without the ability to remain calm and persevere when things do not go as planned. Participants noted that many companies fail because they do not have the ability, capability or endurance to bring a product to the right target group which stresses the importance of patience and perseverance throughout this process.

**SMALL-BUSINESS CLOSURE CAN BE CAUSED BY FAILURE TO ENSURE CUSTOMER SATISFACTION.** Of the participants, 20% believed that they failed effectively to manage customer expectations. Managing expectation of the customer was key to survival in several instances. The participants argued that if the leader is not customer centric or have the ability to collaborate with customers then this can have an impact on the outcome of the organization. Reuber and Fischer (2005) pointed out that a close relationship with the customer may contribute to new opportunities for young firms. Tapping into these opportunities may help to eliminate some of the uncertainties with regard to customers and provide new opportunities for business growth which may improve the chances of survival.

### **Predominant Causes of Small Business Closure**

The predominant causes of small business closure were inability to motivate employees, poor understanding and lack of attention to leadership, and lack of relationship building skills which are all in themselves leadership challenges. A majority of closures could directly be attributed to leadership shortfall which is in direct conflict with the finding that leadership is not a priority for small business leaders. When entrepreneurs start a business venture they are not thinking about leadership at all, it is just not a priority. Priority for them is figuring out what needs to get done and what is important to move their company forward, and leadership is not part of this process. One participant noted that small business founders are not really setting their goals on becoming a good leader but rather on bringing their product to market. Actions are what matter to them and not leadership which they consider to be of no value, also in conflict with the predominant causes of failure noted in this study. This finding is also directly in contrast with

another finding 65% of participants perceived a direct link to leadership and their small-business closure.

### **Essence of the Experience**

Perceptions of small-business leaders and the description of their experiences were centered on the leaders' ability to motivate employees to achieve common goals, to execute, listen, and communicate, as well as their ability to remain focused and adaptable to changing circumstances. Inability to motivate received the highest score of all the themes with 70% of participants describing their experiences as being impacted by the inability to motivate their employees to reach common goals. Participants described their experiences using phrases that emphasize the need to get teammates involved in company activities. As the founder, small business leaders are credited with creating the business but they cannot do it all themselves. They need to make sure everyone is moving in the right direction. This places emphasis on the theme that small-business closure can be caused by the inability to motivate and inspire employees toward common goals.

Participants described their experience with listening and communication using phrases that express how they failed to listen and take advice even from experts and employees brought in to advise them. This contributed to their difficulties in leading their small-business organizations. The changing and unpredictable nature of their organizations was compared to the experience of riding a roller coaster and the environment was described as not smooth or predictable, paving the path for major uncertainties on a daily basis. The early years of the business were described as the most difficult. Execution was described as a challenging task during those early years. The focus of the small business leader is more on building a startup and this takes priority over building an organization for the long term. Participants expressed these challenges with phrases that emphasize the importance of execution. Failure to execute will prematurely kill small businesses with good potential. Leadership is extremely important during the early years and must be practiced to guide the organization forward and get everyone marching in the right direction. In addition, people in small businesses wear multiple hats, therefore an individual may be the owner and a line worker and also does sales. The challenge in such an environment is to not burn people out and negatively impact the organization.

In terms of leaders' contribution to the success or failure of their companies, participants' experiences were heavily dependent on the ability of the leader to hire the right individuals for the job and ensuring they have the platform and tools needed to be successful. Words used to describe the experience focused on the ability to hire right while ensuring employee is the right fit for the organization. Their experiences with vision and strategy were summed up using words that emphasize the importance of having a plan in place and articulating a vision that employees can trust and believe in. It is also important to communicate the vision. Customer relationship is important and described in terms of listening to the customer, collaborating with the customer, and matching customer expectation being key. Overall, small-business leaders described their

experiences as a very difficult and painful learning experience and suggested that the causes of failure are varied and diverse, however leadership plays an important role in the process. The participants encountered common difficulties, including a lack of focus and the inability to keep the team engaged and productive. An interesting dynamic regarding leadership was noted in that while leadership is considered important and necessary for the success of the small firm, it is often perceived to be of little value to small business owners.

### **Addressing the Research Questions**

The problem outlined in this study relates to the high closure rate of small business organizations before their fifth year. The three research questions that guided the study are answered based on analysis and interpretation of the data obtained from the interview transcripts.

Research Question 1: What are the perceptions of small business leaders regarding leadership and small business closure?

Small business leaders perceive leadership not as a priority but rather perceive it to be an afterthought and something to think about only when needed, such as in times of difficulties or crisis. However, when asked how important or unimportant was leadership in avoiding small business closure, More than half of all participants stated that leadership is important in establishing the direction of the firm and when developing a vision and strategy that the future depends on. 40% of leaders perceived that leadership challenges are unique characteristics affecting the closure of small business organizations.

Research Question 2: What are the perceptions of small business leaders regarding leadership and small business success?

Small business leaders' perceive leadership to be important when envisioning a path for the future and when providing a platform for employees to succeed. Participants also stated that leadership was important in executing the mission and vision and when focusing on the strategy necessary to position their company to achieve business continuity for more than 5 years. Participants noted that leadership helped to ensure the right team was in place and that hiring the right employees helped to ensure success of their organization for more than five years.

Research Question 3: What do small business leaders attribute in terms of leadership to the success or premature closure of the small business?

Small business leaders perceive that those embracing leadership as a skillset are more likely to get through the challenges of the early developmental years while those ignoring the importance of leadership are more likely to close prematurely. Participants noted that leadership helped them to execute upon their vision and strategy which was important to them remaining focused as the business changed. Approximately 40% of participants noted that lack of leadership capabilities, which made it difficult to handle the challenges faced, as the area where they most struggled and which ultimately led to their closure.



### **Comparing Research Findings**

This study's results are similar to results obtained by other researchers examining leadership in small business organizations. Valdiserri and Wilson (2010) looked at leadership and the impact of this on profitability and organizational success and found a strong relationship between leadership, profitability and small business success. McKinney (2009) looked at leadership characteristics of small-business owner-founders during the first four years of operation and developed the following core themes as required for effective leadership during the early years: leading by example, establishing positive leader-follower relationships, recognition that the changing environment requires leaders to develop new leadership characteristics, leaders need to understand the need for relationship-building skills, and know your employees. Simmons (2007) looked at small-business failure in the state of Maryland and found that small business failure can be caused by: lack of perseverance, focus and commitment, small -business failure can be dependent upon location, small business failure can be caused by financial instability, by start-up difficulties, by image limitations, by not knowing, by poor or lack of planning, small business failure and its causes are unique to the business owner, can be caused by leadership shortfalls, and by blind optimism and customer deficiency. The results obtained from the present study are compatible with the results of the studies discussed in this section underscoring that there are many reasons behind small business closures, however leadership plays an important role in this process and has an impact on the ability of the organization to succeed.

The study findings are in line with prior research on the topic of leadership and small-business closure. Common areas of alignment include: leadership knowledge is critical for improving small-business outcome (Seleim & Khalil, 2011; Servage, 2009); leadership is essential to effectively running a small-business organization (Collins, 2005; Rasheed, 2005; Valdiserri & Wilson, 2010); relationship-building skills are necessary for successful small-business operation (Luthans, 2011; Starke, 2001); the leader's abilities to strategize effectively towards business continuity is important (Porter & Siggelkow, 2008). Other areas of alignment include: closure can be caused by leadership shortfall (Knaup, 2005), leadership deficiencies (Holloway, 2013), inability to change (O'Regan et al., 2005), inability to create conditions necessary for, or the platform required for success (Hughes et al., 1999). Kotter (2012) emphasizes the importance of these findings by noting that leadership not only sets the direction by defining what the future should look like, but it also aligns people with the vision and inspires them to achieve their goals despite the obstacles in front of them. This is indicative of the type of leadership required in small -business organizations to ensure business continuity beyond the initial five years.

### **Implications of Study Findings**

The data from the 12 interview questions were analyzed and then grouped into similar themes based on common experiences. The themes highlight the need for small-business owners to lead, execute, inspire, and motivate their employees to achieve results that help to propel their organization to the next stage of development. A common cause of failure was not identified and the research failed to identify a common leadership process among small-business leaders. However, several probable causes of small-business closure were identified and discussed in order of importance based on participants' alignment with the themes. Findings from the study might be of benefit to current and future small-business leaders interested in the effects of leadership on the survival and viability of their small-business organizations.

Findings relate to the stated purpose set forth in the introduction. While small businesses are of critical importance to the United States economy, the failure rate within the first five years continues to be alarming and reflects the need for studies investigating the role of leadership and the impact on the organization's ability to survive. The present study contributes to the literature in this regard. The results of the study indicate the need for small-business leaders to understand the critical role of leadership in early development of the organization as well as leadership's role in creating successful firms. There is also a need to embrace leadership development which allows for the acquiring of skills necessary to inspire and motivate employees to achieve the goals set forth by the organization. Small-business owners interested in personal improvement are encouraged to reassess their leadership and learn from the experiences of the 20 small-business leaders who contributed to this study.

### **Significance of the Study to Leadership**

This investigation of leadership and small-business closure may result in a better understanding of the phenomenon of closure in small organizations. The results of this study may help current and future small-business leaders develop the attitudes and mindset necessary to rethink their leadership to focus on those things that could bring them business continuity for more than five years. Relationship-building skills and improved leader-follower interactions, for example, are important factors in small-business success, and small-business leaders must learn these skills to remain relevant. The findings from this study suggest that over half of all participants lacked relationship building skills required for effective leader-follower interaction. Leadership is perceived as an essential skill that should be developed as part of the small-business leader's skills set. The study may help to increase awareness, therefore survival rate among current and future small-business owners. The U.S. economy and local communities will be positively impacted by every small business saved. Successful small businesses mean successful communities and successful families therefore everyone benefits. The study is also significant to the body of knowledge by providing insights into the critical role of leadership in small firms.

### **Conclusion and Recommendations**

The recommendations contained in this section are guided by the analysis of the lived experiences of the 20 small-business leaders who participated in this study. All 20 participants experienced the phenomenon of closure and as such were able to guide the study. The perceived experiences of the business leaders and the emergent themes guided the recommendations presented. The data suggest that for many small-business leaders, leadership is more task specific and short term and centered around building products or mastering a service, rather than on building a more sustainable organization of the future. Teams are usually made up of friends or associates who were around at the time of start-up and usually not planned. This is because at the time of start-up, the founder may have been working with a few friends and the people on hand often form the initial team. These individuals may or may not be prepared for the roles they are thrust in and this may be detrimental to the firm. People are also expected to wear multiple hats and expected to turn fast and adapt quickly as a result of the level of change and uncertainty present in small businesses. This makes communication extremely important and the need to address communication challenges appropriately even more critical.

It is very important that the small business leader understand the role and importance of leadership in developing successful firms. This can be accomplished through training and development with emphasis placed on the early entrepreneurial process so small-business leaders are better prepared to face the demands and uncertainties of the early formative years as the business changes, and when concerns such as relationship building skills, trust, listening and communication skills, patience and perseverance are of critical importance. To face this challenge, it is necessary to create awareness before business startup and early during the entrepreneurial process to help leaders develop the attitudes and mindset needed to embrace leadership as a skillset required to guide the organization forward successfully. The goal is to make leadership part of the early discussions when envisioning, starting, and operating a small-business organization. This could be done as part of a startup accelerator program, as part of the requirements to participate in certain small business government programs, to secure certain small-business loans, or as part of the outreach services offered by small business development centers and similar organizations.

In addition, government agencies often provide training resources to help small-business owners succeed and there is an opportunity for these agencies to refocus their effort to emphasize leadership as a major contributing factor in small-business development. However, the training should be specific to the small-business community and developed for the small-business community, since small-business organizations are unique in the way they operate and models used to develop leaders in large business counterparts will not be effective in the small-business environment. Beaver and Jennings (1996) emphasized this point by stating that leadership within small business organizations is unique and has no bearing on leadership within larger organizations that have been studied overwhelmingly and have produced various models,

prescriptions, and constructs that are widely used today when examining large and small organizations.

It is this researcher's belief that the current approach to developing small-business leaders is flawed and continues to focus on the concept of management with regards to planning, organizing, coordinating, and controlling. Kotter (2012) argued that management is emphasized because it is easier than leadership to explain and teach and because it is so institutionalized in organizational cultures that it "discourages employees from learning how to lead" (p. 30). While management skills and functions may be needed in organizations of any size, a new approach to small business development is needed to help small businesses increase their chances of survival in a changing global environment. As the economy becomes more service based, leadership and relationship building skills are becoming more important for business success. This shifting landscape reinforces the need for a paradigm shift and a new approach to training and development of small-business leaders. One that not only distinguishes leadership from management but also places emphasis on the problem areas identified in this study: (a) leading people and processes; (b) executing, in accordance with the organization's mission, vision, and values; (c) developing positive leader-follower relationships and cultures; and (d) achieving results by motivating and inspiring employees toward organizational objectives. Lester et al. (2003) stated that leadership requires continuous improvement, both personal improvements as well as skills development, to deal with the changing and challenging business environment.

Training must be an ongoing effort and it must start very early in the entrepreneurial process and focused on improving the mindset of the small business leaders to help them understand the connections between leadership and business outcome. By improving the mindset and capacity of small-business owners to lead, execute, develop others, and achieve results in line with organizational objectives, small-business organizations may be in a better position to improve performance and achieve business continuity for more than five years. Similar studies conducted in the area of small business closure include Simmons (2007) who found, similar to the present study, that small business failure can be caused by lack of perseverance, by lack of attention to customers, and by leadership shortfall as "leadership and leading people have a unique role in small businesses" (p. 85). Sikahala (2011) found lack of leadership and other business skills among the reasons small microbusinesses fail and Holloway (2013) in seeking to understand leadership in small-business organizations found that among the skills and practices required to ensure success, collaboration and communication, people skills and motivation, vision alignment, education, training and leading by example, are practices required for business continuity.

### **Limitations and Future Research**

The scope of the study was narrowed to focus exclusively on small businesses within the State of California and interpretation is limited to the experiences and perceptions of small-business leaders who participated in the study. The scope was also narrowed to look at the leadership process and the phenomenon of failure rather than success. Narrowing the scope allowed for the completion of the study in the time allotted but limited the ability to acquire a much broader understanding of the phenomenon investigated. The study is also limited by researcher biases, values, and assumptions. However, bracketing allowed the researcher to focus on the experiences of the 20 small business leaders in the study and not engage prior knowledge (Creswell, 2013).

Future studies may continue to conduct qualitative research to gain more understanding of leadership in the small business context. These studies should not only examine what small business owners are experiencing but should also look at how and why they are experiencing a certain phenomenon. Future studies may also focus on small business closures in a different industry and state. Findings from this study may be compared to results obtained in other states to understand similarities or differences that may lead to further improvements in this area. In addition, there is an opportunity for future studies to explore theories that may help to explain the high closure rate within the small business community. Studies using a grounded theory design may help to provide insights and understanding. Opportunities also exist to examine how small business records are being collected and maintained and any public/private partnership that may help to provide improvements. Finally, future studies may examine SBA's role in developing small business leaders for 21<sup>st</sup> century organizations and beyond.

### **Summary**

The inability to maintain lower failure rates of small-business organizations within the first five years warranted evidence-based research; hence, this investigation. The results of the study indicate the need for a paradigm shift in the attitudes and thought processes of small business owners regarding leadership and its role in developing successful firms. The current qualitative phenomenological investigation involved exploring the phenomenon of small-business closure to understand leadership during the early formative years of the business and the impact on business outcome. This understanding is necessary because small-business organizations play an important role in the U.S. economy (Morrison, Breen, & Ali, 2003). The literature review help to provide insights into the role of leadership in developing successful firms and highlighted the critical role of leadership in this process (Enalls-Fenner, 2015; Kalshoven et al., 2013; McCrimmon, 2010).

From the data analysis emerged 12 themes resulting from participants' experiences with small-business closure suggesting that closure can be caused by a variety of concerns involving leadership. The data also suggest that closure can be caused by (1) other factors besides

leadership. The results indicate the need for small-business leaders to develop the mindset to help them understand the critical role of leadership before, during, and after start-up and in particular, to help them during the first five years of development. Strong leadership is necessary to execute the vision, motivate and inspire employees, build relationships, and provide the platform necessary to succeed. Small business owners must develop a leadership mindset to help them address the leadership challenges identified in this study and to afford them a fighting chance at business continuity.

Making that transition, the paradigm shift required to develop such a mindset, may help to open up new areas for growth and development within the small business organization. Small-business leaders who are unwilling to develop that mindset are unlikely to change the course of their business or improve the outcome of their organizations. Progress in this area is also unlikely without the tools and frameworks needed to be successful. Therefore, we all have a very important role to play as practitioners, researchers and educators, in helping small-business leaders improve their understanding of leadership and its role in developing successful firms. Until that shift in paradigm is achieved, and until small-business leaders can reflect on their thinking and make the needed adjustments, it is unlikely that they will be influencing or changing their outcomes.

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## APPENDIX A

### INTERVIEW QUESTIONS

Group 1: Businesses that closed prior to year 5 of operation.

1. What contexts or situations have influenced or affected your experiences with leadership?
2. Can you describe unique characteristics of small-business closure that might embody common features or components of the small-business organization?
3. Describe the process through which small-business leaders influence, inspire, and develop followers in small-business organizations.
4. Describe the process through which small-business leaders accomplish work through others.
5. In what ways does leadership impact or affect the small-business leader's ability, or inability, to avoid small-business closure?
6. In what ways can leadership be considered important or unimportant when trying to avoid small-business closure?
7. In what ways do other factors besides leadership impact the small-business leader's ability to avoid small-business closure? Other factors may include organizational size, marketing, planning, finances, etc.
8. What are common or familiar elements in the characteristics of small-business organizations that might inescapably lead to closure of the organization?
9. What additional information could you provide that may help small businesses prevent premature closure?
10. What additional information could you provide that may help to improve leadership in

small-business organizations?

11. What leadership strengths would small-business leaders perceive as contributing to small-business success?
12. What weaknesses with regard to leadership would small-business leaders perceive as contributing to premature business closure?

Group 2: Organizations with continued business operations for more than 10 years.

1. What contexts or situations have influenced or affected your experiences with leadership?
2. Describe leadership characteristics that are required for success during early development of the small-business organization.
3. Describe the process through which small-business leaders influence, inspire, and develop followers in small-business organizations.
4. Describe the process through which small-business leaders accomplish work through others.
5. What skills and practices do small-business leaders need to ensure success of the small-business organization for more than 5 years?
6. What strategies do small-business leaders use to overcome early challenges and create a successful small-business organization?
7. Describe critical factors that you believe contributed to your business operating successfully for more than 10 years.
8. How would you describe or explain successful operations of your small-business organization for more than 10 years while so many others have failed?
9. What additional information could you provide that may help to improve small-business's chances to succeed?
10. What additional information could you provide that may help to improve leadership in small-business organizations?
11. What leadership strengths would small-business leaders perceive as contributing to small-business success?
12. What weaknesses with regard to leadership would small-business leaders perceive as contributing to premature business closure?

# THE ERIE FOOD HUB PROJECT

**Bruce A. Kibler, PhD., Assistant Professor**

**Amber Costello, Student Project Leader**  
**Student Sub-Group Leaders: Lisa Gropler**  
**Marisa Guyton**  
**Sydney Spaeder**

**Gannon University**

## ABSTRACT

*The following case study is the product of a student service learning project in the management capstone course. The students were tasked with working with various stakeholders, deploying wholesale and retail surveys and performing an overall feasibility of establishing a Food Hub in downtown Erie, PA. Downtown Erie, PA currently has seven food deserts and downtown residents have no access to fresh food, i.e., only access to highly processed packaged and canned foods.*

*A new Erie Metropolitan Transit Authority (EMTA) headquarters is being built. The building will have three floors, two of them being dedicated to EMTA operations and one will be designed to partially alleviate a Food Desert in downtown Erie by providing a fresh food market. The total area being dedicated to the possible food hub is about 19,000 square feet and there will be customer parking.*

*The project sponsor is the CEO of the Erie Downtown Partnership and the project owner is Bruce A. Kibler, PhD, professor of our business capstone course. There have been a total of twenty students assigned to work on the Food Hub. The graduate project team has six members and they have completed all of the benchmarking for the project. The undergraduates are split up into three groups, a commercial group, a marketing group, and a finance group. The project teams have fourteen students total and they have been responsible for completing the core of the project. Nothing has been determined yet for the food hub other than its location. The team has provided a confidential business management consulting service throughout the semester to determine the feasibility of the establishment of a fresh food market in downtown Erie, PA.*

## EXECUTIVE SUMMARY

Erie currently has a total of seven food deserts. The project focuses on alleviating one of them by placing a food hub in the downtown area. This area currently lacks availability to fresh regional food. This project will benefit the Erie community as a whole but especially the people living in the inner city. Placing a store in this neighborhood will allow the residents to eat less canned and heavily preserved foods and in turn create a healthier downtown.

The Erie Food Hub Service Learning Project includes a complete analysis and recommendations for moving this business forward as a non-profit. Three major segments were focused on: commercial, marketing, and financial. Benchmarking was performed on twelve fresh food markets in the United States from students in Gannon University's MBA program. The commercial segment focused on completing surveys for potential vendors for the Erie Food Hub. 58 possible companies were asked to respond to potentially renting space in the hub to sell their products, 14 responses were received. The products of the respondents ranged from seafood to fruits and berries, vegetables, baked goods and possible egg suppliers, and a couple niche markets such as coffee juicers, and grocers. Also these businesses mainly sold non-organic products and all needed space for storage.

The marketing team received 1,188 completed surveys from Erie residents. The data received from these surveys allowed us to analyze what exactly it is that potential customers want to see in a food hub. Information was collected on what day of the week they grocery shop, what time, what products they desire, and how interested they are in frequenting the market. Since visiting the food hub would entail customers to change their routine, methods of motivating and influencing potential consumers were investigated. Our analysis consists of recommendations on the target market, places to advertise, and the cost of advertising.

The financial team utilized the twelve benchmarked fresh food markets as a basis for much of their work. They analyzed this data and compiled a cost spreadsheet that displays the cost and potential revenues related to the rent options of \$0-5 per square foot as well as debt of \$500,000 to 1 million for projected buildout costs. The building consists of 19,000 square feet total but only 15,000 square feet are utilized in the financials because that is what we are predicting will be the sellable space. The remaining space is determined to be storage, walkways, bathrooms, etc. The breakeven point has been calculated for each scenario. A 5% increase in the vendors rent was assumed in order to build a contingency fund for the operations of the food hub. Renting to vendors was assumed to be gradual and there are assumptions for varying levels of capacity utilization. And even took into account what revenues would be if a 3, 5, or 7% royalty was charged to the vendors.



### **Mission Statement**

The Erie Food Hub is focused on alleviating a food desert in the downtown area by providing access to local agricultural foods. The purpose is to strengthen the Northwestern Pennsylvania region food distribution, provide the inner city residents with fresh food, and create a healthier downtown.

### **Objectives**

- To assist in the start-up stage of a fresh Food Hub in downtown Erie, Pennsylvania. Alleviating one of the many food deserts in this area
- To provide useable research in the areas of commercial, marketing and finance for this fresh Food Hub
- To provide the Erie Downtown Partnership with well thought out business recommendations for the start-up of the Food Hub
- For students to gain experience and learn how to run a and document a project, identify and appropriately communicate with stakeholders as well as complete a business plan for a start-up company

### **SUPPLIERS**

The Commercial Team received data from 14 of the potential 58 vendors provided by the County Department of Health. A significant sample size was not expected from the survey, so the 14 received came as no surprise. This information was tabulated to display the frequency and percent for each question in the survey (Appendix 1). There were 3 group members that split up the possible suppliers evenly. Each business was contacted via face-to-face meeting and/or email. One survey was received via email. There was one common question on the survey that was left blank and that was, “How much they were willing to spend on retail space?” We had an idea that this would happen but chose to leave the question on there anyway. A majority of the surveys were filled out by owners themselves and a majority of the businesses had been in business for 20+ years.

It was common throughout the surveys that these businesses wanted to utilize the food hub as a second location to test new products, meet other growers and to market their business. The range of potential products went from seafood to fruits and berries, vegetables, baked goods, possible egg suppliers, and a couple of niche markets such as coffee juicers, and grocers. Those in particular we intrigued by the idea of “ready to eat foods” and a commercial kitchen. These businesses sold mainly non- organic products.

Regarding what days were better for them to stock their retail space, Friday and Saturday were the most common days of the week. The most common days for selling products were Thursday, Friday, and Saturday with Monday and Tuesday being the next most common. There

were a couple of instances where suppliers were available every day of the week except for Sunday. All these days would work best between the hours of 8am and 4pm.

### **Other Information**

All the suppliers would need dry, cold, or freezer storage space and at least 10x10 ft. size. At the same rate they all said they would need cold cases, freezer cases, shelving and tables in different orders. Respondents also indicated that they would require between 10x10 ft. retail area to 10x40 maximum retail area.

## **MARKETING**

### **Consumer Survey**

The Food Hub Marketing team produced a consumer survey that was distributed throughout Erie on campuses, in businesses and online. For reference, the survey used may be found on the flash drive provided under 'Food Hub Consumer Data-Final.' Throughout the months of February and March, 1,188 surveys were collected. These surveys were used to evaluate the purchasing patterns of people in Erie. The goal was to gather as much information as possible from the people of Erie to find the perfect way for the Erie Food Hub to fit within their lives.

This section will touch on a few key points found within the survey data that the Marketing team finds to be the most important/beneficial.

The survey found that 72 percent of those who completed the survey commute 10 – 20 minutes every time they go to the store. The goal of the Food Hub is to conveniently give the Erie community access to a fresh local market. It should provide those living and working in downtown with the option to purchase fresh and healthy food for themselves and their families within relatively close proximity. By alleviating this food desert in downtown Erie, the goal is to lower the percentage of those who have to drive more than five minutes to a grocery store.

It is understood that in the beginning the Food Hub would only be open a few days a week and at certain times. With this, it is important to find the most common days and times of shopping among those who completed the survey. Based on the survey results the most common days for grocery shopping were Saturday and Sunday as shown in the graph above. This is most likely because a majority of families have weekends off and don't want to worry about going shopping during a hectic workweek. Out of the weekdays, Wednesdays seem to be the more popular day to go shopping. When choosing days to have the Food Hub open, one needs to remember that making everyone happy is almost impossible. A business decision needs to be made to reach a majority of the population that does shopping on specific days in order to be profitable.

According to the data the most popular time of day to shop is between 4 – 8 p.m. Not far behind are the 12 – 4 p.m. and the 8 a.m. – 12 p.m. shopping times as shown in the graph to the

left. Each person has their own schedule and routines, so as was stated above, a business decision must be made to reach the majority of what the population needs to remain profitable.

In order for the Food Hub to remain profitable, it also needs to provide the products that the consumers are asking for. Survey participants responded to what food-related products they would expect to get in the market. The chart below illustrates that over 1,000 individuals find it important for fruits and vegetables to be available for purchase. One of the top 'Other' items that consumers expected to be at the market was a fresh bakery, providing bagels, breads, muffins and pastries. The Food Hub will only be able to provide certain items based on vendors willing to work with the market, but searching for the vendors that the public would prefer will be beneficial for the business to thrive. All of the information above is very important to the success of the Food Hub, but a business is not successful without customers. We asked consumers their interest level and if they think they would frequent the fresh food market.

The information above is encouraging, because the respondents' interest levels were ranked highly in favor of the market and the frequency of which they would visit the market related. Although, the numbers showed high frequency of the market, it was just not as high as the interest level. Perhaps many people may find this to be a good idea, but for them to change their routine may not be worth it or they may see the need for the market, but wouldn't use it themselves. Once the Food Hub is in business, one of its first objectives is to give consumers reason to stop by the market so they can be exposed to the convenience of the market on the way home from work.

## **MARKETING RECOMMENDATIONS**

### **Target Market**

Before advertising the Food Hub to the public, a target market needs to be formed. To form a recommended target market for the Food Hub, six main age groups were examined and compared to those ages and how they rated their level of interest in the fresh market. The graph below shows that for the most part the interest level is spread evenly, but age groups, 25 – 34, 35 – 44 and 45 – 54 dominate most of the graph with 64 percent. This information leads us to believe that the recommended target market for the Erie Food Hub would be Erie citizens aged 25 – 54. For the most part, those in this age group have a stable job with a steady household, yearly income and would be the most reliable customers.

### **Television**

A TV spot is a low cost-per-reach media that not only allows organizations to be creative in reaching their audience, but deliver an impactful message to them as well. Although TV spots are relatively high in cost, it has a higher reach than many other mediums, such as radio. A TV spot will also assist with building the organization's brand awareness and with higher brand awareness; more adoptions will result from this.

Buying a television spot in the traditional way would cost more than non-traditional options that will be discussed later. If bought out-right from a local station or multiple local

stations, a spot can be \$900 at most when bought during a primetime series like *Scandal*. The best option for the Food Hub would be to purchase spots during the local news. JET 24, for example, has a \$90 option for the 12 p.m. news as well as a \$250 option for the 5 o'clock news, which both get a lot of viewership.

The Food Hub has two alternative options in regards to obtaining low-cost television commercials rather than buying spots traditionally on their own. These other options involve Public Service Announcements (PSA's) and promotional partnerships.

The first option involves doing a public service announcement. PSA's are brief, but interesting messages to the public, which are normally published or broadcasted and delivered within 15 to 30 seconds. Although obtaining a spot to broadcast a PSA can be competitive, by law, stations must allow a certain amount of PSA's for nonprofit organizations. A PSA would act in place of a commercial during a news segment and be of no cost to air it.

Another option for the Food Hub would be initiating a promotional partnership. Promotional partnerships are beneficial because they assist organizations with exposure to new audiences, build credibility, and are cost effective, helping both organizations to save money with their budgets. We suggest that the Food Hub partner with a local news station because this would assist in obtaining on-air time for no cost.

In Erie's unique market, multiple news outlets could be under one roof. For example, if the Food Hub were to initiate a promotional partnership with JET 24 then access to [yourerie.com](http://yourerie.com) would be available.

## **Billboards**

Billboard advertising can be costly, but if done strategically, it can be cost efficient while reaching thousands of people. It is recommended that the Food Hub take advantage of digital billboards. This in-car media reaches a large majority of Americans on a regular basis. The average traveler, 18 or older, spends 18 hours and 31 minutes in his or her car per week. Seventy-one percent of travelers often look at the messages on billboards and more than 37 percent report looking at an outdoor ad most of the time they pass one (Williams, D). With numbers like these, it is recommended that Food Hub utilize billboards as an advertising strategy.

Digital billboards are less expensive than permanent bulletins. Placing ads on digital billboards across Erie will influence brand awareness while driving consumers to the Food Hub. Nearly three-quarters of billboard viewers shop on their way home from work; more than two-thirds make their shopping decisions while in the car. Approximately one-quarter of billboard viewers said they were motivated to visit a particular store that day because of outdoor advertising (Williams, D).

While talking with the Sales Manager at Lamar Erie, he recommended to purchase digital billboards in four-week flights. Any less than four weeks is not cost efficient and may not reach the intended target markets. With digital billboards, the Food Hub would not be limited to one ad

for the entire four-week span. Lamar allows companies to change their message when they please in their advertising time frame. The average cost for a digital four-week flight is \$2,500; with negotiation it would be less.

It is recommended that the Food Hub purchase multiple flights on multiple billboards throughout the year to gain brand awareness among its Erie residents as well as promoting specific products that the market has to offer.

### **Transit Marketing**

Although only 24 of the 1,188 people surveyed said they use public transportation, transit marketing advertises to anyone who sees the bus advertisement, including those driving by with personal vehicles. It is also important to consider that most of those who completed the survey did so online. Online surveys inherently cannot reflect the number of low-income/public transportation demographic interested because the high-income demographics that own computers dominate the submission amounts of the online surveys. Nonetheless, one can find trends within the demographics that said they use public transportation. Nearly 65% of Erie's public transportation users surveyed earn less than \$25,000 a year. The "wage-earning" 35-44 year-old bracket was found to be the least likely demographic for public transportation use. This information is important to understand the target market of ads for the interior and curbside ads on the bus.

The Erie Metropolitan Transit Authority (EMTA) offers transit advertising rates. If one chooses to use transit advertising it is recommended to use the King Size Posters (30" high x 144" wide). These ads are on the street side of the bus and advertise to both bus users and those driving by. It is further recommended to use the 3x (3 buses) rate at \$280 per month. Advertising every other month would save on costs. The total for this advertising plan would come to \$5,040 for the entire year.

### **Radio**

To help extend the market reach of the Erie Food Hub, the use of radio advertisements is also recommended. Even with the popularity of Sirius Radio, a majority of the population still uses standard FM and AM radio. The target market recommended, 25 – 54, spends a lot of time in their vehicles traveling to and from work every day, picking up children and shopping. This time in their vehicles means that they would be easily reached via the radio.

It is suggested to make use of both paid radio spots and Public Service Announcements (PSAs). Purchasing airtime on the radio will allow for the Food Hub to strategically place their ads in specific day parts to the desired demographic. PSAs are a way for the Food Hub to advertise to the public for free. The disadvantage to PSAs are that they are used to fill in blank space that the station has, so the ad placement would be either random, or not at all.

Of course the time of day part is important when targeting the correct demographics. The Food Hub would want to advertise during the morning drive, 6 – 10 a.m. and the afternoon drive, 3 – 7 p.m. These time slots are when the target market is making their commute to and from

work on a daily basis. While high frequency is a goal, it is important not to overexpose the consumers to the advertisement because they may then ‘tune-out’ the messages.

Our team believes that awareness of the grand opening of the Erie Food Hub is important and suggests using radio to help promote. It is strongly recommended to begin promoting the Erie Food Hub a few months before the opening to tease the public. To do this, weekly promotions for the months prior to the opening and continuing up to the grand opening event are strongly suggested. Radio advertising can become expensive overtime being priced at \$20 - \$25 per segment, so it is important to strategically schedule the radio advertisements.

### **Print & Online**

Another option for advertising for the Erie Food Hub would be print. For example, The Erie Times News has multiple different options for a business to purchase advertising. There are non-profit rates available: \$38.78 per inch Monday – Saturday and \$51.08 per inch on Sundays. Although print can be a very beneficial way to advertise the Food Hub it would not be cost efficient. The numbers of newspapers that are read on a daily basis has decreased over the past decade.

The target market of Erie citizens aged 25 – 54 fits the age group of those who would read the newspaper, but they are more likely to read the news online now. In the digital age consumers have information at the tips of their fingers whenever they want. With this in mind, it would be cost efficient if the Food Hub were to advertise online with the Erie Reader.

The cost breakdown for online advertising is as follows:

Online advertising prices are formatted for either cost per click or per impression. The Erie Reader charges its clients per impression, which is the number of people the advertisement has potentially influenced, and also it is based off the size of the advertisement on the webpage. The website is estimated to receive on average, 3,000 impressions daily, and the readership market is men and women ages 24 to 64. The Food Hub’s target market falls right into the Erie Reader’s market.

With this low-cost advertising strategy, the Erie Food Hub has the potential to increase its brand awareness every day of the year. For the entire year, it would cost the organization roughly \$1,500 to advertise online with The Erie Reader. The Erie Reader has such a vast marketplace and various genres of content that it will be able to influence the target market and other markets on a daily basis. This form of advertising is the most beneficial for the Food Hub — financially speaking. Once the organization begins to increase its brand awareness and expand its market, it will increase the amount of online advertising and the size of the advertisements.

## **FINANCIALS**

### **Assumptions**

The goal of this project was to create a sustainable market, but in order to find the financials; we had to make a few assumptions. Our assumptions are as follows:

1. Rent options based on possible payment required for price per Sq. Ft. from \$0-\$5.

The space rental cost was not given as no buildout has yet been planned. A spreadsheet was created that displays the costs and potential revenues related to the rent options \$0-\$5 per Sq. ft. as well as debt level (for the buildout) from \$500,000-\$1,000,000. This has been calculated monthly.

2. Marketing is based off recommendations from the marketing segment of the Food Hub group:

The marketing team did research and compiled information to aid the Food Hub in terms of advertising. They concluded that over \$35,000 in year 1 (one) will be needed to properly prepare the market.

3. Utilities are based on information from Erie utility averages, as well as from many other sources:

Cleveland Market's utility costs as well as sources in Erie, Pennsylvania were calculated as an average as an average.

4. Contractual Services, Materials and Supplies, Maintenance, and Service Charges are based on the Cleveland West Side Market:

At the beginning of this project, it was the goal to create a Food Hub very similar to the West Side Market in Cleveland, Ohio. The Cleveland Market has roughly 25,000 sq. ft. of market space. Due to the fact that the space is only 19,000 sq. ft. and 75% of the size of The Cleveland Market, it was assumed that food hub costs would be approximately 75% of that number. The West Side Market was built in 1912 and they have conducted numerous renovations on the building throughout the century, but they do not have any rent to pay. Cleveland's West Side Market's financials and other information are shown in Benchmarking.

5. The wages are based on information given from the Erie Downtown Partnership. This is for 3 employees including benefits.

The CEO of the Erie Downtown Partnership stated that the total wages including benefits was to be \$235,000 with a 3% increase per year. Many of the employees of the Erie Redevelopment Authority and Downtown Erie will take on duplicate rolls for the Food Hub as well.

6. The debt payment is based on a 10 year, 6% interest for \$500,000-\$1,000,000.

We have met with Bridgeway Capital, a CDFI that lends with lower interest rates for companies that aim to better the community. Annual payments for loans of \$500,000, \$750,000 and \$1,000,000 for 10 years with a 6% interest rate were assumed.

7. It is assumed that after the build out, there will be 15,000 sq. ft. remaining to use as retail and of the 15,000 sq. feet, 11,000 will be used for vendor retail. The other 4,000 will be used for storage.

4,000 sq. ft. will be lost to walkways, doors, bathrooms and other miscellaneous needs for the building.

8. In order to have a reserve in case of an emergency the rent amount was increased by 5%:

The goal of this Food Hub is to create a sustainable way to solve the food dessert in the surrounding areas. A reserve account is needed in order to protect the Food Hub in case of an emergency, i.e., risk management.

9. Other markets have a royalty. The financials reflect the implementation of 3%, 5% and 7% royalties based on a company making \$50,000, \$75,000 and \$100,000 per year with a rent discount of 10%.

The Boston Market takes a royalty, as well as a high rent cost. This information is shown in the Benchmarking Section. The cost of living is higher in Boston and that was taken into consideration during this project. Having a royalty with a lower rent payment could be beneficial to the vendors.

10. In each of the markets it was found, as shown in the Benchmarking Section, that the vendors provide their own equipment and storage as well as paying for utilities. This is why these costs are not reflected in the financials presented.

### **Breakeven Analysis**

Once all the costs were calculated, attributed to the annual and monthly cost per sq. ft., this formed the basis of the minimum allowable charge to vendors. In the three charts below one can see the increase in the breakeven cost per sq. ft. as the rent and debt increase. Based on these charts the minimum charge for a 10x10 space is \$5,417 a year, \$451.42 a month. This price can only be offered if the debt is \$500,000 and operational cost of rent is \$0 per sq. ft. The highest potential charge for breakeven based on our assumptions is \$13,470 a year and \$1,122.50 a month for a 10x10 space. This is based on the assumption of \$1,000,000 in debt and operational rental cost of \$5 per sq. ft.

### **Proforma Revenues**

Two revenue models were considered for the Food Hub. The first is a traditional rent only payment that is shown in the breakeven analysis. The second model we looked at was a discounted rent payment with a royalty.

### **Traditional Case**

As stated in our assumptions, we calculated revenue as a 5% increase on the breakeven cost, so that we can have a reserve account in case of an emergency. The booths are broken up into different sizes with storage. The sizes range from 10x10 ft. - 30x10 ft. with 10x10 ft. storage. The rent charge increases with size as well as the needs of our costs to be covered.

Full vendor capacity is not assumed for the first two years. Below the profit or loss for 50%, 75%, and 100% capacity as the years increase is shown. With traditional rent, we will not be able to breakeven unless we have 100% capacity with the costs as they are.

Results for \$500,000 debt assumption:

<b>Total Annual Profit</b>						
Rent per ft <sup>2</sup>	\$0	\$1	\$2	\$3	\$4	\$5
50% capacity	\$(385,937)	\$(494,238)	\$(602,538)	\$(710,839)	\$(819,139)	\$(927,440)
75% capacity	\$(172,656)	\$(221,106)	\$(269,557)	\$(318,007)	\$(366,457)	\$(414,907)



100% capacity	\$40,625	\$52,025	\$63,425	\$74,825	\$86,225	\$97,625
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Results for \$750,000 debt assumption:

Total Annual Profit						
Rent per ft <sup>2</sup>	\$0	\$1	\$2	\$3	\$4	\$5
50% capacity	\$(401,571)	\$(509,871)	\$(618,172)	\$(726,472)	\$(834,773)	\$(943,073)
75% capacity	\$(179,650)	\$(228,100)	\$(276,550)	\$(325,001)	\$(373,451)	\$(421,901)
100% capacity	\$42,271	\$53,671	\$65,071	\$76,471	\$87,871	\$99,271

Results for \$1,000,000 debt assumption:

Total Annual Profit						
Rental per ft <sup>2</sup>	\$0	\$1	\$2	\$3	\$4	\$5
50% capacity	\$(418,238)	\$(526,538)	\$(634,838)	\$(743,139)	\$(851,439)	\$(959,740)
75% capacity	\$(187,106)	\$(235,556)	\$(284,007)	\$(332,457)	\$(380,907)	\$(429,357)
100% capacity	\$44,025	\$55,425	\$66,825	\$78,225	\$89,625	\$101,025

### Royalty

The second model looked at was a royalty. 3%, 5%, and 7% royalties were calculated with a 20% discount on rent. Again, this was calculated with 50%, 75%, and 100% capacity utilization in the first 3 years. With a royalty a profit can be calculated in times where the food hub had less than 100% capacity utilization. This can also be beneficial to vendors if they have a slow year or month because they will have less to pay. In addition to different royalty and capacity levels, annual vendor revenues of \$50,000, \$75,000 or \$100,000 were assumed.

### Financial Conclusion

A high level of costs was assumed for the buildout of the EMTA first floor for this project, which in turn created a very expensive space for vendors to work in. It would be most beneficial to all to have a royalty or lower rent costs. No other market charges the amount that was calculated in order to cover the cost scenarios. Moving forward, the Food Hub will need to either cut costs, or find additional sources of money to pay for some of our expenses so that our vendors can have lower rent costs.

### Stakeholders

- BRUCE KIBLER Assistant Professor, Management 814-871-7569
- Chief Executive Officer, Erie Downtown Partnership  
140 East Fifth Street  
Erie, PA 16507  
814-455-3743
- Director, SBDC  
814-871-7713

- Director, Bridgeway Capital Erie Region  
814-451-1172
- Erie County Diabetes Association (ECDA)  
jslease@diabeteserie.org  
814-229-8636
- Erie County Department of Health  
JQuirk@eriecountypa.gov  
814-451-7847
- Executive Director, Erie Redevelopment Authority  
626 State Street, Room 107  
Erie, PA 16501  
814-870-1544
- Director of Economic and Community Development City of Erie  
626 State Street, Room 404  
Erie, Pennsylvania 16501  
814-870-1270
- Director of Service Learning, Gannon University  
814-871-7345
- Director of Comm & Gov Relations, Academic Affairs, Gannon University  
814-871-5584
- BEST (Bayfront East Side Taskforce)  
420 Parade St  
Erie, PA 16507  
814-456-7062
- SNOOPS NEIGHBORHOOD ASSOCIATION  
1401 Wallace St  
Erie, PA 16503  
814-732-0113
- ERIE REDEVELOPMENT AUTHORITY
- EMTA FOOD MARKET COMMITTEE

### **Personnel**

John Buchna had discussed that there would only need to be about 2-3 staff workers for the food hub. All other jobs would be handled by contractors as well as employees of the Redevelopment Authority and Downtown Erie. We accounted for contracting costs in our financials. The 2-3 employees would be managers of the Food Hub that would oversee day-to-day operations.

## **FINAL RECOMMENDATIONS**

Based on our findings from the surveys we collected from possible vendors we realized that not many businesses are willing to be the early adopters. Few expressed any interest in having a spot in the Food Hub, which tells us that they don't look at this as a positive business venture. Our recommendation is to create more positive publicity about the Food Hub. If local businesses saw a serious success rate on their involvement in this then they would be more inclined to participate. They need to be made aware of the positive outcomes this Food Hub can offer their business and the community. Also if the first few years of business go well then more local companies would be interested in joining.

The customer surveys that we completed throughout the Erie area gave us great feedback that has allowed us to make recommendations for the future hub. Our first recommendation is on the target market. We broke the age groups up into six groups and group 25 – 34, 35 – 44 and 45 – 54 dominate most of the surveys that ranked their level of interest in the food hub at a 4 or 5 out of 5. So our recommendation is to target Erie residence in the 25-54 age groups.

Based on our findings with the assumed costs the rent we would have to charge the vendors in order to sustain ourselves would be too high. One recommendation is to charge a royalty. We calculated royalties of 3, 5, and 7% and would recommend charging each vendor a royalty in order to keep the Food Hub running and then giving the vendors a discount on rent. Another recommendation is to file for tax abatements and tax credit because these will contribute to more savings. Since the Food Hub is being established as a non-profit if the savings are that substantial then the money can go to the community or to building an additional Food Hub to alleviate another food desert in Erie.

## REFERENCES

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[http://living/city\\_result.jsp?country=United+States&city=Erie%2C+PA](http://living/city_result.jsp?country=United+States&city=Erie%2C+PA)  
Cost of Living in null. (n.d.). Retrieved from [http://www.numbeo.com/cost-of-living/city\\_result.jsp?country=United States](http://www.numbeo.com/cost-of-living/city_result.jsp?country=United+States)  
Williams, D. (2009). The Arbitron National In-Car Study. Retrieved October 22, 2015, from <http://www.arbitron.com/downloads/InCarStudy2009.pdf> (Pages 3-5)

Demographics and data for the marketing assumptions were gathered from local newspapers, radio and television stations and billboard companies directly.

# **LEGAL ANALYSIS, SOCIAL RESPONSIBILITY AND SUSTAINABILITY: EXPLORING A CRITICAL NEXUS FOR MBA CURRICULA FOCUSED ON STRATEGIC LEADERSHIP**

**Elizabeth McVicker, Metropolitan State University of Denver**

## **ABSTRACT**

*This article will provide an overview of key topics that, embraced in a graduate business management course, combine to foster critical thinking processes within a decision-making framework that not only produces managers ready for the 21<sup>st</sup> century, but leaders as well. An overview of topics focused on legal issues, corporate social responsibility, and sustainability provide a strong platform for such a course. As change is the essential characteristic of 21<sup>st</sup> century business, fomenting leadership qualities in MBA students, along with the proven skills of excellent managers, should be a core learning goal for a course entitled: “Legal Analysis and Sustainability.” The article will explore basic questions the answers to which have changed as this century waxes: What exactly is “sustainable development”? How do inquiries into social responsibility, international law and corporate compliance fit in with a study of sustainability and legal issues? How do the essential areas of legal analysis—constitutional law, regulatory law, new issues in common law and critical issues in federal criminal law—support best practices for a business policy that embraces sustainability and social responsibility? The article endeavors to suggest an effective curriculum for an MBA law class where a good teacher will leave students with valuable lessons they will remember throughout their careers.*

## **INTRODUCTION**

A recent survey asked students at leading business schools throughout the world about the role of business in addressing issues related to environmental sustainability and other social issues. These business students responded that the pursuit of business profit must go hand in hand with responding to the complex nature of sustainability issues (AACSB BizEd, 2016). These students believe that the role of business in society is changing and that business must address solutions for social and environmental challenges for positive financial results (AACSB, BizEd, 2016). Business schools and colleges have responded. One report from 2016 identified 92 schools within the United States that offer some kind of business or management classes that include course work or programs in sustainability (Bechtel, 2016). Although most of these programs include courses for “green” marketing or social enterprise courses, some universities have specific centers or schools dedicated to sustainability, but the business focus of such programs is nebulous. What exactly should an MBA course in “sustainability” encompass? How

does the study of legal analysis intertwine with inquiries into “sustainability”? Many students express resistance to having to study the law and to sustainability as a concept that is vague. The challenge is to open their minds to what they already know.

Sustainability within a business curriculum must focus on how to create a competitive strategy that makes a company stronger while concomitantly generating the additional benefit of creating sustainable development. Likewise, sustainability within a business law perspective brings a plethora of possibilities for curriculum focus beyond corporate social responsibility or ethical responsibilities of an organization.

A course with a focus on law must provide an overview of international, federal and state policies of which an effective leader and manager must be aware. Similarly, “sustainability” in the title of such a course beckons an inquiry into the development of the concept since it became the internationally accepted framework for maintaining and improving human well-being at the 1992 United Nations (UN) Conference on Environment and Development (UNCED or Rio Earth Summit) (UNCED, 1992) as well as its current role in business strategies. Such a course will explore how the key areas of legal analysis—constitutional law, regulatory compliance issues, public policy development—support best practices for a business policy that embraces sustainability and social responsibility. The course will aim to craft a curriculum that holds as a goal the shaping of creative leaders with honed decision making skills to guide businesses into the 21<sup>st</sup> century.

Sustainability, in its most essential definition, is a decision-making framework for maintaining and achieving human well-being, both in the present and into the future (Dernbach & Cheever, 2015). Likewise, the United Nations Educational, Scientific and Cultural Organization’s (UNESCO) framework on curriculum challenges educators to make sure that the “the curriculum we have in place enables us to impart on our learners the kinds of competencies (i.e. knowledge, skills and attitudes that are underpinned by values) we require for the type of society we envision to build and the challenges people have to face now and in the future. The paramount question can be addressed by assessing the alignment of the curriculum to national (and international) development goals (UNESCO, 2017).” An MBA course built on a platform of legal, sustainable and ethical investigations into business practices puts forward a perfect alignment of curriculum with the goals of national and international enterprise practices as well as government policy.

Such a class can be as effective in a seminar setting in the classroom as well as one that is offered 100% online. In fact, the Quality Matters Rubric, popular with new BlackBoard Learn platforms, lends a useful rubric for such a seminar—be it “live” or online (Loafman & Altman, 2014). One of the standards in the Quality Matters Rubric, Standard 4.5, deals with students being exposed to multiple perspectives; this standard suggests that this is at the core of effective course materials (Loafman & Altman, 2014). A law, ethics and sustainability course begs for guest speakers from industry and government as well as policy-makers; this variety of “voices” assists students in formulating their own decision-making framework.

Per Quality Matters, the course must promote student/instructor interactivity in as many ways as possible: face-to-face class time or online discussions, weekly essays summarizing readings and discussions, in-depth research and book reviews (Loafman & Altman, 2014). Whether in a traditional seminar setting or in an asynchronistic discussion in an online course, the

Socratic method provides an essential tool that can help students strengthen their arguments and think more deeply on controversial issues (Hlinak, 2014). In fact, in an area of study that uses current business case studies and students' own professional experiences as primary sources of the course materials, the students can take the role of Socrates, posing the questions that challenge a basic claim and putting forth counter-examples to challenge the claim, until the discussion arrives at perhaps a "truer" idea than that with which the discussion commenced (Hlinak, 2014). Queries that focus on a more sustainable future concomitantly with economic growth provide an ideal springboard for Socratic engagement. Students reach towards new ideas in creating and managing business enterprises that embrace visions for practices that value people, the earth and profit. When asked why they are pursuing an MBA, students express these kinds of ideals in their initial objective of becoming a "strategic leader."

### MANAGERS INTO LEADERS

"Managers promote stability while leaders press for change, and only organizations that embrace both sides of the contradiction can thrive in turbulent times (Kotter, 2001)." Beginning in 1977, a debate ensued about whether managers and leaders are different. The typical business school curriculum prepared managers focused on organizational studies while neglecting the spectrum that was filled with vision and inspiration, aka leadership (Kotter, 2001). John Kotter, a Harvard Business School professor proposed that management and leadership are different but complimentary and that in our changing world, one cannot function without the other (Kotter, 2001). Kotter notes that "management brings a degree of order and consistency to key dimensions like quality and profitability of products... [while] leadership, by contrast, is about coping with change (Kotter, 2001)." Management is about organizing and staffing; leadership is about aligning people, motivating and inspiring; the function of leadership is to produce change (Kotter, 2001). Leaders create visions and strategies.

The measure of the value of this leadership is how well it serves the interests of its important constituencies—its many stakeholders (Kotter, 2001). Leadership, at its core, is an effort in helping stakeholders comprehend a vision of an alternative future (Kotter, 2001). This kind of leadership is dependent on knowing how to communicate challenges, to empower people with a sense of self-esteem and control; it includes an objective of the ability to live up to one's ideals (Kotter, 2001). This kind of leadership is dependent on acquiring a breadth of knowledge and committing to spreading it to a network of relationships.

No better course than one that embraces a study of law, ethics and sustainability answers to the call of leadership development. The increasingly fast-moving, competitive business environment of the new century challenges managerial behavior to become one of leadership. Leaders need to be positioned to implement "capacity networks through a well-organized hierarchy (management) and a complex web of aligned relationships (leadership), who execute through controls (management) and inspiration (leadership) (Kotter, 1999)." Kotter notes that managerial work is increasingly becoming a leadership task because managers depend on others instead of just their own power over others (Kotter, 1999).

Similarly, the work of a thoughtful lawyer depends on a surplus of capabilities--legal research and reasoning just a small part of those. A recent survey of attorneys who were asked to rate the

significance of their jobs to their lawyering abilities, including legal reasoning or realms of legal knowledge such as contract law, most respondents rated 25 different skills as more significant to their work than legal knowledge: listening, judgment, information integration, advocacy and decision-making comprised the top categories (Bratman, 2015). The fact, therefore, that Fortune 500 companies hire almost as many CEOs with law degrees as with MBAs (CEO Statistics, 2017) positions a legal analysis and sustainability class in a particularly powerful place to motivate students to think critically, forwardly and in a challenging manner to shape the future.

### **LEGAL ISSUES AND DOCTRINES**

Business managers and leaders need to have a basic understanding of a wide array of legal topics in order to recognize possible legal pitfalls, to craft effective codes of ethics and conduct for the organization, and to contribute to legal policy that affects their interests. The MBA approach to the study of legal issues must not attempt to imitate a law class in legal analysis. These students are not preparing for the bar exam or the legal profession as skilled legal analysts. However, they must be aware of new trends in the law and how to engage in a diagnostic evaluation of legal issues in a business environment. The areas of law that arise in a contemporary review of business issues in the news include: constitutional challenges to business practices, breach of contract cases, intellectual property infringement cases, issues involving regulatory law—from environmental law to labor law—, employment law, agency law, federal criminal law including RICO violations, anti-trust violations, and violations of the Foreign Corrupt Practices Act.

The exhausted use of the Enron debacle as a learning tool in a legal, ethics or operations management class paves a way, nevertheless, for student research on parallel business perils in the news. Examples abound every day: anti-trust issues and Wal-Mart bribes (Schoenberg & Robinson, 2016), regulation of food and drug labeling, the Lanham Act and POM Wonderful and Coca-Cola (POM v Coca-Cola, 2014), or design patents and “articles of manufacture” under the patent statute in the Samsung vs. Apple case (Samsung v. Apple, 2016), just to name a contemporary few. Students are eager to find business situations that resonate with the main learning objectives of the class; however, they must have a legal anchor with which to progress in their analysis of the decisions that managers made in the organization that may have gone awry.

An MBA student could very well be overwhelmed with this dizzying amount of legal doctrine and analysis and question the value of the knowledge. Basic case analysis and memorization of the legal elements of a particular area of law do not hone the decision-making framework of a student who aims to develop skills as a “strategic leader.” MBA students readily understand, however, that ignorance of the law is a catalyst for legal entanglements that regularly appear at the center of the failings of business endeavors; every day new such legal nemeses appear, compromising business ambitions. Basing legal analysis of such business challenges on the main sources of law from which legal issues and doctrines arise affords a class a familiar and coherent point of reference. Statutory law, case law, constitutional law, and administrative (regulatory) law furnish the sources for inquiry.

Recent legislative developments at both the state and federal law present a relevant platform for legal analysis in a business course. Students research current proposed bills in Congress and in their state's legislature pertinent to business as well as surveying bills that actually became laws from the previous legislative session. The research and analysis of the bills and statutes evidences the impact of statutory law to business endeavors, and clarifies how legal policy affects business operations. For example, in a recent state legislative session, bills were passed that had immediate impacts on business entity formation, employment laws, and regulation of new and existing industries, from oil and gas operations, to solar start-ups, to cannabis (Lidstone, 2016).

Developments in case law, both at the state level and from the Delaware Courts that have a profound impact on corporate law, offer students a perspective of the importance of staying out of court and of paying attention to the importance of compliance with the rule of law. Most case law involves areas with which students have some experience: contract, tort, property, intellectual property, employment cases (Crow, 2016).

The crown jewel of any legal inquiry rests in the U.S. Constitution. An MBA student who strives to be a strategic leader of the future responds eagerly to a review of the Constitution, its powers granted and rights protected. A full realization, for example, that the constitutional protections of a criminal defendant most certainly reach to a corporation, and that a corporation, just as a "person," has constitutional rights resonates deeply with students. Every session, Supreme Court decisions impact business; an exploration of archived and current decisions provides material for in-depth class discussions (Cornell Law Supreme Court, 2017).

Changes in banking regulations, financial covenants, employment law updates and developments, patent infringement cases, and intellectual property pitfalls in international transactions all afford an instructor an opportunity to invite guest speakers with expertise as well as to draw on students' own areas of professional experience while bringing the language of the law into a pragmatic and applicable inquiry (Colorado Bar Association, 2016). The tried and true Socratic Method, where the professor begins a query into a claim put forth in a legal argument and students seek to counter such a claim, thus developing the argument beyond an easy, closed answer, helps not only ground legal analysis but establishes a fruitful endeavor for critical thinking for all of the learning objectives of the course.

## CRITICAL THINKING PROCESSES

The Socratic Method provides an invitation to segue from legal analysis to critical thinking processes. Students benefit from time spent in considering the concrete application of critical thinking processes to reach a clear formulation of a problem; a formal inquiry, thus, into critical thinking at the beginning of a course on legal issues and sustainability presents continued value to the dialogue that ensues from the substantive issues.

A plethora of critical thinking institutes, foundations and seminars offer trainings to corporations and academics on how to introduce critical thinking into business and classrooms. The *Foundation for Critical Thinking*, established almost forty years ago, defines critical thinking as "the intellectually disciplined process of actively and skillfully conceptualizing, applying, analyzing, synthesizing, and/or evaluating information gathered from, or generated by,



observation, experience, reflection, reasoning, or communication, as a guide to belief and action. In its exemplary form, it is based on universal intellectual values that transcend subject matter divisions (Foundation for Critical Thinking, 2017).” Because of the emphasis on nurturing thought processes and formulating problems with intellectual values that transcend subject matters, critical thinking provides a focal point for any MBA class and should be the basis of an introductory, foundation course, and then repeated throughout the curricula.

Contemporary business endeavors encounter complex problems on a daily basis that are ill-defined and difficult to solve; MBA students are hired to solve these types of problems. MBA graduates are asked to initiate, analyze and evaluate problems, while bringing to bear their cognitive, social and emotional experiences to their professional lives. The core of critical thinking revolves around launching an inquiry that comprehensively formulates a problem while avoiding common thinking traps (Nickerson, J., 2016). Common thinking traps include: 1) information traps where teams focus only on information held in common and, thus, limiting thought about alternatives; 2) knowledge traps where teams or individuals draw conclusions based on a limited presentation of data and questions; and 3) anchoring traps where teams or individuals rely on past references or on a single piece of information (Nickerson, J., 2016). The propensity to jump to conclusions or to dismiss information in order to maintain existing beliefs constitutes one motivation trap. An additional barrier to comprehensive problem formation is the urge to evaluate information in a way beneficial to individual interests which locks an individual into certain solutions (Nickerson, J., 2016). Hence, time spent in class helping students recognize cognitive biases and then practice processes that help them avoid thinking biases in order to better formulate problems will reverberate throughout the substantive learning objectives of a course in law and sustainability. Critical thinking exercises also urge students to evaluate the quality of their thinking.

Case studies focused on business problems galvanize teams of students to challenge their thinking biases. When pressed to solve the problem of a certain case study in the first few minutes of a class, most students quickly articulate a solution, without perceiving even a fraction of the real problems. The acknowledgement of the failure of their thinking process presents a useful catalyst for critical thinking exercises. After the initial attempt at formulating the key problems of a case study, teams accept suggestions for processes focused on finding, framing and formulating the problem before attempting to solve the problem (Nickerson, J., 2016). Brainstorming in teams to formulate a problem presented in a case study brings to light the value of exploring alternative formulations to a problem and then reflecting on the formulation, solution approach, and the decision (Nickerson, J., 2016).

Therefore, an emphasis on the practice of critical thinking before commencing the substantive study of social responsibility and sustainability imparts a continued value that lends depth to class discussions for the rest of the semester. A thorough investigation of critical thinking processes affords a student a foundation in self-assessment which is at the core of ethical analyses of problems. Critical thinking elements include: seeking out all points of view; understanding multiple purposes of all involved; formulating a problem comprehensively with appropriate relevance and depth; gathering all essential information, data and evidence; identifying all key concepts; identifying and questioning all assumptions; and ensuring that a conclusion is robust and well-reasoned (Nickerson, J., 2016). Students come to understand that

the implications and consequences that result from a critical thinking inquiry rests on a sensitivity to multiple stakeholders. Students must continuously ask themselves if their thinking is evenhanded and ethical with respect to alternative points of view and lines of reasoning; this is at the core of strategic leadership and provides a firm foundation for readings on social responsibility and ethics. The International Foundation on Critical Thinking articulates this ethical inquiry as follows:

*When students are taught using a substantive concept of education as the guide to the design of instruction, they learn to initiate, analyze, and evaluate their own thinking and the thinking of others (within all the content areas they study). Doing so, they come to act more reasonably and effectively in every part of life. They are able to do this because they have acquired intellectual tools and intellectual standards essential to sound reasoning, and to personal and professional judgement. Self-assessment becomes an integral part of their lives. They are able to master content in diverse disciplines. They become proficient readers, writers, speakers, and listeners. They use their learning to raise the quality of their lives and the lives of others. They become reasonable and fair-minded persons capable of empathizing with views with which they disagree and disagreeing with views uncritically accepted by those around them. They are able to use their reasoning skills to contribute to their own emotional life, and to transform their desires and motivations accordingly. They come to think, feel, and act effectively and with integrity.*

## **SOCIAL RESPONSIBILITY AND STAKEHOLDER THEORY**

“Using [one’s] learning to raise the quality of [one’s] life as well as the lives of others” comprises a central tenant of ethics and social responsibility. As students reflect on the questions “What is ethics?” “What is ethical behavior?” “What are the characteristics of someone who you would consider to be a good leader?” they discern that leadership and ethical behavior are not separable (Crosser, R, 2016). Indeed, the characteristics of leadership map to the principles of ethics. When posed to a class of MBA students, these questions solicit a list of ethical principles that quickly generate a list of core values that draws directly from Aristotle’s virtues: honesty, integrity, courage, compassion, generosity, tolerance, love, fidelity, fairness, self-control, prudence.

These core values emerge in the rights and responsibilities of business organizations and dictate how the organization adheres to social and legal institutions. While providing quality services and products to their customer base, businesses must abide by laws and regulations, including those that protect the environment, demand fair treatment of employees, proscribe breach of contractual covenants, satisfy warranty obligations, and respect property rights of competitors (Ferrell, Thorne & Ferrell, 2016). All of these obligations conform with the basic definition of social responsibility: “the adoption by a business of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic responsibilities expected of it by its stakeholders (Ferrell, Thorne & Ferrell, 2016).”

After a thorough exercise in practicing critical thinking, coupled with a mind-set keen on recognizing legal issues, MBA students are ready to tackle analyses of business cases the core of which involves ethical and legal misconduct. The framework of social responsibility includes: social issues, consumer protection issues, sustainability issues, corporate governance issues, philanthropic issues, legal responsibilities issues, and issues surround employee well-being (Ferrell, Thorne & Ferrell, 2016). Class discussion reveals the reality that a business must invest significant time and effort in planning and implementing its commitment to its vision and mission of social responsibility. Industry vision statements, annual reports and websites provide primary sources for such discussions (Ferrell, Thorne & Ferrell, 2016). Case study analyses solicit scrutiny of the failure or success of a company's commitment to social responsibility and how society expects that business conduct abides by key targets of social responsibility: financial, legal, ethical and philanthropic (Ferrell, Thorne & Ferrell, 2016).

Legal, regulatory and political issues within a discussion of social responsibility play a central role throughout the kind of course this article addresses. Discussions can be robust with the introduction of current business cases for students ready to further their understanding of the rationale for government regulation and public policy. An emphasis on compliance plays both into studies of social responsibility and the legal environment of business.

An understanding of this responsibility propels the discussion from one where businesses focus solely on shareholders to a strategic approach that embraces considerations of all four targets important to an entire set of stakeholders. Indeed, the "shareholder vs. stakeholder debate," one very current at the end of the last century and the beginnings of this one, seems "old hat" and outmoded among MBA students in this second decade of the 21<sup>st</sup> century (Smith, J., 2003).

The stakeholder orientation for an MBA course of any discipline comprises a crucial part of a business leader's plans for success, for him/herself and the organization. The constituents who have an interest or stake in a company's products, industry, markets and outcomes include, of course, customers, employees, investors and shareholders, suppliers, governments, and communities (Ferrell, Thorne & Ferrell, 2016). Case studies require students to consider the key obligations to multiple stakeholders within the framework of an ethical decision-making procedure; this exercise can center on organizational relationships as well as those of a community.

As students begin to discuss the community impacted by a particular industry's operations, the definition of stakeholder expands to embrace the whole world—environmentally as well as in the realm of social justice. Social responsibility is not the same as sustainability, but most certainly includes it.

## **SUSTAINABILITY**

Some business texts define sustainability as the efforts of a business to "minimize a business's negative impact on the natural environment while maximizing its positive impact (Ferrell, Thorne & Ferrell, 2016)." Sustainability, therefore, involves best practices from a corporate strategy point of view—consumers, for example, increasingly look at a company's reputation and its decisions that impact the environment and stakeholders (Gibson, K., 2012)—

but also from the viewpoint of legal compliance, with an eye to strategize business practices before laws are passed that might limit future plans. For example, oil and gas companies such as Shell, and ExxonMobile have invested billions of dollars in alternative energy projects in an attempt to stay ahead of government regulations (Macalister, T, 2016).

However, an introduction to sustainability in a course with a platform based in law must reach back to the Brundtland Report issued by the World Commission on Environment and Development (WECD) in 1987, a report entitled *Our Common Future* (WCED, 1987). The report is the product of a resolution passed by the United Nations General Assembly in 1983 that established a special commission to focus on a study entitled the “Process of Preparation of the Environmental Perspective to the Year 2000 and Beyond (UN, 1983).” The report is referred to as the “Brundtland Report,” bearing the name of the chair of the Commission, Gro Harlem Brundtland, a medical doctor and public health advocate who had served as Norway’s Minister for Environmental Affairs and later held the post of Prime Minister.

The Brundtland Report (the Report) was the first widely-disseminated study that probed its meaning in the context of the global impacts of humans on the environment. It defines sustainable development (or sustainability) as “...development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland Report, 1987).” The Report emphasizes the connections among social equity, economic productivity and environmental quality. Nations integrate these connections differently but all share certain common traits with the basics of sustainability: “the essential needs of the world’s poor, to which overriding priority should be given, and the idea of limitations imposed by the state of technology and social organization on the environment’s ability to meet present and future needs (Brundtland Report, 1987).”

The three dimensions of sustainability, therefore, integrate the basics of an MBA class engaged in thinking of profits without letting go of the core values that create a company’s profile of social responsibility. Economic interests define the framework for making decisions that impact the flow of financial capital and commerce. Environmental aspects recognize the interdependence within living systems, the goods and services produced by the world’s ecosystems and industries, as well as the impacts of human waste. Socio-political aspects focus on the interactions between industry and people, and center on human values and decision-making that impacts all of the human race (Al-Hallaj, et. al., 2012).

Dialogue based on readings on sustainability within a business context focus on the impact of a given course of action on the environment, the relevant human populations involved, the level of consumption of each person and the business endeavor in general, including the impact of technology (Al-Hallaj, et. al., 2012). With world population projected to reach over 9 billion by the year 2050, 21<sup>st</sup> century MBA students have their fingers on the pulse of the imperative to stretch their decision-making capabilities to find answers for the challenges presented by the waxing century.

The focal point of discussions around sustainability and business practices revolves around the basic definition of sustainability as a decision-making framework: “sustainable development (sustainability) is a decision-making framework for maintaining and achieving human well-being, both in the present and into the future. The framework requires consideration of environmental protection, social justice, and economic development. In that framework,

environmental protection must be integrated into decisions about social and economic development and social justice and economic viability must be integrated into decisions about environmental quality (Dernbach & Cheever, 2015)."

An instructor in a class that has sustainability as one of its key learning objectives must be prepared to explore lines of criticism that have grown in prominence over the decades. Some critics claim that sustainability is too vague; others that it is too late; others that it is a guise for greenwashing (Dernbach & Cheever, 2015). A robust discussion among students, however, may result in a recognition that the critics are actually strengthening the framework of decision-making and that the bottom line is understanding the sustainability framework as one that challenges us to make better decisions (Dernbach & Cheever, 2015).

A return to case analysis based in current business situations augments the platform of the study of law, social responsibility and sustainability into a sturdy foundation for the course learning objectives. No dearth of cases presents any obstacle. Case studies on chocolates and the slave industry in Africa show Hershey Company attempting to respond to the studies that find almost a million children in the Ivory Coast alone working on coco-related activities (Shanker, 2013; Ferrell, Thorne & Ferrell, 2016). The Coca-Cola Company and its struggles with ethical crises arising from water depletions in India, anti-trust accusations, and intimidation of union workers presents a case study rife with openings for applications of analyses based in social responsibility and sustainability (Ferrell, Thorne & Ferrell, 2016). Volkswagen installed "defeat devices" into its diesel vehicles, a practice that undermined environmental laws and fooled consumers, a policy which was met with costly penalties (Hotten, 2015).

Although case studies for sustainability discussions most often revolve around large corporations, small-to-medium enterprises are increasingly expected to develop strategies to accommodate accelerating global sustainability reporting requirements and proactively address sustainable considerations (Shields & Shelleman, 2015). These small and medium businesses, like the behemoth corporations, are responding to demands to report company performance with respect to the "triple bottom line" that encompasses the economic, environmental and social performance of an organization (Shields & Shelleman, 2015). With MBA students eager to enter the job force or advance in their own organizations, an understanding of the applicability of compliance requirements for all sizes of businesses adds value to the course work.

A return to integrating legal issues into the discussions on sustainability can use the ISO standards as a summary of a multi-faceted approach to meeting the needs of all stakeholders in a business environment. The International Organization for Standardization has a membership of 160 national standards institutes from large and small countries. The ISO portfolio provides practical tools for all three dimensions of sustainable development; it develops standards that are practical but that engage proactive approaches. The ISO 14000 approach includes the following as its main portfolio profile: 1) standards that take a proactive approach to managing environmental issues; 2) standards to help meet the challenge of climate change; 3) standards that develop normative documents to facilitate the fusion of business and environmental goals including product designing aspects; and 4) standards that develop sampling and test methods to deal with specific environmental challenges (ISO 14000, 2017). Indeed, with evidence of a global embrace from nations and businesses around the globe, small and large, students drop

resistance to wrapping their minds, decision-making framework and studies around law, ethics and sustainability.

In their article, “Sustainability and its Discontents,” law professors John Dernbach and Federico Cheever see opportunities for the future of law, economic endeavors and a sustainable world:

*The policy space created by the concept of sustainable development is being filled by a wide variety of laws, policies and activities that further social and economic goals while protecting the environment. The understanding of sustainability underlying these laws and activities is the shared creation of millions of practitioners all over the world. Their constant and repeated interactions and experiences refine and improve both understanding and outcomes. There is every expectation that each community will work out the specific meaning of sustainability based on its own history, natural resources, economic situation, and other conditions....The task ahead is to craft, adopt, and implement new and modified laws, products and services, and other practices that are not only sensible and ambitious but are also so attractive that they will overcome all the many obstacles to change, including not only opposition but inertia. To accelerate the transition to sustainability, it will be necessary to foster abundance and thriveability, to actually protect and restore the environment, and to be more resilient. All of these require the sustainable development decision-making framework.*

## CONCLUSION

A graduate level course built upon a foundation of a study of law, social responsibility, ethics and sustainability at first glance may seem daunting, and yet vague. First year MBA students may enter such a course with resentment; why should they have to study the law as their objective is to become managers and business leaders, not lawyers. Ethics and sustainability are vague and seem philosophical in their essence. Nevertheless, these same business students respond to general surveys about business and sustainability with an overwhelming response that the pursuit of business profit must go hand in hand with responding to the complex nature of sustainability issues. In their hearts and minds, these students believe that the role of business in society is changing and that business must address solutions for social and environmental challenges for positive financial results. A thoughtful curriculum easily responds to the challenge of opening their minds to what they already know.

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## CROWDFUNDING FOR NON-PROFITS? AN EXPLORATORY CASE STUDY

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### ABSTRACT

*Non-profit organizations, similar to their profit-seeking counterparts, face many hardships concerning capital. As a result, crowd funding has gained momentum among nonprofit founders seeking innovative methods to financing and sustain their venture missions. The purpose of this paper is to investigate various non-profit crowd-funding campaigns to identify characteristics or traits of success among them. Specifically, an investigative study was conducted on 5 fully funded, non-profit campaigns for commonalities, differences, characteristics, usage of social network platforms, and emerging patterns. The hope was to gain a deeper understanding as to what makes various non-profit campaigns succeed. A thorough discussion of the results is provided. A discussion of future study and recommendations is provided.*

**Key Words:** entrepreneurs, entrepreneurship, small business owner, small business, crowd funding, non-profit, non-profit funding, non-profit crowd funding, crowd funding non-profits, charity crowd funding

### INTRODUCTION

Over the last decade, crowd funding has quickly emerged to become a leading funding mechanism of choice for profit seeking organizations, but recently it has also gained traction within the non-profit domain. Entrepreneurs have utilized crowd-funding sites, such as Kickstarter, RocketHub, and IndieGoGo, as a funding mechanism to grow, expand and launch their nascent ventures. These crowd funding sites have exploded due to successfully funded



campaigns made famous, such as the Coolest Cooler which raised \$ 13.2 million dollars from nearly 62,000 backers and Pebble Time Smartwatch who raised \$ 20.3 mill from nearly 78,000 backers via crowd funding (Kickstarter, 2016). After these successes, many non-profit founders began investigating crowd funding as a potentially viable and innovative funding alternative to help them attain financial sustainability for their non-profit organizations.

It is imperative to note that nonprofits constantly face financial hardship and deteriorating funding streams when attempting to secure capital or sustain organizational missions (Stengel, 2013). Non-profits are under perpetual pressure to raise money, thus they must incessantly revise funding techniques to address chronic financial challenges caused by a shrinking pool of private donors, reduced government grants and turbulent economic times (Bray, 2010; Stengel, 2013; Padilla, Staplefoote, & Morganti, 2012). This is simply because nonprofits depend on varied funding sources and cannot simply sell more of a product or service, instead they sustain their mission by soliciting multiple funding sources to donate or 'gift' to their mission or cause, such as through private donations, government set-asides, foundation programs and other similar sources (Padilla, Staplefoote, & Morganti, 2012). This over-reliance on 'traditional' funding sources, such as government grants or private donations have slowly eroded over the past few years (Padilla, Staplefoote, & Morganti, 2012). Furthermore, recently private donors have challenged non-profits by demanding up-to-date, real-time operation and financial information and transparency to confirm that all money donated is being utilized properly to ensure a 'return-on' investment (Bray, 2010; Padilla, Staplefoote, & Morganti, 2012). Although this is certainly understandable, it causes hardship, taking tremendous time and laborious effort from the non-profits to stay up to date and compliant.

With the above in mind, considering the continued deterioration of funding options for non-profits and given the success of crowd funding campaigns in the for-profit sector, a question comes to mind: Can crowd funding work as an innovative funding alternative for non-profit companies? This paper seeks to investigate this very question, as well as the trials and tribulations faced when crowd funding from a non-profit perspective.

The purpose of this paper is to investigate a handful of non-profit crowd funding campaigns to identify characteristics or traits of success among them. Specifically, an investigative study was conducted on 5 fully funded, non-profit campaigns for commonalities, differences, characteristics, usage of social network platforms, and emerging patterns. The intent of the paper was to collect information as to what makes various non-profit campaigns succeed, what challenges they face, and to examine leading crowd funding sites available for non-profit companies. A thorough discussion of the results is provided. A discussion of future study and recommendations are provided. Lastly, a discussion is provided as to what makes a non-profit campaign succeed with crowd funding.

### **Non-Profits & Crowd Funding**

As stated above, non-profits are under constant pressure to be financially sustainable and to maintain accountability to donors or funders in a turbulent economy (Bray, 2010). Due to this, they seek innovative funding techniques to meet these challenges, such as peer-to-peer funding or crowd funding. With this in mind, the question sought to answer is whether crowdfunding works for non-profits. According to a recent article, crowd-funding platforms generated nearly \$

5.1 billion dollars in donations, of which nearly \$ 1.6 billion dollars was raised for social causes (Oakle, 2015). Apparently, crowd funding generates a sense of urgency and helps drive donors towards a cause or mission quickly and in a timely manner. In addition, crowd funding helps nonprofits reach new donors who indicated they were more likely to donate again to non-profit endeavors via crowd funding at 28% (Oakle, 2015).

According to the Securities Exchange Commission (SEC), crowd funding is a contemporary mechanism for raising money via the internet for an assortment of entrepreneurial endeavors, such as pioneering product ideas or to help fund a movie (SEC 2013; Blomfelt & Radojevich-Kelley, 2015). There are two main methods to crowd fund which are 1) free gifts or 'freebies' given to donors in the form of special or limited editions in exchange for money and 2) equity funding by soliciting a fixed amount of money in exchange for shares in the business (Blomfelt & Radojevich-Kelley, 2015). The most common method of crowd funding to date is through free gifts or in-kind donations because equity crowd funding was illegal in the United States until recently. It is important to note that for the purpose of this paper, the author only examined free-gifts or freebies regarding crowd funding and non-profits.

### **Non-Profit Obstacles and Benefits**

With the above in mind, it is important to understand the cumbersome challenges faced by nonprofits today. According to the Nonprofit Finance Fund Survey, nearly 1/3 of top nonprofit leaders report their primary challenge is with achieving long-term sustainability (Nonprofit Finance Fund Report, 2015). Nearly one quarter reported that retaining staff and offering competitive pay was a major constraint for them, and nearly 20% cited raising enough funds to cover full costs as a vexing concern (Nonprofit Finance Fund Report, 2015). Nonprofits often serve low-income communities who lack the means to donate to the cause or mission benefiting them, thus nonprofits must rely on government grants and foundation programs to sustain them (Padilla, Staplefoote, & Morganti, 2012). This obstacle is compounded by the fact that government aid is continually shrinking. A recent study indicates that states with the largest government program cutbacks must rely on each household to increase their annual "giving" to nearly 60% more per year to fill the void caused by governmental cuts, especially in the social service, education or medical-aid nonprofit sectors (Perry, S., Preston, C., & Wallace, N., 2012). To make matters worse, nonprofits must increase their advocacy and lobbying activities to combat government cutbacks, which in turn takes considerable time, energy and non-existent money (Perry, S., Preston, C., & Wallace, N., 2012).

A third challenge for nonprofits is that social entrepreneurs are emerging, creating competition over the past ten years. Twenty years ago social enterprise or social entrepreneurship was not discussed, today it is commonplace (Defourny, J. & Nyssens, M., 2010). Remember that social entrepreneurs use markets to address societal problems not successfully being addressed by government or by the private sector. In a recent GEM report, nearly 9% of Americans surveyed said they are leading social enterprise companies currently (Kelley et al., 2015). It appears that social entrepreneurs who are currently running the newest companies are finding ways to leveraging physical, social and human capital from innovative sources (Kelley et al., 2015), which in turn competes against nonprofit sources. Funding for social enterprise comes from neighbors; family/friends, financial institutions, private investors, government programs,

and crowd funding which are the same sources nonprofits rely on (Kelley et al., 2015; Nonprofit Finance Fund Report, 2015).

Like nonprofits, social entrepreneur founders are pressured to prove their “social return on investment” or impact investment to their investors and donors, which is challenging (Kelley et al., 2015). Thus, many social entrepreneurs seek innovative funding vehicles, such as crowd funding to take the pressure off them. In addition to the above, social entrepreneurs rely heavily on government programs, which competes against nonprofits relying on them as well, causing heavy competition among them for money (Nonprofit Finance Fund Report, 2015). With the above in mind, it is easy to understand the great implication towards increased dependence on public participation in social enterprise as well as the non-profit ecosystem because government programs are simply diminishing (Kelley et al., 2015). According to a recent report by the National Center for Charitable Statistics, over the past few year’s individual donors accounts for the vast majority of funding for non-profit organizations (McKeever, 2015). Nearly \$259 billion was given by individuals to non-profit organizations in 2014, which accounted for 72% of all money’s received by non-profits in 2014 (IUPUI Lilly Family School of Philanthropy, 2015).

In addition to the above, many nonprofits and social enterprises find it challenging to develop long-term relationships with dependable revenue streams, such as private donors because they are diminishing as well (Nonprofit Finance Fund Report, 2015). According to a recent 2014 report, over \$ 170 million was given to non-profit causes by donors, of which nearly 95% was offset by losses causing only a 5% net gain to nonprofits in 2014 (Urban Institute, 2015). In addition, it was reported that there were nearly 3.6 million new donors offset by a 3.7 million previous donor lapse in 2014 (Urban Institute, 2015). In other words, every 100 donors gained was offset by a 103 person loss resulting in a net loss of -3% of donors for non-profits in 2014 (Urban Institute, 2015). This report drives home the point that contributors are hard to find and even harder to keep long-term. In fact, the median donor retention rate is a meager 43% (Urban Institute, 2015). With retention rates this low, it is easy to see why nonprofits face constant pressure regarding self-sustainment when they are relying on grants and donors who are fading away.

A final challenge worth discussing is regarding workforce. Nonprofits struggle to retain their workforce and to find qualified people because they cannot pay competitive wages or high salaries (Nonprofit Finance Fund Report, 2015). As a result of the above, most nonprofits face the reality that they simply cannot sustain their organizations long-term, sustain their workforce or meet the needs of the communities they serve which forces them to look for alternative, innovative and new methods to obtain financing (Stengel, 2013).

Although nonprofits face many challenges as noted above, they also provide many benefits for communities and society. Nonprofits provide significant benefits by providing jobs, solving vexing problems that society faces, engaging in strategic conversations around leadership, driving money towards their missions, and impacting communities in many manners (Stengel, 2013). For many the challenge becomes learning to balance the benefits the nonprofit provides to society, with their non-existent cash flows needed to sustain them long-term.

## **Review of Top Crowd Funding Sites**

For the purpose of the study, a thorough review was conducted on top crowd funding sites available for non-profit and social enterprise endeavors. The following are reported as the most popular sites for non-profit activity: Kickstarter, RocketHub, Indiegogo, Razoo, Causes, Fundit.buzz, StartSomeGood, Crowdrise, CauseVox and Pozible.com. It was found that these ten platforms distinguished themselves on everything from campaign themes, to country or regional locations, to all-or-nothing funded requirements for campaigns. Below please find a discussion on each nonprofit crowd-funding platform.

Razoo is a crowd-funding site where nearly 14,000 nonprofits have utilized its platform to raise nearly one hundred million dollars for various missions (Razoo.com). It advertises itself as “a movement of people who want to make generosity a part of everyday life.” (Razoo.com). In contrast, Causes.com was designed for people wanting to transform the world, with categories for campaigns focused towards disaster relief efforts and human rights (Causes.com). Causes has raised greater than \$30 million dollars for non-profits on their platform (Causes.com).

Kickstarter is a project focused crowd funding website that any organization or individual can use to finance their event or project in the USA (Kickstarter.com). Kickstarter is the world’s leading crowd funding platform with an ‘all or nothing’ funding mentality, thus requiring all minimum pledge goals to be met before funding is released (Kickstarter.com). Kickstarter has a review board, limits projects to the USA, allows for funding on one specific idea at a time, and prohibits any fund-my-college tuition type projects (Kickstarter.com). Both for profit and for-benefit ideas utilize Kickstarter, with over 5 million individual donors or contributors who pledged more than \$1 billion dollars on 55,000+ individual projects to date (Kickstarter.com). Kickstarter’s most successful campaigns, such as Pebble Watch and Coolest Cooler, have received great success and media recognition. Indiegogo is similar in popularity to Kickstarter for many entrepreneurs. Indiegogo is the second largest crowd-funding platform, but with an international crowd funding focus for creative types used to raise money for charity, non-profit and for benefit organizations (Indiegogo.com). Indiegogo allows any idea, even internationally focused social projects to be funded without an ‘all or nothing’ funding mentality (Indiegogo.com). They allow for more flexibility because they do not require campaign goals to be met in order for funding to be released. Indiegogo has 2.5 million contributors from over 225 countries and territories who pledged approximately \$ 800 million dollars on over 75,470 campaigns to date (Indiegog.com). Their greatest crowd funding success to date is with the Flow Hive campaign, which generated greater than \$ 13 million dollars on an environmentally friendly beehive honey tap (Indiegog.com).

Although not as big as Indiegogo, Fundit.buzz is a leading crowd funding platform in the UK dedicated towards “Positive People Backing Bright Ideas” (fundit.buzz.com). Fundit.buzz has received more than one million pounds to fund over 150 projects from 7,500 contributors to date (fundit.buzz). StartSomeGood is similar to Fundit.buzz, except it is USA based. This crowd fund platform is newer with approximately 743 projects funded with approximately \$ 6,830,000 dollars contributed from donors to date (StartSomeGood.com). Crowdrise is a more global site that was named “Top 25 Best Global Philanthropist” who brings together volunteers and philanthropists wanting to spread the call of service (Crowdrise.com). In contrast, CauseVox is a New York City based social site focused on helping small to medium sized non-profits who raise funds while having a social impact (CauseVox.com).

RocketHub is a USA based crowd-funding platform utilized by multiple types of organizations and individuals ranging from scientists to philanthropists (RocketHub.com). It is growing in popularity among start-up founders in the USA. Lastly, Pozible.com is an Australia-based website that encourages creative projects and ideas which may also be used for charity purposes (Pozible.com). Pozible.com has raised over fifty million Australian dollars, for over 12,150 projects, through 105 countries from successful campaigns throughout the world. Pozible reports a 57% success rate for campaigns (Pozible.com).

With the above platforms in mind, it is apparent that nonprofits have many options from which to select regarding crowd funding. For the purpose of this study, the author selected Indiegogo as the crowd-funding platform for the exploratory study.

## METHODOLOGY

### Research Design

A qualitative, exploratory case study approach was selected for the purpose of this paper because it utilizes numerous sources of evidence to examine phenomenon within their authentic contexts (Yin, 1992). Specifically, the research design was an exploratory case study of five non-profit, social enterprise ideas that were successful on crowd funding platforms. This approach was employed because it allowed the author to assess a contemporary phenomenon within a real-life setting (Yin, 2003). For the purpose of this study, the research included qualitative methods and exploratory case study approaches as recommended by Tracy (2010). The author observed crowd funding campaigns launched on the Indiegogo platform, due to convenience, consistency and simplicity. The 5 campaigns were accessible online and made available for exploratory research. When possible, interviews were attempted, campaign web sites were analyzed, Facebook Pages were examined, relevant blogs and other available materials were reviewed. Only recent campaigns whose goals were met, thus implying success, were analyzed. Campaign goals were limited to two groups, those who had \$100,000 goals, and those who had between \$ 250,000 and \$ 1,000,000 goals. It is important to note that the author couldn't access enough non-profit company owners willing to complete surveys for a good quantitative study to be conducted, thus qualitative methods were employed.

### Data Collection

After reviewing over 50 crowd-funding campaigns on different platforms, the author selected 5 to examine closer. The five selected, were non-profit, socially focused crowd funded campaigns on Indiegogo. Each case was selected because the organization not only met, but also exceeded their campaign goals over a short period of time within one year. Each case gaining traction quickly on Indiegogo, while setting high goals of either \$ 100,000 or \$ 250,000-\$1,000,000. The study employed a number of exploratory case study methods. The crowd funding campaigns were examined and compared online through the Indiegogo site and via their Facebook Page. Followed up phone calls were employed when needed, websites and Facebook or blog posts were reviewed. The author had no prior connection or involvement with any of the crowd funding campaign managers or organizations.

Specifically, the author reviewed five crowd funding campaigns who met the requirements of: 1) having a campaign that met goals, 2) having an online presence, 3) exceeding goals, and in some cases by a lot, 4) having a goal of \$ 100,000 or \$ 250,000-\$ 1,000,000, 5) being listed on Indiegogo, 6) being available for analysis online and soliciting money via Indiegogo, 7) able to participate and share information online, via internet, 8) are socially focused and of interest to the public with high campaign monetary goals. Of the five crowd funding campaigns, 3 were focused on USA and two were internationally focused campaigns. The researcher relied on open-source documents from which to gather information. The author conducted an in-depth analysis of each crowd funding campaign, one at a time. The primary data collection methods employed were as follows: 1) qualitative, observation and review of crowd funding campaigns, crowd funding donors/participants, and the interaction among them, and 2) review of all campaign information made public, crowd funding platform material, Facebook Page information such as websites, blogs, personal testimonials, open-source materials, and other relevant documents.

The author intentionally selected well-funded non-profit, socially focused crowd funding campaigns on Indiegogo because they were the highest dollar value met compared to other crowd funding sites within the past year. The results of this study include an analysis of commonalities, differences, characteristics, usage of social network platforms, and emerging patterns. Specifically, the author reports the total dollar value met and exceeded, the number of contributors per campaign, the percentage of goal exceeded, the rate and speed at which the money was pledged, the average pledge amount per contributor and ranking among the five campaigns.

## RESULTS

The following results present both with-in case and between-case results (Yin, 1992). First, each case had certain components common to the other crowd funding campaign such as: a Facebook page, similar campaign goal, similar social mission, and similar customer base and time constraints for funding. Fortunately, these similarities also allow for between-case comparisons.

### Participants

Five non-profit, social campaign cases were analyzed. Three cases were selected whose campaign goals were \$ 100,000 on Indiegogo. These were 1) Mott Hall Bridge Academy whose campaign was called Let's Send Kids to Harvard. This organization is based at Brooklyn Middle School, in a neighborhood with one of the highest crime rates in New York City. The goal of the campaign was to travel students to Harvard for educational purposes and experiences, 2) Bonded Labor Liberation Front whose campaign was called Let's Help Fatima End Bonded Labor. This organization provides education, legal assistance, and rehabilitation to every bonded laborer in Pakistan, and 3) The Headstrong Project whose campaign was called Let's Help Headstrong Help Veterans. This organization is located in the United States and provides world-class mental health treatment to veterans of the wars from Iraq and Afghanistan with zero cost and zero bureaucracy. In addition to the three cases above, two more were selected whose non-profit

campaign goals were \$ 250,000-\$ 1,000,000, both cases exceeded their goals. These were 1) Learning Equality whose campaign was called Kolibri: Free Offline App for Universal Education. This organization offers a free educational application for any offline device, with a huge library of interactive content, for learners in the world's most challenging contexts. The goal of the company is to receive funding to help build an educational App that allows people residing in remote parts of the world, such as Sub-Saharan Africa, to access educational libraries and interactive educational learning content free of charge and off-line, and 2) Memorial Sloan Kettering Cancer Center whose campaign was called Let's Help Dr. O'Reilly Fight Pediatric Cancer. This organization is focused on pediatric cancer research whose primary mission is to psychologically and socially support young patients as they battle against cancer.

### Campaign Results

Table 1 indicated that 3 of 5 non-profit campaigns set and exceeded their minimum goal of \$ 100,000 dollars, one campaign set and exceeded their goal of \$250,000 and one set and exceeded their goal of \$ 1,000,000. The fastest goal met was in 20 days by Kids to Harvard, followed by 60 days with the Headstrong Veteran, six months from Pediatric Cancer Campaign and one year from Bonded Labor for Pakistan and for the Free Education Offline App. The greatest amount of funding raised was over \$ 3.8 million dollars for the Pediatric Cancer campaign, followed by \$ 2.34 million for Bonded Labor for Pakistan, and \$ 1.4 million dollars for the Kids to Harvard. It is important to note that all campaigns not only met, but also greatly exceeded their minimum campaign goals substantially of a \$ 100,000, \$ 250,000 or \$ 1,000,000 dollars. For greater details, please see Table 1 below.

Table 1: Indiegogo Campaigns and Goals

<b><u>Table 1</u></b>	<b><u>Kids to Harvard</u></b>	<b><u>Headstrong Veterans</u></b>	<b><u>Bonded Labor for Pakistan</u></b>	<b><u>Free Education Offline-App</u></b>	<b><u>Pediatric Cancer in USA</u></b>
<b><u>Campaign Goal</u></b>	\$100,000	\$100,000	\$100,000	\$250,000	\$1,000,000
<b><u>Campaign length</u></b>	20 days	60 days	12 months	12 months	6 months
<b><u>Final Pledged amount</u></b>	\$1,418,334 USD 51,466 donors	\$558,221 USD 14,239 donors	\$2,347,084 USD 76,205 donors	\$509,579 USD 400 donors	\$3,874,505 104,378 donors

Table 2 showcases the number of Facebook Page shares each campaign saw as a result of the crowd-funding endeavor. Pediatric Cancer campaign saw the greatest Facebook shares of over 16,000, shares compared to Bonded Labor for Pakistan who had only 104 Facebook shares. Kids to Harvard saw 7,700 shares in just 20 days, compared to Pediatric Cancer which had twice as

many Facebook shares, but required 5 months more time to achieve the Facebook share success that Kids to Harvard saw in less than a month. After comparing all five cases, Bonded for Pakistan not only exceeded their campaign goal, but also did so with only 104 Facebook shares. They exceeded their goal by 2,347%. Kids for Harvard campaign was the second most exceeded campaign by 1,418%, followed by Headstrong Harvard at 558%. The average amount of money pledged ranged from \$27 to \$1,274. The highest average pledge per contributor came from Free Education Offline- App at \$1,274 per person, compared to the lowest, which was \$ 27 per person for the Kids to Harvard campaign. For more details, please see Table 2 below.

Table 2: Facebook Shares and % of Goal

<b><u>Table 2</u></b>	<b><u>Kids to Harvard</u></b>	<b><u>Headstrong Veterans</u></b>	<b><u>Bonded Labor for Pakistan</u></b>	<b><u>Free Education Offline-App</u></b>	<b><u>Pediatric Cancer in USA</u></b>
<b><u>Facebook shares VIA campaign</u></b>	7,700 over 20 days	6,500 over 60 days	104 over 12 months	2,100 over 12 months	16,200 over 6 months
<b><u>% of goal exceeded</u></b>	1,418%	558%	2,347%	204%	387%
<b><u>Average pledge per person</u></b>	\$ 27.6	\$ 39.2	\$ 30.8	\$1,273.9	\$ 37.1

Table 3 indicated the success ranking for the five case studies. The most financially successful non-profit campaign who raised the most money was Pediatric Cancer, then Bonded Labor for Pakistan, followed by Kids to Harvard then Headstrong Veterans, and lastly Free Education Offline. Kids to Harvard was the fastest to exceed and raise money for their case in 20 days, followed by Headstrong Veterans and 60 days, then Pediatric Cancer, then Bonded Labor and Free Education App tying for last place. For more results please see Table 3 below.

Table 3: Ranking

<b><u>Table 3</u></b>	<b><u>Kids to Harvard</u></b>	<b><u>Headstrong Veterans</u></b>	<b><u>Bonded Labor for Pakistan</u></b>	<b><u>Free Education Offline-App</u></b>	<b><u>Pediatric Cancer in USA</u></b>
<b><u>Ranking for MOST money raised</u></b>	# 3 \$1,418,334 USD	# 4 \$558,221	# 2 \$2,347,084	# 5 \$509,579	# 1 \$3,874,505



<b><u>Fastest to raise money</u></b>	<b># 1</b> <b>20 days</b>	<b># 2</b> <b>60 days</b>	<b># 4</b> <b>12 months</b>	<b># 4</b> <b>12 months</b>	<b># 3</b> <b>6 months</b>
<b><u>Highest pledge per person</u></b>	<b># 5</b> <b>\$ 27.6</b>	<b># 2</b> <b>\$ 39.2</b>	<b># 4</b> <b>\$ 30.8</b>	<b># 1</b> <b>\$1,273.9</b>	<b># 3</b> <b>\$ 37.1</b>

Table 4 is a summary of the findings. The slowest to raise money was Bonded for Pakistan and Free Education App. The highest number of contributors on the crowd funding campaign was Pediatric Cancer with 104,378 donors, followed by Bonded Labor with 76,205 donors, then Kids to Harvard with 51,466 donors, and Headstrong Veterans with 14,239 donors and Free Education App with 400 donors in total. The lowest dollar value per donation was with Kids to Harvard at \$ 27 per contributor. For more information, please see Table 4 below.

Table 4: Summary

<b><u>Table 4</u></b>	<b><u>Kids to Harvard</u></b>	<b><u>Headstrong Veterans</u></b>	<b><u>Bonded Labor for Pakistan</u></b>	<b><u>Free Education Offline-App</u></b>	<b><u>Pediatric Cancer in USA</u></b>
<b><u>Days</u></b>	<b>Fastest to Meet/exceeded money goal (20 days)</b>	<b>Second fastest (60 days)</b>	<b>Slowest to raise money (1 year)</b>	<b>Slowest to raise money (1 year)</b>	<b>3<sup>rd</sup> fastest to raise money (60 days)</b>
<b><u>Facebook</u></b>	<b>#2 most Facebook shares 7,700</b>	<b># 3 most Facebook shares 6,500</b>	<b>Least Facebook shares 104 shares</b>	<b># 4 most Facebook shares 2,100</b>	<b># 1 most Facebook shares 16,200</b>
<b><u>Donor</u></b>	<b>3<sup>rd</sup> highest donors 51,466</b>	<b>4th highest donors 14,239</b>	<b>2<sup>nd</sup> highest 76,205</b>	<b>5<sup>th</sup> highest donors 400</b>	<b>Greatest donors 104,378</b>
<b><u>Per-person Pledged \$ Amount</u></b>	<b>Lowest per donor pledge \$ 27 -Local School in NYC area</b>	<b># 2 Per donor pledge of \$ 39</b>	<b># 4 Per donor pledge of \$ 30</b>	<b># 1 Per donor pledge of \$ 1273</b>	<b># 3 Per donor pledge of \$ 37</b>

## Discussion

According to the results of the study, Sending Kids to Harvard met their campaign goals of \$ 100,000 the fastest (20 days) and utilized Facebook shares the 2<sup>nd</sup> most, but had the lowest per-person donor amount at \$ 27. This donor amount was substantially lower, compared to the other cases. This is likely because the organization and project resides in one of the highest crime neighborhoods in New York City- Brooklyn, thus reinforcing the notion that organizations rely on donation impacting their specific community. In addition, it reinforces the notion that nonprofits must rely on community members who may not have as much money to donate.

Bonded Labor in Pakistan exceeded their goal in the greatest amount at nearly 2,347%, yet utilized Facebook shares the least, at 104 shares. This was attributed to international donors who potentially don't utilize Facebook as much compared to American donors. In addition, less reliance on Facebook shares was a result of international infrastructure issues, such as internet outages, costly Wi-Fi, etc. In contrast, Headstrong Military had strong use of Facebook shares, strong pledge amounts per donor (\$ 39), and was quick at 60 days to exceed campaign-funding goals. Free Education Offline App had the highest per donor pledge at \$1,273 per donor, and was the second fastest to exceed their \$ 100,000 minimal goal. They also had the fewest donors compared to all other cases investigated, at only 400 total, but utilized Facebook share well. The Free Education Online App relied on their network and a high per person donor amount to exceed their goals. Finally, Pediatric Cancer campaign was the most financially successful at over three million dollars raised for the campaign. The utilizing Facebook share the most at 16,200 shares, had the highest number of donors at 104,378 and resulted in a strong pledge amount per donor of \$ 37.

## CONCLUSIONS

The study revealed that all campaigns utilized Facebook somewhat, but those with greater Facebook shares and social media momentum early in the campaign had stronger success. In fact, those who exceeding goals quicker on average tended to use Facebook Shares the most, compared to those who utilized it least. The two slowest funded campaigns had the lowest Facebook shares and social media momentum compared to the other campaigns, thus indicating that Facebook share when utilized properly, helps facilitate traction and momentum for funding quicker. This is potentially because Facebook allows people to 'like' and share things with their network, thus facilitating momentum and popularity. In fact, according to the study, campaigns with the highest Facebook shares built traction fastest and exceeded their campaign goals fastest. In addition to the above, results indicate that international impacts or causes take longer for momentum to occur, while funding is slower possibly due to less social media reliance, such as Facebook shares, which were small for international campaigns.

All five cases utilized detailed pictures, photos and explicit storytelling to help donors understand their cause and mission. Most of these stories were shared via Facebook to strong donor networks. This indicates that contributors possibly fund 'winners' or causes that their network or friends tend to 'like', share or supports. Results also imply that campaigns with causes closer to mainland USA have traction and were fulfilled quicker on Indiegogo, compared to campaigns concerning foreign lands, which took longer. According to the study, donors pledged an average of \$281.20 dollars per person towards a given campaign, with the lowest

being nearly \$28 dollars. According to the National Center for Charitable Statistics annual report, the total charitable deductions reported by contributors was approximately \$ 1,200 per tax return, and nearly sixty percent of Millennials donate approximately \$500 annually per year, with nearly one-third raised online. (McKeever, 2015). This study supports research, which indicates donors tend to invest online and want to invest in ‘winners’ that exceed their campaign goals. All five cases in the study exceeded their campaign goals by 387%, 204%, 558%, 1,418% and 2,347%.

### **Crowd funding Success Tips**

After close investigation the author has concluded that there are certain dos and don'ts to employ when attempting to crowd fund. First and foremost, research shows that having a well-crafted story and well-rehearsed pitch is vital for non-profit campaign success (Diallo, 2014; Briggman, 2016). When non-profits have a great story to tell, they have stronger success and potential for media coverage to help generate buzz and momentum (Briggman, 2016). Founders must articulate the purpose of their campaign in a clear, concise and professional manner. Non-profit campaigns must articulate their story well, and identify how their idea will make society or the community better. In other words, they must identify the problem they are solving in a real and empathetic manner (Diallo, 2014).

Nonprofit founders must also validate their idea, prototype, test and receive feedback prior to starting their crowd funding campaign to ensure they are ready for production immediately once campaign begins (Diallo, 2014). This is crucial because they meet donor expectations and demand. Founders must build momentum, generate buzz and build a strong customer base of supporters prior to starting their crowd funding campaign to ensure success (Diallo, 2014; Briggman, 2016). Research shows that donors follow the masses, and enjoy funding ‘winners’ or campaigns exceeding their campaign goals. Founders should consider having a ‘soft’ launch the night before campaign kickoff to show traction on official launch day, thus encouraging ‘winner’ support mentality. Founders should set smart and small funding goals, with the idea of exceeding campaign goals to ensure the crowd funding platform releases the money, while also encouraging contributors to donate to ‘winning’ campaigns. Lastly, the use of social media is vital for the success of any crowd funding campaign (Briggman, 2016). Founders should have a Facebook Page where messages may be shared via email, to the press, to increase dialogue with the market to generate buzz and to keep the campaign in the mind of supporters. It is imperative to remember that the campaign is the top priority and social media is an ally to help get and keep the word out about the social project or mission at hand. It is important for founders to remember to always use the network they already have in place, especially via email and social media. All feedback received from supporters, campaign contributors, or individuals

visiting your crowd funding campaign page or Facebook Page should be reviewed and analyzed (Diallo, 2014). Tweaks, shifts or changes may need to be made based on feedback received. Remember to incorporate reward tiers to help incentivize donations and keep the dialogue going between the organization and contributors for long-term sustainability (Briggman, 2016).

### Future Research and Limitations

The study was limited to 5 non-profit Indiegogo exploratory cases. The study is not generalizable, thus more in-depth analysis with larger data collection pools is needed. It is the author's belief that a larger study is needed regarding non-profit campaigns and across different crowd funding platforms. A thorough quantitative analysis exploring the success and failure rates of nonprofit crowd funding campaigns on a large scale might be beneficial. From a qualitative perspective, thorough interviews with organization representatives would be beneficial to gain deeper understanding of the social media link, reflections on their campaign success, what could have been done better, etc. Investigating soft-launch strategies employed prior to successful crowd funding campaigns is needed. Examining the use of emails, blogs, social media interaction with potential donors before and after non-profit crowd funding campaigns would be beneficial. Lastly, a deeper analysis of the top 5 non-profit crowd funding sites as platforms, ease of use, relevance to community should be investigated.

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# EMPLOYEE PERFORMANCE MANAGEMENT: THE CHALLENGE OF FIXING A BROKEN PROCESS

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## ABSTRACT

*The annual performance review process is in the sights of many companies as an area of necessary improvement. Over 75% of managers, employees, and Human Resource professionals believe their current system of performance management is ineffective (CEB Corporate Leadership Council, 2012) and a growing body of evidence suggests the traditional process has little impact on employee performance, development, or engagement (Barry, Garr, & Liakopoulos, 2014; Rock & Jones, 2015; Wilkie 2015). Companies such as Microsoft, GE, Deloitte, and Accenture have already revamped their performance management systems by eliminating annual reviews and rankings in favor of more ongoing feedback, and evidence suggests this trend will continue. This paper will provide an overview of some of the problems with traditional performance management practices and considerations for implementing changes that can enhance both employee and organizational performance.*

## INTRODUCTION

Performance management has become one of the great paradoxes of employee leadership: while companies acknowledge the critical role it plays in organizational success, they have long struggled with developing systems that achieve their desired goals, which has led to increasing dissatisfaction with the process (Mueller-Hanson & Pulakos, 2015) and prompted a revolution, of sorts, with many companies completely overhauling their performance management process. In recent years, several high profile companies have announced radical changes to their performance management systems, including Deloitte, Accenture, IBM, Gap, Microsoft, and even GE, a company widely known for its traditional approach to performance appraisals (Cappelli & Tavis, 2016), and more and more companies seem to be following their lead. As of 2015, around 70% of companies reported that they are reconsidering their performance management strategy (Rock & Jones, 2015). Further, according to a survey conducted by CEB Corporate Leadership Council (Wilkie, 2015), 95% of managers are dissatisfied with reviews/management systems; 59% of employees feel performance reviews not worth the time invested, and 56% of employees report they do not receive feedback that helps them improve their performance.

The growing dissatisfaction with existing performance management approaches seems to stem from two broad categories of factors: (1) traditional systems may not be the best fit for the nature of today's jobs, work, and employees (Cappelli & Tavis, 2016); and (2) there is a mismatch between what companies *want* their performance management systems to accomplish and what they *actually* accomplish (Pulakos, Mueller-Hanson, O'Leary, & Meyrowitz, 2012). Many of

today's jobs are increasingly complex, with rapidly changing goals, and therefore hard to define in terms of concrete, specific performance objectives (Pulakos, & O'Leary, 2011). Instead, we are seeing an increased reliance on competencies – key behaviors necessary for successful performance – which are notoriously difficult to specify, measure, and evaluate effectively (Pulakos, & O'Leary, 2011). Companies are also seeing an increased reliance on work teams and collaboration (Rock & Jones, 2015), making it difficult to tease out individual performance from that of the team. As organizational hierarchies become “flatter” with wider spans of control, and as technological advancements enable more employees to work remotely, managers are finding it increasingly challenging to observe employee performance. Finally, we are seeing an increased focus on attracting, developing, and retaining top talent and maintaining agility and adaptability in responding to the rapidly changing demands of the workplace, which leads to a “need for speed” in fixing performance issues and developing high performers (Rock & Jones, 2015). Thus, annual or semi-annual reviews and formal appraisals are losing their utility to meet the demands of today's increasingly complex and dynamic work environment. Today's workers, too, have different needs and values – they want frequent feedback, open communication, opportunities for growth, development, and advancement, recognition for their contributions, and a sense of purpose in their work (Duggan, 2015), and traditional approaches to performance management may not be designed to meet these needs.

In addition to these changes, many managers and management researchers have long argued that the traditional approaches to rating and evaluating performance simply do not work. The desired goals of performance management systems are to facilitate performance improvement, development, and communication between employees and managers; in reality, however, performance management primarily serves as a tool to facilitate and justify personnel decisions such as raises, discipline, and termination (Pulakos, Mueller-Hanson, O'Leary, & Meyrowitz, 2012). Some of the often cited problems with traditional reviews include inherent subjectivity in rating systems, no real link between performance and rewards, a disruption to teamwork and collaboration (particularly the supervisor/subordinate “team”), and the inability of the system to motivate positive change and facilitate future development (Culbert, 2008). Additionally, they are often a costly and time-consuming process (Buckingham & Goodall, 2015), driven primarily by the HR department and the appraisal tools, and in many cases conducted only once a year without much thought or follow up during the time between reviews. This undoubtedly leads to negative perceptions and attitudes toward the process as being little more than an administrative task forced upon managers and employees. Without buy in and support of the process, the potential value and relevance of the performance management system will be difficult for organizations to realize. It is a process that has become dreaded by employees and supervisors alike, and one which many feel provides little to no positive benefit for employee performance, motivation, and engagement.

## **THE EVOLUTION OF PERFORMANCE MANAGEMENT**

In light of these and other issues, many companies are rethinking their performance management process. The new “ideal” assumes employee performance is the joint responsibility of supervisor and employee, focuses on the future rather than the past, and emphasizes ongoing

coaching and frequent check-ins over annual or semi-annual formal meetings and rating systems. Metrics, ratings, time-consuming forms, and uncomfortable conversations are giving way to effective, engaging, and holistic conversations about comprehensive workplace performance. It reflects a move away from a focus on an HR-prescribed set of tools, systems, and procedures focused on past performance, and instead emphasizes continuous forward momentum and collaboration in setting goals, facilitating motivation and performance, and supporting employee development (Rock & Jones, 2015). Anecdotal evidence from companies that have adopted this approach thus far suggests these new systems are well received by employees and supervisors alike (Rock & Jones, 2015); which seems to have prompted a bandwagon effect, with more and more companies considering implementing changes to their performance management system in the hopes of realizing similar benefits.

### **KEY CHALLENGES OF THE “NEW” PERFORMANCE MANAGEMENT**

While the new approach to performance management is undeniably appealing, it is not without its challenges, and before companies consider a complete overhaul of their performance management system, it is critical that they give careful consideration to the potential challenges and obstacles they may face. In the following sections, three of the more salient challenges for the “new” approach to performance management are discussed: the challenge of ongoing feedback and coaching, the challenge of formal ratings and reviews, and the challenge of motivating and rewarding performance.

#### **The Challenge: Ongoing Feedback and Coaching**

Effective performance management requires frequent performance conversations, ongoing feedback and coaching, and collaboration between supervisor and subordinate. Ideally, these conversations not only address existing performance, but also facilitate future development, and are tailored to the employee’s work cycle and specific needs – occurring at the conclusion of a project or in response to a challenge or opportunity (Cappelli & Tavis, 2016). Some organizations have even capitalized on technology, developing and utilizing apps that allow employees and supervisors to share real time feedback, document notes and progress, and even access “on demand” developmental tips (Cappelli & Tavis, 2016; Hollon, 2011). However, there is some concern that providing continuous feedback may actually be *more* demanding and time consuming for managers than conducting annual or semi-annual review (Hollon, 2011), and may cause increased pressure on managers to ensure they do not miss opportunities to have feedback conversations. This may lead to managers feeling compelled to give feedback “for the sake of giving feedback” – and conducting superficial, generic conversations that have little real value for employees. Employees, in turn, may start to feel they are under constant watch and scrutiny from their managers, causing feelings of discomfort or being “micromanaged,” or may become hesitant to solicit and receive feedback and help for problems for fear it may be perceived by their supervisors as an indicator of poor performance (Culbert, 2008; Pulakos & O’Leary, 2011). If a company’s performance management practices suddenly shift from annual or semi-annual reviews to ongoing check-ins and feedback, and



managers and employees are ill-prepared to be thrust into a “culture of feedback,” it is unlikely that these conversations will have a positive impact on employee performance.

The value and effectiveness of feedback and coaching largely depends on the supervisor’s motivation and ability to provide accurate, performance-based feedback and the employee’s motivation and ability to solicit, receive, and act upon, the feedback given. This means that companies must be willing to devote the resources needed to train managers on how to observe performance, diagnose and troubleshoot performance issues, and deliver feedback in a way that employees perceive as valid, reliable, and focused on results and behaviors that they can control or change. Employees, in turn, will need to learn how to ask for, and receive, feedback, and act upon it. Given that most managers and employees seem to dread feedback conversations, this may not be an easy task. Finally, it is crucial to remember that a key factor that will determine the success or failure of these conversations is the existing relationship between the supervisor and employee (Pulakos & O’Leary, 2011; Pulakos, et al., 2012). Unless there is a basic level of mutual trust and support, it is unlikely that performance conversations will lead to desired outcomes, or even occur at all. If ongoing feedback is to become an effective substitute or supplement to formal reviews, it is crucial that companies recognize that it may require a new skill set, new mindsets, and a possible culture change; and critically assess if the existing systems and supervisor-subordinate relationships will support this shift.

### **The Challenge: Formal Reviews**

One of the biggest challenges of the “new” approach to performance management is the use (or discontinuation) of formal reviews and appraisals. As of 2015, at least 6 percent of Fortune 500 companies reported they were getting rid of formal performance evaluations (Goler, Gale, & Grant, 2016; Wilke, 2015); and this growing trend has sparked a high level of interest, debate, and discussion among both managerial practitioners and researchers about the utility and effectiveness of the review process (Adler, Campion, Colquitt, Grubb, Murphy, Ollander-Krane, & Pulakos, 2016). While it is widely acknowledged that formal ratings and rankings are fraught with issues – they are time consuming, subject to bias, conducted without much thought or follow through, occur too infrequently to have a positive impact on performance, and focused on past performance rather than facilitating future development, not all companies are ready (or able) to abandon the formal review process.

Two main reasons companies continue to hold on to annual reviews are documentation and formality. A documented evaluation system provides legal defensibility and support for administrative decisions (such as raises, promotions, terminations, etc.). A formal, structured system sends the message to managers and employees that performance management is important, clearly defines expectations for results and behavior, helps motivate high performance (i.e., achieve high ratings), allows for the measurement of employee effectiveness according to established standards, and holds managers accountable for monitoring employee performance and ensuring performance conversations occur so employees receive the feedback they need. Even companies that have “gotten rid of reviews” still have some form of formal rating or review system in place. Deloitte, for example, has developed 4 items that they use to rate employee performance at the conclusion of every project (“Given what I know of this person’s performance, and if it were my money, I would award this person the highest possible

compensation increase/bonus;" "Given what I know of this person's performance, I would always want him or her on my team;" "This person is at risk for low performance;" and "This person is ready for promotion today;" Buckingham & Goodall, 2015). GE has discontinued the use of ranking systems, yet still plans to have end of year documentation and review meetings (Baldassarre & Finken, 2015). Accenture's CEO has stated, "at the end of the day, you need to give some evaluation" (Cunningham, 2015). Even researchers who advocate against performance reviews acknowledge that companies cannot manage talent without collecting data on employee performance, strengths, responsibilities, and goals (Lawler, 2012).

However, overreliance on formal ratings and rankings may actually undermine the ultimate goals of performance management. Performance appraisals are often equated with performance management; yet they are just one component of the process, and their use is often based on assumptions of effectiveness that may not hold true (Adler, et al., 2016). For example, because ratings and rankings provide quantifiable data, managers may be inclined to assume accuracy of the measures when, in fact, countless studies have indicated that performance ratings often do not actually reflect performance (Pfeffer, 2009; Mueller-Hanson & Pulakos, 2015). In other words, ratings may provide a false sense of security when it comes to making administrative decisions or documenting performance. A second assumption is that formal ratings motivate performance – employees are motivated to achieve high ratings (Adler, et al., 2016; Mueller-Hanson & Pulakos, 2015). Yet, performance appraisals tend to be focused on the past, rather than the future, which reinforces looking backwards rather than driving and developing future performance. Further, ratings may serve to actually narrow employees' focus – they become motivated to attain high ratings at the expense of overall performance and development (Adler, et al., 2016). A third assumption is that formal reviews and ratings help ensure managers are held accountable for employee performance – yet it is unlikely that receiving formal feedback 1-2 times a year will actually improve performance (Mueller-Hanson & Pulakos, 2015). Further, if the system is perceived as an "administrative burden" rather than a valuable tool, the managers' "accountability" will be to completing checklists and rating forms, rather than to the performance of their employees.

The reality is that companies will always need to measure and evaluate performance, and make decisions based on those evaluations (Lawler, 2012). Having these formal systems in place allows for tangible, documented, and quantifiable evidence that links key competencies/results with organizational strategy and a means to gauge where an employee currently stands, as well as changes over time. It is unlikely that companies will completely abandon some type of formal ratings and evaluations any time soon. So the question company leaders should be asking is how the rating process can be improved so that it better achieves the overall goals of driving and sustaining employee performance. This will involve careful consideration of the purpose of using ratings, the performance dimensions to be included, the way in which performance standards are defined, and the appropriate and effective use of the system. For example, too often performance ratings are used for multiple and often conflicting purposes (such as making administrative decisions such as raises, promotions, termination as well as a tool for helping employees develop), which undermines the overall effectiveness of the system. Instead of using one tool for multiple ends, companies need to determine the primary purpose of why the system is in place, and consider developing separate approaches to be used in making administrative decisions,

documenting poor performance, delivering performance feedback, and developing future performance. Additionally, the system should focus only on a few, core performance dimensions – not only does this ease administrative burden, it emphasizes the areas of performance that are truly important. Once identified, these performance dimensions should be clearly defined in a way that allows for the effective differentiation between high and low performance, and raters should be trained in how to use the system effectively. Finally, it is crucial to keep in mind that formal rating and ranking systems are just one component of a comprehensive performance management system – they are a means to an end, rather than an end itself.

### **The Challenge: Motivating and Rewarding Performance**

Traditional wisdom is that performance management helps motivate high performance, especially when the system is tied to financial incentives. However, the link between performance and rewards is tenuous, at best (Mueller-Hanson & Pulakos, 2015; Culbert, 2008). A recent survey indicated that only 39% of employees see a link between their pay and performance (Thomas, 2016). Often, pay increases are determined by factors *other* than performance, such as budgetary constraints, cost of living adjustments, and market pay standards (Culbert, 2008). Additionally, bias, inaccuracy, inconsistency, and other issues related to evaluating performance effectively makes it difficult in many cases for the reward system to truly differentiate between high and low performers. Despite the positive intentions of performance-based reward systems, the challenges associated with effective implementation of these plans can actually serve to decrease employee motivation and satisfaction if not used correctly.

Further, monetary and other “if-then” rewards are effective at keeping employees performing at an “acceptable” level, but only serve as motivators in certain conditions (Kohn, 1993; Pink, 2009). For example, evidence suggests a law of diminishing returns - once a certain threshold is met, money begins to lose its power as a motivator (Frank, 2010). Additionally, monetary, if-then, rewards tend to narrow employee focus towards only the rewarded behavior (Pink, 2009), which can lead to unintended and sometimes negative consequences, such as encouraging undesirable and even unethical behaviors in an effort to ensure the reward is attained.

Companies often equate rewards with motivation when, in fact, they are not the same: motivation is what *drives* performance – it is the force that causes a person to initiate and sustain a behavior, while rewards reflect the *consequences* of performance. While the promise of a reward may serve as a motivator, it is not the only means of driving employee performance; and a growing body of evidence suggests that what managers believe motivates employees may not be what employees actually value. A recent survey (reported by Gustin & Oglesby, 2017) asked managers to identify what they *believe* their employees want in terms of motivation and rewards and compared those results to what employees identified as what they *actually* want, and found some striking differences. While managers identified wages, job security, and opportunities for promotion as topping the list, employees reported they most valued appreciation for their work, feeling “in” on things, and sympathetic help on personal problems (all of which, interestingly, fell at the bottom of the managers’ rankings). Thus, when it comes to motivating and rewarding performance, the issue may not necessarily be one of determining rewards, per se, but of

determining what, exactly, motivates and drives employee performance, and creating an environment where employees want to perform at high levels.

### PUTTING IT ALL TOGETHER

It is clear that companies are increasingly recognizing that their performance management systems may not be effectively serving their intended purposes, and it is encouraging that company leaders are working to improve the process. With the growing trend of companies rethinking and tweaking their systems, it is crucial to remember that there is no “one best way” of designing a performance management system, as each approach should be tailored to the specific needs of the organization and its employees. Further, as Pulakos & O’Leary (2011) note, there is no evidence that making changes to the performance management system actually improves the effectiveness of the performance management process, and if new policies and practices are poorly or ineffectively implemented, there is a risk that the changes made may actually backfire, resulting in even greater dissatisfaction with the performance management process.

The key to successful performance management lies not in the methods or the procedures used, but in ensuring the system meets the needs of the company and its people. Performance management systems should be designed with the end in mind and a clearly articulated purpose for the system that supports both organizational culture and strategy. It needs to “make sense” for the organization and its people, and focus on behaviors, results, and activities that matter to individual, team, and organizational success. Designing (or redesigning) effective performance management systems can be a challenging and daunting task, but if company leaders remain focused on the overall goals of the process, it is possible to move toward systems that more effectively meet the organization’s needs.

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One of the great strengths of the free enterprise system is its ability to create the conditions under which entrepreneurship and managerial leadership thrive. Our laureates demonstrate that lasting business success is usually based, not only upon hard work and a concern for the bottom line, but also upon a willingness to make unpopular decisions when necessary, a concern for the customer and a concern for employees. Moreover, they demonstrate that capitalism is consistent with a high standard of ethics.

Established in 1972, The American National Business Hall of Fame is dedicated to creating an awareness and appreciation of America's rich heritage of exemplary business leadership. Our organization revolves around several key programs. The foundation is our ANBHF Laureate program. We identify and induct outstanding American business leaders into the ANBHF. These exceptional business leaders' case histories offer the practical management techniques to which the laureates and historians attribute their success. In addition, the laureates' lives provide inspiration -- to take risks, to strive for excellence and to set high ethical standards.

The organization also recognizes living laureates as ANBHF Fellows. These leaders represent a career story which will be reclassified as laureates after their death. Finally, the organization recognizes Situational Role Models. These individuals represent business leaders whose careers have episodes worth remembering and celebrating but whom, for various reasons, the selection committee of the ANBHF did not feel comfortable naming the individual fellows or laureates. In this case the selection panel decided that specific ethical lapses in an otherwise memorable career were too serious to justify elevating the individual to the status of laureate. In other cases, the individual committed a management error so serious as to be of major concern to the panel of judges. Henry Ford is an example of a business leader whose extraordinary positive contributions to American economic development were seriously tarnished by several noteworthy ethical lapses and management errors. The ANBHF board recognizes the possibility that judges erred in placing persons in this category and welcomes public requests for reconsideration.

The American National Business Hall of Fame program is managed by an executive office and a Board of Representatives from universities throughout the United States.

Our laureates and fellows exemplify the American tradition of business leadership. The ANBHF has published the biographies of more than 40 of our laureates and fellows. Some are currently available online and more are added each month.

Following are the **American National Business Hall of Fame Laureates** listed in alphabetical order by last name:

Wallace Abbott	Mary Kay Ash	H. H. Barber
William M. Batten	Stephen Bechtel Sr.	Charles Becker
Olive Ann Beech	William Blackie	Jacob Bunn
Alfred Burdick	Leo Burnett	Andrew Carnegie
William Casey	S. Truett Cathy	J. Harwood Cochran
Gary Comer	Fairfax Cone	John Cotter
G.D. Crain	Frederick C. Crawford	Henry Crowell
Harry B. Cunningham	Arthur V. Davis	Charles Deere
John Deere	D. J. DePree	Hugh DePree
Walt Disney	Donald W. Douglas	George Eastman
Thomas A. Edison	Harvey Firestone	Benjamin Franklin
R.J. Frisby	Bob Galvin	Paul Galvin
Roswell Garst	Parker Gates	William Gore
Andy Granatelli	W. B. Greene	Walter A. Haas
Joyce C. Hall	Ken Hansen	Sidney Harmon
Martha Matilda Harper	Henry J. Heinz	William Hewitt
James G. Hill	Conrad N. Hilton	Wayne Hummer
R. B. Hulsen	Roy Ingersoll	Richard D. Irwin
Kenneth Iverson	Eric Jonsson	James Johnson
John Johnson	Robert Wood Johnson	Robert Wood Johnson II
Henry J. Kaiser	William Karnes	Herb Kelleher
Bernard Kilgore	Dale Kirlin	Robert J. Kleberg
Ray Kroc	Edwin Land	Albert Lasker
Leonard Lavin	James Lincoln	Wesley H. Loomis III
Frances Cabot Lowell	Gust E. Lundberg	Franklin Lunding
Ian MacGregor	Irl Martin	Konosuke Matsushita
Cyrus McCormick	Col. Robert McCormick	General Robert McDermott
Eugene McDonald	William Marsteller	George Mecherle
Charles E. Merrill	Joseph L. Miller	George S. Moore
J. Pierpont Morgan	Louis Neumiller	William Norris
David N. Ogilvy	Ken Olsen	John H. Patterson
W. A. Patterson	James Cash Penney	William Cooper Proctor
Harry V. Quadracci	Tom Roberts Sr.	John D. Rockefeller
Julius Rosenwald	David Sarnoff	John G. (Jack) Searle
Richard Sears	Alfred P. Sloan	Cyrus R. Smith
Charles C. Spaulding	E. Staley	W. Clement Stone
John Swearingen	Gustavus F. Swift	Herbert Taylor
David Thomas	Fred Turner	Cornelius Vanderbilt

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Marion Wade	Charles Walgreen	Charles R. Walgreen III
DeWitt Wallace	Lila A. Wallace	Sam Moore Walton
Aaron Montgomery Ward	Thomas J. Watson, Jr.	Thomas J. Watson, Sr.
Ken Wessner	George Westinghouse	Frederick Weyerhaeuser
Joseph C. Wilson	Robert Wood	Robert W. Woodruff

## FELLOWS

In the mid-1990s the board of directors created a new classification system to distinguish between living laureates and those who had passed away. For future selections living laureates were to be named “fellows”. Thus, fellows are business leaders whose career story meets the criteria for a laureate but who are still alive. They become reclassified as laureates after their death.

Following is a list of ANBHF Fellows:

Earl Bakken  
 Arthur Blank  
 John Bogle  
 Donald Brinckman (F)  
 Tom Chappell  
 Yvon Chouinard  
 Max DePree  
 William Hewitt  
 Charles Knight  
 Bernard Marcus  
 Ken Melrose  
 Jack Miller  
 Ross Perot  
 J. Harwood Cochrane  
 Jack Stack

## SITUATIONAL ROLE MODELS

In addition to recognizing Laureates and Fellows, the ANBHF board of directors also recognizes individuals as “Situational Role Models.” Candidates selected for this category represent business leaders whose careers have episodes worth remembering and celebrating but whom, for various reasons, the selection committee did not feel comfortable naming the individuals fellows or laureates. In some cases a situational role model is a person for whom the selection panel wanted more information. In others the selection panel decided that specific ethical lapses in an otherwise memorable career were too serious to justify elevating the individual to the status of laureate. In some instances the individual committed a management error so serious as to be of major concern to the panel of judges. Henry Ford is an example of a business leader whose



extraordinary positive contributions to American economic development were seriously tarnished by several noteworthy ethical lapses and management errors. The ANBHF board recognizes the possibility that the judges erred in placing persons in this category and welcomes public requests for reconsideration.

Following are the ANBHF situational role models.

Andrew Carnegie

Henry Ford

Samuel Insull

John D. Rockefeller

Herbert & Marion Sandler

## **SUBMISSION GUIDELINES**

### **SAMPLE PAPER FOR A JOURNAL OF BUSINESS LEADERHIP PUBLICATION**

**Robyn Hulsart, Austin Peay State University**

#### **ABSTRACT**

*Each paper should start with an abstract. The abstract should be no more than 500 words and summarize the topic and findings of the paper. It should also be italicized and be formatted in the same manner of the rest of the document (see instructions below).*

*When you complete your manuscript, we will ask you to submit the manuscript as a MS Word file (.doc or .docx). Follow these directions carefully to insure your paper will have a high quality professional appearance.*

#### **INTRODUCTION**

The following sections of this document will demonstrate the expectations of a properly submitted article. Please remember, the aim of these instructions is to make your document look professional and create consistency so that we do not need to make any modifications. For your convenience a summary of the key elements is as follows.

- The page size for the document should be set to 8.5 by 11 inches.
- The margins should be set at one inch all around.
- The document must be single spaced.
- Turn on Widow/Orphan control and avoid headings to break over a page.
- Do not use headers or footers.
- The font used should be Times New Roman, 12 point (with the size exceptions mentioned below for quotes, tables, and references).
- The body of the document must use full justification throughout (with the excepting of the headings that need to be centered).
- References are to be left justified.
- Each paragraph should begin with a left tab or first line indent of one half inch (typically the default tab option).
- There should not be any extra blank lines between paragraphs unless there is a section of text that needs to stand out from the other paragraphs.
- Title of the paper must be in ALL CAPITAL LETTERS, bolded, centered and in 18 point font.
- The Author's names and affiliations should be in 14 point font, bolded and centered. Please do not use honorifics for author names (i.e. PhD, Dr., etc.)
- Main Headings in the document should be in ALL CAPITAL LETTERS, bolded and centered in the default 12 point font. Subheadings should be in Initial Capital Letters, bolded and left justified. Pay attention not to orphan a heading from the

text that follows at the bottom of a page. More information on headings can be found in the sections below.

- If the paper contains hypotheses, lists, formulae, tables, figures, footnotes, etc., please read those sections below for more information.
- References should be in 10 point font, no spaces between reference, with hanging indents (see section below for more instructions).

The important thing is to make your document look consistent with this document before it is submitted for publication.

### **USING THIS FILE AS A TEMPLATE**

This document, which can be used as a template, has been prepared in the correct format. That is, we defined the “Normal” and the Heading 1, 2, 3, 4, and 5 tabs in the tool bar at the top to produce the correct document. If you use this template you will need to copy and paste material into this document to prevent Microsoft Word from keeping the format layouts from your other file (paste by keeping destination format). If you do not use this template, then you will need to modify the defaults in the various tabs in the tool bar. We will describe the changes in the following sections.

There should be no headers and no footers in the document. The page size should be set to 8.5 by 11 inches, and the margins should be set at one inch all around. Set the defaults in the Normal tab to be Times New Roman, 12 point typeface, and full justification for the document. You may decide to utilize a first line indent command set to one half inch, but if you do, be sure to remember that the command will also affect contents in your tables and in all layouts for the entire document. Set paragraph spacing to zero, both before and after the paragraph. Set spacing to single. Turn on Widow/Orphan control. We prefer for you to use only one space between sentences, rather than the older approach of double spacing between sentences.

### **HEADINGS**

To make changes to any of the heading tabs in the toolbar, right click on that tab and click on “modify.” This will allow you to structure the heading as you desire. Additional changes can be made by opening the “format” tab at the lower left of the “modify” box. Define “Heading 1” to be Times New Roman, 18 point, bold, all upper case, and centered on the margins (be sure not to let a first line indent command affect the centering). Choose 12 point paragraph spacing after the paragraph. You will only use the Header 1 command for the title of the article. Do NOT use the Header 1 command again anywhere in the document. Highlight the title and click on “Heading 1.”

Define “Heading 2” to be Times New Roman, 14 point, bold, initial capitals, and centered on the margins (be sure not to let a first line indent command affect the centering). Choose 12 point spacing after the paragraph. You will only use the Header 2 command for the names of the authors. Highlight the authors and their affiliations and click on “Heading 2.” Do not use titles or honorifics with the authors. That means that you will type each author’s name, followed by a comma, and that author’s affiliation. Do not include Ph.D., Dr., Professor, or other titles or honorifics. For the affiliation, type the name of the University or the name of the employer of the author.

Present the authors in the order in which they have contributed to the work, and type them one per line (do not double space between authors). When all have been typed, highlight all of the authors and affiliations at once, and click on “Heading 2.” Do NOT use Heading 2 again anywhere in the document.

Define “Heading 3” to be Times New Roman, 12 point, bold, all upper case, and centered on the margins (be sure not to let a first line indent command affect the centering). Choose 12 point spacing both before and after the paragraph. You will use the Header 3 command for ALL major headings inside your document. This will include Abstract, Introduction, etc. Just highlight the text to be used for the heading and click on “Heading 3.”

### SUBHEADINGS

If you require subheadings to make the manuscript flow better, define “Heading 4” to be Times New Roman, 12 point, bold, initial capitals, and set at the left margin (be sure not to let a first line indent command affect your setting). Chose 12 point spacing both before and after the paragraph.

#### Subtitle Example

You will use the Header 4 command for all subtitles that will appear in the article. The subtitle should be prepared with initial caps, as shown in this example.

#### Sub-Subtitle Example

We recommend that you avoid using a Sub-Subtitle. We find that they do not help in reading a manuscript, and they tend to make the manuscript appear choppy. However, if you feel that you need to use a Sub-Subtitle, define “Heading 5” to be Times New Roman, 12 point, bold, initial capitals, and set to indent one half inch (be sure not to let a first line indent command affect your setting). Chose 12 point spacing both before and after the paragraph.

We do not permit subheadings below this level. If your current manuscript includes any lower level headings, please revise it to eliminate those.

### HYPOTHESES

When you need to include hypotheses in your paper, put them in 10 point font, and italicize them. Indent them from the left margin, by highlighting the hypothesis and dragging the double tab button (located on the ruler bar) to the one half inch position; then drag the lower tab button to the 1 inch position. You may need to open the View tab and select “Show Ruler” in order to see the ruler. See the example below.

*H1      This is my first hypothesis. Maybe it will be found to be true. If it is, then all of us will really be extremely pleased!*

*H2      This is my second hypothesis. Maybe it will be found false.*

*H<sub>3</sub>      This is my third hypothesis and it uses a subscript.*

So, that is what an average hypothesis statement looks like. If you would like to put the numbers in subscript, you may do so. If you would like to spell out the word hypothesis, you may do so.

### LISTS AND HIGHLIGHTS

If you have material which you would want to include in the form of a list, please do NOT use bullet points. You may number the items or just omit bullets or other indicators. Offset the material the same way you would with hypotheses with a line above and below, and change it to 10 point type. Highlight the material and drag the double tab button on the ruler bar to the one half inch position, then drag the lower triangle on the ruler to the one inch position. Here is an example.

This is the first example of listed material and it will be highlighted in the text by its location and appearance.

This is the second example of listed material. You could number these items, if you prefer

Here is the same example, but this time, we use numbers for each of the items in the listed material. We like to avoid bulleted lists because the variety of bullets varies greatly between manuscripts and impacts the overall appearance of the journal.

1. This is the first example of listed material and it will be highlighted in the text by its location and appearance.
2. This is the second example of listed material.

If you have material that you wish to highlight, such as a quotation from another researcher or some statement from a research subject, offset it with a line above and below, and change it to 10 point type. Highlight the material, drag the double tab button on the ruler bar to the one half inch position, then convert the material to italics. Here is an example.

*When we were doing the literature review, we found this quote to be very insightful, and we wanted to present it as a highlighted item in the manuscript.*

### FORMULAE

When using formulae, you may want to use the software called Math Type, made by Decision Science. It plugs nicely into Word and is available for a nominal fee with your academic discount. You may find it at <http://www.dessci.com/en/products/mathtype> or you may use a different package. Just present the formulae the way you want them to appear in the final version of the manuscript.

Below we have inserted some meaningless formulae just to serve as an example. In this example we offset the equation by one half inch, then set a left tab on the ruler bar at the margin to handle the display of the equation number. You change the type of tab on the ruler bar by clicking on the little icon at the far left edge of the ruler bar. The type of tab will change, and then you can click on a location within the ruler bar to insert the newly defined tab.

$$\sqrt{a^2 + b^2} x \lim_{x \rightarrow \infty} \left( \frac{-b \pm \sqrt{b^2 - 4ac}}{2a} \right) \quad (1)$$

$$\sum_{i=1}^n X_i = \frac{1}{n}$$

When you have certain formulaic characters that are simply italicized letters (i.e. *r*, *z*, etc.) that you would like to include in the body of a paragraph, it is best just to use the letter rather than a formula box. Formula boxes in the body of paragraphs can alter the line spacing, which we would like to avoid, if at all possible.

### TABLES

We encourage you to submit your tables just as you would like them to appear. With that in mind, we do have a few requests to maintain some consistency from one paper to the next. We would like for the table contents to be in 10 point font (or smaller if the size of the table calls for it) and centered on the page. Tables should NOT exceed the width of the one inch margins of the document. Please include the table's title inside the borders of the table as shown below. The table title should be centered and bolded, and in the same size font as the rest of the table.

Left justify, center, or right justify columns in your table to make your material more readable, as you desire. Please note that an auto indent setting in your "Normal" tab will affect the contents of your table. To correct this, highlight the table, open the "Paragraph" box in the "Home" tab, and remove the first line indent instruction. Also, please place the tables in the body of the document where you would like them to appear. If the table breaks a page, move text material from above or below to keep the table on one page. If the table cannot fit on one page, set the title and the descriptive rows to "repeat" on the following page. Here is an example.

<b>Table 1</b> <b>DESCRIPTION OF STUDY</b> <b>Table Title on the Inside</b>		
COMPANY	Name	DATE
ABC	A Name	1/1/2010
DEF	B Corp.	1/2/2009
GHI	C. Name	5/5/2008
WXY	D. Inc.	7/21/2007

If your table is extremely complex, or extremely large, you can try to get it to work by sizing down the font to 9 point, or even 8 point. Do NOT go below 8 point type as that will make it extremely difficult to read your table. If you are still unable to get your table to work on the page, then you must create it as a jpg and shrink it to fit.

We do not accept landscape tables or figures. You must scale the table to fit in portrait mode. If you are unable to handle this yourself, you may contact us for advice or engage us to handle the conversion.

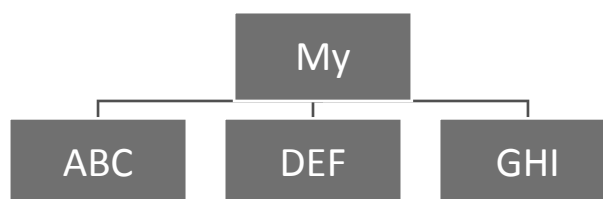
We might advise you concerning tables, that extremely complex, or busy tables are difficult to read, and do not add to the manuscript. It is better to use simple tables, even if you need more of them, than to create something that no one can understand.

### FIGURES

Your figures should always be centered, and should have a title for reference purposes. When you create figures, remember to use Times New Roman as the font in the figure, and think about how it will look in the journal. Generally, figures should not exceed 6 inches in width. Keep in mind that hard copy journals are printed in black and white, which might alter how you format

your figures. Put the figures where you want them to appear and format them the way you want them to look in the final document.

**Figure 1**



### **CITATIONS AND FOOTNOTES**

Please use APA style for all of your publications. The American Psychologist's Association Style Manual does NOT employ footnotes. Instead, a citation is handled in the body of the text (Hulsart, 2015), by putting the last names of the authors, followed by the year of the publication within parentheses. If there are multiple citations with a single sentence then separate the articles with a semicolon (Hulsart & McCarthy, 2014; Evans, Hulsart & McCarthy, 2016). If the citation occurs at the end of the sentence, it should be inside the period. If you cite specific information, or you quote a reference, add a page number after the date. Please try NOT to use footnotes or endnotes. Instead, please include that supplemental material in the body of the text (in parentheses if necessary). If you absolutely cannot avoid using a note, please use endnotes. Put the Endnotes in front of the References. The title, Endnotes, should be a "Heading 3," and the endnotes should be in 10 point type, numbered and indented with a hanging indent. To create a hanging indent, highlight the text, drag the upper triangle indicator in the ruler bar to the left margin, then drag the lower triangle indicator in the ruler bar to the one half inch position. This will indent all of the second lines of the notes.

#### **ENDNOTES**

- 1 As indicated, please avoid endnotes when you can. If you feel that you must have them, make them look like this and insert them just before the "References."

#### **REFERENCES**

References should be entitled "References," and should be a "Heading 3" highlight. If using these instructions as a template remove tabs, or hard returns, or other attempts to format your references, then highlight the entire group of references. Click on 10 point type in the Home tab, then drag the upper triangle in the ruler bar to the left margin, and drag the lower triangle in the ruler bar to the one half inch position. This will create a hanging indent.

References should be prepared in general accordance with the APA (American Psychological Association). We do deviate from APA style with respect to underlines. These do not reproduce well, consequently, we ask that you use italics in place of underlines. No space between references and do NOT use underlining ( \_\_\_\_ ) at the beginning of a reference as a shortcut. In fact, do NOT use underlining anywhere in the document.

Below are some examples of different citations. Please note that if you have a break problem because of a website, you should manually choose a break point by inserting a space into the citation.

### **Citing a Journal Article**

Hulsart, R. & V. McCarthy (Fall, 2012). Learning to lead through an ethical and financial crisis. *International Journal of Accounting Information Science and Leadership*, 5(16), 27-41.

### **Citing an Online Journal Article**

McCarthy V. & Hulsart R. (2012). A crisis management plan for ethical misconduct and financial fraud. *The Exchange*. Retrieved from [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2329955](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2329955),

### **Citing a Book**

Hulsart, R. & V. McCarthy (2012). *Why the free market must be an ethical market: The role of business schools in moral education*. Lewiston, NY: Mellen Press

### **Citing a Proceedings**

Hulsart, R., V. McCarthy & M. Becraft, (2010). Developing a degree-completion program to serve broad workforce needs. *Proceedings of the Association of Continuing Higher Education*, 33-44.

### **Citing a Presentation**

Hulsart, R. & V. McCarthy (August, 2013). Management education for the future towards responsibility, sustainability and integrity. Presented to the *Academy of Management Meeting*, Lake Buena Vista, FL.

### **Citing an Article in a Book**

McCarthy, V. & Hulsart, R. (2014). Capitalism, fraud, and moving forward in a crisis. In H. Kazeroony and A. Stachowicz-Stanusch (Eds.). *Capitalism and the Social Relationship: An Organizational Perspective* (pp. 240-265). London: Pelgrave-MacMillan Publishing.

## **CONCLUSION**

The editorial staff at the *Journal of Business Leadership (JBL)* welcomes submissions prepared following this set of guidelines. The *JBL* is the official journal of the American National Business Hall of Fame (ANBHF). The journal is a multidisciplinary journal of interest to scholars, professionals, students, and practitioners in a broad range of management thinking. The publication follows a double blind, peer review process, with an acceptance rate of 26%. Especially designed for business professionals, the publication accepts applied or qualitative research in business and business related issues. Approved for inclusion in Cabell's Directory, the journal seeks to provide an outlet for innovative research that conceptualizes tests or extends topics in leadership.





Established in 1972, the American National Business Hall of Fame is a nonprofit education and research organization dedicated to creating an awareness and appreciation of exemplary business leadership. We research and seek to educate audiences on the management methods of our exemplary business leaders.

In our ANBHF Laureate program, we identify and induct outstanding American business leaders into the ANBHF. These exceptional business leaders' case histories offer the practical management techniques to which the Laureates and historians attribute their success. In addition, the laureates' lives provide inspiration -- to take risks, strive for excellence and to set high ethical standards.

The American National Business Hall of Fame program is managed by an executive office and a Board of Representatives from universities throughout the country.

The Journal of Business Leadership (JBL) is the official journal of the American National Business Hall of Fame (ANBHF). It is a multidisciplinary journal of interest to scholars, professionals, students, and practitioners in a broad range of management thinking. JBL offers peer-reviewed articles required that are anonymously reviewed by at least two scholars on the field to insure we meet the highest and most rigorous standards required by our readers.

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