

# Small Business Institute<sup>®</sup> Journal

An Official Journal of the Small Business Institute<sup>®</sup>

Volume 11, Issue 2

Oct 2015



Editors Michael L. Harris, PhD  
Shanan G. Gibson, PhD

The Small Business Institute<sup>®</sup> is the premier organization dedicated to field-based student consulting and outreach to small businesses. Our members are actively involved with small businesses and entrepreneurial firms in their communities and regions.



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## Letter from the President

Forty years! The Small Business Institute® is excited to celebrate our 40<sup>th</sup> year as an extraordinary organization at our upcoming conference in New Orleans, Louisiana. The program chair for this conference, Dr. John Batchelor, has gone above and beyond to put together a memorable program that you will not want to miss. We will get to experience New Orleans immediately following Mardi Gras, so the festive atmosphere will still be in the air, the food will be top notch, and the conference activities and program will be second-to-none.

While we are excited about this big celebration, I do think it is important to look at the Small Business Institute® and what this excellent organization has meant for our members over the years. The SBI has been a place to build networks, relationships, mentorships, as well as a key resource in creating careers. When you are part of an organization like the SBI, you get to meet, share with, and connect with individuals who have been instrumental in creating the Small Business and Entrepreneurship educational and research landscape into what it is today all while making life-long relationships with others who are journeying through their profession at the same level as you. If you have not joined the SBI, now is the time and this upcoming conference is a great place to get involved.

Please remember to continue to consider the Small Business Institute® Journal as **your** journal. Your contributions, your use of its articles in your own research, and your sharing these articles with others is what makes this **your** journal. If you have any questions about the SBIJ, please contact Mike Harris or Shanah Gibson for more information.

Enjoy this issue, and I look forward to seeing you in New Orleans in February!

William C. McDowell  
President, Small Business Institute®

## Letter from the Editors

Dear Colleagues,

Once again we have tried to put together an issue with diverse articles to attraction the attention of our varied readership. We start with an article on the role of entitlement and conscientiousness on workplace decisions in small businesses. This is followed by a piece that uses counterinsurgency military tactics to assist with small business acquisitions, and an article that examines the role of organizational culture in the specialized small business restaurant sector. The next manuscript analyzes the link between board composition and performance in family-owned firms, and proposes a methodology for future studies. Our final article is pedagogical in nature as it offers a case methodology to teach Porter's Five Forces to business students. Although each article addresses unique research areas, they all share insightful discussions and practical implications suitable for academics, practitioners, and policy makers. The SBIJ was created to provide our readers with high quality applied research and we hope this issue delivers on that promise.

As always, we offer a sincere thank you to the authors, reviewers, and staff who worked so diligently to make this issue possible. We have a dedicated cadre of professionals involved in *SBIJ* and it is always a pleasure to work with them. As we continue to increase our readership and the quality of the journal we ask that you please submit your small business research for consideration. The journal website [www.sbij.org](http://www.sbij.org) provides the necessary details and submission instructions.

Enjoy reading the new issue of *SBIJ*!

Michael L. Harris & Shanan G. Gibson  
*Small Business Institute® Journal* Editorial Team

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## **Psychological Entitlement and Conscientiousness as Predictors of Socially Responsible Workplace Decisions**

Stephanie Thomason, Cheri Etling, Amy Brownlee & Tammy Charles  
University of Tampa

Organizations can benefit from identifying job candidates who make good ethical decisions, yet determining such candidates can sometimes be difficult, particularly for smaller organizations that are less likely to have formalized human resource practices or ethical codes of conduct. Such organizations may welcome low cost selection tools that they can use to distinguish ethical decision makers. Building upon agency and stewardship theories, we examine the relationships between conscientiousness, psychological entitlement (PES), and ethical decision-making by conducting two phases of surveys with 64 and 118 potential job seekers. Results suggest that more conscientious individuals are more likely to be aware of the most socially responsible choice for a promotion than their less conscientious counterparts. Participants with lower levels of psychological entitlement are additionally more likely to choose to work for a socially responsible organization, despite the fact that they would be working for less pay. Conscientious individuals could not be distinguished from their less conscientious counterparts when it came to working for less pay for a more socially responsible company. Practical and theoretical implications for small organizations are discussed.

Small businesses with fewer than 500 employees constitute 99.7% of U.S. employer firms, 64% of net new private sector jobs, and 49.2% of private-sector employment, yet only half of all new businesses survive past the first five years and only a third survive past the first decade (Small Business Administration, 2012). Despite these statistics, most of the research on workplaces focuses on factors impacting the success of large organizations (Burke & El-Kot, 2014). Within small and medium-size enterprises, previous research suggests that human resource management (HRM) practices contribute to successes (Chandler & McEvoy 2000; Hayton, 2003). HRM practices are linked to improvements in motivation, attraction, selection, development, and retention (Burke & El-Kot, 2014).

The present study focuses on selection, suggesting that organizations may benefit by identifying and placing job candidates who are more likely to make socially responsible workplace decisions. We examine two factors likely to differentially predict such decisions: psychological entitlement and conscientiousness. Both factors have been well-documented in their predictions of a variety of negative and positive behaviors, respectively; however, neither has been adequately examined with respect to making ethical decisions in the workplace. Further, very little research has focused on either of these two personality dimensions within the context of small businesses. Hiring managers within small businesses may have a more difficult time than their counterparts at larger organization distinguishing the personality and behavioral characteristics of job applicants, given their differential resources and time. Small organizations are often more time-constrained when hiring and operate in less certain environments with limited information (Emsfors & Holmberg, 2015). Furthermore, small firms are frequently new firms that are less likely to have well-developed ethical climates, codes of conduct (Marta, Singhapakdi & Kraft, 2008), or formalized human resource practices (Kotey & Slade, 2005), so they may encounter particular challenges distinguishing ethical job candidates. Smaller organizations often rely on relatively inexpensive informal recruitment sources (Marlow & Patton, 1993), yet may not fully recognize the weaknesses associated with such informal hiring decisions until the employees have “wreaked havoc” on their organizations (Wells, 2013, p. 66). In addition, previous research has indicated that employees with lower levels of conscientiousness are attracted to small organizations (Thomason, Brownlee & Steiner, 2013), so using relatively low-cost and timely selection tools may be particularly valuable in weeding such candidates out. Small firms may benefit from identifying other negative personality traits that plague workplaces as well, such as entitlement.

## LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Entitlement is an issue that has been around for decades, yet we could identify no studies that contributed to a discussion of employee entitlement within small businesses, which seems surprising. Over a half century ago, President John F. Kennedy recognized the problem when he famously directed Americans to “ask not what your country can do for you, but what you can do for your country.” Focusing on the selflessness of the common good instead of the selfishness of individual interests still challenges people today. Scholars of organizational theory and economics often turn to agency theory for a greater understanding of this challenge in organizations. Agency theory (Jensen & Meckling, 1976; Fama, 1980) posits that employees act in their own self-interests when making rational decisions, often to the detriment of their principals - the owners of the organizations for which they work. In contrast, stewardship theory (Davis, Schoorman & Donaldson, 1997; Tosi, Brownlee, Silva & Katz, 2003) proposes that people act more selflessly or in the interest of others.

The discussion of why people choose to act in their own self-interest or more selflessly is especially relevant when reviewing recent research focused on the latest generation entering the workforce. Twenge and Campbell (2008) reviewed data from 1.4 million individuals from research reports from the 1930s to the early 2000s on generational differences in attitudes. The authors determined that managers should be aware that the latest generation of college students, “Generation Me,” has “unrealistically high expectations, a high need for praise, difficulty with criticism...and ethics scandals” (p. 862). Campbell, Bonacci, Shelton, Exline, and Bushman (2004) cite a variety of press articles lamenting issues of entitlement as a curse affecting a wide variety of people, from CEOs and entrepreneurs, to younger workers, to students and faculty. Campbell *et al.* (2004) further state that entitlement “is at the heart of many questions concerning the distribution of resources in society, from tax breaks to social welfare to university enrollments” (p. 29). The authors developed and validated a Psychological Entitlement Scale (PES), which has exhibited internal consistency and validity by showing positive relationships with a variety of negative dispositions, such as hostility, dominance, neuroticism, skepticism (converse of agreeableness), aggression, greed and taking items that belong to others (Campbell *et al.*, 2004). The authors define entitlement as a “stable and pervasive sense that one deserves more and is entitled to more than others,” (Campbell *et al.*, 2004, p. 30-31).

Growing concerns about upward trends in entitlement in the workplace mirror concerns about upward trends in academic entitlement. Academic entitlement is unique to the K – 12 and university populations. Kopp, Zinn, Finney, and Jurich (2011) define academic entitlement as the “expectation that one should receive positive academic outcomes in academic settings, often independent of performance” (p. 106). While student test scores and performance in the K – 12 grades have remained relatively constant over time, grades have increased dramatically, fueling student expectations about receiving high grades despite minimal effort (Kopp *et al.*, 2011). Grade inflation has also spilled over in university settings (Summary & Weber, 2012; Jewell & McPherson, 2012). While academic entitlement focuses on expectations of grades, psychological entitlement (as part of a “generalized entitlement” variable) stems from individuals’ beliefs that they should receive various outcomes due to their unreasonable expectations of especially favorable treatment (Kopp *et al.*, 2011; Chowning & Campbell, 2009; Ciani, Summers, & Easter, 2008). Psychological entitlement may thus help to capture both school and work-related expectations.

Psychological entitlement focuses on an individual’s judgments and expectations that are not necessarily related to individual performance (Harvey & Martinko, 2009). In other words, entitlement perceptions are based on unbalanced assessments of reciprocity (Harvey & Martinko, 2009; Naumann, Minsky, & Sturman, 2002). These assessments may stem from perceived psychological contracts between employers and employees (Robinson & Rousseau, 1994), which impact work attitudes and behaviors

(Naumann *et al.*, 2002). Psychological contracts are unstated, stable contracts between employees and employers that affect expectations and perceptions of inequity (Morrison & Robinson, 1997). If an employee considers his organization's decisions to be unfair, a violation to the psychological contract occurs, leading to feelings of anger and betrayal (Morrison & Robinson, 1997). Highly entitled employees with high expectations of their organizations may more strongly sense psychological contract violations when such expectations are unmet (Naumann *et al.*, 2002; Robinson & Rousseau, 1994).

The impact of staffing organizations with individuals with high levels of entitlement is an important issue. Previous anecdotal and empirical research suggests a growing prevalence of such individuals in both schools and workplaces (Campbell *et al.*, 2004; Twenge & Campbell, 2008), which may be a menace considering the relationships between the PES and various negative personality characteristics cited above. Yet little research has focused on whether these counterproductive attitudes relate to socially responsible workplace decisions, though research has confirmed relationships with a variety of other negative dispositions (Campbell *et al.*, 2004). The egoistic tendencies associated with psychological entitlement suggest that it will relate to less socially responsible decisions.

In contrast to the negativity surrounding psychological entitlement, conscientiousness, which is one of the five domains of the well-studied Five Factor Model of Personality (Costa & McCrae, 1992), seems likely to generate opposing sorts of ethical decisions. Conscientiousness assesses the control of impulses (Costa & McCrae, 1992) and is associated with dutiful, responsible, dependable, and achievement-oriented individuals. The domain has been found to predict hirability ratings (Topor, Colarelli & Han, 2007) and core task performance (Witt & Ferris, 2003; McCrae & John, 1992). Along with altruism, conscientiousness is an overarching dimension of organization citizenship behaviors (Borman, Penner, Allen & Motowidlo, 2001). Accordingly, it seems likely that conscientiousness will relate to making more ethical decisions in the workplace.

The next section of this paper proposes and tests a model of psychological entitlement, conscientiousness, and socially responsible workplace decisions. Theoretical and practical implications follow.

## **ETHICAL DECISIONS AND PSYCHOLOGICAL ENTITLEMENT**

Ethical decision making has been defined as any decision that may benefit or harm others or that exercises the rights of some over the rights of others (Crossan, Mazutis & Seijts, 2013). Ethical decision making relates to a number of individual factors (e.g., age, gender, values, personality) and environmental factors (e.g., social, cultural, economic, organizational) (Craft, 2013; O'Fallon & Butterfield, 2005). According to Craft (2013), "personality" has received the most attention, with 43 studies focusing on locus of control, self-control, mindfulness, Machiavellian traits, attitudes, and values from the Schwartz Value Survey (e.g., Benevolence, Hedonism). Two of the studies included in the Craft (2013) literature review focused on self-enhancement and altruistic values (Fritzsche & Oz, 2007) along with empathy and narcissism/selfism (Brown *et al.*, 2010). Fritzsche and Oz (2007) found that altruistic values related to positive ethical decisions, while egoistic values related to negative ethical decisions. Brown and colleagues (2010) found that narcissism predicted less ethical decision making, while empathy predicted more ethical decision making.

According to Grijalva and Harms (2014, p. 112), "narcissism is, by its very definition, an individual difference associated with selfish, exploitative behaviors, and is clearly valuable in our attempt to understand unethical and destructive workplace behaviors." Narcissism is one of the dark triad of personality types, along with Machiavellianism and psychopathy (Paulhus & Williams, 2002; Spain, Harms & LeBreton, 2014). The dark triad is characterized by a desire to elevate the self and harm others

(Paulhus & Williams, 2002). Narcissism, which refers to a grandiose sense of self-importance (Judge, Bono, Ilies & Gerhardt, 2006), increased between the years of 1980 and 2006 in undergraduate college students. Within the domain of narcissism lies the construct of psychological entitlement (Emmons, 1984; Morf & Rhodewalt, 2001), yet Campbell *et al.* (2004) conceptualize it independently as “a stable and pervasive sense” that one is entitled to more than others, stemming from an external frame of reference and a sense of deservingness (p. 1).

Agency theory (Jensen & Meckling, 1976; Fama, 1980) helps to explain why employees with a strong sense of entitlement may act in their own interests when making workplace decisions. Agency theory assumes that decision makers are individualistic, opportunistic, and self-serving (Davis *et al.*, 1997; Tosi *et al.*, 2003). It helps to explain why entitled decision makers may consider a reward *equitable* due to inflated perceptions of their own performance or contributions or feelings of superiority. If they recognize that their inputs are below the level of their coworkers, they may use a needs-based *equality* perspective to justify equal rewards. They may further act in their own self-interests when making a wide variety of decisions that impact themselves, others, and their organizations.

The motivations of less entitled decision-makers may be explained by stewardship theory. Under this theory, stewards protect and maximize shareholder wealth through firm performance (Tosi *et al.*, 2003). Stewards are pro-organizational and trustworthy (Davis *et al.*, 1997), which may be features more likely to be associated with less entitled individuals. In summary, we posit as follows:

Hypothesis 1: Higher levels of psychological entitlement will relate negatively to socially responsible workplace decisions.

## **ETHICAL DECISIONS AND CONSCIENTIOUSNESS**

Conscientiousness is a robust, broad dimension of personality, often captured within the Five Factor Model of Personality (Costa & McCrae, 1992). Extensive meta-analytic research has found the construct to be positively related to a wide variety of objective performance indices (Barrick & Mount, 1991), including task performance, overall performance (Ones, Dilchert, Viswesvaran & Judge, 2007), leadership, and leader emergence (Judge, Bono *et al.*, 2002). The construct has further been linked to outcomes related to ethical decision making, such as integrity tests (Murphy & Lee, 1994) and organizational citizenship behaviors (Borman *et al.*, 2001). Employees who are characterized as conscientious often embody desirable organizational personality characteristics, such as competence, diligence, and the desire to achieve (Costa & McCrae, 1992). Since such characteristics correspond to positive individual outcomes within organizations, individuals embodying these characteristics seem likely to be capable of making ethical decisions and exhibiting behaviors in concert with organizational goals. Furthermore, previous research finds that conscientious individuals “assign high priorities to company concerns and thus look for solutions that benefit their employers, not just themselves” (Behling, 1998).

Based on the extensive meta-analytic research cited above linking conscientiousness to leadership and performance beneficial to organizations, we propose that conscientious individuals are more likely to make socially responsible decisions within organizations and for organizations than their less conscientious counterparts. Accordingly, we posit as follows:

Hypothesis 2: Higher levels of conscientiousness will relate positively to socially responsible workplace decisions.

## WILLINGNESS TO WORK FOR LESS PAY

However, we suspect that conscientious individuals may need to be further distinguished by preferences for altruism or egoism. It is likely that some conscientious individuals are altruistic, focusing on the societal interests, while others are more egoistic. Competent individuals could represent both patterns. Such a proposition likely helps to explain the lack of significance researchers have found between conscientiousness and altruism, egoism (Swami Chamorro-Premuzic, Snelgar, & Furnham, 2009; Kurtz & Tiegreen, 2005; Hogansen & Lanning, 2001), and five forms of organization citizenship behaviors (Konovsky & Organ, 1996). Accordingly, we offer no proposition that more conscientious individuals will be willing to work for less pay to work for a socially responsible organization than less conscientious individuals. We will test conscientiousness within our model to underscore our proposed lack of significance. Conscientious individuals might exhibit organizational citizenship behaviors in an effort to succeed and derive attention within their own organizations, yet when given a choice suggesting an immediate financial consequence, some conscientious individuals may choose the outcome benefiting them more personally.

Meta-analytic evidence suggests that one of the strongest predictors of how job applicants determine organizational attractiveness is person-organization fit (Chapman, Uggerslev, Carroll, Piasentin & Jones, 2005). One type of person-organization fit, supplementary fit, is based on whether a person perceives similarity with an organization, which may be based on a match between the person's values and the organization's values (Kristof, 1996). Certain organizational values may be particularly important to job seekers. As an example, Jones, Willness, and Madey (2014) found that corporate social performance-related values appealed to 85% of job seekers in one sample, who ranked a company with high corporate social performance (CSP) as their top choice against others, *ceteris paribus*.

Yet would job seekers retain their interest in corporate social performance if working for one company with CSP over another without CSP (assuming *ceteris paribus* in other employment conditions) resulted in less pay? Agency theory and stewardship theory support the notion that individuals with high levels of psychological entitlement would not be willing to work for less pay. Accordingly, we present the following hypotheses:

Hypothesis 3: Individuals with lower levels of psychological entitlement are more likely to consider working for a socially responsible organization despite lower pay than their counterparts.

## METHODOLOGY

We initially conducted a manipulation check of the two decision making vignettes that we developed to test our hypotheses (Callahan-Scully, Brownlee, Brtek, & Tosi, 2003; Tosi *et al.*, 2003). Both vignettes are detailed in the appendix. Previous research (Trevino & Youngblood, 1990) suggests the use of two opportunities to assess ethical decision making is appropriate due to the relative infrequency of facing unethical behavior.

We administered pencil and paper survey instruments for the first vignette to 25 students and the second vignette to 39 students enrolled in undergraduate and graduate business courses in a mid-sized university in the southeastern United States. Participation was voluntary and surveys were distributed during class time. The mean age of the first group of 25 respondents was 22 with 20 males, while the mean age of the second group of 39 respondents was also 22 with 25 males and 14 females.

We created vignettes likely to be encountered in the workplace, which directed respondents to make choices that varied in terms of long-term and short-term benefits to themselves and others. The vignettes additionally incorporated several contextual influences (e.g., “as other members of your team would attest” and “you and the team would definitely miss him”). As noted by Pitesa and Thau (2013), “While deciding on moral issues, employees are exposed to social influences that can impact their ethical decision making” (p. 635). Pitesa and Thau (2013) noted that some employees made decisions in concert with positive and negative social influences, while others followed their own ethical (or unethical) preferences. To capture these decisions in light of context, we included social influences (Flynn & Wiltermuth, 2010). For the first vignette, 24 of the 25 respondents identified Mike Lambert, the high performer, as the best choice for the organization overall (mean response for Mike Lambert 6.4, S.D.=.76; mean response for Bob Anderson 3.4, S.D.=1.41).

In the second vignette, we described two hypothetical organizations similar in every way except that employee pay was slightly lower in the more socially responsible organization. Respondents to vignette number two were asked to select the organization that was the “most socially responsible.” For this vignette, 35 of 39 (90%) respondents identified XYZ Company as the most socially responsible company of the two choices.

In phase 2, we administered a pencil and paper survey instrument to 118 students enrolled in undergraduate and graduate business courses in a mid-size university in the southeastern United States. Students participated voluntarily and the surveys were administered during class time. The sample included 72 males and the mean age of the students was 21 with a range of 18 to 39 years. Table 1 presents the means, standard deviations, correlations, and reliability coefficients (on the diagonal) of the study variables.

Table 1. Means, Standard Deviations, Correlations, and Reliability Coefficients

Variable	Mean	S.D.	N	1	2	3	4	5	6	7	8	9	10	11
DiffScale	3.39	2.05	116											
ABC	4.91	1.61	117	.00										
XYZ	5.21	1.44	117	.10	-.46									
Entitle	3.52	1.17	118	-.09	.18	-.24	<i>(.89)</i>							
Extrav	3.52	0.68	118	.16	-.04	-.03	.10	<i>(.84)</i>						
Agreeable	3.92	0.58	118	.30	-.12	.13	-.19	.24	<i>(.79)</i>					
Conscient	3.73	0.59	118	.29	-.08	.06	-.04	.31	.39	<i>(.79)</i>				
Neurot	2.59	0.7	118	-.11	.00	-.09	.10	-.27	-.39	-.45	<i>(.81)</i>			
Open	3.71	0.54	118	.14	-.12	.12	-.02	.21*	.20	.25	-.26	<i>(.75)</i>		
Male	0.64	0.48	113	-.20	.16	-.08	-.02	.02	-.12	-.10	-.20	-.04		
OrgMike	6.39	0.89	118	.72	-.05	.10	-.11	.18	.29	.35	-.10	.23	-.24	
OrgBob	3	1.54	116	-.92	-.03	-.06	.06	-.10	-.024	-.19	.09	-.06	.13	-.38

\* Correlations at or above .18 significant at the .05 level (2 tailed test)

\* Correlations at or above .25 significant at the .01 level (2 tailed test)

Cronbach’s alpha coefficients are on the diagonal, italicized and in parentheses.

Diff = Difference between choice of Mike and Bob, recoded on a scale of 1 to 9, with 1 preferring Bob over Mike to 9 representing largest preference of Mike over Bob

ABC = Higher responses indicate choice of less responsible organization

XYZ = Higher responses indicate choice of more responsible organization

Entitle = Psychological entitlement scale (slightly modified)

Extrav = Extraversion domain of the Five Factor Model

Agreeable = Agreeableness domain of the Five Factor Model

Conscient = Conscientiousness domain of the Five Factor Model

Neurot = Neuroticism domain of the Five Factor Model

Male = Male dummy variable

OrgMike = Higher responses indicate that respondent is aware of the most socially responsible decision.

OrgBob = Higher responses indicate that the respondent is less aware of the most socially responsible decision.

## PSYCHOLOGICAL ENTITLEMENT SCALE (PES)

We used a slightly modified version of the nine-item PES (Campbell *et al.*, 2004) to assess psychological entitlement. The items were anchored by a 7 point Likert-type scale with 1=strongly disagree and 7=strongly agree. An example of an item is “I feel entitled to more of everything.” We added three items to the scale to better capture of one’s own deservingness *despite poor performance*. The PES construct includes items (such as “things should go my way”) that may capture both hard working individuals who feel entitled to various outcomes due to their strong work ethic and their less diligent counterparts. To incorporate a facet of deservingness, we added the following three items: (1) I often receive lower grades than I deserve; (2) I deserve the same reward as my team even if I contribute less to the project than other members; and (3) I deserve higher grades than my professors usually give me. These items relate closely to the “deservingness” facet of the Academic Entitlement Scale developed by Kopp, et al. (2011), such as “certain outcomes are deserved because the student pays tuition.” The Alpha coefficient for all 12 items was .86, well above the .70 level suggested as acceptable by Nunnally (1978).

To determine the underlying factor structure of the PES and the three new items, we conducted an exploratory principal axis factor analysis with oblimin rotations, since the items were likely to be highly correlated. EFA is appropriate for scale development and evaluation, particularly when scales exhibit good internal consistency (Hurley, Scandura, Schriesheim, Brannick, Seers, Vandenberg & Williams, 1997). The items all loaded on the same factor, with communalities of 45% on that factor, yet one reverse-scored item (#5) from the original PES scale was problematic, with a very low loading of .077. Loadings on the 10 other items ranged from .38 to .83. To determine whether the loadings were representative of the underlying factor, a minimum cutoff of .33 was used (Tabachnick & Fidell, 2001). Accordingly, we determined that eliminating the reverse-scored item, which likely represented bias or complacency, would best represent the modified PES scale. The KMO measure of sampling adequacy was .83, while Bartlett’s test of sphericity indicated a small significance value (approx.  $\chi^2=713.18$ ;  $df=66$ ,  $sig.=.000$ ). KMO values closer to 1 and small significance values ( $< .05$ ) indicate that a factor analysis may be useful in examining data.

## CONSCIENTIOUSNESS

To assess conscientiousness, we used the validated scale of the Five Factor Model of Personality (FFM) developed by John and Srivastava (1999), which used an “I see myself as someone who” anchor for 44 items. The participants then rated the extent to which they agreed or disagreed with the statement based on a 5-point Likert-type response scale anchored by 1=strongly disagree and 5=strongly agree. Each of the five personality variables was captured in 8 to 10 items and we used the mean score of each to derive the five personality domains.

Finally, we checked for significant group differences to determine whether the predictor instruments may adversely impact individuals as a function of their race, age, or gender. ANOVA analyses indicated no significant group differences in the modified PES or conscientiousness scale for age, race, or gender. Because students were taking a variety of courses varying in level (including 14 students in a preparatory MBA course), we checked for the significance of school year in all analyses. School year was not significant, so we omitted that variable in the tests of the hypotheses.

## RESULTS

To test our first and second hypotheses, we created a dependent variable using the first vignette by subtracting the most socially responsible workplace choice (Mike) from the least (Bob). Then we re-scaled the variable to eliminate negative scores and zero, resulting in a variable with a range of 1 to 9. Higher scores indicated a greater preference for the most socially responsible choice. Because we found significant gender effects, we controlled for gender in the first step of the analysis, conscientiousness in the second step, and the modified PES in the third step. Table 2 below presents our results, which surprisingly did not provide support for our first hypothesis, yet did support the second. More specifically, our results found that individuals with higher levels of psychological entitlement could not be distinguished when making socially responsible workplace choices. Yet conscientious individuals were more likely to make the more socially responsible workplace decision, as predicted by hypothesis 2.

Table 2. *Regression Analysis to Test Hypotheses 1 and 2*

Model	Independent	F	df	Sig.	R <sup>2</sup>	Beta	T value	Sig.
1	Constant	4.59	1,109	.03	.04			
	Male					-.20	-2.14	.03
2	Constant	7.09	2,108	.00	.12			
	Male					-.18	-1.95	.05
	Conscientious					.28	3.04	.00
3	Constant	5.15	3,107	.00	.13			
	Male					-.18	-1.96	.05
	Conscientious					.27	3.00	.00
	Entitlement					-.10	-1.11	.27

*Note:* Dependent variable: Difference between the most socially responsible choice and the alternative

To test our third hypothesis, we used ANOVA with the choice of either the less socially responsible company (ABC) or the more socially responsible company (XYZ) as the factor and the modified PES and the male dummy variable as the dependent variables (see the Appendix for Vignette #2).

Results, summarized in Table 3, provided support for our hypothesis. Mean scores on psychological entitlement for the groups who chose the more socially responsible company were significantly lower than for their counterparts. Post hoc analyses of gender differences indicated significant mean differences for gender between choices ( $F=24.06$ ;  $df=110,1$ ;  $p < .000$ ). Within the sample 78% of females were willing to work for less pay for a socially responsible organization, while only 33% of males made the same choice. Conscientiousness did not exhibit significance, as predicted yet not hypothesized. Post hoc analysis of the conscientiousness variable between males and females indicated insignificant variation (Female,  $N=41$ ,  $mean=3.8$ ,  $SD=.61$ ; Male,  $N=72$ ,  $mean=3.67$ ,  $SD=.58$ ,  $p=.ns$ )

Table 3. ANOVA to Test Hypothesis 3

Company Choice 1 = ABC 2 = XYZ		N	Mean	SD	Mean Square	Sum of Squares	df	F	Sig.
Entitlement	ABC	57	3.85	1.02	12.78		1,114	9.82	.002
	XYZ	59	3.19	1.24	1.30				
	Between groups					12.78			
	Within groups					148.40			
	Total					161.18			
Gender	ABC	57	.84	.37	4.61		1,110	24.02	.000
	Between groups	55	.44	.50	4.61				
	Within groups					21.11			
	Total					25.71			
Female	ABC	9							
	XYZ	31							
% of Females choosing less pay to work for a more socially responsible company: 78%									
Male	ABC	48							
	XYZ	24							
% of Males choosing less pay work for a more socially responsible company: 33%									
Conscientious	ABC	57	3.68	.63	.28		1,114	.77	.383
	XYZ	59	3.78	.55	.35				
	Between groups					.28			
	Within groups					39.73			
	Total					40.00			

## DISCUSSION

Organizations of all sizes benefit from selecting high performing, ethical employees at the outset, since high performers with the capability to make good ethical decisions at all levels are likely to help organizations succeed. While widely-used personality tools such as the Five Factor Model of Personality (Costa & McCrae, 1992) offer validity in the prediction of performance by identifying conscientious and emotionally stable employees (Barrick, Mount & Judge, 2001; Ones *et al.*, 2007), they should be considered in conjunction with assessments of attitudes, such as entitlement, and ethical decision making.

Results from the present study provide partial support for our hypothesized model of the relationships between psychological entitlement, conscientiousness, and socially responsible workplace decisions. Specifically, results indicate that conscientiousness relates positively with the more socially responsible workplace decision, while psychological entitlement does not significantly relate. Yet conscientiousness does not distinguish individuals when the choice involves working for less pay. Our findings support previous research cited above that identified a lack of significance between conscientiousness and egoism or altruism. In contrast, the decision to work for less pay to work for a socially responsible organization negatively relates to psychological entitlement. This finding confirms the notion that entitled individuals may feel what Campbell and colleagues (2004) note is a pervasive sense that they are more deserving of various outcomes than others.

Ethical decision making and ethical business practices are important to people working in both large and small businesses (Zulkifli & Amran, 2006; Ahmad & Ramayah, 2012). Indeed, in one study of 5,000 managers and employees from firms of all sizes over three decades, respondents from small businesses varied little from those in large businesses in their ethical values (Longenecker, Moore, Petty, Palich & McKinney, 2006). Furthermore, over this same time frame of 1985 to 2001, the authors found that ethical standards trended *upward* over time, perhaps attributable to public scrutiny of several well-publicized ethical business failures. As noted by Traiser and Eighmy (2011), “businesses try to increase their odds of hiring ethical people through recruitment practices, screening, and evaluation of potential employees” (p. 325). Yet despite the need and desire to hire ethical individuals, small businesses may be more challenged than their larger counterparts in doing so. Small businesses may be constrained by less time, fewer resources, and less developed hiring processes, ethical climates, and ethical codes of conduct (Marta, Singhapakdi & Kraft, 2008) than their larger counterparts.

The present study offers several important findings for organizations seeking to identify and hire ethical employees. First, employees with high levels of conscientiousness are more likely to make ethical decisions that benefit their organizations. Secondly, employees with high levels of entitlement are less likely to choose to work for socially responsible organizations if the choice will result in less pay. Finally, organizations have little reason not to use personality and attitudinal assessments when determining whether job applicants are a good fit, particularly those that value socially responsible workplace decisions. Validated personality assessments are accessible on the internet, often at little or no cost to users.

### **IMPLICATIONS FOR SMALL BUSINESSES**

*Entrepreneurship Magazine* recently presented a dilemma to the Ethics Coach, Gael O’Brien (2014) in which a small business owner lamented that she did not have the resources to use the personality tests that large organizations use to weed out dishonest job applicants. Ms. O’Brien responded that the owner should use a mix of employees in the hiring process, ensuring that the mix included those who were well-versed on the vision for the organization’s culture. Yet Ms. O’Brien disclosed that including multiple interviewers in the process could be time-consuming. Identifying ways of streamlining the interview process to effectively reduce the applicant pool may therefore be important.

Furthermore, small businesses must attend to issues of compliance. As an example, within the United States, organizations with fifteen or more employees are subject to Title VII of the Civil Rights Act of 1964 (Title VII) and the Americans with Disabilities Act (ADA), while those with twenty or more employees are subject to the Age Discrimination in Employment Act (ADEA). Title VII prohibits discrimination at all steps of the hiring process based on race, religion, color, national origin, or gender. The ADA prohibits discrimination based on recognized and reported disabilities, while the ADEA

prohibits discrimination against workers at forty years of age or older. Small business owners and managers interested in protecting themselves from discrimination lawsuits based on the choices they have made in the employee selection process may benefit from inexpensive, yet validated selection tools, which are those that relate to relevant aspects of an employee's performance. The present study offers additional evidence of validity for such tools.

Accordingly, we offer two suggestions based on the results of the present study for small business owners and managers. Our first suggestion is that employers consider the validated selection tools such as those identified in this study, which are available on the internet or in academic libraries and referenced below (Campbell *et al.*, 2004; John & Srivastava, 1999). A second suggestion is to develop situational interview questions for job applicants based on a variety of ethical scenarios, such as those developed in the present study or in other similar studies (Reidenbach & Robin, 1990).

### LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

While the results of the present study serve to stimulate both theory and practice, a few limitations should be acknowledged. The most important limitation relates to the size and characteristics of the survey population. While we collected data using separate sets of respondents for the vignettes and hypotheses testing, the overall sample size was relatively small and based on responses from a student population of a single university. Future studies should gather responses from a greater number and wider variety of respondents from multiple locations for generalizability purposes.

A second limitation relates to the likelihood that other factors aside from the PES and conscientiousness relate to socially responsible workplace decisions. Future research should consider a wider variety of individual, personal, and situational characteristics that may relate to such decisions. Future studies could also identify additional dilemmas for applications within workplaces.

Though our findings and previous research (Valentine & Rittenburg, 2007; Beu, Singhapakdi, & Kraft, 2002) provide evidence that women may make more ethical decisions than men in two situations, organizations should be cautioned prior to interpreting the results, given the sample size from which the data were collected. Further, situational characteristics, age, tenure, education, experience, and level within an organization are likely to additionally play a role and may mitigate the effects of gender. Future studies should investigate respondents of varying demographics to control for these factors.

Despite these limitations, this research contributes to the literature that identifies characteristics of employees more likely to make socially responsible workplace decisions. Such findings may be helpful to hiring managers in a small business setting. Human resource practices in small and medium-size firms are often limited so any additional guidance may lead to better hiring decisions.

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## **SMEs Acquiring SMEs: A Military Model for Success**

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Much has been written regarding large firm mergers and acquisitions, but there is a dearth of literature on SMEs (small-to-medium-sized firms) acquiring other SMEs. Countless difficulties are experienced when one SME acquires another, particularly integration issues. A new model is proposed for the acquiring SME that will improve the chances of successful integration of two small businesses. This model is based on the utilization of counterinsurgency (COIN) tactics as employed by the United States military and others.

Small business owners find a myriad of reasons for selling their businesses or harvesting the firm as it's known in the literature (Longenecker, Petty, Palich & Hoy, 2014). Owners wish to retire, the founder passes away and remaining family does not want to manage the firm, one or more of the owners becomes seriously ill, the business is being overpowered in the market by a much larger competitor, and various other reasons. This exiting, or harvesting of the firm, is not always simple, and many small businesses rely on brokers to market the business for them. There is always the skepticism in the market that questions exactly why the owners really want to sell.

Many small firms choose to sell their firms to the existing employees through some form of employee stock ownership plan (ESOP). This unique option allows employees to purchase the company's stock by borrowing the money from a bank or insurance company, using the stock as collateral for the note (Timmons, 1999). An ESOP also is a tax-qualified retirement benefit plan.

The focus of the present discussion is when a small-to-medium-sized firm sells itself to another small business, or SMEs acquiring SMEs. What can the acquiring firm do to ensure that the acquisition is successful? While standard steps in the acquisition process are commonly understood, such as review of financial statements and tax returns, thorough discussions with the current owners, inquiry with customers and suppliers, and other due diligence, there is no guarantee of success. Acquiring an existing business is perilous in many cases, with no real blueprint available to SME owner/operators as to the secret of integration. Valuation is often an issue, as well, since many SMEs report goodwill, comprised of their customers' loyalty and a sound reputation, as being their greatest asset.

The new model that is proposed can be the most effective method of realizing intended benefits of acquisitions. That model is the utilization of counterinsurgency tactics (COIN) as employed by the U.S. military and others (Lester & Lipinski, 2013). While there is a lack of literature that specifically addresses SME acquisition activity, some common problems are noted. Following the literature review of COIN and acquisition activity, a model utilizing COIN techniques for acquisition activity by SMEs will then be presented, followed by a summary and conclusion.

### **REVIEW OF THE LITERATURE**

Small business owner/operators pursue acquisitions for a variety of reasons that are as diverse as the owners themselves. Haleblan, Devers, McNamara, Carpenter, and Davison (2009) provide a comprehensive list of examples for firms of any size, including the creation of value through increased market power (Battacharyya & Nain, 2011), efficiency, resource redeployment, or market discipline as it relates to ineffective managers; managerial self-interest as it relates to compensation (Agrawal & Walking, 1994), hubris, or defense tactics; environmental factors such as uncertainty (Folta, 1998) and regulation, imitation and resource dependence, and network ties; and firm characteristics like past experience with acquisitions activity or a firm's strategy and position (Graebner & Eisenhardt, 2004).

Firms are acquired regularly in the current business milieu, but this has been true for some time, particularly in the U.S. Simply stated, when one firm buys another an acquisition has occurred. One reason for one firm to acquire another is synergy. Synergy is most closely associated with acquisitions of firms that are somewhat related, enabling the sharing of resources and capabilities between firms. Originating in the Greek language, synergy means working together, that “the whole is greater than the sum of the parts.” Examining synergy in the context of business, when the combination of two or more business units leads to superior effectiveness and efficiency than was achieved prior to their conjoining, synergy has been accomplished (Barragato & Markelevich, 2008). In theory, the result is that the combined firm has created more value than the two firms could have independent of each other, or put another way,  $2+2=5$  (Mintzberg, 1989). This is only accomplished when the “synergies are the present value of the net additional cash flow that is generated by a combination of two companies that could not have been generated by either company on its own” (Ficery, Herd & Pursche, 2007, p. 29). The concept of synergy represents an increase in wealth to shareholders that could not be duplicated on their own through something as basic as portfolio diversification (Bauguess, Moeller, Schlingemann & Zutter, 2009).

Other than synergy, there is the issue of relatedness. It has been applied to multiple situations, including selling the same or similar products, serving similar markets, or existing in the same vertical chain (Blackburn, Lang & Johnson, 1990; Chatterjee, 1986). Such noted management theorists as Lubatkin (1983), Porter (1985), and Rumelt (1974) have posited that related acquisitions yield superior accounting results to unrelated acquisitions. Lubatkin and Chatterjee (1994) also cite lower risk for organizations with closely related businesses.

When considering related acquisitions, there has been an overriding belief in the potential of synergy (Chatterjee, 2007), particularly the benefits of economies of scale and operating efficiencies (cost synergy), revenue growth (revenue synergy), or both. SMEs acquiring other SMEs in many cases represent related acquisitions. While synergy has been cited as the primary antecedent for acquisitions, this paper proposes that synergy is in fact unrealizable without one firm dominating the other and imposing its management control.

The obvious problem most firms encounter when acquiring another for synergistic purposes is integration (Chatterjee, 2007). The result of many synergy-based acquisitions is poor performance by the acquired firm post-acquisition (Datta, 1991) as opposed to pre-acquisition. Datta’s (1991) sample consisted of 173 acquisitions in the manufacturing and mining sectors that were valued at \$1 million or more. Many firms acquired through related acquisitions have causally-ambiguous internal, complex business operations (Chatterjee, 2007) that have been developed over a long period of time, contributing greatly to difficult integration issues post-acquisition. Relatedness, often referred to as ‘strategic fit’ (Lubatkin, 1983; Salter & Weinhold, 1979) in the management literature, can provide synergistic benefits only if the post-acquisition integration is successful. New leadership for acquired firms is obviously provided by managers of the acquiring firm in a study by Walsh and Elwood (1991) that included SMEs in a sample and a control group of companies.

Among large businesses, it is well-documented that most firms overpay for companies they acquire (Carroll & Mui, 2008). This finding renders a strong return on investment as critical for shareholders of the acquiring firms. Without realizing a premium, the only shareholders to benefit are those of the firm being acquired. For SMEs that make a strategic acquisition (Longenecker, *et al.*, 2014), perhaps a large premium is not necessarily paid for the firm acquired, but certainly a financial obligation is incurred, necessitating a higher return than the acquiring firm is currently earning. In light of this issue, a more precise definition of synergy has been operationalized by Sirower (1997) as “the increase in performance of the combined firm over what the two firms are already expected or required to accomplish as independent firms” (p. 20).

Contrary research, primarily involving large firms, has challenged Rumelt's findings (Dubofsky & Varadarajan, 1987; Michel & Shaked, 1984; Varadarajan & Ramanujam, 1987) that related acquisitions yield superior results, with research supporting superior results with unrelated diversification attempts. Lubatkin (1987), for example, found that horizontal, related acquisitions did not outperform conglomerate or vertical acquisitions. In addition, Seth (1990) discovered no significant differences in value creation between related and unrelated acquisitions. Regardless of which type of acquisition produces better results, a key issue for all acquiring firms is the consequence of paying large premiums (Carroll & Mui, 2008).

Although merger and acquisition activity is commonly associated with larger, more mature organizations, SMEs have several valid reasons for pursuing acquisitions. According to Mariotti and Glacken (2012), the most cited drivers of acquisition activity include easier, faster start-up or overcoming entry barriers (Hitt, Ireland & Hoskisson, 2014), reduced risk, potential for a bargain, and in some situations the acquiring SME's knowledge base can jumpstart the ownership process (Mariotti & Glacken, 2012). The overriding factor, however, is usually to grow the business by extending product lines or acquiring new capabilities (Early, 2004). An acquiring SME can immediately increase sales, market share, and market power (Akdogu, 2009) by horizontally acquiring another SME in the same industry niche. SMEs also pursue vertical acquisitions by purchasing their suppliers or customers, moving backward or forward, up or down the value chain.

When SMEs acquire other SMEs, there is normally an integration of operations, at least to some extent. If the goals of the acquisition are to be attained, such as an increase in sales or market power, the acquired SME is absorbed into the operation of the acquiring SME. This integration leads to several problems that can doom the purchase from the start, causing the acquiring SME not to realize the gain it hoped when the acquisition was first planned. Such problems include, but are not limited to, resentment and distrust by the acquired firm's employees, actual efforts at sabotaging operations post-acquisition, talent flight, many times to leading competitors, and corporate cultural issues where norms and values of the acquiring firm differ greatly from that of the company being acquired. To achieve long term positive returns through acquisition activity for SMEs a new model is proposed that utilizes some of the tenets of counterinsurgency.

### **A NEW MODEL FOR INTEGRATING FIRMS**

The integration of two firms' employees and operations is the most difficult challenge in related or unrelated acquisition activity where the goal is to go from two firms to one (Rafferty & Restburg, 2010). And while synergy as a concept is certainly plausible, no less than Michael Porter and Rosabeth Moss Kanter, both strong early proponents of synergy as the basis for acquisitions, admit that most firms fail in their synergy attempts, finding the challenge quite difficult (Kanter, 1989; Porter, 1987). Trautwein (1990) reported that available synergies were almost always cited as a justification for diversification attempts by managers. Yet, some noted researchers (Hitt, Ireland & Hoskisson, 2013) make it clear that synergy actually increases the risk of failure for firms due to the joint interdependence between businesses that constrain an organization's flexibility to respond to changing competitive environments.

While firms continue to profess the investment value of acquiring new technology, new market presence, and other innovative advantages through acquisitions rather than internal development, the failure rate of such activity is alarmingly high (Lee & Lieberman, 2010). What should be paramount in related acquisition activity, whether synergy is purported to be the primary driver or not, is that without integration no value will be achieved, regardless of premiums or market price paid. Sirower (1997) reported the results of a study by the Boston Consulting Group of large corporations indicating eight out of ten acquiring firms do not perform detailed work in advance of an acquisition to determine if synergy is even possible (Zangwill, 1995). A study by Diamond takes this an important step further by reporting a lack of awareness of business platforms and operations of targets by acquiring firms at all levels of pre-acquisition planning, failing to recognize the risk of business platforms (Calkin, Smith & Sviokla, 2006).

According to Datta (1991), integration problems post-acquisition result in the acquired firm performing more poorly post acquisition than pre-acquisition. The post-acquisition performance of organizations is historically so dismal, it has led Warren Hellman, the former president of Lehman Brothers, to remark: "So many mergers fail to deliver what they promise that there should be a presumption of failure. The burden of proof should be demonstrating... that anything really good is likely to come out of one" (Fisher, 1994, p. 66). If acquiring firms do destroy shareholder value, as Sirower (1997) contends, there must be better approaches to integration.

Since acquisition activity is not going away, how can the integration problems, in particular those of related acquisitions by SMEs, be overcome and successful results achieved? Due to the complexity of integrating two disparate organizations, it is not surprising that the process is difficult at best. Key issues to be managed include comprehending the target SME's basic business operation and source of competitive advantage, melding the financial control systems and information technology assets, and delving into the corporate culture of the target firm in pursuit of real understanding. Gutknecht and Keys (1993) also point to the importance of people issues such as maintaining employee morale after the acquisition, and integrating conflicting organizational values, structures, climates, and roles. Layoffs though downsizing efforts invariably occur as firms attempt to realize synergy through cost savings and as they need to increase profitability due to taking on new indebtedness. These layoffs, or downsizing activities, create negative feelings among survivors as their workload typically increases and they fear future layoffs or reprisals. This fear is also accompanied by feelings of guilt, anger, or perhaps relief by survivors (Gutknecht & Keys, 1993). The mergers and acquisitions literature regularly refers to downsized employees of acquired firms as casualties and remaining employees as survivors (Gutknecht & Keys, 1993). Yet, the biggest issue acquiring small businesses face in integration may be the simple prospect of change and its effect on survivors. One such example is presented of a SME that regularly pursued acquisitions with disastrous results.

### **AN EXAMPLE OF FAILING TO UTILIZE COIN**

One example of a SME acquisition strategy that failed is from a small business in the mid-south region, Kevin Wright, Inc. that one of the authors has past experience with. This company began operations as a residential plumbing business. After a successful two or three year period in business, the firm expanded to commercial plumbing, securing the plumbing and medical gas repairs and installations at two local hospitals. Being flush from the success of the commercial endeavor, Kevin Wright, the founder and owner/operator, acquired a small electrical repair company in an attempt at a related acquisition. Next was a local heating and air conditioning firm. Each company was folded into the Kevin Wright organization, completely losing their former identity. In each case the former owner/operators of the acquired firms were retained as managers. Wright later expanded his business lines by taking on a line of spas or hot tubs and starting a swimming pool service operation, with the thought being plumbers handle much of the repairs in those business.

Although each business acquired had an owner/operator, Wright assumed total control after the deals were consummated. The first order of business after each acquisition was to convert the operation to the Kevin Wright way of doing business. Policies and procedures were immediately adopted, and the former manner of operations for the acquired firms ceased to exist. The blowback was somewhat negative with the customer base that these new firms brought with them, primarily due to a more rigid method of operation, including new rules, standards, and pricing, which was always higher. Most affected, however, were the newly acquired employees. The cultural change drove many to quit and seek other employment, creating a temporary vacuum. With the manpower shortages, service slowed, and revenue dipped. Undaunted, Wright moved forward with a kitchen and bath showroom and remodeling endeavor.

The bath and kitchen businesses required a retail showroom, leading Wright to construct a new facility that was state-of-the-art but very expensive. To fund this facility expansion, each division, as they were referred to by Wright, saw their share of the overhead increase dramatically. This put even more pressure on the newly acquired divisions to outperform their prior sales and earnings. Lastly, Wright decided the only related services he did not offer were lighting fixtures and a chimney sweep. So, of course, they were added. The situation was further complicated by new contractual relationships that had to be established with vendors, each one requiring large minimum orders of product, since the company had moved from repairs only to providing a myriad of products. The new product inventories led to an expansion of the warehouse, again increasing the overhead. And, with the small plumbing business now a multi-divisional company, new layers of management were required, more advertising was necessary, and several new trucks and pieces of equipment purchased.

While Kevin Wright was a driven and self-motivated small business owner, his past management experience had been focused on a small plumbing repair company with about six employees. This new divisional firm with ten managers, a vice-president of operations, and over fifty employees was a challenge. In less than five years, the entire company had unraveled, and Wright was back to owning one plumbing repair company, having sold his facility to another company. What Wright failed to comprehend was the attachment each company's employees had to their former values and norms, in essence their way of doing business. The shift from informal operations to formal took months of training and a good bit of trial and error effort. Wright was personally very demanding, regularly pointing out that his name and reputation were at stake each time a truck and technician were dispatched.

This example of one small business has limited application, but some clear lessons can be learned. The new model proposed below of utilizing some counterinsurgency techniques when acquiring SMEs, if followed, might have allowed Kevin Wright's firm to flourish rather than wilt.

### **EXPLORING COIN**

Strategic management researchers have often sourced military science when creating new theoretical models. One area of military science that has risen in prominence in recent years is counterinsurgency or COIN. COIN research (Kilcullen, 2006; McNeil, 2009) has as one of its origins the classical French military scholar David Galula (2006) who analyzed France's activities in Algeria. More recently David Kilcullen's (2006) twenty-eight fundamentals of successful COIN have become highly regarded. Kilcullen's work has been seen as a model for the dominant form of warfare in the coming decade, influencing greatly the U.S. Army Field Manual on Counterinsurgency. Kilcullen's (2006) work, as outlined below, will serve as the COIN model for this paper.

#### Preparation:

1. Know your turf – know the people, history, and culture
2. Diagnose the problem – who are the insurgents and their leaders?
3. Organize for intelligence – your operations will be intelligence driven
4. Organize for inter-agency operations – learn to work with partners
5. Travel light and harden your Combat Service Support – lighten your load
6. Find a political/cultural adviser – find one from among your people
7. Train squad leaders – then trust them – battles are won or lost in moments
8. Rank is nothing: talent is everything – spot people who are naturally good at COIN
9. Have a game plan – a mental picture of how you see the operation developing the golden hour
10. Be there – establish a presence

11. Avoid knee jerk responses to first impressions – don't act rashly; get the facts first
12. Prepare for handover from day one – preserve corporate knowledge in folders
13. Build trusted networks – persuade people you have their best interest at heart
14. Start easy – go with the grain to gain confidences
15. Seek early victories – find a clear-cut target and resolve a long-standing issue
16. Practice deterrent patrolling – patrol to deter enemy attacks
17. Be prepared for setbacks – you will make mistakes, lose people, or retain the wrong person
18. Remember the global audience – media is everywhere, especially social
19. Engage the women, beware the children – women control the social network
20. Take stock regularly – develop metrics to determine progress

#### Groundhog Day:

21. Exploit a single narrative – ally with opinion makers
22. Local forces should mirror the enemy, not ourselves – move, equip, and organize like the enemy
23. Practice armed civil affairs – meet basic needs first
24. Small is beautiful – keep programs small; it makes them cheap and sustainable
25. Fight the enemy's strategy, not his forces – coopt against an insurgent leader

#### Getting Short:

26. Build your own solution – only attack the enemy when he gets in the way – remember to implement your own solutions
27. Keep your extraction plan secret – protect details of the extraction plan
28. Whatever else you do, keep the initiative – if the enemy is reacting to you, you control the environment

The COIN model is viewed through a lens that reveals similar issues between problems encountered by occupying military forces and SMEs acquiring other SMEs. Acquisition research emphasizes the need of the dominant firm to overcome people problems with the acquired firm if antecedents are to be achieved. While all of Kilcullen's (2006) points are not applicable to acquisition integration, several are relevant to overcoming these people problems.

Kilcullen (2006) defines counterinsurgency as "a competition with the insurgent for the right and the ability to win the hearts, minds and acquiescence of the population" (p. 29). While the employees of target SME firms are rarely referred to as insurgents, it is clear that acquiring SME firms face some of the same challenges in integrating operations as occupying military forces face. Although Kilcullen's (2006) twenty-eight points are not an exact match for the needs of acquiring SMEs, such as the need for Combat Service Support, the key themes serve as a checklist that any acquisition team would do well to follow if they hope to succeed in their effort. Themes include preparation, first impressions (Golden Hour), continuing actions (Groundhog Day), and completion (Getting Short). All are phases that must be mastered for a successful transition.

Key points of Kilcullen's (2006) recommendations are paraphrased so they can be utilized by acquiring SMEs, including:

*Know your turf* (economy, history, and culture) – Take some time to determine why you wanted to acquire the business; what was unique or different about the firm that made you believe it was worth purchasing rather than creating an imitation of it yourself;

*Diagnose the problems* (what makes people tick, what are the issues that worry people) – for most firms, the people are the greatest asset but this is particularly true when the business is a SME; Get to know the entire staff, not just the owner/operator for a better understanding of its resources;

*Organize for intelligence* – operations are intelligence driven, so the more you know the better the transition;

*Prepare for cross functional operations* – this acquired business will have vendors and customers that you are unfamiliar with so get help in sorting the ends and outs of those relationships;

*Find a “cultural advisor,”* - consider putting a trusted employee from your firm into the new business as a way to keep abreast of the organizational climate;

*Have a game plan ready to execute day one* –you need a framework for integration that should at least serve as a starting point;

*Maintain a strong presence* – don’t think you can be unavailable after the firm is acquired and expect the integration to go smoothly;

*Build trusted networks* – many times business is about relationships;

*Seek early victories* – resolve some longstanding issue in the acquired firm that earns you confidence credits with employees;

*Avoid backsliding* – there will be problems and setbacks, just don’t let them turn into a regression of the acquired firm’s operation;

*Remember that the world* (or at least other stakeholders in the industry) *is watching* – your creditors, customers, shareholders or partners, and suppliers are vested in your acquisition being a success;

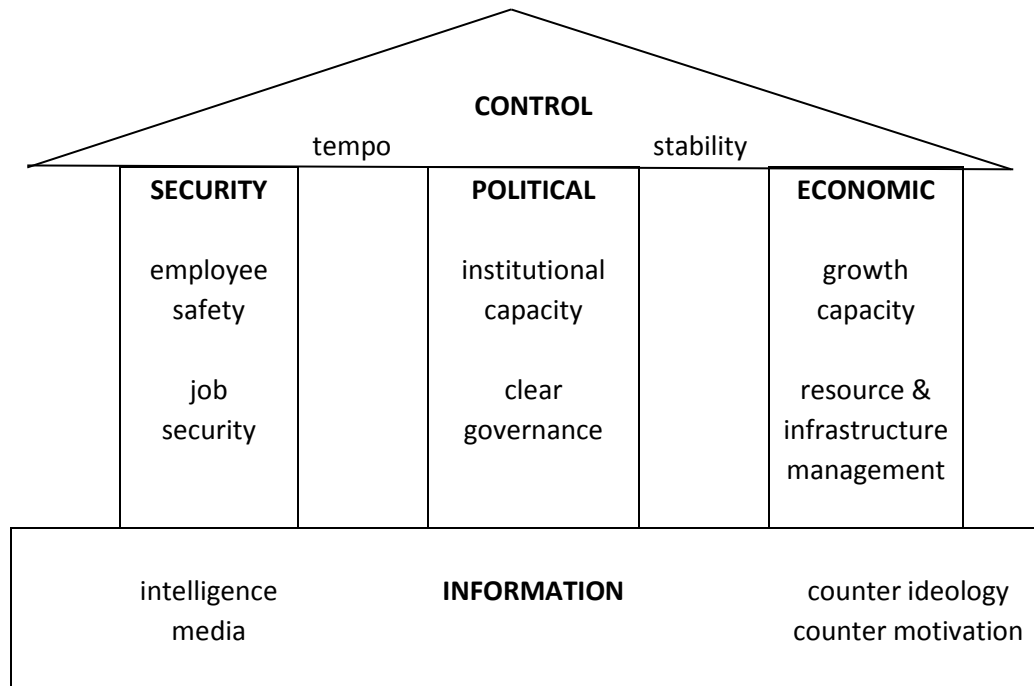
*Regularly analyze the situation and make adjustments* – frameworks are just that, guidelines, so don’t be married to them when the environment calls for change;

*Work to blend cultures* – this is a tall order, especially when the cultures are far apart, but the slow process of integration will eventually meld the best parts of both;

And, finally, *keep the initiative* (control the environment) – it is your firm, you bought it, so stay aggressive in a controlled manner so that it will pay off.

This article recommends the methodology of COIN for coping with the problem of SMEs integration. Based on his personal experience and research, Kilcullen’s (2006) fundamentals are most relevant when considering the utilization COIN in firm to firm acquisitions. We have modified one of Kilcullen’s models, the three pillars of counterinsurgency, for use in an acquisition scenario (See Figure 1).

Figure 1. *Three Pillars of Counterinsurgency for Successful Mergers and Acquisitions*



The model demonstrates how the principles of counterinsurgency line up to create a secure situation which will allow the dominant firm in an acquisition to incorporate the personnel and assets of the target firm into the merged organization. Information serves as the foundation of this process. As previously mentioned, having good intelligence as to what is happening in the target organization, understanding the feelings of the employees post-merger and being able to counter negative messages are all key, as is controlling the message being put out by the media. As the COIN model notes, understanding the culture of the acquired firm enables the acquirer to gradually meld the two cultures together. The purpose of this melding is to get ahead of attempts by acquired employees to foster resistance or promote a counter ideology, which could lead to a serious dissension problem.

The three pillars in the model, Security, Political and Economic all support the activities that take place as merged entities are brought together. The first pillar, Security, entails the need of employees for security, clarity, and an understanding of how the merger will positively affect both the organization and their personal career. The acquiring firm owner(s) must assure current staff that, until proven to be ineffective, they have job security.

The Political pillar indicates who's in charge, what are the clear lines of authority or chain of command with regard to corporate governance, and will the business be completely integrated or will it stand partially or completely on its own. Employees transitioning to a new ownership group should be more comfortable post acquisition if one of their own managers is still in a position of authority. If the firm is to be folded into the acquired company, the leadership can experience a smoother integration over a period of time and eventually replace the new level of management.

The Economic pillar is concerned with future growth and investment. Has the business been acquired with no plans for continued investment and growth and development, or are there plans in place for expansion and the creation of opportunities for acquired employees, which reaffirms the issue of careers in the Political pillar. Some acquired businesses need new information technology, facilities, and other assets of business, as well, and an investment in these basic needs goes a long way toward assuring new employees of a commitment by the acquiring owners.

Ultimately, with a good foundation and strong pillars, the process will be capped by Control, where management can set the tempo of activities and demonstrate stability in the newly merged organization. Effective implementation of this model will make it clear to employees where they stand with the organization and will allow the organization to demonstrate to external stakeholders that the new entity is in a position to execute its intended strategy.

### **CONCLUSION**

SME owner/operators run several risks when acquiring another SME. There is always the potential of simply buying someone else's problems. Some SMEs will overextend their credit limits when those funds might be better put to use by being invested in their own firm. Also, some SMEs are just not a good fit with the acquiring SME. This is more so the case when a vertical acquisition occurs, since the owner/operator may have never been at that level of the industry niche. For example, a retail SME may purchase a wholesale SME, and clearly those are two different types of businesses with different customer bases and different margins.

Assumed synergies that might be apparent on paper are rarely evident to all the stakeholders involved. This is especially true among the employees in the target SME where uncertainty is often the source of negative rumors and speculation. In this environment, the most able employees often leave the acquired SME for what they perceive as either better or more stable opportunities elsewhere. Employees without such options often become entrenched and begin a counterinsurgency as they attempt to hold on to the status quo and resist change. The U.S. military faces a similar situation when confronted by insurgents. With recent actions in Iraq and Afghanistan the military has been forced to revisit counterinsurgency and update their models. The resulting strategy, known as the Petraeus doctrine, has been recognized as an improvement over previous counterinsurgency efforts and led to greater success for the United States military. While no model can be perfect in such a chaotic and epistemological scenario, the updated military strategy has demonstrated improved results. As such, we have recommended that a modified version of the military model be developed to aid SME managers attempting to consolidate an acquisition. The model that we have described, if properly implemented, will make it clear to individuals where they stand with the organization, inform them about both their future and the future of the organization, and make it clear to external stakeholders the direction the merged organization will take.

By taking action quickly, acting decisively, and with transparency, companies will increase the probability of success. While some individuals will still be negatively affected, acting quickly and communicating transparently to the remaining members of the new organization and external stakeholders will maximize the probability that management will control the situation and have the ability to achieve the planned objectives of the newly formed organization.

### **PRACTICAL IMPLICATIONS AND FUTURE RESEARCH**

Since this model is being proposed here first, there is no empirical data confirming or disputing its premise. The tenets of COIN that are featured here, however, are built on sound principles of military doctrine that were developed over time based on centuries of past examples. Employee resistance to change and new ownership in particular require owners of acquiring SMEs to not just assume business will continue as usual after the acquisition is complete. The fomenting of dissension is a strong possibility in any acquisition situation, and the COIN model presented at least gives managers much food for thought when taking over a new firm. A comprehensive integration plan is needed from day one.

The possibilities of future research in this area are myriad. Case studies are a natural starting point where both the acquiring and acquired SMEs can be studied in person, in depth. Since the value of case studies is limited due to the sample size among other concerns, empirical research in SME acquisition activity is warranted. Firms can be surveyed as to their acquisition activity, and a component of the research must be questions regarding the tenets of the COIN model to see if some or all are already being followed.

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## The Influence Organizational Culture Has On Commitment in the Restaurant Industry

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The study tested an organizational culture and commitment model developed specifically for the full service, casual dining restaurant industry. The model is rooted in the disciplines of organizational behavior and hospitality, as they relate to employees' commitment to the organization and their intentions to stay with that organization. The study identified the attitudes, beliefs, and behaviors that ultimately promote productivity and service quality. Specific antecedents of service quality examined included clan culture type, affective organizational commitment, and intention for employees to remain in their present employment positions. Data were collected from five independently owned, full service, casual dining restaurants. The data results showed high levels of correlation between the variables studied. The results of this study could be used as a foundation on which restaurateurs could build effective training programs and create a paradigm shift in the organizational cultures.

Retraining an existing customer in the United States costs five times less money than attracting a new customer (Groch, 2013). There is an emphasis on service sector employees in the academic and professional literature for two apparent reasons. The first is the shift in the U.S. economy away from secondary industries (i.e., manufacturing sector) toward tertiary industry (service sector). The second is the widespread interactions between customers and employees that typify the industry. Employee attitude, behavior, and work effort has a significant effect on service quality, satisfaction, and customer retention in the service industry (Stamper & Van Dyne, 2003). Developing specific human resource practices can improve various aspects of job satisfaction across time (Rayton & Yalabik, 2014; Caetano, Santos & Spagnoli, 2012). Employee satisfaction positively relates to customer satisfaction and customer loyalty (Payne & Webber, 2006). An employee's job satisfaction influences an organization's performance, as customer service is greatly affected by employee satisfaction (Groch, 2013). Employers can enhance employee job satisfaction to increase service. The employee attitude impacts heavily on customer's perception of service quality (Hartline & Ferrell, 1996).

The service management literature has emphasized the importance of the human element in the delivery of superior service, and customers' perception of exceptional service is often associated with the personal interaction with the employees (Qu & Sit, 2007). The connection is especially relatable in the highly competitive full service restaurant industry. Several variables affect customer satisfaction and retention in the foodservice industry. Research in the area indicates that there is a positive correlation between service quality and customer intentions to return to a full service restaurant (Koutroumanis, 2005). Service quality is an integral part of a restaurant's success. Successful operators constantly focus on improving all areas related to satisfying customers. Although concerns about the foodservice patron should be incorporated into every part of managers' activities, they are clearly not solely responsible for service. Employees, particularly the guest-contact staff, are an integral component of the service delivery process. Restaurateurs are thus prudent to develop processes that build on employee loyalty and commitment to provide and exceed the level of customer service that their patrons expect (Stevens, Knutson & Patton, 1995).

The impetus for the following research study stems, in part, from a quality service model developed by Koutroumanis and Alexakis (2006). The model identifies antecedents of service quality embedded in the way that restaurateurs and their employees view their organizations. According to Maxwell and Steele (2003), human resource management practices must foster organizational commitment in the restaurant industry. Koutroumanis (2005) reported a positive relationship between clan type culture

and service quality. The theoretical model discussed below posits that a clan type (family-oriented) culture will enhance employee commitment and that the two collectively foster significant organizational benefits: reduced employee turnover and increased levels of service quality. Organizational culture, organizational commitment, and employee intention to stay (or leave) in their job support the three variable model presented in this study.

## LITERATURE REVIEW

Corporate culture refers to the internal work environment that reflects a company's values, beliefs, business principles, traditions, and ways of operating (Edelstein, Chiu & Molinski, 2012). The customs practiced in a particular organization usually mirror that of its industry. The restaurant industry is known for fostering a highly bureaucratic, classical management style and philosophy (Koutroumanis, Watson & Dastoor, 2012; Tracey & Hinkin, 1994). Traditional management styles focus on highly defined routine practices with strict adherence to specific rules and regulations (Smucker, 2001). The management philosophy customarily practiced in the restaurant industry does not take into effect the person or individual doing the job, but focused more on the job itself. Identifying what the specific tasks and requirements of the job entail and then training the employees to perform these duties remains the norm in the restaurant industry (Tracey & Hinkin, 1994). The restaurant industry has been considered one that in many ways runs along paramilitaristic lines. The prevailing organizational culture makes it difficult and demanding for those employed within. The classical management style (Theory X-type) can work well when there is little competition and high local unemployment figures. However, the lack of a large labor qualified pool has plagued the industry for a long time.

According to Ulrich (1998), human resource practices must be radically changed for organizations to optimize their human capital. Human capital is defined as “the belief that the development of workers will add value to an organization” (Tesone, 2005, p. 2). It is relevant to note that tenure and the development of human capital does not necessarily reward the employee’s loyalty. Kambourov and Manovskii (2009) found that tenure in an industry has a very small affect on wages once the effect of occupational experience is accounted for. The work setting of an employee is often affected by the prevailing industry culture. It can impact the job one performs. Nonetheless, it seems unlikely that the human capital of these workers is specific to the industry that they work in rather than to the type of work that they do (their occupation). It is expected that when a truck driver switches industries or employers, s/he loses less of his human capital generated by the truck-driving experience than when s/he switches his occupation and becomes a cook (Kambourov & Manovskii, 2009). However, developmental transformation requires organizations to first understand and manage the complexities of their respective cultures (Goodman, Zammuto & Gifford, 2001), thereby building stronger levels of organizational commitment.

## ORGANIZATIONAL CULTURE

Schein (1990) defined organizational culture as “what a group learns over a period of time as that group solves its problems of survival in an external environment and its problems of internal integration. Such learning is simultaneously a behavioral, cognitive and an emotional process” (p. 111). Davidson (2003) described organizational culture as “the shared beliefs and values that are passed on to all within the organization” (p. 206). The shared assumptions, values, and norms can lead to organizational effectiveness and sustained competitive advantage (Zheng, Yang & McLean, 2010). Typologies of organizational culture have emerged from previous research in the literature. For example, the Competing Values Framework (Cameron & Quinn 1999) depicted four distinct culture types. They include: (a) clan culture, (b) adhocracy culture, (c) market culture, and (d) hierarchy culture. They are defined as follows.

*Clan culture type.* Clan type culture can be defined simply as a “family-type organization” (Cameron & Quinn, 1999, p. 36). It embodies a sense of “we” in the organization instead of an “I” mindset among individual employees. A clan culture fosters a high level of autonomy that is indicative of a more organic organization type. Developing a humane work environment characterized by loyalty, commitment, and participation is a defining feature of this organizational culture. Examples abound in the restaurant industry where so-called mom and pop operations still flourish, although their numbers have steadily decreased during the last few decades.

*Adhocracy culture type.* This culture breeds a sense of entrepreneurship. The workplace has a feel of urgency in a highly dynamic environment, where creativity is at the forefront (Cameron & Quinn, 1999; Creque, 2003). This culture type exists in many advertising firms, high-tech software companies, and certain fields within academia.

*Market culture type.* The word market concerns itself with the external market environment. This type of culture orientation is goal-focused, geared towards market superiority, and highly competitive in nature (Cameron & Quinn, 1999; Creque, 2003). Microsoft Corporation is an extreme example of a market culture type.

*Hierarchy culture type.* The characteristics of the hierarchal organization include a very pronounced authoritarian structure. Rules and regulations, distinct lines of communication, and personal accountability are highly valued by management in such a culture. Maintaining tight control and smooth operations are important in this type of culture. The rules and policies are believed to hold the organization together and increase levels of efficiency and effectiveness (Cameron & Quinn, 1999; Creque, 2003).

Employees’ attitudes toward an organization and its customers have demonstrably positive effects on customer service and organizational success. Much research has focused on attempts by organizations to attain front-line employees with the appropriate attitude (Nickson, Warhurst & Dutton, 2005). Specific employee attitudes enhance the probability of success in any industry (Davidson, 2003). Firms with a strong sense of customer orientation have also shown greater levels of customer satisfaction (Schneider & Bowen, 1993). Due to its labor-intensive nature and the high level of interaction between customers and employees, the hospitality industry has a greater likelihood of being affected by its employees’ attitudes and actions compared to other industries (Davidson, 2003; Koutroumanis, 2005).

## **ORGANIZATIONAL COMMITMENT AND SERVICE QUALITY**

The previously cited literature asserted that organizational culture affects employee attitude. The premise prompts several corollaries pertaining to organizational commitment. Organizational commitment can be defined as a psychological state that links employees to the organization (Meyer & Allen, 1997). The impact that organizational commitment has on employee turnover is a common linkage among commitment studies (Allen & Meyer, 1990). The more committed to the organization an employee is, the less likely that employee is to leave the organization. The foodservice industry is characterized by high levels of employee turnover; full service restaurants have turnover rates upwards of 100% (Berta, 2005). Higher levels of commitment also mean an employee is less likely to miss work (Blau & Boal, 1987). Meyer and Allen (1987) developed a three-component model of organizational commitment. The model includes the following terms.

*Affective commitment.* Affective commitment is the employee’s emotional attachment to and identification with the organization. Their continued employment exists because they want to be a part of the organization (Meyer & Allen, 1997).

*Continuance commitment.* Employee awareness of the costs, both positive and negative, associated with leaving the organization defines continuance commitment. The cost-benefit analysis could include the gain/loss of bonus, promotion, or status/title. Employees stay with the organization because they think that they need to (Allen & Meyer, 1990).

*Normative commitment.* Normative commitment reflects the employees having a feeling of obligation to the organization. They stay with the organization because they feel they ought to (Allen & Meyer, 1990).

Consequences of commitment exist at each level of the three-component model. When affective commitment is prevalent, there are greater levels of motivation, desire to contribute, productivity, and reduced absenteeism. When continuance commitment exists, there is not a comparatively strong desire to contribute to the organization. The result could cause poor work performance. When normative commitment exists, employees tend to do the right thing for the organization. However, these individuals may not have a high level of enthusiasm for their work, possibly due to the sense of obligation that they feel (Allen & Meyer, 1990).

Affective commitment can be observed in organizations such as Harley-Davidson, Inc. Its employees' emotional attachment and identification with the organization is so strong that many get tattoos of the name of the corporation. The extreme level of employee connectedness to the organization arguably began occurring when Richard Teerlink became president and set out to create a learning organization.

He began by emphasizing organizational and individual learning at all levels through a Leadership Institute. The institute was designed to introduce new workers to Harley's goals and culture while providing current workers with a better understanding of the organization's design and effects of competition on Harley's performance. Substantial changes in employee job descriptions, responsibilities, and production processes were undertaken in an effort to increase job enrichment and worker empowerment. These efforts were implemented through cross training and expansion of job responsibility. Teerlink eliminated the positions of vice president in marketing and operations because these jobs didn't add value to the product. Teams of employees, such as a "create-demand team" that is in charge of producing products and a "product-support team," now make these decisions. (Hellriegel & Slocum, 2005, p. 522-523)

Like Harley-Davidson, those foodservice operations that address the issue of organizational commitment reap the benefits. Four Seasons Hotels and Resorts has created an affective commitment among employees by treating people (i.e., employees, management, suppliers, etcetera) better than do most companies (Kent, 2005), in large part through their approach to the "Golden Rule" (Sharp, 2013). The result is one of the lowest employee turnover rates in the hospitality industry. The company stock has a valuation multiple that is nearly double that of its closest peer, according to their Senior Director of Human Resources for the Americas (J. Luna, personal communication, January 9, 2013). For 10 straight years, Fortune magazine named the Four Seasons to its list of 100 Best Companies to Work For (Fortune, 2013). Starbucks Corporation is at the forefront among foodservice operators by attaining affective commitment status with its workers (Kent, 2005). For instance, employees who complete a minimum of 20 hours of work or more a week could become eligible for health benefits and may receive a stock option grant. Starbucks's employee turnover is toward the bottom of the industry range and its service levels are high. It has also realized more than 20 years of growth (Kent, 2005).

The extent to which organizational commitment affects the interaction between employee and patron is an important concern for restaurant operators. Service quality is a type of cultural concept that influences the firm's organizational climate and therefore must be examined, measured, and assessed (González Mármol, 2010). Improving service through organizational culture change is crucial to the survival and growth of many companies (Jorritsma & Wilderom, 2012). Koutroumanis, Watson, and Dastoor (2012) conducted research that examined the extent to which the main elements of organizational culture relate to service quality and customer intentions to return. Their findings supported the proposition that customers' perceptions of organizational culture affect both service quality and behavioral intentions in restaurants. The results of a study by Pantouvakis and Bouranta (2013) confirmed the mediating role of employee job satisfaction on the relationship between organizational learning culture and customer satisfaction. In addition, their work supported the premise that the indirect affect of organizational learning culture on customer satisfaction, via employee job satisfaction, will be stronger when employee education is at a high level compared to a lower level (Pantouvakis & Bouranta, 2013).

Organizational culture does not influence the success of the training programs unless human resource management practices that support the training process are implemented (Ballesteros-Rodríguez, De Saá-Pérez & Domínguez-Falcón, 2012). Through improving employee commitment, managerial support has a positive influence on customer satisfaction (He, Li & Kin, 2011). The results of a study completed by Øgaard, Larsen, and Marnburg, (2005) suggest that there are relationships between culture and a manager's efficacy and organizational commitment, and that some cultural aspects are related to performance variables such as personnel cost and additional sales. There is a strong association between culture and human resources management practices; some management practices are more strongly associated with culture than others (Ueno, 2012). Human resources management activities have effects on customer perceptions of service behavior and service quality (Tsaur & Lin, 2004). Effective training is especially important for restaurants that aim to gain competitive advantage by means of good quality service and performance of their employees (Ballesteros-Rodríguez, De Saá-Pérez & Domínguez-Falcón, 2012). In turn, employee behavior is widely acknowledged to have an immense affect on the customer's evaluation of the encounter (Lloyd & Luk, 2011).

Supervisory support and quality were among the most prominent characteristics affected by organizational climate in a study conducted by Bellou & Andreas (2009). Edelstein, Chiu, and Molinski (2012) concluded that a great deal of corporate culture revolves around the interactions between manager and employee and that positive corporate culture is equated with good managerial practices. Experienced change-management skills are necessary for change in which both organizational culture and climate are positively affected (Jorritsma & Wilderom, 2012). Conversely, organizational alignment measures in another study proved superior to employee satisfaction, employee service commitment, and organizational support measures in explaining the organizations' turnover rates (Crotts, Ford, Heung & Ngai, 2009). The findings of a major study expressed that higher levels of commitment to learning, shared vision, and open-mindedness lead to more innovation (Tajeddini, 2009). When an employee or managers learns about their work they are typically reading recent literature (e.g., trade articles, books, videos) that presumably include new ways of doing things. Aside from the innovation piece, Kohn's (1999) research suggested that the learning increases intrinsic satisfaction thereby decreasing turnover. Analogously, shared vision can lead to the intrinsic feeling that one's thoughts and feelings count thereby fostering an orientation of improvement and inventiveness (Drucker, 2014). Crotts, Ford, Heung, and Ngai (2009) indicated strong inter-correlations among employee satisfaction, employee commitment, employee turnover rates, and employee assessments of managerial support. Finally, the influence of the family-oriented type of culture or clan culture type relates positively to customer service quality and to behavioral intention to return in the independent, casual dining restaurant industry (Koutroumanis, Watson, & Dastoor, 2012).

## CULTURE/COMMITMENT MODEL

The paradigm tested and presented in this study is predicated on the above literature review. There evidently exists need for a change in the dynamics of the traditional restaurant organization. The first phase of the transformation process can be changing the organizational culture of a particular restaurant. Hence, developing the appropriate organizational culture is the first phase of the model.

Most restaurants tend to convey the characteristics of a hierarchy culture type (Tracey & Hinkin, 1994). The culture/commitment model would suggest a change of organizational culture to the clan culture type as defined by Cameron and Quinn (1999). The culture type boasts a family type of environment where the employees are an integral part of the organization. It is more of a free flowing type of organization, which has limited structure and informal lines of communication. Viewing employees as part of an interconnected, extended family and addressing the needs and wants of the individuals would create a higher sense of loyalty. Rather than reinforcing managerial authority and confining the subordinate's role to that of highly motivated obedience (Kohn, 1999), the shared power structure and autonomy associated with the culture/commitment model can result in greater productivity. Restaurant operators benefit by creating an environment that will allow the employees to maximize their input in all areas of operations. These include areas traditionally conducted by management (e.g., scheduling, service training, and menu development). Results of a study completed by Jorritsma and Wilderom (2012) recommended the honing of the change-management skill "coaching" for experienced managers, even though they themselves may not feel such a need. Ultimately, effective leadership fosters employee commitment and brand supporting behaviors (Wallace, de Chernatony & Buil, 2013). A fundamental implication of a study conducted by Clark, Hartline, and Jones (2008) is that managers who are committed to service quality and employ an empowering leadership style can create a transformational climate that conveys their commitment to quality service to their front-line employees. This can lead to employees who are more likely to share the organization's values (i.e., values alignment), who understand their role in the organization, who are more satisfied with their jobs, and who perform at a higher level of quality in serving hotel guests (Clark, Hartline & Jones 2008).

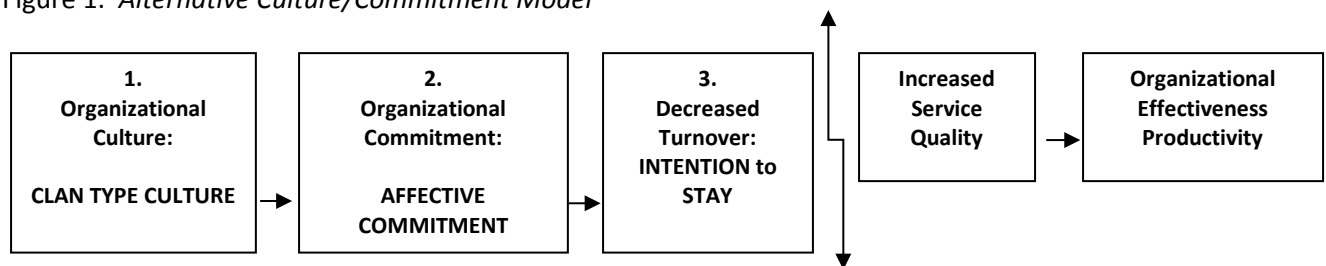
Restaurant employees are on the front lines serving customers and hear feedback immediately, thereby representing a potentially useful source of information. Allowing the employees to impact operations at this level will likely enrich their job functions and create a sense of ownership within their restaurants. It will additionally minimize the routine of tedious tasks to which they have become accustomed. If employees see that their contributions and inputs become implemented company strategies, they will begin to build a stronger bond with the restaurant. Developing a clan culture type takes time and perseverance on the part of the restaurateur and the employees. The structural context of the employees understanding their new role as collaborators and partners in the organization requires patience for this level of unification to come to its fruition.

After successfully creating clan type culture, the second phase of the model will flow easier. Employee commitment is still largely assumed to help improve organizational performance, and some studies have demonstrated its relationship to service quality (Maxwell & Steele, 2003). Streams of research dating back to the 1970s linked lack of commitment to organizational turnover (Blau & Boal, 1987; Allen & Meyer, 1990). Hinkin and Tracey (2000) stated that employee turnover not only reduces the levels of service quality, but also has a negative economic impact on the organization. The rule of thumb in the human resources development discipline is that the cost of employee replacement is at minimum equal to the individual's yearly salary (Mowday, Porter & Steers, 2013). The impact is not only the cost of employee replacement but the lack of revenue that the new employee can generate. As with every job and position, there is a learning curve associated with bringing an employee up to speed. Even if the employee has previous restaurant experience, it takes time to become familiar with the new restaurant's culture, products, and physical surroundings. With a high level of industry turnover (Berta,

2005), it is important to decrease levels of employee turnover. The model emphasizes that developing an affective level of commitment in employees is an effective way for restaurants maintain their employees. According to Meyer and Allen (1997) organizations are becoming leaner, giving more responsibility to the employees, replacing the term “jobs” with the word “roles.”

Figure 1 below provides an illustration of operational environments that encourage a culture/commitment model. This model offers an alternative approach to the classical or hierarchal culture type model that still dominates the restaurant industry.

Figure 1. *Alternative Culture/Commitment Model*



The goal is to develop a climate where employees are motivated to work effectively within the organization. The commitment gap existing between full time employees and part time employees (Stamper & Van Dyne, 2003) stems from multiple factors. Monetary and non-monetary factors are examples of reasons that explain why full-timers tend to have higher commitment levels. Part time employees work part time typically because of other full time obligations (e.g., job, family, school, etc.) or because a full time position did not exist at the time of hire (Stamper & Van Dyne, 2003), much like professionals that make a living as adjunct instructors by teaching for multiple colleges. To build affective commitment at all organizational levels, restaurateurs need to address existing commitment divides. Understanding and speaking to the needs of full time versus part time employees is the starting point for building affective commitment. The next step in the process would be to focus on individual employees and addressing their individual needs and wants. Crook, Ketchen, and Snow (2003) believed that employees should be viewed as strategic resources. Research has also shown that less bureaucratic organizational cultures in restaurants, like those found in independently owned restaurants, create positive relationships between the employees and the organization (Stamper & Van Dyne, 2003).

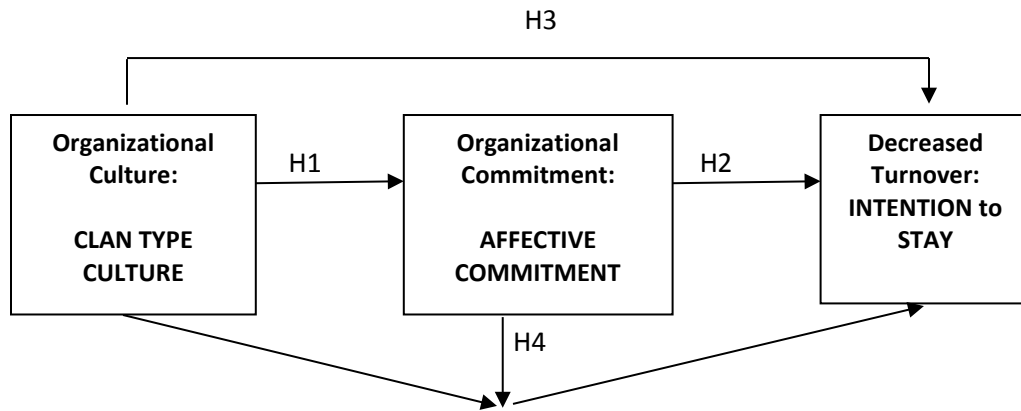
The culture/commitment model is an effort to bring attention to a growing issue and to serve as a scaffold to build the overall success of individual restaurant operations. Although building customer loyalty is one of the biggest challenges for most industries, its potential affect on a firm's profitability is tremendous (Boakye, Kwon, Blankson & Prybutok, 2012). High levels of service quality have been shown to have favorable effects on customers' intentions to return in restaurants. Restaurateurs continually strive to increase sales and profitability. An economical way to accomplish such objectives is increasing the frequency that customers re-patronize their establishments (Koutroumanis, 2005).

The above discussion leads to the following hypotheses (outlined below in Figure 2):

- Hypothesis 1: There is a positive relationship between clan culture type and organizational commitment.
- Hypothesis 2: There is a positive relationship between organizational commitment and intention to stay.
- Hypothesis 3: There is a positive relationship between clan culture and intention to stay.

Hypothesis 4: Commitment mediates the effect of clan culture on intent to stay.

Figure 2. *The Theoretical Culture/Commitment Model Examined*



### METHODOLOGY

The data for the research came from five independently owned, full service, casual dining restaurants in South Florida. Independent restaurants were used in the study because they tend to exhibit the characteristics of a clan type culture, due to their highly organic structure and family orientation (Koutroumanis, 2005). Surveys were hand distributed to employees of the restaurants including front-of-the-house employees and back-of-the-house employees. The researchers attended pre-shift meetings for both lunch and dinner service at each of the participating restaurants. The staff was informed of the purpose of the study (without management or owner presence). Those who chose to participate in the study completed the survey questionnaire during the pre-shift meeting. The survey took approximately 10 to 15 minutes to complete, which did not interfere with restaurant operations. A total of 166 surveys were distributed. Of the 166 surveys distributed, 52 were returned incomplete and were not included in the final survey sample. The final sample included 114 respondents. The 68.7% response rate of this study can be directly attributed to the survey design process. Specifically, the researchers attending the pre-shift meetings caused the staff to be very willing to participate in the study.

### SURVEY INSTRUMENT

The constructs in the study are clan type organizational culture, employee commitment, and intention to stay in the present position. They were assessed with Cameron and Quinn's (1999) clan culture scale; Meyer and Allen's affective organizational commitment scale; and Wayne, Shore, and Liden's (1997) intention to stay scale. The scales have demonstrated sufficient reliability and adequate validity in previous research.

*Cameron and Quinn's measure of clan culture type.* Cohesiveness, participation, teamwork, and sense of family are the dominant characteristics for the clan culture type. Independently owned restaurants tend to embrace these features. They help train and develop their staff in this manner. The study examined if this culture type is indeed prevalent in the full-service, casual dining restaurant industry. The measure that was used is one adapted from Yeung, Brockbank, and Ulrich (1991), Obenchain (2002), and Koutroumanis (2005). The original questionnaire had 12 questions, 3 per culture type classification. The responses were measured on a 5 point Likert type scale with 1=low to 5=high (Yeung *et al.*, 1991). On the original survey instrument items 1, 5, 9 measure clan culture (Obenchain, 2002; Yeung *et al.*, 1991). The three questions were adapted from previous research to operationalize the clan culture type, and appear as questions 6-8 in the survey instrument that was distributed.

Table 1. *Reliabilities (Coefficient Alpha) for Clan Culture Type Scales*

Culture Type	Obenchain (2002)	Yeung, Brockbank & Ulrich (1991)	Current study
Clan	.73	.79	.75

*Meyer and Allen's affective commitment scale.* Meyer and Allen's (1997) developed 6-item scales for each of the three commitment components. The affective commitment scale was the most appropriate for this study because it assesses employee attachment to the organization. Questions 9 to 13 reflect the items related to affective commitment. The median reliability for the affective commitment scale is .85 (Allen & Meyer, 1996).

Table 2. *Reliabilities (Coefficient Alpha) for Commitment Scales*

Commitment	Meyer & Allen (1996)	Current study
Affective	.85	.75

*Intentions to stay scale.* Intentions to stay were measured with the 5 item scale developed by Wayne *et al.* (1997). Since their original scale measured intention to leave, items were reverse-coded to denote intention to stay, except for item 5 that already describes intention to stay. Some items were slightly altered to refer to working in the "restaurant" or "at this job." For example, the item "I am actively looking for a job outside this company" was changed to "I am actively looking for a job to replace this one." "I often think about quitting my job at this company," was reworded to say, "I often think about quitting my job at this restaurant." Reliability for this scale was established by a coefficient alpha of .89 (Wayne *et al.*, 1997).

Table 3. *Reliabilities (Coefficient Alpha) for Clan Culture Type Scales*

	Wayne <i>et al.</i> (1997)	Current study
Intension to Stay	.89	.70

## DEMOGRAPHICS OF RESPONDENTS

Gender, ethnicity, and education of the respondents represent the main sample demographic data of the study. Respondents were 50.9% men and 49.1% women. The largest ethnic group was white (77.2%), followed by Hispanic (15.8%). The largest single education category showed that 36.8% of the sample had graduated high school, followed by 29.8% stating they were still in college. Remaining categories showed 15.8% of respondents graduated from college, 7.9% had received technical training, 1.8% had graduate degrees, and 0.9% had not completed high school.

Additional questions asked of the respondents included their position within the restaurant. They were asked whether they were full time or part time. They were asked the number of years that they have been employed at the restaurant. Results show that 44.7% of the respondents were servers, 17.5% were hosts/hostesses/greeters, 14.0% were bartenders, 14.0% were kitchen employees, 8.8% were dining room supervisors or held administrative roles, and 0.9% were buspersons. The survey sample showed that 65.8% of the respondents were fulltime employees and 34.2% were part time employees. The sample showed that 44.7% of the respondents were employed for a period of greater than 2 years and 55.3% were employed for 1 or less years.

**RESULTS**

Table 4 shows the means, standard deviations, correlations, and reliabilities for the study’s variables. The reliabilities of the study were (Cronbach’s alpha) all above 0.70. The correlation matrix for the three continuous variables shows that they are positively intercorrelated with one another. Thus, the first three hypotheses are supported. Organizational commitment relates positively to clan culture type (Hypothesis 1;  $r=0.66$ ;  $p<.001$ ) and to intent to stay (Hypothesis 2;  $r=0.46$ ;  $p<.001$ ). Finally, clan culture relates positively to intention to stay (Hypothesis 3;  $r=0.33$ ;  $p<.001$ ).

Table 4. Means, Standard Deviations, Correlations, and Reliabilities

	Mean	Standard Deviation	Intent to Stay	Clan Culture	Commitment
Intent to Stay	4.42	.91	(.70)		
Clan Culture	4.15	.92	.33***	(.75)	
Commitment	4.24	.88	.46***	.66***	(.75)

N=114. \*\*\* correlation is significant at the 0.001 level (2 tailed)

Note. Figures in parentheses indicate Cronbach’s alpha reliability for the variables.

Table 5 presents the results of a hierarchical regression equation with intention to stay as the outcome variable. In the first step, we entered clan culture as the dependent variable with output indicating significance for this relationship ( $b=.33$ ,  $p<.001$ ,  $R^2 =.111$ , sig. F change, .000). In step two, we added organization commitment to determine incremental validity, finding significant support ( $b=.43$ ,  $p<.001$ ,  $R^2$  change=.103, sig. F change .000). Results further provide support for full mediation using the Baron and Kenny (1986), four step model of data analytics. Step 1 of the model illustrated the significant positive effects that the causal variable, clan culture, has on intentions to stay. Step 2 assesses correlations between clan culture and organization commitment. Results from the Pearson Correlation Matrix indicate significance ( $R=.66$ ,  $p<.001$ ). Step 3 of the model assesses the effects of the mediating variable, organization commitment, on the outcome variable, intentions to stay. Hierarchical regression results indicate significance ( $b=.43$ ,  $p<.001$ ). Step 4 assesses the impact of the addition of the mediating variable to the regression model. Results indicate that the addition reduced the relationship between clan culture and intentions to stay to non-significant status, demonstrating full mediation.

Table 5. Regression Results, Intention to Stay Dependent

Variables	Equation 1 b	Equation 2 b
Clan Culture	.33***	
Clan Culture		.05
Commitment		.43***
R <sup>2</sup>	.111	.213
F	13.927	15.049
Df	1,112	1,113
Change in R <sup>2</sup>	.111	.103
Sig. F change	.000	.000

\*\*\*  $p<.001$

The data analysis results confirm the model tested in the study. Clan culture and commitment are positively related to intent to stay as demonstrated by the Table 4 correlations. As depicted in the model, clan culture affects intent to stay through commitment as demonstrated in Table 5. The table shows that, in a series of regression equations, clan culture is not related to intent to stay without commitment in the regression equation.

## **DISCUSSION**

The full service, casual dining restaurant industry was the focus of the above study. The major implication arising from the research is that clan culture is not related to intent to stay when commitment is not present. The implication supports the importance of commitment being present to mediate the effect of clan culture on intention to stay. The study shows the necessity for commitment to be in place for clan culture to work effectively. The academic literature contains little in the way of the effectiveness of clan culture, and even less correlating clan culture and commitment. Although many independent restaurant and non-restaurant entities have a clan culture, the findings of this study are of importance because it adds to the literature that clan culture and commitment are positively related to intent to stay through commitment. The results further highlight the importance of the industry-wide concern regarding high employee turnover, particularly for those operations whose organization employs a clan culture.

After developing the appropriate clan culture, practitioners can improve their restaurant operations by considering changes that lead to building an affective level of commitment. The goal is to create an environment where employees want to work well for the organization. When examining the dynamic that makes up the restaurant workforce, two distinct workgroups can be found: full-time and part-time employees. There is a commitment gap between full time employees and part time employees (Stamper & Van Dyne, 2003). Employees that have full time status tend to have higher levels of commitment because of multiple factors that include monetary and non-monetary aspects. Part time employees are usually part time for one of two reasons. The first is other obligations that they have such as a full time job, family, school, etc. The second is that a full time position did not exist at the time of hire (Stamper & Van Dyne, 2003). To build affective commitment through all levels of the workforce, restaurant operators are advised to recognize and address the gaps that exist. Understanding and speaking to the needs of the different segments within the workforce is the starting point for building affective commitment. The next step in the process is to focus on the employees as individuals and addressing their needs and wants at that level as well.

## **PRACTICAL IMPLICATIONS**

Foodservice operation failure rates show that the challenges involved in successfully maintaining a small business. The industry is unique in various aspects and the many variables related to restaurant operations cause managers to strive for precise execution to create the perfect dining experience. The task is compounded in difficulty because it is one of the only industries that must be concerned with producing or manufacturing raw, highly perishable foods into finished products and then selling those items, all under one roof (Sasser, Olsen & Wyckoff, 1978; Koutroumanis, 2005). In a sense, it is at once both a secondary (i.e., manufacturing) and tertiary (i.e., service) industry. Practitioners often contend that executing these tasks becomes easier if operators have the right people in place; a commonly used industry expression is “having your aces in the right places.” The goal of the culture/commitment paradigm is to create as many so-called aces or high performers in the restaurant as possible. Employees should be viewed as strategic resources (Crook, Ketchen & Snow, 2003), with the main goal of using employees in the same manner that one would use a strategic, core competency. Owners/operators cognizant of the full economic ramifications of employee turnover can go a long way to viewing people as strategic resources.

Additionally, research has shown that hospitality organizations that have self-managed teams and empowerment strategies in place have lower employee turnover and higher levels of success and profitability (Crook, Ketchen & Snow, 2003). These strategies are harder to sustain with turnover. Aside from the professional intimacy that develops between management and workers over time in an

operation with low employee turnover, the group dynamics are influenced because team cohesion occurs over time as well. Foodservice industry turnover is characteristically high (Berta, 2005). The academic literature has also shown that less bureaucratic organizational cultures in restaurants, like those found in independently owned restaurants, create positive relationships between the employees and the organization (Stamper & Van Dyne, 2003). There are specific ways to address turnover, create positive employee/organization relationships, and foster an atmosphere of high performance. Aside from paying employees fair and well, successful practitioners use various intrinsic drivers to encourage a culture of commitment. The specific methods can include social gatherings to build team unity, constant, open two-way communication to gauge thoughts and feelings, shared governance to inspire a sense of buy-in and ownership, professional training and development opportunities to sustain job interest.

The culture/commitment model was described in an effort to bring attention to a growing issue of employee organizational commitment and intentions to stay. The model serves as a scaffold for building the overall success of individual restaurant operations. The results will assist in reducing employee turnover and simultaneously improving service quality. The application of the culture/commitment model presents broad implications for restaurant operators, as well as hospitality professionals generally. Its intent is to play a role in building repeat patronage, which will likely have positive effects on the profitability and sustained longevity of restaurants.

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## **The Relationship of Board Composition to Company Performance in Small and Medium Sized Family Firms: A Theoretical Model**

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Prior research has investigated the role of board composition and company performance in larger firms. Little research, however, has investigated this relationship in smaller, family owned firms. This research examines the literature on board composition and strategic decision making, and presents a theoretical model for board composition and firm performance in small and medium sized family firms. Specifically, this paper proposes that an independent board of directors will be positively related with performance in these small and medium sized firms. A proposed methodology for investigating this model and implications are also discussed.

Family owned businesses are important contributors to the U.S. economy, employing over 62% of the nation's workers and representing upwards of 64% of the GDP (Shanker & Astrachan, 1996; Sharma, 2004). Internationally, family businesses represent the majority of all businesses (IFERA, 2003). They are also key to the social cohesion and stability of many communities (Niehm, Swinney & Miller, 2008).

Despite their economic and social importance, not all family businesses are successful and perform well. In fact, over 70% of these businesses do not make it past the first generation and less than 5% make it to the fourth generation (Beckhard & Dyer Jr, 1983; Ward, 2004). Like many non-family businesses, family businesses have their share of problems. Unique to family businesses are the problems of succession (the passing from one family generation to another) as indicated by Chua, Chrisman and Sharma (2003), as well as family conflict. Family conflict and coalition politics among family members can contribute significantly to the failure of family businesses (Kellermanns & Eddleston, 2004; Kets de Vries, 1993).

One other uniqueness among family firms and in particular, those of the small and medium sized nature, is the composition of the board of directors, if a board actually exists. The purpose of this paper is to examine the relationship between board composition of these types of firms and the firm's performance and to provide a theoretical basis for board composition and higher performance. This paper begins with a literature review on the purpose of the Board of Directors and their various compositions as they relate to small and medium sized family businesses and how these boards differ from mainstream public company boards. Following this is a description of the research methods that should be used, some guidelines for developing the study, and practical implications of the examination of these differences.

### **LITERATURE REVIEW**

Pursuant to agency theory, the purpose of Board of Directors (BOD) is to provide a formal link between owners and the managers responsible for the day-to-day operations of the firm (Fama & Jensen, 1983). The BOD has the power to hire and fire senior management personnel as well as serving to resolve conflicts of interest between the various decision makers.

Before analyzing the small and medium sized family businesses, let us first very briefly examine the larger public companies and their board structures and look at their effects on performance. With the various accounting scandals such as Enron and WorldCom, and with numerous more companies restating their earnings (Agrawal & Chadha, 2005), there were calls to bring these situations under control. The Sarbanes-Oxley Act, 2002 (SOX) addressed these many concerns and issues. As a result, the BOD composition in many public companies has changed dramatically in the post-SOX era. One of the

major changes in board composition has been the addition of independent members. Different corporations will have different definitions for what is an independent director. For purposes of this study, an independent director is defined as a person who has no material relationship with the company (including as an employee, partner, shareholder, or officer of an organization that has a relationship with the company).

Several studies have been done linking performance to BOD composition, specifically to a board dominated by independent directors. In a 2005 study, Petra examined the effects that outside independent directors had on firm performance and shareholder wealth (2005). He concluded that independent directors do strengthen corporate boards. Similar studies by Gordon (2007) and Mura (2007) came to analogous results. A BOD dominated by independent directors, it seems, is here to stay. However, a 1998 meta-analytic study by Dalton et al. suggests that there is no relationship between BOD composition and firm performance (Dalton, Daily, Ellstrand & Johnson, 1998). This study was conducted prior to SOX, which may have had an impact on their findings.

The family firm, be it public or private, brings a different set of variables to the table when addressing the composition of the BOD. Family firms can use its member's assets to strengthen the firm, but alternatively, family members can take assets out of the company, thereby undermining the firm's stability. Haynes, Walker, Rowe, and Hong (1999) examined the prevalence of a family to use their funds to support the business or if the business's assets were used to fund the family's needs. They found that families were more likely to use the firm's resources to satisfy their needs rather than using personal assets to strengthen the firm.

Behavioral issues or family dynamics also represent a major difference between family firms and non-family firms. Corbetta and Savato (2004) note that "the owning family has a strong influence on virtually all psychological and situational antecedents of organizational behavior" (p. 357). Family cohesion is one component of that behavior. Increased family cohesion can substantially improve company revenues (Olson, Zuiker, Danes, Stafford, Heck & Duncan, 2003).

When it comes to studying the BOD composition and performance levels of the family firms, virtually all of the studies focus on the larger public family firms. Anderson and Reeb (2004) determined that the most valuable public firms were those that were able to balance independent directors with family membership. Their results were consistent with agency theory in that they found that "independent directors act to prevent the misappropriation of the firm's resources, resulting in better firm performance" (p. 226).

In a 2007 family business study, 788 responses were analyzed from businesses with revenues of at least \$5 million and in existence for at least five years (Laird Norton Tyee, 2007). The BOD structure was broken down as follows: 24.9% had no board at all, 61.4% had a board of directors, 7.1% had an advisory board, and 6.6% had both an advisory board and a BOD. Of those companies with boards, 54.2% consisted of family only, 2.1% were non-family only, and 43.7% had both family and non-family members. One other statistic from this study indicated that 23.4% of the respondents either disagreed or strongly disagreed that a BOD makes a positive contribution to the direction of the business. Although not confirmed, it is suggested that this group would be the same group as represented by the 24.9% that had no board at all. A similar study of family businesses conducted in 2002 showed that 87.5% of family businesses had boards of three to four members and that 90.6% had at least 2 family members (Mass Mutual, 2007) 25% of respondents indicated no contribution from a board, which could imply that there was no board present.

As the above statistics would imply, the majority of family businesses do have a BOD of some sort. Most appear to be insider (MassMutual, 2007) dominated, followed by a mix of insider and outsider membership, with businesses having no boards rounding out the field. Why would a company not have a BOD? Most small businesses are started by a sole founder/entrepreneur, and most entrepreneurs value their independence and tend to want to keep 100% control. According to Johannisson and Huse (2000), "Entrepreneurs in particular may defy any definitive control, including that of a formal board" (p. 375). The existence of a BOD or its composition also depends upon the generational position of the business (Bammens, Voordeckers & Van Gils, 2008). Firms in different generational phases will have different governance requirements. A new or young business is still being run by its founder and will have no need for any directional input from anyone.

As seen by the statistics above, an overwhelming majority of family businesses have a Board of Directors. The next question that beckons to be answered is whether to have an outside (independent) dominated board or an insider dominated board. To determine this, it is proposed that each format and its effect on performance should be examined (Brouthers, Brouthers & Werner, 2003). The measures of performance that should be used are sales growth, sales level, profitability, market share, reputation, distribution, market rating and market access. The earlier definition of an independent director did not account for the family business environment. Therefore, any family member not active in the business cannot be considered as an independent director.

Just as in the larger public family business, the addition of outside directors can have a positive effect on the business. The presence of an "active, effective board of outside directors" can be one of the single greatest resources for a family business (Aronoff & Ward, 1992, p. 62). Outside directors can provide the necessary objectivity needed to help with a number of issues, such as dividend policy, compensation and familial support. Aronoff and Ward (1992) also suggest that many successions probably would not have been executed without the presence of the outside board member. "The mere presence on the board of respected outsiders signals a commitment by the owners to employees who may be uneasy about the owners' intentions of keeping the business or of remaining interested in the business." (Ward, 1988, p. 224). Fiegenger, Brown, Dreux, and Dennis Jr. (2000) found that an outside board would more likely be present when the business was closer to succession than not, and also when the business would chose a non-family member as its successor. In the same study, it was also determined that ownership held by individuals outside the business was the strongest determination of an outside board makeup. The CEO would adopt an outside board when external owners demanded it. Both the BOD and the top management team can have an effect on the productivity of the small firm, both family and non-family (Cowling, 2003). The addition of an outsider non-executive was found to positively impact productivity output. Productivity was also correlated to a larger board size as well.

An outside dominated BOD can have a positive influence if there is an honest desire on the part of the CEO to have such a board, if there is a selection process that assures the competence of such a board and if there are shared expectations (between management and the board) about the contributions to be made by such a board. The typical family-owned business has a concentrated shareholder base and family member insiders active in both management and the board of directors (Lane, Astrachan, Keyt & McMillan, 2006). Many studies have been done from the management perspective to determine whether, overall, this is a positive attribute for the family business or whether it negatively impacts the business (Carney, 2005; Poza, Hanlon & Kishida, 2004).

Small businesses tend to be less strategic when the ownership structure is more controlled than widespread (Brunninge, Nordqvist & Wiklund, 2007). Given the fact that past research (Sharma, Chrisman & Chua, 1997) establishes the connection between strategic planning and the success of the family business, it would stand to reason that family businesses that are more "insider" controlled would not be as successful as their counterparts.

Van den Heuvel, Van Gils, and Voordeckers (2006) determined that most CEO's of SME's found their boards to be more useful in a service role (reputational resource, networking, etc.) than in a control role (determining management's roles, salary, etc.). This suggests that the management team would have more of an impact on performance than would the BOD. Brunninge, Nordqvist, and Wiklund (2007) also endorses the concept that the top management team has more impact than does the BOD. A Turkish study (Kula & Ekrem, 2006) found that the weight of the outside director's on a board was the least prevalent attribute to company performance. In another study, Westhead and Howorth (2006) also determined that ownership structure was secondary to management as they relate to firm performance. Finally, Sciacia and Mazzola (2008) found that family involvement in ownership has no effect on firm performance. Based upon this evidence, the following proposition is posited:

Proposition 1: A Board of Directors that is predominately independent will have a positive impact on the performance of a family business.

### **METHODOLOGY**

As this study is concerning itself with small and medium sized, private family firms, typically collecting data from these firms is potentially difficult to obtain (Handler, 1994). Private firm owners are usually reluctant to release financial data as well as other information as it pertains to their performance and company operations. Previous studies involving these types of companies have, however, obtained the necessary information and data. This can be accomplished using either primary or secondary data. Secondary data can come from studies such the Mass Mutual study or the Laird Norton Tyee study, both of which were referenced earlier. However, the use of secondary data can limit the validity of the study due to the necessary data not being available as it relates to the variables in this study. Therefore, the preferred data source would be primary. Databases, such as Compustat, WRDS, D&B, or organizations such as the Small Business Administration or the Family Firm Institute can be used to gather a sample size sufficiently large enough from which to draw data. Once a sample size of firms has been identified, a questionnaire will be developed and distributed to that sample, probably through some sort of on line survey, similar to Qualtrix. The F-Pec scale (Astrachan, Klein & Smyrniotis, 2002) should be incorporated into the questionnaire to ensure the respondents consisted of family-owned businesses. This scale has the ability to distinguish between family owned or non-family owned businesses. It is anticipated that a sample size of at least 100 is needed to conduct the appropriate analyses of data.

Firm performance can be more difficult to measure, especially in the private firm arena. Ideally, objective data is preferred, but as mentioned earlier, this data is not freely expended. As a result, subjective data is the alternative choice. Dess and Robinson (1984) confirmed that although objective data is the preferred choice, subjective data was proven to be strongly correlated to objective data. There are two ways to analyze subjective data. Scascia and Mazzola (2008) use eight measures and asked the respondent to compare their performance against their competitors. Alternatively, various studies, such as Brouters *et al.* (2003), have used the eight measures (shown in Appendix 1), and found them to be a very successful measure of firm performance. They ask the respondent how satisfied he/she is concerning the eight performance measures and use a 10 point scale ranging from very dissatisfied to very satisfied.

### **DISCUSSION AND PRACTICAL IMPLICATIONS**

The practitioner value of this study will serve to further enhance the potential value of independent (outsider) membership on the boards of small family owned businesses. Studies show that in larger, publically owned family businesses, an independent dominated board positively contributes to firm performance. Publically owned firms are scrutinized more closely and are legally bound by more rules

than their smaller private counterparts. Many times these smaller private firms (rightly or wrongly) feel that they do not have much in common with their “big brothers.” This study would help to break down that perception.

Academically, this research will serve to enhance the literature on two counts – the BOD literature as well as the family business literature. As stated earlier, this type of study has been conducted on the larger, publically owned family firms, but not on the smaller private family businesses. This study would, therefore, contribute to the research on the smaller family owned businesses, which tend to dominate the market place worldwide. Future research could go further by identifying some moderating factors, such as gender, or age and looking at the family business BOD under those microscopes.

Independent board members can introduce a level of objectivity and accountability, expecting that their voices will be heard. Further, independent board members can contribute to help professionalize the family business as well as help in the formalization of policies and processes such as the succession process. Outside members can provide continuity and guidance to the younger generation coming on board, thereby aiding the preservation of the founder’s (or prior generation’s) vision for the company. Additionally, they can be instrumental in developing potential exit strategies should continuation not be an option.

As family businesses can be prone to differences of opinions and potentially damaging conflicts, outside directors can act as a mediators or conflict managers. They can offer a different perspective. They have the ability to help separate family matters from business matters as a result of their neutrality. Their independence allows them to offer constructive criticism without fear of initiating a family squabble.

Lastly, their ability to look into the business from the outside can help the CEO deal with a long term strategy as opposed to be being bogged down with the day to day operations. Risk management, future growth, potential investments, and preserving a positive impact on the community are just some of the things that an independent director can positively impact a family business.

## CONCLUSION

In conclusion, this paper provides a theoretical framework for board composition and strategic decision making. First, it proposes that an independent board of directors will be positively related to small and medium sized firm performance. Secondly, it provides a methodology for investigating this research model for future research. Finally, it offers both research based and practical implications for this model. There is great value for external board members on a family owned firm board, and continued research will demonstrate the benefits of this purposeful board composition.

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## APPENDIX 1

### FIRM PERFORMANCE MEASURES

How satisfied are you with the performance of this operation?

Sales Growth	1	2	3	4	5	6	7	8	9	10
Sales Level	1	2	3	4	5	6	7	8	9	10
Profitability	1	2	3	4	5	6	7	8	9	10
Market Share	1	2	3	4	5	6	7	8	9	10
Reputation	1	2	3	4	5	6	7	8	9	10
Distribution	1	2	3	4	5	6	7	8	9	10
Market Rating	1	2	3	4	5	6	7	8	9	10
Market Access	1	2	3	4	5	6	7	8	9	10

1 = Very dissatisfied; 10 – Very satisfied

## **Mayhem: A Hands-on Case Playing Activity for Teaching Porter's Five Forces to Undergraduate Business Students**

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To provide a theoretical foundation for beginning undergraduate entrepreneurship students, most early entrepreneurship courses include instruction on higher level strategic management concepts. Such instruction leaves some students lost at an early point in the course, due to their lack of prior courses in advanced business theory. Case studies and role playing have been used for decades in management courses to give students practice in strategic decision-making. Accreditation organizations and curriculum improvement efforts have recently added emphasis on experiential learning as a way to promote deep understanding of business principles through practice. This article provides an entertaining case playing alternative to traditional lectures and case teaching of Porter's Five Forces. In the game of Mayhem, students role play each of the players in the Five Forces framework, while the instructor interjects challenging environmental shifts.

One of the most difficult ironies to contend with in undergraduate entrepreneurship education starts with the problem that even introductory entrepreneurship courses contain sizeable amounts of business strategy theory in the curriculum. Typical undergraduate business core curricula purposefully place an integrative course in business strategy at the end of the students' experience so that students enter with knowledge of all parts of the corporate system: finance, marketing, management, law, accounting, and economics. In some schools, students are not allowed to take strategy in any semester other than their final one, just to ensure that they have the information needed to integrate during the course. However, students entering an entrepreneurship course series rarely have this full exposure to all parts of a business school's curriculum. More often than in other Business School majors, early entrepreneurship students have not had business courses at all, as just as many students interested in entrepreneurship hail from other disciplines at the university than do from business colleges (Shinnar, Pruett & Toney, 2010). Due to this lack of exposure, students are poorly prepared to comprehend strategy topics, yet most introductory entrepreneurship textbooks deliver strategic management theory within the first third of their content.

The purpose of the Mayhem role playing activity is to lessen the shock of difficult strategy theory by immersing the student in an actual small business's environment and market situation. It combines action-based learning with real-world situational information provided by case analysis, within a single class meeting and with a reasonable level of outside-of-class preparation by the student. Students who are in their first semester of business curriculum can use the tools provided by the assignment to "case-play," acting on the motivations of the industry players within the Porter's Five Forces framework, and they shortly begin to attempt strategic decisions that would be made by each player in the industry, given a set of environmental shocks. By separating the class into groups representing each of these five forces and an entrepreneurial focal firm, students can see how decisions made by one industry player could render another industry player's decision a positive one, or a detriment to the company. Most importantly, students can be engaged while learning.

This paper begins by describing the rationale behind the teaching of Porter's Five Forces in the entrepreneurship and strategic management disciplines. Background information on the effectiveness of case study and role playing methodologies in entrepreneurship pedagogy is then provided. A description of the game and the requisite instructor's preparation is then outlined, followed by a suggested structure of the game in class. Lastly, pilot outcomes of the game are enumerated and implications for future research and pedagogical design in case playing are offered.

## TEACHING THE FIVE FORCES IN ENTREPRENEURSHIP

Michael Porter originally constructed the Five Forces framework to explain why the structures of some industries lead to exceptional profitability, and others' structures do not (Kiechel III, 2010). Developed from the field of industrial organization economics (IOE), the Five Forces framework incorporated issues of number and size of firms in an industry with switching costs, exit and entry barriers, and potential substitution (Porter, Argyres, & McGahan, 2002). The concept of the framework is that choices of industry, choices of market position, and choices with respect to network relationships can vary performance. Thus, the perspective of the framework is external-environmental in nature and requires a significant understanding of a business's surrounding industry environment.

An additional benefit of the Five Forces framework, specifically for beginning business students, is that it gives students an opportunity to understand the actors' perspectives in a vertical chain of industry activity (Brandenburger, 2002). Through the framework, students can begin to see the motivations of a business to maintain competitive cost structures and high margins. They can understand the supplier as another business, aiming for profit maximization, as opposed to the contrarian player that a cursory memorization of framework "threats" implies. They can understand how a business at the center of the supplier/customer lineage can better serve customers while simultaneously increasing prices for increasingly valuable product. In this way, the framework can actually help students practice the decisions that business owners, as strategists, make every day in a low-risk setting (Brandenburger, 2002).

The Five Forces framework is introduced to students early in the entrepreneurship curriculum. In the most widely used entrepreneurship textbooks for introductory classes, the framework is presented as a part of industry analysis and opportunity recognition within in the first half of the book, which usually corresponds to the first half of the semester (Barringer & Ireland, 2012; Hisrich, Peters, & Shepherd, 2010; Scarborough, 2014). Likewise, the introductory course that uses this textbook, often entitled Entrepreneurship or Introduction to Entrepreneurship, is typically a second or third-year designated course, ensuring that most who enroll in the course have not progressed through upper-division business coursework.

The idea behind inclusion of this framework in entrepreneurship coursework at such an early stage is to help students understand how they can determine if there is viability in the selection of a particular business model within a certain industry. However, students must already have an understanding of several higher-level industrial/organizational and business policy principles (supply and demand, barriers to entry and exit, economies of scale, resource-based theory of the firm, switching costs, and supply chain management and integration, just to name a few), before truly being able to analyze and predict how the Five Forces framework will actually play out in any one industry situation. Michael Porter himself asserts that if a manager studies these forces, they have to make sense within his own industry (Porter *et al.*, 2002). First-year entrepreneurship students simply do not have these competencies. Students who have not studied specific industries in depth may not have anywhere near the conceptual sophistication to comprehend industry-related problems that is required to internalize and ever apply these forces. All that is left as an option is a rote memorization of a list of five factors, at the ready for regurgitation on a short answer question.

This problem is not at all limited to the Five Forces framework, but extends to a number of bodies of classic strategy theory. Resource-based view (RBV) concepts such as core competencies and the VRIO framework as they relate to competitive advantage are also lost on many students who have not previously been exposed to a business mindset (Schneider & Lieb, 2004).

It is easy to ring the alarm and call for the restructuring of strategy textbooks and classrooms across the board, but this is not practical nor even desirable. Opportunity identification is certainly a necessary introductory topic for discussion when teaching students how to get started on business idea generation. It is impossible to adequately teach even the most basic of opportunity recognition concepts without the use of strategy theory (Fiet, 2000b; DeTienne & Chandler, 2004). Therefore, the more appropriate question to ask is not *whether* strategy should be integrated into early entrepreneurship curriculum, but *how* this can be done more successfully.

### **EXPERIENTIAL LEARNING IN POST-SECONDARY BUSINESS EDUCATION**

AACSB International, the primary accrediting body of post-secondary programs of business, asserts in its 2013 Standard 13 that pedagogical practice is a critical addition to classroom-centered curriculum, as it promotes student engagement (AACSB International, 2013). These experiential engagements include simulations such as the role playing exercise presented in this paper. Experiential learning theory describes this educational system in part as process-based, conflict-based, and centered in the interactions between the person and the environment (Kolb and Kolb, 2005). The learner experiences, reflects, thinks, and reacts, and the multi-sensory placement of the student into a three-dimensional learning environment promotes understanding that a one-dimensional lecture cannot replicate. This immersive environment places the student in a momentary position of replication of the environment they are studying and practicing to work within.

### **CASE STUDIES IN BUSINESS SCHOOLS**

The origin of the use of case studies in business schools traces back to the 1950s and 1960s. A nationwide, multi-faceted, academic response developed when the Ford and Carnegie Foundations scathingly reviewed colleges of business as barely more than vocational schools (Schneider & Lieb, 2004). As a part of the reaction, case methodology was created to educate students on application of theory that would develop greatly in size and scope over the next 40 years. Even when Porter's Five Forces were gaining traction among practitioners and were disdained by his colleagues in the 1970s, the design of the pedagogy for teaching the framework was case analysis (Kiechel III, 2010). As could almost be predicted, the same academic response that began the race to develop theory has been criticized by some as causing an overemphasis on theory and a neglect of skill development through practice that case teaching provides (Greiner, Bhambri, & Cummings, 2003). Thus, there has been a call to return back to the case as a major pedagogical method for teaching strategic management.

In the entrepreneurship discipline, case work and experiential exercise as a part of a training program in idea generation has been shown as a powerful intervention in decision-making skills, eliciting growth in both the number of opportunities identified by entrepreneurship students and the innovativeness of the opportunities generated by the same (DeTienne & Chandler, 2004; Porter *et al.*, 2002; Solomon, Weaver, & Fernald, Jr., 1994). In this particular study, no effect was found of an interaction between levels of innovativeness before the training, and how well the training worked on an individual. All students benefitted equally from training in opportunity recognition, such as that found in experiential exercise. Experiential learning exercises have also been shown to increase conceptual understanding in the classroom, over lecture methods (Specht, 1985; Rasmussen & Sorheim, 2006).

### **ROLE PLAYING IN BUSINESS SCHOOLS**

An alternative to case study that similarly places the student in the context of the decision-maker is role playing. Role playing is any "dynamic process that involves participants assuming specific roles and acting out specific events (Solem, 1960)." As opposed to case analysis, wherein the discussion places

the student as a third-party, omniscient viewer, role playing places the student in the role of the decision-maker, and gives the student varying levels of information on which to base his or her actions. Like case playing, role playing has been studied in a variety of contexts such as training and classroom exercises. It has been shown to allow students to develop a larger number of higher quality solutions to given problems (Colgrove, 1968). Role playing has been shown to increase the empathy and affinity of the participant to the role assigned, allowing for attitude change toward the assignment (Kidron, 1977). Role playing allows for the student to escape the tedious theory lecture and create: create solutions, personalities, and imaginary entrepreneurs pursuing potential ideas (Fiet, 2000a; Carrier, 2007). The use of the creative portion of the brain is a welcome change to note-taking and listening. These are all strong benefits, but in the absence of detailed case information on a firm's situation and environment, role playing would seem to produce student decisions and output that would be more directed by their professional intuition. In the case of an undergraduate student with little work experience, such intuition would not be fully formed.

### **CASE PLAYING AS AN ALTERNATIVE**

Strategic theory pedagogy in today's courses relies heavily on a teacher-to-student flow of communication and education (Schneider & Lieb, 2004). A great deal of emphasis is placed on discourse on theory and techniques such as SWOT or the Five Forces framework, but with the exception of simulation gaming, younger students rarely go beyond these borders into the area of management decision-making practice. Games such as the case playing exercise described in this work allow for undergraduate students, with or without work or ownership experience, to finally dialogue with success among themselves about the theory being applied.

The nearest pedagogical method to case playing would be the in-basket exercise, typically a writing or communications activity wherein students would be given a series of memos or a situation and would be asked to produce a memo in response (Stearns, Ronald, Greenlee, & Crespy, 2003). Such activities would contain a case study primary activity, with a decision-making and communications process based upon the information provided in the case. Upon participating in the activity, students tend to report greater understanding of the types of information an executive would use to make a decision.

Case playing is defined here as role playing within the context and actors of a business case. Students are first given a case and are encouraged to learn all about the business from news articles, internet blogs and sources, and videos posted on the company and its competitors. This alone is a diversion from traditional case teaching, wherein the student is advised to stick only to the confines of the case and not to confuse oneself with outside information. Once students have had time to prepare, class time is invested to allow the student to take on the role of a player in the case that was studied. The instructor's job is to provide a practical framework for the discussion that has its foundation in theory. The applications of case playing could be an entrepreneur studying opportunities for startup, a business selecting suppliers and negotiating terms with them, or a manager training employees on ethics. Regardless of the theoretical application, the object is to get the student to kinesthetically engage in a decision-making activity while possessing some degree of confidence that he or she is fairly well-informed from the case reading on the real-world variables that enter into the decision under focus.

One criticism of exposing students to this type of activity is that it could oversimplify the level of sophistication required and variables inherent to real-world strategic decision making (Schneider & Lieb, 2004). It is possible that even with the outside-of-class preparation, the mindset required to make major strategic decisions for an organization is simply not developed, and requires more coursework and more theory to grow. However, in the experience of the author in a piloting of case playing, that does not occur regularly. While students are hesitant during the first few iterations of the game to make a

decision and communicate it loudly to the rest of the class, by the third iteration, even the most reluctant students seem to be absorbed into the social fray of competing with the rest of the “industry players,” and are very engaged in the learning process. The practice of decision-making while repeatedly applying theoretical principles is the point of case playing, not the correctness of the decisions made, themselves. The following example provides insight into Mayhem, a game of applying Porter’s Five Forces to decisions small businesses would need to make in the context of a specific industry.

### **PREPARATION: ASSEMBLING THE CASE FOR MAYHEM**

One of the most rewarding parts of the Mayhem game is the instructor’s preparatory work with a local small business. To begin the process of the game, the instructor should contact a local business that preferably has a tangible supply chain. Knowledge-based businesses have shown anomalies to these five forces that would challenge upper level undergraduates and graduate students, but could seriously confuse and undermine the confidence of an undergraduate (Sheehan, 2005). For the pilot exercise, the instructor contacted a local gourmet chocolate manufacturer who has grown rapidly in the five years since startup. Fortunately, the media buzz surrounding this local manufacturer also allowed for a number of professionally designed videos on the business to be posted to YouTube. Several of these videos showed the inner workings of the business, and were narrated by the owner as he told the story of the company’s inception and early growth. Similar videos could be made by one class section in preparation for the next semester’s Mayhem exercise if they did not already exist, and could be tailor-made to the class exercise.

Initial contact with the entrepreneur should lead to a request for a one-hour interview, preferably conducted at the entrepreneur’s business location. Interviewing the entrepreneur at the location allows for the instructor or case writer to understand the business’s atmosphere, employee behaviors and relationship to the owner, physical plant, and proximity to resources and network members. Once the interview has been set, data can be collected to design the Mayhem game case for the students. Appendix A shows a list of questions that would elicit a suitable amount of information for a case of this magnitude.

Once the data have been collected, the instructor should begin to assimilate the information into a detailed three to four page document that students can use to prepare for the Mayhem game the night before the class when it is played. An example case is provided in Appendix B. The idea is not to overburden the student with an enormous amount of dilemmas, but to give him or her enough information to feel comfortable with who this focal firm is. The student should be able to reasonably step into the shoes of not only the entrepreneur, but also the entrepreneur’s top two or three suppliers, their largest customers, their closest competition, other substitutes or businesses producing alternative products, and lastly other potential entrepreneurs who might decide to carve a niche of their own in this part of the industry. Information on industry history, structure, growth, profitability, rigor of competition, demand, materials and supply, pricing, channels, product lines, elasticity, and major competition should be given, as well as relevant characteristics about the focal firm itself: its history, mission, growth, venture team, employees, product lines, pricing, cost structure, suppliers, major customer segments, largest individual customers or distributors, channel structure, financing, strategy, culture, and atmosphere. Care should be taken to eliminate jargon and clutter in the design of this short situational report, to ensure that students are well-informed but not bombarded with information that exceeds their understanding. Volunteers from the group of students least well-trained in the preparation class could assist in proofreading and testing of the document.

### IMPLEMENTATION: PLAYING MAYHEM

Students are given the Mayhem case situation several days before the game is to be played, and the instructor is to request that if at all possible, students should review the case the night before the Mayhem class session so that they are sharp on the details of the case and feel comfortable in the roles of the actors. When students arrive at class, tables or desks should be shifted so that five to seven students can be placed on one of six teams. The teams are divided into each of the five forces, plus a focal firm team who will play the role of the small business floating in this industry environment. If a video has been prepared, students then watch a short 10 to 15 minute video on the company that allows them to see some of the characters they have read about in the case and then visualize the physical business. They can suddenly see the office area, the loading dock, the manufacturing equipment, the product being assembled, and the owner working and talking with the employees. This sensory experience is designed to increase their comfort in acting in the role of the players in this story. After the video there is time for a few questions and a short discussion and clarification session of student reactions.

The groups are then assigned and instructed. The first group is designated the Focal Firm Group. They play the part of the entrepreneur, trying to grow his or her firm in an established industry. The second group is called the Competitors and is seated at another group of desks or tables. This group takes on the role of the most salient competitor to the focal firm, who has been described in some detail as to its market position and strategy in the short case. The third group is called the Suppliers. The focal firm's most critical supplier, outlined in the case, interacts with the firm in both a cooperative and self-motivated way simultaneously. This supplier is also a source of competitive intelligence for the firm and its competitors. The fourth group is called the Customers. This group will vary from distribution to retail outlets to end consumers depending on the focal firm chosen, but will be described in the short case as a single entity: a single, existing distributor, retailer, or target market. This description will allow the student group portraying the customer to have some level of comfort in predicting the customer's likely decisions, given a situation. The fifth group, the Substitutes, operate as a business in an adjacent industry. For example, as our focal firm was a chocolate manufacturer, our substitute company was a company that produced mainly mass-marketed corn syrup and cane-sugar based candies containing little or no chocolate. The sixth group, the Wannabes, are the new potential entrants. These students are the only ones not given an existing company to portray; rather, they are a group of partners considering startup in this industry. They keep a watchful eye on demand, supply, and the industry to determine whether opportunity might exist with each proposed Mayhem change.

At this point, the stage is set, and Mayhem calls the game to order. "Mayhem" is the name given to the instructor who plays a master of ceremonies character similar to the recent series of Allstate Insurance Company advertisements. In these promotions, which every student has likely seen, Mayhem is a fellow who breaks car windows, smashes through sides of homes, bursts water heaters, and allows nature's creatures into the house. The character takes everything one hopes will not happen and facilitates it. The role of Mayhem in this case play game is to take some of the toughest environmental shifts a fledgling company could experience and present them to the groups, simultaneously, for them to develop a response. Each group must develop a response to the environmental shift at the same time as the others, then all groups are called together after five minutes or after conversation dwindles and answers are ready. "Wait and see" can be considered a valid response, but cannot be repeated by the same group more than once.

Some of the examples of environmental shifts given during the pilot exercise were a crop blight on the world cocoa market, causing supply to dip 40%, a World Trade Organization, multinational arrest of cocoa cartel operatives that frees up supply, the bankruptcy and folding of the U.S.'s largest chocolate

confectionary, and the publication of a study showing that chocolate is causing autism in children who also take allergy medicine. Many of these shifts are nonsensical, but allow each group to first, consider the implications of the specific shift on the entire industry. Next, the group tries to predict the strategic responses of the other groups. Finally, it decides upon what its best course of action would be.

The last step in an iteration of the game would be the reveal of decisions. One-by-one, each group reveals what they decided to do, given the shift, and the instructor moderates by having the class keep score, as to whether the response makes sense and would be a good response in light of all of the others in the industry as you go around the class. After three to five iterations and environmental shifts, depending on the length of the class period, students should be debriefed on what entrepreneurial strategy theories you heard them apply to their decisions. Students should go around the room one last time to repeat the primary motivations of their team, and offer one revelation that surprised them during the activity. At this time, the game is over.

### **PRACTICAL IMPLICATIONS**

The implications of using this game are numerous. The primary implication is that students will understand how to apply Porter's Five Forces much more thoroughly after playing the game than before. Knowing the motivations of each of the forces can help students work through new industry applications of the framework, to determine the effect on profitability of the forces at play. Another benefit of using this game is that RBV is not lost in the midst of so much IOE. By pausing to allow the focal business group to speak about their decisions as small business owners, and conducting the activity as revolving around this business's perspective, careful attention may be paid to resources the firm has as a critical component of the strategic decisions and competitive moves the firm makes. Such interpretation requires the student to perform within the focal firm's means, and allows students to consider what resources outside their means they might pursue as entrepreneurs

The secondary implication is that students will understand a complex concept – that of the supply chain – after playing this game. If students have not been in the workforce long, or have not had exposure to the purchasing function or to distribution, the concept of marketing channels may be unclear for them. This game allows them to learn by doing, in a classroom reenactment of the relationships between buyers and suppliers.

The third and most important implication of the game is that students will be engaged while learning about theory through experiential learning. As accrediting bodies are beginning to emphasize, one of the best ways to promote student learning is through immersion into an environment of decision-making based on the theories in the class. Addition of innovative class activities helps to support institutional compliance, specifically with AACSB Standard 13, and allows the student to engage in ways lecture cannot replicate (Kolb & Kolb, 2005). Rather than sitting at their desks taking notes, every single student in the classroom during the pilot run of this game was excited and engaged. As no grade was taken on the output, students felt free to generate interesting alternatives. Even the least confident students, simply with the physical presence of the instructor in their corner during the first couple of decision reveals, gain enough confidence to start operating independent of the professor. Through its achievement of class objectives in an entertaining medium, the Mayhem game creates a win-win-win situation for students, instructors, and future employers and community alike.

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### Appendix A. Sample Informational Interview Questions

<u>Industry Environment Force</u>	<u>Questions to Ask Entrepreneur</u>
Bargaining Power of Buyers	<p>Who are your customers? Do you use distributors? Who? Do you have individual consumers? Who are your largest or most loyal customers? What percent of your business would you say relies on their purchasing? How many customers would you say you work with? How would you describe your relationship with your customers? How demanding are these buyers? How sensitive to quality are they? Could you give an example of a recent customer situation that you feel captures your relationship with your customers? What feedback has the company received about pricing? What kind of markup is the company able to achieve? What is the likelihood that any of these customers would start to produce your product and compete? How commoditized is this market in the eyes of the buyer?</p>
Bargaining Power of Suppliers	<p>Who are your major suppliers of inputs to your process? What challenges do you have in finding adequate quality at a price you can afford? What trends are you seeing with your suppliers? How many other suppliers could you choose from to obtain your product? Why do you use this one/these suppliers? How hard is it to switch from using one supplier to using another? Are there any substitutes for what your suppliers offer that you could reasonably use? Is there any hint that your current suppliers would ever try to start producing what you produce? How dependent do you feel on your suppliers? Does your supplier provide you with industry information? Do you trust your supplier(s)?</p>

Threat of New Entrants	<p>What is a good estimate of how much it would take to start up a business of your size in your industry?</p> <p>Do you feel any disadvantage due to larger competitors' economies of scale/lower costs?</p> <p>Are there some companies in your market who intimidate new startups due to their loyal customer base or age?</p> <p>How tough is it to get distributors to carry your product?</p> <p>How hard is it to get shelf space with retailers in your industry?</p> <p>Are there any technologies that your industry uses that are especially hard for entrepreneurs to get their hands on?</p>
Threat of Substitutes	<p>Are there any products outside of your industry that customers might buy instead of yours, to get the same benefit?</p> <p>How closely does that product meet the same needs that yours meets?</p> <p>Do you have a strategy for addressing that substitute?</p> <p>Have you changed the way you do business to avoid a situation where customers choose an alternative product?</p>
Rivalry of Existing Firms	<p>Who would you consider to be your top two or three largest competitors?</p> <p>What are a few major strengths and weaknesses of both of those players?</p> <p>Does competition force pricing down in your industry? How badly?</p> <p>Do competitors cooperate on building your industry, or is the relationship sour between competitors?</p> <p>Are there many competitors in your industry, or just a few?</p> <p>Is there an established market leader that others benchmark?</p> <p>How much does your industry grow each year in sales?</p> <p>Are more businesses opening or closing in your industry?</p> <p>What is your level of fixed cost to variable cost in your cost structure? How does this affect your pricing?</p> <p>How do you see yourself positioned among your competition?</p>
General Information	<p>How did this business start?</p> <p>How has the business grown since startup?</p> <p>Were there difficult times in your growth?</p> <p>What made you want to start this business?</p> <p>How is product made in your business?</p> <p>How do you decide how to price your product?</p> <p>What media and strategies do you use for promotion?</p> <p>What do your employees think about working here?</p> <p>What is the environment like?</p> <p>What are your plans for the business for the next few years?</p>

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## Appendix B. Sample Case



### Olive and Sinclair Chocolate Company Nashville, TN

The niche of gourmet chocolate may be hundreds of years old, but lately, new entrants to this market space have found the ability to breathe new life into a long-loved treat. One of the newest, most interesting companies to enter the market space is Nashville's own Olive and Sinclair. The dream of entrepreneur and master chef Scott Witherow, Olive and Sinclair launched product to the public in 2009 at the East Nashville Tomato Art Fest. The company currently produces more than 60,000 pounds of chocolate per year and is embarking on international expansion.

Witherow was one part wanderer and several parts genius as he grew out of his small town, Columbia, TN upbringing, received his Bachelor's degree from Middle Tennessee State University, and moved to London, U.K. There he studied at the prestigious Cordon Bleu culinary college, worked at the inventive St. John restaurant, and performed an internship at The Fat Duck, the most globally acclaimed restaurant in London. It was not until he spent time in Canada with a chocolatier that he found his calling. For the next couple of years, he experimented with several types of recipes until he found the putting brown cane sugar into the chocolate would make a unique, rich tasting result. Today, his company boasts many flavors of its artisan gourmet chocolate bars, including Buttermilk White Chocolate, Bourbon Nib Brittle, Salt and Pepper Chocolate, Mexican Style Cinnamon Chili Chocolate, and its newest Duck Fat Caramels. Each 2.75-ounce bar retails for a whopping \$6.99 MSRP.

Olive and Sinclair built its brand slowly around its old-fashioned, Southern approach to chocolate making. Witherow received financial and operational help from his father and a line of credit from a local bank to start the business. The label for the bars was created by Bryce McCloud, a Nashville printer, to exude the company's dedication to the handmade manufacturing quality of yesteryear.

The company decided to purposefully use some of the oldest equipment it could find to produce (including stone mills to grind the cocoa nibs), and maintained high control over its value chain, lovingly roasting cocoa beans in-house and producing the chocolate bars by hand. Witherow even chose an old Nashville factory location for a recent expansion and gutted it to perfect the historic, bare bones atmosphere. The company keeps its partnerships local, and has reached out to form interesting alliances with Terrapin Beer Company, Allan Benton's Country Hams, and Pritchard's Distillery. The partners create cocoa-infused products, roast beans for O&S, and help to create the Bourbon Nib Brittle so many enjoy.

Competing in the artisanal chocolate space requires effort. Competitors often travel personally to the homelands where their supplies are grown to hunt down the best cocoa beans in the world. Artisanal chocolatiers believe that working directly with farmers or farmers' cooperatives, they can increase their level of control over the end quality of the product. Mass-market chocolatiers typically purchase their

cocoa from cartels that source from poverty-stricken West Africa, where two-thirds of the world's cocoa is produced. In these areas, child labor is used widely to harvest product. New regulations fighting child labor, droughts, and rising world demand are predicted to result in future shortages. On the contrary, Olive and Sinclair and other artisanal producers participate in the fair trade movement by using cooperatives such as Conacado (the National Confederation of Dominican Cocoa Producers) from the Dominican Republic and from Ghana as suppliers to source their cocoa beans. Conacado is a confederation of over 9000 farmers that provides technical assistance, training, and interest-free loans to small farmers, who are subsequently able to cut out the cartel middlemen of the global cocoa market to trade directly with companies like Olive and Sinclair.

The entire U.S. chocolate industry, mass-produced and artisanal, is around \$21 billion in size. There are over 60 artisanal chocolatiers in the United States, and this niche of the industry, at least in the U.S., has only developed in the last decade. Even though gourmet chocolate has been produced in Europe for centuries, the recent artisanal movement there is even smaller and younger than in the U.S. The small scale with which these competitors operate is actually a backward movement from mass production. This small-scale operation, however, earns high return, as high-end customers are happy to participate in the rebellion against mass food production. Assuming a bar of chocolate costs about \$0.25 in materials, that same bar can be sold for \$7. Profit margins are high, which allows for a large amount of materials price fluctuation. Consumers are also willing to pay the high price because they view artisanal chocolate much like fine wine – something that is single-sourced and distinguished with a trained palate.

The current artisanal chocolate market is fragmented, with many competitors of small size, just like Olive and Sinclair. Plenty of industry space exists for new entrants to start up in this market. One of the early pioneers of the market, Scharffen Berger, was bought quickly by Hershey brands in 2005. This company is known as one of the best chocolatiers in the world, and is located in San Francisco. Their point of differentiation is their carefully sourced cocoa beans, which produce an impeccable quality of cacao when ground. Their add-in flavors include raspberries, coconut, and pistachios. Three-ounce bars from Scharffen Berger sell for \$3.75.

Another competitor in the artisanal space is Chuao Chocolatier. This San Diego-based company goes wild with add-in flavors, including strawberry waffle, cinnamon toast cereal, bacon, and popcorn chocolate bars. Their 2.8-ounce bars sell for \$6 and reflect their Venezuelan-born founders' desire to arouse consumers' senses with wild flavors of chocolate treats.

Olive and Sinclair is one of many small chocolatiers in a young and growing industry niche. Their organic growth strategies have included several new product line introductions, as well as international expansion. The brand that started out at the Tennessee tomato festival is now available nationwide through Whole Foods and select retailers and coffee houses; in London, U.K., through Selfridges, a high end department store; in Singapore, and in Japan at FRESCA, an online marketplace for fine foods. Time will tell who moves to dominate this fledgling market space, but this local favorite has a great advantage with its Southern flair.

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