

## Articles

# The Small Business Institute® and Transaction Cost Economics

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Faculty in entrepreneurship and small business have many options available to gain experience, ideas, and beneficial information in order to succeed in research, the classroom, and program development. Due to the highly competitive nature of higher education and the constantly evolving field of entrepreneurship education and small business facilitation, the ability to find and implement the best ideas and filter out those that are not as useful can be a daunting task. Through the lens of transaction cost theory, this paper proposes the idea that utilizing an organization such as the Small Business Institute® can help eliminate the search and information costs, bargaining and decision costs, and policy and enforcement costs associated with finding and implementing the best ideas and innovations. A personal testimony of the beneficial experience of connection with the Small Business Institute concludes the paper.

### Introduction

Every year, new innovations, shifting markets, changing business models, and the introduction of new entrants, create an entirely new set of obstacles and opportunities for businesses and business leaders to navigate. Just a simple walk through Porter's five forces (Porter, 1980) and applying them to any segment or industry reveals a continual need for innovation and constant reengineering and development just to stay relevant, much less try to gain market share or get ahead. The pace at which these competitive forces evolve can be not only taxing, but also overwhelming to a sense of frustration or even resignation.

### Higher Education is Not Exempt

While we all know that rapid change is a reality in the business world, the fact is that this is also true in the higher education space. Just looking at headlines and articles coming from the Chronicle of Higher Education or even through social media, we see that the highly competitive landscape in higher education, and colleges and schools of business, is constantly evolving (Nasim et al., 2020). Some of the issues at play include increasing numbers of Ph.D. qualified faculty graduating from universities attempting to cash in on this underserved population (Marcus, 2019), a staggering number of universities closing their doors (Camera, 2019) and thus eliminating jobs currently filled by these Ph.D. qualified faculty, and even the enrollment cliff that is coming as the number of high school graduates looks to decrease in the coming years and decade (Copley & Douthett, 2020). Add to this the constant battle of diminishing resources that are available for our universities to operate (Tugend, 2016). These cutbacks stem from many reasons such as changing funding models from state

governments, the need to invest additional funds in new teaching technologies just to remain relevant or to even be able to teach in uncertain times, university investments in additional support services or state-of-the-art facilities to attract the more discerning and knowledgeable high school senior, or a host of other necessities that take precedent over fully funding faculty, research, and traditional faculty support.

One outcome of the ever-increasing competitive scenario with reduced resources for operations is the inevitable frustration over traditional institutional policies such as tenure and the need for Ph.D. qualified faculty (Nietzel, 2020). Many universities are reevaluating or even eliminating the tenure system and moving to a contract-based model to have the option of replacing higher paid traditional faculty with a cheaper alternative. Often this means replacing the tenure-track faculty line with an instructor line. From the university's standpoint, the instructor can teach more classes at a lower cost and is not encumbered by the concessions necessary for tenured faculty to conduct research and other traditional functions.

### Simultaneous Extension of Entrepreneurship Programming

While we will get into some of the history of the discipline of entrepreneurship and small business later in this paper, it is important to note that the development entrepreneurship programming has expanded greatly over the past couple of decades with an ever-increasing number of programs, centers, labs, and schools taking on an important role at universities across the globe (University Entrepreneurship Index, 2019). Almost every major university has or is in the process of creating a significant entrepreneurial presence, and we see continued development of entrepre-

neural degrees in both majors and minors as well as graduate programs all the way to doctorates in entrepreneurship. Additionally, many universities are leveraging entrepreneurship and innovation through corporate entrepreneurship and unique innovation programs to grow their undergraduate and graduate student bodies as well as non-traditional educational programs.

The pressure here mounts on the faculty member in the entrepreneurship and small business discipline. Some faculty come from a background of business ownership or with an entrepreneurial past, but many do not. Now, as a faculty in entrepreneurship within a university, the faculty member may find him or herself as the primary entrepreneurial expert or part of a team of experts in entrepreneurship responsible for fulfilling the many requirements for curriculum, programming, and other aspects of what should be an innovative arena on campus. Some of the areas where the faculty may need expertise includes:

- Business models
- Business plans
- Major or Minor degree programs
- Entrepreneurship certificates
- Financing and funding including Angels, VCs, and more
- Pitch or plan competitions
- Non-degree educational programs
- Social Impact
- Small Business Consulting
- Interdisciplinary Degree programs
- Startup Incubators
- Accelerator Programs
- Advancement and Development
- Economic Development
- Entrepreneurial Ecosystems
- Innovation hubs
- Opportunity Zones
- And so much more

This is on top of the already great pressure to create meaningful and exciting classroom content and delivery which is paramount to any good professor. Also, don't forget to add the very important issue of publications, which can vary from publishing only in top tier journals to publishing in conference proceedings or even more practitioner-based publication. Overall, the pressure is high for any faculty member in small business and entrepreneurship as they work to be the best professor and contributor to the university as possible.

The purpose of this paper is not to provide a detailed explanation of everything that is wrong with the current view of higher education or an insurmountable picture of what is necessary for entrepreneurship education, but rather to demonstrate that there is an increased need for faculty to find a successful way to be effective, innovative, and to prove not only useful but beneficial to the university as a whole. If we as faculty can show and prove our worth by contributing or potentially even leading the university in innovation and entrepreneurial thinking, then we can be more comfortable in our future as an integral part of the

university. The purpose of this paper is to show how a faculty member can build on the collective wisdom and collaboration of the Small Business Institute® to develop a purposeful and effective faculty career. To do so, I will build on Transaction Cost Theory as first proposed by Coase (1937) and then further developed by Williamson (1975) to develop a framework by which faculty can buy into the structure of the Small Business Institute® to build a successful career. In doing so, I will be telling my story of how the SBI has been invaluable to me.

### Transaction Cost Theory of the Firm

The Transaction Cost approach to the theory of the firm as presented by Coase (1937) in his book *The Nature of the Firm* was a leap forward in examining how organizations are formed to reduce costs and hopefully increase efficiencies. Much work has been done to expand on this theory (Williamson, 1979, 1986), but at its core the primary costs associated with social contracts when dealing with the market include search and information costs, bargaining and decision costs, and policy and enforcement costs. Thus, when conducting business, one can go to the market for each and every need in order to accomplish a task, create a product, or provide a service. However, this can be very inefficient and ultimately costly. The inconvenience of market transactions, however, through the creation of an organization. He ultimately states that the object of this organization is to reduce these organizational costs, thereby creating a cost that is lower than that of the market.

While Williamson (1979, 1986) dives into the ideas of bounded rationality and opportunism with multiple questions arising from the decision making of the organization, the ultimate reality is that there is benefit from the creation of organization and no longer relying on individual marketplace transactions. McDowell & Voelker (2008) presented the idea of Transaction Cost Economics (TCE) and Network Centrality to posit the idea of a team as the organization of focus. The members inside the team held the body of intellectual and resource capital called upon for operation, and when there were market purchases, the individuals and resources outside of that team served as assets in the market. The idea was that the team or group served as the organization and, when there arose a need for further information, the team would "incorporate into the team individuals who possess the necessary information, thus minimizing the friction of exchange to obtain this information" (McDowell & Voelker, 2008, p. 136).

### The Small Business Institute®

The Small Business Institute® (SBI) was founded in 1972 and 1973 through a trial partnership between the U.S. Small Business Administration and approximately 20 universities (Small Business Institute, 2021). The purpose of this initiative was to engage faculty and teams of undergraduate or graduate students with local small businesses or startups to provide student-based consulting. The ultimate goal was to create support for small businesses and entrepreneurs as they launched, owned, or operated their businesses and

thus lead to the development of the economy. From this simple beginning, the idea of university involvement in the small business economic engine of towns, cities, regions and states was birthed which saw the development of courses in small business consulting, family business, entrepreneurship, and even additional services and consulting through programs such as the Small Business Development Centers (America's SBDC, 2021; Geho & McDowell, 2015).

There are hundreds of universities around the world which have participated in the SBI as well as thousands of faculty members in positions from tenure and tenure-track faculty, instructors, center directors, administrators, librarians, and more. Each year the SBI conference attracts these individuals as well as students and student teams from around the world to attend the annual gathering to present original research, discuss innovative pedagogies around entrepreneurship, innovation, family business, and small business, see student team poster sessions and pitches during the annual Project of the Year student consulting competition, gain insights on policy, regulatory and accreditation changes affecting small firms and higher education institutions, and to just learn from each other in general. The body of members is very diverse, and the intellectual capital of the group is strong.

### **The SBI and TCE – Two Acronyms Combined for Success**

As a faculty member in the ever increasing competitive and fast changing market of higher education in small business and entrepreneurship, the amount of information and the pace of change can be a daunting task. When success depends on effectively managing developing or ongoing programming while also maintaining an active and adequate research agenda, looking for the mentoring, guidance, resources, and coaching necessary may prove to be time wasting or even futile. There are countless potential resources available which come through email boxes every day, but many of these may not provide as promised. Additionally, managing current project may put the researcher in a position to not even be able to see innovations that are available for teaching or research. This ties back directly to the costs presented by Coase (1937) when dealing with the market: search and information costs, bargaining and decision costs, policing and enforcement costs. As applied to this scenario, McDowell & Voelker (2008) noted that finding the right resources to pull into your sphere “may seem to be a viable solution initially, the information necessary to be innovative or high producing may be more tacit than explicit. More specifically, the team may not know exactly what information or resources are necessary, or available, a priori.” This is exactly the age-old problem; sometimes you just don't know what you don't know.

It is for this reason, a wise decision for a faculty member is to buy into a structure that will allow them to reduce these costs and gain the advantages of the organizational structure. Thus, the idea of TCE and partnering as a faculty with the SBI as a member. Even though it was applied to the team setting, McDowell & Voelker (2008, p. 136) go on to state “since the information or social capital is more tacit

than explicit, how can a team know whom to choose to bring within the formal team?” They then offer this solution. “Rather than attempting to retrieve the necessary information and resources from just random individuals and rather than attempting to bring every potential contributor into the team, an individual can bring into a pseudo-hierarchy those individuals within the organization who may have the necessary social capital for greater innovation and production.”

The application here is that a solution to someone who is newly entering into academia should consider creating their own structure from which to develop the multiple relationships that can provide the information necessary for success. Through connection and affiliation with the SBI, we are creating a structure from which to pull information and resources to build a foundation and ultimately the structure of a career (Voelker et al., 2013). The SBI offers the ability to connect with other faculty through the SBI and therefore create a network from whom to learn and develop. The benefits of a relationship with SBI and the many members that make up this organization can include:

- An instant network of relationships
- Mentoring
- Research
- Curricular Programs
- Leadership development
- Program Development

### **Centrality**

By engaging with the SBI, the faculty member can create connections with others that will provide these items listed above and even more. Of importance here is network centrality. Centrality within a social network can be defined as the connectedness to others within an organization. According to Degenne & Forse (1999), there are three forms of centrality. Degree centrality which is the number of connections, closeness centrality which implies the depth of relationship, and betweenness centrality which indicates the level of intermediary support. Overall, this centrality creates an even greater access to information and resources (Burt, 1992; Ibarra, 1993).

### **A Testimony of the Benefits of Membership**

I was fortunate enough to join the SBI very early in my academic career. I was invited to submit to the annual SBI conference, and when I attended I was not only accepted but also found that senior scholars and faculty in our discipline were willing to talk with me, spend time discussing ideas, and coach me on developing my full potential. Some of these individuals included Don Bradley of the University of Central Arkansas who served as the president of the SBI, USASBE, and ICSB (the three leading academic entrepreneurship organizations at that time), Dianne Welsh, endowed professor at the University of North Carolina Greensboro who has served as an endowed professor at multiple universities and a thought leader in entrepreneurship, and Leo Simpson of Seattle University, an endowed professor at multiple universities and a patriarch of

entrepreneurial education. These are just a few of the individuals who began helping to guide my way. It was at that first conference that Leo Simpson even began coaching me on creating a new entrepreneurial program at my university and encouraging me to begin thinking about an endowed professorship. The SBI conference offered an early outlet for my research in small business and entrepreneurship, and it provided opportunities to learn about program development and innovative curriculum. Every single SBI conference that I have attended has been a learning experience for me.

The SBI also offered opportunities to begin developing as a leader in academia. I took advantage of an opportunity to join the board and eventually ran the Project of the Year Awards, served in the leadership track, was ultimately able to serve as President for SBI, and have been given the opportunity to work with both of the SBI owned journals. When Mike Harris took over as Editor of the Small Business Institute® Journal, I was able to work with him and Shanan Gibson to grow that journal. Additionally, when the Journal of Small Business Strategy Editor-in-Chief position became available, I was asked to lead this journal. After one year as the sole EIC, I invited Mike Harris to join me, and now we have grown this journal from just a handful of submissions to well over 200 submissions a year and an acceptance rate of less than 10%.

Additionally, it was through my connections at SBI that I was able to secure my first endowed professorship in entrepreneurship. I served with Don Lester from Middle Tennessee State University on the SBI board and grew to know him well. When the Pam Wright Endowed Chair in Entrepreneurship at MTSU became available, Don shared this opportunity with me and encouraged me to apply. This position was a strong step for my career progression, and it was through my connection at SBI that this materialized.

Through coaching by members of the SBI, my work with the journals, and my development as an educator, I was able to secure my current position as the Executive and Academic Director of the Turner School of Entrepreneurship and Innovation and the Turner Endowed Chair of Entrepreneurship at Bradley University. The Turner School is an independent school that is separate from the Foster College of Business at Bradley University, and my duties include developing and overseeing all the curricular and co-curricular activities related to entrepreneurship. As mentioned earlier, the field and ideas in entrepreneurship and innovation continue to change rapidly, and I count on my colleagues and friends from the SBI to provide me with advice, direction, ideas, and inspiration on a monthly basis. The support from connections with the SBI have been so beneficial that I have also introduced my staff to the SBI and support their attendance at the conference as well.

## Conclusion

The SBI is not just an academic organization, it is part of my organization. There are myriad academic support organizations, academic institutions, and individuals that I can connect with through social media or other means from which to help me with my career, but I have chosen to utilize the structure of support I can receive from the SBI. I know that I can connect with the other faculty that also call the SBI their organization, and together we can move our industry forward. While changes exist around almost every bend in higher education, the level of resource that I receive from the SBI will remain constant.

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