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New England Journal of Entrepreneurship

Spring 2011 Volume 14 Number 1

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Herbert Sherman, Joshua Shuart, Laurence Weinstein

Conceptual and Empirical Research

Understanding SME Intention to Use the Internet for Managing Supplier Information
by Kevin Celuch, University of Southern Indiana; Anna M. Walz, Grand Valley State University; Carl Saxby and Craig Ehlen, University of Southern Indiana

Corporate Parents, Initial Legitimacy, and Resource Acquisition in Small and Medium Firms: An Empirical Examination
by Gregory B. Murphy and Neil Tocher, Idaho State University

Bootstrapping Techniques and New Venture Emergence
by John T. Perry and Gaylen N. Chandler, Wichita State University; Xin Yao, University of Colorado at Boulder; James A. Wolff, Wichita State University

Case Research

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by Barry Armandi (deceased), SUNY-Old Westbury; Herbert Sherman and Adva Dinur, Long Island University-Brooklyn

Book Review

Entrepreneurship in the Creative Industries: An International Perspective, Edited by Colette Henry
Reviewed by Lori Wagner, Pennsylvania State University

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New England Journal of Entrepreneurship

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New England Journal of Entrepreneurship (NEJE), published twice a year by Sacred Heart University's John F. Welch College of Business, is an invaluable forum for exchange of scholarly ideas, practices, pedagogy, and policies in the field of entrepreneurship and small business management.

The *Journal* is currently seeking original contributions that have not been published or are under consideration elsewhere. The scope of the articles published in NEJE range from theoretical/conceptual to empirical research, with maximum relevance to practicing entrepreneurs.

The *Journal* will consider practitioner interviews, book reviews, experiential exercises, cases, and articles dealing with entrepreneurial education. The *Journal* appeals to a broad audience, so articles submitted should be written in such a manner that those outside of the academic community would be able to comprehend and appreciate the content of the material.

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New England Journal of Entrepreneurship

From the Editors:

"It was the best of times; it was the worst of times." This opening line from Charles Dickens' 1859 classic *A Tale of Two Cities* depicts the plight of the French peasantry demoralized by the French aristocracy in the years leading up to the revolution, [and] the corresponding brutality demonstrated by the revolutionaries toward the former aristocrats in the early years of the revolution (Wikipedia). This may also be a fairly apt description of the state of small business in the United States in early 2011—lean times with a promise of better things to come.

Scott Shanes' discussion of the state of small business today (http://smallbiztrends. com/ 2011/01/is-small-business-prosperity-just-around-the-corner.html, January 24, 2011) questions this notion that "prosperity is just around the corner" (Herbert Hoover, 1932) in that his research indicates that as much as the press would like to see a recovery, one is not coming anytime soon. Why? Citing research from the National Federation of Independent Business's (NFIB) December survey of its members and Discover Card's Small Business Watch (a survey of business owners with less than six people on their payroll), Shanes indicated that planned capital investments and spending on business investments is going to remain low (unchanged from 2009–2010) as small business owners take a cautionary approach to business growth.

So how could this be the best of times if small business growth (the backbone of the U.S. economy) is not in the near future? Small businesses may have to respond to a "no growth" scenario by managing smarter (meaning with more knowledge) in leaner times; more specifically using technology and the Internet to increase operating efficiencies. So posits the work of Kevin Celuch, Anna M. Walz, Carl Saxby, and Craig Ehlen in their article entitled "Understanding SME Intention to Use the Internet for Managing Supplier Information: Normative and Strategic Conceptual Extensions," the first article in this issue. Their study extends the understanding of SME Internet use by exploring relationships among usefulness and ease-of-use cognitions and intentions to use the Internet for supplier information management. They also examined the influence of behavioral norms and two strategic perspectives—market and learning orientation—on the Internet-related cognitions. Their findings related to the strategic orientations of SME's paralleled previous small business literature that found strategy impacted technological scanning activities and market orientation, in particular, and drove imitative behavior of successful innovations.

The second article deals with the issue of threshold legitimacy—the ability to be recognized by stakeholders as having a viable business and therefore better able to gather the resources needed to survive and grow. Gregory B. Murphy and Neil Tocher ("Corporate Parents, Initial Legitimacy, and Resource Acquisition in Small and Medium Firms: An Empirical Examination") studied threshold legitimacy by investigating whether the presence of a corporate parent positively influences SME resource acquisition. Results indicated that SMEs with corporate parents, when compared to like-sized independent SMEs, had higher credit scores, have more complete management teams, used more computers, and were more likely to be on the Internet. These differences were most pronounced for very small firms and diminish as firm size increases. The presence of a corporate parent likely represents a successful navigation of the legitimacy threshold, positively increasing SME resource acquisition.

In the third article "Bootstrapping Techniques and New Venture Emergence," John T. Perry, Gaylen N. Chandler, Xin Yao, and James A. Wolff pose the question: Are some types of bootstrapping techniques more successful than others? They compared externally oriented and internally oriented techniques with respect to the likelihood of becoming an operational venture as well as cash-increasing and cost-decreasing techniques with respect to becoming operational. They found evidence suggesting that when bootstrapping a new venture, the percentage of cash-increasing and cost-decreasing externally oriented bootstrapping techniques that a venture's owners use are positive predictors of subsequent positive cash flow (one and two years later) yet internal techniques had little impact on future cash flows.

The next article ("Getting to Green: Niche-driven or Government-led Entrepreneurship and Sustainability in the Wine Industry" by Lauretta Conklin Frederking) is case-based research and examines whether market forces or government intervention would lead to greater growth in a niche market—the "green" wine industry. Using Michael Porter's (1980) five forces model, Conklin Frederking denotes the differences between niche-driven (State of Oregon) and government-led (British Columbia) green wine industry and demonstrated that the strength of the green niche industry is that innovation coming from cooperation (rather than government imposition) and also evolving from the effort to articulate community values to mainstream market values.

From case-based research we go to teaching cases derived from primary research. In "KaBloom!: Revolution in the Flower Industry" Colette Dumas, Beverly Kahn, Jafar Mana, David Hartstein, and Gina Vega develop a field-based case that has been designed for a graduate-level course in entrepreneurship/innovation. The case describes the successful building of brand recognition for KaBloom's garden-like shops by implementing a franchise system and adopting a decentralized business model. This

strategy required managerial changes that resulted in an expensive and top-heavy corporate structure. A 10 and 12 percent franchisees default rate drove the founder to sell the business; he was forced to watch as his creation floundered and, shortly after the acquisition, his formal involvement in KaBloom ended. The owner reacquired the company and reentered the flower business with a vengeance, focusing more on B2B sales than on B2C sales.

The second case is a continuation of a case published in the Fall 2010 issue of NEJE. In "Abandoning Ship at Scandia, Inc.: Parts B & C" (Barry Armandi [deceased], Herbert Sherman, and Adva Dinur), after learning about the deep-sea shipping industry in Part A, we are introduced to Scandia, Inc., a commercial vessel management company located in the New York Metropolitan area, which is part of a family of firms. Part B describes several mishaps that the company and its President Chris Haas have had to deal with including withdrawal of financial support by creditors, extreme variability in profits, and inter-corporate firm conflict. Part C documents, through dialogue, the exit of key personnel within the firm and how management tries to address this issue.

The last item in this issue is a book review by Lori Wagner of *Entrepreneurship in the Creative Industries: An International Perspective.* Addressed to academics, entrepreneurs, support agencies, and policy makers, readers are apprised of the current issues facing the creative industries in the 21st century. The book includes a series of essays that reflect both national and international economic concerns, that investigate both quantitative and qualitative methodologies, and which examine the nature of entrepreneurship across varying industries, economies, and geographies. The editor's goal is to encourage a healthy reevaluation of what defines the 'creative industries,' what kinds of support they will need to maximize their potential within the global economy, and how funders and funded organizations can work together to create new spaces for entrepreneurial energy within various economic and industry settings in a fast-changing digital age.

As always, we are greatly in debt to the expertise and experience of our reviewers, authors, and production staff. Without their commitment this issue, and the journal, could not persevere. We are also grateful to Sacred Heart University for its continued financial support of the journal.

Reference

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Understanding SME Intention to Use the Internet for Managing Supplier Information

Kevin Celuch, Anna M. Walz,
Carl Saxby, Craig Ehlen

There is strong consensus that the Internet has the potential to positively impact firms, and SMEs in particular; however, not all firms have realized benefits from adoption. The present study extends research in the area by addressing the need to examine the "chain" of variables explaining Internet adoption. We do this by exploring SME owner/manager Internet-related usefulness and ease-of-use cognitions and intention to use the Internet for supplier information management. We also explore the influence of behavioral norms and two broader strategic perspectives, market and learning orientation, on the Internet-related cognitions. Findings have implications for researchers and practitioners by identifying factors that contribute to effectively leveraging the Internet in an important area for SMEs.

Keywords: Internet use; supplier information; normative influence, strategic issues

The Internet has changed today's business landscape. With compound annual growth rates for U.S. users of 5 to 6 percent between 2005 and 2010 and growth rates for global users of 10 to 11 percent over the same time period, predictions place the impact of the Internet as greater than the combined influence of the phone, TV, and PC over the next 10 to 15 years (eTForecasts, 2009). As a further testament to the potential of this business tool, 99 percent of medium to large companies and 85 percent of small firms are connected to the Internet (Internet retailer, 2009). Indeed, internationally, across industries, small to medium size enterprise (SME) Internet adoption has been linked to financial benefits (Johnston et al., 2007). With the total worldwide value of goods and services of business-to-business (B2B) e-commerce well into the trillions of dollars, it is procurement that is driving the vast majority of transactions in this sector with between 80 to 90 percent of U.S. companies expecting to purchase online (Internet retailer, 2009).

Research on SME adoption of IT and, by extension, Internet adoption has been relatively clear as to the ultimate reasons why SMEs use the Internet. For example, SMEs have generally acknowledged the potential importance of information sharing and relationship building in order to improve supply chain performance (c.f., Robeiro and Love, 2003). With respect to SME use of the Internet for supply chain management, some evidence suggests that SMEs rely on the Internet primarily for communication purposes while very small firms (i.e., 10 or less employees) rely on the Internet primarily for research purposes (Levenburg, 2005). Indeed, some support has been found for the idea that SME Internet use related to obtaining and communicating information can enhance market knowledge and relationships throughout the supply chain from suppliers to customers (Caskey et al., 2001; Robeiro and Love, 2003; Nieto and Fernandez, 2005; Servais et al., 2007).

Despite fairly strong convergence as to the ultimate purpose of Internet usage, less clarity exists as to the *specific factors that determine* usage. Factors that have been identified in the literature as significantly influencing SME IT adoption, with particular focus on Internet adoption, include owner perception of benefits, organizational readiness, owner innovativeness, organization size, customer pressure, competitive pressure, supplier pressure, support from IT vendors, information intensity of products, and low business volumes (Mehrtens et al., 2001; Belussi, 2005; Al-Qirim, 2005; 2007; Beckinsale et al., 2006; Archer et al., 2008). However, some of these same studies find few significant differences between SME adopters and nonadopters (Belussi, 2005) as well as no support for the influence of suppliers, competition, IT vendor support, and size (Al-Qirim, 2007; Beckinsale et al., 2006; Archer et al., 2008). Clearly, there is a need for continued development of our understanding of the factors affecting SME Internet usage.

Potential benefits of Internet adoption notwithstanding, SMEs are left with significant questions that point to the importance for examining Internet use. First, not all firms have realized benefits from IT adoption (Dehning and Richardson, 2002; Santhanam and Hartono, 2003). This is particularly critical for small firms as, relative to larger firms, they do not possess slack resources that allow them to over invest in technologies (Celuch et al., 2007a). Second, many SME owner/managers have relied heavily on traditional brick-and-mortar "mental models" in developing and maintaining supplier relations. Further, SME owner/managers often engage in "implicit strategizing" that is less formal and structured than

managers' decision-making in larger firms (Carson, 1993), which makes it difficult to identify and understand issues related to SME Internet use. As such, firms may not effectively align information technology with organizational strategies, thereby negating potential benefits (c.f., Khan and Kahn, 1992; Malhotra, 1998).

The present study extends research in the area in several ways. First, we address the need to examine the "chain" of variables explaining IT adoption in general and Internet adoption specifically (c.f., Bharadwaj, 2000; Ray et. al, 2005). In doing so, we echo Bobbitt and Dabholkar's (2001) admonition related to the need for theory-based technology-related research as a growing body of "disconnected" research is not as likely to provide a foundation for understanding Internet adoption and the conditions under which benefits are realized. To this end we examine an adaptation of the Technology Acceptance Model (TAM) as a means of exploring SME owner/manager Internet-related cognitions and intention to use the Internet for supplier information management.

In addition, we also explore the influence of behavioral norms on Internet-related cognitions. The inclusion of this construct is in keeping with Eagly and Chaiken's (1993) caution regarding sufficient consideration of the social context of intentions as well as with reviews highlighting the need for consideration of alternative types of normative influence in intention models (Sheppard et al., 1988; Godin and Kok, 1996). Along with normative influence, we also examine the influence of two broader strategic perspectives, market and learning orientation, on Internet-related cognitions. While information technology has long been recognized for its potential to contribute to sustained competitive advantage for firms (Feeny and Ives, 1990; Barney, 1991; Vargas et al., 2003; Swierczek and Shrestha, 2003), its potential is only realized when IT is effectively aligned with organizational strategy (Zahra and Covin, 1993; Malhotra, 1998; Chang et al., 2002).

We further extend research in the area by examining the above relationships for an important real-world context that has received limited attention—SME intention to use the Internet for supplier information management. In the context of the present research, supplier information management relates to SME use of supplier cost, order, delivery, storage, and performance information. Given the importance of information sharing as part of relationship-building activities in the supply chain this would appear to be an important area for SME researchers to systematically explore. Prior research related to intention models has relied heavily on consumer and academic settings (c.f., Eagly and Chaiken, 1993; Taylor and Todd, 1995; Dabholkar and Bagozzi, 2002).

The present research has implications for researchers and practitioners. For researchers, the relationships explored suggest the types of variables and relationships that can be included in future studies. For practitioners, identified relationships help make explicit what factors contribute to effectively leveraging the Internet in an important area for SMEs.

In the next section of the paper, we discuss how key Internet-related cognitions influence intention to use the Internet for supplier information management, followed by how normative influence and market and learning orientations impact the Internet-related cognitions. We next provide an overview of the methodology of the study and then present the findings. The last section of the paper discusses results and addresses research and managerial implications.

The Determinants of Intention to Use the Internet

Frameworks for understanding information technology use have included macroeconomic approaches (c.f., Panko, 1991), firm-level approaches examining relationships between information technology expenditures and firm performance (c.f., Banker et al., 1993), and approaches examining determinants of usage at the individual level (c.f., Davis, 1989; Davis et al., 1989; Taylor and Todd, 1995; Bobbitt and Dabholkar, 2001; Dabholkar and Bagozzi, 2002). We believe the latter approach is particularly relevant given the nature and scope of the present research as this perspective recognizes SME decision-making as the province of an individual decision maker, typically the owner/manager of the firm (Sheth et al., 1999; Carson and Gilmore, 2000).

Over the last 20 years an important stream of research has emerged that provides understanding of individual-level technology use. The approach employs intention-based models to identify the determinants of usage to predict behavioral intention and subsequent usage. The work is grounded in frameworks from the social psychology literature (c.f., Ajzen and Fishbein, 1980; Ajzen, 1985; 1991). Based on this research, the Technology Acceptance Model (TAM) was developed as a parsimonious approach to represent the important antecedents of intention and use of technology (Davis, 1989; 1993; Davis et al., 1989; 1992). The model posits two antecedents, perceived usefulness and perceived ease of use, as determinants of attitude and intention toward usage. In this perspective, perceived ease of use is a determinant of perceived usefulness. Attitude, in turn, is determined by usefulness and ease-of-use perceptions. Intention is viewed as determined by perceived usefulness and attitude. Lastly, consistent with longstanding social psychological theory and research, intention is conceived as the immediate determinant of usage. The strengths of the TAM are that it is specific, easy to understand, and generalizable across various technology contexts. Further, its components hold pragmatic implications for addressing technology usage. The model has been found to have relatively strong explanatory power in explain-

ing technology usage (e.g., R^2 ranges between .4–.7; Davis et al., 1989; Mathieson, 1991; Taylor and Todd, 1995).

Despite strong predictive power, tests of model variables have not produced consistent results raising questions about specific relationships. For example, the role of perceived ease of use has been somewhat equivocal and largely mediated by perceived usefulness. In a study of computer resource center usage, attitude was not found to be significantly related to intention with usefulness and ease of use explaining intention (Taylor and Todd, 1995). As noted by Davis et al. (1989), attitude may not be an important determinant of intention in workplace contexts when factors such as usefulness are taken into account. Further, perceived benefits and organizational readiness, have been found to be significant in impacting SME e-business adoption (c.f., Mehrtens et al., 2001). Thus, based on work in the area that converges on the saliency of perceived usefulness- and ease-of-use–related factors, we propose that for SME owner/managers:

Hypothesis 1: The perceived usefulness of using the Internet for managing supplier information will mediate the relationship between perceived ease of using the Internet for supplier communication and intention to increase use of the Internet for managing supplier information. Perceived ease of use will be significantly positively related to usefulness which will, in turn, be significantly positively related to intention.

The Determinants of Usefulness and Perceived Ease of Use

Given that an objective of this study is to extend research in the area, we now address rationales for additional antecedent constructs that might explain usefulness and ease-of-use Internet perceptions for SMEs. Beyond perceived benefits and organizational readiness, SME e-business adoption research also highlights, external pressure, as a potentially significant factor (c.f., Mehrtens et al., 2001; Al-Qirim, 2005; 2007). Indeed, referential comparisons with others can serve to create norms relating to particular activities (Bandura, 1997). Thus, behavioral norms, beliefs about what stakeholders in one's environment are doing, is another concept that might contribute to our understanding of SME Internet usage. Firm monitoring of Internet usage by its stakeholders can help determine behavioral norms relating to Internet usage. Research on the adoption of e-business has found evidence for normative pressures from stakeholder groups such as customers and suppliers (Wu et al., 2003). Further, normative beliefs have been featured prominently in intention-based models in general and in models related to information technology use in particular (c.f., Celuch et al., 2004; 2007b). The concept of behavioral norms is particularly relevant to understanding information technology behavior for SMEs as, given their limited resources they are likely to look to the behavior of others in their environment for direction.

Blank et al. (1985) argue that preferences (or beliefs that can relate to preferences) are more likely than norms to affect behaviors that are consumatory in nature (i.e., actions that provide more immediate gratification such as interaction related to information sharing and communication) whereas norms are more likely to influence instrumental behaviors (i.e., actions that lead to delayed gratification). While Internet usage, like many behaviors, can include both consumatory and instrumental aspects, with the majority of SMEs connected to the Internet we believe it is the more immediate benefits such as information sharing and purchasing with suppliers that are most salient in the current business environment. By extension, we posit that, in the context of SME usage of the Internet for supplier contact, perceived usefulness and ease of use should be the more immediate determinants of intention whereas normative influence (beliefs associated with the behavior of significant stakeholders) should be an antecedent of usefulness and ease-of-use perceptions (Hypotheses 2 and 3).

Further support for the proposition that norms might be significant determinants of usefulness and ease-of-use perceptions can be found in literature that notes the power of normative influence is in part linked to a reduction in risk or uncertainty associated with decisions (cf., Bearden et al., 1989; Cannon et al., 2000). Risk reduction associated with normative influence has been conceived as a process consisting of considering perceived benefits and developing expectations (Homans, 1961; Cannon et al., 2000). The work of Bandura (1997) has found vicarious experience, implicated in normative influence, to be one of the most important sources of perceived efficacy, which can be viewed as closely related to perceived ease of use. Based on the above discussion, we expect that the perception of a behavioral norm for Internet usage will positively influence usefulness and ease-of-use perceptions related to SMEs using the Internet for supplier information management.

Owing to the need to examine strategic orientations in the technology-related behavior of SMEs (Carson, 1993; Levy and Powell, 2003), two complementary yet distinct concepts, market and learning orientation, are also examined for their impact on usefulness and ease-of-use perceptions. One of the most important topics in the marketing literature has been the concept of market orientation (Deshpande, 1999). Definitions of market orientation focus on information use related to customers and competitors which serve to coordinate firm behavior (Kohli and Jaworski, 1990; Narver and Slater, 1990; Deshpande et al., 1993; Day, 1994). Market orientation has been linked to competitive advantage and profitability in large firms (Narver and Slater, 1990; Pelham and Wilson, 1996) and product innovation and firm performance

in both large and small firms (Jaworski and Kohli, 1993; Slater and Narver, 1994; Barrett and Weinstein, 1998; Pelham, 2000; Lukas and Ferrell, 2000; Becherer et al., 2003; Verhees and Meulenberg, 2004).

How might market orientation be implicated in factors affecting Internet use? Effective information management is at the heart of market orientation (Narver and Slater, 1990; Jaworski and Kohli, 1993). Day (1994) conceives of a market orientation as the degree to which firms obtain and respond to customer and competitor information—the so-called "outside-in" perspective. Similarly, Baker and Sinkula (1999) view market orientation as an organizational characteristic that determines the priority placed on market information processing activity. Given the Internet's potential for information acquisition and use with internal and external stakeholders, SME monitoring of the customer (e.g., needs and product/service feedback) and the competitor (e.g., benchmarking) is likely to positively influence perceptions related to Internet usefulness. Particularly in the context of managing supplier information, this area holds the potential to benefit SMEs by improving market competitiveness (i.e., improved product, service, and operational competitiveness).

Learning orientation focuses on an organization's ability to adapt and change (Argyris and Schon, 1978; Fiol and Lyles, 1985). This orientation implies organizational openness to higher order, proactive learning, a sense of purpose that motivates learning, and intraorganizational knowledge sharing (Rattanaphaphtham and Ussahawanitchakit, 2008). Learning orientation has also been linked to sustainable competitive advantage and organizational performance (DeGeus, 1988; Baker and Sinkula, 1999).

How might a learning orientation be related to factors affecting Internet use? Baker and Sinkula (1999) implicate learning orientation in the information processing activities of firms. A commitment to learning combined with internal information sharing behavior is likely to drive the development of information system capabilities. Firms may benefit from external learning from customers, competitors, and sources outside their industry (Bierly and Chakrabarti, 1996). This external learning brings information into the firm to facilitate internal learning. Such a process is implicated in the development of IT capabilities that better match environmental demands. Indeed, learning orientation has been found to be positively related to information system capability (Celuch et al., 2002). Further, Rattanaphaphtham and Ussahawanitchakit (2008) also found a positive association between aspects of a learning orientation and IT capability. Therefore, in contrast to market orientation, which we view as a likely driver of Internet-related usefulness perceptions, learning orientation with its connection to capability development is a likely driver of Internet-related capability perceptions (i.e., perceived ease of use). Thus, consistent with related literature, we view the affects of market and learning orientation as complementary as both are implicated in SME Internet perceptions that significantly impact intention and subsequent usage. However, the orientations have distinct effects in that they are viewed as relating to different determinants of Internet intention, perceived usefulness for market orientation and perceived ease of use for learning orientation.

In summary, based on the literature related to TAM, normative influence, and market and learning orientation, we hypothesize that for SMEs:

Hypothesis 2: Perceived ease of use, behavioral norm, and market orientation will be significantly positively related to the perceived usefulness of using the Internet for managing supplier information. Learning orientation will not be significantly related to the perceived usefulness of using the Internet for managing supplier information.

Hypothesis 3: Behavioral norm and learning orientation will be significantly positively related to the perceived ease of using the Internet for supplier communication. Market orientation will not be significantly related to the perceived ease of using the Internet for supplier communication.

Method

Sample and Procedure

The sample frame for this study consisted of a current list of 910 small to mid-sized (that is, less than 1,500 employees) companies in a tri-state region of the Midwest including Indiana, Illinois, and Kentucky. Each company was mailed a letter explaining the purpose of the research, a questionnaire, and a postage-paid return envelope. The letter was addressed to an individual representing top management in each company, with an offer to send a summary of the study's results if requested.

One hundred and thirty-nine surveys were returned, representing a response rate of 15 percent. Questionnaires were received from a variety of companies with the majority representing the retail, construction, and financial services sectors. Respondents were predominantly middle-aged, male, college educated, and, as targeted, members of upper management. Companies represented in the sample ranged in size from 1 to 1,400 employees with a mean of 100 employees (standard deviation = 213) and a median of 25 employees. Approximately three-fourths of the firms produced annual total revenues of less than $10 million. Firms with 15 or less employees and revenues of less than $2 million accounted for 30 percent of responding firms and firms with

between 16 and 300 employees and revenues between $2 and less than $10 million in revenues accounted for another 30 percent of the responding firms. Comparison of the sample statistics for number of employees (92% of responding firms with less than 500 employees) to regional statistics (90.5% of existing firms with less than 500 employees) show close representation of sample firms to area firms on firm size (SBA Statistics, 2006).

The response rate of this study is comparable to response rates typically found in small business sector research. Dennis (2003) reports variable results examining response rates for surveys of small business owners with results ranging from 16.9 to more than 30 percent. He concludes that response rates are often low and appear to be declining among small business populations. In addition, discussion with managers at area firms suggests that such response rates are typical for the specific geographic area surveyed. Further, the potential for nonresponse bias was assessed by testing for differences between early and late respondents on the variables used in this research. No statistically significant differences were found between these two groups for any of the theoretical variables, thus providing some assurance that the impact of nonresponse bias would be minimal.

Questionnaire

Measures employed in this questionnaire consisted of scales relevant to the constructs included in this research. The authors relied on literature reviews as well as knowledge of area firms in this process. Recall that supplier information management can relate to a range of issues (e.g., cost, order, delivery, storage, and performance) which will vary by the nature of the industry and company. As such, respondents were instructed to interpret supplier information within the context of their current business. Early drafts of the questionnaire were reviewed and pretested for readability and understandability by area company representatives. The final questionnaire included the following measures: company market and learning orientations and Internet-related behavioral norms, perceived usefulness, perceived ease of use, and intentions. Recall that measures are oriented toward capturing the perceptions of top management regarding aspects of their companies under the assumption that these cognitions define the reality of their organizations. The concluding portion of this survey consisted of individual respondent and company descriptors.

Measures

Market Orientation. Market orientation was operationalized via four items asking respondents their views regarding their companies' use of customer and competitor information, orientation to customer needs, and ability to anticipate competitor responses. All items utilized seven-point scales. Such aspects of market orientation are consistent with conceptions that include customer and competitor focus (Day and Nedungadi, 1994; Kohli and Jaworski, 1990).

Learning Orientation. Learning orientation was assessed via two seven-point items related to respondent perceptions of their company's ability to learn and adapt to change. These items are consistent with conceptions of organizational learning (Senge, 1990; Shaw and Perkins, 1991; Day, 1991).

Behavioral Norms. The behavioral norms consisted of three seven-point items, with respondents providing perceptions relating to use of the Internet for business communications by their companies' important customers, suppliers/vendors, and competitors. This approach is consistent with the conceptualization and assessment of behavioral norms in the intention-based literature (c.f., Kashima and Gallois, 1993; Nucifora et al., 1993).

Perceived Usefulness. The usefulness measure consisted of three seven-point items, with respondents providing perceptions relating to their company's likelihood of improving its ability to share, manage, and respond to supplier information by using the Internet. This measure is consistent with approaches used in technology-related intention-based models (c.f., Taylor and Todd, 1995; Ha and Stoel, 2009).

Perceived Ease of Use. Ease of use consisted of two seven-point items, with respondents providing perceptions relating to their companies' difficulty using and confidence in ability to use the Internet for supplier communications. As with perceived usefulness, the measure is consistent with approaches used in technology-related intention-based models (c.f., Taylor and Todd, 1995; Ha and Stoel, 2009).

Behavioral Intention. Behavioral intention measures consisted of three seven-point items, with respondents providing perceptions relating to their company's intent to increase its use of the Internet within the next 12 months to manage supplier information. This measure was also adapted from Celuch, et al. (2007b).

Analysis and Results

Table 1 reports descriptive statistics, correlations, and reliabilities for the constructs used in this study. To test the influence of Internet usefulness and ease-of-use perceptions on intention to use the Internet for supplier information management (a variation of the TAM), as well as examine the impact of normative influence and strategic orientations on usefulness and ease-of-use perceptions, we ran three sets of regressions using ordinary least squares regression. Table 2 includes the standardized coefficients, model R^2 and F value for the tested relationships.

To determine whether perceived usefulness mediates the effect of perceived ease of use on intention to use the Internet for managing supplier information (H1), we ran three regressions. To find evidence for mediation, the follow-

ing three conditions must be met: (1) ease of use must be significantly related to usefulness; (2) ease of use must also be significantly related to intention; and (3) ease of use and usefulness are significantly related to intention, such that the impact of ease of use on intention is significantly diminished when usefulness is included in the regression model with ease of use predicting intention (Baron and Kenny, 1986).

Consistent with expectations, ease of use was significantly positively related to usefulness, meeting condition 1. Ease of use was also significantly related to intention, meeting condition 2. Although the influence of ease of use was diminished (with the standardized coefficient for ease of use decreasing from .49 to .21) when usefulness was included in the model predicting intention, the effect of ease of use was still significant. Thus, this condition's requirements was not fully met, however there is evidence of partial mediation and partial support for H1.

Consistent with predictions, ease of use and behavioral norm were significantly positively related to perceived usefulness while learning orientation was not found to be significantly related. However, contrary to expectations, market orientation did not have a significant effect on perceived usefulness for Internet usage for supplier information management. Consequently, H2 is partially supported with three of four variables related as anticipated.

Finally, consistent with predictions, behavioral norm and learning orientation were significantly positively related to perceived ease of use while market orientation was not found to have a significant effect. Thus, H3 is supported.

Considering the findings for H2 and H3, post hoc analyses testing for mediation were also performed. Specifically, the strong influence for behavioral norm combined with the lack of effects for market orientation in both models point to the possibility that the affect of market orientation may work through behavioral norm. As such the effects of market orientation on perceived usefulness may be less direct than hypothesized. Following the three-step approach outlined for H1, we test whether behavioral norm mediates the effect of market orientation on perceived usefulness and ease of use. Table 3 reports the results of these analyses. With respect to the prediction of usefulness, market orientation was significantly positively related to behavioral norm, meeting condition 1. Market orientation was also significantly related to usefulness, meeting condition 2. Further, the influence of market orientation was significantly diminished (with the standardized coefficient decreasing from .17 and significant to .04 and nonsignificant) when behavioral norm was included in the regression model predicting usefulness. Therefore, there is support for mediation and an indirect relationship between market orientation and usefulness.

With respect to the prediction of ease of use, market orientation was significantly positively related to behavioral norm, meeting condition 1. Market orientation was not significantly related to usefulness, failing to meet condition 2. In addition, the influence of market orientation was not significantly diminished (with standardized coefficients not significantly related to ease of use) when behavioral norm was included in the regression model predicting ease of use. Therefore, there was no support for mediation and an indirect relationship between market orientation and ease of use.

As a precaution, variance inflation factors (VIFs) were examined to assess the effects of multicollinearity among the

Table 1. Descriptive Statistics, Correlations, and Reliabilities for Marketing Orientation, Learning Orientation, and Internet-Related Cognitions

	Mean	*Standard Deviation*	*X1*	*X2*	*X3*	*X4*	*X5*	*X6*
X1 Market Orientation	5.39	1.05	**.68**					
X2 Learning Orientation	5.57	1.01	.43**	**.85**[a]				
X3 Behavioral Norms	4.76	1.53	.26**	.12	**.85**			
X4 Usefulness	4.85	1.68	.17*	.13	.52**	**.93**		
X5 Ease of Use	5.89	1.34	.10	.24**	.32**	.40**	**.77***	
X6 Intention	5.15	1.65	.19*	.06	.51**	.78**	.49**	**.94**

* Correlation is significant at the .05 level.
** Correlation is significant at the .01 level.
Reliabilities are shown on the diagonal.
a. These diagonal statistics represent correlations as they are two-item scales.
N = 139

independent variables used in the regression analyses. Hair et. al. (1998) consider high variance inflation factors to indicate unacceptable levels of collinearity which can inhibit interpretation of the contribution of independent variables. No instances of VIFs greater than 1.4 were observed, indicating that the impact of multicollinearity was relatively small in the present study.

In summary, one hypothesis was fully supported and two hypotheses received partial support. As expected, SME owner/managers' perceptions related to Internet ease of use and usefulness strongly influenced intention to increase use of the Internet for supplier information management, albeit with evidence that usefulness partially mediates the influence of ease of use. Further, as anticipated, ease of use and behavioral norm related to Internet usage were strong predictors of perceived Internet usefulness while learning orientation was not. Contrary to expectations, firm market orientation did not a have direct effect on usefulness but some evidence was found for an indirect effect of market orientation working through behavioral norm to impact usefulness perceptions. Lastly, as expected, behavioral norm and learning orientation were found to influence ease-of-use Internet perceptions while market orientation was not.

Discussion

The informal nature of SME strategy, questions regarding the benefits from Internet use, and uneven SME Internet adoption have been recognized (Levy and Powell, 2003), which points to the importance of the context of the current research. Ultimately, efforts to enhance SME-supplier Internet information management can pay more immediate and longer-term dividends as suppliers can provide access to resources and the opportunity for learning (Chung et al., 2000; Lane and Lubatkin, 1998). Suppliers as a source of information are particularly critical for small firms given their lack of R&D and marketing research resources. As such, suppliers can serve in these roles as valued sources of information regarding products, markets, industries, and competitors for both long-term and operational decision-making (Dollinger and Kolchin, 1986; Fann and Smeltzer, 1989; Jarillo, 1989; Smeltzer et al., 1988).

The present study extends our understanding of SME Internet use by exploring relationships among usefulness and ease-of-use cognitions and intention to use the Internet for supplier information management. We also explore the influence of behavioral norms and two strategic perspectives, market and learning orientation, on the Internet-related cognitions. To the best of the authors' knowledge, these relationships have not been examined together in the literature.

As noted previously, decisions that drive competitive advantage are rooted in managers' perceptions of their business environment. In the context of the present study, exploring the "chain" of variables explaining Internet adoption helps identify relationships that clarify what factors contribute to effectively leveraging the Internet in an important area for SMEs.

We now summarize contributions of the research. As expected, SME owner/managers' perceptions related to Internet ease of use and usefulness strongly influenced intention to increase use of the Internet for supplier information

Table 2. Regression Analyses Testing Hypothesized Relationships

	Model R^2	*Results F value*
H1: Usefulness = (.40**) Ease of Use	.16	26.67**
Intention = (.49**) Ease of Use	.24	44.42**
Intention = (.21**) Ease of Use + (.69**) Usefulness	.64	116.52**
H2: Usefulness = (.25**) Ease of Use + (.45**) Behavioral Norms + (.01) Market Orientation + (.03) Learning Orientation	.33	16.08**
H3: Ease of Use = (.30**) Behavioral Norms + (-.10) Market Orientation + (.26**) Learning Orientation	.15	7.83**

Note: Standardized coefficients appear in parentheses.
** significant at the .01 level.

Table 3. Post Hoc Regression Analyses Testing the Mediating Effects of Behavioral Norms on Market Orientation and Perceived Usefulness and Ease of Use

	Model R^2	*Results F value*
Usefulness		
Behavioral Norms = (.26**) Market Orientation	.07	10.03**
Usefulness = (.17*) Market Orientation	.03	4.12*
Usefulness = (.04) Market Orientation + (.51**) Behavioral Norms	.27	24.56**
Ease of Use		
Behavioral Norms = (.26**) Market Orientation	.07	10.03**
Ease of Use = (.10) Market Orientation	.01	1.29
Ease of Use = (.02) Market Orientation + (.31**) Behavioral Norms	.10	7.40**

Note: Standardized coefficients appear in parentheses.
* significant at the .05 level.
** significant at the .01 level.

management, with evidence that usefulness partially mediates the influence of ease of use. Thus, strong support is found for this adaptation of the TAM as ease of use and usefulness explained a majority of the variability in intention ($R^2 = .64$). This magnitude of explanatory power compares favorably with results reported in related research (Davis et al., 1989; Taylor and Todd, 1995). Clearly, the use of these variables in future Internet-related research in the small business sector is warranted.

In addition, we also explored possible determinants of the Internet-related perceptions—usefulness and ease of use. As predicted, in addition to ease of use, behavioral norms related to Internet usage were also a strong predictor of perceived Internet usefulness. Contrary to expectations, firm market orientation did not a have direct effect on usefulness. However, evidence was found for an indirect effect of market orientation working through behavioral norm to impact usefulness perceptions. Future research could examine the influence of market orientation in more detail. For example, would more direct effects be found for different Internet applications or different technology applications?

With respect to the determinants of ease-of-use perceptions, as expected, behavioral norms and learning orientation were found to influence ease-of-use Internet perceptions. Although highly significant, these variables accounted for the least amount of explained variability in intention of all of the hypothesized models ($R^2 = .15$). Future research should continue to conceptualize and test additional variables that might contribute to this important determinant of intention to use the Internet.

The behavioral norm concept would appear to be particularly relevant to understanding information technology behavior for SMEs as it was found to be significant in models explaining perceived usefulness and ease of use. This finding is consistent with related research that found external pressure implicated in SME e-business adoption (Mehrtens et al., 2001) as well as the significance of normative beliefs in intention-based models related to information technology use (c.f., Celuch et al., 2004; Celuch et al., 2007b). While much of the research utilizing intention-based models have incorporated a subjective norm (i.e., an individual's view about what significant others think the individual should do in a given context), the present study used a behavioral norm (i.e., an individual's belief about what others are doing in a given context) as an independent predictor of Internet perceptions. We believe the behavioral norm concept may be particularly relevant to understanding SME technology-related behavior as owner/managers are likely to look to the behavior of other SMEs in their environment for input regarding technology adoption. Note that findings of the present study may help explain the equivocal findings for external pressure in the SME Internet adoption literature as normative influence strongly explained owner cognitions which are antecedents to intention.

Findings of the present study related to the strategic orientations parallel findings in the small business literature that found strategy impacted technological scanning activities (Raymond et al., 2001) and market orientation, in particular, drove imitative behavior of successful innovations (Verhees and Meulenberg, 2004). Current findings move beyond prior findings by adding depth to what is known about the intermediate processes that translate strategic orientations into important related outcomes—Internet-related perceptions that strongly influence intention to use the Internet. As such we make explicit the complementary yet distinct effects of market and learning orientation as both impact SME Internet perceptions yet in distinctly different ways, with market orientation indirectly influencing perceived usefulness through behavioral norm and learning orientation directly influencing perceived ease of use. As noted earlier in the article, making these cognitive linkages explicit is particularly useful in the small business realm given owners/managers often engage in strategic planning that is less formal and structured than managers' strategizing in larger firms (Carson, 1993).

Future research could also integrate and explore other strategy-related variables. For example, Barrett and Weinstein (1998) found interactive effects for market orientation and strategic flexibility such that the effect of market orientation was stronger for firms with less flexibility. How might strategic flexibility effects relate to learning orientation effects? In addition, environmental dynamism might also moderate relationships among variables at the interface of strategy implementation and technology use (c.f., Johnson et al., 2003; Tallon and Kraemer 2003; Murphy et al., 2007).

The present study should be viewed from the perspective of a cross-sectional study employing small business owner/manager self-report data. Future research could extend findings of the present research by incorporating actual Internet usage data rather than intention-to-use measures. While the study is multiindustry and multicompany in nature, respondent firms are predominantly from retail, construction, and financial services contexts. Would different information requirements or different operational dynamics associated with different industries (e.g., manufacturing firms) alter the observed relationships?

Findings of this research also hold managerial implications for effectively leveraging the Internet as the strategic orientations and behavioral norms are implicated in the important drivers of SME Internet usage. SMEs with weak market orientations are likely to have a low sense of urgency regarding Internet usage for supplier information management. Without a strong market orientation, they fail to develop the motivating normative influence which, in turn, negatively affects the perceived usefulness of the Internet. Further, nor-

mative influence and learning orientation contribute to Internet ease-of-use perceptions which, in turn, impacts usefulness perceptions. Given the significance of normative influence on Internet-related cognitions, the use of benchmarking relative to major stakeholders could pay dividends in terms of increasing managerial perceptions associated with Internet ease of use and usefulness for supplier information management. Extending the above notion throughout an organization would suggest that top management sharing normative information with employees could help strengthen employees' ease-of-use and usefulness perceptions related to using the Internet to manage supplier information.

In addition, ease-of-use perceptions are particularly important in that they have direct as well as indirect (through usefulness) effects on Internet intention. The potential similarity between the perceived ease-of-use and perceived efficacy constructs has been noted by researchers as both relate to domain-specific perceptions of capabilities (c f., Taylor and Todd, 1995). Bandura (1997) details sources of an individual's efficacy perceptions with two of the most powerful sources being direct and vicarious experience. Thus, the provision of direct experience through government- or foundation-sponsored training programs related to Internet information management would likely enhance ease-of-use perceptions related to Internet usage. Such programs could be aimed at achieving the goal of enhancing SME-supplier relationships through integrated information management. In addition, efficacy development interventions focused on allowing participants to directly observe other SMEs engaging in positive supply-side Internet-related usage could also prove beneficial in enhancing ease-of-use and usefulness perceptions and subsequent intention and behavior.

In conclusion, understanding information technology-related motivation and behavior of SMEs will continue to be a significant topic for researchers and practitioners. It is hoped that this theory-driven approach related to supplier information management will contribute to future empirical efforts aimed at increasing our understanding of Internet usage by SME owner/managers.

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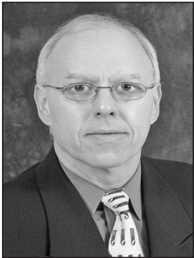

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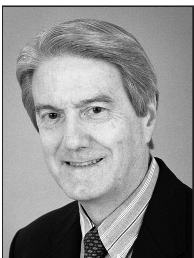

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Corporate Parents, Initial Legitimacy, and Resource Acquisition in Small and Medium Firms: An Empirical Examination

Gregory B. Murphy
Neil Tocher

Small and medium enterprises (SMEs) commonly struggle to acquire needed financial, human, and technological resources. The above being stated, recent scholarly research argues that SMEs that are able to successfully navigate the legitimacy threshold are better able to gather the resources they need to survive and grow. This article provides an empirical test of that claim by examining whether the presence of a corporate parent positively influences SME resource acquisition. Results of the study show that SMEs with corporate parents, when compared to like-sized independent SMEs, have higher credit scores, have more complete management teams, use more computers, and are more likely to be on the Internet. These differences are most pronounced for very small firms and diminish in significance as firm size increases. Study implications include the notion that presence of a corporate parent likely represents a successful navigation of the legitimacy threshold, positively increasing SME resource acquisition.

Keywords: legitimacy threshold; parenting; new ventures; resource acquisition

Scholars argue that before a new venture is able to gather the resources it needs to survive and grow, it must first attain initial legitimacy from key stakeholders (Choi and Shepherd, 2005; Rutherford, Buller, and Stebbins, 2009). Thus, ventures that are not granted legitimacy by key stakeholders (i.e. stakeholders with the potential to provide significant and steady resources to the venture) will likely not be able to assemble needed resources such as financing, human capital, and technological assets, dramatically increasing their chances of failure (Aldrich and Martinez, 2001; Shepherd and Zacharakis, 2003). This study provides an empirical test of the above notion by examining whether SMEs with corporate parents are better able to gather resources (i.e. financing, managerial talent, technological assets) than SMEs without corporate parents.

What Is Initial Legitimacy?

Initial legitimacy is ". . . a social judgment of acceptance, appropriateness, and desirability, [that] enables organizations to access other resources needed to survive and grow" (Zimmerman and Zeitz, 2002). In this sense, key stakeholders—usually customers and financiers—grant initial legitimacy based on their assessment of both the entrepreneur and the emerging venture (Aldrich and Fiol, 1994; Choi and Shepherd, 2005). Once the stakeholder has determined that the venture is a legitimate operation, the stakeholder will typically signal such a decision by providing the venture with resources (Shepherd and Zacharakis, 2003). Once this signal has been sent by a key stakeholder, other stakeholders will realize that the venture is legitimate and will also provide resources, allowing the venture to survive and grow (Rutherford and Buller, 2007).

Attaining initial legitimacy is perhaps best described by the idea of a legitimacy threshold (LT), which Zimmerman and Zeitz (2002) define as "[the point] below which the new venture struggles for existence and probably will perish and above which the new venture can achieve further gains in legitimacy and resources." More specifically, researchers have observed that entrepreneurs tell fairly similar "made it" stories about the point at which entrepreneurs felt their firms had become commercially stable and were no longer engaged in a daily fight for survival (e.g. Rutherford and Buller, 2007; Zahra and Filatotchev, 2004). Such "made it stories" told by entrepreneurs typically involve the entrepreneur's firm being endorsed—or legitimized—by a resource-providing stakeholder (e.g. Choi and Shepherd, 2005; Rutherford et al., 2009).

Why Should the LT be Empirically Examined?

While the above indicates that emerging ventures likely experience the LT, few empirical studies have examined the relationship between successful navigation of the LT and small firm resource acquisition. In this article, we attempt to bridge this gap by examining if the presence of a corporate parent positively influences SME resource acquisition. In this sense, we view the presence of a corporate parent as a successful navigation of the LT and seek to understand if successful navigation of the LT does indeed allow ventures to attain needed resources.

Further, while there has been considerable debate in the strategy literature on the effectiveness of corporate parent-

ing efforts (i.e., Chang and Singh, 2000; McGahan and Porter, 1997), such research has focused little attention on the effects parenting has on small subsidiary ventures (Brush and Bromily, 1997). Rather, parenting research has typically focused on the influence the practice has on the performance of large (often multinational) parent corporations. Hence, by assessing the possibility that the presence of a corporate parent positively influences SME resource acquisition, we contribute to the literature by providing an empirical examination of the above knowledge gap.

To accomplish the goals of our study, we first review research on the parenting effect, contrasting its influence to the resource scarcity commonly faced by SMEs due to the liability of smallness (LOS). Given such liabilities, we then explain the LT in detail, arguing that the presence of a corporate parent represents successful navigation of the LT and will thus positively influence SME resource acquisition. We use a comparison sample of 1,242 small subsidiaries and 2,099 independent small firms to test this notion before reporting results and discussing implications.

The Parenting Effect

Corporate strategy effects can be divided into two components: industry choice and corporate parenting. Industry choice refers to the idea that a firm may benefit from participating in industries that are more profitable than others. Parenting, the focus of this article, refers to the idea that subsidiary firms may benefit by having a corporate "parent" or owner. The primary benefit of corporate parenting is increased access to both resources and managerial guidance (Goold, Campbell, and Alexander, 1994).

The ability of corporate parenting to deliver increased firm performance has been widely debated in the strategy literature. Beginning with Schmalensee in 1985, scholars have argued about the amount of positive benefits that parenting provides (Wernerfelt and Montgomery, 1988; Rumelt, 1991; Brush and Bromily, 1997; McGahan and Porter, 1997; Chang and Singh, 2000). Specifically, Schmalensee (1985) found significant parenting effects while Rumelt (1991) found parenting effects to be trivial. Rumelt (1991) found "no evidence of non-zero corporate [parenting] effects" (p. 178) in his first sample and a very small (2%) parenting effect in his second sample. Subsequent research has found that parenting effects are stronger in the wholesale and retail sectors than in the manufacturing sector (McGahan and Porter, 1997) and that parenting effects are stronger when lines of business are defined more narrowly (Chang and Singh, 2000). However, even these studies have generally found a fairly modest corporate parenting/firm performance relationship for the larger firms they examined. McGahan and Porter (1997) found, for example, that "stable effects for corporate-parent membership account for only about 4 percent of the variance in business segment profit" (p. 24).

This line of research, however, has focused on large firms that have already overcome the LOS and the LT. Having successfully navigated the LT, the large subsidiary firms studied in the existing literature are better able to acquire needed resources on their own merits, reducing or eliminating the importance of the parent as a resource provider. By comparison, we would expect that parenting effects will be more significant for emerging ventures, particularly with regard to resource attainment. While larger subsidiaries may still benefit from a corporate parent's managerial guidance, smaller subsidiaries will likely benefit from both a parent's managerial guidance as well as the parent's ability to provide resources that the SME would not likely be able to acquire on its own.

Accordingly, while the literature as a whole suggests that corporate parenting has a modest positive influence on firm performance (e.g. Chang and Singh, 2000; McGahan and Porter, 1997; Schmalensee, 1985), we argue that parenting effects are likely to be more significant for emerging ventures that are still subject to the LOS and have likely not yet successfully navigated the LT. Given this, we next argue that the presence of a corporate parent suggests successful navigation of the LT and thus helps SMEs neutralize the LOS, which will in turn allow the subsidiary to better gather needed resources.

Corporate Parenting and the LT

In this article, we subscribe to the notion that most, if not all, SMEs must navigate a legitimacy threshold before they are able to acquire needed resources (Birley and Norburn, 1985; Zahra and Filatotchev, 2004). The central idea of the LT is that there exists a point in the early stage of most new ventures where the firm compiles some base level of legitimacy that enables it to survive and possibly grow (Zimmerman and Zeitz, 2002). Therefore, pre-legitimate ventures can be clearly contrasted with post-legitimate ventures in that they are just getting off the ground, financed entirely by seed money, have few (if any) substantial customers, and possess highly untenable resources; whereas post-legitimate ventures have acquired, or have access to, additional and more stable resources due to being granted at least a base level of legitimacy by a key stakeholder (Rutherford and Buller, 2007; Rutherford et al., 2009). Navigation of the LT is thus comparable to overcoming the LOS, which is a condition where emerging ventures possess limited power against market forces due to a lack of resources (Stinchcombe, 1965). More specifically, since emerging ventures commonly have limited debt capacity, poor cash flows, a limited product/service offering, and depend on niche markets, their survival and performance is more susceptible to market forces such as

aggressive competitors, demand fluctuations, and powerful suppliers (Choi and Shepherd, 2005; Morris, 2001).

In this sense, navigating the legitimacy threshold is largely a resource issue (e.g., Pfeffer and Salancik, 1978), because pre-legitimate ventures usually possess only the founder's personal resources and what the founder has been able to raise from friends, family, and fools (Berger and Udell, 1998; 2006). Further, the pre-legitimate firm likely has few if any significant customers. Because of this resource deficiency, during the pre-legitimate stage, resource-providing stakeholders (i.e., financiers and customers) are usually the most important stakeholders from whom the firm must be granted legitimacy (Choi and Shepherd, 2005). Therefore, successful navigation of the LT is most commonly indicated by the provision of resources to the SME by a key stakeholder (Zimmerman and Zeitz, 2002; Zahra and Filatotchev, 2004). For example, post legitimacy may be indicated by events such as the SME landing its first major sale, entering a licensing agreement with a product distributor, or receiving financing from a business angel (Rutherford et al., 2009). While the above are all certainly viable, we assert that several lines of reasoning support the notion that SMEs with corporate parents have also successfully navigated the LT.

First, it is reasonable to assert that parent firms nearly always invest in legitimate ventures. As posited by Burgelman (1991) corporations have limited resources and thus managers will only invest such resources after much analysis. Hence, a parent/subsidiary relationship suggests that the parent has performed due diligence and concluded that the SME is legitimate (Lange, Boivie, and Henderson, 2009). Further, research in the large firm literature indicates that parents consistently provide subsidiary ventures with high levels of tangible resources (e.g. McKendrick and Carroll, 2001; McKendrick, et al., 2003; Stuart, Hoang, and Hybels, 1999), providing evidence that SMEs with corporate parents will have more consistent access to resources than independent SMEs. Finally, regardless of the amount of tangible resources that the SME acquires from the parent, the parent's presence will likely signal to other potential resource providers that the SME is more legitimate than comparable independent ventures (Aldrich and Martinez, 2001; Shepherd and Zacharakis, 2003). Thus, we conclude that the presence of a corporate parent represents a successful navigation of the LT and will thus enhance SME resource acquisition.

Given the above, we posit the following:

Hypothesis 1: Corporate parents will positively influence SME resource acquisition such that SMEs with corporate parents will gather more resources than SMEs without corporate parents.

Corporate Parents and SME Resource Acquisition

As acknowledged above, SMEs struggle to acquire needed resources, particularly in the areas of human capital (Hornsby and Kuratko, 2003), financing (Berger and Udell, 2006), and technological assets (Bernadas and Verville, 2005). Conversely, research on the LT provides evidence that SMEs which are granted legitimacy by a critical stakeholder will be better able to acquire needed resources (Rutherford and Buller, 2007; Zimmerman and Zeitz, 2002). Given that the presence of a corporate parent likely greatly increases SME legitimacy, we argue below that SMEs with corporate parents will have better access to technological, financial, and human resources than similar ventures that lack parents.

Acquiring Financing

It is well documented that new and small firms struggle to acquire needed financing and such struggles are a common cause of SME failure (e.g., Coleman, 2004; Gregory, Rutherford, Oswald, and Gardiner, 2005). Further, research also documents that to acquire financing; entrepreneurs often face additional constraints such as higher interest rates, weekly payments, and extensive personal guarantees (Barton and Matthews, 1989; Rutherford, Coombes, and Tocher, 2007). While SMEs struggle to raise capital for a variety of reasons, two primary causes are the fact that financiers often face severe information opacity with regard to the SME and the reality that SME financing is highly dependent on its founders' credit scores (Berger and Udell, 1998; 2006). More specifically, since the SME has few assets and often lacks the solid business reputation that creditors desire, the SME's credit score will either rely heavily or be entirely dependent upon its founders' credit scores (Brewer, 2007).

Therefore, we argue here that the presence of a corporate parent will help SMEs limit their information opacity and increase their credit score. For example, a parent will likely have a long and hopefully sound business record, which potential creditors will almost certainly reference when making loan decisions regarding the parent's subsidiaries (Lange et al., 2009; McKendrick, et al., 2003). In other words, while the SME may lack legitimacy and reputation, the parent will likely possess high levels of each, which a potential financier will most likely consider when deciding whether to provide financing to the parent's subsidiary. Such perceived legitimacy is presumed to positively influence the SME's ability to raise capital (Zimmerman and Zeitz, 2002). Further and perhaps more important, the presence of a parent will link the SME's credit score with the parent's credit score (Berger and Udell, 2006). Since it is almost certain that the parent's credit score will be higher and have more credence than the SME's credit score, a parent will likely positively influence

SME access to capital. Given the above discussion, the following is advanced:

Hypothesis 2: The presence of a corporate parent will positively influence SME access to financing such that SMEs with a parent will have higher credit scores than comparable ventures without parents.

Acquiring Managerial Talent

The acquisition of a qualified management team is a complex issue for SMEs. On one hand, SMEs commonly struggle to attract and retain the qualified employees they desire, yet on the other hand, attracting and retaining competent employees is critically important to SME survival and performance (Cardon and Stevens, 2004; Tocher and Rutherford, 2009). Emphasizing the above statement, research indicates that managerial incompetence is one of the most common reasons for SME failure (Dun & Bradstreet, 2001), yet emerging ventures typically place very little emphasis on formal HRM practices (Hornsby and Kuratko, 1990; 2003) and generally report not being able to attract competent employees (Williamson, 2000; Williamson, Cable, and Aldrich, 2002). Additional research indicates that SMEs (1) rely extensively on personal networks to find employees (e.g., Carroll, Marchington, Earnshaw, and Taylor, 1999), (2) use few if any formalized selection practices such as structured interviews, reference checks, or formal job applications (e.g., Kotey and Slade, 2005), and (3) often must compensate key employees at below market levels (Hayton, 2003). Further, due to factors such as a lack of training, limited promotion opportunities, and poor or absent supervision, SMEs often are unable to retain the few qualified employees they are able to attract (Tocher, Shook, and Giles, 2007).

While the above indicates that SMEs struggle to attract and select employees, research also suggests that the presence of a parent will likely help neutralize such challenges. For instance, the presence of a parent will significantly increase employer legitimacy (e.g., Williamson et al., 2002), positively influencing such factors as applicant pool quality, perceived promotion opportunity, and employee competence (Cardon and Stevens, 2004). Next, parent firms will almost certainly follow more formalized HRM practices than independent SME ventures (Kotey and Slade, 2005), and will probably require their subsidiaries to use similar practices. Using more formal HRM practices will likely result in more competent employees and better employee retention. Illustrating this point, research indicates that the use of formal HRM practices such as strict recruiting and selection practices, formal training programs, and employee empowerment initiatives tend to positively influence SME performance while decreasing turnover (e.g. Chandler and McEvoy, 2000; Hayton, 2003; Tocher and Rutherford, 2009). Finally, since parents tend to highly subsidize subsidiary ventures (McKendrick et al., 2003), it follows that such support will allow SMEs with parents to better compensate employees, neutralizing the pay gap often faced by SME ventures (Lange et al., 2009). Hence, the following is posited:

Hypothesis 3: The presence of a corporate parent will positively influence SME access to managerial talent such that SMEs with a parent will have more complete management teams than comparable ventures without parents.

Acquiring Technology

The acquisition and utilization of technology is also a double-edged sword for SME ventures in that SMEs are often technological laggards (e.g. Bernadas and Verville, 2005), yet the use of technology is critical to establishing and maintaining the knowledge-based competitive advantages that are critically important in the global economy (Felin and Hesterly, 2007). SMEs often possess less technological assets than more established ventures for reasons such as a lack of capital to purchase technology (e.g. Robeiro and Love, 2003), fear that purchasing such items will hurt the firm's strategic flexibility (e.g. Murphy, Celuch, and Callaway, 2007), and a belief by SME managers that their ventures do not have enough competent employees to leverage the technology their firms already possess (e.g. Litz and Stewart, 2000). Given such concerns, SMEs often choose to either outsource certain technological functions or rely on strategic partnerships to accomplish such activities (Stam and Elfring, 2008).

Given the technological challenges often faced by SMEs, it seems that the presence of a corporate parent is a viable strategic partnering option for emerging firms attempting to leverage technological resources. Specifically, a parent will probably provide the SME the financing, competent employees, and training needed to acquire and use the latest technologies (McKendrick and Carroll, 2001; McKendrick et al., 2003). Similarly, a parent will likely allow its subsidiaries to access the technologies that the parent already possesses (Lange et al., 2009). Integrating the subsidiary's knowledge management systems into the parent's systems will usually benefit the subsidiary by providing it access to the parent's suppliers, customers, and partners (Lubit, 2001). Finally, the presence of a parent will help the subsidiary convince stakeholders such as customers and suppliers that any proprietary technologies it possesses are legitimate (Murphy and Smart, 2000). Supporting this notion, legitimacy scholars (e.g., Tornikoski and Newbert, 2007; Delmar and Shane, 2004) argue that communicating an association with a larger and better known organization such as a parent typically leads potential stakeholders to infer greater legitimacy on the proprietary resources of an emerging venture. Hence, we advance the following:

Hypothesis 4: The presence of a corporate parent will positively influence SME utilization of technological resources such that SMEs with a parent will acquire and utilize more technological resources than comparable ventures without parents.

Method

Data for the study were gathered from Reference USA. Reference USA claims to report data on more than 14 million businesses in the United States. To identify a sample of small subsidiaries, data on nongovernment, nonbranch, and nonheadquarter subsidiary retail firms with less than 500 employees were gathered. A total of 1,242 such firms were identified. Retail firms were chosen because McGahan and Porter (1997) noted that corporate (parenting)-level effects are strongest in retail and wholesale industries. To identify a comparative sample, random names were chosen and used as street names to identify nongovernment, nonbranch, nonheadquarter, and nonsubsidiary, single location independent retail firms with less than 500 employees. This process identified 2,099 such firms. In general, subsidiary firms were larger than independent firms. Accordingly, tests for significant mean differences were conducted for the full sample as well as for each variable of interest by firm size (number of employees).

Credit numeric score was used to measure the firm's ability to access financial capital. Higher credit scores make it easier to attain working capital and debt financing on superior terms. Higher credit scores should also result in improved ability to access equity markets on superior terms. The confidence of financiers in a firm's ability to meet its financial obligations is reflected in a firm's credit score. This increased confidence should coincide with financiers' perceptions of reduced risk, thereby reducing the rate of return demanded by equity investors. Credit numeric scores in the samples range from 26 to 100.

Number of executives was used to measure the firm's ability to successfully recruit and retain important human resource talent. Reference USA lists up to 21 executives (including the primary firm contact) for each firm. Number of executives was measured as the total number of executives listed for each firm. The number of executives per firm ranged from 1 to 11 in the samples.

The presence of a website and the number of PCs were used as measures of technology use in this study. Reference USA lists the firm's URL if a website is available. Developing and maintaining a website can require extensive knowledge of computer-related technology, especially if the website has to be frequently updated and is used to take and place orders online. Firms with websites were coded with a 1 while firms without a website were coded with a 0. Reference USA lists the number of PCs in a firm by category. Firms with 0–1 PCs were coded with 1; firms with 2–9 PCs, 2; firms with 10–29 PCs, 3; and firms with 30 or more PCs, 4. Reference USA does not report data on number of PCs for firms with 100 or more employees. Retailers use PCs for a variety of purposes such as inventory and customer database management. Increased use of PCs represents a commitment to using technology to perform functions that may otherwise be performed manually.

Subsidiary status was coded with a 1 if the firm had a corporate parent and with a 0 if the company was independently owned. Two control variables were included in the study. First, number of employees was included as a measure of firm size. Larger firms can be expected to have greater resources, making controlling for firm size important. Reference USA provides data on number of employees in size groupings: firms with 0–4 employees were coded 1; 5–9 employees, 2; 10–19 employees, 3; 20–49 employees, 4; 50–99 employees, 5; 100–249 employees, 6; and 250–499 employees, 7. Firm age was the second control variable used. It is likely that older firms, like larger firms, have better access to resources, making controlling for firm age appropriate. The year the company first used a yellow page ad was used as a proxy for firm age. While an imperfect measure of firm age, retail firms have a strong interest in being listed in local yellow pages.

Table 1. Means, Standard Deviations, and Correlations

	Mean	*Std.*	*1*	*2*	*3*	*4*	*5*	*6*
1. # Employees	3.62	1.90						
2. Firm Age	1996.51	7.26	**-.18					
3. Subsidiary	.37	.48	**.23	-.01				
4. Credit Score	88.66	11.92	**.47	**-.40	**.48			
5. # Executives	2.13	1.93	**.52	**-.10	**.22	**.28		
6. Website	.36	.48	**.40	**-.09	**.27	**.30	**.36	
7. #PCs	1.70	.71	**.67	**-.12	**.37	**.39	**.40	**.40

**=sig. at .01

Results

Analysis proceeded in three stages. First, variable descriptive data and correlations are presented in Table 1. Table 1 shows that the two control variables firm size and firm age are significantly correlated with most of the other variables in the study, indicating the appropriateness of their inclusion. The table also shows that subsidiary status is significantly and positively related to all of the variables of interest, suggesting that having a corporate parent leads to higher credit scores, a more complete management team, and better access to technology.

In the second stage, subsidiary status was regressed on credit score, number of executives, presence of a website, and the number of personal computers, using firm size and firm age as control variables. Table 2 shows the results of the two-step regressions. The results show that subsidiary status significantly improves the prediction of credit scores, number of executives, the likelihood of a website, and the number of personal computers employed, given controls for firm size and firm age. These results indicate that having a corporate parent significantly improves a small firms' ability to acquire important resources.

In the final stage of analysis, tests of significant mean differences between the subsidiary sample and the independent firms sample were conducted. Differences are tested for the seven size groupings ranging from 0–4 employees to 250–499 employees. Table 3 reports the results of the analysis. These results are offered to more fully illustrate the differences between small independent and small subsidiary firms in their ability to acquire important resources, and to assess the extent that the legitimacy benefits of having a corporate parent are more pronounced for smaller firms.

Table 2. Regression of Subsidiary Status on Credit Scores, Number of Executives, Presence of a Website, and Number of Personal Computers

	Credit Score	*# Executives*	*Website*	*# PCs*
Stage 1				
Number of Employees	***.41	***.52	***.40	***.68
Firm Age	***-.34	-.01	-.02	.01
Stage 2				
Subsidiary Status	***.40	***.09	***.18	***.17
F	***1040.47	***432.49	***259.52	***783.33
Adjusted R^2	.48	.28	.19	.48
Significant Change in R^2	***.16	***.01	***.03	***.03

***=sig. at .001
Standardized regression coefficients reported
F and Adjusted R^2 are for Stage 2 Models

Table 3 reveals frequent and consistent differences in resource levels between the subsidiary and independent firms. Regarding credit scores, subsidiary firms had higher credit scores than independent firms in the total sample as well as every size group. The greatest differences were found for smaller firms. Subsidiary firms with 0–4 employees had credit scores 20.24 points higher, on average, than comparably sized independent firms. By comparison, subsidiary firms with 100–249 employees had credit scores only 4.03 points higher, on average, than same-sized independent firms. Regarding number of executives, subsidiary firms employed more executives than independent firms in the total sample and in each size group except the largest group of firms with 250–499 employees. The most significant difference was again found in the smallest subsamples of firms with 0–4 employees. Regarding technology availability, subsidiary firms were much more likely to have a website than independent firms for the sample overall and for each size group except the largest group of firms with 250–499 employees. Here again, the greatest differences were observed for smaller firms. Subsidiaries with 0–4 employees were 9 times as likely as independent firms to have a website while subsidiaries with 5–9 and 10–19 employees were respectively almost 4 and 2 times more likely to have a website. Also, subsidiary firms used more PCs than independent firms for the overall sample and for each size group except the group with 5–9 employees.

Collectively, the results of the analyses provide strong support for the hypotheses. The general hypothesis (hypothesis 1) that SMEs with corporate parents will gather more resources than independent businesses was well supported by the data. The correlation data shows consistently greater resources for subsidiaries than independent firms. The regression analysis shows that this finding remains when controlling for firm size and firm age. Hypothesis 2, that small subsidiaries will have higher credit scores than independent small businesses is also strongly supported by the data. Table 2 shows a large (.16) and significant improvement in percentage of variance explained in credit scores as a result of including subsidiary status in the regression. Hypothesis 3, that small subsidiaries will have more complete management teams than independent small businesses, was also strongly supported by the data. Firm size, as measured by number of employees, was revealed in Table 2 to be the more significant control variable (firm age was not a significant predictor when firm size was included in the model). Table 3 revealed that subsidiary firms had more complete management teams than independent firms for the overall sample, as well as for every size subsample except the largest with 250–499 employees. Hypothesis 4, that small subsidiaries will make greater use of technology than independent small business-

es, was also strongly supported by the data. These variables, like number of executives, were strongly influenced by firm size (and not firm age) as a control variable. Again, Table 3 illustrates that subsidiary firms were much more likely to have a website and employ more personal computers in their firms than their independent counterparts.

These findings support the general hypothesis that the presence of a parent will positively influence SME resource acquisition. Such findings lend support to the argument that the presence of a parent represents a successful navigation of the LT. Further, findings that the smaller subsidiaries had considerably more resources than comparable independent ventures and such resource differences declined as firms became more established (see Table 3) provide support for the notion that parenting may be most beneficial for pre-legitimate ventures.

Table 3. Mean Differences Between Small Independent and Subsidiary Retail Firms

	Independent	*Subsidiary*	*F*
Total Sample	**N=2099**	**N=1242**	
Credit Score	84.27	96.07	***991.61
Number of Executives	1.80	2.67	***164.66
Presence of Website	.26	.52	***258.37
Number of PCs	1.50	2.06	***415.88
0–4 Employees	**N=674**	**N=82**	
Credit Score	76.42	95.66	***357.45
Number of Executives	1.00	1.21	***57.70
Presence of Website	.03	.27	***85.05
Number of PCs	1.06	1.18	***18.20
5–9 Employees	**N=203**	**N=116**	
Credit Score	79.69	95.05	***181.60
Number of Executives	1.00	1.26	***18.54
Presence of Website	.07	.27	***23.90
Number of PCs	1.45	1.55	2.58
10–19 Employees	**N=170**	**N=180**	
Credit Score	81.77	95.77	***191.96
Number of Executives	1.08	1.37	**9.16
Presence of Website	.24	.47	***21.60
Number of PCs	1.35	1.86	***51.50
20–49 Employees	**N=472**	**N=318**	
Credit Score	89.33	96.85	***158.90
Number of Executives	1.98	2.23	**7.64
Presence of Website	.38	.53	***19.54
Number of PCs	2.05	2.29	***48.40
50–99 Employees	**N=121**	**N=217**	
Credit Score	90.73	96.40	***25.11
Number of Executives	2.51	3.12	**8.29
Presence of Website	.49	.67	***11.48
Number of PCs	2.05	2.47	***28.44
100–249 Employees	**N=403**	**N=235**	
Credit Score	91.88	95.91	***28.08
Number of Executives	3.19	4.34	***28.41
Presence of Website	.49	.59	**6.63
Number of PCs	N/A	N/A	N/A
250–499 Employees	**N=56**	**N=72**	
Credit Score	91.73	97.10	***11.60
Number of Executives	3.57	4.17	1.34
Presence of Website	.57	.60	.77
Number of PCs	N/A	N/A	N/A

=sig. at .01, *=sig. at .001

Discussion

The current study provides solid empirical support for the notion that the presence of a parent will positively influence resource acquisition in emerging ventures. Specifically, our findings indicate that small subsidiary ventures typically have better credit ratings, have more managers, have more personal computers, and are more likely to have a website than comparably sized independent ventures. It should also be noted that such resource differences are most pronounced in very small firms and become less pronounced as firms become more established. Such findings indicate that while all SMEs with parents tend to be able to gather more resources than comparable ventures, the access to resources benefit of parenting appears to be far greater for smaller ventures.

The above findings make several important contributions to the literature. First, our article extends research on corporate parenting by examining its influence on SMEs. As previously mentioned, most research on corporate parenting effects tends to examine large, well-established ventures and has typically concluded that parenting benefits are generally marginal for such firms (e.g. Chang and Singh, 2000; McGahan and Porter, 1997). For example, recent work by Lange et al. (2009) even found that subsidiaries of corporate parents have higher failure rates than independently owned ventures. However, it should be noted that since established ventures have much better access to resources, the main benefit of parenting for large subsidiary ventures is the provision of managerial oversight from the parent to the subsidiary (Goold et al., 1994). Conversely, considering that emerging ventures tend to lack both legitimacy and tangible resources (Williamson, 2000), a parent may provide emerging ventures with additional benefits such as increasing the SME's perceived legitimacy and access to resources. Interestingly, our data supports the above by finding both that SMEs with parents tend to gather more resources than independent firms, and that such resource differences were most pronounced for smaller firms. Such findings suggest that parenting pro-

vides SMEs increased access to resources and this increased access is greatest for smaller firms. Therefore, parenting does appear to be more beneficial for emerging ventures.

Second, our article provides needed empirical evidence to support the legitimacy threshold (LT) concept. While recent work provides solid evidence that the LT exists and that successfully navigating the LT is critical to firm survival (Choi and Shepherd, 2005; Rutherford and Buller, 2007; Zimmerman and Zeitz, 2002), empirical studies demonstrating critical differences between comparable pre-legitimate and post-legitimate firms are rare (Rutherford et al., 2009; Zahra and Filatotchev, 2004). Hence, by demonstrating that SMEs that have successfully crossed the LT by bringing on a corporate parent are better able to gather resources than comparable ventures, we provide additional empirical support for the LT concept and suggest that attracting a corporate parent is a viable option which may help entrepreneurs successfully navigate the LT.

Third, our study suggests that bringing on a corporate parent will help entrepreneurs operating early-stage ventures avoid the risky strategy of prioritizing stakeholder concerns. Several studies (e.g. Danov, Smith, and Mitchell, 2003; Jawahar and McLauphlin, 2001; Tocher and Rutherford, 2009) conclude that entrepreneurs operating early-stage ventures typically prioritize stakeholder concerns, paying most (if not all) of their attention to the concerns of resource-providing stakeholders—usually customers and financiers. At the same time, such entrepreneurs pay little if any attention to the concerns of stakeholders such as employees, suppliers, and community officials. However, such a strategy has also been shown to be problematic as research indicates that firms who address stakeholder concerns in a symbiotic manner tend to experience high performance levels (e.g. Bosse, Phillips, and Harrison, 2009; Laplume, Sonpar, and Litz, 2008). For instance, research by Dyer and Singh (1998) found that firms that are able to develop symbiotic relationships among various stakeholder groups typically experience higher performance levels than comparable firms who use primarily a zero sum approach to stakeholder management. Jawahar and Mclaughlin's (2001) argument for stakeholder prioritization is primarily based on the notion that emerging ventures must gather resources before all stakeholder interests can be aligned. However, if the presence of a parent allows emerging firms to gather needed resources, it seems that subsidiaries will be able to align stakeholder interests earlier in the venture's existence and avoid the risky stakeholder prioritization strategy.

Finally, in spite of the benefits of parenting discussed above, our results also suggest that entrepreneurs need to be aware of the LT when deciding to enter into a parenting subsidiary relationship. While parents typically increase emerging ventures' perceived legitimacy and access to resources, it can be assumed that ventures which have crossed the LT are seen as legitimate and are thus able to gather resources with or without the help of a parent (Aldrich and Martinez, 2001; Shepherd and Zacharakis, 2003). Therefore, similar to large established firms, the primary benefit that post-legitimate ventures will receive from parents is managerial guidance (Goold et al., 1994). Given the mixed results of research examining the parenting/firm performance relationship (e.g. Chang and Singh, 2000), an entrepreneur operating a post-legitimate venture should be very cautious when making the decision to enter into a parenting subsidiary relationship. If the entrepreneur believes that the firm could benefit substantially from the increased managerial guidance of a parent, she should consider the subsidiary option. However, if the entrepreneur believes that her management team can effectively guide the venture, she should think twice about bringing a parent on board.

Limitations and Future Research

This study, like any, has limitations. One limitation of this study was the unavailability of performance data. While our results do show that small subsidiaries have better access to important resources than independent small businesses, this study is not able to determine if improved access to resources, in this case, results in performance improvements for parents or their subsidiaries. Future research should consider the relationship between emerging venture legitimization by a parent and emerging firm performance. Specifically, do SMEs who are legitimized by corporate parents experience higher performance levels than comparably sized independent firms? On one hand, it seems that both the increased access to resources and the managerial oversight provided by the parent would allow the subsidiary to perform at a higher level. However, recent empirical research by Lange et al. (2009) actually indicates that corporate subsidiaries experience higher failure rates than comparable ventures. Given such findings, future research needs to examine whether subsidiaries do indeed perform at lower levels. Conversely, could it be that subsidiary ventures are more likely to fail because parents have unrealistic expectations and tend to pull resources from subsidiaries before they are able to fully develop their product/service offerings?

On a related note, it would be interesting to examine if parental managerial oversight creates a reality where subsidiary ventures are not as diversified as comparably sized independent firms. It is certainly possible that the corporate parent may prefer that the subsidiary focus their efforts narrowly, especially if the subsidiary is a supplier or distributor of the parent's products or services. Studies indicating that independent ventures that are more diversified tend to perform at higher levels than subsidiaries that are only allowed to carry a narrow product line may provide some explana-

tion for Lange et al.'s (2009) somewhat contrary findings. Next, research should examine if performance levels vary for SME subsidiaries across the LT. In other words, do pre-legitimate SMEs that become subsidiaries experience better survival rates and higher performance levels than post-legitimate SMEs who become subsidiaries after crossing the LT? Research indicating that SMEs that used the legitimization of a parent to navigate the LT perform at higher levels than SMEs that became affiliated with parents after crossing the LT would provide additional credence to the claim that entrepreneurs operating post-legitimate ventures should be cautious about entering into a parenting subsidiary relationship.

Further, it is important to note that our study suggests a strategy for emerging firms (i.e. courting the support of a parent) that will likely lead to reduced independence for entrepreneurs. As many entrepreneurs value independence, an indepth study of entrepreneurs' personal experiences with becoming and being a subsidiary may help inform other entrepreneurs as to their potential satisfaction with such an arrangement.

Finally, this study was rough-grained in its approach. Future research could adopt a more fine-grained approach and add insight into the legitimization process and to a variety of possible differences between subsidiary and independent firms. For example, future research might consider the extent that small subsidiaries use their websites more to coordinate business activities, while small independent firms use their websites primarily to create firm awareness.

Conclusion

The current examination of resource acquisition benefits of corporate parenting in SMEs contributes to the literature by finding that parenting is highly beneficial for smaller, less established ventures. Using a comparison sample of 1,242 small subsidiaries and 2,099 independent small firms, we found strong evidence that the presence of a parent allows SMEs increased access to resources. Perhaps more importantly though, our findings also indicate that as firm size increases, resource differences between subsidiary and comparable independent ventures tend to steadily decrease, leading to the conclusion that parenting is likely much more beneficial for pre-legitimate ventures. Thus, it appears that the presence of a parent represents a successful navigation of the LT and supports the notion that since entrepreneurs operating subsidiary ventures will be able to access needed resources, they will be less likely to rely on the risky strategy of prioritizing stakeholder concerns. However, given previous research findings indicating that parenting's influence on performance is typically marginal (e.g. Chang and Singh, 2000), and possibly even negative (e.g. Lange et al., 2009), we submit that despite the increased resource access typically provided to SMEs by a parent firm, entrepreneurs operating post-legitimate ventures may not want to enter a parenting subsidiary relationship. Given that pre-legitimate ventures lack reputation and are typically in need of resources (Aldrich, 1999), our results suggest that pre-legitimate ventures should consider actively pursuing a parent. However, since post-legitimate ventures are likely able to access resources with or without the help of a parent, entrepreneurs operating post-legitimate ventures should only bring a parent on board if the entrepreneur is convinced that the parent's managerial oversight will increase her firm's performance.

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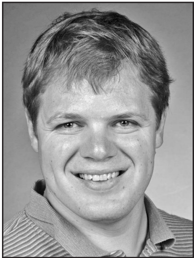

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Bootstrapping Techniques and New Venture Emergence

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Among nascent entrepreneurial ventures, are some types of bootstrapping techniques more successful than others? We compare externally oriented and internally oriented techniques with respect to the likelihood of becoming an operational venture; and we compare cash-increasing and cost-decreasing techniques with respect to becoming operational. Using data from the first Panel Study of Entrepreneurial Dynamics, we find evidence suggesting that when bootstrapping a new venture, the percentage of cash-increasing and cost-decreasing externally oriented bootstrapping techniques that a venture's owners use are positive predictors of subsequent positive cash flow (one and two years later). But, internally oriented techniques are not related to subsequent cash flow.

Keywords: financing, bootstrapping, new ventures, PSED, resource based view

Financial bootstrapping in new ventures refers to a variety of techniques that business founders use to raise funds from nontraditional business funding sources (e.g., spouses, friends and family) and limit business expenses (e.g., by utilizing used machinery, delaying salaries) (Bhide, 1992; Payne, 2007; Winborg and Landstrom, 2001). For the founders of new ventures, bootstrapping is a particularly important source of financing because they often do not have access to traditional sources of business funding such as bank loans, venture capital financing, and public equity (Stouder, 2002).

Although researchers have documented the types of bootstrapping techniques founders use (Carter and Van Auken, 2005; Ebben and Johnson, 2006; Van Auken, 2004; Van Auken, and Neeley, 1998), the literature is silent regarding the effectiveness of different types of financial bootstrapping techniques. Are certain types of bootstrapping techniques more effective in helping a venture become operational? Are the founders who focus on raising funds to support the venture more successful than those who focus on limiting expenses? Are the founders who focus on obtaining money and free services from individuals outside the venture more successful than those who focus on obtaining money and free services from insiders? Research identifying and validating bootstrapping techniques that facilitate new venture launch has significant implications for nascent entrepreneurs.

In this research we provide answers to these questions. To do so, we review and integrate the bootstrapping and organizational emergence literature. We build on earlier categorizations of bootstrapping techniques to parsimoniously investigate differences in effectiveness (Payne, 2007; Winborg and Landstrom, 2001). We utilize arguments grounded in the resource-based view of the firm and institutional theory to develop testable hypotheses regarding the effectiveness of different categories of bootstrapping techniques. Subsequently we describe our sample, discuss the construction of the variables, and describe the analytical method employed. Finally, we present the results of our analysis and discuss our findings.

Theory Development

Our research model stipulates that different types of bootstrapping techniques have different influence on whether a nascent venture emerges as an operational venture. We use institutional theory and the resource-based view to develop hypotheses. Our arguments are founded on a belief that acquiring resources that either increase cash or decrease monetary costs from external sources helps build the social legitimacy of the nascent business and leads to an increased probability of successful emergence. In this section of the article, we define the constructs relevant to our arguments and develop hypotheses.

This research is designed to focus on the relationship between bootstrapping and organizational emergence. The creation of business organizations is a central issue in entrepreneurship research. Hence the demarcation of organizational emergence is important in spite of significant challenges in determining the point of emergence (e.g. Gartner and Carter, 2003). Our dependent variable, organizational emergence, is defined as the transition point at which a nascent venture becomes an operational organization (Carter, Gartner and Reynolds, 1996; Tornikoski and Newbert, 2007). Although it is recognized that organizational emergence is a process, there has been significant discussion in the literature regarding the point in time at which a new venture can be deemed a viable venture (Carter, Gartner, and Reynolds, 1996;

Gartner and Carter, 2003). Of the researchers who have used the first Panel Study of Entrepreneurial Dynamics (PSED I) to study organizational emergence (Lichtenstein, Carter, Dooley, and Gartner, 2007; Newbert, 2005; Tornikoski and Newbert, 2007), many have operationalized organizational emergence as occurring when the venture's revenues exceed expenses. Although arguments for other points in time could be constructed, we posit that the point in time when revenues exceed expenses provides an indicator of a successful initial experiment and provides a base for future development. Thus, building on this logic and previous research, we also use positive cash flow as the indicator of when a venture becomes operational.

The term "bootstrap" has been part of the business lexicon for decades. However, one of the earliest uses of bootstrap in the academic literature was in a 1992 *Harvard Business Review* article titled "Bootstrap finance: The art of startups" (Bhide, 1992). Bootstrap finance was defined in this article as "launching ventures with modest personal funds" (Bhide, 1992: 110). More recently, bootstrap finance has been defined as "the use of methods for meeting the need for resources without relying on long-term external finance from debt holders and/or new owners" (Winborg and Landstrom, 2001: 235–236), and described as a method by which entrepreneurs can "extend the runway" from which to launch their business (Payne, 2007). Entrepreneurs often use bootstrapping techniques because they lack access to traditional sources of capital, or because they wish to maintain full control and ownership of their ventures, or both (Stouder, 2002). Specific techniques include practices such as continued regular employment, investment of personal savings, borrowing from family members, using personal credit cards, bartering for needed goods and services, state and local government grants, and making pre-agreements with suppliers and customers. (See Payne, 2007 and Winborg and Landstrom, 2001 for a full listing of bootstrapping techniques.)

Research on bootstrapping has been largely descriptive. (See Table 1 for a summary.) Early work in the area examined the types of bootstrap techniques that have been used and the degree to which managers of companies (not just new ventures) have used them (Van Auken and Neeley, 1998). This is a necessary first step in the examination of any important area. Researchers must first understand the "what' of an area before tackling the "why" and "how." The descriptive work indicates that sole proprietorships and firms outside the construction and manufacturing sectors are more likely to employ bootstrapping techniques. In addition, research that examines the degree to which entrepreneurs use bootstrap financing versus traditional forms of capital acquisition finds that bootstrap finance usage is related to market size, perceived firm risk, recent funding search (Van Auken, 2004), and the managers' assessment of their own ability (Carter and Van Auken, 2005). Moreover, the use of particular bootstrap techniques (e.g., delaying payment to suppliers, customer-related bootstrapping) is positively related to perceived firm risk (Van Auken, 2004) and organizational age (Ebben and Johnson, 2006). Though some contingent relationships have been part of the above work (e.g. Van Auken, 2004; Ebben and Johnson, 2006), extension of the research from descriptive to normative is the next step in the development of the bootstrap finance area as it relates to entrepreneurship.

Cash-Increasing versus Cost-Decreasing Techniques

Bootstrap finance techniques can be categorized as cash-increasing or cost-decreasing (Payne, 2007). Cash-increasing techniques include continuing to work for others while starting a new venture; obtaining funding from spouses, friends, family, and current employers; obtaining a second mortgage; utilizing credit cards and personal financing; and founders investing their own money in a venture. The assumption of these techniques is that the money raised from using these techniques will be used to fund the venture. Cash-increasing techniques add value by bringing cash to a venture that can be used for multiple purposes. Cash-increasing techniques, therefore, are direct substitutes for traditional forms of financial capital.

Cost-decreasing techniques include delaying payments to suppliers, deferring salaries, utilizing used machinery, and obtaining professional services for free. Cost-decreasing techniques add value to a venture by reducing the need for cash. Cost-decreasing techniques are specific to tasks (e.g., free advice, deferred salaries) and they are not transferable across tasks. They are not direct substitutes for traditional forms of financial capital. Thus, the byproducts of cash-increasing and cost-decreasing techniques differ. The byproduct of a cash-increasing technique is cash. The byproduct of a cost-decreasing technique is a cost saving.

The resource-based view of the firm (RBV) contends that some resources are superior to other resources and superior resources are more likely to serve as sources of competitive advantage (Barney, 1991; Peteraf, 1993). Within an industry or competitive environment (e.g., a pool of new ventures), the resources that organizations possess are heterogeneous. Therefore, some organizations possess marginal resources and some organizations possess superior resources. Superior resources allow an organization to either produce goods or services more economically or incorporate elements that enable premium pricing. Producing goods or services economically or incorporating elements that enable premium pricing allows an organization to generate superior returns. Superior returns then allows the organization to enjoy a competitive advantage (Peteraf, 1993). For new ventures, the successful utilization of bootstrap financing techniques can pro-

vide them with potentially important resources, namely, cash and cost savings.

Because of the substitutability of cash, and the lack of substitutability of cost savings, we view a cash-increasing technique as a means of obtaining a more valuable resource (i.e., a superior resource) than a cost-decreasing technique. We view the successful employment of cash-increasing techniques as more likely to increase a venture's likelihood of becoming operational (e.g., an indicator of organizational performance) than the successful employment of cost-decreasing techniques. Therefore we believe that the founders of new ventures who successfully employ more cash-increasing bootstrapping techniques than cost-decreasing techniques will be more likely to have their venture become operational.

Hypothesis 1: Among nascent ventures, those whose founders successfully employ a higher percentage of cash-increasing bootstrap finance techniques versus cost-decreasing techniques will be more likely to become operational.

Internal versus External Bootstrapping Techniques

The bootstrap financing techniques of new venture founders can be categorized as being internally oriented (within the direct control of the founders) or externally oriented (requiring intervention from stakeholders outside the new venture). Building on new venture research that has examined ventures' resources that derive from internal capabilities and external networks (Lee, Lee, and Pennings, 2001), we extend the study of internal and external resources to founders'

Table 1. Summary of Bootstrap Financing Studies

Study	*Sample*	*Data Collection Technique*	*Independent Variables*	*Dependent Variables*	*Findings*
Carter & Van Auken, 2005	84 Iowa small firms	questionnaire	Perceived risk Perceived ability constraints Perceived effort constraints Firm age	Use of BS techniques - delaying payments - minimizing accounts receivable - minimizing investment - private owner financing - sharing resources with other businesses	Perceived risk is positively related to the use of delaying payments, minimizing investment, private owner financing, and sharing resources. Perceived ability constraints are negatively related to private owner financing.
Ebben & Johnson, 2006	146 retail and services firms in the Midwest that were between 2 and 40 years old	questionnaire	Time	Change in the use of BS techniques - customer-related - delaying payments - owner-related - joint-utilization	The use of customer-related bootstrapping techniques increases as a firm ages The use of delaying payments, owner-related, and joint-utilization bootstrapping techniques decrease as a firm ages.
Van Auken, 2004	44 small technology-based firms at two university-based research parks in a Midwestern state	questionnaire	Risk Size of market served Time devoted to raising capital Firm age Capital acquired	Use of bootstrap financing	Risk is positively related to the use of bootstrap financing. The size of the market served is negatively related to the use of bootstrap financing. The time devoted to raising capital is negatively related to the use of bootstrap financing.
Van Auken & Neeley, 1998	78 small businesses served by the Small Business Development Center in a Midwestern state	questionnaire	Type of business ownership Size of community in which business is located Industry	Use of nontraditional financing	Businesses owned as sole proprietorships used more nontraditional financing than did other businesses. Businesses in the construction and manufacturing industries used less nontraditional financing than other businesses.

financial bootstrapping efforts. Internal bootstrapping techniques include founders' continuing to work for others while starting a new venture, deferring salaries to themselves, obtaining a second mortgage, utilizing credit cards and personal financing, investing their own money in a venture, utilizing used machinery, and providing free services to the venture. External techniques include obtaining funding from friends, family, and current employers; delaying payments to suppliers; and obtaining professional services for free from outsiders.

Within the institutional theory-based organizational emergence stream, researchers have found that ventures in which founders undertook actions designed to legitimize their nascent venture to prospective customers and suppliers (e.g., they developed a model or prototype, purchased materials, bought or rented facilities and equipment, hired employees, and began promotional efforts) were more likely to have made a sale than those that did not engage in these activities (Newbert, 2005). Researchers have also found that legitimization activities undertaken with respect to a broader context of business community institutions (e.g., marketing or promotion efforts, projecting financial statements, opening a bank account, becoming listed in a telephone book, becoming listed with Dun and Bradstreet, asking for funds, and establishing credit with suppliers) improved a venture's likelihood of being perceived as an operating organization (Tornikoski and Newbert, 2007). Neither of these research streams, however, have addressed whether founders' financing choices, in particular, their bootstrapping practices, have affected their ventures' ability to become operational.

To be successful, internal bootstrapping techniques do not require external validation. Therefore they are not dependent on conforming to institutional norms. On the other hand, to be successful, external bootstrap finance techniques do require external validation. This means that whereas the successful employment of internal techniques include cash and cost savings, which are valuable to a new venture, the successful employment of external techniques include cash, cost savings, and a greater sense of social legitimacy. Greater legitimacy can then help generate more resources for a venture. Therefore, we believe that ventures that successfully employ greater levels of externally oriented techniques will be more institutionalized and have a greater sense of legitimacy than the ventures that employ more internal techniques; and a greater sense of legitimacy will provide these ventures with a greater likelihood of becoming operational.

Institutional theory contends that stakeholders in organizational fields have preferences and values that firms ignore at their peril. Stakeholders are comfortable with these preferences and values and subtly coerce organizations to conform to them by rewarding the conforming organizations with resources and punishing the nonconforming organizations by withholding resources. The resources they offer motivate organizations to conform, and thus the preferences and values become institutionalized (Perrow, 1986). For new ventures, the resources offered to conforming ventures also include social legitimacy, which is crucial to a new venture's likelihood of survival (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Tornikoski and Newbert, 2007).

The process of conforming to institutional norms (i.e., stakeholders' preferences and values) implicitly involves an externalization process, a process of conforming to and validating with external stakeholders' preferences and values rather than internal firm preferences and values (Perrow, 1986). Once an organization conforms to institutional norms, external stakeholders then provide resources to the organization, including a greater sense of organizational legitimacy and increased capital. Institutional theory suggests the greater sense of legitimacy and resources will improve the organization's likelihood of survival compared to other organizations that do not receive external resources (Meyer and Rowan, 1977). For new ventures, the successful utilization of bootstrapping techniques that appeal to external stakeholders may provide ventures with greater legitimacy and resources.

Hypothesis 2: Among new ventures, those whose founders successfully employ a higher percentage of externally oriented bootstrap financing techniques versus internally oriented bootstrap finance techniques will be more likely to become operational.

Methods

To test our hypotheses, we used data from the PSED I dataset. The PSED I dataset is composed of 830 individuals who were in the new venture process when the study began and 431 comparison individuals. (For more information about the PSED, see Gartner, Shaver, Carter, and Reynolds, 2004.) To limit our sample to only new ventures, we used kscleans (Shaver, 2006), a publicly available SPSS syntax file, to reduce the sample. In using kscleans, we eliminated the comparison individuals and six ventures that should have been screened out of the dataset because they did not qualify as new ventures (i.e., at the beginning of the study, these ventures had positive cash flow). Finally, we eliminated ventures that were spin-offs of other companies (i.e., nonpersons owned more than 50% of the venture). This resulted in a sample of 817 new ventures. Excluding ventures with missing data further reduced the sample size. The final sample consisted of 207 ventures at time 1 (one year after the beginning of the PSED study) and 157 ventures at time 2 (two years after the beginning of the study). Although PSED data were collected annually for three years after the beginning of the study, data were not collected from all of the ventures in the sample for all

three years. In particular, data were collected from ventures started by minority groups for only two years (Gartner et al., 2004). Therefore, in the interest of producing generalizable results, we did not examine data from the final PSED wave.

Measures

Organizational Emergence

Items R621 and S621 from the PSED asked, does the venture's monthly cash revenue exceed monthly expenses? If the respondent answered yes, this variable was coded as 1. Otherwise it was coded as 0. R621 and S621 were items collected in the second and third waves of the PSED (i.e., one and two years after the initial data collection). Following the advice of Schaubroeck (1990), we used lagged dependent variables as a means of showing that our independent variables, which were collected in the initial data collection wave, were related to later organizational performance.

In terms of independent variables, the PSED dataset contains information about founders' use of 10 bootstrapping items: continuing to work for others, employer financing, family and friend financing, owner investing, spousal financing, using a second mortgage, using credit cards, using free helper-provided services, using free owner-provided services, and using personal financing,

To test our hypotheses we separated bootstrapping items into four categories represented by a 2x2 matrix.

Percentage of Techniques Used that Are Cash-Increasing and External. This variable represents the percentage of all the bootstrapping techniques that a venture used that were cash-increasing and external. These included spousal financing, family and friend financing, and employer financing.

Percentage of Techniques Used that Are Cash-Increasing and Internal. This variable represents internally oriented cash-increasing techniques. It is operationalized as the percentage of all of the bootstrapping techniques used that fit these categories and included using a second mortgage, using credit cards, using personal financing, owner investing, and continuing to work for others.

Percentage of Techniques Used that Are Cost-Decreasing and External. This variable represents externally oriented cost-decreasing techniques. It includes using free helper-provided services.

Percentage of Techniques Used that Are Cost-Decreasing and Internal. This variable represents internally oriented cost-decreasing techniques and includes using free owner-provided services.

To control for other explanations of why new ventures become operational, we included several control variables.

Entrepreneurial Experience. Within the knowledge-based organizational emergence stream, founders' entrepreneurial experience (the number of new ventures an entrepreneur or entrepreneurial team has helped start) and industry experience has often been used as an indicator of knowledge-based resources available to the firm. Entrepreneurial experience, as measured by the number of new ventures an entrepreneur or entrepreneurial team has helped start, has been shown to be positively related to a new venture's likelihood of survival (Delmar and Shane, 2006; Klepper, 2001; Stuart and Abetti, 1990; Taylor, 1999). Therefore we control for entrepreneurial experience by using PSED item Q200 for solo entrepreneurs and PSED item Q214 for teams.

Industry Experience. The startup team's industry experience has been shown to be positively related to a new venture's likelihood of survival (Bates and Sevron, 2000; Bosma, van Praag, Thurik, and de Wit, 2004; Bruderl, Preisendorfer, and Ziegler, 1992; Bruderl and Preisenforfer, 1998; Gimeno et al., 1997; van Praag, 2003; Wicker and King, 1989). Therefore, we control for industry experience (the number of cumulative years of experience of all team members in the venture's industry) by using PSED item Q199 for solo entrepreneurs and PSED item Q213 for teams.

Total Amount of Money Raised. Arguing from a resource-based perspective, new venture researchers have suggested that the amount of money provided to a startup will relate positively to the likelihood that the venture will be successful (Bruderl et al., 1992; Brush, Greene, and Hart, 2001; Shane and Stuart, 2002). The amount of money provided can include money raised by bootstrapping, but it can also include money raised from traditional funding sources (i.e., loans and investments from parties not associated to the venture or its founders). Traditionally, the founders of new ventures have experienced difficulty raising funds from traditional sources (Stouder, 2002; Winborg and Landstrom, 2001). Nevertheless, for those ventures that do receive funding from traditional funding sources, this funding may increase their likelihood of becoming operational. Therefore we control for the amount of money that a venture has or will receive in funding from traditional funding sources. This amount includes money that a venture has or will receive from bank loans, Small Business Administration loans, and venture capitalists.

Growth Propensity. New venture research has found that the performance of a new venture, including whether a venture successfully becomes an operational company, depends, in part, on the threshold performance level of the venture (i.e., the level of performance that the venture's founders view as acceptable; Gimeno et al., 1997). This finding suggests that a lower threshold performance level would allow a venture to exist for a longer period of time, which may increase a venture's likelihood of becoming an operational company. A way of capturing a founder's threshold performance is by determining his or her ambitions for the future size of the venture. If the founder wants the venture to

grow as large as possible, then his or her threshold performance might be low. That is, the founder may not be willing to allow the new venture to flounder for a long period of time without becoming operational. Conversely, if the founder wants the venture to be a size that is manageable by a few key employees and him or her, then the founder's threshold performance may be higher. That is, the founder may be willing to allow the venture to grow slowly and take a while before becoming operational. We used PSED item Q322 to capture this variable. The item asks for the respondent's preference for the future size of the venture. We coded this variable as 0 if the respondent answered that he or she "wants a size I can manage myself or with a few key employees," and we coded it as 1 if the answer was "I want it to be as large as possible."

Industry. Lastly, new venture research has suggested that in some industries in which large barriers to entry exist (e.g., biotechnology industries), attaining successful performance (e.g., becoming operational) may take a longer time than in other industries (Stouder, 2002). To control for industry effects, we coded each venture's industry using the PSED item SUSECT10 to identify a venture's industry. This item categorizes a venture's industry into 11 categories. We excluded the industries that were not represented in the sample (i.e., mining and other). Eight dummy variables were then used to represent whether the venture is in a given industry. They are (1) agriculture, forestry, or fish industries; (2) construction; (3) manufacturing; (4) transportation, communication, or utilities industries; (5) wholesale trade; (6) retail trade; (7) financial, insurance, or real estate industries; and (8) public administration. Services was the omitted industry.

Results

Descriptive statistics and correlations of the study variables are displayed in Table 2. The correlations show that the four independent variables, the percentages of techniques used that are cash increasing and internal, cash increasing and external, cost decreasing and internal, and cost decreasing and external, are significantly and negatively correlated (r=-.42, r=-.41, r=-.54, r=-.14, r=-.11, and r=-.28). This is expected because the categories are interdependent in such a way that collectively they sum to 1.00. Therefore, an increase in one variable will often be related to decreases in other variables.

Table 3 displays the results of hypothesis testing. Because of the binary nature of the dependent variable in the two time periods examined, we used binary logistic regression to test the hypotheses. Also, following the counsel of the PSED architects (Gartner et al., 2004), we used weighted items in our analyses.

Hypothesis 1 stated that among new ventures, those that have founders who successfully employ a higher percentage of cash-increasing bootstrapping techniques versus cost-decreasing techniques will be more likely to become operational. Significant results at Time 2 indicate that the ventures of founders who use a higher percentage of techniques that are *cash-increasing* and external are more likely to become operational than the ventures of those who use a lower percentage (b=3.12, Wald=5.61, p<.05). At Time 1, however, the results do not indicate that cash-increasing techniques influence which ventures obtain positive cash flow. Taking into account the results of both cash-increasing independent variables in both periods, it appears that the results are inconclusive. Therefore, hypothesis 1 is not supported.

Hypothesis 2 stated that among new ventures, those that have founders who successfully employ a higher percentage of external bootstrapping techniques versus internal bootstrapping techniques will be more likely to become operational. As noted above, significant results at Time 2 indicate that the ventures of founders who use a higher percentage of techniques that are cash-increasing and *external* are more likely to become operational than the ventures of those who use a lower percentage (b=3.12, Wald=5.61, p<.05). Additionally, significant results at Time 1 indicate that the ventures of founders who use a higher percentage of techniques that are cost-decreasing and external are more likely to become operational than the ventures of those who use a lower percentage (b=1.53, Wald=4.03, p<.05). Taking into account the results of all the external techniques, we find that in both time periods, a higher percentage of external techniques is related to a venture's positive cash flow. Therefore, hypothesis 2 is supported

Note that we used cumulative measures of the entrepreneurial experience and industry experience variables. That is, to measure these items, we looked at the cumulative number of companies that all founders had helped start and the cumulative number years of industry experience by all venture founders. We did so because we argued that the cumulative experience of all founders would matter more to organizational emergence than the mean experience of each founder. This argument, however, suggests that founder teams should have greater success at bringing a venture to organizational emergence than solo founders, because founder teams will generally have greater cumulative experience than solo founders. To challenge this argument, we performed supplementary analysis in which we recalculated entrepreneurial experience and industry experience to equal the team means, and we then used these means in our analysis instead of the cumulative items. The results did not significantly change the results.

Discussion

Our major finding is that external bootstrapping techniques, both cash-increasing and cost-decreasing, are positively linked to successful organizational emergence. This study

Table 2. Descriptive Statistics and Correlations among Study Variables

Variable	*Mean*	*Std Dev*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*
1. Industry 1	.04	.19	1																
2. Industry 2	.05	.23	-.05	1															
3. Industry 3	.06	.24	-.05	-.06	1														
4. Industry 4	.02	.15	-.03	-.04	-.04	1													
5. Industry 5	.03	.17	-.04	-.04	-.05	-.03	1												
6. Industry 6	.26	.44	-.12**	-.14**	-.15**	-.09*	-.11**	1											
7. Industry 7	.06	.24	-.05	-.06	-.06	-.04	-.05	-.15**	1										
8. Industry 8	.00	.06	-.01	-.02	-.02	-.01	-.01	-.04	-.02	1									
9. Growth propensity	.22	.42	.01	.01	.13**	-.04	-.04	.05	-.02	-.03	1								
10. Entrepreneurial experience	1.84	3.67	.00	-.01	.10**	.00	.02	-.01	.02	.00	.10**	1							
11. Industry experience	5.99	12.08	.00	.06	.08*	-.01	.00	-.10**	-.09*	.00	.02	.14**	1						
12. Total amount of money raised	62143.08	82779.26	.00	-.01	-.01	.00	-.01	-.03	-.01	-.01	.08*	.09*	.06	1					
13. % of techniques used that are cash increasing and internal	.61	.24	-.03	.03	.00	-.02	.01	.02	-.05	.01	-.01	-.06	.00	-.02	1				
14. % of techniques used that are cash increasing and external	.09	.15	.05	-.05	-.02	-.03	.00	-.01	.05	.01	-.03	.07	-.07	.01	-.42**	1			
15. % of techniques used that are cost decreasing and internal	.13	.17	-.03	.03	.02	-.01	-.01	-.05	.00	-.05	.05	-.02	.10**	-.01	-.41**	-.14**	1		
16. % of techniques used that are cost decreasing and external	.17	.19	.03	-.03	-.01	.06	.00	.04	.02	.02	-.01	.04	-.03	.03	-.54**	-.11**	-.28**	1	
17. Positive cash flow at Time 1	.48	.50	-.05	.15*	-.05	.01	.10	-.17*	.06	-.07	.06	-.03	.09	.04	.00	-.07	-.01	.06	1
18. Positive cash flow at Time 2	.30	.46	.06	.08	.02	-.12	.17*	-.07	.03	.12	-.12	.17*	.06	.05	-.03	.05	-.14	.13	a

*p<.05; **p<.01
a. Cannot be computed because at least one of the variables is constant.
Unweighted variables were used to calculate correlations.

adds to the nascent entrepreneurship literature that is increasingly showing that institutional forces that increase a venture's social legitimacy play large roles in determining whether ventures become operational (Delmar and Shane, 2004;Tornikoski and Newbert, 2006). For new ventures seeking to become operational, resources provided externally are more valuable than resources provided internally. This may be because external parties can provide a sense of legitimacy to new ventures that they do not obtain from internal resources—and this legitimacy may contribute to a venture's becoming operational.

Table 3. Positive Cash Flow Regressed on Bootstrapping Variables

	Time 1		Time 2	
Variable	b	Wald	b	Wald
Industry 1	-1.04	.87	.28	.09
Industry 2	.96	1.75	.98	1.02
Industry 3	-.74	1.12	-.97	.92
Industry 4	-.41	.14	-2.72	.00
Industry 5	.90	1.43	21.79	.00
Industry 6	-.86	4.89*	-.14	.09
Industry 7	1.16	1.66	1.25	1.36
Industry 8	-20.79	.00	21.40	.00
Growth propensity	.39	1.34	.20	.20
Entrepreneurial experience	-.03	.50	.04	2.17
Industry experience	.04	3.97*	.04	2.48
Total amount of money raised	.00	1.21	.00	1.53
% of techniques used that are cash increasing and internal	.22	.31	.30	.35
% of techniques used that are cash increasing and external	-1.26	1.62	3.12	5.61*
% of techniques used that are cost decreasing and internal	.23	.05	-1.89	2.37
% of techniques used that are cost decreasing and external	1.53	4.03*	.94	.93
Intercept	-.41	.98	-1.62	10.23**
N	207		157	
Chi-square	28.357		29.385	
p	.029		.021	
-2 log likelihood	258.486		160.526	
Cox & Snell R^2	.128		.171	
Nagelkerke R^2	.171		.243	

-p<.10; *p<.05; **p<.01; ***p<.001
Note: The independent variables, including the bootstrapping questions, were only asked in the first wave of data collection—at Time 0
Omitted industry = the services industry

Conversely, internal bootstrapping techniques are not significantly related to a venture's becoming operational. The key difference between external and internal techniques that may allow external techniques to be significantly related to the likelihood of a venture's becoming operational may be largely due to the greater sense of legitimacy that successfully employed external techniques offer.

In drawing conclusions from this study, our evidence suggests that the use of external bootstrapping techniques at least partially meets the requirements of explaining causality. That is, to try to show a causal link between bootstrapping techniques and organizational emergence, we lagged the collection of the dependent variable. In addition, we included several control variables. The relationship between external bootstrapping practices and organizational emergence remain significant after control variables are entered into the equation. However, there may be other factors that we have not considered that might offer a competing explanation.

The study does have some limitations. First, it is somewhat limited because the PSED collected data related to only 10 bootstrapping variables, and previous bootstrapping research has identified 32 bootstrapping techniques (Winborg and Landstrom, 2001). In addition, our theoretical framework is partially derived from institutional theory, but we did not directly examine conformity to institutional norms. Instead we examined the successful result of external bootstrapping (i.e., whether founders were able to obtain resources from outside the venture). We assumed that if founders successfully employed external techniques, they must have conformed to institutional norms.

We suggest three ways in which this study could seed future research. First, it would be useful to verify if the internal/external and cost-decreasing/cash-increasing schema we used to categorize bootstrapping techniques is adequate when using the 32 bootstrapping techniques previously identified (Winborg and Landstrom, 2001). Second, future research should include measures of legitimacy-seeking behavior in order to confirm our argument that external techniques are more efficacious because they conform to institutional theory arguments. Third, the study could be broadened to analyze other legitimacy seeking behaviors. For example, one way that founders may attempt to gain legitimacy is by managing the impression of their ventures in the eyes of important stakeholders and potential stakeholders (Elsbach, 1994). Thus, future research could examine whether the successful employment of certain impression management techniques influences external stakeholders, and consequentially, a venture's likelihood of becoming operational.

This research has some obvious implications for practice. Our results indicate that ventures moving toward emergence are more likely to be successful by employing externally ori-

ented bootstrapping techniques that both increase cash and decrease costs. Reliance on internally oriented techniques is not significantly associated with organizational emergence.

In conclusion this research makes some significant contributions. First, it provides new insights into bootstrapping, an important facet of venture emergence that has not received a great deal of research attention. Second, it goes beyond simply describing bootstrapping by showing that external techniques are more efficacious with respect to the successful emergence of a new venture than internal techniques. Third, it is able to provide some evidence for causality by examining relationships across multiple time periods. Finally, the results are not likely to be influenced adversely by recall bias because the PSED data were collected during the process of organizational emergence at multiple time periods.

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Getting to Green: Niche-driven or Government-led Entrepreneurship and Sustainability in the Wine Industry

Lauretta Conklin Frederking

Through the framework of Michael Porter's five forces, this article compares sustainability in the Oregon and British Columbia wine industries. After describing the contrasting characteristics of the green niche model and the government-led model of environmental change, the article analyzes the emerging challenges for each type of change. The distinct sources for profitability and future innovation suggests diversity within the sustainability movement and two very different processes of translating environmental values into entrepreneurial practice.

Keywords: green niche; entrepreneurship and sustainability; business and environmental sustainability

A growing number of entrepreneurs in Oregon's wine industry demonstrate strong commitment to sustainability. With diversity and grassroots collaboration, winery owners are changing practices through a network of support that fosters individual creativity at the same time that it institutionalizes cooperation and collective innovation. As a contrasting case, the wine industry in British Columbia includes some front runners of sustainability but the changes are guided by government standards and regulations. Both of these northwest regions enjoy reputations as a "green" state and a "green" province relative to the other states and provinces in their respective countries. However, the path toward adopting sustainable practices in Oregon's wine industry through a grassroots green niche contrasts with the government-oriented model in British Columbia. Through purposive case studies, this article unpacks the entrepreneurial contexts and characteristics of these very different processes of transforming environmental values into business practices. After describing the differences of these two types of sustainability paths, the emerging challenges are outlined through the lens of Michael Porter's five forces model of industry analysis. Contrasting sources for profitability in the respective regions and implications for future research are explored in the conclusion.

Market, Government, and Green Niche: Entrepreneurship Models for Environmental Change

In 1968 Garrett Hardin predicted the "tragedy of the commons" because individuals would not easily absorb additional costs for the collective good. Within the more recent trends of sustainability, one model for environmental change suggests that marketization and privatization (which implies the driving forces of supply and demand rather than regulation) are the ideal vehicles for change (Porter and Kramer 2003, 2006; O'Neill 2004; Conklin 2010). This sustainability path implies that entrepreneurs can earn the traditional profit rewards by adopting green products, green processes, and green marketing. In recent years, there are success stories of green markets that affirm the possibilities of privatizing the solutions to common pool problems (Baumol 2007). Many entrepreneurs not only are incorporating the externality costs into their production processes voluntarily, but also they are benefiting from the decisions through profits (Porter and Kramer 2003, 2006; Conklin 2010; see also Sustainability in the Supply Chain 2007). Further, some theorists have argued that not only is the market mechanism capable of introducing innovations to support environmental recovery, but the market may be better equipped than government to deal with the complexity of the environment (O'Neill 2004).

Another model of environmental change centers on the conceptualization of the environment as a public good and therefore the necessary role of government to secure its protection (Ostrom 1990). Like other public goods, individual rational practices contribute to seemingly irrational and potentially devastating outcomes (Olson 1965). In defining the best role for government, recent discussions have weighed the ways in which government can be most effective along the lines of centralization/decentralization, regulatory/responsive, extent of participation and extent of public/private cooperation (Dovers 2005; Paehlke and Torgerson 2005).

Both market and government models of environmentalism carry a perception of the entrepreneur as individualistic and motivated by cost benefit analysis of existing profit opportunities, independent of "values," community, and collective

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innovation. However, Anderson (1998) affirmed that the entrepreneur is not (merely) a profit-seeking automaton but he or she often brings more collective interest values into business practices (for a concise summary of emerging trends with Corporate Social Responsibility, see Conklin 2010). If both profit values and moral values characterize the entrepreneur, then the puzzle becomes unleashing the "Garden of Eden" values so as to recognize emerging opportunities. There has been modest attention to environmental values in studies of entrepreneurship, but Carsrud and Johnson's (1989) seminal work placed entrepreneurship success as a byproduct and potential beneficiary of social investments. From this perspective, several studies of entrepreneurship incorporated culture and community as a potential benefit for entrepreneurship (Anderson and Jack 2002; Frederking 2004; Zhang and Wong 2008) but also as defining a type of entrepreneurial practice distinct from an individual oriented model (Steyaert and Hjorth 2006; Nicholls 2006; Besser, Miller, Perkins 2006; Townsend and Hart 2008).

Johnstone and Lionais (2004) presented community as a distinct type or stage of entrepreneurial process focused on community benefits rather than personal profit (226). A more recent contribution by Seyfang and Smith (2007) incorporated these social factors of values, community, and collective innovation as central features of an alternative model of environmental change. In contrast to market or government solutions, Seyfang and Smith (2007) identified the possibility of endogenous, community-driven change around environmental issues. They emphasized the importance of community action as a source for both innovation and policy formation in sustainability. With their theoretical emphasis on bridging the diverse literatures of innovation and community action, through identification of the particular characteristics of the community as a green niche, Seyfang and Smith called for qualitative analysis to understand the conditions for adoption of new practices and the process of change (599). The Oregon case offers this type of empirical study of a green niche, and with the contrasting case of British Columbia, provides empirical insight into the conditions, process, and limitations of green niches.

The concept of green niche provides a rich distinction from the sharp dichotomy of either market or government and it emphasizes grassroots emergence and community focus. In this way, the Oregon case of green niche contributes to discussions of entrepreneurship as "relationally and communally constituted" (Katz and Steyaert 2004). Focusing on entrepreneurship as a societal phenomenon, Fletcher (2006) presented a framework identifying different relational types. Fletcher emphasized social structure and its central role in the entrepreneurial process and, like Seyfang and Smith, addressed the missing piece in empirical research. While her research included background experiences and networks, much less attention was given "to the wider societal, economic or cultural structures or patterns that shape entrepreneurship practices" (425). This article extends Fletcher's study to emphasize *how* an entrepreneur adopts opportunities, like sustainability, and its impact on the collective possibilities for future change.

Methodology

Both Oregon and British Columbia represent critical cases in the study of environmental change. Precisely from their cutting-edge position (*Wine Spectator* 2007) they are purposive cases providing greater understanding about two different types of processes translating values into practice. The British Columbia case, through interviews with winery owners, revealed the process and implications of government-oriented sustainability, while the Oregon winery owners guided an understanding of a grass-roots, green niche path toward sustainability.

After five years of informal observation and discussions with workers in the Oregon industry, the interviewees were selected in order to understand the very different types of practices that make up the sustainability movement for Oregon wineries. The winery owner interviewees are self-recognized as pioneers in terms of sustainability and they mutually recognize each other for the differences and similarities of their perceptions and practices within the community. The respondent-driven sample[1] emerged from the first two interviews with Sallie Schullinger-Krause of Oregon Environmental Council and Susan Sokol Blosser (wine owner identified through *Wine Spectator* 2007) with the goal to understand the process (Yin 1993, 34) of adopting sustainability practices, and in particular, the social and values context of change within the Oregon and British Columbia wine industry. I conducted 16 interviews with entrepreneurs in the wine industry who have shifted farming and business practices toward great sustainability. Eight were in Oregon, of which six were with Oregon vineyard and winery owners, including a vineyard owner and owner of Oregon Vineyard Supply (supplier for 90% of Oregon vineyards), a representative from the Oregon Environmental Council, and the executive director of the Oregon Wine Board. In British Columbia, I conducted seven interviews with BC vineyard and winery owners and one with a trade representative of BC Wine Institute. Questions (Table 1) focused on motivation, innovation, perception of relationships with other winery owners, and reflections on the community in terms of industry and in terms of potential wider communities of sustainability.

The comparative framework contrasts two very different processes of translating environmental values into entrepreneurial practice. Certainly, any comprehensive explanation of the differences between Oregon and British Columbia sus-

Table 1. Interview Questions

1. Please share your story about the history of the winery.
2. Describe how your winery fits into the Oregon/BC wine industry?
3. How would you describe the relationship among wineries in the Oregon wine industry?
4. What are some examples to support this description?
5. Describe how the Oregon/BC wine industry is similar/different from other regions?
6. Describe your "green story."
7. How does your "green story" compare to other wineries within Oregon/BC?
8. How do you perceive Oregon/BC wineries in terms of sustainability compared to other regions? In particular how do you compare the sustainability efforts within your wine industry with other regions?
9. What are some examples to support this description?
10. Compare Oregon/BC wine industry in terms of sustainability with other Oregon/BC industries—for example nursery industry and other agricultural products?
11. What is the relationship between wine industry and other industries in terms of sustainability in particular? Do you have examples of cooperation? Conflict?
12. What role has government played in terms of sustainability and Oregon/BC wine industry?
13. Specific examples?
14. What is the ideal role of government in terms of sustainability and wine industry?
15. Specific examples?
16. How does the wine industry lobby government?
17. What are examples where government, nonprofit organizations have pushed sustainability forward? Backward?
18. Do you see or have any evidence of the ways in which cooperation within the wine industry about sustainability issues has led to cooperation over other issues or with other activities?

tainability practices extends into differences within the societal, economic, and cultural contexts of these two regions. Explaining the causes for these contrasting paths is determined by these broader differences in government, economy, and society. However, the goal of this article is to probe these information-rich cases ["information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry" (Patton 2002, 173)]. This study cannot explain comprehensively why the different models of change exist but explores "the themes and parameters of the problem" (Moustakas 1990, 117) to understand how these different models impact the individual decisions about sustainability, the particular practices an entrepreneur adopts, and the consequences of sustainability within the industry. There are two models of transition from environmental values into entrepreneurial practices: (1) a grassroots-driven, green niche model, and (2) a government-directed model. Rather than explaining why one and not the other, this article uncovers the process of change within each system in terms of business practices and the subsequent trajectory of sustainability.

Oregon's Wineries: Sustainability Through Collaboration

Wine grapes reach 10 in the top 40 list of value from Oregon's agricultural commodities. Nevertheless, this is a relatively small producing industry with output of a modest 1 percent of national wine grapes produced, and a total of 13,000 acres with a value of $68,400,000 (Oregon Department of Agriculture). Compared to British Columbia, Oregon's wine grape production is approximately twice as large with BC at 7,000 acres and a value of $36,856,597 (British Columbia Wine Institute 2007). Certainly, Oregon's wine industry is unique in terms of the number of wineries adopting sustainability practices. Many grape growers adopt sustainability practices without applying for formal certification, making aggregate data and direct comparisons difficult. However, one of the interviewees, Kevin Chambers, is a grape grower and also an Oregon supplier of equipment, products, and advisor to approximately 85 percent of all grape growers in the region. He estimates that while only 25 percent adopt formal certification, there is an excess of 40 percent of Oregon's grape growers practicing sustainability at some level of certi-

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fication.

Like many other agricultural crops, grape farming is commonly associated with herbicides, pesticides, and other chemical products throughout the growth cycle. The shift toward sustainability involves reducing or eliminating the use of these chemicals in an effort to restore the ecosystem within which the farm exists and also to restore the natural taste and nutrients of the particular crop. Central to the story among Oregon winery owners is the diversity in the adoption of sustainability practices.

- In the 1980s Ted Casteel and Pat Dudley of Bethel Heights were looking for nonchemical solutions to the toughest problems of grape growing from mildew and weeds.
- Susan Sokol Blosser of Sokol Blosser winery attended a Natural Step training session in 1999 that initiated an entirely new vision for her and the life of her business.
- When Josh Bergstrom of Bergstrom winery began farming grapes in Oregon in 1996, salespeople offered products to eradicate the weeds, and the herbicide was effective enough that the weeds died but the chemicals also severely threatened his vines, most curiously leaving neon orange strips on them.
- Sam Tannahill is co-owner of the newly acclaimed largest winery in Oregon, AtoZ. His early consciousness about sustainability focused on his family and personal food consumption. In the process of cultivating a healthier life, he extended the values into his workplace.
- Kevin Chambers was a student at "Berkeley North" (University of Oregon) and in 1974 he has introduced to the "Earth First!" movement. He carried the principles of organic and sustainability into his business.
- For Stoller winery, it was the decision to build a winery in 2002 that led Bill and Cathy Stoller to hire premium architects who suggested LEED (Leadership in Energy and Environmental Design) certification as a possible direction.

With their sustainability practices, these Oregon winery owners do not fit with the assumption presented in the literature described above as the 'tragedy of the commons' phenomenon. Similarly, the winery owners defy the generalized claim that profit interests drive environmentalism. Josh Bergstrom of Bergstrom Winery figures the biodynamic process adds approximately $3,000 per acre. In spite of real costs that often are not returned, and far removed from the authority of government regulation, individual entrepreneurs in this region's wine industry are choosing sustainable practices.

Oregon wineries are adopting environmental initiatives independent of government action, legislation, and regulation. In fact, all of the interviews confirm that those adopting these environmental changes in the industry don't want government regulation or guidance toward sustainability. Nor are these vineyard and winery owners actively capturing the economic benefits of their green products. They express concern for government regulations that may not be appropriate to distinct industries, and they all share a deep suspicion of the green market label of "greenwashing"—cultivating or manipulating a product's origins solely to meet the appearance of green qualities for consumer, but at the expense of sacrificing quality.

For example, while all three of the winery owners who farm biodynamically[2] affirm the value of treating the vineyard like an ecosystem, they are wary of associating their wines with this brand certification as opposed to the quality of the wine. Each expressed strong concern that the consumer might be attracted to biodynamic as a brand and then taste a wine of less quality and forever associate biodynamic wines with poor quality. Whether correct or not, this perception is a driving force in their unwillingness to push the environmental association in a market context. And for many Oregon winery owners, quality of environment issues are about themselves and their relationship with the farming process, not so much an interest of consumers.

British Columbia Wineries: Uniform Certification and Marketing

In British Columbia, the government has played the central role in development of the wine region and it continues to be a central player in the movement toward sustainability. At the same time, the market and the effort to capture profits from "green" is also prominent. Winery owners view the government's standards and stakeholder interest as relevant factors in considering the pace and effectiveness of change in practices. From government negotiations with native populations at the provincial level over land rights, to federal interstate trade negotiations and agreements with subsidies to grape growers, the British Columbia wine region is a product of active government participation and legislation. Differences in soil and climate conditions can account for some of the independence evident from interviews with winery owners. There are approximately 60 varietals and the wine region represents desert-like terrain with the Sonora desert reaching some of the most prestigious wineries and then lush vineyards circling the Okanagan Lake. Also significant is the sharp divide between very established and high-producing wineries within the region compared to the relatively new and small-scale wineries. This contrasts with much great equality in Oregon in terms of size and production of its wineries.

Collaboration is very limited and in contrast to the Oregon region, winery owners in British Columbia work within existing political and economic institutions and have adopted sus-

tainable practices that focus on a well-recognized standard organic certification. Those adopting new standards heavily market them to capture profit through branding in a traditional profit model. Whereas there are many types of certifications that define Oregon wineries in terms of sustainability, certification is limited to organic in British Columbia. In sharp contrast with Oregon winery owners' reluctance to market sustainability practices, there is a rush for some to identify with organic standards even prior to formal certifications. At least one winery was threatened with a fraud lawsuit for advertising organic without certifications. The early adoption of sustainability practices has focused on existing government "organic" regulation much more than informal community networks. In contrast to new certifications and grassroots cooperation, government in British Columbia has been a central focus as wineries try to change sulfite standards in order to receive organic certification for wine production (see Table 2 for convergence around organic certification). In January 2009, the Certified Organic Associations of British Columbia (COABC) adopted Canada Organic standards with amendments that include higher level of sulfites to permit organic wine production with better longevity characteristics in terms of the bottled wine (CAN/CGSB-32.311 Permitted Substances). Rather than community-defined standards that reflect existing norms or community-defined goals, action for sustainability is being adopted unilaterally and is the focus for significant change taking place through government.

Directly relevant in terms of participation in sustainability transformation, British Columbia is the first provincial government to legislate mandatory carbon emissions standards. While setting the standards for the future, it is up to individual industries to provide solutions. On the one hand, there is independence to find practices compatible within the particular diverse industries, but on the other hand, it is necessary to figure out new practices within a constrained time period. The government is creating the incentive for those in the wine industry to work together. According to several winery owners, however, it is not clear whether the environment will be an issue to overcome existing conflicts between small and large producers. Instead of creating community, the issues around creating and adopting new environmental standards could exacerbate conflict and it is not clear whether small or large producers are in a better position to adapt to new standards.

Table 2 identifies the very different practices across Oregon wineries; descriptions of the different certifications are described in the sidebar.

Comparing Green Niche and Government-led Sustainability Through Porter's Five Forces

In 1980, Porter described a model of competitive strategy. Firms may adopt strategies to manipulate any one of these five forces in order to maximize profits. Similarly, intensity of the characteristics overall suggests the level of returns for the industry more generally. This is a useful framework to begin to explore the evidence and implications of adopting sustainability practices in terms of rivalry among existing competitors, threat of new entrants, threat of substitutes, bargaining power of suppliers, and the bargaining power of consumers through these two different trajectories of change—one green niche and the other government-led (Figure 1).[3]

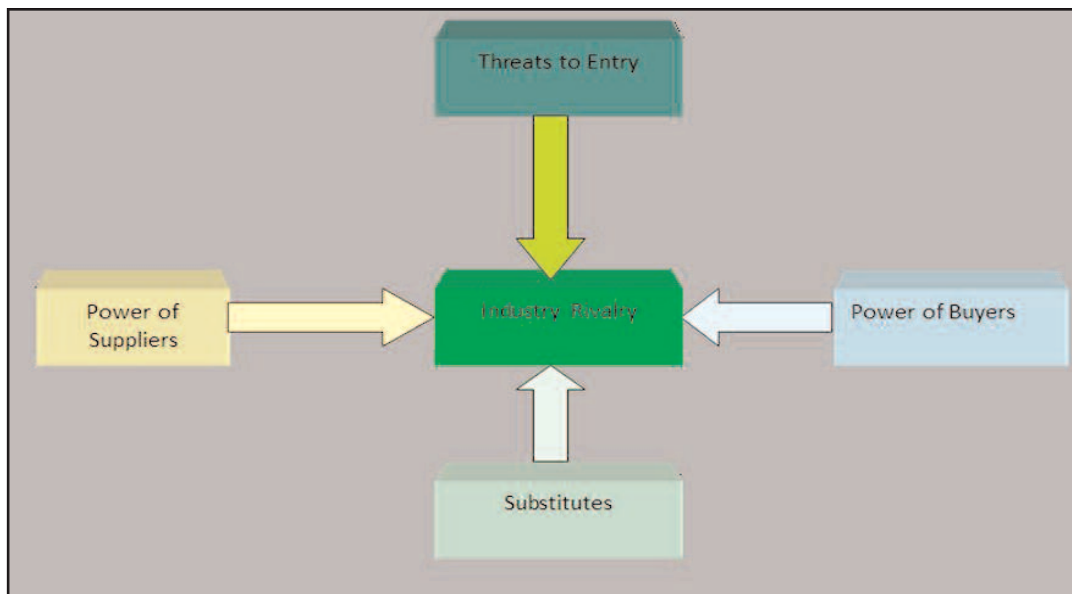

Figure 1. Trajectories of Change

Description of Organic, Biodynamic, LIVE, Salmon-Safe

Demeter Certified Biodynamic

In a word, biodynamic farming is rigorous. It means growing grapes and making wines completely free of synthetic pesticides and fertilizers. A step further than organic, biodynamic farming means managing the entire farm (or vineyard) as a living organism, with a high degree of self-sufficiency.

The Demeter Association is the world's leader in biodynamic certification and awareness. It has a long history of promoting sustainability, dating back to 1928, when it was founded to support and promoted the biodynamic agricultural methods of Rudolf Steiner. The U.S. Demeter Association certified its first farm in 1982.

LIVE, Inc.

Low Input Viticulture & Enology, Inc. (LIVE, Inc.) is a program that certifies vineyards for following international guidelines for environmental stewardship, social responsibility, and economic accountability. LIVE, Inc. also provides education and resources to winegrowers interested in sustainable farming.

Oregon Tilth Certified Organic

Many of Oregon's wineries are certified organic through Oregon Tilth, which has been a leader in certification since 1974. Oregon Tilth is an internationally recognized organization of organic farmers, gardeners, and consumers who are dedicated to biologically sound and socially equitable agriculture. Their goal is to educate people about the need to develop and use sustainable growing practices that promote soil health, conserve natural resources, and prevent environmental degradation while producing a clean and healthful food supply.

Salmon-Safe

Founded in 1995 by an Oregon-based river and native fish protection organization, Salmon-Safe has become one of the nation's leading regional eco-labels. Erosion and runoff from hillside vineyards can bring silt into streams, reducing the ability of native salmon to survive. Salmon-Safe has partnered with LIVE, VINEA, and Oregon Tilth to work with pioneering wine grape growers to protect Oregon's important salmon watersheds. Since first certifying vineyards in the Willamette Valley more than a decade ago, Salmon-Safe has certified 110 Oregon vineyards representing a third of Oregon's wine grape acreage.

Table 2. Sustainability Certifications across Samples of Oregon and BC Wineries

Oregon Wineries	Sustainability Certification
AtoZ	Biodynamic practices (no certification) Organic Farming (no certification)
Bergstrom	Biodynamic
Bethel Heights	LIVE
Resonance	Biodynamic
Sokol Blosser	Natural Step Organic Farming Salmon Safe Certification
Stoller	LEED Salmon Safe Certification
British Columbia Wineries	**Sustainability Certification**
Blue Mountain	None (native species preservation)
Lotusland	Organic Farming Organic Wine
Mission Hill	None (native species preservation)
Rollingdale	Organic Farming Organic Wine
Summerhill	Organic Farming
Quails' Gate	Organic Farming (1991–1997)

Rivalry Among Existing Competitors: Oregon

In terms of collaboration and innovation, the community wineries in Oregon have become an example of experimentation through collective diversity, sharing, and cultivation of best practices. For example, members of the community experimented with organic wine production in addition to organic farming and an emerging consensus dismissed it is as an unacceptable set of procedures for good wine. Regularly, Oregon State University scientists get together with a dozen other winery owners to discuss ways to expand the technological frontier to make sustainability viable, available, and economical. It is the evidence of these types of spontaneous collective groups and cooperation that define the green niche. For the Oregon green niche, its innovation is grassroots driven but it is spurred by articulation and cooperation of community practices to groups outside of the green niche (Pat Dudley of Bethel Heights). The green niche has institutionalized diversity, and individual creativity, at the same time that it has cultivated shared values, community, and cooperation.

Innovation underlies competitive strategy and it is also an important part of the green niche paradigm (Seyfang and Smith 2007). An interesting characteristic of the green niche entrepreneurship is how innovation emerges from the *interaction* between the deepening values within the community and the effort to extend those values to other groups. In the process of building bridges of values translated to mainstream, they are developing unique grassroots-driven certifications and centers for grassroots research. The diversity of environmental practices fosters a community of experimentation with models of alternative paths to sustainability. The winery owners of Bethel Heights led a grassroots group generating a new certification to include the diversity of sustainable practices. "Oregon Certified Sustainable" is pushing beyond the vineyard to include the winery and wine-making processes. The emerging branding image signifies and unifies

all vineyards and wineries that have adopted the practices and performance criteria for any other sustainable certification. There is much more marketing potential with one clear symbol that identifies the Oregon wine industry only and also represents a set of practices that fosters sustainability. This new certification represents a shift from identity formation toward capturing the market benefits from these identities. Through the Oregon Certified Sustainable label, the community preserves its environmental diversity and competitiveness, while articulating a vehicle for mainstream education, and collective market potential.

Table 3 summarizes the contrasts between the two paths toward sustainability in terms of innovation, motivation, and relationships of bridge building and collaboration with government and other environmental groups.

Whereas the single "organic" certification is the focus for change in British Columbia, Oregon continues to foster diversity. Curiously, its innovation as a green niche community emerges from the encouraged diversity of practices as well as its effort to coordinate and articulate values to groups outside of the community. At the same time as the extension of values and articulation of community pushes innovation, it is shifting into more formalized political interests and profit-oriented marketization through "Oregon certified sustainable" as a uniform certification. In spite of the grist for innovation and deepening cooperation within the community, the emerging politicization and marketization also shows signs of tension with early motivating values. How this balance can be maintained—a balance of deepening values within the community and expanding influence of values beyond the community—depends upon leaders who both initiated community and continue to push their sustainability values in other sectors. In particular, as the Oregon green niche shifts from propagating stronger identity-oriented values within the community toward a balance between goals—thicker environmental values and ties within the community—it also spreads influence through more formal interest-oriented politics and more marketable uniform certifications. Through leadership, nonmarket principles and early environmental decisions nurtured this green niche with a focus on the intrinsic benefits of the transformations. As the green niche extends the influence and relevance of these values into the broader political and economic and cultural context, there is a feedback effect as the green niche responds to the changing broader context that it helped to create.

Rivalry Among Existing Competitors: British Columbia

While each winery owner in British Columbia affirmed the value and responsibility to shepherd the environment, many have realized that some practices, often those pressed by environmental groups through government, have unintended consequences that produce much more harm than benefit. For these wineries, decisions to adopt new practices are more cautious than driven, more incremental than innovative, less oriented around certification standards, and more concerned with deriving measures appropriate for the particular vineyards of the winery. For example, Tony Stewart of Quails' Gate contributed to the diversity of sustainability practices and also suggested the potential to "market" orientation of the entire region for sustainable wines. Their comprehensive practices range from replacing traditional vehi-

Table 3. Characteristics of Niche-driven and Government-oriented Sustainability

	Innovation	*Motivation*	*Relationship with Government/ Environmental Groups*	*Collaboration*
Green Niche	Diversity of sustainable practices and certifications LIVE Organic Biodynamic Salmon Safe	Intrinsic benefits Collective culture Independent from market and profit motive Active branding around sustainability absent in early stages Fear of losing brand around quality	Partnership with government and environmental groups Creating standards together	Cross-industry collaboration
Government-oriented sustainability	Uniformity organic	Actively marketing even prior to certification	Regulated and motivated by government standards and regulations Responsive to environmental groups	Government regulation establishes uniformity across industries without endogenous collaboration within or between industries

cles with more efficient models, recycling restaurant waste to a biodiesel company, switching the irrigation system from overhead to drip, and changing packaging materials for shipping and wine bags. While they were certified from 1991 to 1997, they have continued low-impact practices but also maintain flexibility for adopting different strategies that may extend beyond organic recommendations. After the practices were in place in the early 1990s, Stewart began to question the overarching wisdom of some of them in terms of environmental sensitivity. For example, instead of some pesticides and herbicides, organic practices recommend using chicken manure. However runoff from the chicken manure into the lake raised questions, from his perspective, about community health standards even more than some of the chemical applications. Similarly, less product means more runs through the vineyards with machines to keep up with weeds and plants that can harm the vines. The benefits of a chemical-free vineyard can confront the unsustainable outcome of using tractors too much, and potentially contributing soil erosion through excessive hoeing. Stewart felt his approach is in line with the environmental movement but certification is not a priority, and indeed, certification can become a detriment if it is not accompanied by attention to the overriding goal of meaningful and comprehensive sustainability. Unlike the Oregon case, his decisions are independent of other wineries and removed from a community of cooperation.

Ian Mavety, winery owner of Blue Mountain, bought land in 1971 and grew grapes for other wineries until 1995 when he began to make his own estate wines. His fertilizers are either compost or organic, and since 1997, when his son joined the business, he has continued to search for sustainable remedies like more mechanical means for weed control rather than herbicides and biodynamic sprays. Close to the Sonora Desert, there are soil and topography limits that pose additional challenges for finding the right equipment. In terms of sustainable solutions, Mavety looks to France much more than the local community. The diversity of soil and climate makes it unreasonable to share information within the wine industry community. His goals for more sustainable practices are philosophical, and focus on the quality of wine product as well as minimizing water use through reservoirs filled with snow pack, for example. Like Stewart at Quails' Gate, Mavety questions the drive of some environmental trajectories without contingency thinking. In response to one group, he willingly put in Moor gates so that the deer could graze in his vineyard only to realize that the fence sometimes trapped the deer inside and made them easy prey for cougars and packs of dogs. In another instance, Nature Trust confronted him when he tore down trees in the process of clearing the path for his water pipeline. He tried to shift his path to accommodate their demands. However, since a devastating fire in 2003, people recognized that overpopulation of trees without clearing could contribute to forest fire crises. Blindly whipping up the cause of tree preservation could miss protection of the environment's life cycle, and sometimes cause further damage

Dan Zepponi, President of Mission Hill, admitted that the sustainability measures in the region are largely ad hoc at this point, but he suggested that it could become a platform for the region. Dan perceived the marketing potential for the wine industry, especially given Canada's reputation as a "purist" country, in terms of the wider picture of the environment. Recognizing the lack of cohesion compared to Washington and Oregon in terms of varietals and cooperation, the sustainability issue could be a central point for organization and enhancing cooperation. Zepponi also articulated the complexity of the sustainable trajectory but he was optimistic that certain areas could be a focus for working together in the future. For example, whereas water reclamation has taken place on a small scale, it is possible to create regional change through cooperative efforts.

Threat of New Entrants

As a value, sustainability advocates support widespread adoption, but as an industry competing with traditional wine making, there can be advantages to more limited adoption of sustainable practices. Considering Porter's five forces, the competitiveness of sustainability through either the green niche model or government-led model fosters a competitive advantage in terms of weakening the threat of new entrants. If one assumes that the thick relationships describing Oregon's green niche evolve from the sustainability interest and carry into other areas of doing business, it may serve as a barrier for potential new entrants into the wine industry as well as the niche itself. With the British Columbia case, government regulation in terms of sustainability can also create a barrier to entry (Porter 1980), especially for the current wine producers. The costs of shifting practices to become sustainable may be more prohibitive than for the potential new entrants to the industry. Whether sustainability manifests in grassroots green niche or government regulation, entry barriers are created. It may be that government's role in the industry exacerbates barriers to community building around the sustainability issue as well. When government directs and sets the pace of sustainability, it becomes the focus for incentives and decisions. Rather than emerging standards from the grassroots community, in this model standards are imposed (Sherman 1991). When there is negotiation, it is between winery and government, and it takes the form of lobbying rather than cooperation. Because lobbying offers an advantage to large numbers, perhaps the wineries in British Columbia can foster greater cooperation and community as they begin to recognize solidarity of interests in response to government action. Even so, this type of cooperation as a response to govern-

ment decisions reinforces government's central role in defining, legislating, and regulating sustainability. And while cooperation within the industry may still emerge, interviews suggest much more independence, skepticism around practices pressured by environmental groups and government, and a market competitive focus in terms of decisions to adopt more sustainable practices.

Threat of Substitutes

Considering nonsustainable wine as the substitute for sustainable wine, the green niche model poses much more threat in terms of substitutes. Under market pressure, one might expect that suppliers and producers will abandon more costly practices of sustainability for the traditional products. However, the Oregon green niche is creating a brand that preserves diversity of practice and flexibility to incorporate innovation appropriate for the wine industry. Community orientation on values suggests that change occurs but with consultation, community pressure, and accountability around the overarching goals of preserving sustainability values, and secondarily, fostering a competitive advantage for the region. The goal of the region is to preserve quality with integrity. In contrast, British Columbia organic suggests a trend toward brand distortion. Innovation is oriented around best practices to create wine that meets government standards, whether or not those standards are apt for the wine industry.

Certainly, sustainability imposed through government regulations eliminates the threat of substitution between sustainable and nonsustainable wine. Nonsustainable wine becomes viable only through illegal distribution. However, while government regulation sets uniform standards, it also entrenches those standards with the risk of missing opportunities to develop new, more innovative ones. Also problematic is the risk of appropriate implementation. Mazmanian and Sabatier argued that "the most damaging criticism raised against regulatory programs is that they are often unable to achieve their stated objectives" (1983, 351). It is not only beyond the scope of this article to analyze all six criteria that they identity can increase the likelihood that government achieves its objectives, but it is also much too early to fully recognize government regulatory success in British Columbia. However, their analysis of the extensive challenges suggests skepticism around government solutions to sustainability.

While strong government regulation of environmental standards prevents the possibility for substitutes of sustainable wine, it also establishes an incentive to change the product to accommodate standards rather than creating standards to fit with the innovation possibilities of the product. Among Oregon winery owners there were expressions of disdain and frustration with the possibility of government responsibility for initiating, developing, and regulating sustainable practices. For example, in the interviews every winery owner praised but also lamented the organic label. On the one hand, it sets a standard for reduced chemicals and this is good for the end product and its education potential for the consumer has been significant. However, at the same time that it has set a standard for certification, Oregon wineries perceive the bar too low: these federal regulations will continue to attract businesses that settle and celebrate with substandard practices. They protest the weak standards, but they also oppose the lack of flexibility or appropriateness of the standards for wineries. In particular, while wine growers can comply with certification for organic farming, organic principles for processing grapes into wine can be devastating for the final product. Organic certification for the final wine product requires that no sulfites be used throughout the processing. Sulfites are essential for the preservation of wine. Without them, wine turns to fizzy pop ready to implode—certainly not good drinking and definitely not a good cellar product. It makes sense that no winery aspires for the organic label on the wine bottle. British Columbia wineries adopting sustainable practices gravitate toward the uniform standard of organic and lobby government to change the benchmarks of organic. Oregon wineries have the collective action potential to affect change through government, but it is clear that they want to preserve diverse sustainability practices.

Uniformly and independently, Oregon winery owners share a perspective that organic certification generally has become diluted. For example, one winery owner asserted that the goodness of organic certification becomes especially weakened when consumers buy organic produce from distant places. The cooling systems for preservation and the transportation systems that allow the organic product to be sold to the U.S. consumer may cause more environmental destruction than any wider collective environmental benefit from the farming practice. So while organic may provide a good benchmark for sustainability practices, Oregon wineries will continue to benefit from ongoing diversity and competition around sustainability practices. In contrast, the government orientation around organic guides British Columbia wineries to focus on this sustainability measure and practice.

Bargaining Power of Suppliers

Another challenge of the transformation from niche into mainstream comes from the entrepreneurial leadership and the relationship between the grape growers and wine production. In Oregon, Bergstrom winery owns its own acreage but the winery has also purchased grapes from local growers. Over the years Josh Bergstrom has encouraged growers to consider more biodynamic farming techniques but the resistance has been significant. They have ended relationships with some of those growers and established new long-

term contracts with growers to farm new acreage along the guidelines set by biodynamics. Similarly, as the largest winery in Oregon, AtoZ purchases grapes from many growers throughout the area. Part of its five-year strategic plan includes ultimatums to these growers to adopt more sustainable practices or risk losing their annual buyer. It is clear that these winery owners will make a difference in fundamentally shifting the industry paradigm in Oregon to adopt more sustainable practices. From an environmental perspective, this particular outcome is ideal and the process of power and influence may be comfortable and entirely expected as those within the community become more certain of the importance of change, and as they wield more strength within the industry. However, it is unclear whether the more clearly defined "power" approach eventually undermines the community characteristics that drive sustainability creativity and possibilities.

In contrast, the uniformity of government regulation affects practices of all grape growers and does not require pressure from individual wine makers. Within this trajectory of sustainability, suppliers of grapes gain some bargaining power in relation to the wine producers. They can pass on the costs of transitioning their crops at the same time that they reap the benefits of any tax breaks or incentives that come through government regulation.

Bargaining Power of Consumers

The brand "Oregon Certified Sustainable" translates the diversity of good sustainability practices into a uniform brand for consumer education and recognition. The adoption of Oregon Certified Sustainable as a marketing label carries the possibility of enhancing the viability of Oregon wineries' sustainable practices. In particular, as the brand identification becomes a profit mechanism, the numbers and commitment of other wineries likely will increase. As a brand it identifies independent certification (LIVE, organic, biodynamic certifications qualify), responsible agriculture, and responsible winemaking. Ted Farthing, executive director of the Oregon Wine Board, emphasized the importance of bringing together all the diverse practices into identifiable brand recognition. Although at this point no wine region has captured a market-oriented environmental niche, given the increasing number of Oregon wineries adopting these practices, sustainability seems a very promising area for regional recognition and association for consumers. With the bargaining power currently residing with consumers, there is a critical need to educate them about the meaning of sustainability in terms of wine. The 2007 Final Full Glass Research Oregon Wine Board Study revealed that many consumers are not sure what sustainable wine is, and that although wine consumers tend to be more oriented toward sustainability purchases, this does not translate into the purchase of sustainable wine as a priority consideration. The creation of a uniform brand, even while environmental practices remain diverse, is a significant bridge moving from the community green niche of some Oregon wineries to more mainstream identification of greater numbers within the industry.

Government regulation eliminates the choice that gives consumers bargaining power in the green niche model. However, as much as government guides sustainability practices, consumers remain powerful in terms of lobbying and voting. Oregon winery relationships with environmental groups can be characterized as much more of a partnership than adversarial relationship. This kind of alliance is unique compared to other regions. An interview with the Oregon Environmental Council confirmed the ways in which a significant state environmental lobbying group perceives the wine industry as a potential leader in adopting best practices. The council identified a sharp divide within the industry that puts Oregon's wine industry on the right side of the environmental effort. Oregonians for Food and Shelter, Rural Coop utilities, Oregon's Cattleman Association, and Dairy Farmers of Oregon represent traditional farming in contrast to wine representing a new direction and potential partner for sustainability. Through emerging initiatives described below, Oregon brings together entrepreneurs across sectors and industries, environmental groups, and government in partnership toward the goal of enhancing sustainability. In terms of a bridge from community green niche to mainstream recognition and influence, this model of partnership is critical for ongoing successful transformation in the wider state community. While there are obvious possibilities for extending the relevance and influence of Oregon wineries as a model for sustainability, there are also challenges that constrain the transformation from community niche to mainstream. Some of these challenges are intrinsic to the competing values of community and market or community and mainstream, and some of these challenges emerge from the encroaching role of other stakeholders including government.

Government regulation can lead to uniform and comprehensive change. It removes the backdrop of consumer choice that prevents many wine growers from bearing the additional cost of sustainable crops. At the same time, government becomes a permanent direct influence on the practices of sustainability within the industry and this can prevent the innovative shifts that come from a diversity practices framework of the green niche.

Conclusion

The study of environmental values and the transformation toward sustainability practices offers a rich set of cases to emphasize social processes underlying entrepreneurship more generally. The communities of Oregon and British Columbia wineries present contrasting social processes and

moves toward understanding how people enact sustainability practices the way they do in relation to broader societal, economic, and political processes (Fletcher 2006).

While the profitability of sustainability has not been the focus of this article, several relevant observations contribute to understanding the contrasting sources for profitability. In Oregon, the green niche maximizes flexibility in terms of experimental farming, collaborative decision-making, and cultivating consumer demand toward sustainability while preserving the opportunities from traditional farming as well. The thick social relations characterizing the green niche, social capital cannot be measured precisely but some studies confirm that social capital gives business an edge in terms of investment opportunities and cost savings (see Frederking 2007, 2004). Finally, the culture of innovation surrounding the green niche continually pushes the production possibility curve and forwards cost cutting possibilities to maximize the profitability of sustainability practices. The likely winners within this industry are those producers who are able to differentiate with both traditional and sustainability practices. In this way, they are able to minimize risk while they cultivate consumer preferences for sustainable wines. Potential losers within the Oregon industry include the new entrants who are outside the niche, and also specialists in either sustainable or traditional wines who may suffer from the vagaries of market shifts.

In British Columbia, as government regulations prioritize environmentalism, they can entrench consumer values and decisively eliminate competition between firms in terms of this strategy of sustainability. The government and wine producers can promote profitability of the entire BC industry as a specialized style within the global market. However, as long as the costs for transition to sustainability are realized through price, consumers end up losing the most in the transition. Where choice is already limited in British Columbia through provincial regulations on supply from other provinces as well as other countries, consumers may be caught paying for more expensive and less desirable wines. The most likely winners are the large producers who are in a better position to influence provincial and national government in terms of regulations, pace, and standards that benefit them. These interests may benefit small producers. Certainly low-cost, specialized wine producers who are not practicing sustainably will likely lose in the transition as will high-cost producers who want to experiment with practices that don't fit new regulations.

Table 4 summarizes the challenges between green niche entrepreneurship and government-oriented sustainability.

For many Oregon entrepreneurs, sustainability is an emerging issue of identity as much as interest. They reject government intervention as the solution to environmental degradation and as the foundation for rejuvenation. However, they also reject the market drive for sustainability and they are reluctant to participate in the wave of green profits. Over time, however, ecopreneurs are organizing collectively in ways that transform small communities focused on intrinsic environmental values to more mainstream recognition and identification. On the one hand, this transformation shifts cooperative values and diverse practices into profitable and institutionalized, therefore viable, enduring sustainability. On the other hand, this transformation presents challenges in terms of introducing power and profit to community-guided values of sustainability.

The strength of the green niche is the innovation coming from cooperation and evolving from the strategy to articulate and "create value systems" (Sherman 1991). Power and profit reflect these mainstream efforts and while they can generate the next stage of sustainability, it may be at the expense of the next round of creativity and cooperation. As the green niche intersects with the wider public domain, it extends its influence at the risk of compromising some of its core values of community and informal communication. Anderson and Smith (2007) articulated that the space of public and private intersection can be a place of tension and, in accordance with the characteristics identified by Seyfang and Smith, a green niche can generate value change for the wider communities. As the case of Oregon wineries reveals, there is potential in the public and private intersection for innovation that affects both the green niche and the values of the wider communities. Cooperation with diversity of sustainability practices also maintains interfirm rivalry while orienting around a regional competitive advantage. This win-win possibility carries innovative possibilities that are not so present in the

Table 4. Challenges of Niche-driven Entrepreneurship and Government-oriented Sustainability

	Intrinsic Values and Diffusion Challenges
Green Niche	Diffusion through market and cross-sector collaboration compromises intrinsic values and core relationships. Grassroots transformation shifts to power transformation. Government participation invites government regulation.
Government-oriented sustainability	Government practices are not likely to be best practices. Rather than value transformation entrepreneurial sustainability remains "greenwashing." Inequality limits cooperation and limits ability to adapt creatively to government standards. Compliance rather than values change.

government-directed model. Where government regulates and enforces, there is the possibility that firms lobby government rather than innovate.

Another path of sustainability is government oriented. Not surprisingly, the role of government in directing sustainable entrepreneurship likely follows from a central role of government in the industry prior to environmental expectations and changes in sustainability practices. An existing framework of regulatory policies and government directives merely incorporate the environmental needs of sustainability. In this type of externally imposed context, industries respond or adopt a strategy of adaptation (Sherman 1991) to government standards more than creating innovative options to environmental challenges. In effect, innovation among entrepreneurs and around policy formation issues carries more risk in settings such as Canada and in contrast to the United States for example. There is an expectation that ultimately government will determine its own standards with the enforcement mechanism to ensure adaptation. While there is less community and endogenous development of innovative solutions to environmental problems and opportunities, there are benefits from the government-led uniformity in terms of standardization across industries and across countries. Studies of these two distinct types of social processes underlying entrepreneurship suggests that transition from government-led environmentalism to green niche is not likely. At the same time, by Anderson and Smith's conceptualization of legitimizing entrepreneurship, the contrasting paths of sustainable entrepreneurship may be a good fit for the respective political and social contexts.

Future Research

It will be important to study the wine industry, specifically the market viability of more sustainable wine, over time. By measuring the change in national and international market share of sustainable wines, it will become clear if sustainability is a luxury interest that responds sensitively to recessionary market conditions. Comparing regions within each country provides additional insight about the relevance of national political and socioeconomic cues such as the history and density of government intervention. In terms of future research on sustainable entrepreneurship, it is essential to incorporate contrasting paths toward the goals of sustainability and environmental protection. To some extent there is a path dependency and underlying affinity for government intervention contributing to the government-led model in British Columbia compared to the green niche model in Oregon.

Whether managing a multinational company or a winery start-up, these contrasting paths affect costs as well as the culture of running a business. In Oregon, the potential as well as increasing expectation for experimental farming and collaborative decision making is much higher. However, there is also a layer of informality that lacks transparency for newcomers, and carries relevance in terms of the investment decisions and costs relevant for incorporating successful sustainable practices. In British Columbia, the rules and expectations can be uniform and transparent, and the expectation to utilize formal lobbying channels to influence sustainability is more important and more likely to be a focus. In terms of sustainability, it is government officials who are leading and setting standards in British Columbia, whereas government officials in Oregon participate but follow the lead of green niche outcomes with financial support, not so much regulatory directives.

In 1776 Adam Smith developed the theory of the invisible hand emphasizing the efficiency and effectiveness of the marketplace for creating and managing change. Certainly, in terms of self-regulation the Oregon wineries manifest this principle more clearly than the British Columbia wineries. However, while Adam Smith developed his theory of the invisible hand in *The Wealth of Nations* (1776), he explored the invisible hand concept in his earlier *The Theory of Moral Sentiments* (1759). It is in this earlier opus that Smith articulated the importance of community and social relations as a foundation crucial for efficient and effective market relations. Here also, the Oregon wineries in this green niche capitalize on the moral sentiments as well as the market mechanism to drive competitiveness. Smith's emphasis on the social fabric of economic exchange is often overlooked but this case of sustainability affirms that informal relationships may be as important as the formal market principles in terms of maximizing long- run profitability and maximizing innovation around more sustainable practices.

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Notes

1. Informal observations guided an initial selection and then these two interviews confirmed the sample as best representatives of sustainability practices.

2. The three wineries from my sample that farm biodynamically are AtoZ (Sam Tannahill), Bergstrom (Josh Bergstrom), and Resonance (Kevin Chambers).

3. According to Porter, "it is usually more illuminating to consider how government affects competition through the five competitive forces than to consider it as a force in and of itself" (1980, 29).

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KaBloom!: Revolution in the Flower Industry

Gina Vega
Colette Dumas
Beverly Kahn
Jafar Mana

David Hartstein started KaBloom in 1998 with the goal of creating "the Starbucks of Flowers." He successfully built brand recognition for the garden-like shops, but problems plagued the young organization. Nearly three years and one recession later, KaBloom failed to live up to Hartstein's forecast of exponential growth. This case has been designed for a graduate-level course in entrepreneurship/innovation. Students can compare franchising with other business models, examine the impact of organizational structure and leadership styles on business effectiveness, relate issues of supply chain management and logistics to environmental changes, and recognize the impact of innovation on business sustainability.
Keywords: entrepreneurship, franchising, supply chain management, innovation, leadership style

"There are questions that arise from my experience," said David Hartstein, founder of KaBloom, as he ticked them off on his fingers. "These are things I should have known, but somehow I did not. Number one: When you're under pressure to expand, what is the best way to grow the organization? Number two: How do you select franchisees? Number three: Why did so many things go wrong? It should have all worked. Number four: Which lessons from the fast-food industry actually transfer well into the flower industry? And the most important question I ask myself," he said, pointing to his pinky finger, "is how can I make money from the flower business?"

The Flower Industry in the United States

The flower industry was one of the largest agricultural industries in the United States, ranked third after corn and soybeans by the U.S. Census of Agriculture. The Bureau of Economic Analysis, estimated the total floriculture item sales at retail outlets at about $19.2 billion in 2005. Per capita spending at the retail level on floral products in the same year was about $55. The 2007 analysis by the Bureau of Economic Analysis 2007 showed an increase in sales of floral products to $20.1 billion.

The floriculture industry was divided into five major sectors: cut flowers, potted flowering plants, foliage plants, bedding and garden plants, and cut cultivated greens. These industry segments were different in terms of the number of outlets: an estimate of 22,753 retail florist shops, 21,783 supermarkets selling flowers, 16,432 plant nurseries and garden centers, 900 floral wholesalers, and 11,000 domestic producers (www.aboutflowers.com/press_b1.html). The traditional market channels of the flower industry were growers, importers, and the wholesalers or retailers (http://www.safnow.org/index.php?option=com_content&task=view&id=6263&Itemid=149).

More than 80 percent of the flowers sold in the United States were imported from several countries in South America and Europe. The major sources of imported flowers were Colombia, Ecuador, Netherlands, Costa Rica, Mexico, and Canada as shown in Table 1. There were two major U.S. border hubs for imported flowers: Miami International Airport in Florida with a capability to handle 85 percent of the 65,000 tons of fresh flowers imported each year, and Memphis, Tennessee, which handled a small percent of imported flowers. These two hubs were equipped with all necessary facilities to handle fresh flowers, in addition to a sufficient number of U.S. Department of Agriculture (USDA) officers for daily inspection of the large flower shipments (http://southeastagnet.com/2008/01/23/usda-breaks-ground-on-new-inspection-facility-in-miami/).

Table 1. Sources of Flowers—Top 6 Import Countries by Value (2007)

Country	*Colombia*	*Ecuador*	*Netherlands*	*Costa Rica*	*Mexico*	*Canada*
Percent of Total Import	61%	17%	8%	4%	3%	2%

Source: Society of American Florists (SAF).

The major outlets where the flowers were sold differ in size and location. The most popular outlets were supermarkets, with an estimated 29 percent of total sales. Less popular outlets included mass merchandisers with 21 percent of the total sales, home centers with 16 percent of the total sales, garden centers with 15 percent of the total sales, and wholesale clubs with 3 percent of the total sales. Retail florists

accounted for only 14 percent of the total sales.The Internet accounted for 2.4 percent of all flower and plant purchases in 2005. Internet transactions made up 9.1 percent of purchases and 12.3 percent of spending on floral arrangements (Ipsos/AFE Consumer Tracking Study, 2005 CONSUMER).

The flower industry was among the most sensitive-to-change industries in the market for two reasons. First, flowers were a very delicate commodity.The life span of flowers was relatively short, making the flower industry one of the fastest turnover businesses in the economy. Second, industry performance was sensitive to several factors such as weather, high energy prices impacting delivery costs, and fluctuations in currency exchange rates (especially when the dollar value was decreasing). Changes in supply channels could create volatility in prices and availability. Most importantly, the U.S. trade agreements, particularly with South American countries where most of flowers were imported from, could have a significant impact on the industry.

In 1989, Ruth Owades launched Calyx & Corolla, a high-end florist that shipped direct from the farm to the customer. Calyx & Corolla originally sold its flower by catalog/direct mail and later expanded to include a website, becoming the first "virtual" company in the flower industry. Calyx & Corolla extended vase life by eliminating middlemen in the distribution process and shipped its orders next-day delivery via FedEx in custom-designed packages. By 1998, its catalog was the most widely circulated floral catalog, with more than 12 million copies distributed. In 1998, Calyx & Corolla generated sales of more than $20 million (Business Wire, 1999). Flowers could clearly become big business.

A new and effective e-business model that used Information Technology and Internet tools for reaching customers, providing better customer services for less cost, and utilizing supply chain process was added to the flower industry post 2001. The e-Business model granted a competitive advantage by providing customers with easy and convenient access to flowers with low cost for retailers, wholesalers, and distributers alike through user-friendly websites supported by good delivery systems.

The History of KaBloom

While traveling overseas, David Hartstein (former Staples executive, and cofounder of Super Office, the first office supplies superstore chain in Israel) and Thomas Stemberg (former chairman and CEO of Staples Inc.) observed that Europeans purchased fresh flowers not only for special occasions but also as an everyday item for personal pleasure. Hartstein speculated, "Would it be possible to reinvent the U.S. floral industry along the European model?"

The question was a timely one as Hartstein had been "looking at retail chains to consolidate and [Stemberg] said the flower industry would be perfect" (Forbes Online, 2000).He discarded early thoughts of launching a fast-food restaurant with a health food menu (Reidy, 1998) and in July 1997, Hartstein returned to Boston to build KaBloom. Optimism and success were in Hartstein's blood. A 1986 Suffolk University MBA alumnus, his history included a stint in the Israeli army and diplomatic corps as well as increasingly responsible positions in industry that culminated in his founding Super Office and, subsequently, serving as president and CEO of an international consulting firm established by the director of the Institute for Social and Economic Policy in the Middle East at the JFK School of Government. But a new challenge was calling him.

Hartstein and Stemberg wanted to promote the vision of buying flowers for personal enjoyment at any time.To accomplish this they had to offer a shopping experience that promoted this kind of enjoyment by making it easy for the consumer to get a wide choice of high-quality flowers at convenient locations.Their goal was to increase flower consumption in the United States. Hartstein described this concept as "the Starbucks of Flowers"—a company that would change the way Americans thought about flowers just as Starbucks changed the concept of a morning cup of coffee.They wanted to encourage shoppers to buy flowers as often as they bought bread or milk by making them available on shelves in every kind of retail location.

Table 2. Distribution Channels

Traditional Florists	***Supermarkets***
Limited hours	Extended hours
Limited on-hand inventory	Limited assortment[a]
Individualized service	Irregular service (if at all)
High pricing	Competitive pricing for available stock
Bad Locations	Convenient locations, "Where People Shop Everyday"
Bad ambiance (typically not clean)	No ambiance
Questionable quality	Poor quality

a. In January 1998, a typical Stop and Shop store in the Northeast had only 19 SKUs for flowers. Star Market had 18 SKUs (IAMCO, 1996).

Hartstein and Stemberg had done their homework and they believed that the market opportunity existed. Their research revealed the following:

- In 1996, the U.S. retail market for fresh cut flowers and potted plants totaled $12.9 billion. In addition, the bedding and garden segment garnered $2.6 billion, for total floriculture sales of $15.5 billion.The domestic retail floral market was extremely fragmented with more than

14,350 supermarket floral departments and 36,000 retail florists. Fewer than 2 percent of specialty florists belonged to a chain.
- Sales through specialty channels, including retail florists, garden centers, toll-free call centers, street vendors, and mail catalogs totaled 57 percent of sales or $8.8 billion. The specialty market suffered from poor customer perception of quality, assortment, and service.
- Sales through mass market channels, including supermarkets, discount stores, do-it-yourself (DIY)/hardware stores, convenience, department, and drug stores totaled 33 percent of industry-wide sales or $5.1 billion. Despite poor customer perceptions, this channel had grown significantly over the previous decade (IAMCO, 1996).

Thus, they concluded that KaBloom could enter the highly fragmented $15.5 billion U.S. retail floriculture industry and fill a unique market niche. They intended to create a strong and efficient supply chain by remaining close to the source of flowers, the growers. KaBloom offered an exciting new distribution opportunity that would increase their sales and help offset the seasonality of wholesalers' business. Wholesalers were willing to accept a gross margin on their key accounts of 12 percent, down from 35 percent on standard business (IAMCO, 1996, 57). KaBloom was therefore confident in its ability to source fresh cut, high-quality flowers and plants through these distributors at an advantageous cost structure. KaBloom even planned eventually to purchase directly from growers in Ecuador and Colombia, providing a large degree of inventory and quality control.

In addition, KaBloom could provide its customers with a wide assortment of high-quality, fresh-cut flowers and plants at discount prices. At that time, high-quality and competitive pricing were mutually exclusive. While florists generally attempted to provide consumers with a selection of high-quality fresh cut flowers, neither their prices nor their on-site assortment were comparable. Some supermarkets sold flowers at a lower price, but quality, freshness, and selection were inconsistent. With its simplified and efficient distribution chain, Hartstein believed his company would have vastly improved logistics that would support better pricing and better inventory management.

The retail flower industry was served by two primary distribution channels, traditional florists and supermarkets, with different characteristics (KaBloom's Business Plan).

Hartstein believed he could compete on all of the merits of both channels and thus develop an underserved market of customers who wanted the benefits of cash and carry, (everyday low pricing, large assortment, cleanliness, and long hours), with strong, user-friendly service. With its pricing lower than both supermarkets and retail outlets, KaBloom offered an ease of shopping contrary to existing, intimidating shopping environments.

KaBloom identified four industry trends, the opportunities they posed, and unique ways to execute them, as indicated Table 3 (KaBloom's Business Plan).

In addition, most specialty florists and mass market retailers did not carry a diverse inventory, concentrating instead on mainstream flowers. However, by not carrying 46 percent of what was being demanded by consumers, these retailers were losing sales. KaBloom offered a wide selection of flowers, ranging from mainstream to more exotic, tropical flowers. In 1996, roses, carnations, and chrysanthemums accounted for 54 percent of the flowers sold in the United States. The remaining 46 percent, up from 38 percent in 1989, represented an opportunity to a full-selection chain like KaBloom (http://www.ers.usda.gov/Publications/Flo/2007/09Sep/FLO2007.pdf page 64).

Finally, foreign flower growers were diversifying their range of products. Besides growing roses, carnations, and

Table 3. Industry Trends

Trend	***Opportunity***	***Execution***
Sources of supply shift offshore.	Reduced cost of wider assortment of flowers.	With 150 stores and central purchasing, KaBloom would buy directly from the growers.
Consumers have higher expectations.	No one was currently meeting all of their needs, particularly for low-cost specialty flowers.	KaBloom would meet customers' needs through high assortment, high-quality, low-cost flowers that could be easily accessed.
Growers were attempting to become more sophisticated and add more value.	Growers were willing and more able than ever before to work with downstream partners.	KaBloom would buy directly from the growers.
Management information systems (MIS) had advanced and offered extensive capabilities.	MIS could be used to control and track inventory, to forecast sales, and to communicate between stores and headquarters. Flower stores were not using MIS effectively, particularly with respect to inventory control.	KaBloom would implement a state-of-the-art MIS system at a cost of approximately $15,000 per store.

chrysanthemums, they were producing more exotic tropical flowers that yield higher margins. KaBloom planned to leverage its position with growers by the nature of its size and relationships, and therefore realize advantageous cost structures. With more than 150 stores, KaBloom would be the highest retail purchaser of fresh cut flowers in the United States.

Hartstein knew it was important to choose the first store locations strategically. He looked for locations and communities where "income per capita was over $50,000, with a population of more than 100,000, with over 30,000 cars driving very slowly by." His research had revealed that consumers who bought the most floral products were likely to be affluent and purchase them for their own enjoyment as well as for more traditional gift uses. The two highest income groups, ($50,000–$74,999 and $75,000 and above) represented 31.9 percent of the total U.S. households and purchased 41.5 percent of all fresh cut flowers. In addition, as household income rose, the percent of households purchasing flowers also rose (Behe and Wolnick, 1991).

KaBloom targeted locations in high-density, high-visibility, high-income, white-collar, metropolitan areas with high foot and/or vehicular traffic. The first proposed site was on Needham Street in Newton, Massachusetts, where, within a three-mile radius, the average income was more than $70,000 (Newton-Needham Chamber of Commerce). Spending per capita there was approximately 35 percent higher than the national average or about 20 percent higher than the Northeast average. Thus, the average spending per capita in Newton was estimated at $68. Table 4 illustrates the volume potential for a retail flower store on Needham Street in Newton, Massachusetts (KaBloom's Business Plan).

KaBloom store volume was projected at $483,000 for the first year of operation, growing to $798,000 in the fifth year. A total of $483,000 per year represented 95 transactions per day at an average transaction of $13.95. While sales predictions for stores increased as they matured, average KaBloom store volume was predicted to be $645,000 in year five when 150 stores were open.

The second store location was Harvard Square. Hartstein gave the example of the Brattle Square Florist at Harvard Square, which had sales of $1.9 million a year. The size of the store was 1500 square feet, which translated to $1,266.67 of sales per square foot. "Despite these impressive sales figures, Brattle Square Florist was unsophisticated in its systems and operations, and the owners clearly understood that their advantage lay in their location. While 90 percent of the traditional florist's sales were derived from deliveries, this store achieved 60 to 70 percent of its sales volume through walk-ins" (KaBloom's Business Plan).

Table 4. Potential Volume for Retail Flower Store on Needham Street, Newton, Massachusetts

Total population within 3-mile radius	115,000
Per capita spending	$68.00
Current total retail sales	$7,820,000
COGS @ 40%	$3,128,000
Total retail @ 50% gross margin	$6,256,000
10% market share	$625,600

By comparison, KaBloom projected store sales at $483.33 per square foot in a store's first year, increasing to $798.00 in its fifth year. "KaBloom," Hartstein explained, "would have the same advantage of Brattle Square as far as premium location. However, it would have attractive and easy-to-shop stores, sophisticated systems and operations, a talented management team, and superior customer service."

By the end of 1998, KaBloom had opened two stores. Customers could also buy KaBloom flowers at www.KaBloom.com and by telephone at 1-800-KaBloom. The eye-catching stores, located in high-vehicle/foot traffic areas, were adorned with bright purple awnings and stocked a huge variety of flowers in gardenlike settings, encouraging impulse purchases by passersby. Hartstein said, "We saw ourselves as a flower shop, not a florist. We were in the business of flowers. I became passionate about the business of flowers. I fell in love with it."

KaBloom's strategy was to open company-owned stores and appoint store managers, hiring only service-oriented associates who would demonstrate a real interest in flowers and plants. "A walk in our store is like a walk in a garden," claimed Hartstein. The KaBloom garden made flowers affordable to all and included 200 varieties of fresh cut flowers, compared with an average of 40 at the largest supermarkets and 20 at most florists. KaBloom kept their prices low—about half the industry norm—by buying directly from growers and distributors, as opposed to purchasing from wholesalers.

Instead of the impersonal, low-contact environment that was traditional in florist shops, KaBloom's well-trained associates were advised to greet customers as soon as they entered the store, and to make the store as much a part of the street scene as could be possible. Open doors and flowers appearing to tumble onto the sidewalk enhanced the sensation of entering a garden. "We created a common look for our stores, in design, lighting, layout and signage. We visually differentiated ourselves from existing florists. We created brand recognition, similar to what Starbucks had achieved," explained Hartstein.

Problems Arose

The Valentine's Day Debacle

Taking orders on the Internet had proven to be a successful

method of doing business for KaBloom. Due to the large number of orders to deliver on Valentine's Day 2001, 70 drivers had been contracted through local temp agencies that promised to deliver drivers with their own vehicles. Unfortunately, 25 drivers did not show up, leaving some 500 orders for Valentine's Day flowers undelivered. KaBloom did not have a written binding contract with the temp agencies, and the agency that failed to deliver was later removed from KaBloom's vendor list. All that was left to do was to "put the fire out," explained Hartstein.

He sprang into action, contacting the logical delivery source—FedEx, which wanted to charge a fee of $50 per delivery. His immediate response was "There was no way in hell I was going to pay $25,000 for those deliveries!" The press response was brutal. The 11:00 P.M. news featured KaBloom as destroying people's Valentine's Day. "Every single news outlet in the area featured a story of our missed deliveries. This was very bad PR for us."

Eventually, Hartstein refunded all 500 orders, then delivered 500 bouquets the next day to make up for the missing Valentine's Day flowers and delivered complimentary tulips to each of the recipients of the missing orders on April 15. His decision to forego the FedEx delivery because of its $25,000 price tag ended up costing him $45,000 instead.

Huge Turnover and Too Much Payroll

Under the existing circumstances, it became difficult to motivate store personnel to put in the long hours needed to sustain the business. In the interest of efficiency, Hartstein opened the Design Center in Woburn to centralize design and distribution. This created morale issues since it took away the one thing employees liked to do most—design the flower arrangements. In addition, if a customer complained about the design, the employee, who hadn't created the design, still had to respond to the customer's complaint. Employees became frustrated by this situation.

Table 5. Estimated Annual Costs per Store	
Fixed costs	
Labor (payroll, benefits, and taxes)	$100,000
Rent and utilities	$50,000
Other expenses (administration, insurance, etc.)	$30,000
Variable costs based on sales revenue	
Cost of goods	44% of Sales
Royalties	
5.5% to 4.5% depending on gross sales	5% of Sales

Source: D. Hartstein.

High turnover and a demoralized staff created a situation in which corporate payroll became astronomical. As less qualified store personnel were hired, additional district managers were needed to supervise them. Gross profit from the stores could not sustain corporate overhead. More than half of the stores' income was devoted to marketing, some of which paid back very limited returns. In order to cover costs, the average store needed sales of $375,000 (see Table 5).

In addition, the turnover at the store level had an impact on store sales and on the community ties upon which KaBloom counted for its everyday sales. Even shrinkage (anticipated losses due to flower perishability) was affected. According to KaBloom's business plan, "An industry rule of thumb is that inventory shrink averages 10%." The shrinkage rate was dependent, in large part on the temperature and hydration of the flowers during transport and, as new employees were in constant need of training, the care with which flowers were handled in the stores became variable and shrinkage increased.

Decision to Franchise

Nearly three years and one recession later KaBloom failed to live up to Hartstein's forecast, with just 34 locations. That number decreased to 30 when the unprofitable stores were closed. Sales hit only $8 million in 2000, but grew to $15 million by 2001.

Hartstein decided to investigate franchising as a way to ensure KaBloom's success and to take the business in a new direction (see Table 6). Franchising would provide risk minimization for both the franchisor and franchisee. The success rate for new franchise businesses was much higher than other types of new businesses because franchises operated within a proven system. That system included an established concept, sound business plan, support for getting started (i.e., training materials, store design, sources for goods), and marketing support.

The franchisor could expand the business and increase brand awareness rapidly with little risk and a smaller investment than other business models required. Incremental financial risks were transferred to the franchisee, who paid the franchisor royalties on gross sales. Royalties in franchising systems were payable regardless of profitability, transferring the major risk to the franchisee. The risk for the franchisor was primarily the loss of control of an individual location, possibly resulting in lower quality stores that had an adverse impact on the brand of the franchise overall.

The franchising idea seemed to make sense—risk was limited and the income potential for the franchisor seemed boundless, as long as the right people bought the franchises. However, Hartstein's initial investors were opposed to franchising because franchising would not return as much immediate profit as company-owned stores. Hartstein had original-

ly raised more than $15 million in venture capital (Forbes Online, 2000), and these investors had to be served. The founder and former CEO of Dunkin' Donuts, the internationally renowned coffee and doughnut store, advised Hartstein to move toward franchising because his own success with the strategy was well known. Hartstein was amenable, but the investors remained uninterested. Sales were stagnant and problems continued to grow.

In late 2001, Hartstein made the decision to change the business model to one based on franchising. Tension between the investors' goal of return on investment and Hartstein's goal of ongoing royalties created conflict but Hartstein was adamant. In February 2002, he assumed voting control of KaBloom and the company underwent a significant reorganization through capital restructuring.

A Happy Story of Growth

KaBloom Franchising Corp, established for the purpose of selling KaBloom franchises, offered its first franchises on October 30, 2001. The initial step in this process was to put together a Uniform Franchise Offering Circular (UFOC), a legal document in which the franchisor disclosed all information that the franchisee needed to make an informed decision on investing in that franchise. The contents and disclosures in the UFOC were governed by the Federal Trade Commission (FTC). A UFOC contained 23 categories of information including the franchisor's and franchisee's obligations, specific territory in question, and initial and ongoing fees. Many states also had additional state-specific requirements. The franchisor was required to give each prospective franchisee the UFOC at least 10 business days prior to signing the Franchise Agreement.

KaBloom developed a national UFOC and then produced a set of revised state-specific documents. The estimated cost of setting up a new franchise store was $250,000 including the initial franchise fee. This investment was significantly higher than to open an independent florist shop. The cost did not deter prospective franchisees. The initial aim was to have each store generate $600,000 of revenue (Reidy, 1998).

A franchisee could open a single store or purchase a territory to open several stores or other flower outlets. The franchisee cost per additional store was significantly less than the franchise fee for the first store. If someone wanted to open three stores, he or she paid $30,000 for the first store and $5,000 as a down payment on each of the other stores. When the time came to open the second store, the cost was a total of $25,000 (less the original $5,000 down payment), and the cost for the third store was a total of $20,000. Multiple outlet franchisees were encouraged.

In addition to the initial franchise fee, the franchisee was required to pay the franchisor monthly fees. Royalty payments were a percentage of gross revenues on a graduated basis (i.e., 5.5% of the first $350,000, 5.0% from $350,000–$550,000, and 4.5% over $550,000). Additionally, franchisees were required to contribute to the advertising fund (3% of sales) and e-commerce fund (2% of sales).

Hartstein was named a finalist for the New England Entrepreneur of the Year award in 2001 by Ernst & Young. Once franchising became the operational strategy, the business took off in a period of euphoric growth. KaBloom sold franchises directly as well as through franchise brokers. The first franchisee bought the Andover, Massachusetts (formerly company owned) store in March 2002. By the end of 2002, KaBloom reduced the number of company-owned stores to 12 and had 31 stores operating with 15 franchisees operating 19 stores across two states. By the end of 2004, KaBloom had tripled the total number of stores to about 100 stores including 88 franchised stores across 29 states. This was exceptional growth in only three years of franchising. There were 120 active franchisees and many more stores in the

According to Seid and Ainsley (http://www.msaworldwide.com/upload/The%20Relationship%20between%20Franchisor%20and%20Franchisee.pdf), ". . . franchisors want their franchisees to succeed and most work hard to provide their franchisees with tools and coaching they need to be successful" but one needs to remember that "a franchisor is not the franchisee's parent and the franchisee is not the franchisor's child." As a franchisor, KaBloom provided its franchisees with the following significant support:

- Site location and lease negotiation assistance
- Training (5 weeks headquarters and 3-4 days franchise location)
- Initial store (including base flower assortment and other products) and field support services
- Ongoing operational guidance including inventory control assistance, lower cost of merchandise through group buying, and centralized distribution and logistics
- Regional and national meetings
- 800 telephone hotline

The level of support provided by KaBloom exceeded what most franchisors provided and what was required by law.

Table 6. Comparison of Risk/Reward for Franchising and Owner-Operated Stores

	Franchising	Own and Operate
Capital Investment Required	Low	High
Control	Medium	High
Speed of Expansion	High	High
Profit Potential	High	High
Risk Potential	Low	High
Return on Investment	High	Low

Source: A composite of information from http://www.francorp.com/howto/why.asp, http://www.nationalfranchise.com/whyfranch.html, and http://www.referenceforbusiness.com/small/Eq-Inc/Franchising.html.

pipeline (see Table 7).

In addition to stores, some franchisees opened kiosks (LaVallee, 2005). Franchisee, Tom Hardy, opened 13 kiosks in southeastern Massachusetts between mid-2003 and the end of 2005 and had plans to open several more. Two to three times per week, two employees from his Pembroke store replenished the kiosks. These kiosks were located at gas stations, mini-marts, health centers, and other locations—novel outlets for selling flowers. KaBloom's rapid growth was a result both of stores and other innovative flower retailing options. In 2002, KaBloom was selling flowers at some Au Bon Pain cafes and at eleven BJ's stores (Reidy, 2002).

Au Bon Pain and BJ's Warehouse Clubs

KaBloom's operations at other businesses began in 2002 and were marketed as "KaBloom Too." KaBloom franchisees resented the use of "KaBloom" for sales of lower cost flowers at non-KaBloom store outlets, and many franchisees were reluctant to service these locations despite their income-producing potential. KaBloom's first relationship was with Au Bon Pain, a bakery and restaurant with a European flair, and was short-lived and not profitable. Hartstein had been contacted by Frank Guidara, CEO of Au Bon Pain. Guidara wanted to have flowers in his stores, both to enhance the European feel and also as an additional product to sell. They initiated their partnership at the Children's Hospital location in Boston, then expanded to Boylston Street (also Boston). Flowers were attractively displayed in a spiral fashion on a pole. This operation was labor intensive and required cleaning of the flower buckets once or twice a day to prevent infestation by fruit flies. They soon disbanded the relationship.

At a European flower show, Hartstein saw a unique, attractive cooler with a waterfall that could display flowers and eliminate the need to clean the flower buckets. His vision of selling flowers in every retail location governed his next moves. He contacted BJ's Wholesale Club, which had a flower department already, and suggested a new way to display the flowers. BJ's was intrigued and assigned a representative to work with KaBloom to develop the new system. Hartstein purchased 80 coolers, had them converted to 110 voltage from the European 220, committed to maintain them, and placed them in BJ's stores. In 2002, KaBloom began servicing BJ's warehouse clubs in Massachusetts and New Hampshire. The Woburn, Massachusetts, distribution center easily supported these stores. KaBloom received 90 percent of BJ's flower sales, with 10 percent going to BJ's.

Customers were enthusiastic and BJ's asked KaBloom to expand operations beyond New England to eight or nine other states, including New York, New Jersey, and Pennsylvania. These locations could not be supplied and supported from the Woburn center and required local distributors, delivery arrangements, and other personnel. The large overhead that was required made these non-New England operations nonprofitable. In 2004, on \$3.5 million of sales, KaBloom netted \$5,000 profit from their operations at BJ's. At the end of 2004, KaBloom subcontracted the BJ's business to a grower who paid royalties to KaBloom, generating a considerably higher return. The grower ultimately purchased the BJ's business and continued to operate it independently.

Trying Mobile Commerce

In 2004, KaBloom began mobile commerce (m-commerce) with MobileLime (MobileLime.com). M-commerce included transactions (i.e., buying merchandise, making payments) using a mobile phone. The floral industry had been involved in web-based flower ordering, an example of business-to-consumer (B2C) e-commerce, but m-commerce was unique to KaBloom. With the implementation of the MobileLime technology, only KaBloom could communicate with their flower customers in real-time to remind them of upcoming events,

Table 7. Store Growth

	Total Number of Stores	Number of Company-owned Stores	Number of Franchise Stores	Number of Franchisees	Number of States with Franchises
End 2001	34	34			
End 2002	31	12	19	15	2
End 2003	53	11	42	69	14
End 2004	98	10	88	120	29
March 2006	117	7	110	138	N/A
End 2006	85	5	80	N/A	N/A
March 2008 Prior to Reacquisition	52	3	49	49	18

holidays and monthly specials, and offer reward programs. "MobileLime's technology appeals to the life-style of our busy customers. As a European-modeled retailer, we strive to offer a savvy, convenient shopping experience and be one step ahead of other flower markets. Allowing customers to pre-approve their transaction before shopping is exactly the mobility our commuter customers at South Station are looking for," David Hartstein explained. "This unique and convenient process, will allow more customers to enjoy fresh flowers every day. We are looking forward to utilizing MobileLime's technology to simplify shopping for our customers" (www.seapointventures.com/pr/pr14331220041104.doc).

From 2004–2006, store growth slowed (see Table 7). In early 2006, there were 117 stores, a 19 percent increase from the end of 2004 with an accompanying 25 percent increase in the number of franchisees to 138. This increase was followed by increased revenues for KaBloom corporate. However, problems with franchisees created cash-flow issues.

A Fading Franchise Operation

The decision of KaBloom management to implement a franchise system and to adopt a decentralized business model required several managerial changes. Both the size of the company and the size of the management team increased significantly. A hierarchical corporate structure was put in place to support the franchisees (see Figure 1). For every 10 franchisees, a business consultant was hired. KaBloom later hired experienced individuals at the vice president level to run the functional areas (i.e., information technology, marketing, logistics, and franchising). The vice presidents built organizations at KaBloom similar in size and cost to the ones at their former large-company employers, thus creating higher overhead than the fledgling organization could sustain. The added managers and supporting teams hired to administer the expansion created higher corporate payroll demands. A new distribution system was implemented as a result of the change in business model. The franchise business consultants were requiring more cash output than what was coming in.

Committed to his philosophy of local ownership, Hartstein intended for the franchisees to be owner-operators; that is, that the franchisees would love flowers and would work in the stores. He anticipated that they would share his passion for a nontraditional approach to flower selling, and that they would be willing to eat, sleep, and drink flowers. His vision of the perfect franchisee went beyond simply the ability to pay the fees and royalties. The ideal franchisee would be part of the community, would participate in community life, and would, most importantly, love flowers and share Hartstein's vision. He expected that the owner-operators would be happy to work in their stores and would understand that profits were made one stem at a time. Additionally, these franchisees should be willing to maintain the garden environment in their stores and absorb the 10 percent shrinkage required for flower volume, variety, and quality. But not all franchisees buying KaBloom franchises were ideal.

When franchising began, KaBloom stores were only locat-

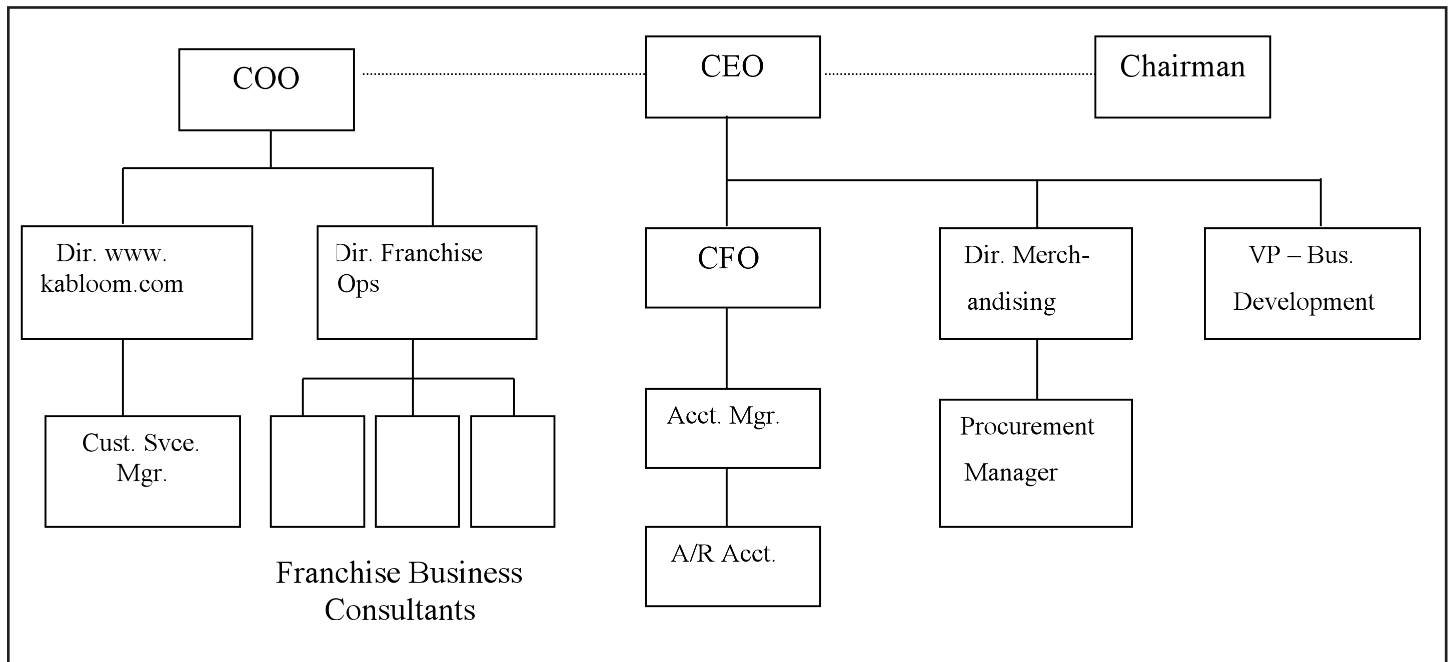

Figure 1. KaBloom Organizational Chart (2006)

ed in two states. By the end of 2004, KaBloom stores were in 29 states throughout the United States. Franchises in such distant (from the Massachusetts headquarters) locations as Idaho and Texas resulted in extra shipping costs and a decline in delivered flower quality (see Table 8 store locations). Hartstein had ideas about how to solve the distribution issue, but these ideas took additional cash to develop. When franchisees did not pay their royalties, legal fees to pursue the debt often exceeded the money that was eventually collected. Some franchisees were not paying for their orders on time. Because cash inflow was running lower than it should, the organization took on more debt, and debt service became an issue.

Franchises were scattered all over the country, from Pennsylvania on the east coast to California on the west coast. KaBloom assumed control of ordering flowers for all its franchisees requiring many small-volume shipments. This resulted in a major problem for KaBloom since many small volume orders experienced delivery delays or sometimes were completely lost by the carriers. As a result of these

Table 8. Locations of KaBloom Franchises (2006)

State	Number
AZ	4
CA	6
CO	2
CT	3
DC	1
FL	13
GA	2
IA	1
ID	1
IL	10
IN	2
KS	1
LA	1
MA	34
MD	4
MI	2
MN	2
MO	3
NC	3
NH	1
NJ	9
NV	2
NY	2
OH	5
PA	2
RI	4
TX	3
WA	1
WI	1

Sweet Factory is a one-of-a-kind retail environment that combines entertainment with space-age design to provide a state-of-the-art candy and candy-related merchandising concept. Sweet Factory, as you see it now, was started in the United States on July 12, 1991. Sweet Candy LLC, was founded in 2002 when it purchased the Sweet Factory candy store chain from the Archibald Company. Shortly after the purchase of the Sweet Factory chain, Signature Distribution (formerly CandyWorkS distribution) was created to provide the logistical and distribution support that a nationwide chain of specialty candy stores would need. Sweet Factory takes great pride in its people and in its products. Customer service and quality products are the foundation on which Sweet Factory is built. Our goal is to build a major national company that will position itself as a leader in the marketplace, setting the standard for quality products, people and presentation.

CinnaWorkS, LLC, was founded in 2004 when it purchased 83 previously owned Cinnabon stores. The Support Center for CinnaWorkS is located in Anaheim, California. Cinnabon is the worldwide leader in the cinnamon roll store category. Founded in Seattle, Washington, in 1985, Cinnabon opened its first store on December 4, 1985, at SeaTac Mall. Cinnabon stores are traditionally located in high-traffic venues such as shopping malls, airports, universities, casinos, amusement parks, military bases, train stations, and travel plazas. The brand has grown dramatically since then. As of December 28, 2003, the company operated and franchised 626 stores worldwide. These stores are located in 43 states, Puerto Rico, and 26 other countries, leading to exceptional brand awareness around the world. CinnaWorkS acquired the company-owned and operated Cinnabon stores on November 22, 2004. CinnaWorkS has an aggressive business growth plan in place over the next few years. CinnaWorkS stores have built a reputation for serving fresh, aromatic cinnamon rolls made with premium Indonesian cinnamon and topped with a sweet, rich, cream cheese-based frosting. Each Cinnabon product is served hot out of the oven and baked fresh before our guest's eyes. CinnaWorkS' commitment to premium ingredients and quality has paid off.

KaBloom was started in 1998. Our stores are designed to be warm, inviting, modern, and fun with a large selection of flowers and plants so extensive our customers feel like they are walking through a European flower market. Our goal is to prove that the future of flower retailing is called KaBloom. One of KaBloom's objectives is to increase consumers' flower-buying habits as is the case in other countries. We believe flowers should be enjoyed everyday, not just on special occasions. So, we make it convenient to shop for flowers—our stores are located in high-visibility, easily accessible shopping areas; our hours are longer than traditional florists; our staff is knowledgeable and helpful. Customers are welcomed and invited to enter the walk-in cooler and choose from a selection of up to 200 fresh cut stems and bouquets (4 times the variety available from traditional florists).

Figure 2. Excerpt from KaBloom's Employee Handbook
(describing the three companies owned by Caliber in 2006)

delays, the quality of the flowers suffered. In addition, the price of flowers increased because of the loss in economies of scale with small volume shipments. Company revenue decreased dramatically. The new operations model created new challenges for the company.

The problems with the franchisees seemed never to stop. As Hartstein resolved one issue, another would crop up. "This is how you get yourself in trouble with decentralization," Hartstein said. KaBloom was buying flowers and selling them to the franchisees, laying out the money up front to the grower. Once the franchisee ran into trouble paying, KaBloom was left holding the bag. Because the corporate structure was decentralized, Hartstein was not aware of every such situation. "When you are decentralized, many decisions can backfire because of the lack of personal responsibility."

However, there was little room for error when the fee to the franchisees for flowers was cost plus 10 percent. When the franchisees did not pay on time and KaBloom had to pay bills to the grower, lateness created problems all around. The franchisees who paid on time did not understand why KaBloom was having trouble paying its bills and demanding faster payment, and the franchisees who were delaying their payments continued to have a free ride. By the end of 2005, between 10 and 12 percent of the franchisees were in default.

The pressures created by high overhead and low royalty returns, coupled with nonpayment and late payments resulted in a business that simply was not fun anymore for Hartstein. He decided to cut his losses and sell the enterprise.

KaBloom Wilted in the Shadow of the Caliber Group

The Caliber Group

In March 2006, Caliber Capital Group, an equity market investment group based in Anaheim, California, finalized its purchase of KaBloom Franchising Corp., creating two entities, KaBloom Flowers LLC and KaBloom Flower Franchise LLC. The Caliber Group specialized in acquiring troubled companies and turning them around. The president of the investment group and new president of KaBloom, James Walker, said that the franchise owners would retain their storefronts, and KaBloom headquarters would move to Anaheim (SAF, 2006). At the time it acquired KaBloom, the Caliber Group also owned Sweet Factory, Inc. and CinnaWorkS, the parent company of Cinnabon. Six months later, Caliber purchased the Baja Fresh Mexican Grill for $31 million from Wendy's, which had paid $275 million for it in 2002. (See Figure 2 for a description of KaBloom's place in the Caliber Group companies.)

Caliber Capital Group's experience was both as franchisor and as franchisee in a wide variety of fast-food businesses. They had no experience with flowers nor did they develop an extensive management team for the KaBloom stores (operating only with a director of Marketing, a rebuyer, and a director of Franchising), but they did have the capital to infuse into KaBloom's bleeding bottom line, and Hartstein had high hopes for the future success of the company he had founded. Although differences in approach and philosophy truncated the working relationship that had been part of the transition plan shortly after the completion of the sale, nonetheless Hartstein remained in contact with the Caliber Group and watched as his creation became its neglected stepchild.

Unexpected Challenges of Franchising

Even before Caliber Capital Group took over the business, KaBloom franchising had been a challenge to both the franchisor and the franchisees. When KaBloom began offering franchises, it did so with prior experience only in the fast-food world and in an established organization. No one had experience with "start-up" franchising, so any early missteps were exaggerated as the company grew. The expectations on the part of KaBloom and on the part of the franchisees were unclear despite the extensive due diligence and information provided in the UFOC. Some franchisees had grandiose expectations and set up complex internal organizations even when they had little ability to sustain them financially. KaBloom's decentralized organization kept some information from reaching the right people in headquarters prior to its acquisition by the Caliber Group, creating serious operating difficulties and exacerbating KaBloom's problems.

The franchisees had been hoping for improvement in the general management of the KaBloom organization once the Caliber Group had taken over (SAF, 2006), but instead they were shocked as one corporate support after another was pulled by the new owners—no more business consultants, no marketing campaigns in magazines, no special assistance from headquarters. The business consultants that had been provided by Hartstein's organization had been pulled by the new owners, and the franchisees were essentially on their own. Fewer and fewer of them were meeting their obligations to the parent company, and the parent company responded by pulling back as many services as it could.

The Decline of KaBloom

One of the first actions the Caliber Group took after closing the deal with Hartstein was to clean house, keeping only two of KaBloom's existing employees—the Franchise sales director and the general assistant. These two staff members were responsible for keeping the organization running, from the legal end through the ordering of flowers. Shortly after the acquisition, Hartstein's formal involvement in KaBloom ended, as did his influence over events.

During the first half of 2006, the Caliber Group poured

money into its new company. They put together a new ad campaign originating in the Anaheim and Irvine, California, communities. The campaign was edgy and expensive, focusing on special effects, high-priced models, and slick staging. The franchisees hated it—they wanted the emphasis to be on the flowers, not on the environments. They refused to pay into the advertising and promotion fund, and the ads were not redone.

Next, the Caliber Group had the idea to create edible arrangements that would expand the store offerings. However, special food handling licenses were required, and this was too complex to do nationwide. Then, they thought about including wine in the offerings. Again, the issue of licensing came up, along with restrictions about shipping alcoholic beverages across state lines.

Eventually, the Caliber Group's priorities changed as they had purchased Baja Fresh in August 2006 and tied up their financial resources in that company, and their interest in developing KaBloom waned.

David and the Moses Miracle™

David's Passion

Hartstein had started in the flower business in 1998 with a passion to reinvent the U.S. floral industry along the European model, in which Europeans purchased flowers at any time for personal pleasure. In his words "I became passionate about the business of flowers. I fell in love with it."

His hard-won experience through the ups and downs of the business had taught him a valuable lesson—that the impact of distribution on the quality of flowers was critical. He had come to realize that the logistics of the flower distribution business were broken and he wanted to fix it. He wanted to simplify distribution channels and streamline the entire process.

Preparing Flowers for Shipping

Ninety percent of all flowers sold in the United States were imported from foreign growers and shipped dry to the United States. An estimated 77 percent of Americans did not buy fresh cut flowers for personal consumption (http://www.sierraflowerfinder.com/articles/mra_e.pdf Consumption). According to Hartstein, this was principally because they did not trust that the flowers would last more than three days in their homes due to the flower distribution system. The amount of time cut flowers spent in distribution could vary from 7 to 12 days or perhaps longer. The process was as follows: Harvest Date (HD)—At most farms around the world, flowers were typically cut in the morning. They were transported from the greenhouses to the postharvest cooler where they were "conditioned" in a solution of citric acid and hypochlorite sodium. These additives were employed to fight the constant battle against bacteria as well as promote hydration in the flower. This conditioning to the flowers was performed in preparation for the long journey to come. Like camels, the flowers were filling up before they departed. The conditioning parameters required a minimum of 12 hours of hydration with this solution to optimize vase-life performance.

Once the conditioning was complete, which typically meant the next day (harvest date + 1), the flowers were graded (quality, length, and cut stage), bunched (arranged and wrapped), cut again (as the bunch), and placed back into a cooler where they were hydrated in the same solution for an additional 4 to 6 hours. They needed this extra hydration because they were out of water while they were being processed. At the very end of the processing, they were cut one last time to remove the section of stem that was drawing "air" into the bottom of the stem. This condition was called "air lock" and prevented water from being drawn up the stem.

At this point, the flowers were ready for packing. While in the cooler, they were removed from the solution and allowed to ship dry. This typically took 15 to 30 minutes. The flowers were then packed in corrugated boxes, labeled and staged for shipment.

The U.S. Distribution Model

In response to the terrorists' attacks on September 11, 2001, the U.S. government imposed the "Wheels Up Rule," a requirement to have cargo documentation submitted to U.S. Customs 12 hours prior to departure. This requirement placed responsibility and some degree of "time-sensitive" pressure on the farm to execute orders that were submitted. Typically, product left the farm on HD+2. Flights left in the middle of the night, arriving in Miami in the early morning.

On HD+3 the flowers were processed through USDA inspection at the "Smoke House" (an older building with a nonfunctioning smoke stack—the name stuck). The flowers then departed USDA and were shipped to the various warehouse distribution centers in the Miami area. Inventory rotation (First-In-First-Out FIFO) often resulted in older flowers being shipped first and the new arrivals rotated into the cooler. Every situation was different. In the best case scenario, the flowers left in a refrigerated tractor trailer heading somewhere within the United States on the evening of HD+3.

Transit time to a northeast distribution center was two days, so the flowers arrived on the evening of HD+5 or the morning of HD+6, where they were subjected to the same forces of inventory rotation (FIFO). For locations in the Great Lakes region, distribution transit time was up to three days, for the west coast it was four. By the time they got to the mass retail in the northeast, it was HD+6-to-7. For florists, the time line could be extended further as wholesale distribution practices varied by company (see Figure 3). The end game for the wholesale distributor was to offer the freshest product in a

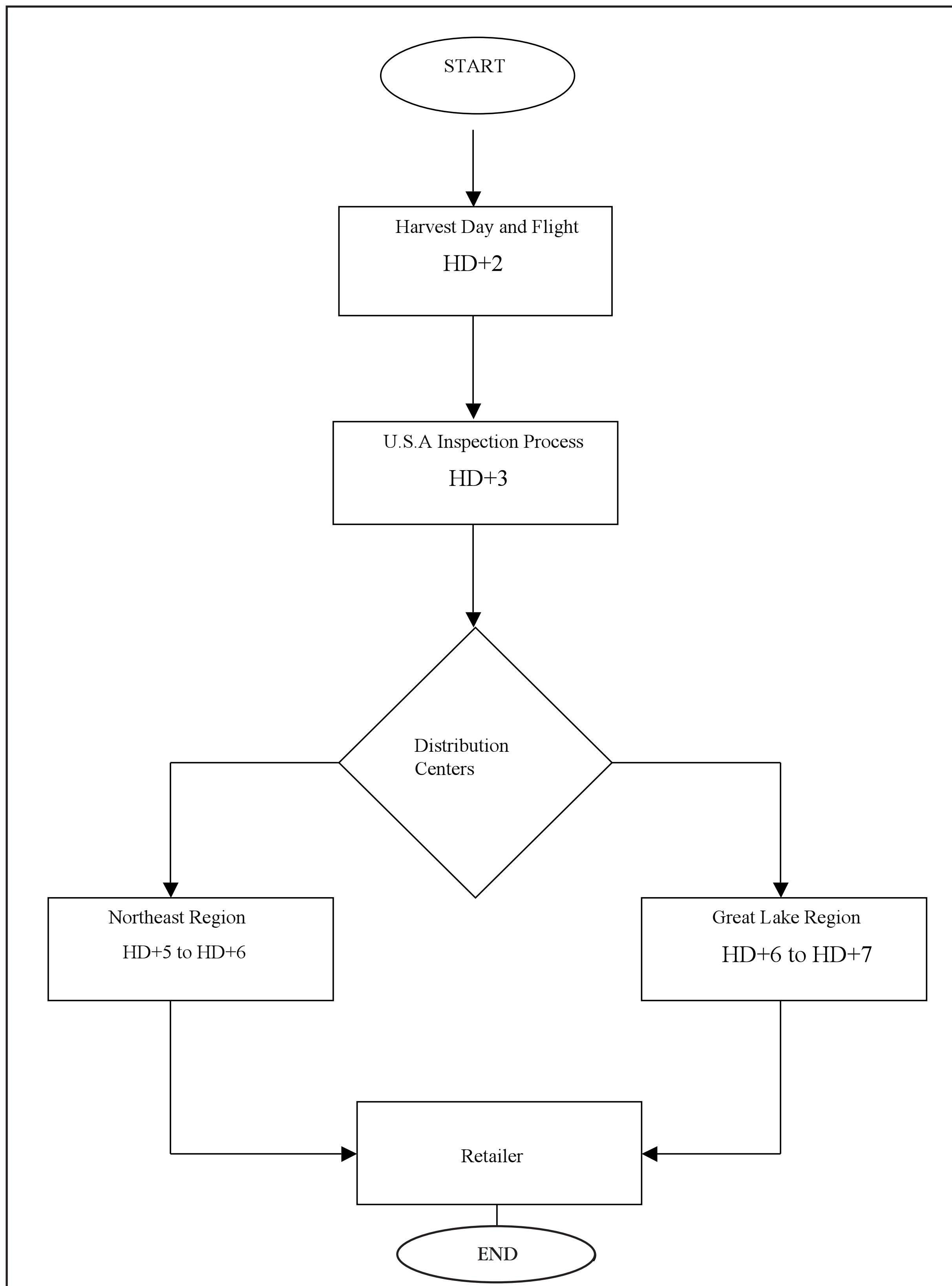

Figure 3. U.S. Distribution Model

wide offering while keeping an eye on shrink. Flowers could "look" good while in a cooler for nearly two weeks. However, once they were exposed to room temperature, they faded very quickly.

The Dutch Distribution Model

In stark contrast, Holland had been among the top five in per capita consumption of fresh cut flowers for many years (International Labour Organization). A closer examination revealed three critical variables in the Dutch system that were absent in the U.S. equation:

- Time was not an issue. Flowers in Holland arrived at the retail location with 72 hours of harvest, providing superior freshness (see Figure 4).
- In Holland, from the time flowers were cut, and all the way through distribution to the retail store, they were constantly hydrated.
- The Dutch enjoyed a much wider mass market product offering of fresh cut flowers as delicate varieties were sold in much higher volumes due to the flower friendly distribution system.

The Dutch flower distribution system inspired Hartstein's vision for what a revamped flower distribution system could accomplish for the U.S. market.

Innovation in Hydration—the Moses Miracle™

As early as 2005, Hartstein had been focused on new methods of keeping flowers fresh longer, and he knew that hydration was the key. He introduced a prototype, later greatly improved, of a hydration system before he sold KaBloom to Caliber, but the product was not yet perfected. Once KaBloom was sold and franchisees no longer had to purchase their flowers from specific growers, the Moses Miracle™ could serve no purpose. Hartstein sought to change the rules governing fresh cut flowers by:

- providing hydration from the time of harvest to the consumer's home;
- offering the only hydration system that was leak-proof regardless of the package orientation and therefore could be express-shipped and could sustain the rigorous handling requirement of a third-party logistics company (e.g., FedEx);
- eliminating the distribution risks of delicate varieties to retail; and
- shipping more flowers in one box, making it more economical in an express shipping venue (third-party logistics).

The Moses Miracle™ was a hydration process that inserted stems into a balloon-like container, tightly closed at the neck, in order to keep the flowers hydrated during shipping and before sale. A special foam within the balloon prevented the water from leaking. In contrast to the inefficiencies of the existing system, the Moses Miracle™ revolutionized the industry in the following ways:

- Flowers are harvested in the morning, transported to the postharvest cooler, and conditioned in a solution of citric acid and hypo-chloride sodium for a minimum of 12 hours.
- Postharvest pack-out began at 11:00 P.M. when the flowers were graded and packed in the Moses Miracle™, boxed, and labeled. A similar conditioning solution was used inside the Moses Miracle™ bladders.
- Flowers were transported the next morning to the FedEx ramp by 12:00 noon, en route to the FedEx hub in Memphis, Tennessee.
- Planes departed for Memphis in the late afternoon/early evening (approximately 6:00 P.M.) and arrived in the Memphis hub at night (approximately 11:00 p.m.).
- The USDA inspection was conducted at the FedEx Memphis hub and boxes enter the FedEx "matrix" (general distribution system) for sorting and rerouting.
- The flowers were delivered anywhere in the United States by 10:30 in the morning (within 48 hours of harvest).

Unlike flowers from other growers, importers, or distributors, the flowers shipped with the Moses Miracle™ were packaged in water and were constantly hydrated regardless of the position of the bouquet, lying down or standing up. The Moses Miracle created a competitive advantage because flowers can be shipped in water coast-to-coast overnight, via a more extensive and less expensive transportation network such as UPS, DHL, and FedEx, instead of needing to be transported via refrigerated trucks (see Table 9). The flowers did not need to be freshened up after their journey thanks to the Moses Miracle™. (Visit http://www.3dmedianetwork.com/projects/kabloom/mm-video/html-designs/home-2-sides.html for a video of the way the Moses Miracle™ worked.)

Hartstein noted that "We are part of an industry-changing method of getting the freshest product in the marketplace, in water and economically shipped."

Opportunity to Repurchase at Bargain Price

Potential for Success

Hartstein was considering repurchasing the company. He had a vision of what he could accomplish based on what he had learned from his prior experience. His vision included three different opportunities.

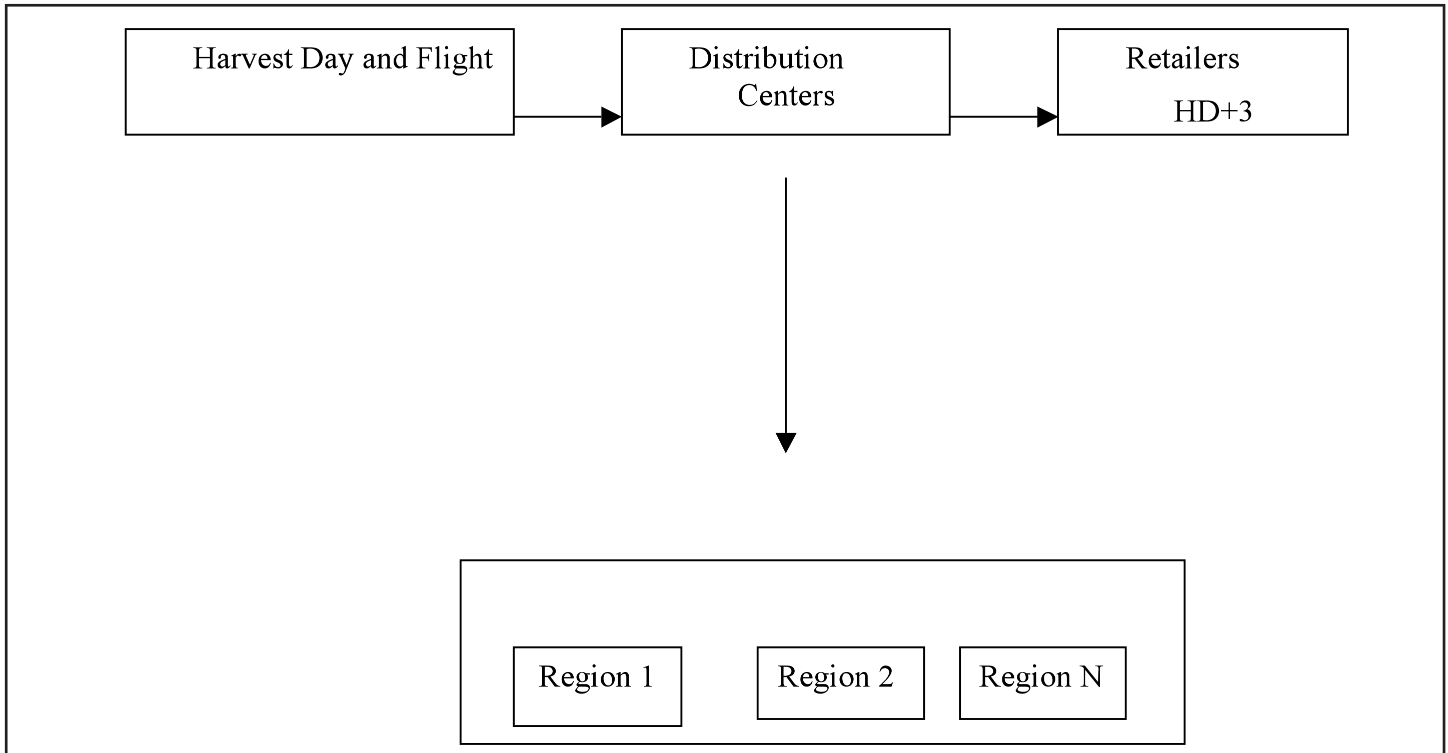

Figure 4. Dutch Distribution Model

First, he imagined a better e-business model—an on-line website just for his franchisees, company stores, and suppliers, where the franchisees could order their flowers from the suppliers and where Hartstein could monitor the purchases and immediately receive his cut of the transaction. This would eliminate the serious problem he had previously encountered in which he was paying the growers/suppliers upfront for the flowers and then trying to collect payment from the franchisees, who had already received the flowers. This often resulted in getting his money from the franchisees only after a long delay or, even more often, never receiving his money at all. He was convinced that a direct sell-through model would work better.

Second, he had conceived of an idea he called "The Moses Miracle Flower Wall™," a refrigerated floral cooler specifically designed for the Moses Miracle system. The cooler was an open-faced merchandising system to be placed at or near the checkout aisles. Since flowers were often an impulse buy, this location would facilitate the last-minute impulse buying of flowers.

Third, the Moses Miracle Flower Wall™, coupled with the Moses Miracle, would allow retailers to sell very fresh flowers because the flowers would arrive at the store within 72–96 hours of harvest. This meant that the quality of flowers would increase dramatically, the life span of the flowers would expand, and retailers who had given up on the idea of selling flowers because they did not remain fresh very long, such as drugstores and gas stations, could now sell fresh flowers. The Moses Miracle™ would even serve as a package in which the flowers could be transported from the store to the customer's home in their own hydration system. Consumers would no longer have to rush home to put their newly purchased flowers in water.

Hartstein felt the future would be his, if the price and the deal were right.

Fighting the Miami Cabal

For the unique system to succeed, several issues had to be resolved, including the delivery system and the traditional grower power structure. The vast majority of flowers from South America came through Miami. The Miami flower consortium was comprised of wholesalers with exclusive relationships with growers. Growers did not sell flowers directly to individuals, only to wholesalers. This arrangement meant that KaBloom either had to pay the high overhead for flowers through the wholesalers or find a different way altogether.

Hartstein chose the second option. He convinced a major grower, Elite Flower Limitada, C.I., to partner with him and adapt logistics to the new model. This alliance provided KaBloom with the protection it needed to bypass the traditional route. Flower costs could thus be decreased by eliminating the middleman (the wholesaler).

Table 9. Comparison of Distribution Systems			
	KaBloom (No Moses Miracle)	***Dutch***	***KaBloom with Moses Miracle***
Harvest Day (HD)	Harvest at farm	Harvest at farm and hydrate	Harvest at farm Hydrated 12 hours
HD+1	Flower conditioning	Hydrated and transfer	Prepared with Moses Miracle and depart for Memphis airport
HD+2	Arrive local airport and flown to Miami	Hydrated and transfer	Arrive Memphis
HD+3	USDA inspection at Miami	Arrive at retail stores	USDA inspection at Memphis and entered into FedEx distribution system
HD+4	Leave by truck to distribution centers (DC)		Arrive at stores and customers
HD+5	Arrive NE DC		
HD+6	Depart NE DC for stores Arrive Great Lakes DC		
HD+7	Depart for Midwest stores Arrive West Coast DC		
HD+8	Depart for West Coast stores		

Doing Without an Organization

Because the weight of his complex organization had played a large role in KaBloom's initial failure, Hartstein was determined not to repeat that error. If he decided to repurchase, this time he would keep his organization small, outsourcing every possible function. "This time," he vowed, "I will remember how to make money. If I outsource, I can get the best people who will give me the best service in the best way. This depressed economy can only help me by making the best people available." He would limit his total staff to himself, his partner (an attorney), and a few store personnel. He would operate out of the main company store in Brookline, without a formal office. As long as he had his cell phone, he could be in business.

He thought he could outsource all accounting functions, along with payroll and IT. He could hire a programmer on contract to redesign the website and to handle all the technical issues so he could devote himself to the business and to rebuilding his diminished customer database. He could outsource marketing for improved quality. And, he could depend on third-party logistics to move the flowers.

"I listened to the wrong advice the first time around," Hartstein said. "I know how to make money—you buy for one dollar, you sell for two dollars, you look around you with your two eyes and you know how you're doing. You don't need an organization to do business that way. If you build a huge organization because you have money to spend, one day soon the money will run out and you won't be able to make the organization run."

The Decision

As of February 2008, Hartstein had begun seriously to evaluate his options, weighing his emotions versus the practicalities of a repurchase. If he repurchased KaBloom, he would have a lot of work to do. The database needed to be rebuilt. E-commerce sales had dropped from $4 million to less than $100K. The franchisees were unhappy and many were in default. The website was not functioning well. He would have to go up against the floral establishment in Miami and he would have to get the growers on his side. He would have to establish iron-clad agreements with the third-party logistics companies, and he would have to rethink his franchising strategy. Moreover, he would have to do this without benefit of an extensive and experienced organization.

But Hartstein was not afraid of work. "Hard work is what I grew up with," he said. "I started as a baby in retail, sleeping on my little bench in the butcher shop until my parents were ready to go home. When you're in retail, every day you start the business again; this will be no different."

The Moses Miracle™ could truly revolutionize the flower business, making flowers accessible to American consumers at every level, Hartstein believed. This would fulfill his vision and would confirm his belief that the business was about logistics, not about flowers.

KaBloom Logistics 2008

In accord with Hartstein's new lean organization, distribution and logistics were outsourced to international shipping and logistics companies, FedEx and UPS. He introduced two different paths for delivering flowers from the growers to the store: Columbian flowers were shipped via FedEx while UPS handled flowers from Ecuador. In both locations, flowers were prepared for shipment using the Moses Miracle™.

Due to the unstable cost of fuel in 2008, both UPS and

FedEx set their delivery rate on a monthly basis instead of their earlier protocol of setting prices annually. Flowers shipping from Colombia left the farm and arrived at the Bogota airport within one day after harvest (HD), and were then transported to Miami via Tampa Cargo SA under contract with FedEx. At the Miami airport, flowers were precooled and inspected by the USDA. In the evening of HD+2, flowers were shipped in refrigerated trucks by FedEx to Memphis (the FedEx hub), arriving the morning of HD+4. Normal FedEx distribution channels delivered the flowers to stores and customers.

Flowers shipping from Ecuador arrived at the Quito airport within HD+1 and shipped to Miami via UPS planes. There was no cold chain in effect on this route. In Miami, the flowers were inspected but not cooled. UPS planes transported the flowers from Miami to Louisville, Kentucky (UPS hub), and then to stores or customers. The UPS nonrefrigeration model delivered the flowers two days faster than the FedEx refrigerated one with no discernable degradation of flower quality.

Reacquisition

In March 2008, two years after his sale of KaBloom to the Caliber Group, Hartstein reacquired the company. The Caliber Group admitted it had made a huge mistake in buying KaBloom in the first place, and lost a significant amount of money during the two years it held the flower enterprise. It was little more than an annoyance to them, "a tick on a dog," as the Caliber Group phrased it.

But a tick on a dog can make a lot of trouble for the dog. Hartstein reentered the flower business with a vengeance, meeting with the franchisees and listening to their concerns. Some of them felt betrayed, others were angry because of the size of the shrink that he insisted on. Franchisees wanted 1 to 2 percent shrink, while Hartstein insisted that they had to plan on 10 percent in order to provide the garden-like environment that was so critical to the KaBloom image. He offered reduced royalties to the franchisees who paid their outstanding bills. He took a hard-nosed approach to the business, determined not to be the "nice guy" who gets stuck with bills. He designed a new mass market strategy and began negotiations with new outlets and new markets. He set up agreements with several growers. He moved fast, focusing more on B2B sales (developing new retail opportunities instead of building stores) than on B2C sales. The B2B component of the industry comprised about 15 to 20 percent of a retail florist's business. This included sales to restaurants, meeting facilities, hotels, corporate functions, and business client gifts (SAF, 2006).

At this point, Hartstein had to consider multiple strategic questions: What would be the most effective way to grow the business? What criteria should he use to choose the best franchisees for his revamped business? What assumptions had he made in the past that may have contributed to his problems? What blind spots did he have that he should watch out for in future decision making? What aspects of the fast-food industry's approach to logistics and distribution were transferable to the flower business, if any? How could he make money from the flower business?

"It's about logistics and distribution, not just flowers," Hartstein reminded himself three months later as he watched the price of oil escalate to more than $135 a barrel and the economy fall apart. "Isn't it? Or have I made a terrible mistake?"

Note: The instructor's manual is available upon request from the authors at gvega@salemstate.edu.

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Case Study
Abandoning Ship at Scandia, Inc.: Parts B and C

Herbert Sherman
Barry Armandi (deceased)
Adva Dinur

Scandia, Inc., is a commercial vessel management company located in the New York Metropolitan area and is part of a family of firms including Scandia Technical; International Tankers, Ltd.; Global Tankers, Ltd.; Sun Maritime S.A.;Adger Tankers AS; Leeward Tankers, Inc.; Manhattan Tankers, Ltd.; and Liu's Tankers, S.A.The company's current market niche is the commercial management of chemical tankers serving the transatlantic market with a focus on the east and gulf coast of the United States and Northern Europe. This three-part case describes the commercial shipping industry as well as several mishaps that the company and its President, Chris Haas, have had to deal with including withdrawal of financial support by creditors, intercorporate firm conflict, and employee retention. Part A, which was published in the Fall 2010 issue, presented an overview of the commercial vessel industry and set the stage for Parts B and C where the firm's operation is discussed.
Keywords: shipping industry, macro environmental analysis, industry analysis, market structure, competitor analysis, case study

Scandia, Inc. (SI) is a commercial vessel management company located in the New York Metropolitan area. The company's current market niche is the commercial management of chemical tankers serving the transatlantic market with a focus on the east and gulf coast of the United States and Northern Europe (see Figure 1).

Since 1983, SI has commercially managed a fleet of chemical tankers operating in shipping markets of the world. Over the years SI's fleet size, ship types, and markets served have changed as the company and the overall chemical industry has evolved. During these years SI has seen both success and failure, where significant money has been made and considerable money has been lost. As the industry evolved, so did the company, which started out as a three-person operation and peaking with a total of nine people in New York in 1999.

Part B

Chris Haas founded Scandia, Inc. in 1983. At its inception the company was run out of a small office in mid-town Manhattan and managed two time-chartered ships with a total of three employees including Chris. Utilizing contacts that he had developed during his previous years in the ship management and commodities trading industries, Chris led SI to early success. By the end of the 1980s, the company was on solid footing with six full-time employees and was commercially managing a fleet of four time-chartered ships. All of the vessels being managed during this period, were time chartered by companies in which Chris personally had a large ownership stake.

Company Mission and Management Philosophy

Mission Statement

SI's mission statement is "to serve our customers in a professional, ethical and transparent manner by incorporating and retaining value based systems in technology and human resources, with trustworthy expertise in shipping and related fields."

Management

SI's management team is comprised of qualified and experienced professionals in the fields of ship owning/management/operation/agency/charter broking, thus blending expertise from various allied/related disciplines.

The company's management philosophy "is qualitative, personalized service to their principals and their customers. This translates into transparency of information; enabling principals to make the right decisions (cost conscious yet safe measures) with honesty and integrity in safeguarding principals' interests and prompt remittance of principals' surplus funds." ("Mission Statement").[1]

A "Family" of Firms

In 1991, Chris restarted his family's shipping company under the name Scandia Technical (ST). ST's function was to provide technical management services for ships including supervision and management of repair and maintenance and the crewing of vessels. With the startup of ST, SI maintained its primary function, the commercial management of the ships. Chris and a small group of investors formed Global Tankers, Ltd., a Liberian company, which purchased the ship

Figure 1. Trade Map of Scandia, Inc.

Laura from Asian interests. Global Tankers, Ltd. then hired SI to be the commercial managers of the vessel and hired ST to be the technical managers. In 1992, Chris and another small group of investors formed International Tankers, Ltd., a Liberian company, and purchased the *Mindy*, the sister ship of the *Laura*, from Asian interests. Like Global Tankers, Ltd., International Tankers, Ltd. hired both SI and ST. SI had formerly commercially managed both the *Laura* and the *Mindy* while they were under time charter. Figure 2 illustrates the basic relationship between the companies and the ships.

The Relationship between SI and ST

From the beginning, ST was never run as an independent company. It has always been treated and considered by the employees of both organizations to be a satellite office of SI. From the first days of the new structure, technical work and crewing was being performed and managed out of SI while Chris managed ST from his desk at SI in New York. Over the years, this structure lead to friction between the two companies. Often there was an obvious feeling of "us versus them" among the employees working at ST. In conversations with former employees, they often stated that it was very frustrating to feel as if they were continually being second-guessed by the New York office.

During the first two years of the total management of the *Mindy* and *Laura*, some of the technical work was subcontracted to a third party. This arrangement quickly failed due to poor service on the part of the subcontractors and late payments on behalf of the vessels' owners. By 1994, it was decided that all management work for the *Mindy* and *Laura* was to be at either SI or ST and subcontractors would no longer be used.

SI was located in a cramped office in New York City from 1983 until 1997. Those who worked in the office described it as filled with paperwork and files where people practically sat on top of one another. With the shipping industry changing, and many shipping companies fleeing Manhattan for the suburbs of New Jersey and Southwestern Connecticut, it was decided, after much debate, to move the company out to Long Island where a majority of the employees lived. Despite the office being 40 miles outside of Midtown Manhattan, the office's original feel and dress code were maintained. Even though the new office was at least three times as large as the office in New York City, the employees still sat on top of one another. Chris wanted it this way, as he stated it ensured good communication between all parties.

A History of Miscues—A Ship of Fools?

SI Goes Off Course

In 1996, SI suffered a major setback when two vessels they were managing for a French bank went bankrupt. The bank had foreclosed on the previous owners of the vessels, and then hired SI and ST to operate the vessels on the bank's behalf until the bank felt the market was right to sell the vessels and recoup some of their investment. When the bank itself had financial difficulties, it was taken over by a rival bank. After initially indicating support for SI's management of the ships, the new bank decided to withdraw its support for the project and stopped all payments. As the vessels' debts piled up around the world, the two ships were seized. The ships remained stagnant for many weeks, fuel and food ran out, and the crew went without pay. After a long legal battle the crew was paid and released and the vessels were sold as part of a court-run auction. When the situation was resolved in the courts, many suppliers received little, if any, money from the debts incurred by the vessels. Most of these suppliers looked to SI to recoup their losses. However, due to the management arrangement, SI was not liable for any of the debts incurred by the two vessels. Legally, SI was protected. Its reputation in the industry, however, was severely damaged

with some vendors. The entire fiasco cost SI a large sum of money as well as its reputation, and made doing business in the years that followed (in this relatively small industry) very difficult.

SI Runs Aground—The *Kari*

In the mid 1990s SI began managing three newly constructed chemical tankers that were time chartered from Asian interests. The three vessels were time chartered by three separate Liberian companies under the control of Chris Haas. Two of the vessels, sister ships the *Sheena* and *Suzy Q* were time chartered from the same company. The third vessel, the *Kari*, was time chartered from a second organization. The time charter terms were for five years.

Almost immediately, the relationship between the owners of the *Kari* and SI fell apart. The relationship was strained by initial poor performance of the *Kari* and its crew. The hardline, uncompromising approach taken by SI on behalf of the time charterers only exacerbated the problems. The vessel quickly turned out to be ill suited to the evolving Trans-Atlantic market, making it difficult and uneconomical to operate. Almost the entire contract term was a study in mistrust and lack of cooperation, which resulted in disappointing returns for all involved. At the end of the contract in April 1999, the time charterers had accumulated significant debts from the operation of the *Kari* but had no funds to pay them and no source of additional income. Immediately upon hearing of the *Kari*'s redelivery to the Asian owners, the vendors and agents called on SI for settlement of all outstanding debts. Many of those owed money did not receive funds for many months, if at all. Those who were owed money looked to SI as the source of the problem as they saw right past the facade of the separate time charter company. This situation further eroded SI's reputation.

Another Disaster—The *Sheena* and the *Suzy Q*

The *Sheena* and *Suzy Q* were brought into the SI-managed fleet in 1994 and 1995, respectfully. At this time the market was at peak and the cost per day for the time charter reflected the market's position as they were fairly high. The ships were well designed and the Korean crews who worked on the vessels were quite competent. This combination resulted in a fairly good and consistent level of performance. As the market dropped toward the end of 1995, it became very difficult to meet the financial demands of the time charter contract. By end of 1997, both ships owed back hire to the owners. The ships were being well operated but the freight levels in the market could not meet the daily costs of the contract. Chris Haas met with the owners several times to discuss lowering the contract rate. From these meetings small deductions were accomplish but more importantly Chris had con-

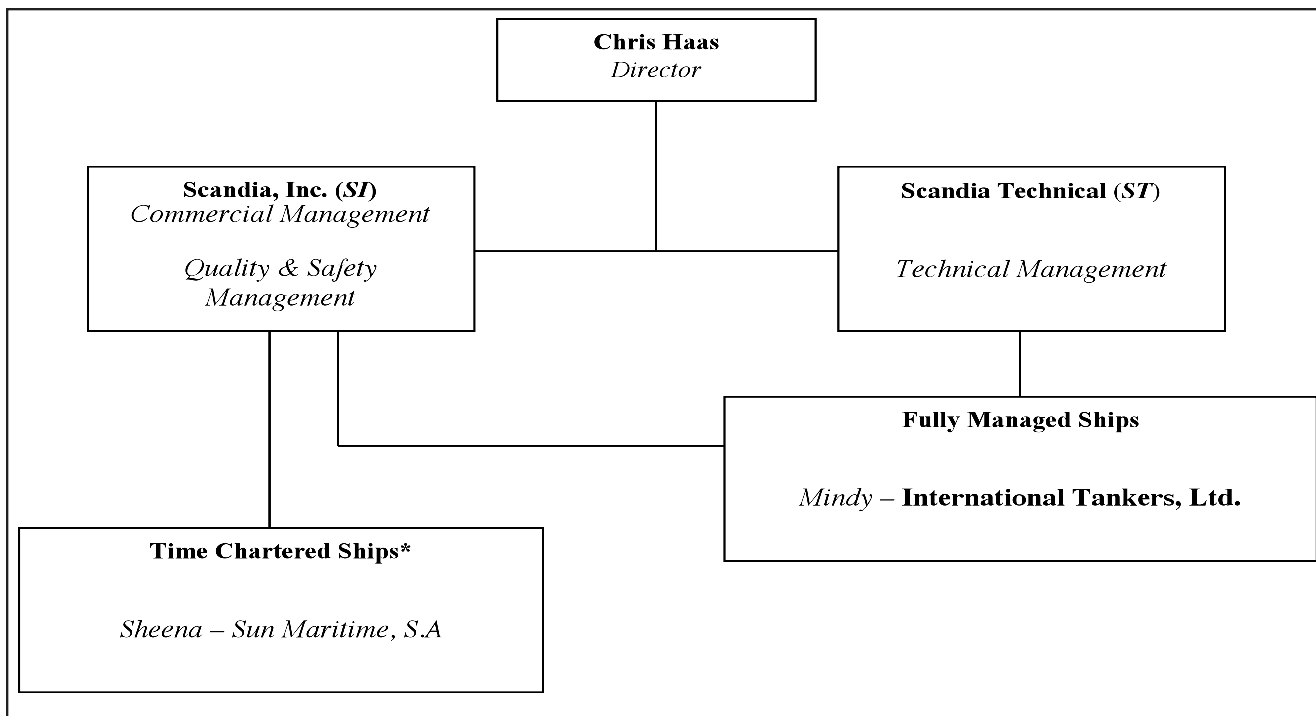


Figure 2. Basic Relationship between Companies and Ships.

** The companies listed adjacent to the time-chartered ships are not the actual owners of the ships. Sun Maritime and Liu Tankers are the owners of the time charters only. As these vessels are time chartered the technical management is controlled by the owners of the actual vessel.*

vinced the owners that the market would be improving and they would receive the money owed to them. It is not clear whether the owners left the vessels under SI's management because they believed the market would get better and they would eventually see their money or because they had no better options for the vessels. The financial situation never really got better and the ships were returned to the owner's control in the spring of 2001. At the time of redelivery more than $1 million was outstanding to the owners and a significant amount of money was owed to vendors throughout Europe, the United States, and Central America on the vessels' accounts. Again the vendors turned to SI for answers and more importantly money.

Riding Out the Storm

Over the years of operations, the cash flow of the fleet was used as a common pool of funds such that funds earned by the *Sheena* were sometimes used to pay a current bill for the *Mindy*. After the *Kari*, *Sheena*, and *Suzy Q* were returned to their owners, the burden of paying off the outstanding bills fell on the *Mindy* and *Laura*. These ships were also struggling in the down market. However, without settling the bills it would continue to become more and more difficult to operate the ships as vendors denied service or took legal action to try to recoup their money.

The poor financial performance of the vessels during the mid to late nineties took its toll on the companies' performance and morale. From the companies' founding Chris Haas had maintained a tight control on cash flow. The basic payment philosophy of the company has been to pay the bills only when they absolutely must be paid which is when one of three things might happen: (1) legal action was threatened, (2) legal action was taken, or (3) when something was needed from the vendor. The limited cash flow made every process difficult. Many vendors had placed all vessels associated with SI on a cash-in-advance basis, making prompt or emergency purchases nearly impossible. In many instances, the operational efficiency was negatively affected due to the restraints of cash flow and outstanding balances with vendors.

Trying to Find Calm Waters

By the end of 2000, the market showed signs of improvement with the vessels' voyage revenues improving. However, a great deal of damage was done to the firms' reputations with vendors and rebuilding was required. All the available cash flow for the significant future was to be applied to outstanding debts until they were completely settled. Until the time the debts were settled and the companies' reputations were restored, the vessels would never operate to their full potential and efficiency.

Financial Structure, Operation, and Performance: 1997–2001

SI, Inc. and its associated companies including ST, Global Tankers, Ltd., International Tankers, Ltd., Shin Maritime, S.A., Shin Tankers, S.A., Adger Tankers AS, Leeward Tankers, Inc., and Manhattan Tankers, Ltd. are all privately held organizations. Little information concerning any of the companies' finances was made available to employees or anyone outside the organization. Often, the decision was made to do business on a "cash in advance" basis rather than divulge any financial information about the various companies in order to make purchases on credit. This policy was based on the direction of Chris Haas.

For tax reasons, SI, Inc. and its sister company, ST, were structured to make little or no profit. As SI, Inc. was a U.S. company and ST was incorporated in Norway, corporate taxes were significant when compared to those imposed on the ship-owning companies that were typically incorporated in Liberia or Panama. Therefore, the goal of both SI and ST was to make the ships they manage run as profitable as possible while making no profits themselves.

SI, Inc. made money via a combination of yearly management fees paid by the ship-owning companies and commissions on various monetary transactions carried out on behalf of the managed vessels including freight payments received and cash sent to the ships that the captain then used to pay crew members. The management fee was the key to controlling SI revenues. The size of the management fee was not definitively spelled out in the management agreement between the ship-owning companies and SI, Inc. The agreement gave a range for the fees that was dependent on "market conditions." These terms allowed the fees to be sized in

Table 1. Profit/Loss 1997–2000 with 2001 Projections

Vessel	*2001 Projections based on 1st 6 months*	*2000*	*1999*	*1998*	*1997*
Mindy	$711,124	$705,297	($753,871)	($53,426)	($381,029)
Laura	$53,641	$66,195	($398,958)	($50,476)	$1,091,161
Sheena	N/A	N/A	$319,432	($785,337)	($52,782)
Suzy Q	N/A	N/A	($457,708)	($851,105)	($230,093)
Total	$764,765	$771,492	($1,291,105)	($1,740,344)	$452,257

such a way that SI lost money or basically broke even every year.

ST made money solely on management fees paid by the ship-owning companies through a third party, Manhattan Tankers, Ltd. The purpose of this structure was to further insulate ST, SI, and the ship-owning companies from one another for liability reasons. The structure may have also provided some economic benefits but this is not clear. The fees were fixed on a yearly basis and were dependent on the expected costs associated with running the ST office and paying its employees.

The true measure of the company's financial success was the combined financial performance of all the vessels under SI commercial management (see Table 1). Therefore, a year when the market was up and the ships were well managed and performed well, was considered a good year for SI; a year when the market was down and/or the ships were not operated to the fullest potential due to technical or operational problems was considered a bad year for SI. In both cases the revenue that SI generated remained right around the company's breakeven point. This does not mean that SI's revenues were basically constant. It means that in the good years the company bought new equipment and spent more on travel, personnel, etc. While in the bad years, the company cut back on all expenses including hiring, computer purchases, travel, etc.

The results of the last four and a half years can be traced to a number of factors.

- The chemical tanker market was falling substantially since the *Sheena* and *Suzy Q* were time chartered into the fleet in 1994 and 1995, respectfully. It was very difficult to support the high monthly charter hire payments based on the prevailing market conditions.
- The *Mindy* and *Laura* were 15 and 16 years old, respectively, in 2001. At this age, the vessels required more maintenance and spare parts, more extensive dry dockings, and equipment failures became more common. These factors drove up the operating cost while reducing efficiency and increasing downtime.
- New regulations affected chemical tanker operation and management and have greatly impacted the bottom line by increasing overall operating costs at all levels. The increased costs were not rolled into the market prices for transporting chemicals in the current market.
- The cumulative effect of successive poor financial performance put a squeeze on the companies' cash flows, which interrupted the proper management and operation of the vessels resulting in further poor performance that negatively affected the bottom line.

Part C

Abandoning the Ship: The "Rats" Exit, Stage Right

"Chris do you have a minute? I would like to speak with you in private please."

It was summer 2001 and Chris Haas looked up at the clock on the wall across the room, and thought to himself that things should be pretty quiet for the rest of the day. He spotted Mike Walles, Head of Operations, and replied, "Sure, Mike, just let me finish up this Email." Mike switched off his monitor, got up from his desk, and walked past Chris into the small conference room and took a seat across from the door. He felt himself start to get nervous as his stomach began to churn as it always does when his anxiety level is high. Three months of holding it in did not make the task any easier.

"So, Mike, what is on your mind?" asked Chris as he closed the door behind him.

"Well, Chris, I've decided to leave the company." Chris's face went blank as the smile dissolved from his face. He thought that the rats had finally abandoned the sinking ship.

Leif Sets Sail

It was back in November 2000 when Mike Walles walked into the office and realized that something was wrong. Dan Chance, Director of Marine Operations, looked too tired and too flustered for this early in the morning. When Mike reached his desk, he dropped his brief case next to his desk and started his computer. Dan didn't even look up.

"Morning, Dan."

Dan replied with an unintelligible mumble, never looking up from his computer and the list of emails and faxes that had come in overnight.

The phone barely rang once before Dan snatched the receiver from the cradle. It was a call from Chris and the mood was tense, but other than that Mike could not discern what was going on.

Dan hung up the phone and muttered, "Damn," as he got up out of his chair and headed for the men's room.

"Is there a problem?" asked Mike as Dan walked by.

"Yeah, Leif just quit. I don't know what the hell happened, but he is gone."

Mike thought that it should not have come as a surprise that Leif Borg, Superintendent (ST) quit but it could not have come at a worse time. In less than a week the *Laura* was going into dry dock in Spain and Leif was running the whole project.

As of late, there had been a lot of quarreling about the dry docking between New York and Norway, especially between Chris and Leif, but to quit was just unprofessional. To leave at such a crucial time for a company when you were running

the program is just not right. Things must have been worse than anyone imagined. This situation had been building for months. Leif was continually complaining that he felt New York tied his hands. He felt it took forever to get things accomplished. If it wasn't a problem with the cash flow, it was being second-guessed by Chris, sitting 3000+ miles away. The blizzard of paperwork and numerous spreadsheets and reports consumed way too much time. Leif truly resented being told how to do his job day in and day out when he had been doing this type of work for the last thirty years.

Chris was always uncomfortable with what Leif was doing. He knew that Leif was uncomfortable writing in English but he wanted and needed reports so that he knew what Leif was up to. To try to lower the level of tension, Chris would often have Mike or Dan Chance send his messages and request information. Chris felt he just could not get through to the guy. He concluded, Leif was just not listening.

As Mike thought about how this docking could be salvaged, he could not keep from smiling when he thought of the irony of the situation. It was just under a year ago when Leif started his first day on the job aboard the *Mindy* in the shipyard in Fredrecia, Denmark, after the previous superintendent left ST.

Dan's Departure

It was July 9, 2001 and another "ship" was about to disembark.

"Hi Chris. What can I do for you?"

"I just wanted to call and let you know that Dan will be leaving the company. I think it's best for the organization. We all know he hasn't been happy here and that's just not a healthy situation. Now I have been making some calls and working out how we can handle this change and I think that this should work out ok. I really think this is good for the organization. We will be better off in the long run. You know he was just too rigid and really holding back our progress."

"Well, Mike, just think about this. What do you feel we may need to do? We will discuss it when I return to New York. Ok?"

Mike could not quite believe what he was hearing. Chris was known for always trying to put a positive spin on bad things but he was really going too far now. "Just one thing, Chris. When will he be leaving?"

"July 27."

"Should I reschedule my trip to China? Otherwise, there will only be one more day when the three of us are in the office together and that's the day he's leaving. I'm leaving on Sunday, you're back on Monday, and then I return that Thursday. That leaves us with Friday. There's a lot to go over in one day."

"Don't worry about it. You still go to China as planned. There won't be that much to go over. Ok? Well, unless there is anything else I have to go. Ok"

"Ok, bye." Mike couldn't believe what he just heard. Not that much to go over? The guy's been working at the company for more than ten years, making over $120,000 a year, and it's no big deal that he is leaving and there is nothing to pass over. It's not like there is anything written down in the office with the exception of the ships' manuals. No one knows what the 401K plan is much less what Dan does all day. He is in the office 11+ hours a day; he must be doing something. Every attempt to begin to write procedures manuals had died as soon as the meeting was over. It never was a priority.

Mike shook his head. His job was never really defined and now he would be doing the majority of Leif's job, as there still wasn't a real replacement for him, and now Dan's job. And Chris thinks this is a good thing for the company, probably because payroll will be more $200,000 lower than this time last year. Mike reflected on the stories he heard from Gina. With Dan leaving, he would be at least the tenth operations person to leave the company since it was founded 18 years ago. That only rivals the five superintendents in seven years.

It was no surprise to Mike that Dan was leaving. For the three plus years that Mike had been with the company, he had seen Dan get more and more unhappy with each day. He definitely was not enjoying his job. He hated dealing with the whole money thing. He never understood why Chris refused to pay people until it was an emergency. The only thing he hated more than the constant calls from vendors and agents looking for money, was lying to people for the company. To Chris everything was a shade of gray and this just did not fit Dan's personality. He prided himself on being a straight shooter and that was one thing you could not be if you stayed at SI for too long. Mike thought to himself, "It's amazing he lasted nearly 11 years here."

Mina's Swan Song

September 19, 2001

"Hey Mike, you got a minute?"

"Sure Mina, what's up?"

"I just wanted to let you know I'm leaving ST. I'm sure you already knew but I figured I should tell you myself."

"I did not know. I had some suspicions based on some of the emails that I have seen. When did you let Chris know and when is your last day?"

"I can't believe you did not know. I told Chris on September 3rd and my last day will be Friday the 28th."

"Well, congratulations Mina. I'm definitely going to miss you. You were the only person in this company with some organization and who was not always passing work over this way. Do you know what the plan is for your work?"

"Well the way I understand it, you're taking the requisitions, and Nina and Margaret will be taking over the crewing."

"Great, more work. I was getting kind of bored lately. Nina and Margaret crewing, that should be interesting. What are they doing with the office in Arendal?"

"I guess they will just shut it down."

"Well listen, Mina, I have another call on the line that I have to take. I will give you a call back later to talk about this some more. Take care. Bye."

"This just keeps getting better," Mike thought to himself. This was the third crewing person in three and a half years. Definitely understandable in this case. How can you leave one person in an office all by herself all day? Then to have to deal with all the vendors all day demanding money. "Good for her. Me next," he thought.

On December 2, 2001, Mike told Chris he was leaving the company.

Appendix 1. Backgrounds of Individuals

Chris Haas – President, SI, Inc.
Chris was born in Norway in 1943 and was raised in the small shipping town of Arendal. His family's shipping business was successful and offered him a comfortable life. After completing high school, he joined a ship management company in Oslo, Norway. He worked in Oslo for a year before being rotated to the company's offices in London and New York. By age 25 he was the Chartering Manager for chemical marketing for that same company in its New York office. Five years later he moved to a trading company in New York and became the Vice President of Transportation and Shipping. In 1983 he opened his own ship management company, SI, Inc. and began taking part in the time chartering of vessels, which SI, Inc. was to run. In 1991, he reopened his family's shipping company in Norway technically to support his purchase of two chemical tankers.

Margaret Haas, Comptroller
Margaret is Chris's American wife and is about the same age as Chris. She was originally a schoolteacher who over time has become more and more involved in the running of the organization. She started out coming in one day a week and has been working full time SI since 1995. She acts as the comptroller and office manager. She is well educated with a degree in economics and psychology.

Gina House, Director of Chartering
Gina is a native of New York who has worked in the marine and chemical industries her entire career. She started working for a shipowner in Manhattan after she graduated college with a degree in English and Sociology in 1973. By 1982 she advanced to Assistant to the Operations Manager. In 1984, she joined a chemical trading company where she worked for five years and advanced to Transportation Manager. In 1989 she joined the Chartering Department of SI.

Dan Chance, Director of Marine Operations
Dan joined SI in 1990, after sailing on U.S.-flagged ships for 12 years. For five of those years he sailed as Captain. Dan grew up in New Jersey and now lives on Long Island. He graduated from the United States Merchant Marine Academy in 1978 with a degree in Marine Transportation.

Nina Dorata, Administrative Assistant
Nina is a recent college graduate from Long Island, who was hired to help with administrative tasks after Dan left SI. She has a degree in computer systems and no real work experience.

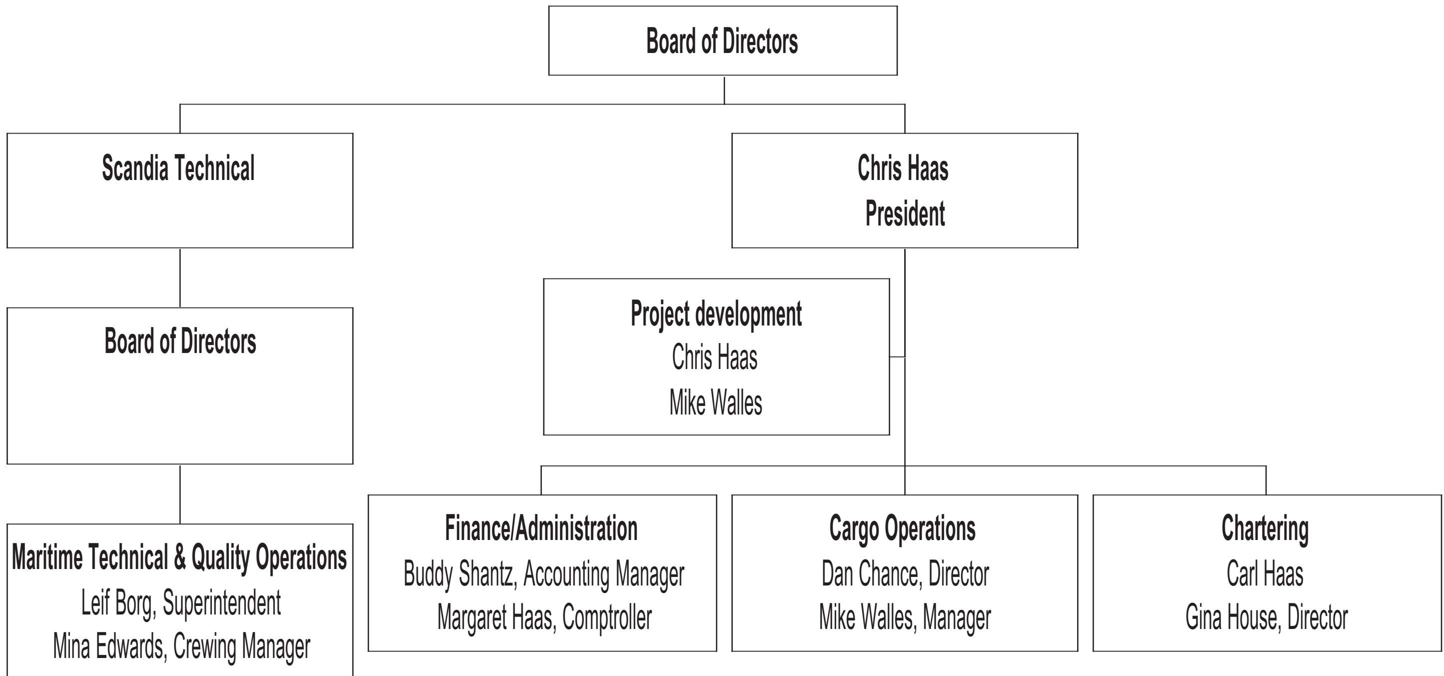
Mike Walles, Operations
Mike joined the operations department of SI in the spring of 1998. Since 1995 he had been working as a Naval Architect for a private shipyard in Connecticut building nuclear submarines for the U.S. Navy. Mike was born and raised on Long Island where his family still lives. Mike has an undergraduate degree in naval architecture and marine engineering and a graduate degree in ocean technology and commerce.

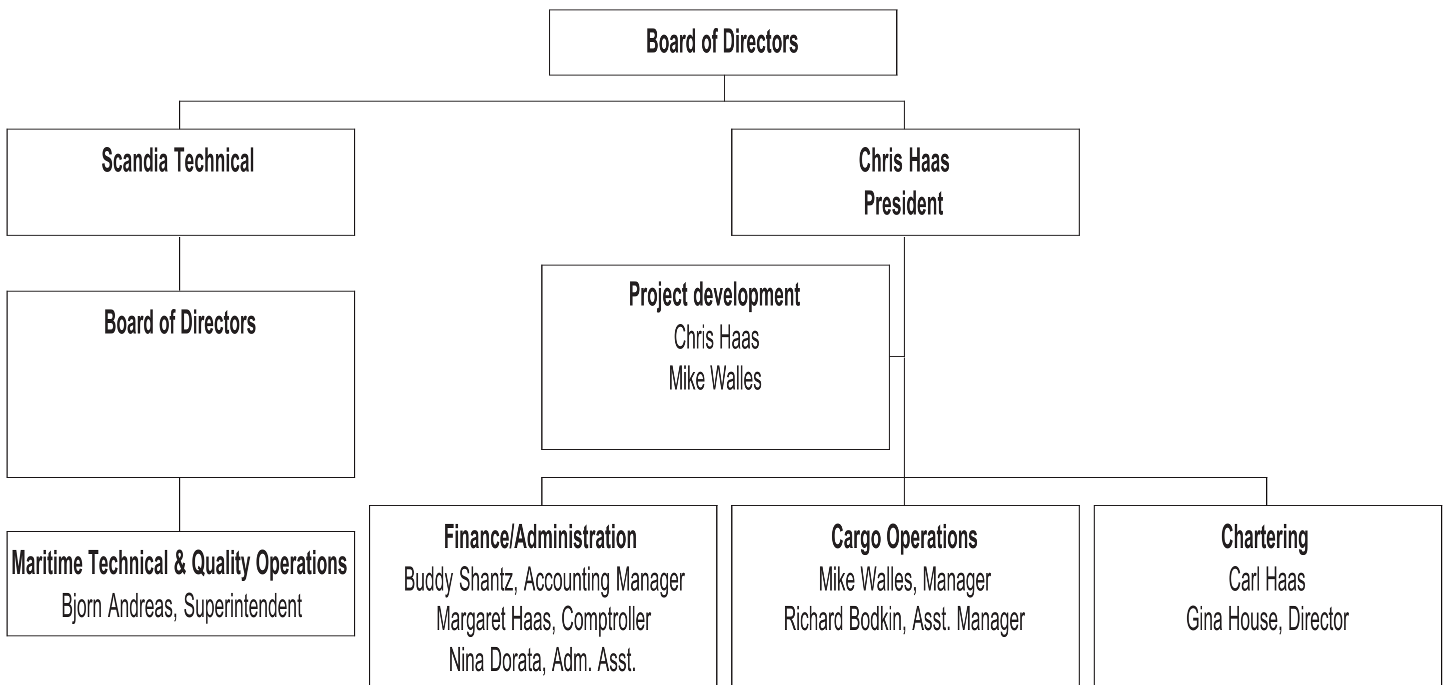
Mina Edwards, Crewing Manager (ST)
Mina joined ST in 1999 and had no previous experience in the shipping industry. Mina was born in Norway where she lived until nine years of age. Her family then moved to the United States where she grew up and was educated. Mina received an Associate's degree in accounting and held several accounting-related jobs in the United States. In 1998, she moved back to Norway, to live permanently.

Leif Borg, Superintendent (ST)
Leif, a native of Norway, joined ST in November of 1999. He has more than 30 years of experience in the marine industry. He sailed on ships as an engineer and has worked as an owner's representative for new shipbuilding and ship repair projects in the Far East and Europe. Leif has also work for a large Norwegian marine equipment manufacturer.

Appendix 2. Organizational Structure

This appendix presents the organization charts for Scandia for November 2000 and October 2001





Note

1. In order to maintain the firm's anonymity, this mission statement is a facsimile of a statement from a comparable firm.

Reference

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Book Review
Entrepreneurship in the Creative Industries: An International Perspective

Lori Wagner

Colette Henry, editor, *Entrepreneurship in the Creative Industries: An International Perspective,* Cheltenham, UK and Northampton, MA: Edward Elgar Publishing, 2007, 224 pages, $115.00.

A *creative* endeavor in the 21st century is a concept in flux. As quickly as technology alters the face of both life and industry, so also does the nature of what is known to be the entrepreneurial "creative" sector change and morph into new definitions of creativity, cultural economics, and intellectual property. Initially comprising areas, such as designer fashion, arts and crafts, film, and theater, the "creative industries" began in the 21st century to branch out to include industries, such as architectural design, publishing, broadcast media, and music recording, not to mention more recent industry developments, such as software development and digital media communications.

This new "creative economy" has been a huge boon to the 21st-century global economy; however, the ever-changing face of what defines a creative industry has also been a challenge to the more slowly changing governmental and institutional support systems that may still label creative industries under more rigid or traditional classifications. The resulting uneven fault between funding and funded has been a source of frustration on the side of both the entrepreneur and those who would seek to support potentially viable and lucrative industries or to boost the economy by replacing defunct and stale businesses with those clearly boasting entrepreneurial energy and creativity.

In her book, *Entrepreneurship in the Creative Industries: An International Perspective,* Colette Henry attempts to introduce the reader to the current issues facing the creative industries as we progress into the 21st century. Addressed to academics, entrepreneurs, support agencies, and policymakers, Henry collects a series of essays that reflect both national and international economic concerns, that investigate both quantitative and qualitative methodologies, and that examine the nature of entrepreneurship across varying industries, economies, and geographies. Her goal seems to be to encourage a healthy reevaluation of what defines the creative industries, what kinds of support they will need in order to maximize their potential within the global economy, and how funders and funded can work together to create new spaces for entrepreneurial energy within various economic and industry settings in a fast-changing digital age.

The book is divided into two primary sections. Part I spends five chapters, along with an introduction by Henry, describing the nature of creative entrepreneurship in areas such as East and Southeast Asia, Scandinavia, the UK, Ireland, New Zealand, and Russia. Part II consists of another five chapters and conclusion evaluating the support for the creative industries in the UK, in arts education in general, in Russia, within human language technology, and within higher education.

In Chapter 2, Desmond Hui describes the redefinition of cultural and creative industries in Japan, South Korea, Singapore, Taiwan, and Hong Kong, and describes new frameworks for support. Hui notes the overall shift from a mechanization economy to a creative digital/tech (i.e., information/organic) economy, and he identifies what industries these Asian countries have currently included in their evaluation of cultural and creative industries. Hui also identifies "entertainment" as the main staple of wealth in the 21st-century economic system. He notes interestingly that in Singapore, the definition of these types of industries has been broadened to an evaluation of them in light of the "four Es"—Expert, Enrichment, Embedded, and Everywhere—and notes extreme potential for Asia to capitalize on its creative potential and to boost/revitalize its economy through creative entrepreneurial endeavors. Hui predicts that the way China, in particular, will promote and develop its cultural and creative industries will impact the world economy (27).

In Chapter 3, Maria Aggestam discusses art entrepreneurship in the Scandinavian music industry, quoting Scandinavia's richness in this area due to groups such as ABBA and the Olson Brothers. She also discusses venturing and the industry's double nature as both a domestic and export industry. In order to look at how venturing has assisted in supporting these industries, Aggestam provides short case studies of Denmark, Finland, Norway, and Sweden.

Aggestam would seem to indicate that the Scandinavian music industry continues to hold a leadership position in funding this type of industry and offers generous support to those art entrepreneurs who would follow this entrepreneurial path.

In Chapter 4, David Rae discusses the creative industries in the United Kingdom, and urges policymakers to rethink discontinuities between support for new creative economies in the UK. This very well-written article takes the perspective of creative entrepreneurs, policymakers, educators, mainstream businesses, and the community in order to display the complexity in current discontinuities and the dialogue necessary in order to overcome disparate definitions. Rae encourages the UK to "think outside the box" (70) so that it can move beyond current industries and embrace the lucrative changes offered through the consumption of new creative products.

In Chapter 5, Barra O'Cinneide and Colette Henry discuss the Irish music and dance sector, citing the importance of this sector in Ireland's economic growth potential. Frustrations with traditional investors and opportunities for new synergies between supporters and performers make up the primary discussion within the case studies presented. Once again, without the inhibitions of training and funding, the creative industries could potentially be a powerful economic and social force within the economy, according to O'Cinneide and Henry.

In Chapter 6, Anne de Bruin discusses the film industry in New Zealand, noting its global power and international attraction. De Bruin also leads an interesting discussion on Schumpeter's distinction between entrepreneur and inventor, which can illuminate differences between a creative entrepreneur and an artist (94). She notes that the capacity for making a profit in this type of industry is dependent on entrepreneurial skills and that potential industries should be evaluated accordingly.

In Section II, Chapter 7 by Tom Fleming investigates funding for creative enterprises in the UK. Fleming discusses five intervention dilemmas for the public sector and calls for approaches that can respond to the distinctive business profiles of the creative industries (120). The article is detail-specific with good, practical guidelines for establishing funding.

In Chapter 8, Ralph Brown notes the ways in which arts education in the UK is working to promote entrepreneurship among its students. He points out that artists are not necessarily skilled in entrepreneurial innovation, and that education needs to assist them in providing basics for success in these types of industries, including how to find appropriate support. An excellent article, Brown outlines how a mentoring relationship can assist students in learning the necessary skills in order to move into entrepreneurial relationships.

In Chapter 9, Linda Moss explores the problem of restrictive legislation and weak infrastructure on creative enterprises in Russia. She particularly notes problems in transplanting Western formulas and strategies into an Eastern-mentality country, and she notes the need for new ideas and funding alternatives within this developing market economy. A well-researched and thought-out article, Moss gives several good examples of entrepreneurial options within Russia and some different perspectives on how the creative enterprises will have to work with government agencies and consumers to create a more viable creative economy (157).

In Chapter 10, Brian Kenny and Julia Meaton discuss human language technologies and entrepreneurship in Finland in a marginalized economy. Kenny and Meaton see this area to be one of potential strength, as support is given to these new, innovative industries.

In Chapter 11, Calvin Taylor talks about the importance of developing relationships between higher education, enterprise, and innovation within the creative industries and examines the types of business models within which they best operate. Taylor suggests that universities consider their processes of knowledge production for these industries, that various industries learn to engage with universities in supportive relationships, and that public policy needs to consider more specifically the characteristics of innovation and social dynamics for the creative industries.

Finally, Henry concludes Chapter 12 by encouraging continued dialogue and reevaluation between supporting agencies and entrepreneurial creative industries. She strongly believes that the industries have the potential for significant growth if the barriers facing creative entrepreneurs are removed, particularly regarding marketing and funding. Finally, she calls for better relationships between educational institutions and creative industries, as well as between government institutions and entrepreneurs, in order to help support and drive digital technology-driven entertainment and creative sectors.

I found the book to contain good examples of the state of research in the field of entrepreneurship within the creative sector. Although the goals of the volume are not complex nor aggressive, the book can provide a jumping-off point for scholars and businesspeople to inform themselves on the issues facing these potential industries in a 21st-century environment, which will continue to change and grow. If anything, the book is a wake-up call to provide awareness to those needing to recognize the immense economic potential of new and developing sectors, especially for struggling economies.

Although technically divided, Parts I and II seem to blend into one another, and it is hard for the reader to distinguish defining the industries from discussions of their support. Due to the necessary interconnectedness of definition and support systems, it may have been more reasonable to divide the

book according to region, rather than definition and funding. Additionally, the book's "international" perspective is limited primarily to either studies of the United Kingdom or its relationship to other countries or regions, such as Asia, Russia, or China.

The book could have been used as a significant tool or impetus for change; however, the academic nature of the essays seemed to draw away from the book's own "entrepreneurial" creativity and power, making it instead more of a "safe" sourcebook for further investigation into the definition and economic complexities of the creative industries. Sadly, this may be a symbolic representation of its own theme of disempowerment.

About the Author

Lori Wagner (loribethwagner@gmail.com) holds a BA from Lebanon Valley College and an MA and ABD from the University of Pennsylvania. Her prior publications have concentrated in cultural studies, cultural studies of science, and the relationships of language/literary theory to cultural-scientific paradigms. Formerly an assistant professor, she has taught courses in Science and Society, as well as leadership and business courses and maintains an interest in bridging the gap between academic discourse and entrepreneurism within the societal landscape. In addition to her consulting business, Ms. Snyder currently continues to teach and to write. She lives in the Philadelphia area.

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