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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.

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New England Journal of Entrepreneurship

From the Editors:

A recent report from the Consortium of Entrepreneurial Education (http://www.entre-ed.org/_entre/whitepaperfinal.pdf) seems to have very well captured the spirit of entrepreneurship in the United States as well as the mission of this Journal:

> If you ask a group of business executives to describe the key to their company's future success, you'll get a pretty consistent set of answers. While the terminology might differ, all of the answers call for a talented, competitive, skilled, creative, and entrepreneurial workforce. . . . What do they mean by talent? It's not enough to simply be smart. Instead, we need to nurture a new generation of innovators who have key skills in areas like science and engineering, but who are also able to collaborate with others and to act in the face of new opportunities. In other words, we need innovators who combine skill with an entrepreneurial mindset. . . .

The report goes on to belabor the fact that entrepreneurial education needs to be infused into our educational system (and as early as grade school) as part of a lifelong learning process, which will create a nurturing environment for budding entrepreneurs. To that end, those of us who research, teach, and practice entrepreneurship must embrace our responsibility to add to our body of knowledge about entrepreneurship, disseminate that knowledge, and perfect our craft by enhancing our tools and skills sets. We hope that our own small efforts in the publication of this Journal will add to the creation of that environment and stimulate others to continue this nation's efforts to remain competitive in an international marketplace where our biggest advantage would appear to be our creativity and our passion.

This issue of the Journal deals with several critical issues of entrepreneurship including business succession, similarities and differences between business and social entrepreneurs, Iranian entrepreneurs in the United States, fostering entrepreneurship in Singapore, and the "entrepreneurial" director. The first article, "The Black Box: Unraveling Family Business Succession" (Noel D. Campbell, University of Central Arkansas, Kirk H. Heriot, Columbus State University, and Dianne H. B. Welsh, University of Tampa), adopts a resource-based view of the firm in order to examine cultural attributes of the family that lead to a competitive advantage and which are sustained over several generations. The authors develop a theoretical model and conclude that effective family culture is transferred to the family firm, manifesting itself as "familiness" in those firms. This transference is predicted to increase the likelihood of multigeneration family business succession and answers the call for better understanding of the concept of "familiness."

In the second article by Gina Vega, Salem State College and Roland E. Kidwell, University of Wyoming, we move from examining succession planning to business start-ups in their article entitled "Toward a Typology of New Venture Creators: Similarities and Contrasts Between Business and Social Entrepreneurs." Using content analysis, Drs. Vega and Kidwell develop their own model in which they differentiate entrepreneurs by their drive and motivation (passion/ business; financial/social return) and therein develop a model that discerns four types of new venture creators. Further, they identify two methods of social entrepreneurship that demand more study: the Forward Approach and the Backward Approach. The Forward Approach describes the actions of a person who has a passion for a mission and will do anything, including setting up a business, to support that mission. The Backward Approach describes the actions of the serial entrepreneur who has the Midas touch for establishing businesses and who becomes engaged in someone else's vision.

Keramat Poorsoltan (Frostburg State University) introduces us to an interesting group of entrepreneurs here in the United States, the Iranian business community. In his study entitled "The Tale of Iranian Entrepreneurs in the United States," Dr. Poorsoltan tested five determining factors for whether Iranian immigrants became entrepreneurs: (1) difficulties they encounter in the broader labor market; (2) geographical concentration of the same ethnic group and thus formation of ethnic enclaves; (3) low start-up costs and low economies of scale of many of enterprises they establish; (4) ethnic social solidarity; and (5) possibility of tax avoidance in states with progressive tax codes. He disproved all of his hypotheses and concluded that Iranian immigrants are not concentrated in a few geographical locations; do not demonstrate the same behavior that has been observed in other ethnic groups; do not prefer states with progressive tax codes; do not seek out self-employment because of language and racial barriers; and there was no considerable ethnic social solidarity among the Iranian immigrant community.

We move from Iranian entrepreneurs in the United States to creating entrepreneurs in Singapore in Balbir B. Bhasin's (Sacred Heart University) article entitled "Fostering Entrepreneurship: Developing a Risk Taking Culture in Singapore." Bhasin notes in this study that Singapore, according to the Global Entrepreneurship Monitor 2000, reported very low entrepreneurial activity (approximately 1.75% of the total population versus the United States, nearly 10%, and Brazil, slightly more than 12%). This article describes in some detail the social and economic environment in Singapore, which may have contributed to stunting entrepreneurial activity and outlines the efforts made by the Singapore government to foster an entrepreneurial culture through a series of programs aimed at increasing the citizens' propensity and willingness to take risks.

In this issue's Practitioner's Corner in an article entitled "The Entrepreneurial Director" by Bruce C. Sherony, Northern Michigan University, the reader is introduced to an innovative model for Boards of Directors that would facilitate entrepreneurial behavior—specifically the entrepreneurial directorship should include the practice of charitableness, patience, humility, adhering to a set of values and contentedness in carrying out the board's work routine. By engaging in these behaviors, board members practice servant directorship. They provide personal involvement in engaging in entrepreneurial projects as well as providing direction and guidance. If carried out properly, it will be the entrepreneurial directors that will set a new standard for traditional boards to follow.

We then shift in the Practitioner's Corner from Board of Directors to legal counsel (an interesting switch in these days of Sarbanes-Oxley compliance) in an article by Stephen J. Schanz, North Carolina State University, entitled "Entrepreneurial Selection and Use of Legal Counsel." In this article, Dr. Schanz examines what a typical start-up entrepreneur needs in terms of legal services and how legal counsel should be selected given the usual financial limitations of most start-up firms.

As always, we are indebted to the authors, reviewers, and production staff who have worked ardently and arduously to make NEJE not only a reputable journal but a pleasure to be associated with. Please feel free to volunteer your services as a reviewer, or submit an article, book review, letter to the editor, pedagogical piece, experiential exercise, or case study for consideration for inclusion in future issues. We look forward to hearing from our readership and appreciate your feedback on this issue as well as previously released issues.

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The Black Box: Unraveling Family Business Succession

Noel D. Campbell
Kirk H. Heriot
Dianne H. B. Welsh

Using the family business succession, resource-based view of firms, familiness, and organizational clan literatures, this article develops a model based on the ability of the family business to use familiness, a specific bundle of attributes deriving from a family's culture, as a competitive advantage for the family firm. In particular, this resource-based framework of family business shows how familiness can distinguish between family firms that succeed beyond the second generation and those that do not. Implications for future research are discussed.

Recent research on family firms suggest that they outperform nonfamily firms (Anderson, Mansi, and Reeb 2003; Miller and Le Breton-Miller 2005; Villalonga and Amit 2004). Despite this, family business succession remains a black box and among the most critical research questions facing family business researchers. Despite a plethora of research in this area, succession rates among family businesses remain low. While the explanations for this have been widely debated [see for example, Handler (1992) and Sonnenfeld (1988)], no clear consensus has emerged. We propose an alternative approach to the question of family business succession that synthesizes the resource-based theory of the firm, family culture, and organizational clans. We attempt to answer the call by Chrisman, Chua, and Steier (2005), in part, for research to better understand the issues surrounding the concept of familiness.

The definition of family business for the purposes of this research is "a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua and Chrisman 1999, p. 28). They argue that a family business is distinguished from others, not on the basis of the components of family involvement, but by how these components are used to pursue the family's vision. Indeed, "the vision provides the context, meaning, and reason for family involvement just as a strategy provides the context for the functional policy decisions of the firm" (Chua and Chrisman 1999, p. 31).

This study examines the differences between family-controlled firms that fail or are sold in the second or later generations with persistently successful family-controlled firms. What causes some family firms to remain healthy and within the control of the founding family, while other family firms cease to exist or pass out of the founding family's control? We examine family-owned firms within the framework of the resource-based theory of the firm, in which the search for rare, valuable, imperfectly imitable, nonsubstitutable resources has led researchers to consider a variety of intangible resources (Barney 1991). We discuss family culture as an intangible resource that may be the key to family business longevity. When family cultures are transferred within family firms, the family culture may become a resource that confers a competitive advantage. Furthermore, family cultures will differ among families, and not all family cultures will generate equal competitive advantages. The article posits that these differences between family cultures may explain why some family firms remain successful and stay within the founding family. The article also addresses the implications these factors may have on succession.

Literature Review

Resource-Based Theory of the Firm

The resource-based view of the firm argues that firms differ in their performance because of differences in their resources that are valuable, unique, and cannot be imitated. Such resources may be the basis for a sustainable competitive advantage (Barney 1991). While resources can be either tangible or intangible, intangible resources are more likely to produce a competitive advantage because they are often rare and socially complex, thereby making them difficult to imitate (Barney 1991).

Organizational culture is more directly considered by Hall (1992, 1993). He argues that "intangible resources range from the intellectual property rights of patents, trademarks, copyright and registered design; through contracts; trade secrets; public knowledge such as scientific works; to the people dependent; or subjective resources of know-how; *organizational culture;* and the reputation of product and company" (Hall 1992, p. 135). Hall (1992) argues that culture applies to the entire organization and includes habits, attitudes, beliefs, and values that permeate the individuals and groups which comprise the organization (Hall 1992). We agree with Zahra, Hayton, and Salvato (2004) that the culture of a family business is derived from the culture of the controlling family, and may be the basis of a competitive advantage.

Family Business Succession and Family Culture

A summary of the literature on family business succession suggests that our understanding of family business succession is somewhat limited to an understanding of some of the behavioral and psychological factors involved. While much of the succession research focuses on behavioral issues surrounding the succession process, Dyer and Handler (1994) recognize the need for more comprehensive models that include how various dynamics of succession relate to one another to form an understanding of the complexity and the processes. Adapting from Hall (1992), we define family culture to be the habits, attitudes, beliefs, and values that permeate the individuals comprising the family. Family culture provides a convenient referent to the resource-based theory of the firm. Each family has its own unique family culture. When this family culture manifests itself as an intangible resource, it provides the basis for a competitive advantage. We call this unique form of family culture, *familiness.* Familiness is an imperfectly substitutable/imperfectly exchangeable resource in the manner described by Barney (1991). In some families, the family culture may be a strength, but not necessarily a rare, imperfectly imitable, nonsubstitutable resource (Barney 1991), while in other families it will become a competitive advantage. As family cultures differ from one another and from corporate culture, so may the competitive advantage conferred by this resource differ, thereby partially explaining why some family firms remain viable and within family control while others do not.

Family-controlled firms may possess advantages relative to nonfamily-controlled and other family-controlled competitors that are not directly related to family culture. However, in this article, we focus on certain aspects of family culture as a source of competitive advantage. A family's culture may create goal congruence among family members, and a shared view of the world, the desired future, and a shared will for the family to succeed—even at the expense of personal goals. Families are also adept at identifying shirking and unsociable behavior. The family will punish or correct the offender. Should this tacit family culture be transferable to the family firm, it may provide an imperfectly exchangeable resource allowing for a persistent competitive. Furthermore, those families most proficient with these skills—when those skills are transferred within family businesses—will be the family businesses most likely to succeed and remain under family control. Not every family culture will be as effective at these tasks, nor will family culture remain static through generations. As family cultures differ and evolve through generations, so may the competitive advantage conferred by family culture differ, thus helping explain observed family business succession patterns.

Familiness and Family Business Culture

Closely related to the concept of family business culture is the term *familiness.* Familiness may be defined as interactions between family members, the family unit itself, individuals, and the business that lead to positive synergies; this creates competitive advantages for the firm (Habbershon, Williams, and MacMillan 2003). Chrisman, Chua, and Sharma (2005) took the definition one step further by suggesting that families form firms to do just this—to institutionalize their unique resources and capabilities for financial, and in some cases, nonfinancial motives in a strategic management theory framework. The social element of the family is of major importance in understanding why family firms organize and persist over time, from one generation to the next. Nordqvist (2005) looked at the behavioral effects of top management teams from a familiness perspective and cited this as a unique advantage. The topic of familiness was important enough for *Entrepreneurship Theory & Practice* to devote an entire issue to the topic in May 2005. In the opening article of the special issue, Chrisman, Chua, and Steier (2005) call for more research to further define familiness by understanding the conditions that lead to this phenomenon, the formation of family firms, and why they are successful. This article is an attempt to answer this call, in part, to the black box question of success and succession.

"Effective" Family Culture

Family culture in itself may be considered a competitive advantage. Successful family firms—ones that remain competitive and under family control—will share family cultures that foster goal congruence among family members, and a shared view of the world, the desired future, and a shared will for the family to succeed—even at the expense of personal goals. These successful family cultures will be adept at identifying shirking and unsociable behavior. They will punish or correct the offender. For brevity's sake, we refer to such family cultures as "effective."

Families are likely to develop such effective cultural traits because of their long, stable membership, potent antishirking practices, and overlapping utility functions. A family member's well-being depends on the well-being of other family members and the family firm as an entity. Conditions conducive to development of effective cultures are frequently present and passed on during socialization periods of families. These would include a long history of intensive interaction, stable membership, and an absence of perceived institutional alternatives. This creates the ability in families to align incentives and produce decisions in harmony with collective interests, skills that some families will be able to transfer successfully to a family-controlled business.

Some families display a remarkable ability to induce individuals to identify self-interest with collective interest. Family businesses are often better able to align incentives than nonfamily organizations. This is because of the fondness, affection, love, sense of duty, and willingness to sacrifice often engendered by the family. Thus, family business members are more likely to care about the family business' prosperity than nonfamily business employees. Once again, this ability will vary among families. The strength and effectiveness of these family bonds may be modulated by external capital market and/or social constraints facing the family. For example, consider the traditionally underserved populations in the United States. They include, but are not limited to, recent immigrants, women, persecuted minorities, young people with good ideas but no formal credit history. If no social and/or no capital market constraints existed, then the process of "red-lining" by banks would not exist and would not be illegal.

Also, when a family member deviates from the family culture, families have powerful abilities to detect and reduce unsociability within the family. Family members know when someone is shirking. Furthermore, families are able to apply incredible leverage on the shirker to get him to amend his behavior. Such abilities will be difficult to replicate in the market because they are based on association and intense

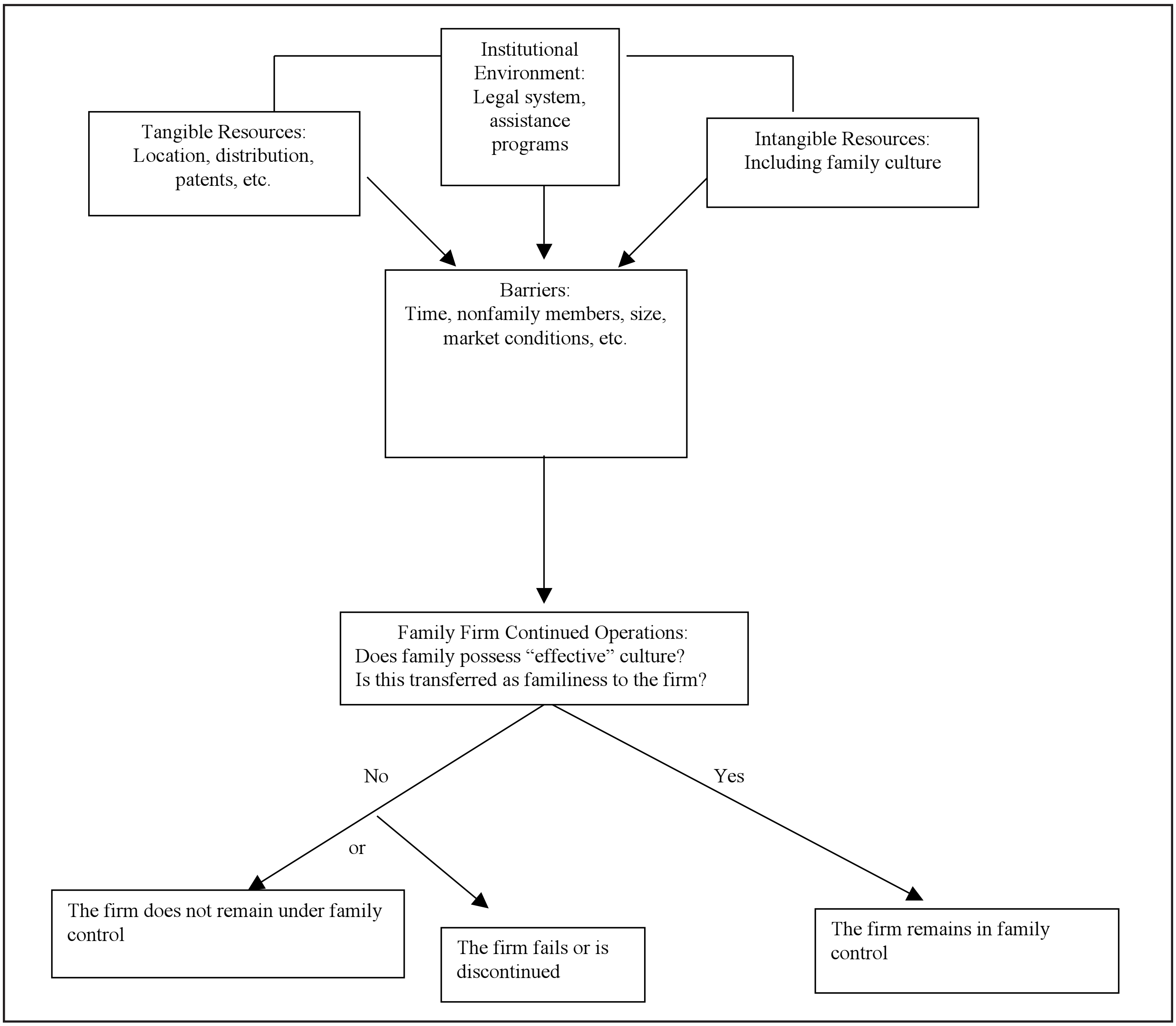

Figure 1. Family Culture, Familiness, and Succession in the Family Business

interpersonal interest. It also seems likely that families *differ* in their ability to detect, admit, and limit shirking. This ability is likely intensified by limited access to capital markets, linguistic, or other cultural barriers. Therefore, those families may more creatively monitor and limit shirking. Families that control shirking will be more successful at transferring these skills from the home to a family-controlled business. These traits form an effective family culture. When family members enter the family business, they have been presocialized at home and are able to bring this shared culture into the business. Our "effective family culture," when transferred to the family business, forms the basis of familiness in the family firm.

However, these family cultural mechanisms are tacit. They may not be transferable to outsiders, or persistent through generations. Thus, family culture provides a foundation for the family firm. If the family culture is an effective culture, *ceteris paribus,* this family culture forms a lasting competitive advantage. Moreover, families will differ in these abilities, and the family culture itself will evolve over time. That is, the value of a family culture will differ from family to family and may not persist over time. Therefore, we expect family firm survival rates and succession to differ accordingly.

Thus families whose tacit family cultures demonstrate greater degrees of intergenerational altruism and more efficient unsociability-correcting practices should be more effective. Families who transfer their tacit "effective family culture" to the family business will exhibit more familiness within the business. Businesses with more familiness will have a competitive advantage, *ceteris paribus*. Therefore, these families should be more likely to retain the family business within the founding family.

Moreover, the value added from family culture should vary both over time and from family to family, regardless of whether the family and family firm under discussion is composed of recent immigrants. Figure 1 illustrates the relationship between family culture, familiness, and firm succession in the family business. (Figure 1 is not a formal model but is a schematic illustration.)

Discussion

The next step is to test the model, most likely through a survey method that would address several variables in the model. The first variable will ensure that the firm is a "family firm" as identified by Chua and Chrisman (1999), and further defined in this article.

The second variable would be to gauge family interest in continuing the business.

- To what extent does the current generation have an interest in continuing the business as a family firm?
- To what extent does the coming generation express an interest in taking over the firm and maintaining it as a family firm?

The third variable would be to measure the effectiveness of the family's culture, both within and away from the business.

- To what extent do family members share specific goals?
- To what extent do those goals extend to the family firm?
- To what extent are family members willing to identify self-interest with the family's well-being?
- To what extent are individual family members willing to place family goals ahead of personal goals?
- To what extent does the family tolerate unsociable behavior among family members?
- How effectively does the family rein in unsociable behaviors among family members?

Information on the market conditions and the profitability of the firm over time would also be collected. An empirical model relating the effective family culture/familiness business culture to the intention of continuing the business as a family business over time could then be formed with performance factors considered. This variable must be able to distinguish between family culture, in general, as merely a strength, or even a weakness, of the family business, and as it is manifested as familiness—the specific bundle of imperfectly substitutable, nonmarketable characteristics that confer competitive advantage.

Any empirical test of the concept of familiness must also consider other potentially explanatory variables, such as tangible resources and the institutional environment. Tangible resources would be measured by asking about the degree of value attributed to tangible variables such as location, distribution channels, patents, etc., as discussed by Barney (1991). Institutional environment would be measured by seeking feedback from respondents on the availability of assistance programs and legal assistance available to the family business, the burden of taxes, regulation, corporate and government corruption, and so forth. Continuing to evaluate the model, we would also need to evaluate the presence of barriers. Factors such as time, the mix of nonfamily members in the firm, size of the firm, and market conditions would be measured. For example, respondents would be asked the percentage of nonfamily members in the business.

As a means to illustrate the model, we consider immigrant families. Immigrant families serve as a convenient referent to this model because they face numerous obstacles in the ordinary labor market. Self-employment is often a viable route around those obstacles. Furthermore, immigrant family members face fewer viable alternatives outside of the family, and immigrant families may be better at identifying and correcting unsociable behavior. These traits will be positively correlated with effective family culture, and a high degree of familiness in the family businesses. However, as we have argued, these traits are not expected to remain stable across generations. This is especially true for immigrant families as they become assimilated into the general culture. Therefore, we would expect higher initial formation rates and initial succession rates of family businesses among immigrant families. However, we would also find support for our argument if the succession rate of immigrant family businesses declined over time, converging to the society mean as the effectiveness of the family culture declines over time. Importantly, researchers would need to consider that many immigrant family firms are not intended to last beyond the first generation. Immigrant families often choose self-employment as their entry into a society, but want something different for their children. This suggests the application of the Heckman model (Heckman 1976, 1979) of sample selection bias.

Summary

Dyer and Handler (1994) and Chrisman, Chua, and Steier (2005) called for more comprehensive models of family business succession to better understand the complexity and the processes involved. Using the family business succession, resource-based view of firms, familiness, and organizational clan literatures, this article developed a model based on the ability of the family business to use specific aspects of family culture, familiness, as a competitive advantage for the family firm. In particular, this resource-based framework of family business shows the relationship between familiness, as a competitive advantage that distinguishes between family firms that succeed beyond the second generation and those that do not. This article attempts to propose a more comprehensive model of family business succession by summarizing the current literature on family business succession, family culture, and the resource-based view of firms to form a testable framework that identifies family culture as the core strategic advantage of the family firm. Effective family culture is transferred to the family firm, manifesting itself as familiness in those firms. This transference is predicted to increase the likelihood of multigeneration family business succession and answers the call for better understanding of the concept of familiness. While the article is limited to the introduction of a new theoretical framework of the family business, it provides a first step at uncovering the black box of family business succession issues.

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About the Authors

Noel D. Campbell (ndcampbell@ngcsu.edu) is an associate professor of business administration at North Georgia College and State University. He earned his Ph.D. in economics at George Mason University in 1997. Dr. Campbell's research in economics has been accepted for publication in numerous journals including in the *Eastern Economic Journal, Journal of Education Finance,* and *Public Finance Review*. He has also collaborated on cross-disciplinary research that has been published in the *Journal of Management Education* and the *Journal of Small Business Strategy.* Dr. Campbell's primary area of scholarly research is public choice.

Kirk C. Heriot (kirk.heriot@gmail.com) joined the faculty at Columbus State University in August 2006 as the Crowley Endowed Chair in Entrepreneurship. He previously taught at universities in Georgia, and Kentucky, Pennsylvania, and South Carolina. He earned his Ph.D. in industrial management with a concentration in strategic management at Clemson University in 1996 and his MBA at the University of South Carolina in 1984. Dr. Heriot is president of the Small Business Institute®. He has previously published his research in the *Journal of Small Business Strategy, Journal of Purchasing Management, Journal of Supply Chain Management,* the *New England Journal of Entrepreneurship* and the *Journal of Developmental Entrepreneurship.* His current research interests are in entrepreneurship in challenging environments, entrepreneurship education, and strategic issues in small firms. Prior to his academic career, Dr. Heriot was a consultant at a small business development center, a shift manager for a privately held textile company, and an officer in the U.S. Army and U.S. Army Reserves.

Dianne H.B. Welsh (dwelsh@ut.edu.) is the James W. Walter Distinguished Chair of Entrepreneurship, Professor of Management, and director of the Florida Entrepreneur and Family Business Center at the Sykes College of Business at the University of Tampa. A recognized scholar in international entrepreneurship and franchising, Dr. Welsh is coeditor of the first comprehensive volumes on global franchising in emerging and industrialized markets. She is the author of more than 100 published manuscripts that have appeared in the *Academy of Management Journal, Journal of International Business Studies, Entrepreneurship Theory & Practice, Journal of Business Venturing, Journal of Small Business Management,* and others.

Toward a Typology of New Venture Creators: Similarities and Contrasts Between Business and Social Entrepreneurs

Gina Vega
Roland E. Kidwell

This article advances a conceptual typology delineating the differences and similarities between business- and social-sector new venture creators. Our classification scheme differentiates business and social entrepreneurs, considering characteristics of social entrepreneurs in a larger entrepreneurial context. Within a conceptual 2x2 typology based on two dimensions: drive (passion vs. business) and desired return (financial ROI vs. social ROI), we identify and classify 80 examples of new venture creators into one of the quadrants of an enterprise model of entrepreneurs. Preliminary results reveal similarities between social and traditional entrepreneurs and differentiate social entrepreneurs in terms of traits, goals, tendencies, and motivational sources.

Traits, intentions, tendencies, and behaviors of entrepreneurs have been a frequent topic of research in recent years with a general focus on establishing typologies that examine similarities and differences among individuals who start new ventures (Baum and Locke 2004; McCarthy 2003; Miner 2000; Woo, Cooper, and Dunkelberg 1991). Attempts to classify entrepreneurs by these criteria have been useful in both practical and academic approaches to the understanding of new venture creation because they offer clues regarding the potential for a successful new venture based on founder characteristics. In addition, they provide frameworks in which to study new business ventures and the people who recognize opportunities, which in turn provide the rationale for shifts of resources that result in the creative destruction of existing enterprises (Schumpeter 1950) and long-term economic growth.

Less attention has been devoted to the development of typologies based on the characteristics, traits, intentions, and goals of social entrepreneurs, a fast-growing group of global innovators who create and sustain social value with new enterprises or new approaches to address societal problems (Dees, Emerson, and Economy 2001). Such a typology would provide a means to evaluate new ventures in what has been alternatively termed the independent sector (Cornuelle 1965), the citizen sector (Bornstein 2004) or the nongovernment organizations (NGO) arena, and to help better understand individuals who tackle challenges that appear beyond the reach of both public (government) and for-profit interests. The lack of research contrasting characteristics of social entrepreneurs *vis-à-vis* traditional entrepreneurs is unfortunate in that social entrepreneurs have become increasingly responsible for societal transformation, yet their role in such change is poorly understood and underappreciated (Bornstein 2004).

A growing research interest in social entrepreneurship has resulted in several inquiries into who these people are and what they do (e.g., Dees, Emerson, and Economy 2001; Bornstein 2004; Linnanen 2002; Seelos and Mair 2005). This article builds on that work and on previous research into entrepreneurial typologies in the private sector to consider characteristics of the social entrepreneur within a larger entrepreneurial context systematically. We are careful to clarify that social entrepreneurship and corporate social responsibility, the expression of social concern by traditional entrepreneurs through such tactics as economic/social double-bottom line, are two different and distinct categories of research. The goal of our research is to identify similarities between the social entrepreneur and the traditional entrepreneur as well as differentiate the social entrepreneur in terms of traits, goals, tendencies, and sources of motivation.

Social Entrepreneurship

DreamYard, an organization that brings arts education into public school classrooms in New York City, started as a writing and theater workshop in the early 1990s. Founders Tim Lord and Jason Duchin believe the key to DreamYard's growth during the last 11 years has been their ability to establish relationships with school principals who have seen the program work in other schools or have heard about it through colleagues. A yearly arts festival at which school artwork is displayed to the community has also helped build DreamYard into an arts education program with a current budget of $900,000 that includes 35 artists working with 8,500 students in 40 schools (Echoing Green 2005; DreamYard, 2005).

John Sage, a former LSU football all-American and broker at Merrill Lynch, began Bridges to Life in 1999. The organization is a faith-based, religiously inspired, volunteer program that seeks to "change the hearts" of convicted criminals who are soon to be released. The goal is to persuade inmates not to commit new crimes once they return to society by meeting and talking with them. Sage was inspired to start the program to deal with his own depression after his sister was murdered by a woman who was trying to steal her car (Manhattan Institute 2004).

These two organizations, with their very different activities and goals, illustrate the concept of social entrepreneurship in action. However, theory development for identifying and classifying social entrepreneurs has been slow to appear. "People understand this field by anecdote rather than theory," says Bill Drayton, founder of Ashoka, an organization that funds social enterprises all over the world. "A fellow we elect becomes a walking anecdote of what we mean by a social entrepreneur" (quoted in Bornstein 2004, p. 117).

Social entrepreneurship and social entrepreneurs have been defined in many ways: construction, evaluation, and pursuit of opportunities for social change (Roberts and Woods 2005); change agents in the social sector who look for new ways to serve clients and are willing to take risks to do so (Dees, Emerson, and Economy 2001); good stewardship practiced by people who try new things, serve people in new ways, set up organizations that practice lifelong learning, and seek excellent performance (Brinckerhoff 2000); transformative forces who use new ideas to address major problems and relentlessly pursue their visions (Bornstein 2004); those who recognize when part of society is stuck and provide new ways to get it unstuck by changing the system, spreading the solution and persuading entire societies to take new leaps (Ashoka 2005); and creators of new models "for the provision of products and services that cater directly to basic human needs that remain unsatisfied by current economic or social institutions" (Seelos and Mair 2005, pp. 243–244).

Drawing on this literature, we define the social entrepreneur as an individual who addresses a serious societal problem with innovative ideas and approaches that have not been tried successfully by private, public, or nonprofit sector entities. We differentiate social entrepreneurs from traditional nonprofits, nongovernmental organizations, and philanthropists (1) by the innovative means that social entrepreneurs develop in solving problems and (2) by social entrepreneurs' realization that, to varying degrees, they cannot accomplish their goals without money; they are risk takers who balance social activism with some degree of business savvy.

We also differentiate social entrepreneurs from private sector entrepreneurs. Despite the fact that many social entrepreneurs are interested in effectively managing their ventures in a business-like manner, the biggest contrast between social entrepreneurs and private sector entrepreneurs is the nature of the immediate return each tends to seek. Private-sector entrepreneurs are said to be market-driven whereas social entrepreneurs are driven primarily by organizational mission (Dees, Emerson, and Economy 2001).

Traditional entrepreneurs seek to capitalize on entrepreneurial opportunities, situations where "new goods, services, raw materials, markets and organizing methods can be introduced through the formation of new means, ends, or means-ends relationships" (Eckhardt and Shane 2003, p. 336). In taking advantage of such opportunities, enterprising individuals create value that spurs economic growth and provides a sought-after return on investment (ROI) that has been made in the new venture. ROI is generally expressed in financial terms as a percentage return on the monetary investment in a venture, but the return realized by the entrepreneur can be intrinsic in the sense that a new venture provides continuous renewal that leads to new entrepreneurial opportunities (Timmons and Spinelli 2004) and benefits society over the long term.

On the other hand, social entrepreneurs' goals specifically focus on improving society, and any profits generated by their enterprises benefit disadvantaged people (Hibbert, Hogg, and Quinn 2005). Achievement of their goals can be measured by gauging the social return on investment (SROI), which is calculated in monetary terms that express the value of the enterprise to society. Dollars invested in social action create economic and social returns over time in terms of public cost savings that result from reduced use of government benefits and services paid to target individuals as well as new tax revenues generated by individuals working in the social enterprise who would otherwise be unemployed or underemployed (Vega 2002; REDF 2005). Types of gains such as these are weighed against money spent on programs created by social entrepreneurs and can be evaluated by SROI metrics to quantify the value of the endeavor to societal welfare.

Both the traditional and the social entrepreneur seek outcomes that can be quantified and measured. ROI and SROI contrast sharply with the metrics available to public sector entrepreneurs: innovators and change agents who use the power of elected or appointed office "to try to redirect local politics and policies" (Schneider, Teske, and Mintrom 1995, p. 185). Examples of public entrepreneurs include city managers who address difficult community problems, as well as mayors who limit condo and commercial development with antigrowth policies or, under different circumstances, encourage balanced growth and moderate scale commercial development. Public sector entrepreneurs generally realize an opportunity that emerges due to community and voter dissatisfaction with the status quo. The results achieved by public entrepreneurs can be compared with those of social entrepreneurs by measuring SROI in different categories. The actions of public entrepreneurs might result in higher tax revenues, fewer publicly supported community members, lower crime rates, and higher education test scores, all of which can be quantified in terms of dollars and are more immediate, whereas social entrepreneurs would seek longer lasting social change, such as developing jobs, providing job training and placement, improving living conditions, and similar measures. The difference can be described as "giving a man a fish" versus "teaching a man to fish."

We next describe existing typologies and taxonomies of entrepreneurs, the limited research into types of social entrepreneurs, as well as goal-driven and motivation-driven typologies of entrepreneurs. This research is then employed to develop and initially test a model that relates traditional entrepreneurs to practitioners of social entrepreneurship. The resulting typology is designed to shed new light on the similarities and differences between different types of entrepreneurs and to highlight the social entrepreneur phenomenon, thus providing a framework for future research. Our theoretical focus here is on the entrepreneurial individual, rather than delineating a more general model contrasting commercial and social entrepreneurship (cf., Austin, Stevenson and Wei-Skillern 2006).

General Entrepreneurial Typologies

Following the philosophy of Miner (2000), we treat typologies as theoretical constructs to be tested initially through qualitative analysis of existing passive data. In this section, we describe general, broad-based entrepreneurial typologies grounded in the personality traits and characteristics of traditional entrepreneurs. This overview will lead to consideration of the limited typologies applicable to nontraditional (i.e., social) entrepreneurs, and to contextual typologies, focused on goals and motivations as observed in the *activities* of traditional entrepreneurs.

Less than 30 years ago, there were "no theories in the entrepreneurship field. . . . Lastly, there have been no significant models in entrepreneurship upon which to base a theory of entrepreneurship" (Wortman 1987, p 264). Wortman (1987) called for more research using the outcome measure of venture growth, and cessation of studies of entrepreneurial characteristics until more sophisticated research designs and adequate theoretical frameworks were developed. This call, among others (Ireland and Van Auken 1987; Woo, Cooper, and Dunkelberg 1991), resulted in a long series of studies on firm development, treating the entrepreneur as superfluous to the firm itself (Sarasvathy 2004). This is not surprising, if studies are grounded in economics rather than in psychology or management, but theories of the firm overlook the prime force, the essence of the *creator* of the firm. This prime mover always has a story to tell, a story based on motivation, individuality, opportunity, and passion.

Examination of entrepreneurial characteristics, popular in the early years of entrepreneurship research (1960–1990), fell into disfavor when only minimal correlations of personality with entrepreneurial success were found (Aldrich and Wiedenmeyer 1993). However, despite these early weak results, the appeal of research into entrepreneurial traits as potential predictors of success returned after the development of an analytical model using multiple interactions of several variables (Baum and Locke 2004), which resolved the tendency of older models to provide typologies that were neither replicable in studying disparate groups, nor attributable to diverse entrepreneurial populations (Woo, Cooper, and Dunkelberg 1991).

According to Woo and her colleagues, the classification of entrepreneurs into two gross categories—craftsmen and opportunists—was engaging because it suggested a complete set of characteristics rather than one unique trait to identify and predict behavior. These two gross categories, although supported overall by later research, have not supplanted the idiosyncratic approaches or categories of individual studies because "none of the studies on entrepreneurial typologies has employed the same set of criteria" (Woo, Cooper, and Dunkelberg 1991, pp. 97–98). Woo and her colleagues used a set of three variables—goals, background, and managerial style—in their research, which did "not cluster as tightly or as consistently" (p. 107) as they had expected. As a result, they recommended that future research offer a strong theoretical framework for the selection (and omission) of specific characteristics and particular consideration of earlier typologies to determine if they could be reused with a different population. In addition, they recommended that researchers provide explanations for those entrepreneurs who do not fit into whatever typology is being built.

Bearing these cautions in mind, we considered Baum and Locke's new model, which used individual variables to describe unique interactions and relationships between personality traits, and included a new variable called "new resource skill" ("the ability to acquire and systematize the operating resources needed to start and grow an organization" [Baum and Locke 2004, p. 587]). This variable is very helpful when looking at the success of social entrepreneurs, specifically because venture growth is the outcome measure of Baum and Locke's study, and, along with SROI, is one of the few concrete success outcomes of social ventures available.

The other two variables considered by Baum and Locke were "passion" and "tenacity," both of which seem intuitively supported in the entrepreneurship literature (Baum and Locke 2004). Passion is defined as a genuine love of the work, and tenacity as perseverance in the face of obstacles. These three variables were mediated by a fourth subvariable, the ability to communicate a vision. This skill was shown to be directly related to venture growth: ". . . communicated vision was shown to be independently and quantitatively related to performance in a field setting over a multi-year period" (Baum and Locke 2004, p. 595).

Passion, tenacity, communicated vision, and new resource skill are traits that appear frequently in the literature (Kets de Vries 1996; Liang and Dunn 2004), but have not played a significant role in previous outcome analysis. These four characteristics and their interrelationships signal a significant change in the way we perceive the entrepreneurial phenomenon. Instead of looking for the high risk, innovation focused, overly controlling individual, we are looking at people who, "by conveying a sense of purpose, they convince others that they are where the action is. Whatever it is—seductiveness, gamesmanship, or charisma—entrepreneurs somehow know how to lead an organization and give it momentum" (Kets de Vries 1996, p. 25).

This ability to convince others is easily tracked ethnographically, through stories, myths, cases, and textual analysis (McCarthy 2003; O'Connor 2002). According to O'Connor, entrepreneurs can be categorized in a typology consisting of Personal Stories (Founding Stories and Vision Stories), Generic Stories (Marketing Stories and Strategy Stories), and Situational Stories (Historical Stories and Conventional Stories). These stories map well on the four entrepreneurial characteristics mentioned above, as follows: Autobiographical Stories and Vision Stories describe "passion"; Marketing Stories describe "communicated vision"; Strategy Stories describe "new resource skills"; and Historical Stories and Conventional Stories describe "tenacity." These stories are embedded in a larger story that forms the context of the business/new venture development. The larger story can be termed the "business environment," and will lead to a description of the firm development or outcome analysis.

Moving from a narrative description of entrepreneurial behavior to a more traditional, psychological typology of business founders, we can refer to Miner's (2000) clinical work, which led to a theoretical framework describing four different types of business founders: the Personal Achiever, the Real Manager, the Expert Idea Generator, and the Empathetic Supersalesperson. Each of these types reflects varying levels of a specific subset of characteristics, not all of which must be present to identify a founder within a category. This psychological typology incorporates elements from earlier trait studies with the more global typology later proposed by Baum and Locke.

The Personal Achiever, characterized by motivation for self-achievement, type A personality, desire for feedback on achievements, desire to plan and set goals for future achievements, strong personal commitment to their ventures, desire to obtain information and learn, and internal locus of control, exhibits all four of Baum and Locke's traits (passion, tenacity, communicated vision, and new resource skill). The Real Manager exhibits positive attitudes toward authority, desire to compete with others, desire to assert oneself, desire to exercise power, directive cognitive style, desire to stand out from the crowd, and desire to perform managerial tasks, which describes tenacity and new resource skill. The Expert Idea Generator demonstrates desire to personally innovate, conceptual cognitive style, high intelligence, and desire to avoid taking risks, which comports with passion and tenacity. The Empathic Expert displays understanding in cognitive style and shows a desire to help people, reflecting passion and communicated vision.

Miner's work indicates a weak association of characteristics with entrepreneurial propensity in the two categories of Expert Idea Generator and Empathic Expert, leading us to consider the effects that may be occurring but not reflected in these two categories. In fact, these are the categories where we would place social entrepreneurs who, we hypothesize, have quite different characteristic behavior from the traditional entrepreneurs who are the subjects of the preceding studies.

Typologies of Social Entrepreneurs

Social entrepreneurs are sometimes described as "green" or environmental entrepreneurs (Linnanen 2002) who focus on "sustainable business strategies and organizations" (Seelos and Mair 2005, p. 241). The movement to sustainability appears on a grand scale in the efforts of the United Nations and the World Commission on Environment and Development to focus the corporate world on the plight of the less fortunate and to link quantifiable business goals with social goals of human rights, health, education, and protection of the environment (United Nations 2005). The eradication of poverty by 2015 is the overarching mission. But social entrepreneurship validates the "think global act local" philosophy, as most social ventures remain small and local (Seelos and Mair 2005). The mission may be large, but the implementation is manageable.

On a less global scale, social entrepreneurship has been defined in terms of "corporations that provide resources and guidance to [these sorts of] organizations as Timberland and Compaq do with City Year and as UPS does with Second Harvest" (Margolis 2001). These entrepreneurs, focused on the social side of business, concentrate on funding the efforts of other organizations to address critical social problems as ancillary to the "real" goals of their business, which is to make profit, whereas other organizations are developed purely for the purpose of raising funds to support or endow groups that provide direct service to populations in need. In this way, philanthropists (as distinct from social entrepreneurs themselves) use their business skills for mission-driven ends (Bornstein 2004).

Who undertakes missions such as these? Apparently, quite a lot of people do. The use of nonprofit companies as "enabling structures for social value creation . . . can access capital that business entrepreneurs usually cannot" (Seelos and Mair 2005, p. 242). Whether focused on the direct service side of social problems or more so on the funding side of them, social entrepreneurs "reflect a determination to change the whole of society" (Seelos and Mair 2005, p. 244). Although very little empirical data is available, and we have been able to locate only one established typology of social entrepreneurs, some specific traits and characteristics have been ascribed to them. Seelos and Mair (2005) suggest that social entrepreneurs are "social heroes with entrepreneurial talent" (p. 244) and "very good at starting new initiatives, but not necessarily at managing organizations or projects" (p. 245).

Linnanen (2002, p. 77) echoes these statements, claiming about ecopreneurs: "Their reason for running an enterprise is not solely to make money but involves also a willingness to make the world a better place in which to live. This personal commitment also increases their marketing credibility and trustworthiness as business partners." Linnanen speaks about their high ethical profile, their drive, and their insistence on concern for the environment.

His typology is based on two considerations: the desire to change the world and the desire to make money and grow. The resulting matrix shows four ecopreneurial types: the Successful Idealist (high in desire to make money and high in desire to change the world); the Opportunist (high in desire to make money and low in desire to change the world); the Self-Employer (low in desire to change the world and low in desire to make money); and the Non-Profit Business (low in desire to make money and high in desire to change the world). These four types can be matched to the previously described traditional entrepreneurial types, as well as to the typology that we propose, particularly after considering the goals and motivations of various entrepreneurial types.

Contextual Typologies

It makes sense to begin consideration of entrepreneurial motivations and goals with the seminal concepts introduced by the grandfather of entrepreneurial study, Joseph Schumpeter. Bearing in mind that Schumpeter's theories were grounded in economic theory, his analysis of the entrepreneurial personality nonetheless rings true, especially in the three typologies identified in *The Theory of Economic Development, 1934* (Goss 2005). The first two typologies clearly define the traditional entrepreneur, whose behavior includes "introducing a new good; introducing a new method of production; opening a new market; conquering a new source of raw materials; and reorganizing an industry in a new way . . ." and whose motivation includes "the desire to found a private kingdom or dynasty; the will to win, to fight, and to conquer; and the joy and satisfaction that comes from creating and problem solving" (Goss 2005, p. 206).

These behaviors and motivations do not resonate as much for the social entrepreneur, however. The social entrepreneur fits more comfortably within the third typology offered by Schumpeter, the one that inhibits rather than supports entrepreneurial action: that is, the desire to avoid innovation because of the difficulties inherent in planning it, the desire to avoid change and deviation, and "the fear of social sanctioning: the condemnation and disapproval that is heaped upon iconoclasts and deviants" (Goss 2005, p. 206). They might be called "reluctant" entrepreneurs, members of a deviant subgroup. Social entrepreneurs seem, in fact, to thrive on the very deviance they exhibit by their creative, often socially difficult paths of behavior. This is confirmed by theorists in sociology, who claim that "belonging" or group membership provides an important key to "emotional energy," that feeling of strength, commitment, and social inclusion that allows people to persevere through difficult conditions and in challenging environments (R. Collins in Goss 2005). We have seen evidence of this tendency among our social entrepreneurs, who tend to band together for mutual support in organizations, associations, and online listservs. Social entrepreneurs take great pride in their activities, especially when they can point to being the first, the only, the biggest, the smallest, etc. in their chosen area (see examples below).

The idea of "belonging" or of "community" appears in discussions of entrepreneurship in fields other than business and sociology. In particular, deLeon (1996), writing in the area of political policy analysis, presents a typology of public entrepreneurs that corresponds well to other existing typologies, and also focuses on the nature of entrepreneurial motivation in the public sphere. The four varieties of entrepreneurs in the deLeon model include: Hierarchy, Competitive Pluralism, Community, and Anarchy. These four fit comfortably within the quadrants identified in the models discussed above.

DeLeon suggests, like Drucker (1985), that entrepreneurship *requires* innovation. She refers to public entrepreneurs as "Robin Hoods of the bureaucracy" (p. 497), clearly outcasts and single-minded iconoclasts. She claims that the characteristics of egotism, selfishness, waywardness, domination, and opportunism are functional prerequisites for the entrepreneurial role. This is likely true for the social entrepreneur as well as the public entrepreneur, particularly in terms of waywardness, domination, and opportunism. These motivations suggest a confident rejection of societal norms and are a driving force behind social entrepreneurs since "an individual who decides to become an entrepreneur is in a sense, going against the norms of society" (Teal and Carroll 1999, p. 229).

This entrepreneurial tendency to violate societal norms is one with which the social entrepreneurs, who are motivated by social concerns that have been created by the actions of the society in which they live, are very comfortable. In effect, they are seeking to combat the externalities of traditional entrepreneurial activities, which may include "financial loss, unemployment, loss of income security, the breaking up of existing organizations, and environmental degradation" (Hannafey 2003, p. 102). Their motivations seem to replicate those of the "imitating entrepreneur" rather than those of the "initiating entrepreneur" (Baumol 1986 in Hannafey 2003, p. 101). The initiating entrepreneur introduces new products, methods, or procedures; the imitating entrepreneur uses such innovations to improve economic life.

In another typology reflected in Hannafey's work (2003), Collins and Moore (1970, in Hannafey 2003) proposed that entrepreneurs maintain their relationships in transactional mode; that is, relationships are limited to utilitarian purposes and last only as long as they can be useful. We suggest that many social entrepreneurs maintain their relationships in transformational mode; that is, they are enduring, growth-oriented, and other-directed. This approach was also taken, in a modified format, by McCarthy (2003) in a study of Irish entrepreneurs. She determined there were two types of entrepreneurs: the charismatic and the pragmatic. The charismatic entrepreneur is characterized by the "stereotypical view of entrepreneurs . . . visionaries, risk-takers, highly persuasive, passionate, with ambitious and idealistic goals. The pragmatists did not fit the stereotypical mold and were more cautious, more rational and seemed to adopt a more calculating and instrumental approach to the business" (p. 158). The charismatic entrepreneur seems to comport with the Incubating Entrepreneur (see below), while the pragmatic entrepreneur corresponds to the Enterprising Entrepreneur.

Shook, Priem, and McGee (2003) present an inclusive review of entrepreneurs and their methods of venture creation. They conclude that entrepreneurs' "causal beliefs [are] key to furthering our understanding of venture creation" (p. 395), based on their research findings that indicate the paucity of empirical data that connect the individual's characteristics with the acquisition of resources. In the next section we address major issues regarding that connection.

An Enterprise Typology of Entrepreneurs

As our goal is to relate characteristics of traditional entrepreneurs to social entrepreneurs within an enterprise model of entrepreneurs, we consider several common threads that run through the literature on entrepreneurship, individual as well as social. Descriptions of charismatic, craftsman, initiating, and transformational entrepreneurs are consistent with the word "Passion" as an effective means to describe entrepreneurs who have these types of characteristics. Pragmatic, opportunist, imitating, and transactional reflect the term "Business" as a means to reflect the characteristics of this type of entrepreneur. Applying these thoughts to an earlier typology of social entrepreneurs (Linnanen 2002), Passion tends to suggest the entrepreneur who predominantly wants to change the world whereas Business indicates the entrepreneur who focuses on making money and growing the enterprise. Many proponents of social as well as traditional entrepreneurship might argue that to achieve the first goal successfully one must pursue the second with vigor.

Based on the preceding literature review, we advance a model of entrepreneurship that combines private sector, profit-seeking entrepreneurs and social sector, cause-fulfilling entrepreneurs. Our literature review indicates that private and social sector entrepreneurs are driven predominantly either by passion for a cause (or product or service) or by desire to establish and grow a viable sustainable business (or social enterprise). On a second dimension, the difference between private and social sector entrepreneurs is in the returns that are sought. As noted earlier, private sector entrepreneurs pursue return on investment (ROI) and social sector entrepreneurs seek a social return on investment (SROI). The social enterprise typology we now discuss is illustrated in Table 1.

ROI with Passion: The Incubating Entrepreneur

In 1984, Roxanne Quimby was supporting her two children by selling clothing and crafts at local flea markets near her Maine home when she met a beekeeper named Burt Shavitz. Their romance led to the start of a business, which first involved Quimby's investigating new product uses for Burt's discarded beeswax. Her efforts eventually evolved into a hive of environmentally friendly personal care products. Roxanne and Burt started with $400 of savings and produced their wares in an abandoned one-room schoolhouse. By 1993, Burt's Bees, Inc. was pulling in more than $3 million, but the

Table 1. An Enterprise Typology of Entrepreneurs

<table>
<tr><td colspan="2" rowspan="2"></td><td colspan="2">Entrepreneurial Drive</td></tr>
<tr><td>Passion</td><td>Business</td></tr>
<tr><td rowspan="2">Desired Return</td><td>ROI</td><td>Incubating Entrepreneur</td><td>Enterprising Entrepreneur</td></tr>
<tr><td>SROI</td><td>Deeds Social Entrepreneur</td><td>Dollars Social Entrepreneur</td></tr>
</table>

two founders continued to live modestly in rural Maine (Linden 1993).

Through the 1990s, the business thrived as its products were place in boutiques, major department stores, and national catalogs. Burt's Bees relocated to North Carolina to meet production and distribution demands, and the business grew to a $50 million a year concern. In 2003, Quimby sold a controlling stake in Burt's Bees to a buyout investor group, and focused her financial gains on spearheading development of a national park in Maine as she considered a potential career in politics (Adamson 2003).

Roxanne Quimby illustrates the Incubating Entrepreneur. This individual displays high levels of passion for a particular idea or product. The entrepreneur displays a strong interest in obtaining not only a return on the investment in terms of financial capital but in the entrepreneur's psychic investment in the new venture as well. This entrepreneurial type is similar to the Expert Idea Generator (Miner 2000) in that the person is a highly intelligent innovator. The Incubating Entrepreneur is unlikely to start with a business plan and may view the new venture as lifestyle motivated or cause related rather than as a high-growth opportunity. Of course, such a focus does not preclude strong financial success.

Other examples of the Incubating Entrepreneur include Tom and Kate Chappell, Tom's of Maine founders, who stress ethical as well as profitable business leadership; Anita Roddick who dedicated her Body Shop to the pursuit of social and environmental change; and Don Burr, founder of the 1980s' discount airline People Express, and cofounder of new venture Pogo, potentially the world's first air taxi service. At the failed People Express, Burr stressed practices that at the time were unusual in the industry: universal employee stock ownership, employee training across disciplines, and employee input (Martin 2005).

ROI with Business: The Enterprising Entrepreneur

The story of Ray Kroc and the McDonald brothers is well known. By the mid-1950s at age 52, Kroc, a long-time paper cup salesman, had moved on to selling the Multimixer, a six-spindled milk shake machine. He heard stories about a hamburger restaurant in San Bernardino, California, that had bought eight of the machines and decided to investigate. Kroc found a potential gold mine operated by the McDonald brothers, and quickly made a deal with them to start McDonald's restaurant franchises across the country. His first thought was that more such restaurants would sell more milk shake machines, but as he developed the opportunity he saw that fundamental attention to details, quality standards, low cost and rapid growth of locations would lead to a much greater success (Kroc and Anderson 1977).

Ray Kroc was strongly focused on business aspects of the McDonald's venture, balancing the achievement of starting something new with a strong interest in seeing that the venture was run properly and that it grew and made money. Kroc exemplifies the Enterprising Entrepreneur. The Enterprising Entrepreneur has less concern and preoccupation with the invention or the application that formed the need for a new venture and more with the aspect of starting a business and the value that it will create for the entrepreneur, investors and for society. Coupled with establishing the business is a strong desire for financial return on investment, both for the entrepreneur and potential investors. Perhaps more prone to take calculated risks than incubating entrepreneurs such as the McDonald brothers, the Enterprising Entrepreneur is likely to either start with a business plan or see the need to establish one soon after the venture is off the ground.

The Enterprising Entrepreneur is similar to the classic creator of new ventures (i.e., Miner's Personal Achiever). Other examples of Enterprising Entrepreneurs include Fred Smith who took his college term paper idea and turned it into Federal Express and Herb Kelleher who fought regulatory and political barriers to establish Southwest Airlines.

SROI with Passion: The Deeds Social Entrepreneur

John Dixon observed a serious problem in his inner-city Buffalo, New York, neighborhood: many fatherless children hanging out on the streets, kids who lacked discipline or the means to develop any. Too often, such situations led teenagers to crime or other types of destructive behavior. Dixon, a former U.S. Army sergeant, put together a structured mentoring program designed to help the kids develop healthy, productive habits, through participation in military drills, help with homework by retired and suburban teachers, and classes on sexual abstinence and anger management. He anticipated a few people in the neighborhood would be interested in his Junior Uniformed Mentoring Program (JUMP), but within months hundreds of people were attending. John and his wife, Catherine, charged small fees to those who joined the program but did not always collect them. The program was honored in 2001 by the Manhattan Institute as a social entrepreneurship award winner, but John Dixon died not long after, and JUMP suspended its operations (Manhattan Institute 2004).

The Deeds Social Entrepreneur, like John Dixon, is highly passionate about a cause and for that cause to succeed it must provide a greater good for society, becoming a source of social return on investment. The Deeds Entrepreneur is concerned with service, less so with personal profit, and is something of a maverick. The Deeds Entrepreneur is related to Miner's Empathic Extrovert. This person chose social causes because of a strong desire to help others because in part he or she can feel their pain and would like to improve society. In addition, the Deeds Entrepreneur exhibits a healthy helping of the "Cockeyed Optimist Quotient"—a sense of trust and an upbeat, the glass is half-full, we-can-do-it-if-we-all-pull-together, boot-strap philosophy that often creates such a strong belief in the potential for success that the participants are able to make that potential a reality. Other elements of the typical Deeds Entrepreneur include a willingness to self-correct, to share credit, to break free of established structures, to cross disciplinary boundaries and to work quietly in an ethical manner (Bornstein 2004).

Prominent Deeds Entrepreneurs may be more difficult to identify, in part because their passion for what they are doing may lead them to stay small and isolated in a particular area (e.g., the downtown storefront, or innercity neighborhood), and avoid the limelight even when they need to raise money or awareness for the cause. Yet, a number of Deeds Entrepreneurs have risen to prominence, including Joan Ganz Cooney (originator of Sesame Street), James Grant (head of UNICEF from 1980–1995), St. Francis of Assisi (founder of the Franciscan order), and Mother Teresa.

SROI with Business: The Dollars Social Entrepreneur

A prime example of a social entrepreneur who combines social return with business acumen is Bill Drayton, founder of Ashoka: Innovators for the Public. Ashoka operates in 46 countries and has assisted 1,400 social entrepreneurs, supporting them with professional advice, analysis, and $40 million in funding (Bornstein 2004). When he started the organization in the early 1980s, Drayton likened its approach to a venture capital firm. Although this characterization might not have impressed those with leftist ideologies, his business model—to promote innovators in social change—struck a chord with potential supporters who had business experience (Bornstein 2004, pp. 64–65).

Like Drayton, the Dollars Social Entrepreneur is a strong manager, as opposed to the typical social entrepreneur, so there is robust institutional feeling and the capability of working within organizations and with other organizations. The Dollars Social Entrepreneur seeks first to take a business approach to achieve social outcomes (an SROI focus) and in the process recognizes the need for gathering money to do good works, and attempts to run the social enterprise as a business. The Dollars Social Entrepreneur is perhaps less preoccupied with passion for an idea and more so on the most effective way to get it done. Miner's "Real Manager" takes form as a Dollars Social Entrepreneur. This entrepreneur seeks to be assertive, to exercise power, to stand out from the crowd, and to compete with others. The Dollars Social Entrepreneur may be at the center of a network to raise money for social enterprise organizations or may be an individual who takes a strong business focus to develop and build his or her own social-sector organization.

Some well-known Dollars Social Entrepreneurs include Pierre Omidyar, in his role as funder of an innovative program to provide start-up loans to aspiring entrepreneurs in developing economies; Mohammed Yunus, whose Grameen Bank spearheaded the idea of micro, collateral-free credit in third-world villages; and Millard Fuller, who went from being a millionaire in business at age 29 to become a recommitted Christian who sold his possessions, founded Habitat for Humanity and employed responsible business practices as an important element in his efforts to build a worldwide housing ministry.

Identification of Cases and Qualitative Classification

Based on the conceptual arguments advanced in this article, we used a qualitative classification strategy involving the identification of cases (Bailey 1994, pp. 6–9) in an effort to appropriately place entrepreneurs into quadrants of the typology advanced in this article. The authors enlisted the assistance of two graduate students at different institutions to gather cases involving entrepreneurs in both the business and the nonprofit sectors. The research assistants were not provided information about the typology nor informed of the research focus as they selected cases for further examination.

A convenience sample of 80 cases was selected from articles that appeared in sources including *Forbes* magazine, the Manhattan Institute, *Fast Company* magazine, Social Enterprise Alliance, *Social Enterprise Source Book,* LexisNexis newspaper articles, and Echoing Green, a self-described angel investor in the social sector. After the cases were compiled, they were provided to the two authors who then reviewed them independently and classified them into one of the four quadrants of the typology.

As the authors reviewed the 80 cases, the following combinations of key words, phrases, or descriptions of the entrepreneur or venture were sought from the cases to classify the entrepreneurs into one of the four quadrants:

- Incubating (passion, product, ideas, psychic investment, innovation, lifestyle or cause-related motivation)
- Enterprising (market-focus, business aspects, creation of financial value, evidence of business plan)
- Deeds (passion for a cause, greater good for society, little interest in personal financial reward, service orientation, maverick behavior in the aid of others, personal involvement, tendency to stay small, e.g., think globally, act locally)
- Dollars (social return, business acumen, large-scale ideas, generation of money to implement but not provide hands-on service, assertiveness, power, competition)

Table 2 shows the 80 cases with the names of the selected entrepreneurs, how they were classified by the authors, and the venture or activity presented in the cases. The authors independently agreed on the classifications of 72 of the 80 cases, an agreement rate of 90 percent. Of the 80 cases, 16 were classified as Incubating Entrepreneurs, 24 as Enterprising Entrepreneurs, 25 as Deeds Social Entrepreneurs and 7 as Dollars Social Entrepreneurs. The other 8 cases did not result in agreement as to an appropriate classification.

Discussion

These data are preliminary and need to be substantiated with a larger sample and the use of quantitative techniques such as cluster analysis. Even with an interrater reliability of 90 percent, several areas of dispute exist. These focus on categories that sit side-by-side, emphasizing the problem of categorizing activities from passive sources.

In these disputed cases, the two raters read the same information but inferred differing meanings from the reports, most particularly in the area of Incubating Entrepreneurs and Enterprising Entrepreneurs. It appears difficult to identify the level of business acumen that an entrepreneur has *at the beginning* of his or her enterprise. Frequently, the organizational myth develops in such a way that the entrepreneur is portrayed in press releases or corporate materials as an innovator of a new product who is disingenuous but aggressive and eager to enter a particular market. This description crosses the boundaries between Incubating Entrepreneurs (who focus on innovation and product and have few business organizational skills) and Enterprising Entrepreneurs (who focus on markets and have more sophisticated business skills).

The same phenomenon occurs between Deeds and Dollars social entrepreneurs. Inasmuch as social entrepreneurs tend to define themselves through extremes (biggest, smallest, oldest, newest, etc.) and who we defined based (in part) on size, a social entrepreneur like Don Shalvey who developed Aspire Charter Schools can be considered a Deeds Social Entrepreneur because of his direct involvement with education and his focus on social justice. He can just as easily be considered a Dollars Social Entrepreneur because his mission is "punctuated by successful, highly entrepreneurial initiatives," which indicate a powerful business orientation, and the large amount of money he has raised in the nonprofit sector.

All the entrepreneurs in this preliminary study were U.S. based. We recognize that entrepreneurship has developed differently in different countries, notably in the United Kingdom, where the social entrepreneurship movement is far more established. An in-depth discussion of international social entrepreneurship is beyond the scope and goals of the current research, but would provide an interesting topic for further inquiry.

It is within this context of interpretation that the limitations in the qualitative analytical method we used appear. There is no way to corroborate the content analysis of secondary source data, allowing for fuzzy interpretation and categorization. In addition, the significant issue of entrepreneurial progression or life cycle appears. If we consider one of our more well-known social entrepreneurs, Pierre Omidyar, founder of E-Bay, this issue becomes clear. We are considering Omidyar in the Dollars Social Entrepreneur phase of his career as he presents funding for an innovative approach to microfinance: very small business loans to entrepreneurs in the developing world. Had we done our research at an earlier time, as he founded eBay, we might have seen Omidyar as an Incubating Entrepreneur—a man with a terrific idea who was trying to level the playing field while making some money himself. Alternatively, as the company grew, Omidyar might be seen as an Enterprising Entrepreneur, a man with the golden touch of making a business work in a new market. At some other point, he might be considered a Deeds Social Entrepreneur, working hands-on with local individuals in his own community. Because we focused on archival, passive case studies that appeared within a specific time frame and examined the actions and outcomes of individual entrepreneurs rather than motivations and activities over time—a snapshot rather than a movie—our findings show limited generalizability.

Further, we identified two methods of social entrepreneurship that demand more study: the Forward Approach and the Backward Approach. The Forward Approach describes the actions of a person who has a passion for a mission and will do anything, including setting up a business, to support that mission. This individual is "driven." This seems to describe the Deeds Social Entrepreneur and, if we equate "mission" with "product," it also fits the Incubating Entrepreneur.

The Backward Approach describes the actions of the serial entrepreneur who has the Midas touch for establishing businesses and who becomes engaged in someone else's vision. This could describe the Dollars Social Entrepreneur who raises funds for innovative projects but has little interest in providing direct service. This is the way many microfinancing organizations get their start and also the way some large corporations might fulfill their social responsibility goals. These two approaches need to be investigated in terms of the ways in which they interact with the progression of entrepreneurs through the four identified categories.

We hypothesize that entrepreneurs move from quadrant to quadrant, in some developmental mode, not yet identified. It is this process of progression that lends particular impact to the understanding of new venture creation in the arena of social entrepreneurship. Further, we propose that the variables of "new resource skill" and the "ability to communicate

Table 2. Classification of the Cases

Classification	*New Venture Creator*	*Venture or Activity in Case*
Incubating E	Caterina Fake	Flickr photo classification
Incubating E	Ellen Sabin	The Giving Book
Incubating E	Eric Anderson	Space Adventures
Incubating E	Eric Teller	BodyMedia medical monitoring
Incubating E	J. Stuart Cumming	Eyeonics lens implants
Incubating E	Jane Leu	Upwardly Global immigrant service
Incubating E	Jeffrey Jonas	Systems Research & Development
Incubating E	Jennifer Brill	Silverton Mountain ski area
Incubating E	John Mackey	Whole Foods Market
Incubating E	Jordan Kassalow	Scojo Vision reading glasses
Incubating E	Michael Collins	Big Idea Group
Incubating E	Mike & Brian McMenamin	McMenamin's pub chain
Incubating E	Peter van Stolk	Jones Soda
Incubating E	Rhonda L. Anderson	Creative Memories scrapbooking
Incubating E	R.Fernandopulle/ P. Kothari	Renaissance Health care
Incubating E	Steve Shannon	Akimbo box, TV-Internet connection
Enterprising E	Bob R. Simpson	XTO Energy
Enterprising E	Christopher Godsall	Triton (underwater) Logging
Enterprising E	David Kaval /Amit Patel	Golden Baseball League
Enterprising E	Dawna Stone	Her Sports magazine
Enterprising E	Debra Feldman	Job Whiz career counseling
Enterprising E	Derek Sulger	SmartPay bill paying in China
Enterprising E	Douglas Levin	Black Duck software programs
Enterprising E	James N. Baker	Telabria wireless network
Enterprising E	James Kowalick	Kowalick Inc., Taguchi Method
Enterprising E	Jitendra Saxena	Netezza computer company
Enterprising E	John Paul Magill	Achilles Group personnel consulting
Enterprising E	Joseph Cohen	Polsteins online store
Enterprising E	Lawrence Kasanoff	Blackbelt TV channel
Enterprising E	Mark F. Brown	Mohegan Indian gambling
Enterprising E	Mejrema Alimanovic	Food shops in Bosnia
Enterprising E	Michael Workman	Pillar Data Systems
Enterprising E	Patrick Grady	Talaris corporate spending software
Enterprising E	Robert McGrath	Private Retreats/Distinctive Retreats
Enterprising E	Ross Mandell	Sky Capital Holdings
Enterprising E	Scott Milener	Browster internet company
Enterprising E	Shane Yeend	Imagination Entertainment
Enterprising E	Stephen Wynne	DeLorean Motor Company

Table 2 continued next page

Enterprising E	Steven Shore/Barry Prevor	Steve & Barry's Univ. Sportsware
Enterprising E	Vern Raburn	Eclipse Aviation
Deeds SE	Amy Lemley	First Place Fund, foster children
Deeds SE	Chad Pregracke	Living Lands and Waters
Deeds SE	Eric Adler/ Rajiv Vinnakota	SEED Charter School
Deeds SE	Gerald Chertavian	Year Up minority job training
Deeds SE	Gillian Caldwell	WITNESS human rights defenders
Deeds SE	Ian Marvy/Michael Hurvitz	Added Value markets
Deeds SE	Jack Whittaker	Donated millions to new church bldg.
Deeds SE	James G. Hunter	New Jersey Orators
Deeds SE	John Dixon	JUMP youth training, Buffalo NY
Deeds SE	John Sage	Bridges to Life
Deeds SE	John Wood	Room to Read
Deeds SE	Jonathan Schurr	New Leaders for New Schools
Deeds SE	Kerry O'Brien	D.C. Employment Justice Center
Deeds SE	Luke O'Neill	Shackleton School
Deeds SE	Mark Levine	Credit Where Credit is Due
Deeds SE	Martin Fisher	SuperMoneyMaker irrigation pump
Deeds SE	Melanie Carr	A Fighting Chance, New Orleans
Deeds SE	Michael Danziger	Steppingstone tutoring program
Deeds SE	Redonna Rodgers	Center for Teaching Entrepreneurship
Deeds SE	Richard Oulahan	Esperanza Unita, Milwaukee
Deeds SE	Rosalie McGuire	Rotary Club fundraiser, Batavia, NY
Deeds SE	Tom Vacca	Wayside Soup Kitchen, Maine
Deeds SE	Vic Lewis/Tino Milner	Community faith-based activities
Deeds SE	Whitney Smith	Girls for a Change
Deeds SE	William S. Barnes	Volunteer program for uninsured
Dollars SE	Al Sikes	READ Tutoring Program
Dollars SE	Alex Counts	Grameen Foundation, microfinance
Dollars SE	Jacob Schramm	College Summit, college prep.
Dollars SE	Kyle Zimmer	First Book, distributors of free books
Dollars SE	Linda Rottenberg	Endeavor, entrepreneurship support
Dollars SE	Paul Brainerd	New environmental foundation funds
Dollars SE	Pierre Omidyar	Microfinance contributions
Deeds/Dollars	*Don Shalvey*	*Aspire Charter Schools*
Deeds/Dollars	*M. Tenbusch/D. Varner*	*Think Detroit youth sports program*
Incubating/Dollars	*Rick Aubry*	*Rubicon Program, bakery, landscape*
Incubating/Dollars	*Sara Horowitz*	*Working Today, benefits program*
Enter. E /Incub. E	*Andrew Buchholtz*	*G2 Tactics, license plate scanner*
Enter. E /Incub. E	*Dave Pearce/D. Hollars*	*Miasolé, solar programs*
Deeds SE/Incub. E	*George Oldenburg*	*Acadiana Zoo*
Enter. E /Incub. E	*Noel Lee*	*Monster Cable Products*

1. Eight cases in dispute between the authors are shown in italics.

a vision" provide the business foundation for most social entrepreneurship ventures, as many Deeds Social Entrepreneurs either bootstrap their organizations or, by their enthusiasm, "sell" their ideas to a serial Enterprising Entrepreneur for assistance and funding. These propositions provide fertile ground for future research into the similarities and differences between business and social entrepreneurs. On the other hand, we do not consider pure philanthropists to be part of the Dollars Social Entrepreneur model unless methods used or services provided indicate innovative (i.e., entrepreneurial) approaches.

The impact of social entrepreneurs on societal transformation promises to increase due to the elimination of many social programs previously funded by the federal government and as the resulting emphasis on volunteerism grows. The private sector is assuming more public responsibility and utilizing entrepreneurial tactics to do so in a cost-effective way; an examination of these activities and the people who perform them can lead to our further understanding and appreciation of their contributions as well as provide the support necessary to enhance their efforts.

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About the Authors

Gina Vega (gvega@salemstate.edu) is an associate professor of management at the Bertolon School of Business, Salem State College, Salem, Massachusetts, where she teaches various subjects focusing on small business management and entrepreneurship, as well as corporate social responsibility. Dr. Vega's career spans both the business and academic worlds. She has specialized in issues of human relations, communication, and organizational design at the level of practitioner and consultant, as well as in the academic arena. Her current research deals with emergent work structures and the ethical and social implications of change on organizations. She has published numerous articles and cases along with two books: *A Passion for Planning* (University Press of America, 2001) and *Managing Teleworkers and Telecommuting Strategies* (Praeger Publishers, 2003).

Roland Kidwell (rkidwell@uwyo.edu) is associate professor in the Management and Marketing Department in the College of Business at the University of Wyoming. His major research and teaching interests focus on new ventures and economic development, family business, social entrepreneurship, business ethics, and workplace deviance. His research has been published in the *Academy of Management Review, Journal of Management, Journal of Business Venturing, International Entrepreneurship and Management Journal,* and *Journal of Business Ethics*. He is coeditor of the book, *Managing Organizational Deviance* (Sage, 2005).

The Tale of Iranian Entrepreneurs in the United States

Keramat Poorsoltan

In practice and in theory, as the findings of this research reveal, the Iranian business community is a new and different, nonconforming immigrant group in the United States. This study explores certain aspects of the Iranian business community in light of a survey done by the author. The article compares and contrasts findings of the survey with those of existing literature that has been written about the business communities of various ethnic groups. The results of this study disagree with the literature in most areas. One difference is that the Iranian business community in the United States does not fit into the general understanding that ethnic groups have economic enclaves and niches. They are dispersed in all 48 contiguous states, and their businesses cover practically any possible line of entrepreneurial activity. These entrepreneurs are highly educated, and 76 percent of them are between 30 and 50 years old. Among them, 84 percent are male, a typical American profile.

Why Do Immigrants Turn to Self-employment in the United States?

Different researchers have expressed a variety of reasons for self-employment by immigrants in this country. Light and Sanchez (1987) describe difficulties—including exploitation—immigrants encounter in the broader labor market that leads them to seek self-employment. Portes and Bach (Immigrant Entrepreneurs 1997) coined a new term: "ethnic enclave." Their model, which is based on research about Cuban immigrants in Miami, specifies several attributes of the "enclaves," including geographical concentration, interdependent networks of social and business relationships, and a relatively sophisticated division of labor. These enclaves function as a substitute environment for the immigrant, softening the incorporation into the host country by providing employment and community. Waldinger and his collaborators (1990) proposed dropping the term "enclave." They suggested entrepreneurial appeal is determined in part by prevailing market conditions and the availability of those businesses to immigrant ownership. "Some opportunities are ready-at-hand, such as supplying co-ethnics with foodstuffs, newspapers, clothes, and cultural specific goods from their country of origin . . . however, in order to grow beyond this circumscribed . . . market, immigrant businesses must expand, and they generally do so along predictable tracks" (Waldinger et al. 1990). The model proposed by Waldinger and his associates is typified by four distinct elements:

1. Immigrant businesses often expand into underserved markets.
2. They seek out enterprises with low start-up costs.
3. They seek out enterprises with low economies of scale
4. They provide goods when demand is unstable or uncertain.

All these elements were present in the case of Korean entrepreneurs in Chicago.

In pursuing self-employment, immigrants normally rely on their ethnic group for support and sustenance and this may create a feeling of solidarity. Pessar (1995) conducted fieldwork among Hispanic immigrants in Washington, D.C., and found that ethnic solidarity is neither pervasive nor even necessarily desired by immigrants. Research by Yuengert (1995) proposed that states with progressive tax codes are more desirable by the self-employed because tax avoidance opportunities are abundant. The same research suggested that immigrants from countries with high self-employment rates have higher than average self-employment rates in the United State. This is partially because they have more experience in business operations. Yuengert's research concluded that these two factors account for 62 percent of immigrant self-employment.

Several disadvantages of immigrant entrepreneurship exist. The ethnic solidarity, hypothesized by some researchers, can be exclusionary and clannish. The informal business transactions in immigrant communities can sometimes be distinctly illegal. To some of the relatives involved, the family ties that keep a corner store open 24 hours a day, may seem exploitative and unfair. Immigrant self-employment can be seen more as a lifeboat than a ladder; that is, it is more a survival strategy than an indication of socioeconomic success (Immigrant Entrepreneurs 1997).

Objectives of the Study

Immigrants resort to self-employment in the United States because of (1) difficulties (such as language or racial barriers) they encounter in the broader labor market; (2) geographical concentration of the same ethnic group, and thus formation of ethnic enclaves; (3) low start-up costs and low economies of scale of many of the enterprises they establish; (4) ethnic social solidarity (whereby members of the same ethnic group are employed and or transactions are done within the same ethnic group); and (5) the possibility of tax avoidance in states with progressive tax codes (and therefore concentration in those states).

After reviewing the literature I became interested in learning how these factors may be related to Iranian entrepreneurs in the United States. Consequently, I built my research around the five reasons described above and developed the following hypotheses:

H1. The Iranian business community is primarily engaged in low start-up businesses.

H2. Iranian immigrants are concentrated in a few geographical locations.

H3. The Iranian business community prefers states with progressive tax codes.

H4. Iranian immigrants seek self-employment because of language and racial barriers.

H5. The Iranian immigrant community demonstrates considerable ethnic social solidarity.

Definition

The term entrepreneur as defined by Longenecker, Moore, and Petty (2000) is used in this study. They define entrepreneur as active owner-managers, and include in their definition second-generation members of family-owned firms and owner-managers who buy out the founders of existing firms. By adopting this definition, one may include an enterprise that consists of one person—a type of business that any aspirant individual may decide to start—or a firm that employs 100 people. What makes these firms drastically different from the much larger firms is their structure and operation.

Methodology

The most difficult part of the study was compiling a list of enterprises, their owners, and addresses. No single database contained the necessary information. I developed a list by looking through many regional and local business directories, telephone books, and newspaper and magazine advertisements. I even used business cards attached to community bulletin boards and flyers. Eventually, I assembled a list of about 12,000 businesses. From this list, approximately 10,000 names and addresses belonging to professions that I was not looking for were set aside. Among them were physicians, dentists, pharmacists, lawyers, media, and charity organizations. In sum, 2,060 business addresses remained. The businesses were scattered in 48 lower states. I could not detect any Iranian-owned business in the states of Alaska and Hawaii.

Based on a comprehensive study of the literature on immigrants and immigrant entrepreneurs, I developed a detailed questionnaire in the Persian language. I pretested the questionnaire among Persian-speaking associates, and some businessowners in the Rockville, Maryland, area.

For the new Iranian year (in 1998) I sent a cover letter attached to a listing of 40 principle questions to the owners of the 2,060 firms. A self-addressed, stamped envelope was included with the questionnaire. The major reason for preparing the questionnaire in Persian was to delete names of any non-Iranian firms in the database. My assumption was that a non-Iranian will not be able to read the questionnaire, and thus she or he will not distort the survey. In addition, I believed the use of the mother tongue would be an extra incentive for a person to participate in the survey.

Some businesses returned the survey with an explanation that we are not Iranian or an Iranian did not own the business. Interestingly, some of these individuals had selected Persian names for their establishments. It is possible that some firms wanted to avoid the survey and their explanation was just a polite excuse. One restaurant owner returned the blank questionnaire along with some small amount of salt and pepper in the envelope and had wished me a healthy, delicious meal! The unanswered responses represented a mere 25 instances. No packages were returned because of incorrect addresses as I had checked the information many times for their accuracy. In one remarkable instance, an Iranian who was unable to read Persian, but was proficient in speaking the language, called to say that a friend would read the questions to him and enter his responses in appropriate sections of the questionnaire.

After two months I sent a reminder to those who did not respond to the initial mailing. Overall, after deleting wrong, incomplete, and ineligible questions, I had access to 414 useable questionnaires for use in this analysis. A 20 percent response rate is a reasonable and satisfactory rate in this type of survey. Although I had informed the respondents that they would stay anonymous, about 45 percent demonstrated interest in being identified by sending their business cards, flyers, and even photos and promotional items along with their responses. Many of these entrepreneurs requested a copy of the final research.

The majority of the items in the questionnaire were measured on a 3-point scale. The possible responses were 3 = very important, 2 = important, 1 = not important. Some questions had yes/no answers, while others were descriptive questions.

Results and Analysis

Composition of Employment

Enterprises in the study fall into the category of small size. Table 1 indicates that on average, 6.5 persons work for these firms. If we generalize the above findings to the 414 respondents, we may conclude that these Iranian entrepreneurs have created 2,691 jobs in the United States. This is in the line of all other small businesses that have come to be recognized as the engine of job creation in the United States. The Small Business Advocate (2007) quotes the U.S. Bureau of Labor

Statistics findings that small businesses generated 65 percent of the net employment growth between September 1992 and March 2005, confirming similar data from the U.S. Census Bureau. Bhidé (2000, p. 338) believes that ". . . the tens of millions of new jobs created in the United States in the past two decades, in the face of shrinking of the workforces of Fortune 500 companies, clearly point to an increasing proportion of employment in the 'entrepreneurial sector.'"

Type of Business Activities

Table 2 offers a panoramic view of business variety of the firms in the research. The types of businesses selected by Iranian entrepreneurs cover a wide spectrum. They are not restricted, as Waldinger et al. (1990) reports, to the low-cost startups (retailing grocery, repair, nursery) as some of these businesses (manufacturing, financial, and construction) fall into high-cost start-ups.

The Center for Immigrant Studies, funded by the conservative Federation for Immigration Reform, disagrees with the importance of immigrant entrepreneurs and maintains that immigrants are not as entrepreneurial as the U.S.-born citizens, and they are engaged in low startup businesses. According to their study, in 1997, only 11.3 percent of immigrants were entrepreneurs, compared with 11.8 percent of native-born Americans (Thomas 2003). The Census Bureau figure, at least partially, disagrees. It reports that 22 percent of Iranians own their businesses. A website suggests that the Iranian community in the United State has founded 280 major national firms, and has 400 of its people in the highest positions in national companies. The same website claims that the total contribution of the Iranian community to the United States economy is estimated at more than $400 billion.

Kotkin's report (1999) invalidates the negative views surrounding the immigrant entrepreneurs. He states:

> The rates of entrepreneurship were even more pronounced in five-county greater Los Angeles. Analysis by California State Northridge demographers James P. Allen and Eugene Turner found the highest rates of entrepreneurship among people of Israeli, Iranian, Lebanese and Armenian heritage. Although estimates of the number of Middle Easterners in Los Angeles range up to 300,000 to 400,000, their influence is felt powerfully across a series of industries: garment, jewelry, textile, manufacturing, real estate, retail and distribution. The Middle Eastern immigrant story in Los Angeles has taken a different turn. Although they own barely 7% of the companies and constitute a negligible part of the workforce in the city's clothing factories, Middle Eastern immigrants control the higher-end stars of the regional industry, including Guess, Bisou-Bisou, Jonathan Martin, Tag Rag and BCBG. They are, if anything, more dominant in the textile industry; more than 120 Iranian companies, owned by Jewish, Muslim and Christian entrepreneurs, have helped drive sales of L.A.'s textile industry from $300 million in 1982 to an estimated $20 billion today.

In terms of percentage, these entrepreneurs may not be large, but collectively they are a significant economic power.

Among ethnic groups, some have become predominant in certain economic niches. In explaining why this is the case, Cao (2000) says this prevalence might be due to the ethnic group's history (such as Jews in the garment industry), factors found in the host country (involvement of Koreans with liquor and wig stores in the United States), or their traditional posi-

Table 1. Composition of Employees in Various Establishments

Employment Information	*Total: 414 Firms*
Percentage of male workers in the population	67
Number of the people employed by the smallest establishment	1
Number of the people employed by the largest establishment	40
Average number of employment by all firms in the study	6.5

Table 2. Types of Business Activity

Type of Activity	*Percent*
Retailing	31
Construction: Various phases (drawing, designing, building)	16
Repair: Electrical, electronic, appliances	11
Artistic: Photography, painting, fashion designs	10
Financial: Insurance, mortgage, stockbrokers	9
Wholesales: Parts, food	9
Manufacturing	3
Transportation: Charter, car rental, towing	1
Research and invention: Computer	1
Misc.: Translation, nursery, unspecified	9
Total	100

tions in the occupational hierarchies of their homeland before migration. The Iranian entrepreneurial community in the United States does not fall into any of these patterns. In response to the survey question "Is this your first business experience?" 60 percent of the participants said yes. Moreover, Iran is not a hierarchical society, and has no occupational hierarchy, a practice long forbidden after the arrival of Islam.

With the above discussion, as far as this survey could accomplish, H1 (The Iranian business community is primarily engaged in low startup businesses) is not a valid statement.

Dates When Businesses Were Founded

The United States has always been a destination for Iranian immigrants. In the past, however, when leaving the homeland, most travelers felt that their trip to America would be a temporary one. The majority of the trips were education related as most Iranians were coming either as students or as visiting faculty. That changed after the 1979 revolution and travels became long-term stays. The year before the revolution marked the beginning of an extraordinary increase in the number of immigrants.

The embryo of the Iranian community was conceived in 1970s and many of the actual geographical, social, and demographic aspects took shape during the same decade. An increase in total number of Iranian immigrants was followed by a parallel increase in the business activities of this community (Table 3).

Founders of the Firms

Participants were asked about the firm's founder. A large majority (86%) responded that they are the original founders. The remaining 14 percent indicated that they purchased their enterprises from other entrepreneurs. Similarly, they were asked if the year of foundation had any relationship with being the original founder. Table 4 illustrates this connection.

Table 3. Year Firms Were Founded

Year of Foundation	*Percent*
1940–1960	3.5
1970–1979	6.0
1980–1984	25
1985–1989	33
1990–1994	29
1995–1998	1
No response	2.5
Total	100

I attribute this large increase in self-starting businesses to a drastically grown population base after the 1979 Iranian Revolution. This base allowed and encouraged those individuals who had any doubt about starting a business of their own to overcome their reservations.

Geographic Concentration of the Iranian Business Community

It is well known that in the United States, California is the home away from home for Iranians. Heavy concentration of Iranians in a few population centers—including Los Angeles, San Diego, and San Francisco—is quite visible even for a newcomer. Westwood Street in Los Angeles is home to many Iranian-owned business firms. Among them, one may find numerous bookstores, restaurants, and supermarkets. Nonetheless, as shown in Table 5, California was not always the favorite destination for Iranians. In the 1970s California gained status as a leader in attracting Iranians and has retained this position ever since. However, as Iranians disperse throughout the United States, strong contenders such as Texas, New York/New Jersey, Maryland/Washington, D.C./Northern Virginia, and Georgia (specifically Atlanta) have gradually emerge. Southern states are experiencing a boom in ethnic businesses. Badie (1999) describes the situation in Atlanta:

> Drop off a load of dirty clothes at practically any local dry cleaners and the business owner is likely to be Asian—Korean, actually. And if you want to have your nails dressed up, the manicurists and the owner probably will be Asian too, but Vietnamese. These are obvious examples of a phenomenon firmly rooted in cities like Los Angeles and New York but beginning to take seed in suburban Gwinnett County.

In 1980, the Census Bureau reported 121,505 Iranians in the United States, concentrated first in California (35%) then in New York (8%), followed by Texas (6%). The Census Bureau identified 210,941 Iranians in the United States in 1990, and approximately 283,226 foreign-born Iranians in the United

Table 4. Correlation between Year and Type of Foundation

Year of Foundation	*% Self-founded*	*% Purchased*
1940–1960	50	50
1970–1979	70	30
1980–1984	92	8
1985–1989	92	8
1990–1998	92	8

States in 2000 (Gibson and Jung 2006). However, the Iranian-American community claims the number is much larger than the Census Bureau figure suggests. Of the afore-mentioned 283,226 Iranians, according to the 2000 Census, 158,613 (55.9%) lived in California. Other states with large concentrations of Iranian immigrant populations were New York with 17,323 (6.1%); Texas, 15,581 (5.5%); Virginia, 10,889 (3.8%); and Maryland, 9,733 (3.4%) (Hakimzadeh and Dixon 2006).

I conclude that H2 (Iranian immigrants are concentrated in a few geographical locations) does not hold true, and once again, this ethnic group does not demonstrate the same behavior that has been observed in other ethnic groups.

The Attractiveness of Progressive State Tax Codes

A study by the Tax Foundation (Dubay and Atkins 2006), a think-tank based in Washington, D.C., proposes a state tax business climate index to measure tax friendliness of various states. I compared the index with findings by Yuengert (1995) that suggest progressive tax codes are more desirable by the self-employed to see if Iranians operated businesses in tax-friendly states. According to the index, the top 10 states with the best state business tax climate are Alaska, Colorado, Florida, Nevada, New Hampshire, Oregon, South Dakota, Texas, Washington, and Wyoming. On the other hand, the worst state tax codes are found in Arkansas, Hawaii, Kentucky, Maine, Minnesota, New York, Rhode Island, Vermont, West Virginia, and Wisconsin. As we can clearly observe, selection of the business location by Iranian entrepreneurs has not been influenced by the progressive tax codes, and a glance at Table 5 invalidates H3 (Iranian business community prefers states with progressive tax codes).

Lifeboat or Ladder

Two metaphors—a lifeboat and a ladder—can be applied in testing H4 (Iranian immigrants seek self-employment because of language and racial barriers). A lifeboat keeps an overboard passenger from drowning and allows the person to survive—for a short while—at sea. On the other hand, a ladder gives altitude, and raises the position of its user. Most Iranians have not taken initiative just to survive (H4). This group is distinctively different from other immigrants, thanks partially to the revolution that allowed a mass departure of resources from Iran. These resources were both financial and mental. While will examine the mental resources, entrepreneurs participating in the study were not asked to divulge any financial information.

Education Level of Iranian Business Community

The U.S. 1990 Census indicated that a significant percentage of Iranian immigrants (77%) have university-level education. Before the 1979 revolution (Report by Iran Interest Section 2000), Iran had the largest number of university students abroad than any other country in the world. By 1977, the number of students studying abroad was 227,497. By 1979, 51,310 Iranian students were in the United States, ranking first among foreign nationalities. Thousands of students were enrolled in Iranian universities and colleges. The shock of the revolution drove these educated individuals out of Iran and beyond the reach of the revolutionary elements. Many of these educated students chose to relocate to the United States, thus explaining the large number of educated Iranians (Table 6).

The 1990 Census figure (77%) for university-level education of the Iranian immigrant community is in agreement with the findings of this study (79%). This result concurs with Bhide's (2000) finding that 81 percent of the incorporated company founders he interviewed had college degrees.

In comparison, according to the U.S. Census Bureau (March 1999), only 25.2 percent of the total U.S. population had a university-level education. The high education level of this ethnic community is in sharp contrast to what Borjas (1996) presents. According to Borjas, by 1990 the most recently arrived immigrants had 1.3 fewer years of schooling and earned 32 percent less than natives.

This high academic achievement has undoubtedly contributed to the high occupational and accomplishment of this community as well. According to the 1990 Census, 43 percent of Iranians were in professional and managerial positions; 35 percent, in technical and administrative activities; 10 percent, in various services; and the balance were spread over farming, craft, and other miscellaneous jobs.

In addition, the 2000 Census reports that the median family income for the Iranian community was $52,333. That was substantially above the national average of $36,422 (Hakimzadeh and Dixon 2006).

Reasons for Starting the Business

As shown in Table 7, Iranian entrepreneurs have a multitude of reasons for starting their businesses.

USA Today (1991) published the result of a survey and declared independence as an important factor for self-employment. Of those who had left corporate jobs, 38 percent said their main reason for leaving was their desire to be their own boss. In this research, independence was declared a far important rationale for starting one's own business. More specific responses indicated the following reasons: Continuing the family tradition, limited choice of other jobs, desire to be in touch with other Iranians, love of own area of expertise, never being able to work for anybody else, using unexploited time of family and self. Conditioned to hard work was another reason for starting a business, reinforcing Freud's observation that one of the great pursuits of human

Table 5. Important Centers of Business Activities for Iranian Entrepreneurs		
Year of Foundation	*Important Centers of Activity*	*Types of Activity*
1940–1960	Varies	38% artistic 12% financial 12% construction 12% retail
1970–1979	77% California 33% elsewhere	31% retail 15% construction 15% financial 15% artistic
1980–1984	58% California 13% New York/New Jersey 13% Washington, D.C. area 16% elsewhere	47% retail 14% repair 10% construction 10% artistic 10% financial
1985–1989	50% California 14% Texas 12% Washington, D.C. area 7% New York/New Jersey 17% elsewhere	31% retail 24% construction 10% repair 9% financial 5% industrial manufacturing
1990–1994	57% California 17% New York/New Jersey 10% Washington D.C. area 16% elsewhere	38% retail 15% construction 10% repair 10% financial 8% industrial manufacturing

experience is work. Ivan Light, among others, argued, "The more hardships and frustrations immigrants experienced in the mainstream economy, the more likely they were to seek alternative opportunities through self-employment" (Immigrant Entrepreneurs 1997, p. 4)

Respondents emphasized the importance of a larger population as their base of operation, and deemphasized the significance of their unemployment. In fact, 59 percent of the respondents disparaged unemployment and believed it was not a very important reason for starting a business. It is an interesting statement in view of findings by Bhidé (2000). He mentions that people with secure, well-paying jobs are less likely to start their own business because of the high opportunity cost for them. Nevertheless, that majority (59%) who disagreed with the notion of unemployment as a very important reason for starting business had a good education. They could not have stayed unemployed. Opportunity cost for this group must have been high. It appears that overqualification for the entrepreneurs who participated in this survey lacked a meaningful influence.

Ethnic Social Solidarity

I found no evidence to support H5 (there is some considerable ethnic social solidarity among the Iranian immigrant community). Pessar (1995) also refutes the assumption of ethnic solidarity. Table 8 provides clear proof of absence of such solidarity, at least among the Iranian ethnic community. Actually, one Persian-language publication in Maryland (*Tehran Post*) regularly blames Iranians for *not* demonstrating such solidarity. The presumed solidarity, I assume, comes from giving priority of employment to one's ethnic group, competing within a closed circle, and limited chain of suppliers. In the enterprises I observed, I found no such exclusionary behavior. For example, architects seek clients from any available source; grocers attract customers from all ethnic groups; and service-related business request work from non-Iranians as well as Iranians.

The Ethnic/Racial Composition of Employees

Overall, 32 percent of participates indicated that all of their employees are Iranian. The rest belonged to other ethnic and racial groups (see Table 8). The table specifies that the majority of employees in Iranian-owned firms are "white" Americans. The distinction between "black" and "white" Americans is noteworthy because in Iran, reference to an American or a European usually means a "white" person. The word "foreigner" is rarely applied to Indians, Arabs, or even Chinese. These ethnic groups are identified by their specific nationalities and are not viewed as foreigners.

Among Hispanics, Mexicans constituted the majority of the group; among Far Easterners, Koreans made up the majority of the cluster. Japanese, Filipinos, and Vietnamese have found employment in delicate works and fine operations. The most prominent ethnic groups in the "other" category, were Indians, Pakistanis, Afghans, Egyptians, Moroccan, and some Europeans.

Who Are the Competitors?

Table 9 demonstrates that little evidence exists in support of "clannishness" of Iranians. This term refers to adherence to group norms and hence maintenance of group boundaries separating insiders from outsiders (Sowell 1995). Only 31 percent of respondents said they view other Iranians as their important competitors. By contrast, they view the biggest source of competition (49%) as "white" America. This, as well as employment of non-Iranians in their establishments, are clear signs that Iranians do not adhere to a clannish style of living. Data from Light and Gold (2000) support this statement. They found that in 1989, 47.5 percent of Koreans and 56.7 percent of Iranians in Los Angeles were self-employed. However, Korean businesses had another 27.6 percent Koreans working for them, but Iranian businesses had only another 4.6 percent of Iranians in their employment.

Obviously, Iranians have joined mainstream America. They have avoided having enclaves—either business or residential. Their main target is the establishment, not themselves or other ethnic groups. This comes from both self-confidence, and pride as evidenced by the additional comments attached to their questionnaires.

Type of Business Competition

Table 10 shows type and source of business competition. Not all business areas cause the same level and amount of competitive pressure. Survey respondents view competitors in their lines of business quite differently. While businesses involved with industrial production and artistic works view their competitors as coming from the same ethnic group, 50 percent and 40 percent, respectively, three other businesses (transportation, research and invention, and construction), believe competition is coming from "outsiders."

My interpretation is as follows: A considerable number of Iranians who migrated to the United States had education, training, and background in industrial production and manu-

Table 6. Education Level of the Iranian Business Community

Level of Education	*Percent*
Elementary	0.5
High school	17
University (two with doctorate degree)	79
Without response	3.5

Table 7. Reasons for Starting the Business

Reason	*Very Important* %	*Not Important* %
Unemployment	19	59
Availability of capital	21	43
Bored with previous job	24	46
Disappointed with previous job	29	45
Family encouragement	31	41
Have a special expertise	39	33
Hospitable conditions (including dealing with licenses, employing workers, registering property, getting credit)	45	12
Accustomed to hard work	73	4
Larger income	74	6
Independence	74	4

facturing; they were engineers. Also, many migrant Iranians were artists, writers, and intellectuals. By taking a familiar path, and pursuing the trade that they were most familiar with back home, this community of immigrants suddenly found itself deluged by a large number of engineers and artists who had concentrated heavily on their own people. In 2006, more than 20 television stations were broadcasting mainly from Los Angeles in the Persian language, and numerous artists were gradually shifting their focus from only Persian-speaking markets. On the other hand, some businesses have found themselves with little or no competition from other Iranian entrepreneurs. Among them, we can find retail (mostly grocery stores) with the obvious reason that customers cannot find ethnic foods elsewhere but from Iranian-owned and -managed establishments; repair shops and construction businesses (that I speculate one may not be able to communicate the issue on hand using the appropriate technical language in a foreign language).

Economic Importance of Iranian Entrepreneurs

According to Josette Shiner, president of Empower America, the conservative public policy organization cofounded by 1996 Republican Vice Presidential candidate Jack Kemp, "The view that the main contribution made by immigrants is stealing menial labor jobs from Americans is simply wrong. More than a third of the high-tech engineers and scientists driving innovation in Silicon Valley today are immigrants" (Erbe and Shiner 2000).

A 1998 report by the National Immigration Forum and the Cato Institute that used the U.S. Census Bureau Current Population Survey reveals far more benefits than costs to immigration. The report found that "in their first low-earning years in the United States, immigrants typically are net drains on the public coffers, but over time—usually after 10 to 15 years in the United States—they turn into net contributors" (Preliminary Census Revealed 2007). A previous study conducted by the National Academy of Sciences (Smith and Edmonston 1997) quantifies this net contribution: immi-

Table 8. Percentage of Ethnic and Racial Groups Employed by Iranian Entrepreneurs

Ethnic Group	*Percent*
"White" American	35
Hispanic	27
Far Easterner	6
Others	32
Total	100

Table 9. The Important Groups of Competitors

Ethnic Group	*Percent*
"White" Americans	49
Other Iranians	31
Far Easterners	7
Arab	2.5
Indians and Pakistanis	2
Hispanics	2
No response/miscellaneous	6.5
Total	100

Table 10. Type and Source of Business Competition

Type of Activity	*Among Iranians %*	*Among the Establishment %*	*Among Other Groups %*
Industrial production	50	50	0
Retail	34	46	20 (varies)
Wholesale	27	27	46 (mostly Arab, Indian, Hispanic)
Financial services	28	32	40 (mostly Arab, Far Easterners)
Transportation	0	65	35 (varies)
Research and invention	0	0	100 (varies)
Artistic works	40	35	25 (varies)
Repair	24	44	32 (varies)
Construction	0	50	50 (varies)

grants contribute roughly $1,800 per person more in taxes than they receive in public benefits. The reason that state and local governments sometimes run budget deficits in providing benefits is that they are responsible for providing most benefits even though the federal government takes about two-thirds of these tax dollars.

Some of the significant contributors are Morteza Ejabat (a Ph. D. Iranian) whose latest venture—Zhone Technologies—started with an initial investment $700 million; Pier Omidyar who founded eBay; Kamran Elahian, who has founded six different technology companies; and the famous fashion designer, Bijan.

There is a significance in the Iranian business community relative to other important ethnic groups in the United States. According to the 1990 Census, about one million enterprises in the United States belong to ethnic groups. The total population of those who call themselves Iranian in the United States, according to the 1990 Census, was 220,000. The census also reports that 22 percent of Iranians own their businesses, indicating that 48,400 individuals had a private business. Some of them are proprietors, some have partners, and some others have formed corporations. That brings us very close to my database of addresses (12,000). I used the information and initially arrived at the conclusion that when compared with other ethnic groups, Iranians seem to be less entrepreneurial. By 1990, 79 percent or 9,480 firms (79% x 12,000) of all Iranian businesses that I studied had been established. These are only 9,480 firms out of one million—or less than 1 percent (0.00948%). In comparison, Far Easterners own 5.5 percent and Hispanics possess 1.7 percent of all ethnic businesses (Winston 1991). Then I observed and compared the figures in a different way and realized that the importance of the Iranian business community is much higher than what we observed (see Table 11).

Table 11 shows although Iranians have fewer business firms in comparison to the two other important ethnic groups, their total population is also much smaller than the other groups. As the result, an insignificant percentage (0.00948) jumps to a respectable 4.3 percent. I conclude that Iranians are far more "entrepreneurial" than the two other ethnic groups.

Conclusions

We examined a successful group of entrepreneurs. The existing literature of entrepreneurship gave us a conceptual framework. More than 2,000 Iranian entrepreneurs in the United States were the subject of this research. The study showed that Iranian entrepreneurs are highly educated and are active in a wide range of business ventures. They can be found in 48 states. A large community of Iranians has given them a base to start a business. Yet, other ethnic groups constitute their customers and increase their chances of survival. We discovered their reasons, among them independence, for starting their own businesses. The majority of the Iranian entrepreneurs had no previous business experience.

This research, like other similar studies, has limitations. If more than 20 percent had responded to the survey, the generalization could have been more accurate. Time is another factor. Information of the past cannot be applicable to the present. Based on a modified and updated database, I plan to repeat the survey. Conclusions drawn can then be different from what is presented here.

Table 11. Economic Importance of Iranian Entrepreneurs

Ethnic Group	*Total Ethnic Population*	*Number of Firms*	*Relative to All (1,000,000) Firms (%)*	*Relative to Its Own Ethnic Group (%)*
Iranians	220,000	9,480	0.00948	4.3
Hispanics	7,719,000	17,000	1.7	0.22
Far Easterners	3,514,000	55,000	5.5	1.56

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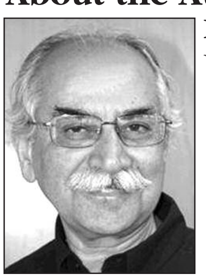
About the Author



Keramat Poorsoltan (kpoorsoltan@frostburg.edu) is a professor of management at Frostburg State University. His areas of teaching and research are entrepreneurship and strategic management.

Fostering Entrepreneurship: Developing a Risk-taking Culture in Singapore

Balbir B. Bhasin

About 10 years ago the Singapore Government realized that entrepreneurial spirit was lacking in its general population. These conclusions were confirmed by an empirical survey, the Global Entrepreneurship Monitor (GEM), an annual assessment of the national level of entrepreneurial activity. The paternalistic and authoritative approach of the government contributed to the general population's averseness to participating in risk-oriented ventures.

Removing impediments to entrepreneurship is a key challenge for the government and the business sector if the island republic is to maintain its national competitiveness. This article explores the various initiatives taken by the government to stimulate risk-taking and attempts to ascertain if the various measures can be used as key factors to strengthen the inherent cultural values that stimulate the entrepreneurial spirit. The observations can serve as a useful tool for academics and managers in recognizing the cultural traits that influence and help foster entrepreneurial tendencies.

Singapore is a tiny island state with no natural resources save a hard-working small population of immigrants. It is located in Southeast Asia between the nations of Malaysia and Indonesia (see Figure 1) and has thrived as a trading and shipping center since its founding by the British East India Company's Sir Stamford Raffles 188 years ago. It covers merely 650 square kilometers including a few offshore islands. Its deepwater port served the British well in shipping raw materials from the region to Europe (Bhasin and Low 2002).

The state was granted self-government by the British in 1959, and in 1963 it joined the Federation of Malaysia only to be ousted in 1965 when it became an independent republic. Since then, the country has risen to become "one of the world's most prosperous countries with strong international trading links (its port is one of the world's busiest in terms of tonnage handled) and with per capita GDP equal to that of the leading nations of Western Europe" (CIA: World Factbook 2006) Singapore is now an international city with an extremely dense population, a largely corruption-free government, a skilled and educated workforce, and a successful free economy where regional and more than 7,000 multinational companies are major investors. Per capita income has jumped in 40 years from US$500 to US$25,000, a growth of 50 times multiple. However, certain sectors remain "dominated by government-linked companies" (U.S. Department of State 2006).

Since its independence, Singapore has been ruled by one party, the People's Action Party (PAP), which has adopted a highly controlled form of governance. The government has been involved in regulating and engineering almost every facet of society. Many have attributed Singapore's success to this autocratic form of public policy and governance.

Singapore's "miracle" has been somewhat marred by the realization that entrepreneurial activity in the nation had been on the decline for decades. This discovery was fully authenticated by an early Global Entrepreneurship Monitor (GEM) survey in 2000, which lists Singapore very low in Total Entrepreneurial Activity by Country category (see Figure 2).

This article sketches the social and economic environment in Singapore, which may have contributed to stunting entrepreneurial activity, and outlines the efforts made by the Singapore government to foster an entrepreneurial culture through a series of programs aimed at increasing the citizens' propensity and willingness to take risks. The annual GEM survey serves as an excellent tool to confirm if the programs have been successful. This case of Singapore can serve as a starting point for managers and academics in investigating the various cultural traits that need to be stimulated to encourage entrepreneurial activity.

Background: Singapore Inc.

Since independence, the Singapore government has deliberately pursued a policy of active participation in the economy by setting up "government-linked" companies (GLCs) some of which are monopolies.

Most of these companies were established in the 1960s and 1970s to help facilitate building of infrastructure and to support economic development. In the 1980s and 1990s, this was further expanded to privatization of government departments and statutory boards (Singapore Department of Statistics 2001). The stated rationale for this strategy "was to compensate for the lack of private sector funds or expertise" (Ramirez and Tan 2003).

Investment was in key sectors such as manufacturing, finance, trading, transportation, shipbuilding, and services. The listing in Table 1 (from Ramirez and Tan 2003) is not exhaustive but is indicative of the extent of the government's involvement.

Figure 1. Singapore Is a Tiny Nation-State Located in Southeast Asia

Source: CIA. The World Factbook, 2006.

As early as 1998, the U.S. Embassy in Singapore published a report in which it estimated that GLCs accounted for 60 percent of the domestic economy (Restall 2000). This development has been viewed as being largely unprogressive based on the argument that "GLCs tend to do better than private sector firms because their institutional relationship with the government gives them special advantages in terms of access to funds, tenders, and opportunities; consequently, they have closed large areas of the economy to the private sector and stifled entrepreneurship" (Ramirez and Tan 2004).

The conclusion that Ramirez and Tan draw in their paper for the International Monetary Fund (IMF) is that though the Singapore government claims that there is no state interference in the GLCs, that they do not receive special privileges or concealed subsidies, and are allowed to fail if they lose money, it was found that GLCs were "rewarded in financial markets with a premium of about 20 percent" (Ramirez and Tan 2004).

The 2006 Index of Economic Freedom sponsored by the Heritage Foundation and the *Wall Street Journal* reports that "Singapore received 22.75 percent of its total revenues from state-owned enterprises and government ownership of property" (Index of Economic Freedom 2006).

By far the biggest commercial vehicle of the Singapore government is Temasek Holdings, which was established in

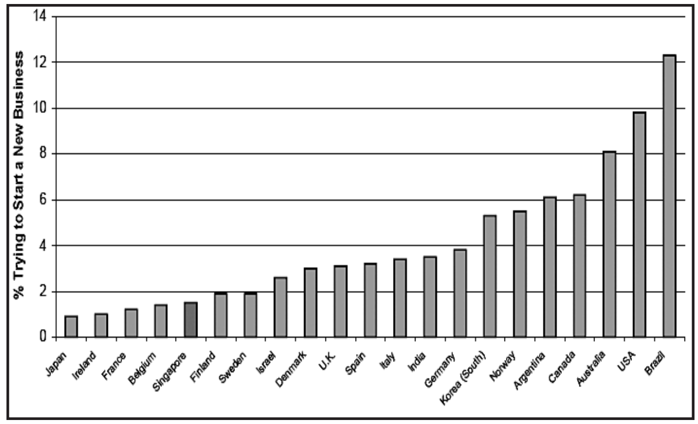


Figure 2. Total Entrepreneurial Activity by Country 2000

Source: Global Entrepreneurship Monitor 2000. Singapore Country Report, *Center for Management of Innovation and Technopreneurship (CMIT),* National University of Singapore (NUS), September 25, 2001.

Table 1. Government Investment in Key Industry Sectors

DelGro Group	TSC[1]
Intraco	Multiindustry
Jurong Shipyard	Manufacturing
Keppel Corp.	Multiindustry
Keppel Hitachi Zosen	Manufacturing
Keppel Marine Industries	Manufacturing
NatSteel	Multiindustry
Neptune Orient Lines	TSC
SembCorp Logistics	TSC
Singapore Airlines	TSC
Singapore Petroleum Co.	Manufacturing
Singapore Press Holdings	Manufacturing
Singapore Telecoms	TSC
SNO Corp	Manufacturing
Times Publishing	Manufacturing

1. TSC = Transport, storage, and communication

1974 and now has a diversified portfolio of S$129 billion (approximately US$97.75 billion). The firm is involved in telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences. The company proudly claims that total shareholders return since inception is 18 percent compounded annually (Temasek Holdings 2006). The *New York Times* recently reported that Temasek companies account for almost 30 percent of the economy (Arnold 2006).

The company is 100 percent owned by the Singapore Ministry of Finance. The Chief Executive of Temasek (appointed in 2002) is Ho Ching, who is married to Lee Hsien Loong, the newly elected prime minister of the country and son of Singapore's founding father Lee Kuan Yew. *Forbes* magazine cited Ho Ching as number 30 on their List of 100 Most Powerful Women in the World in 2006 (MacDonald and Schoenberger 2006).

The second investment arm of the Singapore government is the Government Investment Corporation (GIC), which invests Singapore's foreign reserves totaling more than US$129 billion. Established in 1981, it operates as a global fund manager on behalf of the Singapore government. The board is headed by the founding father of Singapore, Lee Kuan Yew as chairman. The other members of the board are all present and past government ministers and include the current prime minister, Lee Hsien Loong, "the same safe hands who run the other government-owned companies that make up as much as 60 percent of Singapore's economy" (Ellis 2004).

On September 6, 2006, Bloomberg reported that the GIC manages the world's seventh-largest currency reserves (Whitley and Lo 2006). Its portfolio includes real estate, public markets, and special investments. The GIC does not publish the value of its assets and details of its investments are a state secret. "The fund does not have to file annual reports, justify profit-and-loss statements, or even report to Parliament" (Ellis 2004). The Singapore government claims the secrecy is to ward off "potential speculative attacks on the Singapore dollar because the foreign reserves are often used to stabilize the national currency" (Ong 2003).

There have been many calls for the Singapore government to reduce its participation in private enterprise as well as for more transparency in its current involvement. The government's position however has remained that if Singaporeans do not mind then foreigners should not question it. This is coupled with the premise that government involvement is necessary to foster growth. As recently as November 2006, the founding father of modern Singapore, Mentor Minister Lee Kuan Yew, defended Singapore's financial secrecy in spite of demands that they become more accountable.

In 2005 the IMF suggested that "Singapore should reveal the financial performance of GIC" (Burton 2006a). The *Asian Wall Street Journal* also noted that "if the economy is to be freed up and if entrepreneurs are encouraged to take risks in order to restore growth, full disclosure about the state's stewardship of the nation's wealth is needed" (Restall 2000). The leading Asian economic publication, *Hong Kong's Far East Economic Review,* reports that there is a price that Singapore has to pay for its government-led economic model. "Instead of nurturing a domestic entrepreneurial class with its own vested interests, it [Singapore] has kept the commanding heights of the economy under the control of Singapore Inc." (Restall 2006).

Singapore Government's Authoritarian Approach

The World Bank has recognized that Singapore is a leading component of the East Asian "miracle" (Richardson 1997). But Singapore's economic success has often been attributed to the authoritarian or semiauthoritarian political (and economic) control exercised by the ruling party. The country has been ruled by a single political party since independence over 41 years ago. The preferred method of governance has been to "maximize political cooperation and minimize contention" (Richardson 1997). They have allowed for little or no opposition in parliament. Opposition is considered to be disruptive and destructive. Very strict litigation results if anyone utters what the government considers is "unacceptable" criticism, and foreign journalists and their journals and newspapers are sued for libel in Singapore courts, where the judgment is invariably in the government's favor.

The government exercises virtually absolute control over most aspects of society. There is a clear and close relationship between the judiciary, government, and the media. In addition to a one-party government without opposition, the state-linked broadcaster, MediaCorp, controls all free TV channels, and Singapore Press Holdings Ltd. publishes most newspapers (Yeoh 2005).

The arrangement of GLCs and the GIC provide the Singapore government and the "ruling PAP, a network of power relations allowing it social control and political dominance… the resources for social engineering, as well as for political reward and punishment. The GLCs have tremendous influence over all Singaporeans' personal savings, housing, job opportunities and business contracts" (Rodan 2004).

Christopher Lingle's (1996) expose on Singapore's "authoritarian capitalism" contends that traditional institutions have been used to impose restrictions on individual freedoms in the pursuit of economic growth (Lingle 1996). He argues that there has been little outcry against this, as compared with "authoritarian socialism" when practiced by totalitarian regimes due to the strong economic performance exhibited in the Singapore case. The ruling party's claim of "Asian democracy" is more of a "phobocracy"—rule-by-fear, with the insinuation that Western-style democracy needs to be adjusted to suit the unique Asian milieu, which include Confucian and other traditional values. Lingle had earlier refuted these claims as attempts to "foster obedience" (Lingle 1995). This forced collectivism stifles individual innovation by free-spirited entrepreneurs.

Singapore holds that authoritarian rule is necessary to promote political stability, which in turn would lead to rapid economic development. Lingle, on the other hand, contends that Singapore's authoritarian rule has led to the "politicization of commerce, distribution of economic and commercial privileges to trusted political supporters" and this has stifled the emergence of home-grown entrepreneurs (Dorussen 1997). Singapore's authoritarianism is further exacerbated by "the merging of state and party (ruling party the PAP which) has been paramount in defining and sustaining the authoritarian regime" (Rodan 2006).

Social Engineering Policy and Monopoly of Talent

To achieve national goals of economic development, maintaining peace and harmony within the multiethnic population, and cope with restructuring needs required to compete in the global marketplace, the Singapore government set about crafting a culture based on the top-down technocratic model (Haley and Low 1998). The restructuring of society meant intervention in all aspects of social life, and this was based on the following core values as identified and continuously modified by the government (Haley and Low 1998):

1. Community over self
2. Upholding the family as the basic building block of society
3. Resolving major issues through consensus instead of contention
4. Stressing racial and religious tolerance and harmony
5. Honest government
6. Compassion for the less fortunate

Singapore's policymakers, under the patriarchal leadership of Lee Kuan Yew, decided that Confucian way reflected Asian values and would be the guiding light in structuring the society to ensure survival and success in the changing global environment. These values include the need for hierarchal structures and a compliant and docile society, an emulation of the early Chinese society where the emperor was the head of the nation (hence the Middle Kingdom—between heaven and earth) and the father, the head of the family. The assumption naturally was that these were shared beliefs of the majority population which are of Chinese origin.

The fundamental precept of Confucian thought is that a greater emphasis is placed at all times on the community over the individual. The individual must be sacrificed over the community. Lam Peng Er (2003) argues that there were four motivations for the promotion of Asian values by Singapore's top Western-educated elites:

1. Propagation of these values would be less controversial, less divisive, and more acceptable to Singaporeans of all origins.
2. Promotion of these values would allow for soft-authoritarian rule and elites would conveniently wield power by the consent of the masses.
3. The internalization of these values would inoculate Singaporeans against the selfish, decadent, and individualism of Western society.
4. Liberal democracy, while suitable to the West, may divide, destabilize, and ruin Singapore.

The desirable Confucian values were

1. Deep respect for education and a competitive education system
2. The best students become scholar-bureaucrats
3. A meritocratic government whose political leaders are also top scholars
4. Thrift and hard work
5. Filial piety
6. A patriarchal society
7. A social contract between the benevolent and virtuous rulers and grateful, respectful, and supportive subjects

Naturally, promulgation of these meant that it served the self-interest of the ruling elites in keeping them in power and denying "political space to their domestic opponents" (Lam 2003). A consequence of this was the implementation of numerous campaigns aimed at modifying social behavior: no littering, speak Mandarin, display flags on national day, first family planning and later procreate more, be courteous, plant trees, smile more, stop smoking, say no to drugs, stay healthy, etc. Strong legislation was enacted and implemented to ensure compliance to these and Singapore carried the label of being a "fine city."

Singapore's education system was originally geared to meeting the needs of MNCs labor and skills requirements. The technocratic model that requires students be "streamed" into various specialized fields begins at an early age. Educational pathways are stratified according to ability and aptitude and this has resulted in the creation of a hierarchical and even elitist society (Ng 2005). The government's contention has been that streaming prevents waste by reducing the drop-out rate.

The creation and promotion of a scholar-led bureaucracy meant that the best and the brightest were recruited to enter the government. Through the education system and competitive examinations, a scholarship-awarding mechanism was created to channel top academic brains for political, military, and business leadership. This, in turn, led to the creation of an elite ruling class and the monopoly of talent to serve the needs of the government—and it kept the best from opposing the ruling party. Almost every cabinet minister and top bureaucrat in the administrative service, military and police commanders, the heads of statutory boards, and senior executives of government-linked companies have come from this system (Seah 2006a).

The government considers the technocratic approach a necessity to achieve national goals over a shorter period of time without too much sidetracking and unnecessary experimentation. Haley and Low contend that the technocratic approach has resulted in Singaporeans losing its creativity and entrepreneurship that the nation so essentially needs (Haley and Low 1998).

Chew and Chew's (2003) research confirms that the public sector has absorbed too much local talent, and this has created a shortage in the private sector of innovative and creative individuals capable of assuming this role. The government needs to gradually release the most capable human talent that it is presently hoarding (Chew and Chew 2003).

Risk Avoidance Tendency and Lack of Creativity

Singapore has come a long way from being a labor-abundant and capital-scarce struggling economy to a labor-scarce and capital-abundant country. It has also progressed from its early beginnings as a labor-intensive manufacturing base for international corporations to a high value-added services-based center specializing in trading, transportation, finance, and telecommunications. The country now needs to advance to the next stage of innovation and creativity to remain competitive (Chia 2005).

The then prime minister of Singapore, Goh Chok Tong, acknowledged in his National Day address in 2002 that the dearth of entrepreneurs is due to an overemphasis on rigid, structured education, and this stifles creativity and risk-taking. He noted that studies in the United States have shown that entrepreneurship is closely related with the level of cultural vibrancy. Studies have also shown that the arts can help individuals to become more creative in areas beyond the arts. They are an important source of inspiration and a powerful avenue for individual expression (Singapore Government Press Release 2002).

Numerous reasons have been cited to explain the risk-averse culture in Singapore. Low (2006) in his study of cultural obstacles in growing entrepreneurship in Singapore lists the following:

1. Young "Singaporeans remain cautious because of what they have seen, growing up in a PAP dominant landscape." The society was basically very compliant and lacked a diversity of ideas.
2. Eighty-five percent of focus groups in the study felt that the educational system had encouraged the learning of knowledge and facts and not necessarily to be creative.
3. Singaporeans are too "left-brained and textbook oriented" and were a "pampered lot" who had grown up in a "cushy environment." This made them less street-smart.
4. There was a "strong reliance on the government to do things for people." By force of habit people were led to thinking that the government would be looking after them.
5. The social culture considers failure as an embarrassment. "*Kiasusim* is a bane; being *kiasu* worsens Singapore's entrepreneurial situation." People are concerned about the "face" or "standing in their own group." In other countries failure is more acceptable as it is considered a process of learning.

A very recent debate highlighted the fact that Singaporeans were good at academics but lacked street smarts. They fall short on individual initiative and rely too much on the government for help. Singaporeans, it was felt, functioned well only as a group, not as individuals; they were not capable of being nonconformist or of standing out above the crowd. The fault, it was claimed, lay in years of political and social conditioning by a top-down government, which was efficient but paternalistic. Everything was so structured that people did not need to fight for a living, and this blunted their ability to compete. One could keep the people's compliance by "keeping their stomach full and their mind empty" (Seah 2006b).

Programs to Stimulate Entrepreneurship

One key requirement for fostering an entrepreneurial culture is the "removal of all barriers, particularly those created by government or within its power to change, that block or discourage people's entrepreneurship" (Davis 2002).

In preparing for Singapore's entry into the 21st century, the government included the need to develop and foster an entrepreneurial environment in its Master Plan, aptly named 'SME21'—reflecting the efforts to stimulate high-tech small and medium enterprises (SMEs) moving away from the earlier focus on MNCs and larger corporations. Earlier in 1999 it had already launched the Technopreneurship 21 (T21) program, which was designed to develop entrepreneurship involving technology and innovation. An Economic Review Committee was formed in December 2001 to develop the necessary goals and strategies.

Singapore already had a pro-business environment but no protection was accorded to small businesses and SMEs, which naturally could not compete with larger and well-established corporations (Tan 2003).

1. Start-ups and SMEs did not have adequate access to capital, though the financial sector was highly liberalized and developed. Banks did not specifically focus on the financial needs of smaller enterprises (Tan 2003).
2. No provisions were at hand to help entrepreneurs compete in an environment of globalization, even though Singapore had been ranked as the third most "globalized" country by A.T. Kearney/Foreign Policy Magazine Index 2001 (Tan 2003).
3. Entrepreneurs felt that they were victims of overregulation and the high costs of fees and licenses they were required to comply with.

Consequently, a concerted effort was made by the Singapore authorities to make the changes necessary to rectify the prevailing situation and a number of programs were created.

In March 2000, a $10 million fund, called The Enterprise Challenge (TEC), was set up to sponsor innovative proposals that encourage creativity, innovation, and enterprise through the provision and improvement of public services.

Entrepreneurship Assistance

Entrepreneurship Assistance provisions were created to encourage and support local enterprises.The following agencies were set up to promote entrepreneurial activity:

- Singapore Productivity Innovation and Growth (SPRING Singapore) is the first stop for all entrepreneurs. Its objectives are to promote a pro-business environment, to champion industry development, to enhance enterprise capabilities, and to market access and opportunities. Services provided include standards and research, patent information, current awareness, online information, and a technical library.
- Enterprise One Singapore (EnterpriseOne) helps local enterprises find the answers they need to start, sustain, and grow their businesses.
- Singapore Entrepreneurs (SGentrepreneurs) is a public site for entrepreneurs, venture capitalists, and business plan competition organizers to "blog" about their experiences in entrepreneurship and enterprise in Singapore.
- International Enterprise Singapore (IE Singapore) is responsible for taking enterprises abroad.
- Agency for Science and Technology Research (A*Star) fosters scientific research and exploitation of technology through incubators.
- Action Community for Entrepreneurship (ACE) is a change agent in building a more pro-enterprise environment through: facilitating discussion and debate on the regulatory framework; changing culture and mindset; improving access to finance; and facilitating networking and learning.

Entrepreneurship Incentives

Entrepreneurship Incentives were introduced to encourage as well as remove obstacles that were preventing entrepreneurial activity. Incentives include:

- *Tax exemption for start-ups.* A special tax incentive was introduced for start-ups in Singapore where they are not required to pay tax on the first S$100,000 of chargeable income (excluding Singapore franked dividends) for any of the first three years of tax assessment falling within year of assessment 2005 to 2009.
- *Government tax incentive schemes.* Such schemes include the Double Tax Deduction (DTD) for Market Development, a tax incentive offered to Singapore companies to expand their overseas markets. Under this scheme, companies are allowed to deduct twice the amount of allowable expenses incurred in approved projects from their taxable income. The DTD for Overseas Investment Development Expenditure is a tax incentive to encourage exploration of overseas investment opportunities, enhance their competitiveness, and expand their operations in foreign markets.
- *Government financing programs.* Special schemes include Local Enterprise Finance Scheme (LEFS), fixed interest rate financing programs designed to encourage and assist local enterprises to upgrade, strengthen, and expand their operations; the Micro Loan Program (MLP), a fixed interest rate financing program under LEFS designed to help the very small local enterprises gain better access to financing;Variable Interest Loan Scheme (V-Loan), the Loan Insurance Scheme (LIS), which complements the existing LEFS scheme. It provides an additional form of financing for SMEs by allowing more flexibility for financial institutions to package attractive loan facilities to SMEs based on their risk profile and the Local Enterprise Technical Assistance Scheme (LETAS), a scheme to help local enterprises defray the cost of engaging an external expert for a limited period of time to modernize and upgrade their operations. The Overseas Enterprise Incentive (OEI) is designed to encourage and support local enterprises to penetrate new markets, explore new business opportunities, and find new avenues for resources and technology. It allows the qualifying companies to be exempted from taxation for income arising from overseas investments, such as dividends, royalties, interest income on shareholder loans, incremental income from provision of support services, and overseas project income. Finally, the Revised Overseas Investment Incentive (OII) is a tax incentive to help Singapore-based companies internationalize their operations. It is designed to encourage Singapore-based companies to expand their operations overseas by allowing them to defer taxes due from profitable operations in Singapore.
- *Economic Development Board (EDB) Start-up Enterprise Development Scheme (EDB SEEDS).* This matched equity financing scheme is administered by EDB to foster entrepreneurship and innovation activities in Singapore. Start-ups can apply for SEEDS equity financing when they are in their early stages. Every dollar raised by a start-up from third-party investors will be matched by EDB up to a maximum of S$300,000. Third-party investors must put in a minimum of S$75,000 each. Both EDB and the third-party investors will take equity stakes in the company in proportion to their investments.

- *SPRING SEEDS.* Nontechnology start-ups can apply for SPRING SEEDS equity financing when they are in their early stages. Every dollar raised by a start-up from third-party investors will be matched by SPRING Singapore up to a maximum of S$300,000. Third-party investors must put in a minimum of S$50,000 cumulative. Both SPRING Singapore and the third-party investors will take equity stakes in the company in proportion to their investments.
- *Enterprise Investment Incentive (EII) Scheme.* This tax-incentive scheme allows investors in innovative start-ups to deduct their investment loss amount against their taxable income. With EII status, a start-up can issue certificates to its investors for investment of up to S$3 million. Investors with these certificates can deduct any investment loss from their taxable income.
- *Growth Financing Program.* This program is designed to support early stage, Singapore-based companies that have the potential to become global competitive enterprises. Companies that have successfully completed their product development with early customer traction can apply for equity financing for earnest overseas market expansion activities through the Growth Financing Program. Potentially, every S$2 raised by the growth company from third-party investors will be matched by S$1 from EDB, subject to a maximum of S$1,000,000 under both the SEEDS and Growth Financing Programs. Minimum investment from third-party investors is S$500,000. Both EDB and the third-party investors will take equity stakes in the company in proportion to their investments.
- *ACE's Action Crucible for Financing Scheme.* This scheme is one of four action crucibles formed under the Action Community for Entrepreneurship (ACE) to improve SMEs' access to financing, as part of the impetus to foster greater entrepreneurship in Singapore.
- *Home Office Scheme.* In this scheme, which is designed to facilitate entrepreneurship, Housing and Development Board (HDB) subsidized apartments can be used as a home office and for business registration.
- *Local Enterprise Technical Assistance Scheme.* This scheme will subsidize (up to 50%) the cost of hiring a consultant to implement quality management and IT systems (e.g., upgrading computer systems or ISO projects).
- *Patent Application Fund Plus.* Designed to encourage investors to patent innovations and commercialize their inventions, this scheme offers help on covering some of the costs of filing patent applications, such as professional and official fees and other related charges of patent filing.

Entrepreneurship Education

- *National University of Singapore (NUS) Entrepreneurial Center.* This center offers a wide range of entrepreneurship courses for all undergraduate and graduate students, to raise awareness and interest in entrepreneurship among the NUS community and to conduct cutting-edge research on key issues of entrepreneurship.
- *Entrepreneurs Resource Center (ERC).* The ERC provides specialized training programs that are tailor-made for the business environment, as well as specially crafted curriculum with a unique approach of integrating real-life experience and case studies to refine business and professional skills. ERC emphasizes a holistic approach to encourage entrepreneurship

Amending Legislation that Stigmatizes Failure

The arcane bankruptcy law was amended to encourage entrepreneurship. Previously a bankrupt person could be discharged only after paying most of his or her debt. The amendments in 1995 and 1999 now allow the Official Assignee to grant a discharge for debts below S$500,000 after three years in bankruptcy. The amount of debt for which bankruptcy proceedings may be instituted was raised to S$10,000. The period during which a debtor can attempt to arrange a settlement was raised to 45 days (Tan 2003).

Creativity and Innovation

Creativity and innovation are officially encouraged and fostered with the introduction of several initiatives, including the establishment of Creative Community Singapore, an initiative to provide opportunities for Singaporeans to express their creativity and deploy their creative energy for community benefit, to evolve a creative and connected community where arts, culture, business, and technology converge to empower and engage individuals.

Education Reform: Changing the Mindset

Singapore's school system has been based on the concept of meritocracy based on progress for those with ability and talent. For many, their future is determined at the age of 12 through the streaming exams. The result has been an emphasis on rote learning instead of critical thinking and the creation of a skilled, but compliant workforce. No opportunity is given to slow learners or late bloomers. Parents have also complained that the system stigmatizes some children early on as failures (Burton 2006b).

Realizing that the education system needs to be adjusted to allow for creative thinking as well as developing individual abilities, the government is now trying to loosen up and encourage creative thinking. A number of government measures are under consideration for implementation. A review committee recently concluded the need to change the mindset though the education system and recommended that "Singapore's education formula needs to move from uniformity to diversity, from rigidity to flexibility, from conformity to resilience, and from molding to empowering" (FitzPatrick 2003).

Changes need to be made to the exam and skill-oriented system from focus on raw grades to fostering creativity and innovativeness. The focus at all levels will now be to nurture flexible mindsets, shift emphasis from teacher to learner, and "transform from being just a productive society into a creative and risk-taking society" (FitzPatrick 2003).

Loosening Reigns to Foster Entrepreneurship

The first step to dealing with any issue is recognizing the problem. Singapore authorities have conceded that a dire need exists for building a class of entrepreneurs who will take the national economy to greater heights. This must mainly be done by the private sector but the government must ensure that a climate for innovation, creativity, and risk-taking exists. Many government leaders have stated that they are willing to allow for dissent and reduction of controls. Although much publicity was generated in the last 10 years that this was going to be done, this has been mainly lip service. Just recently in 2006 strong action was taken to prevent protests at the World Bank and IMF meetings held in Singapore and now new legislation is being planned to stop Internet blogs from criticizing the government.

Net Result: Decrease and Increase in Entrepreneurial Activity

The first GEM study (circa 2000) on the level of entrepreneurial activities in Singapore found it to be relatively low in comparison with the other countries. Singapore was ranked 17 out of 21 on the total entrepreneurial activity (TEA) index. The biggest impediment factors reported was the value orientation of the people—preferring to work for larger, established organization and fear of failure (GEM 2000).

The level of TEA improved substantially from 27 out of 29 nations in 2001 to 21 out of 37 nations in 2002, although the total entrepreneurial propensity for 2002 declined in comparison to 2001. The two most important dimensions that required improvement were social and cultural norms and barriers to entry (GEM 2002). There was a further decline in 2003 and the main reason cited was the occurrence of the SARS crisis, a viral infection that plagued most Southeast Asian nations. "Cultural values" continued to receive low ratings (GEM 2003).

The year 2004 saw the first major rise in TEA to 5.7 percent from 5.0 percent in 2003. Singapore's relative ranking among the Organization of Economic Cooperation and Development and East Asian countries improved slightly from 14 of 21 in 2003 to 11 of 21 in 2004.

Improvements were reported in the following dimensions:

1. Effectiveness of R&D transfer
2. Availability of capital
3. Government policy support
4. Access to physical infrastructure
5. Effectiveness of university, management education, and training

Lower ratings for Singapore were in the following areas:

1. Effectiveness of primary and secondary education and training
2. Rapidity of change in markets
3. Market accessibility
4. Social and cultural barriers

Singapore saw the highest increase in TEA in 2005 (up from 5.7% to 7.2%) since it began participating in GEM in 2000. This increase outpaced that of the developed OECD countries. The country was ranked 8 of 20. Improvements were reported in the following dimensions:

1. Regulation and taxation system
2. Government policy support
3. Market accessibility

Areas in which Singapore was rated lower were:

1. Effectiveness of university education and training
2. Business service effectiveness
3. Availability of capital
4. Social and cultural barriers

Table 2 summarizes the changes in TEA and country ranking for the years 2000 to 2005.

The constant lower ratings have been on social and cultural barriers. The GEM 2001 Executive Report clarifies that this is the most pressing issue and describes it as the "public's general attitude towards entrepreneurship." In nearly every country, this was found to be the greatest inhibitor to, or enhancement of, entrepreneurship. GEM specialists agreed

Table 2. TEA for Singapore 2000–2005

Year	*TEA (%)*	*Country Ranking*
2000	2.1	17 of 21
2001	6.6	27 of 29
2002	5.9	21 of 27
2003	5.0	14 of 21
2004	5.7	11 of 20
2005	7.2	8 of 20

Source: GEM 2000, 2002, 2003, 2004, 2005.

Table 3. Democracy Index 2007: The Economist Intelligence Unit					
Full Democracies	*Rank*	*Flawed Democracies*	*Rank*	*Hybrids*	*Rank*
Sweden	1	South Korea	31	Albania	83
Iceland	2	Taiwan	32	**Singapore**	**84**
Netherlands	3	India	35	Madagascar	85
Norway	4	Philippines	63	Lebanon	85
Denmark	5	Indonesia	65		
Finland	6	Bangladesh	75		
Luxembourg	7	Hong Kong	78		
Australia	8	Malaysia	81		
Canada	9				
Switzerland	10				

Source: http://singaporeelection.blogspot.com/2006/11/shameful-democracy-for-singapore.html.

that a society's negative posture with respect to creativity, innovation, and change significantly reduces the number of people engaged in starting new firms. The experts were also clear that a culture that rewards risk-taking is more inclined to support higher levels of entrepreneurial activity. Willingness to accept failure also tends to be associated with higher levels of risk-taking (GEM 2001).

Conclusion: More Can and Needs to be Done

The Economist (UK) ranks Singapore 84 among 167 countries in its 2007 Democracy Index. The index was developed by The Economic Intelligence Unit (EIU). Singapore is listed as a hybrid regime (mixture of authoritarian and democratic elements) and ranks well below Finland (6), Malaysia (81), Hong Kong (75), Taiwan (32), and Indonesia (65). The index looks at 60 indicators across the five categories: electoral process and pluralism, civil liberties, the functioning of government, political participation, and political culture (Economist 2006).

In its Press Freedom Index, Reporters Without Borders ranked Singapore 146 out of 167 countries surveyed for press freedom. At the top of the list were Finland, Iceland, Ireland, and the Netherlands while North Korea was last (Press Freedom Index 2006).

It is clear from both reports that Singapore needs to do much more in loosening its reigns of the population for them to feel comfortable in a free society and become more willing to take risks. The basic fact remains that in the current Singapore business environment, the societal culture is antithetical to the entrepreneurial spirit.

A business venture is a contradictory dynamics between risk and risk awareness. A business that is purely based on risk is an irrational undertaking. The ideal business venture is one that reflects the following:

Risk > Risk Awareness

Unfortunately in Singapore, the formula is reversed:

Risk Awareness > Risk

In the United States, it has been concluded that entrepreneurs do not consider themselves to be risk-takers. "They have weighed the pros and cons and convinced themselves that their so called risky idea isn't that risky after all" (Boyett 2001). The paradox of risk is that you cannot afford not to take it. "Nobody knows more about risk and how to live with it than entrepreneurs" (Wacker 2001).

Risk averseness can be described as the unwillingness to take risk due to the inherent fear of failure. It is an attitude that promotes "playing it safe" in line with the oft-repeated adage "you can't do wrong if you do nothing!" which naturally results in absolute minimization of any risk factors. In the Oriental world, fear of failure is further reinforced by the need to save "face."

Kreiser, Marino, and Weaver's 2002 study empirically proves that national culture has a direct and identifiable impact on the level of entrepreneurial behavior. The study utilized data from 1,070 firms in six countries to assess the impact of national culture on entrepreneurial orientation. The impact of culture was examined on two key dimensions: risk-taking and proactive behavior. Their argument suggests that by changing the "predominant cultural values in a given society, policy makers can act as a catalyst to entrepreneurial development" (Kreiser, Marino, and Weaver 2002).

Singapore's success and weakness lies in this setup. Entrepreneurship is a result of two interdependent factors:

1. A vibrant culture that is willing to take risk and values the freedom of risk, and
2. A social system that channels and rewards the risk-takers so that society as a whole can benefit from the talent in due time.

A society that has traditionally focused attention on "control" rather than "free spirit" when confronted with the "new economy" has extreme difficulty in reducing the controls and increasing the free spirit. This is the key factor that destroys entrepreneurial spirit in any economy, and is the dilemma between "security" and "risk." The choice for Singapore is obvious. A truly entrepreneurial culture is built around accepting failure as commonplace and risks continue to be taken because there is little to lose. This may not be the case for Singapore where most citizens are simply too well off and cozy.

Financial incentives, tax breaks, and infrastructure improvements do certainly lead to increase in entrepreneurial activity, as is the case in Singapore. But a desire for true innovation, creativity, experimentation, and multiple opportunities in education cannot be realized until the state allows civil society to flourish and avoids politicizing dissent (Tan and Gopinathan 2000). As long as the Singapore government is unwilling to allow natural forces to prevail, allow open expression and free flow of ideas, and encourage out-of-the-box thinking that will unveil the creative and innovative energies that currently are dormant, only limited progress in fostering an entrepreneurial culture can be expected.

Postscript

The GEM Survey for 2006 was released after completion of this article but before publication date. Results released on February 9, 2007 show that Total Entrepreneurial Activity (TEA) went down from 7.2 percent in 2005 to 4.9 percent in 2006, placing Singapore 16 among the 22 members of the OECD that were surveyed (Strait Times 2007).

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About the Author

Balbir B. Bhasin (bhasinb@sacredheart.edu) is an associate professor of international business at the John F. Welch College of Business, Sacred Heart University. He taught previously at Ashland University, Ohio; University of Tampa and Eckerd College, Florida; and South Texas College in McAllen.

Prior to teaching, Dr. Bhasin was simultaneously president of a private investment bank based in Hong Kong and New York, and the CEO of an international business information company based in the Far East.

He is a member of the Advisory Board of the Human Resource Institute, University of Tampa, and a researcher with the Center for Comparative Water Policies and Laws at the University of South Australia.

Dr. Bhasin is multilingual and multicultured. His education encompasses five systems: American, Asian, British, Canadian, and Australian. He has lived and worked in 12 countries.

He holds two bachelor's degrees (in the humanities and business administration) from Lakehead University, Ontario, Canada; a Master of International Management degree (with distinctions) from the Thunderbird School of Global Management, Glendale, Arizona; and a Doctor of Philosophy degree in management and international business from the University of South Australia, Adelaide, Australia.

The Entrepreneurial Director

Bruce C. Sherony

The argument that the board of directors can be a helpful tool for entrepreneurships and small businesses derives from the rationale for using boards from both a macro and a micro perspective. Society depends on boards to provide overall checks and balances in the running of businesses. This could not be more evident from the role of the board in Enron's collapse (U.S. Senate 2002).

The board's value to the entrepreneur is found in the application of the micro perspective. Two sets of recommendations are developed to formulate an improved model of directorship actions and behaviors. First, duties and responsibilities of the board of directors are expanded to help guide entrepreneurs. Second, five unique behavior patterns are then proposed that can be particularly helpful in carrying out the duties and activities of the board for guiding entrepreneurial success.

The overall thesis that arises from this research is that working advisory boards and boards of directors could not only be helpful but instrumental in strategic planning for entrepreneurs and small businesses. To accomplish this goal, the traditional role of the board of directors is expanded, especially to address and respond to the needs of entrepreneurs and small businesses. Five behavior constructs are proposed to provide a model of the entrepreneurial director. Three key behavior patterns underlie each construct. The model is proposed to stretch current boardroom practices to better serve entrepreneurs and small business managers.

Research Design

During the past 25 years, the author has coordinated 100 student research and consulting teams, directed at improving entrepreneur and small business problems and opportunities. Several of the studies investigated business opportunities for not-for-profit institutions, such as devising improved strategies for a gift shop in a local museum. For each entrepreneurial client, senior business students at a Midwestern university were assigned to investigate, analyze, and suggest improvements of the entrepreneurs' strategic and tactical issues over a four-month period. The author also conducted interviews and conversations with the entrepreneurs that focused on their problems and how well they were able to respond to opportunities. The consulting teams' recommendations and the author's impressions consistently find that many issues seriously hamper the planning processes in these businesses.

Corporate Governance: The Macro Requirement

From a macro perspective, corporate governance can impact the nation's financial stability, which in turn, will affect its economic performance. Therefore, it is prudent to enthusiastically promote good corporate governance to fight against financial fraud and to win the publics' confidence in our institutions. When the public was recently asked about their ability to trust companies in providing complete and accurate financial information, roughly 42 percent lacked trust in such information. Further, when the public was asked if boards of directors are effective at managing executive compensation, 57 percent of respondents with college degrees disagreed (Bright 2006).

Corporate scandals have contributed trillions of dollar losses in the United States. Many of these scandals were the result of shifting power in favor of the CEO and other high-ranking officers and away from boards of directors. As a result of these misdeeds, we are entering a period of government impact of boards of directors and a rethinking of making boards more effective (Donaldson 2003). Further, good corporate governance can reduce the number of investors who trust false financial information and make incorrect investment decisions (Shen, Hsu, and Chen 2006).

Directors of large corporations often rely on hired counsel to conduct independent investigations for the board. This was reported to be the case both at Enron and Tyco. Yet both rating agencies and other investigators can miss parts of the truth (Chanos 2006), which are important for the investing public to make wise decisions. Society must be able to rely on directors to be true stewards of corporate governance. They must define a philosophy and culture of ethics to guide corporate management that will permeate businesses, society, and culture. By making a strong commitment to ethics, accountability, and shareholder interests, boards will gain and strengthen investor confidence in society's business institutions. On a macro perspective, it is society's confidence that builds a stronger economy.

Corporate Governance: The Micro Requirement

Managers from medium-size and larger companies that move into entrepreneurial roles quickly encounter a different business world than they were once familiar with. The entrepreneur has to be all things to all people, which requires making decisions much of the time within the total value chain. Entrepreneurial lives are full of small problem distractions. They have to do things constantly that are beneath executives in larger size institutions. There is a lack of influence, prestige, and public recognition for the entrepreneur that is expected and achieved in the executive suite. The entrepreneur's problems are unnervingly vulnerable; for example, the loss of one customer could often be a serious problem. Further, they have little control over their time; there are always interruptions (Schroder 2006). As their business becomes successful, it can become easy to overlook any of the following deadly errors:

- Forget to remit payroll taxes on schedule.
- Fail to document the justification underpinning the dismissal of an employee.
- Allow the company's liability insurance to lapse.
- Neglect to report sales usage tax.
- Verbally grant employee incentive options during an informal luncheon meeting (Levangie 2004).

A board of directors seems especially useful to the entrepreneur in the following applications.

The Responsibility for Providing Direction and Advice

Seasoned wisdom from the board can present "the big picture" to the owners. Entrepreneurs and small business managers need guidance in developing a future for their businesses.

The Responsibility for Providing Support

Many entrepreneurs and small businesspeople have no one other than themselves to rely upon. By having a board, they can feel comfortable and gain confidence from people who have a track record of successful business experiences in their career.

Going Public

If a new entrepreneur or small company is successful, it may aspire to go public. Independent boards are helpful in meeting stock exchange requirements. Further, board members can add credibility to the business by associating with it and through their connections.

Succession Questions

Many family-owned companies that emerged after World War II are going to be facing succession questions. A board can help derive a good succession plan and provide rationale to conflicting parties about the succession of the small business.

Financial Guidance

Entrepreneurships and small businesses often experience cash and capital problems. A board's vision and planning can help moderate issues resulting from cash flow problems.

Networking

Many board members can help think of sources of potential capital and make other links that are very useful to a small business or entrepreneur (Buss 1996).

Legitimacy and Reputation Building

Reputable independent directors can help establish the legitimacy that new entrepreneurship's often lack. Successful individuals can act as a signaling mechanism in the development of the entrepreneurship's reputation in its environment (Deutsch and Ross 2003).

Developing the Entrepreneurial Director

Boardroom members and researchers are making a case for the board to evolve a new set of duties and skills, especially for entrepreneurships (Dorado and Molz 2005).

It is a very difficult challenge to focus on the operating mechanisms of business institutions that require a high level of specialization to assess and determine objectively how effective that specialization is. It is the directors who are in the best position to question and affirm or deny the progress and direction of institutional development.

This research suggests the following duties for continuing the expansion of the evolutionary role of the board of directors in guiding the nation's entrepreneurs and small businesses.

Meeting with Shareholders

In the past, directors had limited contact with shareholders. Given the state of conditions facing boards today, it is suggested that boards meet and talk with shareholders. To date, both the Securities and Exchange Commission and the New York Stock Exchange have not mandated that boards meet with shareholders. The board of directors could attend an annual meeting with shareholders without internal management present to discuss shareholder issues and obtain their impressions of how the entrepreneurship is performing (Whitehouse 2006).

Discussions with Employees

Directors must learn to do more listening and devote more time to listening to employees. In the past, directors have not had access to employees. Meeting with employees can give directors a sense of how dedicated employees are toward pursuing company goals. Equally important, directors can get a sense of how employees feel about management (Whitehouse 2006).

Too many managers view the workforce as a cost to be controlled. The employees invest their human capital in the companies they work for. The board should encourage and support their voice in corporate governance (Kochan 2006). Directors should exercise their rights to visit company facilities during work hours and have conversations with employees without internal management present.

Evaluating Each Other's Performance

Much of the boards' time is spent interacting with management and in interacting with each other. The idea of having periodic board reviews could help to change board behavior in a variety of ways. The performance evaluation of each board member will cause directors to become much more serious about performing well because a written opinion and conclusion is made about their board success and effectiveness. It could modify feedback, make directors more serious in their preparation for board meetings, and make them more serious when serving on committees (Wei 2006). Board members should be peer reviewed every three years to summarize their contributions to the entrepreneurship and their impact on the company.

Strategizing the Business

When there are no easy road maps to follow for guiding business activities, the board can help strategically to monitor and guide the entrepreneur into the future. When the board of directors has independent leadership, that is leadership other than the CEO, it tends to perform better in corporate strategy (Lawler and Finegold 2005). The board of directors must find the energy, industry, savvy, and ability to help mold, approve, and test the strategic plan for the entrepreneurship or small business. This requires that several board members have deep industry experience and to help the board to set a strategic course (Carey and Patsalos-Fox 2006). The board of directors provides the momentum in the strategic planning process that keeps managers and employees tracking toward their long-range goals.

The board of directors is capable of defining three elements of strategy (Frery 2006) for the entrepreneur:

1. *The Why of Strategy.* The first element of strategy to be conducted by the board is to define the entrepreneur's ability to increase customer value beyond a reasonable cost.
2. *The How of Strategy.* The second element of strategy to be accomplished by the board for the entrepreneur is to define how the strategy is going to be accomplished. The board will explore benchmarking, differentiation, core competencies, and other creative and imitative methods that will help mutate and evolve a new business model.
3. *The What of Strategy.* The third task of the board in designing a strategy for the entrepreneur is to define the capabilities, limits, and scope of the strategy. The board should help set the guidelines by examining diversification, new markets, vertical integration, outsourcing, and other techniques that stretch the horizons for the entrepreneur and determine the impact of the positioning.

Evolving New Cross-Functional Relationships

Many strategic failures during the past 15 years can be traced to an excessive focus on identifying and concentrating on narrow core competencies. This trend was not practiced by companies that took special interest beyond their core competencies, such as paying close attention to quality control, and managing and controlling their distribution networks. Good examples of companies that went way beyond their core competencies are Avon, Harley Davidson, Starbucks, Sherman Williams, Dell, and Caterpillar (Thomas and Wilkonsan 2006). The board of directors can help envision beyond just the core competencies by integrating cross-functional components such as sales transaction data, product specification data, channel partner data, product line data, consumer behavior data, and many other data components to design new intersection points that translate into new strategies. Intersection points are evolved into networks for making things happen (Forsyth, Galante, and Guild 2006). Thus, the entrepreneurial board is in a pivotal position for engaging in the development of cross-functional relationships for developing integrated strategies that capitalize on intersecting insights.

Practicing Servant Directorship

The entrepreneurial director is servant first, director second. These directors view themselves as public servants, a natural inclination that the board member wants to give service to his or her company (Martin 2006). This requires that they find an important task to perform as director and that they get engaged in the process of accomplishing it. This could take the form of helping create new division or department goals, writing plans, auditing part of the company, collecting census data on population growth trends, and a host of other tasks. These tasks must directly relate to the goals of the company and fall into the sphere of work that the board can accomplish. This work should augment management's tasks and goals. The criteria to become a servant director have been well developed by Greenleaf (1977) who set up a training center for servant leadership (Greenleaf Center 2007).

1. To bring their institutions to a distinguished level of performance.
2. To design the leadership of the institution as a group of equals.
3. To define the institution.
4. To state the purposes and goals of the institution.
5. To learn what they need to know in order to oblige the institution to reach distinction.
6. To have a total understanding of the institution.

7. To have a caring attitude for all the persons touched by the institution, especially caring for those persons in proportion to their involvement in and dependence on the institution.

The Entrepreneurial Director Model

The evolving duties of the board in serving the entrepreneur require a higher level of involvement and commitment than just preparing and attending 10 meetings per year and voting on issues. It involves knowing the trends and opportunities facing the business, assembling data collection points, and processing data to glean intelligence from information. It further involves helping to evolve a strategy and to negotiate and guide the entrepreneurship through each window of opportunity. To perform the above evolving duties and tackle the issues, problems, and opportunities facing entrepreneurships, a model is developed, comprised five behavior patterns (Aquinas 1990 version) that are found to provide a good targeted fit for performing the duties and expectations required by entrepreneurial directors.

Charitable

Entrepreneurial directors have to be more charitable than their larger corporate counterparts. Charitable directors are those that give freely their time and talents to the company, its employees, and other board members. These directors become ready to respond to management's needs in getting work accomplished. They accomplish projects as well as provide the traditional guidance, coaching, and mentoring to evolve effective company performance. Good target behavior examples of director charitableness are the following:

1. Charitable directors express an innate desire to give more to the company for which they are a board member than they will take from it.
2. Charitable directors know that they are going to strive at imparting new initiatives into the lives of the companies for which they serve as board members.
3. Charitable directors spend the time and energy in showing management, supervisors, and employees how some units or segments of the business will be refocused today to build a better tomorrow.

Patience

The entrepreneurial board must invest in patient capital for the entrepreneur. It involves a forbearance and vigilance over the entrepreneur's asset base coupled with a strategy that is accruing economic activity. The board needs to evolve and practice a capacity of calm endurance, hope, and trust as business activities pass through a series of economic conditions, obstacles, and trials for achieving success. Good target behaviors that provide examples of directorship patience include the following:

1. Board members provide special encouragement to slower developing and less productive employees and managers.
2. Board members induce colleagues to come aboard. They convince employees, investors, and others to buy into the entrepreneurial plan and the board's plan.
3. Patient directors refrain from using luck to any extent. Guiding entrepreneurial performance is not a game of chance; it is the guidance of performance activities and the setting up of checkpoints to assess the degree of goal achievement of these activities.

Humility

Achieving status or a next promotion are poor reasons for joining a board. Humble directors will deflect attention away from them and shun the limelight. They quietly focus attention on the tasks at hand. Board meetings become a poor place for ego trips and personality clashes. These directors must learn to disregard their status and ego in accomplishing board work and attending board meetings. They are much more plow horse than show horse (Collins 2001). Several target behaviors developed to encourage director humility are the following:

1. Board members refrain from seeking titles and status. Directors who seek the value of titles and status are less likely to focus on issues for their own benefit rather than for benefit of their company. Status will normally accrue as a result of improving entrepreneurial performance and effectiveness.
2. Board members recognize and admit errors. A board and management that develop and implement strategies are not going to be right 100 percent of the time. A board that admits error will learn to observe feedback closely and grow in strength and confidence.
3. Board members seek criticism. The board acts as management's "window to the world." By seeking criticism, the board can understand new viewpoints, evolve better strategies, and maintain a better understanding of their role in providing guidance as a "window to the world."

Values

Entrepreneurial board members must strive to seek and display a set of values or absolutes to all members of the business. Values comprise the belief system of each board member. Hard work, punctuality, concern for others, honesty, and the importance of life are important boardroom values. They need to signal their determination in safeguarding assets and improving performance and effectiveness of the company for which they are a board member.

The roles of entrepreneurial directors are defined to encourage a higher degree of involvement when compared to that of their larger corporate counterparts. A closer interaction with managers, employees, and shareholders allows them the opportunity to display their values to these groups. Target behaviors that help define and permeate values are the following:

1. Board members display integrity. Integrity is first a wholeness that contains the parts of the person that qualifies them to be a director and, second, it is an inclination of a director to apply a high standard of morals to the entrepreneurship. Mature directors realize that integrity is a journey, not a destination to be reached. Directors must lead in displaying integrity.
2. Board members never cheat the system a little. Directors have an opportunity to know what the business is involved in, to act on inside information for them, and to obtain contracts for their own companies. By adhering to strict guidelines and honesty, they will send the signal that it does not pay to cheat the system a little.
3. Board members seek and accept responsibility. Directors must make the connection between taking actions and being able to safeguard assets, evaluate management's performance, and develop and guide a strategy for the entrepreneurship. Thus, entrepreneurial directors derive an obligation for setting up tasks, guiding performance, and recognizing results.

Contentedness

Directors of entrepreneurships must search for a different set of incentives, rewards, and satisfactions from their counterpart directors of larger corporations. High retainer fees, consulting fees, committee fees, status, and expensive travel are not likely to be components of reward schemes for entrepreneurial directors. Nor are entrepreneurial directors likely to have consultants, corporate staff experts, and other employee support. Part of their satisfaction will emerge from being able to see that they utilize their skills to improve the performance and effectiveness of their entrepreneurs. Additional satisfactions will derive from rewards that result from profitable performance of the entrepreneurship. Good target behaviors for practicing entrepreneurial director contentedness are the following:

1. Board members display a positive attitude. Carrying any grudge and complaining will quickly transpire into the perceptions of managers, shareholders, and employees.
2. Board members savor the moments of satisfaction resulting from the struggle. Entrepreneurial directors must carefully set up strategic processes that contain checkpoints for assessing the amount of accomplishment achieved during carefully determined time frames. They must learn to recognize and reward themselves and others for small accomplishments within the longer range process toward success.
3. Board members find happiness in utilizing and applying their skills. Entrepreneurial board members will have to spend a considerable amount of time and possess a high degree of skill in managing detail, investigating opportunities, collecting data, and utilizing technology for developing pathways of opportunities that their business can take advantage of.

Conclusions

The traditional definition of the board's role is not a sufficient condition for meeting the challenges that entrepreneurs encounter. The entrepreneurial board member will evolve his or her role by achieving three important criteria (Greenleaf 1977).

1. An awareness should exist that a critical watch is being kept over the institution's direction.
2. A healthy tension must always exist between belief in the current status quo of the institution and the urge to question, offer advice, and even criticize.
3. A feeling must be possessed by directors of an authority role, which includes freedom to make expressions and suggestions, to ask questions, and to require information from employees and managers.

The entrepreneurial board must be capable of collecting and filtering facts and data through their introspective and vigilant instincts that will evolve cross-functional integrating insights. Further, they provide the skill, savvy, and energy that translate these insights into strategies. The execution of strategies calls for their careful monitoring, guidance, and the addition of checkpoints for assessment of these new windows of opportunity.

Entrepreneurial board members will gain an improved understanding and insight into issues facing the entrepreneurship by engaging in discussions with employees and in meeting with shareholders. The style of leadership practiced by management and its effectiveness will become evident to them. Through honest and frank discussions without the CEO present, they will further understand the strengths, limitations, opportunities, and threats of the businesses they are guiding.

It would be helpful if board members would periodically evaluate each other. This expectation can provide an incentive for each board member to be participative, conscientious, and diligent about improving the entrepreneurship. In most instances, a three-year time span ought to be long enough to allow each board member to make a positive contribution to the entrepreneurship. An honest evaluation of the CEO of the entrepreneurship is also advisable.

To fulfill these expectations, five behavior constructs are proposed to provide a model of the entrepreneurial director. Three key behavior patterns underlie each construct. The entrepreneurial directorship entails the practice of charitableness, patience, humility, adhering to a set of values and contentedness in carrying out the board's work routine.

By engaging in these behaviors, board members practice servant directorship. They provide personal involvement in engaging in entrepreneurial projects as well as providing direction and guidance. If carried out properly, it will be the entrepreneurial directors who will set a new standard for traditional boards to follow.

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About the Author

Bruce C. Sherony (bsherony@nmu.edu) is a professor of business administration at the Walker L. Cisler College of Business at Northern Michigan University. He teaches courses in entrepreneurship, small business management, management consulting, and general management. Professor Sherony received his Ph.D. from Saint Louis University in Business Administration and he also holds an M.B.A. and a B.S. in business administration. He conducts research on corporate directorships and on small businesses and entrepreneurs.

Entrepreneurial Selection and Use of Legal Counsel

Stephen J. Schanz

Entrepreneurs starting new ventures will encounter a host of legal issues requiring consultation with an attorney on an episodic or ongoing basis. It is critical that careful attention be given to the attorney selection process to properly match the needs of the company with the credentials of the attorney. Additionally, options should be explored regarding the billing and payment methodologies the attorney is willing to entertain. The financial resources and cash flow of young companies will likely have a direct impact on the financial agreements entered into with legal counsel. Further, companies desirous of offering the attorney a stake in the company as full or partial payment for legal services need to be mindful of ethical restrictions applicable to the lawyer, as well as exceptions to the lawyer's malpractice coverage arising from his or her role with the company.

Many start-up companies find themselves in need of periodic legal assistance but unable to bear the financial burden of employing an attorney full time. Often their investment or venture capital is dedicated to, and consumed by, other pressing needs of the company. When such an entity decides to locate counsel with whom they can consult on an ongoing basis, several pivotal elements are worthy of examination. The expertise and demeanor of the attorney, his or her rate of compensation, the relevant code of ethics governing the attorney, and limitations of the policy language in the lawyer's malpractice policy can all have a profound effect on the lawyer–client relationship. Such factors can restrict the compensation methodology negotiated between the parties and, in some cases, pose a hindrance to permitting legal counsel to acquire an equity position with the venture.

The Initial Inquiry

During the initial stages of company formation, consultation with qualified legal counsel is essential. Options relative to company structure (i.e., partnership, corporation, limited liability company, etc.), financing, human resources, intellectual property, governance, risk management, and insurance are but a few of the areas in which an experienced counsel can offer valuable advice. Once the time has arrived to consult with an attorney for one or more of the mentioned areas, due diligence should be exercised to ascertain whether the candidate attorney possesses the requisite background, education, and expertise. Though at first blush it might be easy to designate a specific area of the law as "critical" to your business mission, a thoughtful review of the full continuum of the company's needs is warranted.

For instance, a start-up venture focused on the development of a new software program may indicate a superficial need for an attorney well versed in the various aspects of intellectual property. This may prove to be short-sighted, however, in the event the chosen attorney, while experienced in intellectual property, is not conversant with many of the other concerns the company will undoubtedly have, such as organizational structure, site of incorporation (if any), employment, tax, contractual, financing, and governance matters. While no single attorney is an expert in every field, young companies can frequently link with an attorney competent in several areas of law likely to be encountered and be referred to other counsel in specialized areas on an "as-needed" basis.

Even a straight forward decision such as whether to incorporate carries significant ramifications for a business. Decisions pertaining to stock offerings, classes of stock, composition of the board of directors, duties and authorities of officers, and selection of the jurisdiction in which to incorporate are but some of the choices competent counsel can assist with. The optimum time to consider these options is in the initial start-up phase rather than amending documents after initial decisions have been implemented.

By way of example, there can be dozens of preliminary matters or issues in the formative stage of a new venture which would be valuable, if not essential, for legal counsel to be consulted. These may include:

1. Does the venture have any intellectual property and, if so, is it adequately protected? Patents, trademarks, and copyrights fall into this category.
2. Is the company currently working on ideas that are proprietary in nature but that have not yet been formally protected? Trade secrets and other confidential information fall into this realm. Are there sufficient safeguards applicable to such confidential information, such as password, biometric, or other security measures? If it is necessary to consult with outside third parties, are carefully worded nondisclosure agreements used?
3. When deciding how to organize and structure a new company, tax issues, liability concerns, financing options, the use of employees versus subcontractors, governance options, board of directors structure, voting

rights, and contract matters can all present thorny questions in the early stage of a company's existence which would benefit from legal consultation.

4. When contemplating what financing options may be available, careful evaluation of relevant state and federal security laws is a necessity. Legal counsel can assist in explaining what methods may be used, the requisite forms that must be executed, and the myriad rules with which the company will need to comply.
5. The sovereignty under which the organization is to be created can often involve a discussion and review of various state laws. Certainly the locale of the primary enterprise and its ancillary activities will be a factor but, additionally, pondering the benefits and drawbacks of corporations, limited liability companies and partnerships, the differences in some state laws may be determinative of where to create your business legally.
6. Governance issues are almost universally a key consideration with new ventures. Questions involving what individuals will have day-to-day operating authority, who can sign checks and contracts, what rights investors have, how large a governing board is appropriate, how the board is selected/elected, whether officers and directors can be removed and, if so, for what reason—are all decisions that can best be made with legal counsel after a thorough review of the relevant facts at hand. There is no "one-size-fits-all" template that can guide ventures.

Though the factors mentioned above frequently arise in the formative stages of a venture, each can also become critical later in the entity's life span as conditions change. Perhaps there is a challenge to the company's intellectual property or it appears someone is infringing on the venture's intellectual property, a new round of financing may be desired which involves the creation of another class of stock with differing rights, the issuance of stock options may be contemplated, or carefully drafted employment contracts are needed. Each event may trigger a beneficial consultation with an attorney.

One benefit of using a law firm instead of an individual practitioner is the breadth and scope of expertise available within the firm. While this can be a significant asset, the client company should clearly investigate during its initial discussions the billing rates for other attorneys it may need to consult. Young and start-up ventures often find budgetary surprises that can drain cash flow and impact its economic stability, so exploring all potential legal costs for using counsel can result in a more accurate financial projection.

In similar fashion, interviews with various attorneys should be conducted to reveal not only their areas of knowledge, but also their personalities and offer some insight as to whether their demeanors would integrate sufficiently with those of the company principals with whom they would be working. Clear, concise, and effective communication between legal counsel and company representatives is indispensable to getting the most out of the attorney–client relationship. Personalities and perspectives that seem to clash at the outset are unlikely to improve with time or get better under pressure situations.

A practical aspect of selecting legal counsel is to research which attorneys or firms in the geographical area are accustomed to representing start-ups and presumably are knowledgeable about the uncertainties and timing of venture capital and resultant cash flow. Word of mouth, recommendations from other companies, scanning profiles in legal databases, and advertisements in phone directories are but a few of the ways to search out such firms. Attorneys who have dealt with several new ventures are likely to be more familiar with billing options that are more favorable to the client. Reduced hourly or project rates, delayed billing, "blended rate billing," "value billing," or modified retainer arrangements might offer an emerging business a greater degree of financial latitude to enhance its chances for success.

Once firms with this experience are identified, reference checks and informal inquiries can be conducted to ascertain the strengths and weaknesses others may have experienced with the lawyers. This information can better assist the company in selecting counsel most suitable to their enterprise.

Costs

Once an attorney or law firm appears to have the necessary skills and credentials, young companies are prudent to explore the compensation rate the attorney charges thoroughly. This can vary widely depending on geographic location (i.e., urban v. rural), size (solo practitioner v. law firm), type of unit billing (per hour, per diem, daily, retainer, etc.), and terms of the retention agreement (client billed monthly, quarterly, etc.). All options have the potential to affect the company, its operations, and cash flow.

Recently, some law firms have recognized the unique needs of entrepreneur driven start-ups and have begun offering a fixed annual fee in exchange for a mutually agreed upon range of legal services, much like an "outsourcing" of the legal counsel role (Edelstein 2006). In this way, some firms facilitate access to any of their member attorneys, as needed, so long as the utilization does not exceed the parameters established in the contract with the start-up company. One potential drawback is that either party may not want to renew the contract upon its expiration, and this would require a new search for legal counsel.

Other creative billing arrangements include "blended billing" and "value billing." Most law firms that have more than one attorney performing services for a client have partners, associates, and legal assistants working on a client file with each charging a separate rate. When taking on a new emerging client, the firm might be persuaded to undertake a blended rate in which the estimated hours necessitating a partner and the hours expected of an associate(s) or legal assistant have their respective rates "blended" to arrive at a more moderate per hour charge to the client. Law firms agreeing to this format undertake a certain degree of risk if they seriously miscalculate (and hence underestimate) the number of hours or tasks that can be satisfactorily performed by an associate at a rate lower than the partner. This arrangement, however, can soften the financial burden on the new company by moderating what would otherwise likely be a much higher legal bill.

In "value billing," the company client and law firm thoroughly review the client's legal needs, the tasks needed to be performed, the results the parties expect to receive, and the timeframe within which the services and results should occur. By mutual agreement, the parties reach a consensus on what the value of the legal services will be if the desired benchmarks are met. If performance falls below expectations, the client and law firm can consider a discount or reduction in fees to reflect the difference. (McMenamin 2007).

While start-ups can be lawyer-intensive in the formative stages, requiring advice in many organizational areas and in policy development, successful growth and expansion is also likely to increase demands for counsel as licensing, contracts, intellectual property, human resource, and other dimensions expand. Adequate flexibility should be built into budgets in hopes of remaining capable of securing services in a timely matter as needs arise.

Offering Equity in Exchange for Fees

In some situations, young start-ups find the idea of offering an equity position in the company as "compensation" for a predetermined amount of legal services attractive. While at first this can appear viable, it is not without significant repercussions worthy of extended analysis.

An attorney wishing to accept a company's offer of equity for legal services rendered must ensure he or she does so in compliance with the code of ethics applicable in that state. Every jurisdiction has a code of ethics governing attorney conduct and most have provisions that apply when a lawyer obtains an interest in the client. Specific language from state to state differs, but the common theme is that a lawyer must advise the client (i.e., company) of a potential conflict of interest, obtain the client's consent, and secure written documentation of such consent. Depending on the circumstances, a conflict of interest could arise in a number of ways. An entrepreneur launching a new company may be in immediate need of legal services and offer a sought-after attorney shares in the company as a way of reducing company expenditures. This can usually be done, albeit with certain safeguards in place.

The Canons of Ethics applicable in various forms in most states prohibit a conflict of interest between lawyer and client. Consider, as an example, a relevant provision of the North Carolina State Bar Rules of Professional Conduct (North Carolina State Bar 2006):

> Conflict of Interest: Current Clients: Specific Rules
>
> (a) A lawyer shall not enter into a business transaction with a client or knowingly acquire an ownership, possessory, security or other pecuniary interest directly adverse to a client unless:
>
> (1) the transaction and terms on which the lawyer acquires the interest are fair and reasonable to the client and are fully disclosed and transmitted in writing in a manner that can be reasonably understood by the client;
>
> (2) the client is advised in writing of the desirability of seeking and is given a reasonable opportunity to seek the advice of independent legal counsel on the transaction; and
>
> (3) the client gives informed consent, in a writing signed by the client, to the essential terms of the transaction and the lawyer's role in the transaction, including whether the lawyer is representing the client in the transaction.

In many instances the position of the lawyer holding an equity interest will be identical to the interest of the company as a whole. The possibility exists, however, for their two interests to conflict. Suppose the attorney holds voting shares of stock as his equitable "payment" and management proposes one course of action for shareholder approval and the lawyer disagrees and votes contrary to the company's proposal. In such a scenario the interest of the two parties would not be consistent. Complicating this alternative even more is the nearly impossible task of predicting future events the company may encounter that could generate a conflict of interest. Though its language is not identical, the State Bar of Michigan has similar rules governing its licensees (State Bar of Michigan 2006).

California, in its Rules of Professional Conduct, specifically targets a lawyer's financial interest with clients for cautionary review. In relevant part, its rules (California State Bar, Rules of Professional Conduct 2007) state:

> (B) A member shall not accept or continue representation of a client without providing written disclosure to the client where:
>
> (1) The member has a legal, business, financial, professional, or personal relationship with a party or

witness in the same matter; or

(2) The member knows or reasonably should know that:

(a) the member previously had a legal, business, financial, professional, or personal relationship with a party or witness in the same matter; and

(b) the previous relationship would substantially affect the member's representation; or

(3) The member has or had a legal, business, financial, professional, or personal relationship with another person or entity the member knows or reasonably should know would be affected substantially by resolution of the matter; or

(4) The member has or had a legal, business, financial, or professional interest in the subject matter of the representation.

These factors strongly suggest that the more balanced and "arms-length" approach would be to negotiate compensation for attorney services on a per hour, per diem, per project, or retainer contract basis. At a minimum, a start-up venture and an attorney seeking to enter into an equity relationship need to give serious evaluation to the applicable ethical rules governing the attorney's participation. While sanctions for violations might be imposed on the attorney and not the client company, it is important the lawyer–client relationship be formed in a legitimate fashion serving the best interests of both parties.

The Insurance Dilemma

Even if the company successfully negotiates with an attorney for an equitable stake in their company and satisfies the ethical mandates required, the attorney may still be confronted with another risk deserving careful analysis.

The majority of practicing attorneys carry legal malpractice insurance to cover errors or omissions they might make in the rendition of professional services, much as a physician carries medical malpractice insurance. As with every contract of insurance, the actual terms, conditions, and limitations of the specific policy govern what is insured. Sometimes the policy language can exclude coverage for lawyers acting on behalf of a company in an official capacity, such as an officer, director, etc. Consider the following coverage exclusion in a North Carolina liability carrier's policy (Lawyers Mutual 2006):

EXCLUSIONS

(g) any claim, or any theory of liability asserted in a suit, based in whole or in any part upon any insured's act(s) or omission(s) occurring in whole or in part, while such Insured is, in any way, or to any extent, acting in his or her capacity as an owner, officer, manager, director, shareholder, member, partner, trustee, employee, or fiduciary (other than as covered by the provisions of II. Coverage– Fiduciary) of a business enterprise, regardless of whether for profit, or of a not-for-profit or charitable organization, or of a pension, welfare, profit-sharing, mutual or investment fund or trust;

…

(i) any claim or any theory of liability asserted in a suit, based in whole or in any part upon the liability of any Insured to a member of the family of such Insured, or to any other Insured, or to the testamentary or trust estate of any such person, or any liability of the Insured to any business enterprise (regardless of whether for-profit or a not-for-profit or charitable organization), or the owners thereof, not designated in this Declarations of this policy, which at the time of the act(s) or omission(s) of any Insured upon which liability is based, in whole or in any part, was a business enterprise in which any Insured, or a member of the family of any Insured, or of different Insureds, or the testamentary or trust estates of any such person or persons, together or individually, owned as much as a 15 percent interest (whether legal, equitable or in combination), and which liability is based in whole or in any part, or to the extent, upon the conduct of such business (including, but not limited to, the ownership, maintenance, use or care of any personal or real property);

Depending upon the specifics of the contractual arrangement, a lawyer holding an equitable interest in a start-up company, either while serving as its lawyer on a fee-for-service basis or receiving an interest in the company as payment for his or her services, may find that his professional liability coverage would not extend to acts or omissions involving that particular client (Graebe 2003). Though certainly posing a risk to the individual lawyer or lawyers involved, this could also present a peril to the company in the event the attorney made a serious mistake causing damage to the company and insurance coverage was not applicable.

A more perplexing and ambiguous dilemma may arise in situations offering the attorney stock options at a strike price in the future. By its nature, an option could be exercised at a future date or be allowed to lapse without execution. In the former, the analysis would likely focus on the time at which legal advice was rendered and whether, at that time, the options had been exercised. In the latter, the insured attorney would have a strong argument that he or she at no time had an equitable interest in the company inasmuch as the option represented only a future possibility that never materialized. For insurance purposes, the argument would continue that the attorney was not in a conflict of interest that triggered the exclusion of malpractice coverage. Additionally, such an ambiguity could place the burden of legal construction on the insurer that presumptively was the drafter of the contract. The long established doctrine of "contra proferentem" calls for such language to be construed against the party that drafted it (*Black's Law Dictionary* 1968).

Though the use of options may offer some value in navigating around particular malpractice insurance coverage exclusions, it must simultaneously be viewed from a potential investor's vantage point. Those seeking to invest are likely to be swayed one way or another by the company's balance sheet and financial statements. An attorney vested with shares of a company in exchange for services may be viewed less favorably than one holding options exercisable in the future. As with most components of new ventures, such decisions should not be considered in a vacuum, but rather viewed from the perspective of all stakeholders.

Another concern arises when the company would like the attorney to serve as an officer or director of the venture itself. While the traditional malpractice policy typically covers acts arising from legal representation, many exclude coverage for acts performed as an officer or director of a company as these are seen as different and distinct from acts while acting solely as an attorney. Many companies obtain directors and officers liability coverage, often termed "D&O insurance," to insure against errors and omissions made by company officials. Should the company have such a policy, the company's attorney would likely be included among its insureds for acts arising in his or her capacity as an officer, while the lawyer's malpractice policy would respond for acts of negligence in legal representation. An attorney serving both as legal counsel and an office or director should have both types of coverages.

Summary

In the process of determining the type of compensation arrangement the company wants to have with its legal counsel, a multitude of factors should be weighed. Financial resources, cash flow projections, attorney billing rates, frequency of billing, lawyer education and expertise, the designation of the attorney as legal counsel or officer, director or other capacity, and the best interest of the company as a entity should be carefully evaluated. In terms of the potential for conflicts of interest, both the company and the lawyer need to individually scrutinize their positions for incursions of relevant rules of ethical conduct, insurance gaps, and competing interest. A "problem" for the lawyer is also tantamount to a "problem" for the company and vice versa. The optimal relationship should form a solid, firm foundation for both parties.

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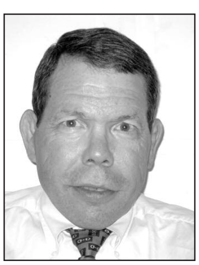
About the Author



Stephen J. Schanz (Stephen_Schanz@ncsu.edu) is a teaching assistant professor in the Department of Management, Innovation and Entrepreneurship in the College of Management at North Carolina State University. He received his J.D. from Pepperdine University School of Law and an LL.M from Loyola University School of Law–Chicago. He is licensed to practice law in North Carolina and Michigan. He has taught business and law-related courses at both the graduate and undergraduate levels for several years and counseled many young, start-up ventures while in private practice.