

# Atlantic Schools of Business

## Entrepreneurship: Passion and Practice

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University of New Brunswick - 2015

*45th Annual*

Atlantic Schools of Business Conference

**2015 Conference Proceedings**

University of New Brunswick  
Fredericton, New Brunswick  
September 25-27, 2015

Proceedings Editor

Patrick Bruning

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## **THE FINANCIAL CONDITION INDEX AND NOVA SCOTIA TOWNS**

This paper explores the concept of using a financial condition index tool to measure the financial condition of a government unit. The Province of Nova Scotia's Financial Condition Index (FCI) will be reviewed. In addition, FCI data reports for three recently dissolved towns located in Nova Scotia are reviewed and compared to identify concerns with using financial indicators to assess a town's financial condition. The paper highlights why contextual knowledge is a necessary component of financial condition assessment.

### **Introduction**

In May 2014, three towns located in Nova Scotia applied to the Nova Scotia Utility and Review Board (NSURB) for dissolution of their municipal status: Springhill on May 15, Hantsport on May 20, and Bridgetown on May 27. Each of the applications cited the same three reasons for dissolution: human resource capacity, economic development, and financial status.

Each town echoed the same sentiment with regard to human resource capacity – having a limited staffing complement and encountering difficulties with meeting the existing demands of their respective communities. Each town noted that these increased demands resulted in additional overtime costs and that joining a larger municipality offered the opportunity to consolidate staffing resources and the potential for economies of scale.

With regards to economic development, each of the applications stated that “our modern means of transportation and communication have rendered the concepts of local economies within a two (2) kilometer radius obsolete” (Applications to Dissolve the Town submitted to NSURB: Bridgetown, Springhill and Hantsport). In addition, each town acknowledged the need for municipal reform to ensure the ongoing viability of the province of Nova Scotia and its constituent towns and municipalities, with both Springhill and Bridgetown specifically referencing the Ivany Report.<sup>1</sup>

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<sup>1</sup> The Ivany Report (“Now or Never: An Urgent Call to Action for Nova Scotians”) was released in 2014 and provided recommendations and goals for the province, including boosting population, increasing economic development and the need for municipal reform.

Each town provided a very similar explanation of their financial status in their applications: deficits, limited ability to increase tax revenue, and aging infrastructure. Each town provided an estimate of their respective deficits for the March 31, 2014 fiscal year end and provided the same example of how a \$0.01 increase applied to town tax rates would result in an insignificant (and insufficient) increase to revenues – Springhill’s revenue would increase by only \$14,192, Bridgetown by \$4,500, and Hantsport by \$7,500. Each town stated that a tax rate increase would not be fair and would put the towns at a competitive disadvantage with their surrounding municipal neighbours. In addition, each town noted that renewal or replacement of aging infrastructures would place upward pressure on tax rates over the medium term. Each of the towns concluded the financial status section by stating that as per their Financial Condition Index (FCI), the town was not meeting the index threshold for viability.

This paper is exploratory in nature and reviews the concept of measuring the financial condition of a government unit and the Financial Condition Index referenced by Bridgetown, Springhill and Hantsport in their applications for dissolution. While this tool, recently released by the Province of Nova Scotia, was developed for use by regionals, towns and municipalities in Nova Scotia, the paper focuses on towns, specifically the above-noted towns of Bridgetown, Springhill, and Hantsport. The importance of using other contextual information in financial condition assessment is highlighted.

### **Nova Scotia – A Brief Background**

The Province of Nova Scotia is incorporated into three types of municipalities: regional municipalities (3), towns (27) and county or district municipalities (21). In addition, there are 22 villages which provide additional governance and service to selected areas within a rural municipality. Municipalities have the ability to raise revenue under the *Municipal Government Act (MGA)* or the *Halifax Regional Municipality Charter*. In Nova Scotia, municipal governments are not permitted to budget for an operating deficit.

Each municipality in Nova Scotia has a March 31 fiscal year end. The MGA requires that each municipality submit a copy of their annual audited financial statements to Service Nova Scotia and Municipal Relations by September 30th of each year. Financial statements must be prepared in accordance with generally accepted accounting principles as set forth in the Public Sector Accounting Handbook.

Property taxes (residential and business) are the most important source of revenue for all municipalities in Nova Scotia. For the fiscal year ending March 31, 2014, on average, 75 percent of municipal revenue was generated by property taxes (“The Municipal-Fiscal Review: Part II,” 2014). This does not include grants-in-lieu which are legislated provincial and federal grants for eligible tax exempt property and are equal to the amount that would be paid if the property were not tax-exempt. Other municipal revenues include transfers from other governments, revenue from own sources and sales of services.

Tax rates are set by the municipality and are expressed as per \$100 of assessment. Commercial tax rates are typically two to three times higher than residential property rates. All properties in Nova Scotia are assessed annually by the Property Valuation Services Corporation (PVSC) but the annual taxable assessed value for a given year is the value that was determined two years earlier. Nova Scotia has a Capped Assessment Program (CAP) whereby the increase in property tax assessments for eligible owner-occupied residential properties and resource properties (but not commercial properties) is capped at the increase in the Nova Scotia Consumer Price Index.

Effective July 1, 2015, the province of Nova Scotia has 27 towns. In a three year period, four towns were dissolved, each amalgamating with a county or district municipality: Canso - July 1, 2012; Springhill and Bridgetown - April 1, 2015; and Hantsport - July 1, 2015. The remaining 27 towns are located throughout the province, range in geographic size and have populations that range from a low of 481 residents (Annapolis Royal) to a high 12,059 (Truro) (“The Municipal-Fiscal Review: Part 1,” 2013).

In comparison to the rest of Canada, economic performance in Nova Scotia has been poor in recent years. While improved economic performance is predicted for the province, it is not expected to match national growth. Regionally, growth is predicted to be strongest in the Halifax region, but not positive for other areas of the province, with more rural areas expected to have a more difficult economic time. These challenging economic circumstances have affected property assessment growth, with little to even loss in assessment value experienced by certain remote municipalities. (“The Municipal-Fiscal Review: Part II,” 2014.)

Nova Scotia’s modest population growth peaked by July 2012 and the province is now experiencing demographic challenges. A government report released in February 2014 stated that the province’s “current population challenge has two dimensions: a decline in the absolute number of people in the province but also the changing age group make-up” (“Now or Never,” p. 12). It is predicted that Nova Scotia will lose 22,000 people and 20 per cent of its workforce between 2010 and 2036. Furthermore, it is anticipated that the employment age demographic (18-64) will contract over this time period and the proportion of population aged 65 and older will increase to 28.6% from 17.2%. (“Now or Never,” 2014)

### **Defining and Measuring Financial Condition**

Various terms and definitions are used to describe the concept of financial condition, many of which are outlined and examined in literature. Wang et al. (2007) define financial condition as a level of financial solvency that must include the dimensions of cash, budget, long-run and financial solvency. Other studies use the Government Accounting Standards Board (GASB), defining a government’s financial condition as “a composite of government’s health and its ability and willingness to meet its financial obligations and commitments to provide services” (Clarke, 2015, p. 66 citing GASB, 2012).

In addition to variations in definition, different terms are used in literature when referencing financial condition such as financial health, financial position, fiscal distress and fiscal position. Sohl et al. (2009) argue that while literature uses the terms financial position and financial condition interchangeably, the terms must be distinguished and used more precisely as doing so allows one to identify the types of comparisons that would be appropriate for different analysis. These authors state that to perform a comparative financial position analysis, one must use financial indicators that are from “like-situated jurisdictions” (p. 76) to establish a relative position or rank for each financial indicator, thus providing a jurisdiction the ability to compare its performance to the mean or median for its specific cohort (Sohl et al., 2009). In contrast, Rivenbark and Roenigk (2011) state that the financial position of a local government is established when the unit releases its unqualified financial statements at fiscal year end but provide no additional explanation as to how this can be determined, just that the statements provide aggregate and disaggregate financial position information. There is agreement in the literature in that to determine financial condition it is necessary to benchmark a unit’s position over time, against the cohort and against accepted standards (see for example Sohl et al., 2009; Rivenbark & Roenigk, 2011).

While a review of literature reveals that using financial indicators (ratios) to evaluate financial relationships is at the heart of financial condition measurement and assessment, there are variations in the methodologies utilized and studied. Researchers have tested existing financial condition measurement methods, modified existing methods or have developed new methods to assess financial condition.

Wang et al. (2007) use eleven indicators to measure the dimensions of cash, budget, long-run and service level solvencies of 49 states in the U.S. Using data collected from Comprehensive Annual Financial Reports (CAFR), but for the 2003 fiscal year only, the researchers develop a financial condition index by weighting and averaging the standardized scores of 11 financial indicators. The researchers determine that their “financial condition measure is a relatively reliable and valid in measuring financial condition” (Wang et al., p. 20). Even though the researchers acknowledge that using a single year of financial reports pose a limitation to the study, they feel that the study provides a benchmark of financial condition for state governments to assess performance, compare performance to other states and to seek ways to improve financial condition. The researchers determine that the “government-wide information required by GASB Statement No. 34 provides a useful framework to evaluate the financial condition of a government” (p. 20). In contrast, Sohl et al. (2009) find inconsistencies in the financial data reported in the CAFRs which, as these researchers note, can “have the capability of diluting the comparability of financial indicators” (p. 88).

Sohl et al. (2009) use a modified version of the Financial Trend Monitoring System (FTMS), a recognized financial trend measurement tool developed by the International City/County Management Association (United States). The research team apply 29 indicators using data obtained from CAFRs to conduct a financial position and financial condition index for eleven U.S. cities. The study illustrates the importance of selecting a sample that will enable comparability. A rank-driven methodology is utilized to identify a cohort of similar cities so as to benchmark their financial position and assess financial condition. These researchers stress “the

need for measuring financial position and condition based on trends rather than point estimates” (p 93).

Cabaleiro et al. (2013) use the framework developed by Canada’s Public Sector Accounting Board to support an analysis of the financial health of 5,165 Spanish municipalities. By calculating twenty ratios for each municipality and using multivariate statistical techniques, an aggregate indicator for each municipality is determined, evaluated and then used to rank the financial health of each municipality. They conclude that the aggregate indicator determined correlates with those municipalities known to be experiencing poor financial health. However, the study falls short in that it only uses data for 2008 and as such, provides a measurement for one point in time. A single year of data is a weak basis for judging the relative condition of a government unit (Sohl, 2009). Trend analysis was not considered to put short term anomalies into context as recommended by PSAB. And as noted by Sohl et al. (2009), “the strength of trend analysis is that it provides valuable context to identify the direction of each indicator, be it increasing or decreasing relative to the cohort statistics” (p. 78).

Clark (2015) tests the validity and reliability of a financial condition index tool developed by Sanford Groves, Maureen Godsey and Martha Shulman in 1981. This tool assesses the financial condition of local government financial condition by examining four solvency dimensions: cash, budget, long-run, and service level. Clarke’s data source includes CAFRs for 117 of the largest cities based on revenue from the state of Ohio from 2004 to 2010. He agrees with Sohl et al. that a carefully selecting a cohort improves comparability in financial analysis. He contends that by selecting cities from the same state improves comparability due to various similarities such as political culture, geographic location, costs of living and accounting practices (Clarke, 2015). The researcher notes that using data spanning multiple years may help to predict the future but cautions that it is only a good estimate as a government’s revenue generating ability and demand for services can change over time. In addition, Clarke (2015) notes that the improvement of a government’s financial condition as measured with a financial condition index tool may “not necessarily be an absolute improvement” (p. 76) and as such “creates a false sense of progress when none exists” (p. 76). The researcher determines that, due to many limitations, financial condition measurement tools may not be able to consistently predict financial condition at the local government level.

Studies of financial condition take varying approaches with regard to the inclusion of socioeconomic indicators. Some studies focus only on financial aspects, others consider the association between socioeconomic and financial indicators and other studies examine methods of including socioeconomic indicators into a financial condition measure. As noted, Sohl et al. (2009) use a rank-driven methodology to identify a comparable group of cities located in the United States to study performance comparisons. The researchers consider socioeconomic variables including population size, organizational size and scope of services, revenues and expenditures, tax base and community characteristics.

Wang et al. (2007) assert that while “socioeconomic factors may affect financial condition, they are not financial condition itself” (p 5). In their study, they empirically test the relationship between the financial condition index of a municipality and select socioeconomic

variables including population, personal income per capita, population growth rate, percentage change in personal income, percentage change in employment rate, state gross product per capita and an economic momentum index. The researchers determine that their measure of financial condition is negatively associated with population and personal income per capita. However, they find that financial condition is positively associated with certain measures of socioeconomic conditions, including employment increases and an economic momentum index.

A similar approach is taken by Clark (2015). He determines that FCI is negatively associated with population, wages per capita, and employment per capita. However, he acknowledges that the small scale of many of the cities used in his study limit the ability to measure economic position as there is a potential for error. For example, data that measures jobs and wages in a city does not take into account that individuals can work in one city, but live in another.

Cabaleiro et al. (2013) contrast the aggregate financial performance indicators determined in their study with the socioeconomic variables of population size and geographic location. These researchers conclude that decreasing population size is a factor in deteriorating health of a government unit and that geographic location has implications for the health of those municipalities studied in Spain.

While the measurement of a government unit's financial condition is a complex concept, due in part to the numerous approaches and methods (Cabaleiro et al., 2013; Rivenbark & Roenigk, 2011), there is agreement that its measurement is important to the effective, efficient, and economical delivery of public service (Wang et al, 2007). However, it is suggested that the information obtained from a financial condition analysis should be presented in a manner that will increase the likelihood of its use (Rivenbark & Roenigk, 2011). Financial indicators should be reviewed in context of a group of indicators and financial condition measurement be based on trend, not point estimates (Sohl et al., 2009). Both context (Sohl et al., 2009; Rivenbark & Roenigk, 2011) and environment are necessary components of government financial condition assessment, but such factors are not easily modelled using a financial condition indicator tool (Clarke, 2015).

### **Nova Scotia's Financial Condition Index**

A joint project between the Province of Nova Scotia, the Union of Nova Scotia Municipalities (UNSM) and the Association of Municipal Administrators (AMA) in 2002 resulted in the development of municipal indicators. The program was launched on the Service Nova Scotia and Municipal Relations (SNSMR) website and provided comparative financial, community, governance and performance indicators and information to support governance, management and policy development in Nova Scotia's municipal governments. The program was subject to several reviews to assess the scope, effectiveness and reliability of the indicators, with the most recent commencing in 2010. A key recommendation that came out of this review was for a reorganization of the municipal indicators, including the financial condition index. The design was finalized in December 2012.

The revised FCI model has three dimensions: a revenue dimension, a budget dimension, and a debt and capital dimension. Each dimension has five indicators that can be used to measure components of financial condition for towns, and rural and regional municipalities in Nova Scotia. Appendix 1 provides a listing of the 15 indicators, contains a description of how each rating is calculated and a corresponding brief definition or rationale.

The FCI was launched on May 15, 2014 by the Department of Municipal Affairs and the UNSM but on that date, the website tool contained indicator data for the 2011-2012 fiscal year only for each of Nova Scotia’s towns and rural and regional municipalities. On February 17, 2015, the database was populated with information for both the 2012-2013 and 2013-2014 fiscal years. The website user now has the option of generating a one-year or a three-year comparative FCI report for any of the province’s municipalities.<sup>2</sup> Each report provides a municipality’s score for each of the fifteen indicators, the indicator average for its classification (rural, regional or town) and the recommended indicator threshold. The report is color-coded to assist readers with interpreting the results, as summarized in Table 1.

**Table 1: FCI Colour Legend**

<b>Green</b>	The FCI Indicator Score <b>meets or exceeds</b> the Threshold and the Town Average
<b>Yellow</b>	The FCI Indicator Score <b>meets or exceeds</b> the Threshold but <b>does not meet</b> the Town Average
<b>Red</b>	The FCI indicator <b>does not meet</b> the Threshold

Source: *The Financial Condition Index* (<http://novascotia.ca/dma/pdf/mun-finance-indicators-FCI-brochure.pdf>).

The majority of data for an FCI report comes from the Financial Information Report (FIR). This 33-page annual filing requirement is due by September 30 of each year and includes prescribed data that must come from the audited financial statements. Assessment data is obtained from the PVSC, the provincial organization charged with providing assessment values of all properties in Nova Scotia. Census data comes from Statistics Canada and the Province of Nova Scotia Community Counts program.<sup>3</sup> Each municipality is required to review and approve its data and has the option to provide additional information to explain certain indicators or unique circumstances. These comments, if provided, can be accessed when a one-year FCI report is generated.

A Financial Condition Index brochure cautions that the FCI is “not a substitute for comprehensive examination of a municipality’s financial performance,” that it “gives a snapshot of financial condition as of March 31 of the fiscal year selected” and that it “should not be used to pick the best municipality.” (“FCI Brochure”). So this implies financial condition is something that may be determined at one point in time. Furthermore, while it may not provide information

<sup>2</sup> To view a sample report, go to <http://novascotia.ca/dma/finance/indicator/fci.asp>.

<sup>3</sup> The Community Counts program was cut in the provincial government’s spring 2015 budget. The website now redirects people to Statistics Canada.

on the ‘best municipality’, town averages for each indicator are provided which means municipalities may assess their performance in comparison to the appropriate class average, and not just at one point in time, but over a three year period. And finally, achievement benchmarks are provided which are based on jurisdiction and literature research, data modelling and municipal consultation. How they were determined is not the issue, but rather that they are provided. This suggests inadequate performance if a municipality does not hit the benchmark.

In 2010, the Towns Task Force was formed to address the many challenges facing Nova Scotia towns and municipalities. Their report, “A Path to Municipal Viability,” was issued in September 2012 and contained 36 recommendations, with the first four dealing with the financial condition index. The first recommendation was to prepare financial condition indicators for each municipality in the province and make the results available for public review and comment. Second, it was recommended that municipalities be subject to a comprehensive follow-up study when issues identified through critical indicators continue to demonstrate problems over a three year period. The third recommendation encouraged public engagement and the fourth suggested that the process for required reporting on the FCI and any follow up be entrenched in legislation. All recommendations, including the four specifically dealing with the FCI were approved by the UNSM membership on September 20, 2012. (Towns Task Force, 2012)

On October 14, 2014, a draft report containing forty-one recommendations was issued by the Provincial-Municipal Fiscal Review Committee, four of which were specific to the FCI. First, the committee recommended that the province formalize FCI tracking as the tool to be used to monitor the financial health of municipalities. Secondly, the committee encouraged the development of materials to help municipalities understand the FCI. They also recommended that municipalities be subject to a comprehensive review after three consecutive years of six or more red-flagged FCI indicators. The FCI tracker was the recommended tool to be used to identify red-coded scores. However, the recommendations were silent as to whether this applied to specific indicators, if it had to be the same six indicators in each year, or if could be any six indicators annually over the three year period.

A provincial government media briefing on the FCI issued on February 17, 2015, indicated that using the FCI as an indicator of municipal viability and the three-year trend of six or more red scores triggering a review guideline were not approved. However, on this same date, CBC News Nova Scotia reported that the Municipal Affairs Department said the FCI indicated that the towns of Westville, Clark’s Harbour and Mulgrave were not meeting enough benchmarks to be considered financially viable. The report also noted that the Minister of Municipal Affairs was working with municipalities to finalize the review process. Each of these towns had a three-year trend of six or more red scores.

### **Municipal Profile Overview Reports**

The Municipal Affairs website also provides a tool that allows a user to create a municipal profile report for each town and rural and regional municipality located in Nova Scotia. While the website states that the overview provided in the reports can assist with interpreting

other indicators such as the FCI, the data is of limited use. The municipal profile reports are available on an annual basis only and are for the fiscal periods 2011/12, 2012/13 and 2013/14. Each profile report provides general information that includes municipality size (number of dwellings and geographic area), operating budget for the next fiscal year, taxable property assessment and size of the council. The report also provides two pie charts - one for a municipality's various components of revenue and a second for the appropriate class average.

The municipal reports also provide demographic information including population trends (2012 – 2014), age profiles, percentage change in population, median household income, employment participation and education beyond high school. However, the demographic information is based on the 2011 census, so a municipality's report generated for 2013/14 contains the same information as a report generated for 2011/12. The population trend data charts reflect static population for both the municipality and the municipality average over the three year period. An FCI report includes indicator data for 2011/12, 2012/13 and 2013/14, not 2011 as reflected in the municipal demographic data. Deteriorating or negative demographic and economic trends can have a significant impact on municipalities and can provide valuable insight for interpreting a municipality's FCI. Municipal profile reports should be for a period that is concurrent to the FCI reports as this would provide relevant, contextual data to use in financial condition analysis.

### **A Critique of the Nova Scotia FCI using Bridgetown, Springhill and Hantsport Examples**

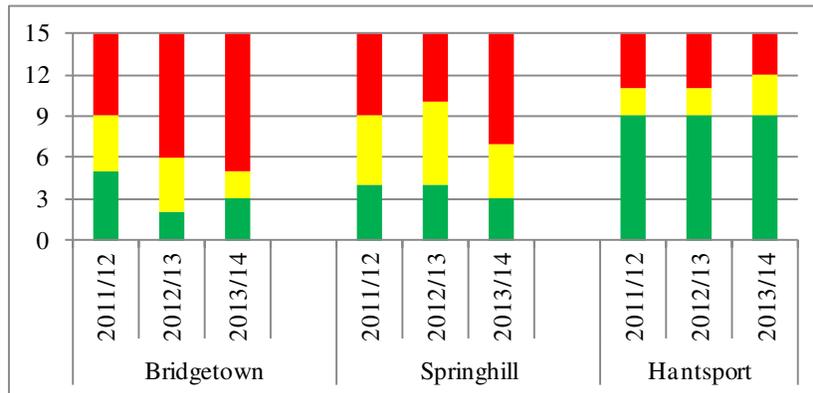
Bridgetown, Springhill and Hantsport each stated in their dissolution application documents that they were not meeting the FCI threshold for viability. We will review the three year FCI reports for the fiscal years ending March 31, 2012, 2013 and 2014 for Bridgetown, Springhill and Hantsport to determine if they provide insight into why these towns are no longer financially viable. We will also use this FCI data to identify and consider shortcomings in using financial indicators only to evaluate financial condition, (i.e. – that it is not a reliable snapshot of financial condition), and highlight why contextual knowledge is necessary.

A table summarizing the FCIs for Bridgetown, Springhill and Hantsport for the fiscal years ended March 31, 2012, 2013 and 2014 can be found in Appendix 2. This table also provides the annual town average scores and the recommended threshold for towns in Nova Scotia.

First, the number of red, yellow and green FCI indicators for Bridgetown, Springhill and Hantsport the years 2011/12- 2013/14 are determined and summarized in Table 2 below. One can easily note that financial conditions of both Bridgetown and Springhill appear to be deteriorating over the three-year period, if the number of red scores is an indicator of financial condition. Bridgetown exceeds the proposed threshold of six or more red scores over three years while Springhill does so in the 2011/12 fiscal year, again in 2013/14 but has five red scores for 2012/13. Hantsport's financial condition appears to be somewhat stable over the three years based on the colour scores received for its indicators and, in fact, has nine green scores in each of the years

reviewed. Based on this, Hantsport and Springhill would not be subject to an automatic review under the proposed grading system.

**Table 2: FCI Colour Score Count by Year – Bridgetown, Springhill and Hantsport**



Source: Financial Condition Index (<http://novascotia.ca/dma/finance/indicator/fci.asp>)

Reviewing Bridgetown and Springhill’s FCI reports for the three years ending March 31, 2014 (see data as provided in Appendix 2), it can be seen that each town received a red score for four of the same indicators over the three year period: uncollected taxes, 3-year change in tax base, commercial property assessment and operating reserves. In 2013/14, each town received a red score for six of the same indicators: uncollected taxes, deficits in last five years, budgeted expenditures accuracy, liquidity, and operating reserves. Do any of these red scores, individually or in conjunction with other red scores, signify that a town is no longer financially viable? We argue no, based on the following analysis of selected indicators for the former towns of Bridgetown, Springhill and Hantsport.

The significance of red scores for the liquidity and the percentage of uncollected taxes is intuitive. A low liquidity score implies that the municipality may encounter difficulties in paying current liabilities. Each of the three towns had yellow or red scores for the liquidity ratio for each of the three years with one exception – Bridgetown received a green score in 2011/12. The high percentage of uncollected taxes suggests that the municipality is experiencing difficulty in collecting overdue accounts and is likely having cash flow issues as a result. The continuation of poor liquidity and slow collection of outstanding receivables could negatively impact on a town’s future viability. The percentage of uncollected taxes for Bridgetown and Springhill each exceeded both the recommended threshold and the town average, but there are two things to note. First, Springhill’s ratio for each year could be considered an outlier as it is significantly higher than the reported ratio for all other towns, as summarized Table 3.

**Table 3: Percentage of Uncollected Taxes**

<b>Fiscal Year Ending,</b>	<b>Range of Indicator Scores, excluding Springhill</b>	<b>Indicator Score – Springhill</b>
March 31, 2012	0.7% to 20.9%	53.8%
March 31, 2013	1.0% to 25.4%	53.9%
March 31, 2014	0.7% to 23.7%	40.6%

Second, as the town average is calculated by including the ratios for all towns, Springhill’s score is likely putting upward pressure on the average for this indicator. Table 4 reflects a recalculated indicator average with Springhill excluded and the median for this indicator. Springhill’s score for uncollected taxes has skewed the town average.

**Table 4: Percentage of Uncollected Taxes (Recalculated and Median)**

<b>Uncollected Taxes (%)</b>	<b>Town Average, Per FCI Reports</b>	<b>Town Average, Recalculated (excluding Springhill)</b>	<b>Median (Including Springhill)</b>
March 31, 2012	9.7%	7.9%	7.0%
March 31, 2013	9.7%	8.1%	6.7%
March 31, 2014	9.1%	8.0%	7.5%

The data provided in Appendix 1 reveals that Hantsport received green scores for the uncollected taxes indicator in each of the three years under review, performing better than the town average and within the recommended threshold. However, the town has provided additional information to their FCI Reports for both 2012/13 and 2013/14 stating that uncollected taxes have remained low in Hantsport because of financial institutions paying taxes owed on a higher number of bank foreclosures on homes (FCI Report - municipality comments, Hantsport, 2014). So, while the green scores imply the town is performing well, the underlying reason for the green indicators signal financial concern.

The 3-year change in tax base indicator implies modest improvement for Bridgetown and Springhill with each town moving from a red score in 2011/12 to green scores in 2012/13 and 2013/14. Bridgetown’s score of 6.5% in 2012 increased to 7.9% over the three year period and Springhill’s score of 6.4% in 2012 increased to 8.6%. However, the annual recommended threshold for this indicator is set at the change in the Nova Scotia Consumer Price Index over the previous three years. As such, a declining CPI resulted in a decline in the recommended thresholds over the three year period as follows: above 8.37% in 2011/12; above 6.20% in 2012/13; and above 4.44% in 2013/14.

The towns’ green scores do not necessarily mean there was improvement in financial condition, not only because of the decreasing CPI, but for other reasons. First, it cannot be determined if any portion of the improved score is due to an increase in assessment value because of improvements to existing properties or new builds in the town. Second, the assessments of certain properties in Nova Scotia are based on a CPI-capped value, not market value. And third,

the annual taxable assessment value of property is subject to a two-year lag, not a more current assessment value.

Hantsport experienced significant declines in its score for the three year change in tax base indicator for each of the years under review with red scores of -17.2% in 2011/12, -14.7% in 2012/13 and -18.4% in 2013/14. And while the town received green scores for commercial property assessment each of the three years, an examination of the trend data reveals significant decline from year to year: 40.9% in 2011/12; 33.5% in 2012/13; and 22.5% in 2013/14. The town's application for dissolution explained the significant events that had such a negative impact on these two indicators. First, the Canadian Gypsum Company idled its operations in 2009. The commercial assessment for this company dropped from \$32 million to \$5.3 in a just a few years. Second, the Minas Basin Pulp and Power Company closed in 2012 resulting in an immediate drop in commercial assessment, from \$6 million to \$1.5 million. The two closures resulted in over a \$1 million reduction in their tax revenue, or one-third of the budget. (Application to Dissolve the Town, Hantsport)

Bridgetown and Springhill each received red scores for the commercial property tax assessment indicator for each of the three years under review. Bridgetown's score declined from 15.1% in 2012 to 13.3% in 2014, a 1.8 point decrease over the three-year period. Springhill's commercial assessment score declined from 10.5% to 10.0%, a .5 point decrease over the same period. This indicator is viewed as an important measurement of economic activity in a town, so a decline in the value implies a decrease in economic activity. There are two issues that should be considered when using this indicator in financial condition assessment. First, we must consider the effect the two-year lag has on commercial properties. Many businesses experience downturns when the economy experiences a downturn, not two years later (although a downturn can continue two years later and longer). So, if the market value of a commercial property decreases due to a slow economy, tax rates are not applied to the decreased assessment value until two year later.

Second, this indicator is calculated using the following formula: total taxable commercial assessment ÷ total taxable assessment. This calculation does not include special arrangement taxes such as taxes-in-lieu. So, while inclusion of these amounts would not necessarily change the indicator score, the information regarding such grants is arguably important when assessing a town's financial condition. Springhill, for example, reported \$1,870,687 grant-in-lieu revenue for the March 31, 2014 fiscal year. This represented 26.9% of the town's total revenue and the majority of this grant-in-lieu is received because a federal penitentiary is located within the town's boundaries. This is reflected in Springhill's red score of just over 22% for the reliance on single business/institutions indicator in each of the three years. The federal penitentiary is a key part of the local Springhill economy and its closure is not likely. As such, for Springhill, this reliance can be interpreted as a good thing, not bad, as a red score implies.

Contrast this to the scores received by Hantsport for reliance on a single business/institution. The three year trend included two red scores (22.7% in 2011/12 and 13.7% in 2012/13) and one yellow score (7.0% in 2013/14). One could assume that based on the trend data, the financial condition indicator is improving. However, as noted, two major companies

have closed over the past few years resulting in a significant economic downturn for the town. So while the indicator is improving, the town's financial condition is not.

A similar situation can be argued with regard to operating reserves. This ratio is calculated as follows: (total operating reserve fund balance + accumulated surplus of the general operating fund) ÷ total operating expenditures. First, it must be noted that the recommended threshold went from above 5% in 2011/12 to 10% for 2012/13 and 2013/14. A reason for this change was not provided. Bridgetown and Springhill each had red scores for each of the three years. This implies that limited to no funds were held aside for contingencies. The Hantsport data for the operating reserve indicator is quite interesting. The town received a yellow score of 7.3% in 2011/12 and green scores in both 2012/13 and 2013/14 of 15.9% and 21.6%, respectively. So this trend data implies that Hantsport's position for this indicator is improving. However, this is not the case. The town suffered a significant decrease in revenue over the three years, and a lower tax base results in a smaller budget. So, while there has been little change in the dollar value of the reserves over the past few years, expenditures have decreased. As a result, the operating reserves represent a larger portion of a smaller budget. (FCI Report - municipality comments, Hantsport, 2014). So, while the trend implies significant improvement for this indicator, the same cannot be said for the town's financial condition.

The final indicator that will be discussed is the budget expenditures accuracy indicator. First, it must be noted what this indicator means and how the town average is calculated and presented in an FCI report. The closer a municipality's budgeted expenditures are to 0%, the more accurate their actual expenditures are to budgeted expenditures. A positive indicator score means that a town's actual expenditures were less than budget whereas a negative indicator score means that actual expenditures exceeded budget. The recommended threshold indicator score is presented as a range. For example, the recommended threshold for 2012 to 2014 is between -5% and +5%.

The town average is calculated using the absolute value for each town's indicator and this number is displayed on an FCI report as the 'town average.' However, as the absolute value of each town's score is used to determine the average, the town average should be presented as a range. So, for 2014, 'between -3.9% and +3.9%' should be reported as the town average, not '3.9%.'

The interpretation of a town's score for the budgeted expenditures accuracy indicator is quite difficult without contextual knowledge. Take for example the 2014 red indicator scores for Bridgetown (+13.4%) and Springhill (-13.7%). The only thing we can interpret is that Bridgetown's actual expenditures were less than budget and that Springhill's were greater than budget. Knowledge of what caused the inaccuracies would assist with assessing financial condition. For example, actual expenditures being less than budget because of cost savings or efficiencies is significantly different than spending more to provide the same level of service to town constituents.

## Conclusion

During 2015, the towns of Bridgetown, Springhill and Hantsport dissolved, each amalgamating with a neighbouring county municipality. Each of the applications for dissolution noted that, as per their Financial Condition Index, the towns were not meeting the index threshold for viability. The FCI reports for each of these towns for 2012, 2013 and 2014 were reviewed and compared to identify concerns with using the tool to assess financial condition.

The majority of municipal data used to generate FCI reports comes from the annual FIR reports. The FIR is a quality database of the financial information of all municipalities in Nova Scotia as it includes commonly-coded data that must come from audited financial statements. Financial statements must follow GAAP as prescribed by PSAB. As such, this improves the comparability of data used to assess the relative performance, or position, of a municipality within its class.

It must be acknowledged that financial statements are historic and as such the FCI reports are as well. And, as the data required to generate FCI reports is not due until six months after year end, timeliness of the information contained in the reports is certainly an issue. So, while the FCI may provide a snapshot of the financial condition as of March 31, the snapshot is not available until more than six months later. In addition, it is reasonable to question the FCI's predictive ability not only because of its use of historic data, but because a municipal situation can change in the future – government, revenue generating ability, and demand for services to name but a few.

Comparative analysis requires more than just comparable data. Literature supports that an analysis of comparative financial position should be performed for a like-situated cohort. An FCI report for a town provides one average for all towns in Nova Scotia – all towns are considered to be one class. County and district municipalities are also considered to be one class, and as such, one average is provided. An FCI report for one of the three regional municipalities in Nova Scotia does not include a class average as each is considered to be the only one in its class. Even though the province of Nova Scotia is small in terms of population and geographic size, there are significant variations with regards to population size, demographic profile and geographic size. As such, considering one class average for 27 towns and one for 21 rural municipalities may not be appropriate.

Assessing financial condition should not be done for a municipal unit for one point in time nor be based on a set of financial indicators only. Additional information must be considered. First, using trend data can help establish context. Is a financial indicator improving over time or deteriorating? Second, additional contextual knowledge can be obtained by assessing a group of indicators. For example, Hantsport's FCI reported green scores for the commercial property assessment in each of the three years indicates that it met the prescribed threshold and performed better than the town average. However, the trend data revealed a significant decrease over the three year period 40.9 to 33.5 to 22.5 (the revenue coming from commercial tax stream decreased). So, the trend data indicates that financial condition may be deteriorating. Reviewing other indicators may confirm or dispel this. In Hantsport's case, the trend for the three-year

change in tax base showed significant decline and the town's poor liquidity position in each of the three years substantiates that the town's financial condition is in fact deteriorating.

The FCI report generated contains red, yellow and green scores. This is reminiscent of traffic lights: red means stop; yellow means proceed with caution; and, green means you are good to go. However, this is not always the case when interpreting an FCI report as this analysis revealed when Hantsport was examined. The tool in its present format is relatively new and only time will tell if the way the data is presented will increase the likelihood of its use.

Economic and demographic data can also provide contextual knowledge. For example, a decreasing GDP, decreasing population or an aging demographic can suggest that a town's financial condition is, or will, deteriorate. Deteriorating or negative economic and demographic trends can have a significant impact on municipalities and can provide valuable insight for interpreting a municipality's FCI. Economic and demographic data adds contextual knowledge and can help with determining if the towns are like-situated for comparison purposes. However, the information must match the period for which the FCI information is available. Nova Scotia's municipal profile overview reporting tool is an attempt to provide this economic and demographic information but there are too many shortcomings that limit its usefulness when assessing financial viability. For example, the census data included in the municipal profile report is for 2011 only and the FCI reports are for 2012 – 2014.

In closing, it must be noted that if an entire region is depressed, the least depressed in the group or class will appear relatively healthy. As such, adequate and appropriate contextual knowledge is necessary in assessing the financial condition of a town.

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## Appendix 1: Financial Condition Index – Indicator, Formula and Definition/Rationale

Indicator	Formula	Definition/Rationale
Reliance on Government Transfers (%)	Total government transfers ÷ Total revenue	An indicator of a municipality's reliance on transfers from provincial and federal governments.
Uncollected Taxes (%)	Uncollected taxes (all years, less valuation allowances) ÷ Total taxes billed in current fiscal year	Compares cumulative unpaid taxes, net of adjustments, with the current amount billed by the municipality.
3-Year Change in Tax Base (%)	(Current Uniform Assessment – Uniform Assessment 3rd Prior Year) ÷ Uniform assessment 3rd Prior Year	Illustrates the growth in the municipality's property assessment.
Commercial Property Assessment (%)	Total taxable commercial assessment ÷ Total taxable assessment	A measurement of economic activity in the municipality.
Reliance on Single Business/Institution (%)	Taxable assessment value of the largest business or institution ÷ Uniform assessment	Shows how much a municipality's tax base depends on a single commercial or institutional account.
Residential Tax Effort (%)	(Total residential tax revenue ÷ Total dwelling units) ÷ (Median household income)	% of average household's income required to pay the average tax bill.
Deficits in the Last Five Years (#)	Number of non-consolidated operating deficits in the last 5 years	Indicates how many deficits a municipality ran in the last five years.
Budgeted Expenditures Accuracy (%)	(Budgeted expenditures - Actual expenditures) ÷ Budgeted expenditures	Reflects accuracy with projecting revenues and expenditures.
Liquidity	Total short term operating assets ÷ Total short term liabilities	The municipality's ability to pay bills in the short term.
Operating Reserves (%)	(Total operating reserve fund balance + accumulated surplus of the general operating fund) ÷ Total operating expenditures	Compares total operating reserves to a single year's operating budget.
Debt Service (%)	Principal and interest paid on long term debt ÷ Total own source revenue	% of a municipality's revenue devoted to debt repayment and allows analysis of only the revenue within council's control.
Outstanding Debt (%)	Total outstanding long term debt ÷ Total uniform assessment	Provides an indication of how much debt a municipality is carrying in relation to their tax base.
Undepreciated Assets (%)	Total net book value of capital assets ÷ Total gross cost of capital assets	Provides an estimate of the useful life left in a municipality's capital assets.
5-year Capital Purchases (%)	Total purchases of capital assets over a 5-year period ÷ Total depreciation accrued over the same 5-year period	Compares how fast a municipality is investing in capital assets and how quickly their assets are aging.
5-year Contributions to Capital Reserves (%)	Total contributions to capital reserves over a 5-year period ÷ Total depreciation accrued over the same 5-year period	This indicator shows how quickly a municipality is accumulating capital reserves compared to how quickly their assets are aging.*

Source: Indicator Definitions (<http://www.novascotia.ca/dma/finance/indicator/definitions.asp?def=12>)

\*Indicator data available only from 2010 onward. As a result, the 2012 score is based on three years of data, the 2013 score is based on four years of data, and the 2014 score is based on five years of data.)

**Appendix 2: Financial Condition Comparison for the Three Years Ending March 31, 2014  
(Bridgetown, Springhill and Hantsport)**

Revenue Dimension	Bridgetown			Springhill			Hantsport			Town Average			Threshold
	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	2011/12	2012/13	2013/14	
Reliance on Government Transfers	17.7	21.6	16.1	13.8	13.7	13.6	4.0	2.8	5.6	11.0	10.5	9.9	Below 15%
Uncollected Taxes (%)	17.0	15.0	15.7	53.8	53.9	40.6	1.1	4.3	3.6	9.7	9.7	9.1	Below 10%
3-Year Change in Tax Base (%) (See note 1)	6.5	7.5	7.9	6.4	7.3	8.6	-17.2	-14.7	-18.4	5.4	7.2	7.3	2012 > 8.37% 2013 > 6.20% 2014 > 4.44%
Commercial Property Assessment (%)	15.1	14.5	13.3	10.5	10.4	10.0	40.9	33.5	22.5	23.1	22.2	21.6	Above 20%
Reliance on Single Business/Institution (%)	1.1	1.0	1.1	22.4	22.2	22.4	22.7	13.7	7.0	7.2	6.2	5.9	Below 10%
<b>Budget Dimension</b>													
Residential Tax Effort (%)	3.4	4.3	4.4	2.9	3.1	2.9	3.2	3.8	3.9	3.3	3.7	3.9	Below 4%
Deficits in the Last Five years (#)	4.0	3.0	3.0	1.0	1.0	2.0	0.0	0.0	0.0	1.0	0.7	0.5	Below 1
Budgeted Expenditures Accuracy (%)	-3.4	8.6	13.4	-1.0	-3.6	-13.7	2.7	3.4	1.2	3.8	4.1	3.9	Between -5% And +5%
Liquidity (Ratio)	1.5	0.5	0.6	1.0	1.0	0.5	0.7	0.5	0.6	1.5	1.6	1.4	Above 1.0
Operating Reserves (%) (See note 2)	0.0	3.7	3.8	0.0	0.0	0.0	7.3	15.9	21.6	8.0	15.8	14.6	2012 > 5% 2013 & 2014 > 10%
<b>Debt &amp; Capital Dimension</b>													
Debt Service (%)	14.6	16.1	16.0	8.5	8.7	11.3	9.6	9.6	9.9	7.4	7.8	7.9	Below 15%
Outstanding Debt (%)	3.0	2.9	2.5	2.3	2.0	1.6	1.2	1.1	1	1.3	1.3	1.3	Below 3.5%
Undepreciated Assets (%)	70	66.8	63.9	65.2	63.4	61.5	77.9	74.1	71	58.6	57.7	56.4	Above 60%
5-year Capital Purchases (%)	120.9	101.1	94.6	155.1	131.1	120.5	224.3	201.5	169	211.6	196.0	181.5	Above 100%
5-year Contributions to Capital Reserves (%)	16.7	13.0	10.3	0.0	0.0	0.0	2.8	2.0	1.5	8.2	11.0	14.6	Above 10%

**Legend:**

<b>Green</b>	The FCI Indicator Score <b>meets or exceeds</b> the Threshold and the Town Average
<b>Yellow</b>	The FCI Indicator Score <b>meets or exceeds</b> the Threshold but <b>does not meet</b> the Town Average
<b>Red</b>	The FCI indicator <b>does not meet</b> the Threshold

Note 1: The three year change in tax base varies each year by change in 3 year CPI.

Note 2: In 2011/12, the threshold was set at 5%. In 2012/13 the threshold increased to 10%.

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## **PYRAMID OWNERSHIP STRUCTURE AND TAX AVOIDANCE AMONG CANADIAN FIRMS**

This paper examines the relationship between pyramid ownership structure and tax avoidance. Unlike the U.S., many Canadian firms belong to pyramid ownership structures with multiple tiers. Using Canadian listed companies and relying on several proxies for tax avoidance including the effective tax rate, firms in low-tax jurisdictions, and the book-tax difference, we find that firms affiliated with the pyramidal structures engage in more tax avoidance activities than non-affiliated firms. We also find that firms affiliated with more complex pyramids engage in more tax avoidance practices and firms positioned at the lower tiers of the pyramids avoid more taxes. Overall, the results found in this study indicate that pyramid ownership structure and tax avoidance are strongly connected to each other.

### **Introduction**

Literature on corporate tax avoidance has been rapidly growing in recent year years. To date, the literature has demonstrated that corporate tax avoidance is associated with corporate governance, corporate incentive plans, family-owned firms, ownership concentration, the tax expertise of external audit firms, and a CEO's educational background, among other factors (i.e. Gupta & Newberry 1997; Shackelford & Shevlin 2001; Phillips 2003; Adhikari et al. 2006; Dyreng et al. 2008; Robinson et al. 2008; Badertscher et al. 2009; Hanlon & Heitzman 2010; Armstrong et al. 2012; and Graham et al. 2014). However, studies exploring the relationship between ownership/organizational structure and tax avoidance are rare (Desai and Dharmapala 2006; Chen et al. 2010). Shackerlford & Shevlin (2001), in their review of tax research, indicate that the effect of organizational ownership on tax avoidance is important but understudied. We attempt to fill in this gap by exploring the impact of pyramid ownership on corporate tax avoidance activities.

Unlike the U.S. listed firms, which are predominantly held by numerous small

shareholders, many large firms in Canada belong to business groups; clusters of listed and unlisted firms that hold controlling blocks of shares in each other. These business groups are typically organized as pyramids (Morck et al. 2004; Morck & Yeung 2005; and Zeng 2011). That is, an apex firm (we use apex firm, ultimate owner, controlling shareholder, parents firm interchangeably) holds controlling blocks of shares in the top tier of firms. Each of these firms then holds controlling blocks in a second tier of firms and each of these holds controlling blocks in a third tier of firms, and so on. The pyramid can continue as additional tiers of firms are added. A seminal work by La Porta et al. (1999) investigates the issue of pyramid structure and ultimate owners around the world. It finds that the ultimate owners generally control a group of firms through a hierarchical structure such as a pyramidal structure in most countries outside the U.S. and the U.K.

As early as 1930s, the first Roosevelt administration indicated that pyramidal business groups were associated with poor corporate governance, monopolistic practices as well as tax avoidance (Morck, 2004). Henrietta Larson, in a 1947 survey of business history, said of the large holding company group- a form of corporate organization of which the pyramid is a subset- that there was 'a need and an opportunity for research that cannot be stressed too greatly' (Banks & Cheffins 2010). Almost seventy years later, there appears to be little empirical work linking pyramid structures to tax avoidance.

We contribute to the tax avoidance literature by studying the impact of pyramid ownership structure on tax avoidance using a panel data set of 503 Canadian listed firms from 2010 to 2013. Canada provides an ideal setting for studying the impact of pyramid ownership structure as it has a diverse corporate ownership structure ranging from widely held freestanding firms to pyramidal business groups.

We hypothesize and find evidence that pyramid ownership structure is associated with tax avoidance activities, measured as effective tax rate and the book-tax difference, a finding not previously documented in the literature. Using Canadian listed companies and relying on several proxies for tax avoidance including effective tax rate and the book-tax difference, we find that firms affiliated with the pyramidal business groups engage in more tax avoidance activities than non-affiliated firms. We also find that firms affiliated with more complex pyramids engage in more tax avoidance practices and firms positioned at the lower tiers of the pyramid avoidance more taxes as well. Overall, the results found in this study indicate that pyramid ownership structure and tax avoidance are strongly connected to each other. The findings from this study suggest that tax benefits might be one motivation for firms to choose to be organized using a pyramidal structure. To the best of our knowledge, this paper is the first study that examines the effect of pyramid ownership structure on aggressive tax planning and tax avoidance.

## **Literature Review and Hypothesis Development**

### **Pyramid Ownership Structures**

A pyramidal structure generally refers to a business group comprising of a group of companies whose ownership structure displays a top-down chain of control (Attig et al. 2003; Malan et al. 2012). In such a structure, the ultimate owner is located at the apex with at least two successive layers of firms below. In other words, there are intermediary companies between the apex firm and the firms at the bottom of the structure. The ultimate firm can own 50% or less, i.e., just as much as necessary to control the first tier companies underneath it. The first tier companies can own 50% or less of the second tier companies underneath, and so on. La Porta et al. (1999) noted that the pyramidal structure and other closely related structures are commonplace globally, except for in the United States and United Kingdom.

### **Pyramid Structures and Tax Avoidance**

In Canada, pyramid structures are often the most common structure that a set of firms are grouped (Attig et al. 2003; Morck et al. 2005). For example, Morck et al. (1998) examined 246 listed firms in Canada and found that approximately 50% of firms belong to a pyramidal group in 1988. Attig et al (2003) obtained a sample of 1121 Canadian listed firms in 1996, and found that pyramidal structure is used to gain control by ultimate owners in 35% of listed firms. Paligorova & Xu (2009) document that pyramids comprise 31.3% of Canadian listed firms. Given the prevalence of pyramids in the Canadian economy, it is thus of interest to examine the impact of pyramid ownership on firms' tax reporting practices.

One cost for firms to avoid tax is the risk of scrutiny and detecting by outsiders. In fact, Graham et al. (2014) find that risk of detection and being challenged by the tax agency is one of the top three factors that explain why firms do not engage in tax planning and avoidance. Desai & Dharmapala (2006) find that firms are more likely to avoid taxes by designing complicated and obscure transactions within the internal organization structure. This is because the complexity and obfuscation of transactions make it difficult for outsiders to detect and trace tax avoidance.

Due to the opaque and complex control web in the pyramidal corporate group, it is hard for tax agencies or other outsiders to trace the transactions among the affiliated firms and thus detect tax avoidance activities. Therefore, firms affiliated to the complex pyramidal organizational structure should be more likely to avoid taxes.

In addition, internal transactions using transfer pricing, cross-lending and borrowing, and other non-arm's transactions can shift income across firms within the pyramidal group. Morck (2003, 2004) indicates that pyramid ownership has the potential for tax avoidance because pyramidal group companies can use inter-corporate income shifting techniques, such as the manipulation of transfer pricing, to enhance their income tax avoidance efforts. He argues that the pyramidal groups members have been shown to shift assets and income among themselves, much as do the subsidiaries of multinational firms. In particular, the pyramidal groups are in an advantageous position to manipulate income, since such transactions are not easily detected by

outsiders- given the less transparent and more complex control web and organizational structure of a pyramidal group. This leads to our first two hypotheses:

*H1: Firms affiliated to a pyramid group will engage in more tax avoidance activities than non-affiliated firms.*

*H2: Firms affiliated to a more complex pyramidal structure will engage in more tax avoidance activities.*

## **Pyramid Structures and Potential Agency Costs**

A pyramid ownership structure can result in a divergence difference between cash flow rights (i.e., actual ownership, claims on cash payout) and control rights (i.e., voting rights, the ability to elect the board of directors, influence over decisions that require shareholder approval) (Fan & Wong 2002; Francis et al. 2005). Hence, the ultimate owner in the pyramid can make decisions that provide them with private benefits while avoiding the proportional cash flow consequences they would bear if their cash flow rights were equal to their control rights. In other words, pyramidal structure encourages rent extraction because it allows the ultimate owner to simultaneously extract private benefits while avoid the related cash flow consequences (Shleifer & Vishny 1997; Gugler & Yurtoglu 2003; Malan et al. 2012). This feature of a pyramid structure can also lead to tax avoidance.

Similar to pyramid firms, Chen et al. (2010) argue that in a family firm, owners/managers who engage in tax avoidance can enjoy a potential benefit of rent extraction. That is, tax avoidance can be designed by the owners/managers to pursue private benefits such as earnings manipulation, perk consumptions, etc. However, they could face serious consequences, such as a discounted share price by other shareholders, as a penalty for the self-interest rent extraction behaviour. Given a large ownership in the family firm, owners/managers will forgo tax benefits to avoid any potential price discounting. However, with a pyramid structure the discount in share price of the affiliated firms may not have a significant effect on the apex firm (i.e. the ultimate owners).

In a pyramid structure, with the apex firm at the top, as a controlling shareholder, has the ability to appoint boards of directors and executive members in the first tiers. The first tiers can then appoint members to lower tiers and hold controlling interest in several companies in the next tiers. This can secure the control of the apex firm over all the firms in the pyramidal group, even though the apex firm only contributes a small portion of the financing while other shareholders contribute most of the financing for firms at the low tiers. The ultimate owner's control power combined with a close relationship between the apex and lower firms can then make it feasible to pursue private benefits such as rent extractions and expropriation from other shareholders. In addition, in pyramid ownership structures with higher asymmetric information, discovery of tax avoidance is made more difficult.

Finally, the apex firm in the pyramid indirectly controls all the other firms in the pyramid. There could be several hundred firms in the pyramidal group. This feature of a pyramidal group lets a limited number of ultimate owners control corporate assets worth substantially much more than the actual investment of the apex firm in the pyramid. As mentioned, this often leads to

situation where cash flow rights are greater than control rights and transfer pricing is possible. In Canada, inter-corporate dividends are fully tax deductible as long as the ownership stake is at least ten percent (Morck, 2004). Thus,

*H3: Firms over which the apex firm has larger deviation of control rights from cash flow rights will engage in more tax avoidance activities.*

### **Politically Connected Firms and Tax Avoidance**

Although no single pyramidal group in Canada controls a predominant part of the national economy (Morck et al. 2005), pyramid business groups are often large in size, and bigger firms are more likely to be politically connected (Schuler et al. 2002; Faccio 2006). In Canada, the ultimate owners of many family pyramids have political connections and the lobbying costs for the pyramidal groups are actually lower than freestanding or widely held firms (Morck & Yeung 2004). In general, politically connected firms are more tax aggressive than non-connected firms (Kim & Zhang, 2014). Similarly, these politically connected firms have a reduced likelihood of regulators' enforcement actions and penalties (Correia, 2014). Therefore, employing politicians could be another way in which pyramid structured firms avoid paying taxes. Finally,

*H4: Firms affiliated to a pyramid structure with political connections will engage in more tax avoidance activities.*

## **Data and Sample**

### **Data**

We collect data for Canadian public companies during 2010-2013. The financial data is collected from the Compustat database. Information about pyramid ownership and other ownership structures is collected from Inter-corporate Ownership (ICO) database. ICO product is licensed under Statistics Canada and can be accessed by registered universities for academic research and teaching purposes. It provides ownership information on Canadian resident companies, details on the ownership structures of top enterprise groups, as well ownership information on many foreign-controlled firms in Canada. It shows the portion of voting rights of a corporation owned or held by another corporate body or group of related individuals as well as information on the size of control stakes, the identity of the apex firms, and the residence country location.

The firms used for this study had to have meet the following two conditions, (1) their financial statements are available from Compustat Fundamentals Annual and inter-corporate ownership structure is available from ICO database, for any years from 2010 to 2013; and (2) are not partnerships, income trusts, income funds, or financial institutions, because they are taxed in a different way from other firms. We use the data starting in 2010 since ICO presents inter-corporate ownership in a tiered fashion with each successive layer of held corporations being indented for 2010 and later years. In addition, for our sample periods of 2010 to 2013, Canadian public firms have already adopted IFRS with no major accounting principles changes in this time period.

There were 503 firms with 1504 firm-year observations. A large percentage of the firms are in the mining industry (44.93%), manufacturing industry (22.66%), and Transportation & Public Utilities (12.43%). Since previous studies find cross-industry variation in firms' tax avoidance activities, we include industry dummies in the regression analysis to control for industry effects.

## Ownership structure

The ICO database demonstrates that firms in Canada have diverse corporate ownership and typically composed of one of the three ownership structure: a pyramid structure, a parallel structure, and a stand-alone structure. A pyramid ownership structure is defined as a business group comprising of a group of companies whose ownership structure displays a top-down chain of control. In such a structure, the apex firm (also known as the ultimate owner or parent company) is located at the top tier with at least two successive layers of firms below. The ultimate owner often owns 50% or less of the voting rights, i.e., just as much as necessary to control the second tier companies underneath it. The second tier companies own 50% or less of the 3rd tier companies underneath. We use the term *pyramid structure* to refer to all of these structures collectively.

## Models and Variables

To determine the relationship between pyramid structure and tax avoidance and to test the first hypothesis, we design the following regression model:

$$TA_{it} = \alpha_0 + \alpha_1 PYRA_{it} + \sum_k \pi_k CONTROL_{it} + Industry \& Year \text{ dummies} + \varepsilon_{it} \quad (1)$$

Where

*TA*: tax avoidance, measured by several proxies discussed below

*PYRA*: an indicator variable, equal to 1 if the firm is affiliated to a business group which is a pyramid group, and 0 otherwise.

*CONTROL*: a set of control variables

Since there is no universally accepted measurement for tax avoidance in the extant literature, we measure a firm's tax avoidance in four ways based on prior tax avoidance and tax aggressiveness research (e.g., Adhikari et al. 2006; Robinson et al. 2008; Chen et al. 2010; Armstrong et al. 2013; Lennox, et al. 2013; Balakrishnan et al. 2013; Kim & Zhang 2014; Graham et al. 2014; Guenther 2014; Higgins et al. 2015; etc.). They are, annual *GAAP ETR*, defined as total tax expense on the income statement divided by pre-tax income (note that the pre-tax income cannot be negative and the effective tax rate is censored to fall between 0 and 1. As a result, there are 861 observations left); industry and sized-matched ETR (*IND-ETR*), as used by Balakrishnan et al. (2013) and Kim & Zhang (2014), defined as the firm's mean industry and sized-matched *GAAP ETR* less the firm's *GAAP ETR*, where the firm's mean industry and sized-matched *GAAP ETR* is the average *GAAP ETR* for the group of firms in the same industry with the same quintile of total assets (note higher *IND-ETR* indicates greater tax avoidance); percentage of firms located in the low-tax jurisdictions (*LTAX*), similar to the idea of Dyreng & Lindsey (2009) and Higgins et al. (2015), measured as the number of firms in the business group

that are located in the jurisdictions with corporate tax rates lower than Canada's, over the total of firms in the business group (we drop the stand-alone firms from the sample and there are 1316 observations left, and Tobit regression is used since  $LTAX$  is between 0 and 1); the permanent book-tax gap ( $BTD$ ), defined as pre-tax income less taxable income, where taxable income is calculated as total tax expense over statutory tax rate (we delete 648 observations with a net loss and/or negative tax expense. As a result, there are 856 observations left). We do not use the long-run (i.e., 5 or 10 years) ETR (Dyeng et al. 2008), given the short-term sample periods. We do not measure the discretionary BTD of Frank et al. (2009) or the estimated tax shelter of Wilson (2009) given the fact that Canadian GAAP is not the same as US GAAP. Furthermore, legal and institutional environment is different between these two countries though culture is similar. For example, the co-efficients used in Wilson (2009) to estimate the probability for the firm to engage in a tax shelter may not be the same in the Canadian context. Also, financial reports of Canadian firms do not distinguish between federal and provincial taxes, as well as domestic and foreign taxes.

Pyramid structure is a dummy variable, equal to 1 if the firm is affiliated to a business group which has a pyramid structure and 0 otherwise. A pyramid structure is defined as a business group comprising of a group of companies whose ownership structure displays a top-down chain of control. In such a structure, the apex is located at the top with at least two successive layers of firms below (see section 2). The model assumes that pyramid affiliation is exogenous. The assumption is reasonable given the fact that ownership structure is historically determined and is related to the origin of laws, the enforcement of the laws, as well as political and ideological factors (La Porta et al. 1999; Roe 2000).

We control for other firm characteristics that could potentially affect a firm's tax aggressiveness, as documented in previous studies (e.g., Stickney & McGee 1982; Zimmerman 1983; Porcano 1986; Omer et al. 1993; Gupta & Newberry 1997; Phillips 2003, Adhikari et al. 2006, Dyreng et al. 2008, Robinson et al. 2008, Badertscher et al. 2009, Zeng 2010, 2011; and Armstrong et al. 2012). They are, firm size ( $SIZE$ ), measured as the log of total assets; return on asset ( $ROA$ ), measured as net earnings over total assets; leverage ( $LEV$ ), measured as the sum of short-term and long-term debts over total assets; capital intensity ( $FIX$ ), the ratio of fixed assets to total assets; inventory intensity ( $INV$ ), the ratio of inventory to total assets, and loss-carry-over ( $LOSS$ ), measured as net loss-carry-over total assets. In addition, industry and year dummies are included in the models to control for potential industry and year fixed effects.

To determine the relationship between pyramid structure complexity and tax avoidance and to test the second hypothesis, we design the following two regression models:

$$TA_{it} = \beta_0 + \beta_1 TTIER_{it} + \sum_k \sigma_k CONTROL_{it} + Industry \& Year \text{ dummies} + \varepsilon_{it} \quad (2)$$

$$TA_{it} = \lambda_0 + \lambda_1 TFIRM_{it} + \sum_k \rho_k CONTROL_{it} + Industry \& Year \text{ dummies} + \varepsilon_{it} \quad (3)$$

Where

$TTIER$ : equal to the total number of tiers of the business group, to which the firm is affiliated

$TFIRM$ : equal to the log of the total number of firms in the business group

The total number of tiers is counted as the longest chain of control, i.e., the number of tiers between apex firm and the bottom firms. The size of a business group can be measured as the total number of firms in the group. Since adding tiers to the ownership structure may lead to more complexity and group size may also be linked to complexity, we use both the total number of tiers and the total number of firms in the group as proxies for complexity of a business group.

To determine the relationship between the deviation of control rights from cash flow rights and tax avoidance and to test the third hypothesis, we design the following two regression models:

$$TA_{it} = \delta_0 + \delta_1 NTIER_{it} + \sum_k \beta_k CONTROL_{it} + Industry \& Year \text{ dummies} + \varepsilon_{it} \quad (4)$$

$$TA_{it} = \theta_0 + \theta_1 CR_{it} + \sum_k \gamma_k CONTROL_{it} + Industry \& Year \text{ dummies} + \varepsilon_{it} \quad (5)$$

Where

*NTIER*: measured as the tier at which the firm is positioned in the business group

*CR*: the difference between control rights and cash flow rights.

*CR* is defined as the difference between control rights and cash flow rights, where control right is defined as the weakest link along the chain of control and cash flow right is the products of all of the ownership along the chain of control.

Since Edwards & Weichenrieder (2009) argue that using the weakest link to measure control right in a pyramid has some potential problems, we use an alternative measurement. We use the tier at which a firm is located in the business group as a proxy for the wedge between control rights and cash flow rights. This is because the apex firms' cash flow interest in firms lower in the pyramid is less than in firms located in higher tiers given the pyramided fractional ownership. Generally the apex firms have the least cash flow interest in the firms which are located at the bottom of the pyramid structure.

Finally, to determine the impact of political connection of a pyramidal group on tax avoidance activities and to test the fourth hypothesis, we design the following regression model.

$$TA_{it} = \eta_0 + \eta_1 PYRA_{it} + \eta_2 POL_{it} + \eta_3 PYRA_{it} \times POL_{it} + \sum_k \phi_k CONTROL_{it} + Industry \& Year \text{ dummies} + \varepsilon_{it} \quad (6)$$

Where

*POL*: an indicator variable, equal to 1 if the firm is classified as politically connected and 0 otherwise

Political connection is based on Goldman et al.'s (2009) measure, which we have modified slightly for the Canadian institutional environment.

## Testing Results

### Data Statistics and Preliminary Results

Table 1 presents the descriptive statistics of the major variables. Panel A presents the descriptive statistics of the tax avoidance variables. It shows that, on average, the GAAP *ETR* is 20.7%, which is less than the statutory rate (26% to 31% from 2010 to 2013). The industry and size-matched GAAP *ETR* (*IND-ETR*), on average, is 0.019%. The book-tax gap (*BTD*), on average, is positive and equal to 0.0025, implying that firms, on average, report more accounting income than taxable income.

Panel B in Table 1 presents the descriptive statistics of the variables related to pyramid ownership structure. It reveals that on average, the total number of tiers (*TTIER*) and the log of total number of firms (*TFIRM*) in the business group are 3.697 and 0.892, respectively. The mean value of the pyramid dummy (*PYRA*) is 0.643, implies that about two third of the firms belong to pyramidal business groups. The divergence between control rights and cash flow rights (*CR*), on average, is 0.01.

Table 2 documents the means of tax avoidance measures, ownership structure, and firm characteristics, separately for pyramid-affiliated and non- pyramid-affiliated firms. The statistics show that affiliated firms have lower GAAP *ETR* and higher percentage of firms located in low-tax jurisdictions (*LTAX*) than non-affiliated firms. However, the differences in mean of the book-tax gap (*BTD*) and industry and size-matched GAAP *ETR* (*IND-ETR*) are not significant. The statistics also reveal that firms affiliated to a pyramid structure are larger (*SIZE*), more leveraged (*LEV*), have higher inventory intensity (*INV*), exhibit better performance (*ROA*), and less loss-carry-overs (*LOSS*) than non-affiliated firms, but are not significantly different from non-affiliated firms in capital intensity (*FIX*). In addition, Table 2 documents that a pyramidal business group has more firms in the group, more firms in a foreign country.

**Table 1: Descriptive Statistics**

**Panel A: Descriptive statistics of Tax Avoidance Variables**

<b>Variables</b>	<b># of obs</b>	<b>Mean</b>	<b>Median</b>	<b>Stdev</b>	<b>1st Qua</b>	<b>3rd Qua</b>
<i>GAAP</i>	861	0.26656	0.26656	0.12422	0.21373	0.3128373
<i>IND-ETR</i>	861	0.00019	-0.0033	0.1191	-0.05123	0.0559
<i>LTAX</i>	1316	0.01027	0	0.04391	0	0
<i>BTD</i>	883	0.00251	0.00059	0.04318	-0.00903	0.0123

**Panel B: Descriptive statistics of pyramid ownership structure variables**

<b>Variable</b>	<b># of obs</b>	<b>Mean</b>	<b>Median</b>	<b>Stdev</b>	<b>1st Qua</b>	<b>3rd Qua</b>
<i>PYRA</i>	1504	0.643	1	0.479	0	1
<i>TTIER</i>	1504	3.697	3	2.288	2	5
<i>TFIRM</i>	1504	0.892	0.845	0.595	0.477	1.322
<i>NTIER</i>	1504	1.479	1	1.103	1	1
<i>CR</i>	1504	0.01	0	0.042	0	0

**Primary Results**

**Table 2:  
Mean Differences between Pyramid-Affiliated and Non- Pyramid-Affiliated Firms**

<b>Variable</b>	<b># of obs</b>	<b>Affiliated firms</b>		<b>Non-affiliated firms</b>		<b>p-value</b>
		<b>Mean</b>	<b># of obs</b>	<b>Mean</b>	<b>Mean</b>	
<i>GAAP ETR</i>	N=631	0.263	N=230	0.277	-0.014	0.100
<i>IND-ETR</i>	N=631	0.0005	N=230	-0.0006	0.0011	0.458
<i>LTAX</i>	N=967	0.0126	N=349	0.0038	0.0088	0.000
<i>BTD</i>	N=644	0.0023	N=239	0.0031	-0.0008	0.422
<i>SIZE</i>	N=967	9.006	N=537	8.514	0.492	0.000
<i>ROA</i>	N=967	0.011	N=537	-0.051	0.062	0.080
<i>LEV</i>	N=967	0.222	N=537	0.114	0.108	0.000
<i>INV</i>	N=967	0.09	N=537	0.072	0.018	0.005
<i>FIX</i>	N=967	0.77	N=537	0.783	-0.013	0.313
<i>LOSS</i>	N=967	0.101	N=537	0.346	-0.245	0.003
<i>TFIRM</i>	N=967	31.086	N=537	2.667	28.419	0.000
<i>FORE</i>	N=967	0.295	N=537	0.043	0.252	0.000

**Table 3: Primary Testing Results for Hypothesis 1**

<b>Variables</b>	<b>Pred.</b>	<b>GAAP</b>	<b>Pred.</b>	<b>IND-</b>	<b>Pred.</b>	<b>LTAX</b>	<b>Pred.</b>	<b>BTD</b>
<i>Intercept</i>	?	0.308*** (4.852)	?	-0.019 (-0.315)	?	-0.77*** (-5.64)	?	-0.019 (-0.98)
<i>PYRA</i>	-	-0.014* (-1.356)	+	0.013* (1.355)	+	0.206*** (6.53)	+	0.003 (1.088)
<i>SIZE</i>	?	-0.002 (-0.336)		-0.0004 (-0.058)		0.405*** (3.04)		-0.0004 (-0.212)
<i>ROA</i>	-	-0.47*** (-6.273)	+	0.418*** (5.798)	+	-0.016 (-0.59)	+	0.357*** (16.18)
<i>LEV</i>	?	-0.01 (-0.3)	?	0.018 (0.577)	?	-0.23*** (-4.36)	?	0.018** (1.896)
<i>INV</i>	?	0.028 (0.692)	?	-0.032 (-0.821)	?	0.637 (0.77)	?	0.002 (0.203)
<i>FIX</i>	?	0.025** (2.333)	?	-0.03*** (-2.462)	?	-0.046** (-2.16)	?	-0.007** (-2.193)
<i>LOSS</i>	-	-0.14*** (-4.857)	+	0.142*** (4.98)	+	0.014 (1.07)	+	0.032*** (3.576)
<i>Obs</i>		861		861		1316		883
<i>R2</i>		0.09		0.06		0.23		0.26

Table 3 shows the results of regression analysis for the impact of pyramidal structure on tax avoidance. It shows that, consistent with H1, the coefficient on *PYRA* is negative (positive) and statistically significant for three of four measures of tax avoidance. It implies that firms affiliated to a pyramidal group have lower GAAP *ETR*, lower industry and size – matched GAAP *ETR*, and higher percentage of firms located in low-tax jurisdictions than the non-affiliated firms. However, pyramid ownership has no significant impact on the book-tax gap.

Table 3 also shows that some control variables are significant. For example, *ROA* is negatively (positively) associated with the GAAP *ETR* (*IND-ETR* and the book-tax gap), which is consistent with Dyreng et al. (2008) and Lennox et al. (2013). *FIX* is positively (negatively) associated with GAAP *ETR* (*IND-ETR*, *LTAX* and *BTD*), suggesting that firms with capital intensity pay higher taxes. This result contradicts the findings of Stickney & McGee (1982) and Gupta & Newberry (1996). However, it is consistent with the findings by Wu et al. (2007) and Wu et al. (2008). Table 3 also shows that *LOSS* is negatively (positively) associated with GAAP *ETR* (*IND-ETR* and the book-tax gap) as predicted since losses carried from other years reduce current taxes (Chen et al. 2010). *SIZE* is positively associated with *LTAX*, which implies that large firms belong to the business group with high percentage firms located in low-tax countries. *LEV* is positively associated with *BTD*, which is consistent with the argument that interests from borrowings are tax deductible and hence reduce tax liabilities (e.g., Stickney & McGee 1982; Porcano 1986; Zeng 2010; and Chen et al. 2010).

Table 4 documents the regression analysis of the impact of ownership complexity on tax avoidance. It presents the results from models 2 and 3. We conduct the analysis using two alternative proxies to capture ownership complexity: total number of tiers (Panel A) and log of total number of firms in the business group (Panel B). Panel A in Table 4 shows that, consistent with H2, the coefficient on *TTIER* is negative (positive) and statistically significant for all four measures of tax avoidance, which implies that firms belong to a business group with more complex ownership structure have lower GAAP *ETR*, and higher *IND-ETR*, *LTAX* and book-tax gap than those belong to a less complex ownership structure. Panel A of Table 4 also reports the results for control variables, which are similar to the results in Table 3.

In Panel B of Table 4, it shows that, consistent with H2, the coefficient on *TFIRM* is negative (positive) and statistically significant for all four measures of tax avoidance, which implies that firms belong to a larger business group have lower GAAP *ETR*, and higher *IND-ETR*, *LTAX* and book-tax gap than those belong to a smaller business group.

Table 5 reports the regression analysis of the impact of the apex firms' divergence between control rights and cash flow rights in a specific firm on tax avoidance practices. It presents the results from models 4 and 5. We conduct the analysis using two alternative measures of a apex firm's deviation between control rights and cash flow rights in a specific firm: the tier in which the specific firm is located (Panel A) and the difference between control rights and actual cash flow rights (Panel B).

In Panel A of Table 5, it shows that, consistent with H3, the coefficient on *NTIER* is positive and statistically significant for two measures of tax avoidance, which implies that firms

located at lower tiers of the ownership structure have larger book tax gap and higher percentage of firms in low-tax jurisdictions than those located at higher tiers in the business group. However, *NTIER* is not significantly associated with *GAAP ETR* and *IND-ETR*. Result from Panel B of Table 5 show that the divergence between control rights and cash flow rights (*CR*) is significantly associated with one measure of tax avoidance - *LTAX*, which provides some (albeit, relatively weak) support of Hypothesis 3.

Results of the regression analysis for the impact of political connection of a pyramidal structure on tax avoidance are also found (not tabulated). Preliminary results show that, consistent with H4, the coefficient on *PYRAxPOL* is negative and statistically significant associated with *GAAP ETR*.

**Table 4: Primary Testing Results for Hypothesis 2**

**Panel A**

<b>Variable</b>	<b>Pred.</b>	<b>GAAP</b>	<b>Pred.</b>	<b>IND-</b>	<b>Pred.</b>	<b>LTAX</b>	<b>Pred.</b>	<b>BTD</b>
<i>Intercept</i>	?	0.285** (4.399)	?	-0.004 (-0.062)	?	-0.66*** (-4.63)	?	-0.012 (-0.598)
<i>TITIER</i>	-	-0.004** (-1.984)	+	0.003* (1.425)	+	0.036** (7.93)	+	0.001** (1.996)
<i>SIZE</i>	?	0.0009 (0.1203)	?	-0.002 (-0.311)	?	0.03** (2.09)	?	-0.001 (-0.687)
<i>ROA</i>	-	-0.47*** (-6.277)	+	0.415** (5.769)	+	-0.003 (-0.1)	+	0.358** (16.24)
<i>LEV</i>	?	-0.008 (-0.244)	?	0.018 (0.582)	?	-0.3*** (-4.3)	?	0.018* (1.805)
<i>INV</i>	?	0.021 (0.526)	?	-0.028 (-0.708)	?	0.148* (1.68)	?	0.004 0.367
<i>FIX</i>	?	0.025** (2.293)	?	-0.025** (-2.425)	?	-0.043* (-1.85)	?	-0.007** (-2.16)
<i>LOSS</i>	-	-0.14*** (-4.824)	+	0.141** (4.931)	+	0.016* (1.48)	+	0.032** (3.557)
<i>Obs</i>		861		861		1316		883
<i>R2</i>		0.09		0.06		0.28		0.27

**Panel B**

<b>Variable</b>	<b>Pred.</b>	<b>GAAP</b>	<b>Pred.</b>	<b>IND-</b>	<b>Pred.</b>	<b>LTAX</b>	<b>Pred.</b>	<b>BTD</b>
<i>Intercept</i>	?	0.265** (3.925)	?	0.012 (0.186)	?	-0.7*** (-5.23)	?	-0.001 (-0.056)
<i>TFIRM</i>	-	-0.019** (-2.008)	+	0.014* (1.533)	+	0.134** (7.95)	+	0.007** (2.65)
<i>SIZE</i>	?	0.003 (0.453)	?	-0.004 (-0.579)	?	0.036** (2.66)	?	-0.003* (-1.289)
<i>ROA</i>	-	-0.47*** (-6.295)	+	0.417** (5.786)	+	-0.01 (-0.39)	+	0.359** (16.31)
<i>LEV</i>	?	-0.012 (-0.366)	?	0.021 (0.667)	?	-0.24*** (-3.8)	?	0.019** (1.92)
<i>INV</i>	?	0.027 (0.669)	?	-0.032 (-0.81)	?	0.069 (0.83)	?	0.003 (0.237)
<i>FIX</i>	?	0.025** (2.289)	?	-0.025** (-2.421)	?	-0.024 (-1.18)	?	-0.007** (-2.144)
<i>LOSS</i>	-	-0.14*** (-4.767)	+	0.139** (4.89)	+	0.006 (0.68)	+	0.031** (3.499)
<i>Obs</i>		861		861		1316		883
<i>R2</i>		0.09		0.06		0.26		0.27

**Table 5: Primary Testing Results for Hypothesis 3**

**Panel A**

<b>Variable</b>	<b>Pred.</b>	<b>GAAP</b>	<b>Pred.</b>	<b>IND-</b>	<b>Pred.</b>	<b>LTAX</b>	<b>Pred.</b>	<b>BTD</b>
<i>Intercept</i>	?	0.301** (4.681)	?	-0.02 (-0.316)	?	-0.67*** (-4.84)	?	-0.016 (-0.825)
<i>NTIER</i>	-	-0.004 (-1.028)	+	0.001 (0.418)	+	0.061** (8.68)	+	0.002** (2.011)
<i>SIZE</i>	?	-0.003 (-0.38)	?	0.007 (0.097)	?	0.038** (2.75)	?	-0.001 (-0.381)
<i>ROA</i>	-	-0.46*** (-6.246)	+	0.413** (5.725)	+	0.003 (0.09)	+	0.359** (16.27)
<i>LEV</i>	?	-0.017 (-0.515)	?	0.024 (0.762)	?	-0.25*** (-3.73)	?	0.021** (2.129)
<i>INV</i>	?	0.027 (0.682)	?	-0.033 (-0.834)	?	0.122* (1.41)	?	0.003 (0.257)
<i>FIX</i>	?	0.026** (2.38)	?	-0.03*** (-2.462)	?	-0.043** (-1.93)	?	-0.008** (-2.327)
<i>LOSS</i>	-	-0.14*** (-4.789)	+	0.14*** (4.902)	+	0.008 (0.53)	+	0.032** (3.544)
<i>Obs</i>		861		861		1316		883
<i>R2</i>		0.09		0.06		0.31		0.27

## Panel B

Variable	Pred.	GAAP	Pred.	IND-	Pred.	LTAX	Pred.	BTD
<i>Intercept</i>	?	0.314** (4.914)	?	-0.028 (-0.448)	?	-0.75*** (-5.31)	?	-0.02 (-0.969)
<i>CR</i>	-	0.036 (0.428)	+	-0.073 (-0.891)	+	0.57*** (3.83)	+	0.014 (0.55)
<i>SIZE</i>	?	-0.004 (-0.618)	?	0.002 (0.269)	?	0.057** (4.04)	?	-0.0001 (-0.07)
<i>ROA</i>	-	-0.46*** (-6.157)	+	0.408** (5.662)	+	-0.004 (-0.14)	+	0.356** (16.14)
<i>LEV</i>	?	-0.014 (-0.416)	?	0.021 (0.647)	?	-0.22*** (-3.39)	?	0.02** (2.063)
<i>INV</i>	?	0.028 (0.704)	?	-0.032 (-0.815)	?	0.053 (0.62)	?	0.002 (0.157)
<i>FIX</i>	?	0.024** (2.226)	?	-0.024** (-2.289)	?	-0.06*** (-2.46)	?	-0.007** (-2.233)
<i>LOSS</i>	-	-0.14*** (-4.76)	+	0.139** (4.873)	+	0.01 (0.95)	+	0.031** (3.527)
<i>Obs</i>		861		861		1316		883
<i>R2</i>		0.08		0.06		0.13		0.26

## Additional Analysis - Family Pyramid

The apex firm (ultimate owner) of the pyramid structure can be a financial institution, state, a corporation, a family group, etc. In this section, we examine the family pyramid, which has a family firm at the apex. Chen et al. (2010) find that family firms are less tax aggressive because the non-tax costs associated with tax avoidance is higher than the benefits. The non-tax costs include discounted share price, reputation loss, and so on. However, we argue that, for the pyramidal business group, the apex firm suffers smaller reputation losses from employing aggressive tax practices due to the difficulty to pin down the accountability in the complex opaque control web of this structure. In addition, the discount in share price of the affiliated firms may not have a significant effect on the apex firm due to a large divergence between control rights and cash flow rights. Hence it is an empirical question whether family pyramid has a positive or negative impact on tax avoidance.

An indicator variable (*FAMILY*) is used as an explanatory variable, equal to one if the apex firm is a family, and zero otherwise. We restrict the sample to the subset of firms exhibiting pyramidal ownership structure and examine if the impact of pyramid structure on tax avoidance varied according to the identity of the family ultimate owner. Results (not tabulated) show that

the coefficient on *FAMILY* is negative (positive) and significant for two measures of tax avoidance - *IND-ETR* and *LTAX*, which does not provide conclusive results about the impact of family pyramid on tax avoidance.

### **Robustness Tests**

The divergence between control rights and cash flow rights is incurred when the ultimate owner has an indirect control over the firm. That is, there is no such divergence for apex firm (the first tier) and the second tier firms. We therefore measure the deviation of control rights from cash flow rights as an indicator variable, equal to one if the firm is located at the third tier or lower, and zero otherwise. The untabulated results show that firms located at the third tier or lower have larger book-tax gap than those located at the first and second tiers.

Since the book-tax gap is measured as pre-tax earnings less taxable income, it can be increased by either the increase of financial income or the decrease of taxable income, or both. In other words, it is possible that the book-tax gap captures both earnings management and tax aggressiveness (Desai & Dharmapala 2006; Frank et al. 2009, Chen et al. 2010; etc.).

To exclude earnings management from the book-tax gap, we follow the method and measure the so called residual book-tax gap based on Desai & Dharmapala (2006) and exclude total accruals from the book-tax gap. We do the following regression to identify the component of the book-tax gap that cannot be explained by earnings management.

$$BOOK - TAX_{it} = \gamma_1 DA_{it} + \varepsilon_{it} \quad (7)$$

The residuals from above model are the component of the book-tax gap that cannot be explained by earnings management and so are identified as the measurement for tax avoidance. The results, which are not presented in the paper, are similar to those for our BTG measure. Additionally, we measure the book-tax gap using the difference between net income and after-tax taxable income based on Lev & Nissim (2004). The untabulated results do not change qualitatively. We also measure GAAP ETR as the total tax expenses over market value based on Henry & Sansing (2014). The results, which are not presented in the paper, are not significantly different from those for our GAAP ETR measure.

### **Conclusion and Summary**

This paper examines the relationship between pyramid structure and tax avoidance. We hypothesize and find evidence that pyramid structures are associated with tax avoidance activities- a finding not previously documented in the literature. Using Canadian public companies and relying on four proxies for tax avoidance including effective tax rate, firms in low-tax jurisdictions, and the book-tax difference, we find that firms affiliated with pyramidal business groups engage in more tax avoidance activities than non-affiliated firms. We also find that firms affiliated with more complex pyramids engage in more tax avoidance practices and firms positioned at the lower tiers of the pyramids avoid more taxes as well. Overall, the results

found in this study indicate that pyramid ownership structure and tax avoidance are strongly connected to each other.

This study has significant implications for policy makers, corporate managements, and academics. The pyramidal structure and other closely related structures are commonly used around the world except the U.S. and the U.K. (La Porta et al. 1999, Claessens et al. 2000, Faccio and Lang 2002, Denis and McConnell 2003, Lins 2003, to name a few). A broader understanding of the relationship between the pyramidal structure and tax avoidance can be pursued by extending the research discussed in this paper to include firms in other countries, where the pyramid groups are prevalent, but institutional environment differs from that of Canada.

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## **FAILING AT HISTORY**

This essay approaches the question of multiplicity in business history, particularly works relying on actor-network theory. The arguments relate both scientific and philosophical approaches to time: the now; the past; the present and the future to propose a plausible resolution of the time question via an acceptance of the extant and the hyalosign.

### **Introduction**

Kairos or Chronos; real or illusion; time is an important factor in the study of the past and reporting of history (Czarniawska, 2004). This paper discusses the failure of history and historical analysis beginning from the problem of time and continuing into the problem of past. In research we try to use the past to understand the present and give some plausible notion of the future; each of these concepts (past, present, future) depend on a shared understanding of time. Yet, researchers rarely reflect on their meaning of time. Perhaps much of our failure to do or use history well begins with our failure to disclose how we conceive of time and the related constructs.

Conceptually this essay attempts to resolve issues of history in the milieu of actor-network theory (ANT) and the development of methods of historiography by means of ANT. In order to do so, the issue of time in ANT must be illuminated to some degree, as must be the controversy of time. Kairotic and chronological time (the moment when things happen and the sequence of events) are considered in some depictions of ANT, but in conception ANT work attempts to freeze time. A basic criticism of ANT is this attempt to “clamp” time (Hunter & Swan, 2007; Kilduff & Brass, 2010; Whittle & Spicer, 2008).

Then there is also the notion of the “AND” (Deleuze & Guattari, 1987), which informs us that progressions in time, in whatever direction, are always disrupted by so-called irrational cuts (Deleuze, 1989, 1986). The cuts make the difference and are thus relevant in our understanding of history and change. It is not about the sequences of time, which slowly progress and which can be investigated, but it is about the way they are cut apart. It is about the zone of the in-between, the

“AND”. How the “AND” and ANT intermingle and especially how this one letter, the T or the D make a difference in our conception of time is something which is intriguing.

This is especially intriguing due to ANT tendencies to clamp or freeze time, which implies time is a solid. Where did the idea that time can be molded into a solid come from? Deleuze & Guattari do not consider time to be solid, but rather describe it as fluid or even gaseous. For them, it is all about the process of “becoming” and how this ungraspable process can create reality. This is closely related to the philosophy of Michel Serres (2008, 1995, Serres & Latour, 1995), who suggests that reality is more like the water in a fountain or in a percolator. “Time doesn’t flow; it percolates. This means precisely that it passes and doesn’t pass” (Serres & Latour, 1995, 58).

“Time does not always flow according to a line, nor according to a plan but, rather, to an extraordinary complex mixture, as though it reflected stopping points, ruptures, deep wells, chimneys of thunderous acceleration, rendings, gaps – all sown at random, at least in a visible disorder” (Serres & Latour, 1995, 57).

“Time is paradoxical; it folds or twists, it is as various as the dance of flames in a brazier – here interrupted, there vertical, mobile, and unexpected. The French language in its wisdom uses the same word for weather and time, *le temps*” (Serres & Latour, 1995, 58, italics in original).

The fluidity of reality then also drives how we make sense of history; if history and time are fluid conceptions, then reality and history slip through our fingers or minds and are ungraspable, even incomprehensible. The wheels of time are then fountains of time, which we can jump into, which can splash us with experiences, and which we can also climb out of, but which are never the same. From this perspective, our understanding of the past is then how we perceive the splashes of our fountain.

### **Clamping the past in ANT**

The past is controversial: it is controversial because, arguably, the production of knowledge occurs as a process in the present (Jenkins 1991). Therefore histories are produced in their time of publication rather than the time of the events described. When situated in the past, this production is of that present. A confusing and possibly un-clampable contradiction; this confusion produces its own controversy (Law and Urry 2005). ANTi-History research has shown that the production of knowledge of the past is impacted by the very description of events: accounts of the past play a role and constrain understandings of events (Durepos and Mills 2011; Durepos and Mills 2012). Once again the temporal paradox of what is the past defies simplification. It is possible that an understanding of the past is an actant in the network. So time is held still, but the impact of history is active.

ANT tends to view time as clampable, able to be frozen. Or, at the very least, something which can be controlled for - this produces a seemingly scientific approach to time (Czarniawska

2004). Time is treated as a variable in an experiment, linearly (Law and Urry 2005). In organizations, time is not measurable in such a specific form. Histories often describe events in an order, one event preceding another, as if there were a causal link between them (Weatherbee and Durepos 2010). Causation may be present, but often it is not. It is more common for time to be indeterminate: the Hundred Years' War did not end after exactly 100 years. The other wars, which we find in lists as occurring after this war (or series of conflicts), may have started during the Hundred Years' War. So the oscillation of history from inscription to actant to irrelevant is a challenge to the clamping of time, yet time cannot be denied regardless of the scientific desire to control it. We impose a narrative timeline on the retelling of events as a sensemaking tool, yet the analysis of traces does not support a discrete linearity of action.

In the linking of Critical Sensemaking with ANT and the intersement of networks, time as conceived of in events and opportunity is useful (Hartt, Mills, Helms Mills, & Corrigan, 2014). Both time and place are crucial, as well as the people, things and issues (Czarniawska 2004). In her development of the action net, Czarniawska demonstrates how these special and temporal factors link actions into networks of production. This approach to time in post-ANT discovery extends the "travel guide" to include actions as key forces in the translation of a group to a network. The concept of time provides a better means to link "History" to the decisions made by individuals; time in the chronological sense is much less important than significant events and our understanding of them (kairotic time). This propels our understanding into a level of importance as an actor supporting the need for non-corporeal actants (ideas, beliefs, values). If time is kairotic or even chaotic (Law and Urry 2005) in a network, then the connections of people, things and events are more performative than physical, actants are more non-corporeal than concrete. This is related to the concept of the AND as explained by Deleuze & Guattari and the idea of a fluid time and reality as suggested by Michel Serres.

ANT requires a belief that actions are a function of interactions (Law 1997); a passage of time resulting in causation. Interactions are political; they demonstrate power relations in the network (Bergström and Diedrich 2011). Politics in the network are critical to the formation of the "real". Discourse is the means by which these relations are enacted. Discourse produces an oscillation between the real and the relative, expressing the relational power of networks and choice. "Relativism is self-refuting. It is also an argument about knowledge, that is, it is epistemological. The argument we are making is about method-making-knowledge-and realities; it is both epistemological and ontological" (Law and Urry 2005; P. 405). This real-relative duality as to the nature of ANT can also be applied to the nature of discourses in networks, which may be both ideational and constrained practice. The idea produces the discursive practice, which in turn reinforces the ideation (Foucault 1972; Fairclough 1992; Fairclough and Thomas 2004).

In terms of the ahistoric nature of this real-relativity debate (is the past real or relative?) it becomes clearer when relating back to the concept of kairotic time and the relation of events rather than a methodical chronology. We can envision the manner in which power accounts for persistence in a network when we measure time in terms of actions rather than against a clock. Once embodied in an actant (as an understanding of the significance of an event – the idea of the event), the chronological time of the event becomes irrelevant to the power of the event. Time

becomes a product of the discourse or as an argument within the discourse. This approaches the philosophical and scientific question of the nature of time.

### **But What is Time?**

If time is; what is time (White, 1980)? The Greeks gave us the terms Chronos and Kairos for time, and their various spellings and interpretations. Kairos was the god of opportunity; Chronos the destroyer. It is fitting that Chronos may be the destroyer of all things, the eater of children or more simply inevitability. The depiction of Chronos (the god) as the mover of the zodiac wheel may provide our interpretation of time through the clock. Kairotic time, on the other hand, is more nuanced in terms of being either a specific moment or the right moment depending on which ancient Greeks you follow (McKerrow, 1999). We describe kairotic time as event based, in this form it is more easily contrasted with chronological time (Clear & MacDonell, 2010).

Czarniawska describes a weaving together of time and space in contrasting kairotic time with chronological time (Czarniawska 2004). If Kairotic time measures opportunities (happenings, events) and is contrived mentally in our experience, then chronological time is our common measure of time as a linear progression. Each of these forms appear to be a sensemaking outcome through which humans attempt to reconcile the uncertainty of what Einstein proposed as an illusion: time (Newton and Einstein 2009). Our need for time to exist, and for that existence to be linear, has a great deal of power over our sensemaking. Time as a source of power seems consistent with Critical Sensemaking theory (Helms Mills, 2004; Thurlow & Helms Mills, 2009).

In the previous paragraph we mention Einstein and his view that time is an illusion. Time is often described as the fourth dimension in common parlance [Music being the fifth]; however, contemporary physics describes a polydimensional universe with neither time nor music listed among the ten or so described dimensions (Hosomichi, 2014; Nilles & Vaudrevange, 2015). Time may not exist – which would be a problem for our study of the past and the traces, which culminate in histories. Einstein suggested that our experience of time is a manifestation of sensation of movement (de Brouwer, Brenner, Medendorp, & Smeets, 2014; Hoerl, 2014). In the mathematics which surround this explanation of time, time does not behave in the manner of chronos (inevitable destruction) moving forward but may move either forward or backward. This permits Christopher Reeve (as Superman) to reverse time by reversing the spin of the earth [significant license is taken with the science for the movie]. More recent science has time as an effect of the outward motion of the universe as initiated by the Big Bang and therefore as a current theory suggests time will reverse when the expansion of the universe ends and contraction begins (Xue & Belbruno, 2014). Will the future then become the past?

Humans perceive time. We make sense of this perception through our understanding of ordinary things. So we construct time as moving like a river: inexorably to its disassociation into a lake, sea or ocean. However, if time is an illusion or merely a perceived effect of motion and possibly reversible, how can we construct the past? Einstein referred to past, present and future as convincing illusions (Callender, 2010). All three explanations of time were in his opinion

actually simultaneous. Begin with the question of now. When is now? Of course, now cannot be identified because any time we describe as now is part of what we construct as the past as soon as we call it now. Therefore, there is no now (Callender, 2010). Einstein's approach from physics exposes a subjectivity to an allegedly objective reality in a manner approaching Kant, Husserl and Godel (Wang, 1995). From this it may be concluded that the pinnacles of science and philosophy both see time and the dependent constructs of past, present, future (along with now) as a problem, possibly an illusion and most probably an invention of the human mind.

It could even boldly be suggested that this illusion became dire as soon as the notion of progress entered the scene. In a pre-civilization time, the concept of time and thus the illusion of time were irrelevant. As there was no goal or end, the way towards this goal or end was non-existent. This implies that the time needed for going the distance was of no interest. To live meant following the mysterious ways of nature, and did not involve trying to change those ways, to produce this thing called "evolution". There was no urge for history or whatever lessons could to be learned from the past. Therefore notions of past, present or future were pointless. It was just the moment waiting to be disrupted by danger, hunger or sex.

Of course this problem with time throws a wrench into the whole correlation-causation debate. Without time there is no way for there to be causation. For something to cause another thing it must occur before that other thing. If time is an illusion, then of course, the concept of before must be a construction or convenient fiction, therefore the notion of cause is also an illusion. As this is also counter-intuitive (we certainly imply causation often enough with little evidence when we assume time to be real); why bother with research if causation is also an illusion? If, as Einstein contends, all "nows" are simultaneous and therefore the past, present and future are also simultaneous, then causation is moot. If however, we take Einstein, Kant and Husserl together and construct the simultaneity of now as a means of understanding knowledge as extant (in the now) then history becomes an inscription of a portion of the extant as constructed by an individual (or individuals) and can therefore be studied as such.

The issue of the history and the past then becomes irrelevant if there is no past. The incommensurability of ANT with history also falls away in the acceptance that time is essentially clamped by the simultaneity of now. History, the past and its traces, however illusory, are then clamped by the simultaneity of now and the collection of the extant. As the act of collection and the writing of the history are also compressed by the simultaneity of their now, the issue of presentism also becomes a question of perspective rather than a function of time. All time collapses into that which we understand to exist (extant), a collection of real, fiction, construction, and wishful thinking.

## Hyalosigns

But there is more, and there obviously always is and will be, no matter how hard we try and stop the wheels in motion. The wheels in motion, more or less, can be related to the wheels of time, the interior machinery of the clock, as it sketched in the *Hudsucker Proxy* (Coen Brothers, 1994). In this film on time, business, the stock market, and of course the Hula Hoop, we see how time relates to motion. The janitor stops these wheels with the help of a broomstick. In effect halting the perceived source of the motion which the characters experience as time. It shows us that this messing with time has a decisive influence on the business of Hudsucker Industries and the stock-market. Could it be that time is governed by loyal janitors who choose broomsticks as their weapons? It is also a movie about the Hula Hoop, which suggests that time might be subordinate to Hula-Hoop movements (Strauß & Peters, 2011). The movement of the Hula Hoop decides how organizations actually function, not according to plans, not according to SM (scientific management), but to the bodily obedience to the Hula Hoop. Big wheels keep on turning and we have to move along it seems to suggest.

When thinking about time and film we cannot neglect French philosopher Gilles Deleuze. What was he trying to inform us about? In his books on cinema (1989, 1986), with the help of French philosopher Henri Bergson, he explains what time is: time is duration, it goes on and on, without us being able to change it. Whatever happens is a constant potency of possibilities; it is the virtual. Whenever we stop time, we create an actualization, we stop the process of becoming, but this has no influence on the duration. Then how can we get in touch with this duration? For this, there is only one option, according to Deleuze, and that is the modern film (like the before mentioned *Hudsucker Proxy*). This is the film, which reveals direct images of time and shows that time isn't subjected to movement, but vice versa. These direct images are hyalosigns or crystal-images, and are incomprehensible fusions of past, present and future. They are: "the perpetual foundation of time, non-chronological time, Cronos and not Chronos" (Deleuze, 1989, 81). The Hyalosign or the crystal image is, then, the point of indiscernibility of the two distinct images, the actual and the virtual, while what we see in the crystal is time itself, a bit of time in the pure state (Deleuze, 1989, 82). The actual is a potency of what could happen. The actual is when we have stopped time, to comprehend it, a present, or a past or future created in the present. The hyalosigns are the opposite of the so-called sensory-motor scheme, which implies that we see something (perception), we know what feeling is appropriate (affection), and we know what to do (action). There is a logical sequence between these and this sequence is subordinate to clock-time. It is comparable, with some fantasy involved, to the conveyor belt, as it was invented by the Detroit clock-time hero, Henry Ford (Grandin, 2010), who got his influences from the scientific management ideas of Frederick Taylor (1911). This conveyor-belt reasoning neatly divides time in comprehensible chunks; at least that is the suggestion. Deleuze informs us that this reasoning has estranged us from the world we live in and has imprisoned us in clichés (Peters, 2014). How can we regain this trust and break the chains?

As mentioned, there is only one solution according to Deleuze and this is the modern film, which is not based on the sensory-motor scheme; it is not based on clichés, but on hyalosigns. These show that there is no logical sequence, but a dispersed situation, in which there is no logical connection between means and ends. But what makes a difference in these

hyalosigns? In other words, if it is only dispersed and there is no logical connection, what is in it for us? For this, Deleuze introduces the idea of the irrational cut. This is not a sensory-motor cut, but one that is irrational, it tears apart the logical sequence; it rips apart the connection between means and ends. For instance, if we were to watch a movie, and at a certain point the movie were stopped, there would be no way of telling what comes afterwards. There is no sense, only nonsense, just like in *Alice in Wonderland* (Deleuze, 2004). The essence is the cut itself. This cut creates a new situation and is therefore relevant in our thinking about time.

## **AND & ANT**

Deleuze & Guattari (1987) also refer to these cuts, but they call them the AND. It is not about the sequences before or after the cut – they don't make the difference, they don't cut the figures. It is what happens between that matters. It is like the idea of alarm and the way it functioned in pre-historic times. The people living on the savannah had no interest in time, until an alarm went off. This could be a hunger alarm, a danger alarm or a sexual alarm. Whatever happened before or after the alarm was irrelevant; the alarm made the difference. This could be referred to as the AND. So time is duration, visualized by hyalosigns in the modern film and its decisive factor is the irrational cut, the AND. How AND and ANT intermingle is a good question, which deserves some serious thought. As suggested earlier, ANT flirts with the solid and the clamps, while the AND is slippery in a continuous process of becoming. They seem at odds and yet in agreement. They agree that time is an issue which must be dealt with, but also that as an issue it is not particularly important, either because it should be collapsed or part of a becoming. Both approaches fit within the nature of time as described by Einstein and the common need for a narrative tool of time.

## **Reflexivity on Time**

Because time is an issue which although not crucial must be dealt with, we must consider it in research. When we write or research topics, we disclose our personal involvement in the work; we reflect on our feelings toward our subject. We do this because it is important to disclose any potential conflicts in our subjectivity (Boje, 2006; Bonner, 2001; Gunn, 2006). Rarely do we work on a subject that we do not care about. Latour's initial work in ANT was situated in a scientific laboratory and centred upon the social construction of science (Latour, 1983).

It is apparent that we socially construct time and therefore the past. In the same way that we disclose any personal connection to our work and how that connection might affect the analysis (unlike most scientists), we contend that we must also disclose how we conceive the past in historical or historiography analysis. If the past is really an extant now then what we believe exists is an important aspect of what we study. We choose our now and in that choosing we clamp the extant and those inscriptions we call traces. Therefore we must both be reflexive on our past and disclose how we construct it. Assuming a researcher clamps time, she must disclose how and why time has been clamped and if those clamps have been loosened. Considering that it is

true that reality, as well as time, is fluid then we get in trouble when clamping. The clamping seems pointless as the reality or history slips through our fingers. Whenever we think it is there and we can catch it, it's already gone. The janitor with the broomstick gets in trouble when the wheels of time, into which he wants to insert his broomstick, turn out to be fluid. Obviously it is a human urge to grab onto something solid, which is probably the reason why walls are seen as useful constructions when trying to divide pieces or regions of history. This urge, however, gets hampered when the walls turn out to be waterfalls, geysers or percolators.

### **The Doctrine of the Extant**

The doctrine of the extant (existence) conflates time and knowledge. If time is an illusion then this conflation is meaningless and irrelevant. Therefore, the reflexivity of the researcher with regard to time either highlights or discounts the problem of time. This is important in all research. On the face of it, one might state that the question of time is most important for research in history or historiography. This contention suffers from two problems based on the claims made earlier in this paper. Firstly, since all research works with existing knowledge, and by definition anything which exists must be from the past, then all research is history. Secondly, if time and the past are illusions, then time is irrelevant. All research is based on knowledge; that knowledge could be claimed as from the past for convenience purposes, but it certainly cannot be claimed as not from the past in any meaningful way. If time is denied (illusory) then the past, present and future are all simultaneous nows, which are collapsed into the extant. They exist in the knowledge of the researcher. Even if the researcher believes she just learned something in a recent now, she has from a physical science perspective simply moved from one state of extant to another and (as we have all experienced) could easily forget and return to the other state.

Is this contention constructivist or factionalist (Kalderon, 2005; Latour & Woolgar, 1979; Stanley, 2001)? Does it matter? Is time an illusion, a construction or a convenient fiction? Perhaps, it is all three, a hyalosign in which we crystallize our need for explanation, the film of our perception and the accepted fiction. The doctrine of the extant would embrace this triumvirate in tension as providing situational explanans. In the sense of time as a heuristic for movement, the use of time in the explanation of knowledge is a practical tool, much like a fictional device. Wizards exist in the Harry Potter stories (J.K. Rowling), therefore the use of magic spells is reasonable; time exists in our story of an organization, and therefore describing a simultaneous now as somehow occurring in the past is a useful storytelling tool (a fictional device).

As described, we perceive time and explain time. We seem to perceive time in a kairotic (event by event) form and explain it in a chronological manner. This appears to be a tension between the social construction of time and the fiction of time. If there is only extant and non-extant, then our time can only be kairotic; there is the now at which knowledge (the past? History) become extant, which we perceive as an event. However, when explaining the extant at some other now we need a fictional device to make sense of the story. This sensemaking tool is the fictional device of time in chronology. We cannot make sense of a broomstick stuck in a cog

permitting us to stop and experience multiple events so we construct a narrative of a flow collapsing the multiplicity of nows with the fiction of a fourth dimension.

So, even though; all knowledge of events, and therefore all events, occur simultaneously, we perceive the experience kairotically and describe it chronologically as if one thing occurred before another. If we apply the doctrine of the extant, we reflect on our need to delude ourselves with the illusion of time and disclose the means by which we have socially constructed/perceived this illusion: Kairos, and the way in which we have made and given sense of the illusion: Chronos.

Ultimately the doctrine of the extant permits not only the clamping of time (however difficult it may be to clamp an illusion) because we merely disclose what now we are pretending to be in; but also resolves issues of plurality and multiplicity in history. Each person's knowledge on a subject could be the sum of the traces contained within their extant in this now. If each person's extant is different and their use of time is both a social construction they endorse and a fiction they employ, then their History is reconcilable as an interaction of their extant and construction of time and potentially infinitely variable.

### **Conclusion**

This conclusion, like time, is a device for the purpose of sensemaking. Readers may wish to add the essence of this paper to their extant (knowledge) without reading the whole of the work or possibly to resolve some challenges with the totality of understanding contained within the work.

As humans we need devices to resolve our existence therefore we summarize and conclude.

Contemporary physics presents time as our perception of motion through multiple dimensions. In general, we experience this perception in the three dimensions we see, but no doubt it is experienced in all eleven or more dimensions that seem to exist. Time in this sense is not a dimension but a construct of the dimensions, our perception and our need for explanation.

In the previous arguments we have compared this concept to social construction, fiction and hyalosigns and eventually stuck a broomstick into our comparison and made sense of these explanations by relating them to the Einsteinian explanation of now. If all nows are simultaneous then each of our explanations are also simultaneous and part of the extant (the sum of our knowledge: learned but not forgotten).

Failing at history occurs when we attempt to resolve our perception of time as real rather than accepting time as an illusion. If we think *time* is real, then we may think that there is only one truth to be described in a history, but if we accept all events as both discrete and simultaneous then we can make sense of the differences in histories as variations in the extant. All of these variations occur simultaneously, but like all constructions they are made sense of differently by

each who experience them. Therefore, our perception of time, like all other sources of individuality that may infect research, must be disclosed reflexively.

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## **THE ENTREPRENEURIAL WORK OF PRIVATEERS: A CRITICAL ACCOUNTING HISTORIOGRAPHY**

This paper explores the epistemology of accounting history. It supports alternative ways of thinking about historiography by using ANTi-History and the notion of officialization to critique historiography of an exemplar control system (the Court of Vice-Admiralty) which produced legal and accounting documents that may be used to tell history.

### **Introduction**

The 2015 Atlantic Schools of Business Conference (*Entrepreneurship: Passion and Practice*) calls for papers that theorize the competing influences of passionate risk-taking and practical reality-checking. This paper intensely engages with this theme by considering the concept of “officialization” (Bourdieu, 1990, p. 108) as a process of constructing history. The exemplar passionate entrepreneurial work investigated by this paper is that of the privateers of colonial Nova Scotia (in the Napoleonic Wars era prior to the year 1815). The practice of privateering was subject to legal and accounting controls of the Nova Scotia Court of Vice-Admiralty as authorized by the Governor of Nova Scotia and, in turn, by the British Crown. This paper claims that the officialized controls not only perpetuated the inherited British class system, but also influenced creative writing of accounting histories concerning the business of the court. Thus, these performances of passion and control were played-out in accounting systems that created the versions of reality that came to be accepted as recorded history. This paper shows that the legal control systems of the Vice-Admiralty Court were not merely neutral accounting activities. The systems constituted the identity of the performing actors of the Court.

Following Latour (1990, 2005)<sup>1</sup> and Durepos (2015) this paper takes an amodern theoretical position that is prior to modernism and postmodernism. The term *amodern*, which is explained further in the next section, refers to modes of thinking that collapse epistemology into ontology, sees the social as multiply presented, occurs in relations of actors, and relies on impression management. We direct these ideas to the entrepreneurial practice of privateering by following historically celebrated actors through accounts of the past. This paper also engages with academic conversations around the writing of business history. It does so by applying ANTi-

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<sup>1</sup> For a concise outline of the main ideas regarding Actor-network Theory, as proposed by Bruno Latour, Michel Callon, and John Law, see the Ritzer Encyclopedia of Social Theory (Crawford, 2005).

History (Durepos & Mills, 2012) and connecting two streams of academic conversation that hitherto seem unaware of each other, i.e., conversations about the *historic turn* in the management and organizations literature (Clark & Rowlinson, 2004) and the *new accounting history* (Fleischman & Radcliffe, 2003) in the accounting literature.

This paper proceeds as follows. First, we set the scene by explaining our chosen theoretical framework, ANTi-History, and linking it with the concept of officialization. The paper is placed in the context of academic discussions about critical historiography. We then provide an unproblematized account of the notion of privateering. We then describe our research process that relied upon archival documents. Finally, the paper uses ANTi-History and officialization to look more critically at histories of the Nova Scotia privateers' passion and the logics of the Vice-Admiralty Court that placed controls on the entrepreneurial practice of privateering.

### **Theoretical framework**

This section provides a brief outline of ANTi-History (Durepos & Mills, 2012) and officialization (Bourdieu, 1990), proposed in this paper as two theoretical lenses to look at privateering and the Vice-Admiralty Court.

#### *ANTi-History and the call for an historic turn*

ANTi-History is rooted in an *amodern* understanding of Actor-network Theory (Latour, 2005). Actor-network Theory (ANT) may be thought of as a framework that shifts the research focus away from positivist ideas of knowledge generation and functionalist thinking. The moves of ANT support the study of practices and processes that build (or dismantle) networks of relations. The central project for researchers using an actor-network approach is to gain an understanding as to how actants mobilize and stabilize the heterogeneous social materials out of which actor-networks are composed. The relational materiality of ANT promotes an aura of “generalized symmetry”<sup>2</sup> (Callon, 1986, p. 4) regarding both human and non-human actants, giving ANT a unique and controversial epistemology. What counts as an actant depends on the research situation. Researchers working in the ANTi-History mode are concerned to describe social performances of “materially and discursively heterogeneous relations that produce and reshuffle all kinds of actors” (Law, 2009, p. 141). In the drama of privateering these would include government officials, administrative policies, sailing ships, their crews and cargo, salvage infrastructure, and a host of other human and non-human entities.

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<sup>2</sup> The ANT research tradition includes the concept of generalized symmetry. Humans and non-humans are assumed to have the same analytical capacity since the social is seen as heterogeneous. This ontological equality more fully considers non-humans as historical actors. These are often left out of organization analysis, or marginalized as inert props used by humans. Generalized symmetry endows non-human actors (such as historical accounting documents, Court proceedings and class systems) with agency that sets the stage for multiple knowledges with respect to relations among actors.

Above we referred to an “amodern” understanding of ANTi-History. Alternative meanings could be taken from that word but this paper follows Durepos (2015) who elaborates the philosophical underpinnings of history in modern, postmodern, and amodern modes. The distinction is rooted in the argument that “we have never been modern” (Latour, 1993, p. 46). Thus, researchers cannot be postmodern but rather amodern. The difference lies in the point of production of knowledge. Modernist renderings of history rely on positivism. The historian, through diligent reconstruction of the evidence, is seen as the judge of what counts as historical knowledge. Consequently, modernist history is singular. Postmodernist renderings of history focus on how the historian’s discursive position influences how the past is constructed. Accounts of the past can only ever be mediated through the historian’s narrative, so there may be more than one (plural) history. Amodern renderings of history see knowledge of the past as an effect of actor-networks, and these result in multiple (not plural) stories of the past. The amodern historian is not to be viewed as the arbiter of historical accounts so much as an important (but not necessarily dominant) participant in the production of histories. The amodern emphasis on ontology and relationality is where this paper can make a contribution by focusing on the accounting control practices of privateers and the Vice-Admiralty Court, and seeing that these practices are enacted performances.

Modernist accounting historians and critical accounting historians have substantially different philosophical assumptions regarding a researcher’s subjectivity, the nature of “facts” in history, and the hegemony of primary source material. This paper is centrally interested in the idea that “new accounting history” (Miller, Hopper, & Laughlin, 1991, p. 395) can help theorize processes involved in the relations between accounting and the social. As indicated above, modernists have tended to demand that accounting historians act as neutral reporters of information, as if skillful seeking of data will discover a pile of true facts in the archive. These data are then proposed by modernists as ready-made historical reality. In the case of accounting, the numbers would speak for themselves. This type of approach was already critiqued by Michel Foucault more than four decades ago when he commented on the traditional (positivist) historian's pervasive building block, the document: "History must be detached from the image that satisfied it for so long, and through which it found its anthropological justification, that of an age-old collective consciousness that made use of material documents to refresh its memory" (Foucault, 1972, p. 7). Accounting documents, then, can become *dynamic* material for historiography, not just data in need of interrogation for truthfulness. According to Foucault’s archaeology of knowledge, questions of human relations must be considered in context of understanding the past. History is not patiently waiting under layers of debris waiting for the historian to clear away the unneeded fragments like so much wreckage from a sunken privateer ship; nor is history unidirectional as in a rally toward some improved state of being. Instead Foucault stressed discontinuity, complexity, and randomness of the social that is unavoidably entangled with issues of historical knowledge production and power.

The notion of accounting as essentially calculative and socially neutral has been met with academic calls for new accounting history as a means to push back against such unproblematized reality making. The call for greater engagement with history has not been restricted to the accounting literature. There have been sustained calls for Management and Organization Studies (MOS) to engage with the indefinite nature of historiography. These “calls” began about the same

time as the new accounting history, with Kieser's (1994) identification of the significance of historical context. He contended that MOS scholarship had under theorized history and the past. MOS, when not ignoring history and the past altogether, have mainly rested on a realist conception of history and the past, often conflating these concepts and/or seeing them as variables to be objectively manipulated for purposes of prediction (see Weatherbee, 2012, for a discussion of the problematic treatment of history in MOS). The past is not ontologically available (Jenkins, 1995; Munslow, 2010). Versions of the past are only understandable through traces that may be uncovered during the research. For example, privateer captains no longer exist, but historical diaries, books, government archives, past news media reports, oral history, poems, songs (e.g., the popular song *Barrett's Privateers*, <https://www.youtube.com/watch?v=ZIWzRkjin86w>) and interpretation of such traces provoke multiple histories of privateering. Thus, in this paper we attempt to answer the various calls for an historic turn in historiography by paying attention to stories of entrepreneurial privateers who risked financial and personal injury to harvest often considerable financial resources.

The collection of papers introducing the idea of a new accounting history (Miller et al., 1991) established a loose assemblage of directions for theorizing accounting history. This included a focus beyond the political history traditionally privileged by accountants. It also included a move away from narration of events toward analysis of structures, and the telling of histories of the disadvantaged rather than preferring the elite. New accounting history may be seen as an effort to question official, written records and as an overall call for an attitude of historical subjectivity. Accordingly, new accounting historiography is not conceptualized as a "treasure hunt" (Fleischman & Radcliffe, 2003, p. 7) to uncover origins. Like the privateers of Nova Scotia who converted found treasure (enemy ships and cargo) into officialized prizes, the historical reality of prize making depends on crafting of stories to be judged by others. However, we are in agreement with Chua (1998) in declining to conceptualize accounting history as either old or new. "Such an act of classification is a general, imprecise stab at understanding complexity" (Chua, 1998, p. 618). Chua argues for new forms of historical discourse to bring a diversity of viewpoints. Accordingly, we propose that ANTi-History has the potential to be part of a questioning of accounting practice.

### *Officialization*

Officialization is an expression that signals the existence of processes whereby those in power punctuate rules and norms to gain obedience of others. The dominating group "teaches itself and marks itself from its own truth, binds itself by a public profession which sanctions and imposes what it utters, tacitly defining the limits of the thinkable... and so contributing to the maintenance of the social order from which it derives its power" (Bourdieu, 1990, p. 108). This paper links Bourdieu's ideas of officialization to ANTi-History because historical knowledges are situated in official practices. Actor-networks are made of extremely aligned actors which act as a unity (Law, 1992). Officialized networks conceal the series of negotiations, translations and political strategies that enabled them to act as one. ANTi-History refers to these seemingly unitary entities (even if the unity is temporary) as black boxes or punctuated networks.

We posit that the accounting practices of privateers had as its main aim the translation of violent pirating activities into publically affirmed, legitimate interests. This coordination of individual interests with those of the state manifests as a manipulation of the definition of the situation, bringing activities within the boundary of the official definition of what is compensable. We argue, with Galvin (2012), that there are connections between the acceptance of social movement through entrepreneurial wealth accumulation during the privateering era, and the writing of history by the officials who held the power to authorize the wealth transfer. In this sense, we refer to *privateer history* as a modernist knowledge of the past that has been officialized by Western, white, male, elites. The Court of Vice-Admiralty became a network of legal “demystification” because the colonization of Nova Scotia created legally ambiguous relations where “the official rule determines practice only when there is more to be gained by obeying than by disobeying it” (Bourdieu, 1990, p. 108). Hence, open-seas pirates could be demystified and reconstituted as heroic agents of the state. This is one argument. ANTi-History requires alternative stories. Another is that privateers were not pirates, but an extension of the navy, one that earned only performance pay and not a stipend.

Ontological politics<sup>3</sup> is a compound phrase that deals with ontology, that which is constituted as real, and politics, that which can be debated, shaped and critically opposed. In ANTi-History epistemology goes to the background because “true” facts are no longer the only grounds for justified assertions, and realities are performed rather than discovered. Political reasons can be debated concerning the promotion of one version of reality instead of another. Ontological politics is a prime location of officialization strategies. This paper extends ontological politics by seeing history as performance of those politics. That history is subject to ontological politics (and that this would contribute to what may come to be known as a critical historiography) is a contribution because history thus moves beyond the epistemological realm when describing history as knowledge of the past. Unraveling ontological politics and history as performance builds upon the conceptual framework of ANTi-History in the early stages of this mode of thinking about history. We use ANTi-History and the concept of officialization to demonstrate that elites have the political power to constitute not only the rules, but also to constitute the individual and what emerges to count as history.

### **Colonial Nova Scotia privateers and the Court of Vice-Admiralty**

Privateers were transcendental entrepreneurs – sailors of privately-owned sea vessels of war officially regulated by the government to maintain a business of raiding enemy ships to avail themselves of a portion of the proceeds. The following advertisement (Nova Scotia Gazette, January 12, 1779) sought to engage human resources for the privateer ship *Revenge*.

All gentlemen volunteers:

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<sup>3</sup> The term “ontological politics” was first introduced in the actor-network literature. Annemarie Mol (1999, p. 87) attributed the coining of the term to John Law. However, Law (2004, p. 13) gave credit in the other direction by referring to “what Annemarie Mol calls ontological politics”.

Seamen and able-bodied landmen who wish to acquire riches and honour are invited to repair on board the *Revenge*, private ship of war, now lying in Halifax Harbor, mounting 30 carriage guns, with cohorns, swivels, etc., bound for a cruise to the southward for four months, vs. the French and all H. M. enemies, and then to return to this Harbor. All Volunteers will be received on board the said ship, or by Captain James Gandy, at his rendezvous at Mr. Proud's Tavern near the Market House, where they will meet with all due encouragement, and the best treatment. God Save the King.

We conceptualize privateering as entrepreneurship, the hallmarks of which include aggression, risk-taking, and new entry (Lumpkin & Dess, 1996). But the privateers absorbed a special risk beyond invested monetary capital. They also put their own lives at risk as an accepted component of the business operations of capturing and processing enemy ships. This revenue-generating model was sometimes called prize making. The British state provided the pre-confederation Nova Scotia colony with minimal naval forces. Nova Scotia was isolated from Britain (Conlon, 1996) so the King exhorted his subjects to “prevent mischief” suffered from the French, and to do the “utmost in their several stations to distress and annoy them [the French] by making capture of their ships, and by destroying their commerce” (PANS, RG 1, vol. 171, p. 26). The entrepreneurial spirit of the nascent privateering industry can be seen by the swift response to the King's exhortation. The first Nova Scotian privateer vessel intended entirely for prize cruising, was established in 1798 by a consortium of Liverpool merchants and ship-owners (Simeon Perkins, Hallet Collins, Joseph Freeman, Snow Parker and Joseph Barss) who quickly constructed a purpose-built privateer ship of 130-tons, then needed only five days to recruit 75 gentlemen volunteers as a crew for the ship (Conlon, 1996).

The Town of Halifax (named after the British Earl of Halifax) was founded<sup>4</sup> in 1749. It was strategically located between the British colonies further south, along trade routes to the Caribbean, and the colonies of New France, including Île Royale (Cape Breton Island) and Newfoundland. The documents associated with the creation of Halifax authorized an official Nova Scotia Court of Vice-Admiralty. The jurisdiction of the Court covered a range of causes of action. Although in time of peace, the Vice-Admiralty Court was not busy (Ubbelohde, 1960, notes that one judge resigned out of boredom), armed conflict was an important aspect of the age and of the work of the Vice-Admiralty Court. Conflict included the Seven Years War (1756-1763), the American Revolution (1775-1783) and the Napoleonic Wars (1799-1815). The first 66 years of the Town of Halifax had experienced 44 years of war (Raddall, 1948). It seems that the privateering industry was lucrative during wartime (lucrative for the privateers as well as the officers of the Court) but privateering always owed its commerce to the official Vice-Admiralty Court (Beamish, 1833).

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<sup>4</sup> The term “founded” is dubious in this context. While this paper investigates the colonial privateers and its British officials, and therefore focuses on the mainly white male actors of that story, we hasten to note that much recorded history has been prepared to unproblematically overlook the inconvenient previous settlement of the Halifax area by the Mi'kmaq First Nations communities.

Cases of the colonial Vice-Admiralty Court were tried by a single judge with no jury. In this paper, we follow Richard Bulkeley who served the Court for 31 years prior to his death in 1800. The selection of Bulkeley for this paper should be recognized for what it is – a discursive decision of behalf of the authors to craft a particular historiography. As will be presented in the discussion to come in this paper, the selection of Judge Bulkeley allows us to demonstrate several aspects of ANTi-History: the privileging of central actors, the “location” of officialization and its ability to travel, and the relationalism of performances.

Vice-Admiralty Court cases included various civil law areas: the employment of ships where part owners disagreed, seamen’s wages, vessel salvage, assessing of ships for lack of seaworthiness, and damage claims against insurers (Beamish, 1833, includes a discussion of various legal causes of action). Jurisdiction in time of war was extended to include the adjudication of vessels and their cargoes captured from the enemy. This jurisdiction was closely regulated by Act of the British Parliament, based on several general principles. First among these was the principal object of the proceedings, the “condemnation” of the vessel and goods. Privateers would cruise the Nova Scotia coastline and return with captured enemy vessels, called prizes, to the Vice-Admiralty Court. Judge Bulkeley would hear evidence and decide if the condemnation was to be approved. This decision was based on a review of affidavits provided by the privateer’s representative, submitted documents and interrogation of captured sailors, who were called to answer “the standing interrogatories” about their vessel and cargo (Conlon, 1996, p. 17). If the capture was judged legal, the vessel and its cargo were “condemned”, that is, ordered to be auctioned. Once the Court and administrative fees were deducted, the privateer ship owners, officers and crew were free to divide the remainder according to their own agreement.

It is important to understand that the fee structure of the Vice-Admiralty was a wealth distribution system, not a neutral or insignificant aspect of the disbursement of prizes. Officers of the Court were significant beneficiaries through the fees that were collected. For example, the considerable fortune of Richard John Uniacke, Attorney General of Nova Scotia and thus Advocate-General of the Vice-Admiralty Court, was said to have been accumulated largely through court fees (Sutherland, 1994). The proceedings associated with the adjudication of prizes generally had two stages. First, the legality of the prize would be determined so the ownership (or at least the flag) of the vessel would be established. For the prize to be pronounced as being legal, the vessel or the cargo must have been owned by an enemy or the cargo had an enemy destination. The Court was entitled to assess fees against both sides in any cases or disputes adjudicated. Proceeds of the ordered auction were withheld and distributed among various parties, including the master of the capturing vessel and one or more of the King, the Governor of the Province, the Collector of Customs. See, for example, Exhibit 1 which shows that fees allocated to the officers were substantial when compared to all other charges.

Exhibit 1

Condemned ship *Sloop Eagle*: costs and distribution of the residual  
(Nova Scotia Archives, RG 40, Box 2-7, Document 29 [sic])

Condemnation Fees 5 P <sup>r</sup> cent	£ 2'16'0
Poundage 5 P <sup>r</sup> cent	2'15'9
Marshalls Custody 69 days @ 2'6	8'12'6
Three Appraisers	1'10'0
Warrant and Return	1' 1'0
Storage & Wharfage Sloop & Cargo	6'17'0
Deputy Registrar at Shelburne taking Examinations, 32 sheets	1' 8'6
Mr. Bruces Acc <sup>l</sup> of Expenses Incurred	4'17'0
Attorney General	3'10'0
Copying sundry Papers Seal & c.	'10'6

Distribution

One Third to His Majesty	£ 6'17'10½
One Third to the Governor	6'17'10½
One Third to the Prosecutor	6'17'10½

Halifax June 28th 1787, Examined & allowed, Rich<sup>d</sup> Bulkeley

The Vice-Admiralty Court at Halifax, during the years 1792-1815, condemned more than 700 prizes (P.A.N.S., Vol. 378, Catalogue of Causes in the Court of Vice-Admiralty at Halifax). The legal process was necessary for the captured vessel to be registered as a British vessel, allowing it to then be legally used by British subjects.

### Research process

This paper, in part, is intended as a contribution to the “move to contextualize accounting practice” (Fleischman & Radcliffe, 2003, p. 1) by considering historical artifacts of privateering and the legalized accounting controls of the Vice-Admiralty Court. This qualitative work is concerned to understand business history, and its described culture, as tenuous (Bryman, Bell, Mills, & Yue, 2011). Accordingly, we focus on archival accounting documents that already seem to be long on description and short on the mechanics of quantification.

The data collection techniques used for this paper include a combination of primary document review, consideration of secondary historical accounts, and semiotic analyses to support in-depth scrutiny. The archival material associated with the Vice-Admiralty Court was inspected at the Nova Scotia Archives & Records Management office (NSARM) from file RG 40 boxes 1 to 8, and additional files included in Nova Scotia government records “Special Subjects” at the Archives, series RG 1, vol. 378, a calendar of case files of the Court (1784-1868), as well as a file of abstracts of sales made by order of the Court (RG 1). A third series, Judicial Court Records,

includes letters of agency from 1776-1821, Court proceedings from 1749-1813, and lists of vessels captured from 1793-1818. Within each file it became clear that vessels of the same name were filed together which (when coupled with missing data) raises challenges in the exposing of “storytelling organizational practices” (Boje, 2014, p. xvii). We also discovered that archived histories have the capacity to travel. Halifax Court of Vice-Admiralty records for privateering and testimony involving prize seizures were removed to Library and Archives Canada (Ottawa)<sup>5</sup> in 1916. The extent of the transferred records is measured in relation to physical space occupied on the shelves of the archives – 16.75 metres of textual records. We did not follow the archive to Ottawa since sufficient documents escaped transfer and still reside in Halifax.

Each of the inspected files in Halifax contained at least one original document, annotated by NSARM staff with the name of the vessel, the date, and an ordinal number which served to distinguish particular documents for cataloguing purposes. There was, however, no systematic sorting of documents nor inventory of the contents of files other than a numerical count of materials. The paper documents were of many different sizes and could be said to be efficiently utilized, as writing on both sides of the page was the norm, and the use of very small sheets was common for simple items. Individual pages were occasionally bound together with wax and less frequently with thread. Much of the archival material that we studied is relatively repetitive and the substance of the Court proceedings seems to be shrouded in an archaic legalistic form. Numerical accounts were rare in the archives. However, this paper does not disregard quantification altogether; it recognizes that accounting control reports of the Court have storytelling capacity, and numbers assist control systems to support the telling of history, since the officials of the Vice-Admiralty Court had to evaluate the privateers’ stories of prize taking. The stories made claims on the chattels of the putative enemies of the masters of the Colony.

Archaic accounting language can be seen as an officialized means of communicating and controlling rather than a reproduction of reality (Oakes, Townley, & Cooper, 1998) or the production of a singular history. In our attempt to “do accounting history” we focused on a subjectively selected temporal period from 1749 (the British founding of the Town of Halifax) to 1800 (the death of Judge Richard Bulkeley) with further attention paid to the continuing Napoleonic wars to 1815. When performing research which problematizes historiography, it is difficult to choose an end point for data collection. In our case study, representations of the entrepreneurial work of privateers continues to be written, especially in “popular and romantic histories” (Conlon, 1996, p. 14). Our data collection cut-off of 1815 was sufficient to support a robust discussion of privateering and the accounting controls of the Vice-Admiralty Court.

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<sup>5</sup> From the Canadian National Archive on-line: The surviving case files, financial and administrative records of the Vice Admiralty Court at Halifax are arranged in series reflecting its basic divisions: Prize causes, appeals, condemnations jure corone, and recaptures; Case files include all manner of documents created in the prosecution of a cause, or submitted as exhibits. Court officers generated libels, allegations, interrogatories, commissions for examination of witnesses, claims and attestations, monitions, decrees, and sentences. Certificates, licences, permits, instructions to masters, cargo manifests and other ships' papers, plus intercepted letters or other documents found on board captured vessels, or taken from Customs seizures or salvaged vessels were presented in court as exhibits.

### **Privateer Passion and Control of Practice by the Vice-Admiralty Court**

This section uses ANTi-History and the concept of officialization to look more critically at histories of the Nova Scotia privateers' passion and the Vice-Admiralty Court's accounting system that placed controls on the entrepreneurial practice of privateering. In keeping with the basic tenets of ANTi-History, we acknowledge that there are numerous directions that this paper could now elaborate. The writers of history (including the writers of this paper) always make selections as to what will be privileged. The discursive foci for this section are:

- The history multiple
- Storytelling capacity of history
- Historical subjectivity

#### *The history multiple*

Entrepreneur or pirate? Accounting controls such as the official processes of the Vice-Admiralty Court act as historical self-making devices that are designed to answer that question. Differences between an *entrepreneurial privateer* and a *calculating pirate* depend upon performances by the actors (human and non-human). The entrepreneurial work of a privateer may be differently rendered by multiple historical readings – is privateering seen as a legal set of activities in support of wartime efforts of government or seen as vicious raiding and plundering of innocent ships? The accounting control systems described in historical court documents are subject to relational performances that determine their effect on privateering entrepreneurs. These performances (the privateering, the Vice-Admiralty proceedings, and the subsequent historiography) show that legal and accounting language can be seen as an agreed way of communicating rather than a representation of reality. An ANTi-History approach shows how accounting controls of the Vice-Admiralty “produce” entrepreneurship and do not merely occur within a bounded realm called accounting. Interactions are relationally performed with historical writings. A vitally important document in this regard was the *Letter of Marque and Reprisal*, an example of which is shown as follows.

Exhibit 1: Letter of Marque and Reprisal issued by Lt. Governor John Wentworth to John Marr, Master of the ship *Triton*, April 6, 1795 (Nova Scotia Archives, RG 1 vol. 171, p. 120)

These are to Certify that John Marr  
Master of the Ship Triton burthen One hundred & sixty  
five Tons bound for the West Indies has applied to me for  
Warrant to the Judge of the Vice admiralty Court of this  
Province to Give to him a Letter of Marque & Reprisal  
against the French, which I would have granted to him  
but that the Authority to me for that purpose has not yet  
arrived.

In the mean time I have assured the said John  
Marr conformable to His Majestys pleasure signified  
to me by the Right Honorable Henry Dundas one of  
His Majestys principal Secretaries of State that His  
Majesty will consider him as having a just Claim to  
the Kings share of all French Ships and property which  
he may make prize of.

Given under my Hand & seal of  
Arms at Halifax this Sixth day  
of April 1795 in the 35 Year of  
His Majestys Reign -  
J. Wentworth

By His Excellencys Command  
J. M. F. Bulkeley  
£1.10.0

The Letter of Marque was an important accounting control document. In possession of such a letter, a privateer is an agent of the Crown; without one he is a pirate. The individual is thus officially constituted. Royal instructions were received at Halifax officializing the issue of Letters of Marque, and seizure was approved by way of reprisal against the French. Under official instructions it was lawful for privateers “to set upon by force of arms, and subdue other vessels, also the goods, monies and merchandise belonging to the French king, his subjects and vassals” (Nichols, 1904). Although no persons surprised in any enemy ship were to be killed in cold blood or tortured, virtually every trace of the past privateer encounters that we followed contained some trace of extreme aggression and hardship. For example, the inventory carried by the privateer ship *Lawrence* included “fourteen carriage guns, four-pounders, twenty swivel guns, besides small arms and ammunition sufficient for six months, and a cruise by the Halifax brig *Resolution* was deemed successful since “only” eight privateers were killed while the American enemy incurred 33 killed and wounded (Nichols, 1904). Several Halifax and Liverpool ship masters lost their vessels, and returned home with “tales of horror of the French prisons, fever and privations [miseries]” (Nichols, 1904).

This paper proposes that the Letters of Marque, inter alia, involved an attempt to imprint the hegemonic control system of the British aristocracy onto the Nova Scotia colony. The Vice-Admiralty Court was created as counterpart of the High Court of Admiralty in England. However, ANTi-History teaches that actants are difficult to tame. An important idea relating to single point actors (such as a High Court) is that they are never as omnipotent as they appear. ANT alerts us to the likelihood that heterogeneous bits and pieces will “follow their own inclinations and make off on their own” (Law, 1992, p. 386). This was the case with the Nova Scotia Court of Vice-Admiralty. Historical records of New York, as well as those of Rhode Island, indicate that in respect of procedure and terminology “little care was exercised to observe the forms of the parent court, and it is conceivable that the colonial bench and bar, untrained in civil law, were ignorant of the habits of the high court” (Laing, 1935, p. 151).

Despite the King’s assurances, authority for Lt. Governor Wentworth to issue Letters of Marque was not given on a timely basis. On June 21, 1793, Wentworth wrote to the Secretary of State for War and the Colonies complaining that he had not been authorized to issue warrants for Letters of Marque. Wentworth felt deprived of an important tool of control (accounting as a tool of war?), especially since the Royal Navy redeployed almost all of the Halifax squadron to the Caribbean, leaving Halifax undefended (Conlon, 1996). The image of old accounting history would have it that the procedures and documents of the Court of Vice-Admiralty commenced a controlling function once the King’s command was written to establish the Court’s powers. An alternative image would have it that the accounting documents of the Vice-Admiralty exerted their greatest influence while in the process of being written, i.e., as “an inscription of a reality rather than a causative force” (Czarniawska-Joerges, 1992, p. 236). Reconceiving the extant reality of being ignored by the King, John Wentworth proceeded to issue “commissions in lieu” which bestowed upon the Halifax Court of Vice-Admiralty the aura of officialization that would be inherent in a Letter of Marque (note Wentworth’s adjusted wording in his letter to Captain John Marr shown in Exhibit 1). The commissions in lieu took on an official quality that enabled the Court to award prizes to privateers, and for historians to record these transactions in multiple versions, either as entrepreneurial feats or as barbarous acts.

Readers of these multiple histories thus see that stories that are tellable are more than one but less than many (Mol, 2002). When seen as an actor-network, the privateer histories do not necessarily interfere with each other. They hang together as interwoven stories – actor-networks nested in related actor-networks. New accounting history aims to tell stories other than those of the elite. The telling of multiple histories helps avoid the mainstream propensity toward the veneration of heroes, i.e., uncovering the privileged network of the most powerful actor situated at the top of the hierarchy.

### *Storytelling capacity of history*

New accounting history is a move away from unproblematized narration. This idea recognizes that history (and accounting) is an invented discourse. Jenkins explains that the devices of history are “useful fictions that are in discourse by virtue of power (somebody has to put and keep them there) and power uses the term truth to exercise control” (Jenkins, 1991, p.

32). Thus, accounting tells history; it is not neutral. Burke (2012) cautions that the phrase *historical observation* may seem to be unproblematic – just another expression for studious watching. However, Burke develops a problematic for the “historicity of observation” (2012, p. 35) that provides a pessimistic ontological and epistemological outlook for mainstream historians. Old accounting history limits the understanding of accounting control systems due to deficiencies such as universalism (e.g., the sense that research findings are fixed in time and space since they are assumed to be applicable across organizational entities, different cultural locations and temporal periods) and presentism (e.g., the positivist idea that the social can be scientifically studied with data that is neutral, and that phenomena from the present are incongruously introduced into interpretations of the past). ANTi-History views the past with an amodern lens which emphasizes multiplicity and where historical knowledges are situated in practices in which there are oscillating enactments.

The ANT concept of translation (Callon, 1986) involves persuading other actors that a common interest is shared in a social situation. The privateers sought to enroll other actors to accept a particular definition of the situation (their ability to contribute to the war effort) such that the Vice-Admiralty could recognize the problem and solution as its own. With accounting documents in the officialized form required by the Court, the privateers were locked into place. The important (albeit uncertain) consequence of the translation process is that a successful actor grows with the enlistment of heterogeneous links. The Vice-Admiralty Court became an “obligatory passage point” (Callon, 1986, p. 7) where interests of the actors were sustained only by submitting to officialized performances in an organized dispute over allocation of condemned assets. The Vice Admiralty judge would make a decision based on affidavits of the privateer crew, captured documents and the interrogation of captured mariners who answered a long list of questions about their vessel and cargo (Conlon, 1996). The moments of translation establish the historical identity of the privateer – enrolling others to reconceptualize their basic activity (killing and larceny) into an officialized public service worthy of financial reward (prize making). The translation effort was supported by all kinds of actants, including an artificial Letter of Marque (commission in lieu).

### *Historical subjectivity*

Researchers may give every appearance of having the skill to select among historical artifacts. But how did this expertise come about, and how is it exercised? One has to be careful to consider what is hidden from view as actors attempt to enroll others into an actor-network. Power and influence are often on the agenda of other actors. As Latour (1986, p. 286) explains, “Power is always the illusion people get when that are obeyed... people who are ‘obeyed’ discover what their power is really made of when they start to lose it. They realize, but too late, that it was ‘made of’ the wills of all the others”. The power-producing British political establishment was (and still is) heavily dependent on rites and symbols. A case in point is the exquisitely pompous 1795 signature plate of John Wentworth, shown below.

Exhibit 2: Signature plate for John Wentworth (Nova Scotia Archives, RG 1 vol. 171, p. 120)

John Wentworth: His Excellency...  
Doctor of Laws, Lieutenant-Governor  
and Commander in Chief in and over  
His Majesty's Province of Nova Scotia  
and its Dependencies.



His Excellency John Wentworth  
L. L. D. Lieutenant Governor and  
Commander in Chief in and over  
His Majesty's Province of Nova Scotia  
and its Dependencies

And Judge Richard Bulkeley's official dignification was no less impressive, as indicated by a petition to the Vice-Admiralty Court by the Brig *Joseph* (RG 40, Box 3, Doc. 1 [sic]):

"To the Worshipfull (Richard) Bulkeley Esquire Judge and Commissary of this Majesty Court. That the said Brig on the Night of 2d Feby last was unfortunately drove on Shore of Point Pleasant Shoales, in the Halifax Harbour by which means she did great damage to the Bottom and near hung her Rudder.

Your memorialist Humbly prays your Worship would be pleased to appoint three proper Persons to survey the Bottom of said Brig and to ascertain the damage she may have sustained and report the same to this worshipfull court. That your memorialist may thereby be enabled to recover of the Underwriters, what to Law and Justice Appertains.

And as in duty bound will ever pray, Benjamin Coward.

Richard Bulkeley was the British-born son of Sir Lawrence Bulkeley. "Essentially, those who already hold the reins of power have (as a perk of that position) continually blowing at their back the wind of the officialization effect, which endows them with an aura of presupposed competence" (Bourdieu, 1990, p. 109). As indicated earlier in this paper, the veneration of heroes is a hazard of mainstream historiography. Bulkeley (the Jr.) is an anointed hero in the privateer historiography. Bulkeley was endowed with the power to make unilateral decisions (the Vice-Admiralty Court used no juries). He performed an air of mystification by the maintenance of inherited rituals from Britain, and in the case of prize making, professionalization of evidence in the form of specific accounting documents. The Vice-Admiralty Court had an impressive array of awe-inspiring vernacular that included imposing accounting language<sup>66</sup> such as prize value, charges, condemnation fees, distribution and seaman share ratios. The only accepted means of payment was by gold and silver coinage. Furthermore, the constant references to Bulkeley as "His Worship" support the impression of his ideal qualifications for the role of judge. Goffman (1959, p. 55) notes that there is a "rhetoric of training... whereby licensing bodies require practitioners

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<sup>66</sup> Current day accounting language has an even greater range of mystified language such as debits, credits, discount rates, fixed overhead allocations, debentures, fiscal reserves, and EBITA - the widely-used acronym (earnings before interest, taxes and amortization) which may be a mystery to non-accountants.

to absorb a mystical range and period of training... in part to foster the impression that the licensed practitioner is someone who has been reconstituted by his learning experience and is now set apart". In prize making, the manufacturing of awe gives the privateers little room to manoeuvre due to the putative social distance to the "superior" status of the Vice-Admiralty.

The financial rewards of belonging to the elite, perpetuated by the British class system were evident in the Nova Scotia colony. Language games were part of the performance. For example, rewards were extremely high if one's title was "Lord" (even in the absence of substantive contribution of the Lord's effort) versus the miniscule reward to the position of "small boy" who would be in the line of cannon fire on board a privateer vessel. The distribution of a prize was set out by the privateer ship's articles. The officers and crew were entitled to half of the prize. This was an economic return for their entrepreneurial risk at sea. The crew listing of the privateer vessel, the *Nelson* (PANS MG 1, vol. 951, no.735) recorded shares of each crew member:

- Captain - 8 shares
- Officers (such as Lieutenant) – 5 shares
- Petty Officers (such as Boatswain and Mate) - 2 shares
- Seamen - 1 share
- Boys – range from 1/2 to 1/4 share (for example, the *Nelson* had aboard a "cook's boy", "cabin boys" and one "big boy". The boys ranged from 10 to 16 years old)

ANTI-History tells of the potential for actor-networks to crumble. However, privateer history is so enamoured of heroes (e.g., privateer captains and Vice-Admiralty judges) that it has less room in its historiography for telling of decline of hegemonic power. For example, the Dictionary of Canadian Biography contains a thorough celebration of Richard Bulkeley, concluding that he was "a healthy, vigorous, and hard-working civil servant, assisted 13 governors and lieutenant governors... a man of inflexible integrity, in his obituary he was called "the Father of the Province [Nova Scotia]" (Blakeley, 1979). A critical historian may note that this privileging of the British elite echoes a cue of its publishing parent, the British Oxford Dictionary of National Biography, for which the founder of the Canadian dictionary had "pleasure in and admiration for" (Dictionary of Canadian Biography, 2015). A more critical historiography would point to traces of the past that accuse Bulkeley of technical incompetence and physical infirmity (Conlon, 1996). The Dictionary of Canadian Biography does mention, in passing, "deterioration in his private circumstances". There are also traces of the past that call attention to complaints of Bulkeley's excessive court fees, the variability of decisions for similar circumstances, and that the prize court was held at his personal residence, now the Carlton Hotel in Halifax (Conlon, 1996).

## Conclusion

This paper considers the officialized controls of the British class system, claiming that these also influenced privateer entrepreneurship and the writing of accounting histories concerning the business of the Vice-Admiralty Court. We showed that the legal control systems of the Vice-Admiralty Court were not merely neutral accounting activities. The systems constituted the identity of the actors that performed in the Court. Following Latour (1990) and

Durepos (2015) this paper took an amodern theoretical position that presented ontological politics of relational practices of the past. This paper also engaged with academic conversations around the writing of business history. It did so by applying ANTi-History and connecting two streams of academic conversation, i.e., the *historic turn* in the management and organizations literature and the *new accounting history* in the accounting literature.

New accounting history questions official records and provides a focus beyond political history. Actors competing for political power implement ritual strategies to form actor-networks that officialize private interests, “magically instituting what it says in constituent statements... that authorizes and recognize itself (Bourdieu, 1990, p. 110). For Bourdieu, the new accounting history would be an instrument of knowledge to question official rights. This allows a critique of knowledge systems that constitute social determinism (Pesqueux, 2005). The term *doxa* is often used in Bourdieu’s work. It is a questioning of dominant stories that are imposed as a universal point of view. We posit that there is emancipatory potential in ANTi-History. The presentation of multiple accounts of the past allow for demonstrating the tensions between different versions of history. ANTi-History conceptualizes history as a craft rather than a science. “And it assumes that emancipatory potential lies in questioning the euro-centricity of current histories and possibly (re)writing or (re)assembling history” (Durepos & Mills, 2012, p. 131). This approach is endorsed from the perspective of increasing knowledge production through alternative research methods.

This paper makes a contribution to critical accounting studies by recognizing that amodern historiographies of privateers and prize courts are themselves historical artifacts. A more robust mode of *doing history* is to follow the actors that help to produce the historical endeavour. By suggesting ANTi-History as a means of performing critical accounting history, this paper is in keeping with Chua’s (1998) call for new forms of historical discourse to be applied to accounting. This case study of the entrepreneurial work of privateers gives rise to the idea that the entrepreneurial work to be done included using the accounting processes of officialization to create profit from otherwise illegal activities. The “thin line of intentionality between ‘outlaw’ and ‘hero’ creates a platform for people engaged in illicit activities to officialize actions as for the public good” (Galvin, 2012, p. 755). We believe that strategies around the transfer of wealth during the era of colonial Nova Scotia were located within similar practices that are found in social hierarchies of established elites. Thinking about the past through the lens of ANTi-History helps critical accounting theorists to understand how human and material agencies create durable alliances, and by imagining a different configuration of the past, we may create a different future.

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ASB 2015  
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**CASE STUDY:  
FIT 2 EXCEL? FAMILY. BUSINESS. AND FAMILY BUSINESS.**

*Fit 2 Excel* traces the experiences of Jon and Sheila Stawinski, co-owners of two fitness related businesses (*Fit2Excel* and *Injury2Excellence* in Chittenden County, Vermont. As their commercial activities experience rapid growth, the entrepreneurs find themselves immersed in many personal challenges that appear to be inherent in family-run enterprises, and soon find themselves stressed, burdened, and distracted from family matters. As their lives become increasingly frenzied Jon and Sheila must wrestle with pertinent questions regarding business, family, and the balance between the two. The Instructor's Manual to the case includes analysis that draws upon the Segmentation-Integration Continuum of Family Business and the model of Differential Permeability of Identity in Family Business (Sundaramurthy & Kreiner, 2008), as well as consideration of issues of strategic planning in family business contexts (Jaffe, 2005). The case is intended for use in undergraduate entrepreneurship and family business courses, and specific learning objectives include: (a) managing business/family overlap/integration, (b) establishing boundaries in family business, and (c) the strategic management of family business.

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**CASE STUDY:  
HOUSE RULES**

This is a case about rules, what they mean, and when to follow them. The case consists of two stories, one set in the halls of a major university and the other, a considerable time ago, in a Midwestern barber shop. In the first instance the Dean of a major Business Administration faculty must choose between following the rules concerning paying a faculty member for additional work, therefore forgoing an opportunity to secure a great deal of money for the faculty, or pay the faculty member therefore possibly violating the faculty's Collective Agreement but, in so doing, securing the large financial contribution. The Dean asks one of his advisors to recommend a course of action. The advisor recounts a story where a barber faced a similar situation, having to choose between breaking a law prohibiting gambling in the back room of his barbershop, or forgo the additional business the recreational, but illegal, poker game generated. The similarities between the stories are used to discuss issues of ethics, the meaning of rules, and "Pro-Social Rule Breaking".

ASB 2015  
Fredericton, New Brunswick

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**RESEARCH IN PROGRESS CASE STUDY:  
LOCAL SOURCE CATERING, MARKET & BAKERY**

*Local Source Catering, Market & Bakery* is a Halifax-based business that is committed to food – where it comes from, how it is grown or raised, and how farmers are compensated for their work. *Local Source* partners with producers throughout the province to bring healthy, local food options to urban consumers. The philosophy underlying the business is to contribute to a vibrant economy, reduce the environmental impacts of transporting food, and to connect consumers to a culture of healthy, real food. The case study will employ interviews with key stakeholders, document analysis, and participant observation to collect data and develop a decision-making case intended for students in commerce classes such as Entrepreneurship Theory and Concepts, Strategic Management, Small Business Performance Improvement, and Family Business. The decision point that students may focus on will track the expansion and growth of *Local Source* by creating a systems level approach to map and coordinate regional food distribution. The *Local Source Network* will be both a software tool and management information system to support a coordinated distribution effort of local food within the regional food system. The proposed expansion aims to benefit farmers, consumers, the economy, the environment and the organization. Students may discuss the areas of potential benefit for the various stakeholders and also determine if the organization is in a position to commit to the proposed expansion and commit the resources necessary to grow the business.

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## **COMPETITIVE MOVES: THE INFLUENCE OF INDUSTRY CONTEXT AND INDIVIDUAL COGNITIVE FACTORS**

Businesses compete in markets and choose disparate strategies. We argue that speed and intensity of competitive activities are contingent on entrepreneurs' perceptions of the environment and their cognitive biases. We conducted a two-by-two within-subjects design experiment to test our hypotheses with a sample of service industry professionals.

### **Introduction**

Entrepreneurship research concerns the founding, survival and growth of new ventures. Research suggests that new ventures are created following a dynamic process consisting of a wide range of actions such as developing/acquiring technology, engaging in product development, test-marketing products, and entering markets (Hansen and Bird, 1997). Consequently, the competitive activities of new ventures are of paramount importance in determining their organizational outcomes (Aldrich, 1999; Delmar and Shane, 2004).

The strategies chosen by firms are affected by perceptions of the environment (Droege and Marvel, 2009). Bird (1992) proposed that individuals respond to environments by creating temporal expectations (called brackets) that describe the expected pacing (elapsed time) from one event to the next. According to Gersick (1994), when deadlines are present and leaders have control over events, time based pacing is used. However, when events are uncontrollable, event-based pacing is used, which means that whether subsequent actions can or should be initiated is contingent on the clarification of special events or condition signals emanating from the environment. Event-based pacing is particularly important in this context as entrepreneurs and other business leaders are often required to make decisions under conditions of uncertainty upon which they have limited control (Simon, 1947; Cyert and March, 1963).

Examples of such events include change in market demands, passage of legislation, and technological change. Since the as yet undetermined outcome of these events may either positively or negatively influence an entrepreneur's ability to successfully pursue opportunity,

business leaders will (in the face of such uncertainty) tend to preserve strategic flexibility (Hayes and Garvin, 1982) in order to maximize the expected return from their investment. One method of maintaining flexibility is to hold options open to reduce potential losses as much as possible (Bowman and Hurry, 1993). For example, domestic firms with international growth aspirations exhibit real options logic when in the face of market uncertainty they enter a Joint Venture (JV) as opposed to a full acquisition (Folta and Miller, 2002). The JV requires a smaller upfront investment, thus providing the firm with an option to cut losses (capped at the JV investment) or to increase investment later if significant demand develops.

Option value is modeled mathematically in the Black-Scholes option-pricing model (Black and Scholes, 1973) and is particularly sensitive to volatility. Decision-makers estimate more option value when they perceive high environmental uncertainty (Duncan, 1972). While rare for managers to explicitly utilize real options theory when making investment decisions (Copeland and Keenan, 1998) evidence suggests that the delaying predictions derived from real options logic tends to accurately predict what decision-makers do when faced with discretion, uncertainty, and investment irreversibility (Carruth et al., 2000).

The speed and frequency in which firms launch competitive moves are critical parameters in assessing their likelihood of success. Likewise, the confluence of macro-level and micro-level factors that influence firms' competitive moves have important implications in understanding firms' flow of logic in deciding strategic actions. However few studies in the entrepreneurship literature have addressed these issues. This paper draws from real option theory to investigate how two disparate industry characteristics, *exogenous uncertainty* and *first moves advantage*, are likely to affect a venture's competitive moves. In particular, we examine two resultant characteristics of firms' competitive actions: *speed of action* and *intensity of action*. We then detail how the cognitive processes of business leaders moderate the relationship between these industry factors and the ventures' competitive actions.

We contribute to: 1) real options theory, by examining the boundary conditions and contingencies that may influence the decision by business owners or managers to launch competitive moves; 2) entrepreneurship and strategic theory, by revealing the relationship between various industry and personal factors that affect the decision to pursue competitive moves and; 3) entrepreneurial practice, by explaining to potential entrepreneurs and other business leaders, the effect these factors have on the strategies chosen to address conditions that arise.

The paper proceeds as follows. We discuss the literature related to risk and uncertainty and then competitive moves. Next, we introduce the model and develop the hypotheses. This is followed by the methods, results, conclusions, limitations and contributions.

## **Risk and Uncertainty**

Most business decisions involve management of events with uncertain outcomes due to unanticipated events in a firm's environment (Schumpeter, 1934) and the limited information-

processing capabilities of human beings (Simon, 1947), thus making it nearly impossible for outcomes to be known in advance with certainty (Cyert and March, 1963). Events with uncertain outcomes can involve either *risk* or *uncertainty*. A decision involves *risk* when all possible outcomes are known, and the probability of each outcome is known (Wald, 1950), but which outcome will happen in a specific scenario is unknown. A decision involves *uncertainty* if the outcomes are not known or the probabilities of the outcomes are not known. Decision-makers are often faced with uncertainty because of limited access to information. Will a certain law pass? Will the market accept a new product? Gaining access to additional information is valuable as it can contribute to clarification of the uncertainty. For example, the level of uncertainty in the preceding questions regarding laws and markets can be lessened, though not eliminated, through use of lobbyists or market research respectively.

Dixit and Pindyck (1994) specify differences between what they term technical uncertainty (largely endogenous) and input cost uncertainty (largely exogenous). Endogenous uncertainty is largely within the entrepreneur's control and therefore is reducible through efforts. For example, entrepreneurs can lessen endogenous uncertainty through the development of new technology, human capital and capabilities. When this is possible, the option to proceed immediately can be more valuable than holding the option to proceed later and as such, may encourage the firm to proceed. On the other hand, exogenous uncertainty is outside the entrepreneur's control and therefore is largely irreducible. For example, if passage of a law will significantly affect the new venture, and the entrepreneur has limited influence through lobbyists or other methods, whether or not the law will pass is an exogenous uncertainty.

When faced with uncertainty, business leaders need to decide whether to proceed or wait until the uncertainty is resolved. Starting, or taking the next step in launching a product or venture involves a significant commitment of time and resources, resulting in significant sunk costs. While some of the knowledge and experience gained, as well as portions of the development work may be salvageable, a failed business or product launch most often results in significant loss. In view of the irreversibility of a new venture start-up, or a new product launch, rising levels of exogenous uncertainty should increase the value of holding such options. Because exogenous uncertainty transpires largely independent of any one organization's activities, the firm may be better off waiting for new information before committing to the next stage (Li, 2008).

### **A Model of Entrepreneurial Competitive Action**

A competitive move is defined as a market-oriented action newly launched by a firm that threatens the demand-supply status quo of the market (Chen, 1996; Ferrier, 2001). Chen (1996) conceptualized a firm's competitive moves in terms of attack/response dyads: an attack is aimed at acquiring rivals' market share; while a response is developed to defend or improve a firm's own share in response to the attack of its rivals. Research suggests that these competitive moves are important in determining the outcome of competition (Miller and Chen, 1996) and that firms count on successful competitive attacks to generate economic rents (Chen, 1996). Accordingly, a new entrant (a challenger) in an industry may utilize competitive attacks to overturn the market position of incumbent firms (Ferrier et al., 1999). The ability of a new entrant to capture market

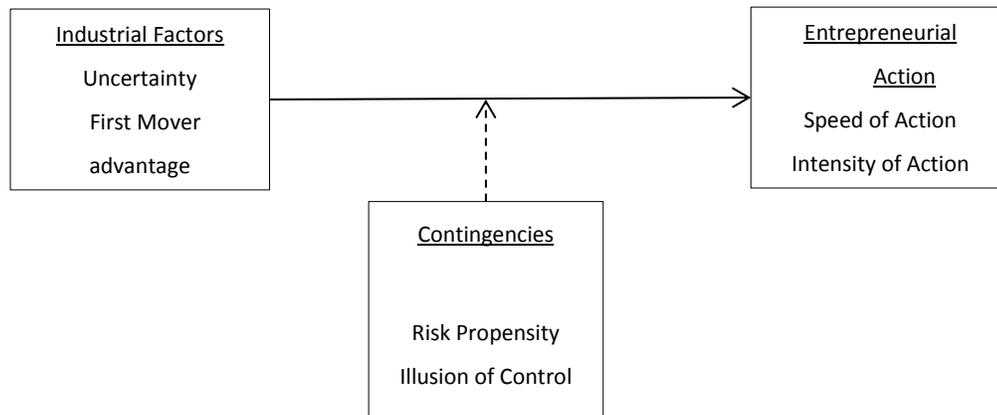
share and maintain the competitive initiative may force their competitors to respond and thus take a reactive role (Chen, 1996). Therefore, firms may aggressively build competitive advantage by strategically launching competitive attacks.

Entrepreneurship research focusing on the venture creation process indicates that the timing of undertaking actions plays a key role in determining venture success (Delmar and Shane, 2004). Schumpeter (1934) suggested that a high speed of action generates high payoffs, and research has provided empirical evidence linking the speed of action to enhanced firm performance (Chen and Hambrick, 1995; Ferrier et al., 1999). Accordingly, this paper conceptualizes *Speed of Action* as a key construct in the process of launching products and ventures.

By intensely launching competitive moves, a firm may quickly build its internal assets such as those of technology and human capital, and as a result, may capture the market share of rivals. Accordingly, scholars posit that a firm's action intensity, or the number of competitive moves a firm conducts in a certain period of time, may positively affect its competitive advantage (Young et al., 1996). We argue that frequency, or the *Intensity of Action* is another key construct in the entrepreneurial competitive process.

While high degrees of speed of action and intensity of action may positively influence firms' performance, firms do not always launch competitive moves quickly and intensely. Prior research has provided some insights in this area. Chen and MacMillan (1992) found that firms' market dependence and irreversibility of action delayed competitive moves. Conversely, Chen and Miller (1994) found that visibility of attack and centrality of market attacked increased firms' number of competitive actions. The major limitation of this stream of research is that it has focused on large incumbent firms as opposed to new entrants or small firms. We argue that understanding the joint impact of industry characteristics and individual level characteristics on the speed and intensity of competitive actions of small ventures is an important question for both entrepreneurship and strategy research. We propose the following model:

**Figure 1 - A Model of Entrepreneurial Competitive Action**



## **Environmental Uncertainty and Entrepreneurial Competitive Action**

A market with uncertainty tends to behave in ways that are difficult to understand as uncertainty exerts significant influence on organizational processes and outcomes (Miller and Chen, 1996; Sutcliffe and Zaheer, 1998). One manifestation of uncertainty is highly variable, or uncertain, returns (Lubatkin and Chatterjee, 1994). While McGrath (1999) suggests that high variance with the ability to limit downside uncertainty should lead to increased entrepreneurial activity, most existing theory (e.g. Dixit, 1992) and empirical evidence (e.g. Campa, 1993; O'Brien et al., 2003) suggests that high uncertainty generally dissuades investment. In other words, high uncertainty sets a high threshold against venture creation activity. Interestingly enough, while several studies have reported an inverse relationship between uncertainty and firm investment levels (e.g. Huizinga, 1993; Guiso and Parigi, 1999), others report weakly negative or no relationship (e.g. Campa and Goldberg, 1995). With endogenous uncertainty being potentially reducible through efforts, the delaying effects normally associated with real options theory are not as relevant as with exogenous uncertainty. This research builds on the conceptualization of Van de Vrande et al. (2009) and specifically focuses on *exogenous uncertainty* – the uncertainty that exists outside the firm's control and resolves over time (rarely affected by firms' actions).

Market uncertainty does not in itself cause market failure (Amit et al., 1998) however, it does affect investment strategies. Research suggests that uncertainty should influence the likelihood of investment when investments are at least partially irreversible, and the investor has discretion over the timing of the investment (Dixit, 1992; Campa, 1993). Since the resolution of exogenous uncertainty may lead to either favorable or unfavorable organizational outcomes, it would appear worthwhile for entrepreneurs to maintain strategic flexibility. In this situation, delay can be more valuable, and less risky, than an immediate investment as it provides the flexibility to defer the investment decision until additional information is revealed (McDonald and Siegel, 1986; Dixit and Pindyck, 1994).

Accordingly, the presence of exogenous uncertainty may alert entrepreneurs to be more cautious in launching competitive actions, and to search for and compare alternative ways to compete (Miller and Chen, 1996). This implies that exogenous uncertainty slows firms' speed of competitive moves as well as the intensity of competitive attacks. Therefore, we propose:

*Hypothesis 1a: The speed of action of a firm is likely to be inversely associated with the level of exogenous environmental uncertainty.*

*Hypothesis 1b: The intensity of action of a firm is likely to be inversely associated with the level of exogenous environmental uncertainty.*

## **First Mover Advantage and Entrepreneurial Competitive Action**

The timing of market entry, involving the tradeoff between timely commitment and strategic flexibility, is a central concern of strategists (Ghemawat, 1991) as entry involves loss of flexibility and exposure to uncertainty (Miller and Folta, 2002). Research on real options theory has aided our understanding of the entry timing decision by clarifying the value of waiting (McDonald and Siegel, 1986; Trigeorgis, 1991). Utilizing a deferral option may be beneficial because it preserves the flexibility to invest when favorable conditions develop, or to back off

when conditions worsen. A decision to launch a new product/service or venture normally involves significant financial investment, typically requiring a full-scale commitment of all agents and is largely irreversible. However, wait-and-see strategies also increase opportunity costs with the loss of potential first mover advantage.

Theorists of first mover advantages argue that the first firm in an industry can obtain a competitive advantage over other firms (Lieberman and Montgomery, 1988). Early entry may better position the firm to build capabilities, enable technological advantage, build brand recognition, acquire resources that may lower cost, or take advantage of growth opportunities (Kulatilaka and Perotti, 1998; Lieberman and Montgomery, 1998) while being late can carry penalties in terms of reduced market share and profitability, especially when product life expectancy is relatively short (Rudolph, 1989).

Being first to market does not guarantee advantage; it does however provide opportunity to set standards (Zane et al., 2014). While some pioneers such as RCA (color television) and Gillette (razors) succeeded over long period of time, other such as Chux (disposable diapers), and Ampex (video recorders) ceded market leadership to followers (Tellis and Golder, 1996). According to Tellis and Golder (1996) pioneers (first to market) had a failure rate of 47% and controlled 10% of their respective markets while early followers had minimal failure rates and controlled three times the market share. While market share initially went to first movers, long term success was attributed to vision, managerial persistence, financial commitment, relentless innovation and leveraging of assets; not merely market entry timing.

When deciding whether to defer, the evaluation must analyze the cost and benefit of the deferral (Kester, 1984). This includes the level of risk and uncertainty, the capabilities and resources of the competition, and of course the size of the potential market. Finally, the entrepreneur must ask if she has the resources and capabilities to capture the market. The advantages of entering the market quickly can be viewed in terms of the strategic impact on the cost and profitability of the enterprise (Rothwell, 1994) and when determining the cost of being first to market, an enterprise compares the cost of accelerating product development in order to enter the market faster against the possible penalties accompanying lateness. If delayed entry to the market will have little impact on firm performance (in the market), the company has fewer reasons to incur the extra cost of speeding up the innovation process (Borg, 2001). Otherwise, delay is thought to be costly.

Based on the above arguments, we propose that as the opportunity for first mover advantage increases, the perceived value of quick entry increases, and thus the propensity to use deferral options decreases.

*Hypothesis 2a: The speed of action of a firm is likely to be positively associated with the level of first mover advantage.*

*Hypothesis 2b: The intensity of action of a firm is likely to be positively associated with the level of first mover advantage.*

## **Cognitive Biases: The Moderating Effect of Risk Propensity**

Upper echelon theory (Hambrick and Mason, 1984) rests on the premise that the psychological traits of the management team have significant influence on the strategic direction of companies. Empirical research in this area has found support for this relationship (Carpenter et al., 2004; Payne et al., 2005). Similarly, in the entrepreneurship literature, there is a stream of literature suggesting that the cognitive biases of entrepreneurs are distinctive and subsequently affect their decisions to start new ventures or generally behave in an entrepreneurial manner (Busenitz and Barney, 1997; Simon et al., 2000).

Entrepreneurs have been shown to have elevated levels of various cognitive biases such as overconfidence (Busenitz and Barney, 1997) and illusion of control (Simon et al., 2000). These biases may explain why entrepreneurs have a higher tolerance for ambiguity (Teoh and Foo, 1997), interpret risk differently (Busenitz, 1999; Janney and Dess, 2006), and make decisions like “rugged” individuals (Busenitz and Barney, 1997). Since human cognitive processes are very subtle, highly transitional, and correlated with multidimensional factors, decisions based on personal cognition often are unstable, lacking scientific reasoning and may not be robust.

Risk propensity is defined as an individual’s tendency to take or avoid risks and it can influence the way individuals frame decisions under conditions of uncertainty (Kahneman and Tversky, 1979). While it was previously thought of as a static personality trait, risk propensity has been categorized as a cognitive disposition susceptible to contextual and historical influences (Sitkin and Weingart, 1995). Different populations of entrepreneurs (e.g., those with high aspirations for growth vs. small business owners) may vary in their risk taking propensities (Stewart Jr and Roth, 2001; 2004). In two meta-analyses of studies involving risk propensity and entrepreneurs, Stewart Jr. and Roth (2001; 2004) found that in certain circumstances, the risk propensity of entrepreneurs is indeed greater than that of non-entrepreneurs.

Risk propensity reflects the natural disposition of individuals and is revealed in their business decisions and other behaviors. For example, the risk propensity of executives has been linked with firms’ strategic risk-taking (Devers et al., 2008). In the entrepreneurship literature, risk propensity is correlated with entrepreneurial intentions (Zhao et al., 2010) and with a tolerance for ambiguity (Lauriola and Levin, 2001) which may be key for those evaluating a new opportunity. Not all entrepreneurs have high levels of risk propensity, but according to Bromiley and Curley (1992), risky decisions are affected by individual predispositions toward risk. Krueger and Dickson (1994) suggest that perceptions of self-efficacy significantly influence risk-taking through perceptions of opportunities and threats. That is, those with high perceived self-efficacy were apt to take more risks because they subjectively give less weight to the chance of realizing a loss and more weight to the possibility of gains. The result of overweighing uncertain gains against uncertain losses motivates these individuals to make riskier choices than their risk-averse counterparts.

Risk propensity, on its own, does not explain why entrepreneurs are willing to undertake a venture. However, based on the above literature it is hypothesized that those with higher levels of risk propensity will see less risk, be less cautious, and therefore be willing to make competitive

moves more quickly and frequently than those with lower levels of risk propensity. Hence we propose that individuals with higher levels of risk propensity will make quicker and more intense strategic moves under conditions of both environmental uncertainty and first mover advantage.

*Hypothesis 3a: An entrepreneur's risk propensity moderates the relationship between exogenous environmental uncertainty and the speed of action of the firm such that as the level of risk propensity increases, the relationship between exogenous environmental uncertainty and the speed of action of the firm weakens.*

*Hypothesis 3b: An entrepreneur's risk propensity moderates the relationship between exogenous environmental uncertainty and the intensity of action of the firm such that as the level of risk propensity increases, the relationship between exogenous environmental uncertainty and the intensity of action of the firm weakens.*

*Hypothesis 3c: An entrepreneur's risk propensity moderates the relationship between potential first mover advantage and the speed of action of the firm such that as the level of risk propensity increases, the relationship between potential first mover advantage and the speed of action of the firm strengthens.*

*Hypothesis 3d: An entrepreneur's risk propensity moderates the relationship between potential first mover advantage and the intensity of action of the firm such that as the level of risk propensity increases, the relationship between potential first mover advantage and the intensity of action of the firm strengthens.*

### **Cognitive Biases: the Moderating Effect of Illusion of Control**

*Illusion of control* is an individual's overestimation of the extent to which they can affect the outcome of particular situations (Duhaimé and Schwenk, 1985) and positively affects peoples' assessments of their chance of success at a venture. Illusion of control is a cognitive bias or heuristic that is an inaccurate estimation of the facts of a particular situation and one's ability to cope with and predict future events (Simon et al., 2000). Langer (1975) found that entrepreneurs with higher levels of illusion of control expressed an expectancy of personal success much higher than objective probability would predict. This overestimation stems from the fact that people seek information that supports their opinions while ignoring contradictory information.

We suggest that as levels of illusion of control increase, entrepreneurs will be quicker to jump into an investment despite high levels of uncertainty. The impression that the entrepreneur has that he will be able to control events as the situation unfolds will tend to reinforce his decision to move quickly. Similarly, we argue that an individual with high illusion of control will tend to intensify the intensity of actions associated with competitive moves.

We further suggest that the moderating effect of illusion of control will impact the relationship between first mover advantage and both timing and intensity of actions. Specifically, armed with the notion that moving first might bring competitive advantage in the industry, those with higher levels of illusion of control will tend to act more quickly and with more frequent actions.

*Hypothesis 4a: An entrepreneur's illusion of control moderates the relationship between exogenous environmental uncertainty and the speed of action of the firm such that as the*

*level of illusion of control increases, the relationship between exogenous environmental uncertainty and the speed of action of the firm weakens.*

*Hypothesis 4b: An entrepreneur's illusion of control moderates the relationship between exogenous environmental uncertainty and the intensity of action of the firm such that as the level of illusion of control increases, the relationship between exogenous environmental uncertainty and the intensity of action of the firm weakens.*

*Hypothesis 4c: An entrepreneur's illusion of control moderates the relationship between potential first mover advantage and the speed of action of the firm such that as the level of illusion of control increases, the relationship between potential first mover advantage and the speed of action of the firm strengthens.*

*Hypothesis 4d: An entrepreneur's illusion of control moderates the relationship between potential first mover advantage and the intensity of action of the firm such that as the level of illusion of control increases, the relationship between potential first mover advantage and the intensity of action of the firm strengthens.*

## **Methods and Sample**

This research examines the direct effect of exogenous environmental uncertainty and first mover advantage on the speed and intensity of ventures' competitive moves. Then, it examines the moderating effect of two cognitive biases, illusion of control and risk perception, on these relationships. The study employed a two-by-two within-subjects design in which exogenous environmental uncertainty (high vs. low) and first mover advantage (high vs. low) were manipulated.

In order to objectively test our hypotheses concerning competitive strategies under varying environmental conditions, we sought a sample of professionals who would be knowledgeable of business operations and strategy. We chose to survey lawyers and Certified Public Accountants (CPAs) as they are not only in business, but are often called upon by their clients to discuss, review and/or recommend business decisions.

Cross sectional survey data were collected at four seminars in the mid-Atlantic region of the USA over a four and one-half month period. Each seminar offered continuing education credits for lawyers and CPAs. Attendees were offered a \$20 gift card to participate during the lunch break. In total, 117 of 139 attendees (84%) agreed to participate in the study and completed a survey. After removal of three incomplete entries, 114 valid responses remained (82% of attendee sample). Each participant responded to all four scenarios, for a total of 456 sets of responses.

The demographics of the included sample are as follows. 70.2% are male; 77.2% report being married or living with a partner, with 2 not answering. 85.1% Caucasian, 7.9% African American, 3.5% Hispanic, and 1.8% Asian with one not answering. Years of industry experience ranges from 1 to 59 with a median of 22 years. One respondent did not answer. Age ranges from 31 to 82 with a median of 52. One respondent did not answer. With regard to firm size, 43% report working for a small firm (1-25 employees), 17.6% report working for a mid-size firm (26-

200 employees), 23.7% report working for a large firm (greater than 200 employees), with 15.4% not reporting. For education, 14% report having a bachelor's degree, 14% a master's degree, 68.4% a professional degree, 1 % a doctorate and twelve did not report. Finally, 40.4% designated themselves as a partner in their firm (14% did not answer) with 36% claiming to be a founding partner. 67.5% report being an attorney, 31.6% report being a CPA while two report to be an attorney and a CPA and two reported to be neither an attorney nor a CPA.

## Measures

Respondents read the following vignette as background for the scenarios that followed.

“You are a senior manager with an established business. Throughout your ten years of industry experience, you have established yourself as a marketable asset within the industry, built a solid network of both past and present associates, and established good ties with upper management. It is likely that the company will continue to grow in the near future and that your career within the organization is likely to advance as well. The company has opportunities ahead of it and the CEO has asked for your recommendations. For each of the following four situations, please read the scenario and answer the questions that follow.”

Each of the four scenarios detailed an opportunity for the business; however we systematically varied the wording to affect perceptions of Exogenous Environmental Uncertainty (EEU) and First Mover Advantage (FMA). One scenario detailed high levels of perceived FMA and EEU; one detailed low levels of each, the remaining scenarios alternated high/low levels of the two main effects. Each respondent was exposed to all four scenarios; however the order of the scenarios was randomized to avoid an order effect. Each scenario was followed by a set of associated questions that asked respondents to make decisions regarding the frequency and timing of competitive moves. Questions were posed in the following manner, on a scale of 1 to 5, with 1 being Very Un-Likely and five being Very Likely, How likely are you to agree with launching the new product as soon as possible?

The scenarios and questions were pre-tested for clarity with a group of undergraduate business students and faculty from a college of business. The scenarios and/or questions were modified following each pre-test based on feedback. See Table one for the list of questions.

**Table 1 – Survey Questions\***

1	How likely are you to agree with launching the new product as soon as possible?
2	How likely are you to agree with quickly investing funds to refurbish existing facilities to enable launching the new product?
3	How likely are you to agree with immediate hiring of additional staff to enable launching the new product?
4	How likely are you to agree with delaying the launch until a competitor tests the market? (Reverse coded)
5	How likely are you to agree with reducing prices to keep or improve market share?
6	How likely are you to agree with investing additional funds to make improvements to the new product to keep or improve market share?
7	How likely are you to agree with utilizing a joint venture with a trusted partner to expand production capacity?
8	How likely are you to pause to observe competitor reaction before taking action? (Reverse coded)
9	What is the possibility of your business capturing significant market share during the next 12 months?
10	How likely is it that, at least in the next 12 months, no immediate changes are forthcoming with regard to items out of your control (e.g. governmental rules or changes in competitors' products or tactics) that could adversely affect the business. (Reverse coded)

\* All responses based on 1-5 scale, with 1 being Very Un-Likely and five being Very Likely.

**EEU and FMA.** Respondents' perceptions of EEU and FMA are critical to this study, and the scenarios were purposefully written to manipulate perceptions in this regard. To capture these values, we asked two questions as part of each scenario-questions set. To capture perceptions of FMA we asked, on a scale of 1 to 5, with 1 being Very Un-Likely and five being Very Likely, What is the possibility of your business capturing significant market share during the next 12 months? To capture perceptions of EEU we asked, on a scale of 1 to 5, with 1 being Very Un-Likely and five being Very Likely, How likely is it that, at least in the next 12 months, no immediate changes are forthcoming with regard to items out of your control (e.g. governmental rules or changes in competitors' products or tactics) that could adversely affect the business. This "stability perception" value should be low if EEU is high and is reversed (6 – value) for the purpose of demonstrating the level of EEU. As a manipulation check, we computed the mean values for FMA and EEU across all respondents for the four scenarios (see Table two).

**Table 2 – Perception of First Mover Advantage (FMA) and Exogenous Environmental Uncertainty (EEU)**

Four scenarios: Green, Orange, Red and Blue	FMA	EEU
Green - Perceived FMA is low, Perceived EEU is low	3.27	3.10
Orange - Perceived FMA is low, Perceived EEU is high	2.93	3.24
Red - Perceived FMA is high, Perceived EEU is high	3.61	3.26
Blue - Perceived FMA is high, Perceived EEU is low	4.12	3.04

The FMA scores are higher for the red and blue scenarios as expected. Also, The EEU scores are higher for the orange and red scenarios, as expected. The FMA score was highest for the blue scenario, which provided both high potential for FMA and low levels of EEU. A check of the mean scores using one way t-tests revealed that the manipulations were successful as the differences were significant at  $p < .001$  for FMA and  $p < .05$  for EEU.

**Speed and intensity of action.** A set of eight questions were developed for use in this study. Factor analysis was then used to validate the alignment of answers received from these questions. A scree plot showed a distinct break at two factors (Tabachnick and Fidell, 2007) and only two factors had eigenvalues greater than one. For our factor analysis, we used a Varimax rotation and received two factors which explained 49.97% (factor one) and 18.08% (factor two) of variance. Variables which uniquely loaded on a factor (loading greater than .5) and which showed minimal cross loadings on other factors (loading less than .3) are shown in Table 3 and were retained and used to construct the final factors.

Factor one, entitled speed of actions, contains five questions (questions 1, 2, 3, 4 and 8). Questions 1 through 3 relate directly to speed while questions 4 and 8 speak to delays related to the competition and were thus reverse coded. Factor two, entitled intensity of action, contains two questions (questions 5 and 7), both of which relate to frequency of action. Questions 6 cross loaded and was dropped. Cronbach alpha for these two factors were .886 and .504 respectfully. Mean values were then computed for these sets of questions and utilized as dependent variables.

**Table 3: Exploratory Factor Analysis - Varimax Rotation**

Question	Abbreviated wording of question	Factor 1	Factor 2
1	Launch new product as soon as possible	.883	
2	Quickly investing funds to refurbish existing facilities	.858	.212
3	Immediate hiring of additional staff	.857	.261
4	Delaying launch until a competitor tests the market	.762	
5	Reduce prices		.785
6	Investing additional funds to make improvements to the new product	.644	.499
7	Utilizing a joint venture to expand production capacity		.748
8	Pause to observe competitor reaction	.748	

Item 6 cross-loaded at more than a .3 level and was subsequently dropped from the analysis. Items loading at less than .2 were eliminated for clarity.

**Risk propensity.** The measurement of Risk Propensity was based on a four item scale taken directly from Gomez-Mejia & Balkin (1989). Respondents were asked to rate the extent to which they agreed with each statement; scale of 1, strongly disagree to 5, strongly agree ( $\alpha = .802$ ). We used the mean value of the four items.

**Illusion of control.** Our measure of Illusion of control was adapted from Simon et al (2000). Respondents rated the extent to which they agree with each of four statements; scale of 1, strongly disagree to 5, strongly agree ( $\alpha = .519$ ). While the Cronbach's Alpha for this set of four statements is not as high as we would like, the measure is well established in the literature. We used the mean value of the four items.

**Controls.** Previous studies have shown that certain personal demographic characteristics such as gender (Tornikoski and Newbert, 2007) and age (Reynolds et al., 2004) may be related to firm creation and opportunity pursuit. We decided to include years of industry experience (rather than the highly correlated age), partner status, and log of the number of employees in the firm to account for factors that may affect strategic decision making. While years of education is thought to be important as developmental psychologists have supported the connection between education level and improved knowledge structures and information processing (Smith et al., 2005), a correlation matrix showed no high correlations between education and any of the independent, dependent or moderating variables, so it was excluded from the models. In similar fashion, dummy variables for attorney and CPA were not highly correlated with the variables of interest so they too were excluded.

## Results

SPSS version 22 was used to test the hypotheses via linear regression, build the correlation table, and run checks for normality and multicollinearity.

As a test for normality, QQ plots and PP plots were run for the independent variables (FFA and EEU), the dependent variables (Factor 1 – Speed and Factor 2 – Intensity), and the moderating variables (risk propensity and illusion of control). No problems with normality were identified. Additionally, the variables of interest were checked for signs of multicollinearity. The Variable Inflation Factor (VIF) for each item was under 2, indicating no presence of multicollinearity.

Table 4 shows the means, standard deviations, and correlations for the study variables. The correlation table shows several prominent relationships. As expected, EEU and FMA are negatively correlated at a significant level. Both Factor 1 (Speed) and Factor 2 (Intensity) are negatively correlated to EEU, but only Factor 1 reaches significance. Both factors are positively correlated with FMA at a significant level. Risk perception and illusion of control show no significant correlations to the independent or dependent variables, but are significantly correlated

with each other and gender. Years of experience is significantly correlated with gender, and with risk propensity but not illusion of control. Finally, partner status is significantly correlated to Factor 1 (Speed) and both cognitive biases.

**Table 4 - Means, Standard Deviations, Correlations**

Variable	Mean	s.d.	1	2	3	4	5	6	7	8
1. Ex.Env.Unc.	3.16	1.14								
2. First Mover	3.49	1.10	-.213**							
3. F1 Speed	3.51	.96	-.113*	.717***						
4. F2 Intensity	3.19	.88	-.056	.135**	.130**					
5. Risk Propensity	3.54	.78	.023	.040	.078±	-.059				
6. Illusion Control	3.60	.56	-.087±	.011	.091±	-.056	.281**			
7. Gender 1=female	.30	.46	-.002	.055	.047	.055	-.258**	-.098*		
8. Yrs FT Exp.	26.81	11.45	-.098*	-.027	-.044	-.006	.233**	.074	-.291**	
9. Num Of Emp	5.58	.74	.109*	.037	.081	-.062	.002	.002	.025	.000
10. Partner 1=no	.53	.50	.058	.077	.100*	-.028	-.199**	-.119*	.195**	-.325**

±= p<.10, \*=p<.05, \*\*=p<.01, \*\*\*=p<.001

Hypotheses 1a and 1b state that EEU should be correlated with lower levels of speed of action and intensity of action respectfully. The regression results (see Table 5 - Models 2 and 4) show that EEU was negatively significantly related with speed of action (p=.013) but not with intensity of action (p=NS). Thus, H1a is supported while H1b is not supported.

Hypotheses 2a and 2b state that FMA should be correlated with higher levels of speed of action and intensity of action respectfully. The regression results (see Table 5 - Models 6 and 8) show that FMA was positively significantly related with speed of action (p=.000) but not with intensity of action (p=NS). Thus, H2a is supported while H2b is not supported.

**Table 5 – Regression Results of EEU and FMA on Speed and Intensity (Direct Effects)**

DV Hypothesis	Model 1 Controls Speed	Model 2 EEU Speed H1a	Model 3 Controls Intensity	Model 4 EEU Intensity H1b	Model 5 Controls Speed	Model 6 FMA Speed H2a	Model 7 Controls Intensity	Model 8 FMA Intensity H2b
Gender 1=female	.066	.063	.137	.136	.068	-.002	.138*	.133*
Years FT Exp	.050	.033	.042	.039	.051	-.003	.042	.038
Num Of Emp	.018	.039	-.086	-.083	.019	.047	-.083	-.081
Partner	.096	.083	.020	.018	.099	.015	.023	.017
EEU		-.129*		-.016				
FMA						.712***		.049
F-Value	1.538	2.482	2.076	1.676	1.630	78.712	2.070	1.839
Sig F Change	.190	.013	.083	.758	.166	.000	.084	.339
R-Square	.016	.032	.022	.022	.017	.515	.022	.024
Adj R-Square	.006	.019	.011	.009	.007	.508	.011	.011
Chg in R_Square	.016	.016	.022	.000	.017	.498	.022	.002
N	376	376	378	378	377	377	379	379

±= p<.10, \*=p<.05, \*\*=p<.01, \*\*\*=p<.001

H3a and H3b state that as risk propensity rises, the negative effect of EEU on speed and intensity respectfully decreases. For H3a, risk propensity, EEU and FMA<sup>1</sup> were entered in the second step (see Table 6 - Model 9), and the interaction term (risk propensity \* EEU) was entered in the third step (Model 10). The interaction term was significant at p=.029, thus providing support for H3a. For H3b, risk propensity, EEU and FMA were entered in the second step (Model 11), and the interaction term (risk propensity \* EEU) was entered in the third step (Model 12). The interaction term was significant at p=.029 but negative when we expected it to be positive, thus providing no support for H3b.

H3c and H3d state that as risk propensity rises, the positive effect of FMA on speed and intensity respectfully increases. For H3c, risk propensity, EEU<sup>2</sup> and FMA were entered in the second step (Model 13), and the interaction term (risk propensity \* FMA) was entered in the third step (Model 14). The interaction term was not significant, thus providing no support for H3c. For H3d, risk propensity, EEU and FMA were entered in the second step (Model 15), and the interaction term (risk propensity \* FMA) was entered in the third step (Model 16). The interaction term was not significant, thus H3d was not supported.

H4a and H4b state that as illusion of control rises, the negative effect of EEU on speed and intensity respectfully decreases. For H4a, illusion of control, EEU and FMA were entered in the second step (Model 17), and the interaction term (illusion of control \* EEU) was entered in

<sup>1</sup> FMA was entered as a second step control for H3a, H3b, H4a and H4b. These regressions were run both with and without FMA as a control and achieved similar results.

<sup>2</sup> EEU was entered as a second step control for H3c, H3d, H4c and H4d. These regressions were run both with and without EEU as a control and achieved similar results.

the third step (Model 18). The interaction term approached significant at  $p=.083$ , thus providing some support for H4a. For H4b, illusion of control, EEU and FMA were entered in the second step (Model 19), and the interaction term (illusion of control \* EEU) was entered in the third step (Model 20). The interaction term approached significance at  $p=.079$ , but was negative when we expected it to be positive, thus providing no support for H4b.

H4c and H4d state that as illusion of control rises, the positive effect of FMA on speed and intensity respectfully increases. For H4c, illusion of control, EEU and FMA were entered in the second step (Model 21), and the interaction term (illusion of control \* FMA) was entered in the third step (Model 22). The interaction term was not significant at  $p=.119$  thus providing no support for H4c. For H4d, illusion of control, EEU and FMA were entered in the second step (model 23), and the interaction term (illusion of control \* FMA) was entered in the third step (model 24). The interaction term was not significant at  $p=.107$ , thus H4d was not supported.

**Table 6 – Regress EEU and FMA on Speed and Intensity (Moderator - Risk Propensity)**

	Model Moderator DV Hypothesis	Model 9 Controls Speed	Model 10 EEU*Risk Speed H3a	Model 11 Controls Intensity	Model 12 EEU*Risk Intensity H3b	Model 13 Controls Speed	Model 14 FMA*Risk Speed H3c	Model 15 Controls Intensity	Model 16 FMA*Risk Intensity H3d
1 <sup>st</sup> step - Controls	Gender 1=female	.012	.015	.115*	.111*	.012	.012	.115*	.117*
	Years FT Exp	-.012	-.008	.050	.045	-.012	-.011	.050	.046
	Num Of Emp	.046	.047	-.086	-.090	.046	.046	-.086	-.080
	Partner	.020	.021	.011	.012	.020	.019	.011	.010
2 <sup>nd</sup> step	EEU	.011	.386*	-.004	-.529*	.011	.012	-.004	-.013
	FMA	.711***	.705***	.046	.054	.711***	.681***	.046	.448±
	Risk Propensity	.055	-.131	-.065	.199	.055	.034	-.065	.216
3 <sup>rd</sup> step - Interaction	EEU*Risk		.425*		-.596*				
	FMA*Risk						.037		-.502
	Sig F Change	.000	.029	.560	.029	.000	.867	.580	.105
	R-Square	.515	.522	.027	.040	.515	.515	.027	.034
	Adj R-Square	.506	.511	.009	.019	.506	.505	.009	.013
	Chg in R_Square	.499	.006	.005	.012	.499	.000	.005	.007
	N	376	376	378	378	376	376	378	378

±= p<.10, \*=p<.05, \*\*=p<.01, \*\*\*=p<.001

**Table 7 – Regress EEU and FMA on Speed and Intensity (Moderator - Illusion of Control)**

	Model Moderator DV Hypothesis	Model 17 Controls Speed	Model 18 EEU*Illusion Speed H4a	Model 19 Controls Intensity	Model 20 EEU*Illusion Intensity H4b	Model 21 Controls Speed	Model 22 FMA*Illusion Speed H4c	Model 23 Controls Intensity	Model 24 FMA*Illusion Intensity H4d
1 <sup>st</sup> step - Controls	Gender 1=female	.015	.017	.127*	.123*	.015	.011	.127*	.121*
	Years FT Exp	-.007	-.010	.039	.045	-.007	-.005	.039	.040
	Num Of Emp	.061	.065	-.087	-.092	.061	.056	-.087	-.095
	Partner	.013	.005	.015	.026	.013	.025	.015	.033
2 <sup>nd</sup> step	EEU	.020	.431±	-.010	-.623±	.020	.020	-.010	-.009
	FMA	.712***	.714***	.042	.040	.712***	1.078 ***	.042	.585±
	Illusion Control	.112**	-.038	-.032	.191	.112**	.296*	-.032	.240
3 <sup>rd</sup> step - Interaction	EEU*Illusion		.453±		-.676±				
	FMA*Illusion						-.415		-.614
	Sig F Change	.000	.083	.781	.071	.000	.119	.781	.107
	R-Square	.525	.529	.025	.033	.525	.528	.025	.032
	Adj R-Square	.516	.518	.006	.012	.516	.518	.006	.011
	Chg in R_Square	.508	.004	.003	.009	.508	.003	.003	.007
	N	376	376	378	378	376	376	378	378

±= p<.10, \*=p<.05, \*\*=p<.01, \*\*\*=p<.001

## Conclusions

This study suggests that perceptions of both FMA and EEU have a direct effect on speed of action, but not on intensity of action. We believe that this is potentially due to the sample selected for this study. As noted previously, our respondents were drawn from the accounting and legal fields, which have a service orientation. While service firms have an incentive to be first to market with new services, the number of competitive moves may be counter-productive. Essential, due to the nature of the industry, the speed of an offering is potentially easier to undertake, and more valuable than the number of competitive moves. Intellectual capital is flexible so service firms can rely on project teams to quickly learn new skills when new projects surface, as opposed to the lead times that accompanies the high fixed costs of capital-intensive businesses. As such, it is not surprising to see these respondents favoring quick entry. Another possibility is that this result is partially the result of the size of the firms in our population 43% of our respondents were from small firms (1-25 employees) with an additional 17.6% from mid-size (26-200) firms. Small accounting and legal firms generally have a local approach with respect to competitive moves while large firms may require a series of integrated competitive moves to compete with larger regional and national rivals.

When looking at the interaction effect of risk propensity, the effects appear to be inconsistent. It significantly influenced the EEU to speed of action relationship but was negative in the EEU to intensity of action relationship. Meanwhile, it did not reach significance with the FMA to speed of action or intensity of action relationships.

When examining the interaction effects of illusion of control, the effects were more pronounced than that of risk propensity. First, as a control in step two, it was significantly positively correlated with speed (Models 17 and 19) but not intensity (Models 19 and 23). As an interaction term, illusion of control x EEU positively influenced the EEU to speed of action relationship, but was negative with regard to intensity. The interaction term, illusion of control x FMA, was not significantly related to either speed or intensity.

Overall, there is a clear indication that perceptions of both EEU and FMA have a direct effect on speed of actions. Risk propensity appears to interact with EEU with regard to speed, but not with FMA. Illusion of control may in fact have a direct effect on speed (though we were not looking for this relationship). In similar fashion to risk propensity, illusion of control appears to somewhat moderate the EEU to speed in a positive manner while turning negative with regard to intensity.

Business owners often need to decide the timing and frequency to launch competitive moves under some level of uncertainty. Although both speed and intensity of competitive actions are associated with high payoffs for firms competing in markets, starting, or taking the next step involves a significant commitment of time and resources, and is largely irreversible. While some of the knowledge and experience gained, as well as portions of the development work may be salvageable, inappropriate timing and intensity of action often results in significant loss. Because uncertainty transpires largely independent of any one organization's activities, rational logic

would dictate that the firm may be better off waiting for new information before committing to the next move (Aldrich, 1999).

We suggested that the benefit of a delayed action (due to uncertainty) is reasonably offset by the opportunity to gain a first mover advantage. We further proposed that individual factors of the entrepreneur, in this case risk propensity and the illusion of control, 1) work to lessen the influence of uncertainty on decisions to act, and 2) amplify the effect of first mover advantage. Findings from this study support many of our assertions. Specifically, individuals with a high propensity toward risk as well as those high in illusion of control made quicker but less intense strategic moves under conditions of exogenous environmental uncertainty.

### **Limitations and Future Research**

We note that a few limitations warrant further discussion and, if addressed in future research, would further the literature on real options, cognitive biases, and entrepreneurial decision-making. We highlight two limitations. First, the results may not be generalizable since the respondents are drawn primarily from the legal and accounting fields. While we believe that our sample consists of respondents that serve as a good proxy for small business owners in general, it is possible that their responses are not representative of responses offered by those in other industries like technology, pharmaceuticals, or manufacturing. Since there are different risk and return profiles for potential projects in different industries, it may lead to significant variation in perspectives and thus may influence investment decision-making. Second, our study relied on cross-sectional data. Our data was collected during a four and a half month period during the fall of 2014. Macroeconomic or industry conditions during that period may have influenced the risk and return expectations of our respondents. Future research capturing data from the same respondents during multiple observation periods would help to alleviate this concern.

The non-findings, and negative findings, related to intensity of action raises the question of whether the survey failed to adequately capture this construct, or perhaps intensity of action is simply not affected in the same manner as speed of action. Another distinct possibility is that this sample (lawyers and CPAs) view intensity of action differently than may other possible samples. If members of this sample, when considering the competition, typically launch only single moves, speed would be important but intensity may not be relevant, or may even be seen as counterproductive. This is a question that can only be answered by future studies.

### **Contributions**

This research contributes to real options theory, by examining the boundary conditions and contingencies that may influence the decision by entrepreneurs to launch competitive moves. In addition, we contribute to entrepreneurship and strategic theory by examining the joint relationship between industry and individual factors that affect entrepreneurial decisions and thus actions. In particular, we discuss when entrepreneurs launch competitive moves, particularly the speed of action and intensity of action, under conditions with exogenous uncertainty and first mover advantage. We argue that the way entrepreneurs conduct competitive activities are

contingent on their cognitive biases. Finally, we contribute to entrepreneurial practice, by explaining to potential entrepreneurs, the effect these factors have on the strategies they choose.

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ASB 2015  
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## **REIMAGINING THE BREADWINNER: MASCULINITY, FEMININITY, AND THE CONSTRUCTION OF GENDER ROLES<sup>1</sup>**

This paper examines the gendered experiences of married couples where the wife is the primary breadwinner. We draw on in-depth interviews of heterosexual couples, analyze responses separately, and blend elements of autoethnography throughout our analysis. Data collected demonstrates reimagined gender roles at work and home.

### **Introduction**

As women gain access to higher-level positions and become breadwinners in their households, the implications of these monuments changes in all spheres merit close investigation. Research on breadwinning links it closely with conceptualizations of identity and the affirmation of masculinity that providing financially involves (Connell, 1995; Novikova et al., 2005). In the dichotomy of masculine-feminine that is verbalized through associative traits, breadwinning has long been described in mostly masculine terms (Bernard, 1981; Demos, 1974). So what happens when a female is the breadwinner?

In this paper, we focus our lens on identity creation and the spectrum of masculine and feminine traits, social construction of gender, breadwinning, and the implications on identity at home and at work for female breadwinners and their partners. We begin with a literature review of identity and trait theory, breadwinning, and the social construction of gender. Next, we use this foundational work to inform our preliminary analysis of five interviews that we completed with couples in which the females are the breadwinners. The male co-author also briefly reflected autoethnographically on his own experiences as we strive to understand the ways in which women, who are the breadwinners, can achieve a balance of roles outside of the traditional

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<sup>1</sup> Both co-authors wish to gratefully acknowledge the encouragement received from Dr. Patricia Bradshaw and Dr. David Wicks, of Saint Mary's University, as they explored interests in feminism, pedagogy, and management theory; Dr. Gabrielle Durepos and Dr. Maillka Das, of Mount Saint Vincent University, for providing timely criticism and guidance throughout the revision process.

conceptualizations of masculinity and femininity, both at work and at home. In providing a clear road map from the onset of this paper, three research questions are raised to seek clarity in redefining the breadwinner role: (1) Are there any differences, between the male and female gender, in defining and valuing the importance of breadwinning within a relationship dynamic? (2) Do female breadwinners exhibit or experience more masculine traits, either at work or home, considering their role as the primary-earner? (3) Do the males in these heterosexual couples have a different understanding of masculinity or experience a feminizing of their role, either at work or home?

### **Masculinity and Femininity**

Masculinity and femininity are terms used to describe a person's gender identity (Stets & Burke, 2000). Gender is crucially different from sex in that sex is biological, while the concept of gender is a social construct. Meaning is, thus, drawn from and imposed by society. Regardless of their sex, individuals draw their identity from the idea or dimensions of masculinity and femininity (Ashmore, Del Boca, & Wohlers, 1986). Some men will identify as more feminine, and some women may identify as more masculine. The normal association is that men are masculine and women are feminine; this is the stereotype that culture and society has imposed and enacted in the western world (Spence, 1984). In spite of the predominant stereotypes, gender identity may be highly varied among individuals, though it is certainly influenced by the existing stereotypes, gender roles, and gender attitudes as well (Stets & Burke, 2000). From this spectrum or dimension of masculinity and femininity, societal and cultural understandings, and expectations of stereotypes and their associated behaviours, it is possible to delineate masculine and feminine traits. These traits are behaviours that we have assigned meaning to, and the meaning is either feminine or masculine (instrumental or expressive) in its assignation; for example, the word "aggressive" would describe a masculine trait, a behaviour we largely associate with males. In contrast, the word "nurturing" is usually understood to be a feminine trait, in that it is a behaviour we associate most often with females (Constantinople & Deese, 1973; Spence & Buckner, 2000). This classification of masculine and feminine has many applications beyond the concern of individuals.

### **Identity and Management**

A significant amount of research conducted around the idea of gender and leadership or management exists in research literature (Koenig et al, 2011; Powell & Greenhaus, 2010; Chen & Powell 2012). The prevailing themes of identity and work in the latter half of the 20<sup>th</sup> century seemed to focus on the process of un-gendering women, consistent with the wave of liberal feminism in the seventies and eighties (Beggs & Doolittle, 1993; Dion & Schuller, 1990). Research looked at feminine and masculine stereotypes, how women were perceived in the workplace, and how they could adjust their behaviours to better fit in as both women and workers in the workplace environment. For example, women who title themselves "Miss" instead of by their name or another prefix in the office were respected and accepted as middle managers (Dion & Schuller, 1990). Research examined how men and women would take on leadership differently in leaderless groups,

and how their gender impacted this behaviour (Eagly, Karau & Miller, 1991). The research themes seemed to be largely based on gender differences and blending in by minimizing certain traits. Even of late, focus has remained on what women can do to become one of the crowd; that is, to suppress their more feminine traits and overcome their gender in the workplace (Swiss, 2001).

This focus on removing feminine gender identity in favour of replicating a masculinized workplace has begun to shift in the more recent literature of the 21<sup>st</sup> century (Powell & Greenhaus, 2010; Eagly, Karau & Mischel, 2002). Previous research acknowledges the shift towards feminine leadership as more women enter the workforce and become managers, it is argued that managerial stereotypes are in fact becoming less masculine, thereby creating an environment in which that un-gendering of the eighties and nineties is becoming slightly less necessary (Powell et al, 2002). Less necessary is a critical point; research still supports that managers are seen as predominantly masculine, suggesting that despite the awareness of increases in female managers and leaders, the actual change in perceptions has been slight.

By 2011, research of leader stereotypes had begun to show that the perpetuation of leadership as masculine was decreasing over time (Koenig et al, 2011; Paustian-Underdahl et al, 2014). Women perceive leadership as being masculine less, though men still predominantly understand it as a masculine construct. There is some suggestion that stereotypes of both leadership and women have shifted over time, creating less role incongruity between the two ideas (Koenig et al, 2011).

Despite these shifts, researchers still question the benefits of women blending in, or attempting to disrupt expectations of their gender at work. The ever-raging debate, as to if women should act like men to better their chances of beating gender bias in traditionally male workplaces, remains highly contested (Wessel et al, 2015; Paustian-Underdahl et al, 2014). Acting like men is presented as a potential solution for the barriers that women face in accessing STEM and other highly masculinized industries or role, such as top leadership positions. Research suggests women emphasize their achievement-oriented traits (i.e. those traits that are traditionally masculine or agentic) to avoid drawing attention to their gender when applying for jobs in traditionally masculine environments (Wessel et al, 2015).

Despite inroads with gender stereotypes and some increased fluidity in masculine and feminine classifications, identity is still thought of largely in dichotomous terms, with the predominant stereotypes serving to disadvantage women at work (Wessel et al, 2015; Paustian-Underdahl et al, 2014).

### **Identity at Home**

Gender identity and ideas of masculinity and femininity come into play when examining impacts on personal relationships. Men who do not view themselves as sufficiently masculine in their husband role, and women who feel a failure of femininity as a wife, are likely less satisfied overall in their marriages (Langis et al, 1994). This is reinforced by strong societal stereotypes for these archetypal gender roles of husband and wife (Nyquist et al, 1985). In addition to the

considerations of identity in conventional marital roles at home, it is important to consider the socioeconomic shifts that have occurred in the last twenty years. As women have become more prevalent in the workplace, there is research that shows breadwinning wives and their husbands actually preserve the male dominance stereotype at home despite atypical roles at work (Tichenor, 2005).

### **Interface of Home & Work**

Bringing the ways in which gender identities play out at home together with the ways in which they affect the workplace, it is possible to better understand the complexity identity of those who may fulfill irregular gender roles at home. Separating the role and identity of an individual at home from that required or expected of the individual at work is complex (Powell & Greenhaus, 2010). Decisions made at work and at home by men and women are affected by family-domain factors and work-domain decisions, two things which are mediated by family role salience, or the level of importance one puts on their family (Chen & Powell, 2012). Family role salience, in turn, is mediated by femininity. The more feminine an individual identifies, the greater their family role salience. This means that the decisions a woman may make in business or at home are impacted significantly by factors that are dependent on identity (Chen & Powell, 2012). The interfacing of gender identity with roles at work and home and the impact it may pose on factors like breadwinning is important to acknowledge.

### **Breadwinning**

Scholars from varying disciplines have sought to construct definitions of breadwinning and associate meaning with its function. Breadwinning, in a familial context, is the ongoing metaphoric exchange between an individual's work and its resulting economic benefit to provide for the family's wants and needs (Horrell & Humphries, 1997). Through much of recorded history, breadwinning has been reservedly male to the extent to which the "man of the house" is able to provide financial support for his family. Hood (1986) conceptualized the male breadwinner status as a man's earnings in relation to that of his wife, providing a basis of financial support for his immediate family.

This "provider" type is captured in literature as the provision of a wage/salary that supports a dependent spouse and children – almost always the stay-at-home mother and "her" children (Horrell & Humphries, 1997; Lewis, 2001; Raley, Mattingly, & Bianchi, 2006; Speakman & Marchington, 1999). Bernard (1993: 119) wrote of an ideology that was observed of being a good provider: "a man whose wife did [does] not have to enter the labor force." Framed in such terms, breadwinning is thus rooted in sociological inquiries of gender relations in family roles, involved in historical processes, and present in economic structures (Connell, 1995; Ferree, 1990; Hood, 1986).

The patriarchal provider model required a housewife counterpart in order to exist socially. Under the common law, the patriarch was dubbed “head of household,” and wield legal and religious advantage over the subservient wife:

He owned his wife's and children's services, and had the sole right to collect wages for their work outside the home. He owned his wife's personal property outright, and had the right to manage and control all of his wife's real property during marriage, which included the right to use or lease property, and to keep any rents and profits from it. (Babcock, Freedman, Norton, & Ross, 1975: 561)

The nuclear family is impressively adaptive, especially during periods of social change as households seek to individualize meaning (Moen & Wethington, 1992). This is evidenced throughout the early days of the industrial age when families, regardless of age and gender, worked together in fields of productive labour (Tilly & Scott, 1978). When shifts of opinion and subsequently, legislation, forbade the involvement of both women and children from labour fields, the “living wage” was conceptualized (Glickman, 1997). This shift from a “working family economy” necessitated the “breadwinner/homemaker economy” (Moen & Yu, 2000), which led to a gendered separation of paid and domestic work spheres. Among the many historical implications of this paradigm shift was the relegation of women from places of work, albeit informal labour employment, to roles of reproductive work and reserve wage labourers (Goode, 1963). From this perspective, the male breadwinner model was an imposition forced unto families, irrespective of the individualities of each family member (Nicholas & Oxley, 1994).

The male role as the family breadwinner has been observed as a central aspect of hegemonic masculinity. One important aspect preoccupied with this type of masculinity is success (Bernard, 1981). The male breadwinner was expected to demonstrate “strength, cunning, inventiveness, endurance – a whole range of traits henceforth defined as exclusively masculine” (Demos, 1974: 436). As a social examination of his masculinity, breadwinners were judged according to a superficial criteria “that endows a moneymaking man with sexiness and virility, and is based on man’s dominance, strength, and ability to provide for and care for ‘his’ woman” (Gould, 1974: 97).

Spanning numerous national contexts, breadwinning and masculinity are closely linked (Connell, 1995; Novikova et al., 2005). In a capitalist economic structure, the link between masculinity and paid employment is historically founded upon the assumption that men are the primary breadwinners (Crompton, 2006; Kimmel, 1993; Lewis, 1992). The traditional male provider model has seldom been attainable for impoverished men, especially those belonging to racial and ethnic minority groups (Collins, 1989, 1998; McAdoo & McAdoo, 1998; Rubin, 1994; Zinn, 1989).

Gerson (1993) found that American men whose wives engaged in employment opportunities outside of the home felt strongly about being the main providers. If the lines of breadwinning, in terms of income derived from outside of the home, are blurred as a woman's contributions reach near-parity with her husband's, both she and her husband are apt to revere his employment as providing for the family while her income is "supplemental" and not as significant (Ferree, 1994; Moen & Sweet, 2003; Potuchek, 1997; Raley, Mattingly, & Bianchi, 2006).

The male breadwinner model persisted throughout much of recorded history until its challenge by women as they pursued post-secondary education, entered the paid labour force in record numbers, and made significant strides within professional work during the late twentieth century (Bernard, 1993; Lewis, 2001; Goode, 1994; Gerson, 1993; Kimmel, 1998; White & Rogers, 2000). Ultimately, the undoubted progress has benefited women in greater opportunities: the reworking of gendered roles, structural change in work, and choice in sexual and familial relationships (Creighton, 1999). This movement toward societal prominence provided a significant shift, contributed to an observable erosion of the patriarchal breadwinner model and a change in attitudes toward women's employment (Brewster & Padavic, 2000).

### **Social Construction of Gender**

Societal acceptance of our gendered perspective that views women and men as naturally separate defined categories of being (Garfinkel, 1967) is primarily predicated on a conception of sex-based behaviours and traits (see Henley, 1985; Hochschild, 1973; Tresmer, 1975). Through this analyses of sex and gender, we are afforded a glimpse into the construction of gender in that it (gender) is typified as a continuous creation of meaning rather than a portrayal of social interaction that is "created" (Gerson & Peiss, 1985).

#### *Gender as a Social Institution*

In arguing for gender as a social institution within sociological literature, Martin (2004) lends support to the social aspect of gender construction albeit through an institutionalized lens. Renowned researcher, Connell (1987) viewed people as being situated inside institutionalization processes that facilitates and constrains human practice. Emphasis is placed on three themes: historicity, personal agency, and power.

"The idea of historicity is about change produced by human practice, about people being inside the process" (Connell, 1987: 143). People are active participants in making of this (process) social world, and not merely actors with reactions. Gender, thus, is not a fixed state transcending time bounds; it varies and is answerable to our human agency (Connell, 1987; Howson, 2006; Martin, 2004).

Social organizations are thematic of power for its ability to yield differences – prominent and nuanced – to the allocation of resources, privilege, and opportunities (Balzer, 2002; Cox, 1987; Lukes, 1974). The discussion of gender and social institution should include power (Acker, 1992), for ignoring its overarching theme would be detrimental to comprehending "[the] structures of

inequality and exploitation” (Collins, 1998: 150). The view of power within social institutions further challenges the tendency of researchers to assume gender is “at play” in primary group contexts (i.e. face-to-face communication) (Risman, 1998).

The conceptualization of gender as an institution seeks to explain the origin and perpetuation of its social construction. In positioning the institutionalization of gender, Lorber (1994: 10) observed a paradoxical conundrum: “The prime paradox of gender is that in order to dismantle the institution you must first make it ... visible.” Like Acker (1992), Lorber believed gender to be embedded in all institutions, yet Lorber (1994) regarded gender as an ideology as an institution per se, that seeks to shape individual and group perceptions regardless of contradictory evidence (i.e. “paradox”).

Gender, as an institution, is one important way for human beings to experience, organize, and make sense of their lives (Lorber, 1994). Said institutions, in the sense of identity, power, and change, entail apparent social norms that recur (Giddens, 1984), recycle (Connell, 1987), or are reinforced (through repetition) by group members.

In common-sense understanding gender is a property of individual people. When biological determinism is abandoned, gender is still seen in terms of socially produced individual character. It is a considerable leap to think of gender as being also a property of collectivities, institutions, and historical processes. This view is... required by evidence and experience... There are gender phenomena of major importance which simply cannot be grasped as properties of individuals, however much properties of individuals are implicated in them. (Connell, 1987: 139)

In this regard, actors within the social institutional framework “do gender” – whether that be enacted in public realms (i.e. on a subway, at school, in the workplace), private settings, individually, and/or collectively (Acker, 1990, 1992, Britton, 2003; Martin, 2003; Pierce, 1995, Ridgeway & Smith-Lovin, 1999; West & Zimmerman, 1987).

### *“Doing Gender”*

The encompassing nature of gender, in that it is pervasive and unavoidable, is constantly created and re-created from human interaction within social order. Gender is “any arrangement which leads us to judge an individual’s... acts not to be a manifestation of strangeness” (Goffman, 1983: 27). Similar to the cultural dynamic of our human social system, we continually construct gender through our individualized engagement in activities that reinforces an accepted masculine and feminine trait. Thus, gender is a production that depends on everyone constantly “doing

gender” (West & Zimmerman, 1987). Deutsch (2007: 107) argued that this type of gender construction is “an ongoing emergent aspect of social interaction.”

West and Zimmerman (1987) first wrote of “doing gender” as a theoretical paradigm that views gender not as something “we” (collective) *are*, but rather, something we *do*. It is in that vein, gender is socially constructed through the actions of individuals, with self-awareness of public scrutiny that determines what is appropriate masculine or feminine behaviour (Deutsch, 2007). “Doing gender means creating differences between girls and boys and women and men, differences that are not natural, essential, or biological. Once the differences have been constructed, they are used to reinforce the ‘essentialness’ of gender,” (West & Zimmerman, 1987: 137). Thus, the basis of gendered difference is accomplished through socialization, in that it is created within social relationships.

### **Method**

In keeping with our desire to immerse ourselves in the field of feminism inquiry and qualitative research methods – one that arose from personal experience with female breadwinning – we conducted a study focusing on but not limited to, the implications of self-identity, breadwinning in a familial context, and the construction of gender. The major research questions, as initially proposed in the learning contract deliverable, are: (1) Are there any differences, between the male and female gender, in defining and valuing the importance of breadwinning within a relationship dynamic? (2) Do female breadwinners exhibit or experience more masculine traits, either at work or home? (3) Do the males in heterosexual relationships have a different understanding of masculinity or experience a feminizing of their role, either at work or home?

In making sense of these research questions, we selected the use of a semi-structured format, involving a prepared list of questions used as a guide in discussing the overall narrative of breadwinning, and masculinity and femininity roles within a familial context. We used a similar guide for both female and male participants, with only minor adjustments to account for sex-type language in the questions for each respective sex. By asking similar questions to the male and female participants, we hope to identify common themes among and between the couples. In identifying these common themes, and through an analysis accounting emotion and reaction, we intended to gain insight into the points of interest on breadwinning and identity.

Interviews were chosen over other methods (i.e. surveys, observations, and content-analysis), aside for the sake of time constraints, because they provide insight into the creation of individualized meaning. "The qualitative research interview attempts to understand the world from the subjects' point of view, to unfold the meaning of peoples' experiences, to uncover their lived world prior to scientific explanation" (Kvale & Brinkmann, 2009: 1). Interviewees were encouraged to expound and elaborate; seeking answers with depth, meaning, and context, according to the individual situation (Arksey & Knight, 1999; Bryman & Bell, 2015).

The five individuals we interviewed consisted of two married (heterosexual) couples whose names have been changed: Zara & Kevin, Irene & Emerson, and Meredith, who is the spouse of

one of us. In keeping with our desire to personally involve ourselves in the research, which arose from our personal experience with female breadwinning, the sample size (six individuals including the male co-author) also incorporates an autoethnographic approach to analyze our own response to the themes uncovered throughout the interview process. These interviewees came from various occupational groups: office administration, retail pharmacy, tourism and hospitality management, and automotive service. For the purposes of this preliminary research, we identified these individuals through a targeted sampling approach (Bryman & Bell, 2015), whereas study participants are selected on the basis of convenient accessibility and close proximity.

The interviews were all conducted in person – a one-on-one type format with each participant. The female author interviewed the female participants, and the male author interviewed the male participants. This approach was intentional and also a choice of convenience as we often met the couple's together but interviewed each participant separately. We considered completing an interview with both couples together, however, we decided that for the constraints of this paper and time, we would focus on the participants individually and consider their individual responses. Each interview lasted thirty to sixty minutes. The interviews were digitally recorded and thematically summarized for analysis.

The autoethnographic tradition seeks to evoke descriptions of personal and interpersonal experience. This is accomplished first by discovering cultural experience patterns evidenced by interviews, and then describing these themes using the art of storytelling, showing and telling, and authorial voice (Ellis, Adams, & Bochner, 2011). The autoethnographer, thus, uses personal experience in developing a meaningful analysis, and produces accessible text which would otherwise be disregarded from more traditional research philosophy (Bochner, 1997).

## Results

We conducted two full interviews with two couples, and one interview of the spouse of one author is highlighted with comments from the co-author speaking from the autoethnographic tradition. Here we will position each couple and provide a thematic analysis of the interviews.

1. *Irene & Emerson*: Irene is in her early thirties and Emerson is nearing his later twenties. They have been married for nearly seven years and both parent two biological children. Irene works as an office administrator in a local community college, while Emerson works overnight as a customer service representative, earning a low-wage typical of the hotel industry. Irene makes more money than Emerson. A particularly important part of this couple's life is their faith; they play an integral role in the ministry of a local Pentecostal church.
2. *Zara & Kevin*: Zara and Kevin are in their early forties. They have been married for more than a decade and have one child together. Zara is a practicing pharmacist and is a store owner at a local retail pharmacy, managing a team of pharmacists, pharmacy technicians, cosmeticians, management and retail staff. Her husband, Kevin, originally worked as a car

serviceperson but later returned to vocational school to train in the supply chain management field. He is currently on long-term disability due to an unexpected illness.

3. Meredith is also a practicing pharmacist and is thirty years old. She has been married to one of the authors for nearly four years and they currently have no children. Her partner is a fulltime graduate student at a local university studying management/business administration, making Meredith the sole breadwinner of their family. Meredith and her partner are both actively involved in a local Pentecostal church, and their faith plays an important role in their life.

### *Breadwinning: A Consensus of Meaning with Male Sentiments of Pride*

It was generally observed that, across interviews from both genders, a consistent pattern emerged regarding the meaning of breadwinning. Each participant defined breadwinning in financial terms. However, the female interviewees emphasized language that reinforces the etymological sense of “winning the family bread” whereas it is the person who *brings home* the most money. This particular finding is unsurprising in that breadwinning has long been viewed solely in terms of primary-earner status within a relationship dynamic. In comparison to their female partners, the males interviewed associated the term breadwinning with career success in addition to the financial aspect. While this difference is minor, it demonstrates a consensus in meaning between genders while recognizing the male preoccupation with themes of financial strength, success, and materialism.

In describing the emotional tones of female breadwinning, Kevin provides an affectionate discourse that highlights pride in his wife’s work. He is under no illusions about their family dynamic, recognizing it is unlikely in the future to succeed his wife in being the primary-earner. Instead, he feels a vicarious-like sense of pride, as Zara is among a shrinking group of female franchisees in retail pharmacy – a feat that defies odds in Nova Scotia.

Some of my friends would have problems with the fact that their wives make more money than them... I think about it sometimes with Zara, but to me, she put in the time, the hours, and the hard work to get to where she is. I am proud of everything that she has accomplished... She’s not an overconfident person or a cocky person. She’s pretty humble and pretty down to earth... To me, it is very impressive.

He notes his experience of having a female manager in the workplace while working in supply chain management. While he did not have any issue with reporting to a female, it was evident through her passive aggressive behaviour that she was not particularly welcomed as an authority. There was an obvious gender difference with his colleagues as they consistently undermined the female manager’s functional role by seeking instruction from male superiors. This

discouraged the manager and affected her work performance – a domain credited to personal agency while ignoring the systemic structures of micro-organizational power. While reflecting on his own experience, Kevin constructed a parallel to the workplace of his wife that reinforced this notion of pride that Zara has overcome in the gender-specific barriers of retail pharmacy management: “I feel as though I can be proud that Zara is in charge at work.”

Speaking as both a contributing author of this study and secondary-earner husband, I can also identify with the feeling of pride for the success of my wife. Taking an autoethnographic approach, I am also proud of what my wife has accomplished in an industry with hidden power structures favoring the male pharmacist. Her perseverance in navigating the waters of systemic discrimination, aspiring to the management role, has demonstrated resilience that I myself cannot personally identify with. I not only feel proud of her determination but anticipate the joy in her eventual promotion to management.

### *A Meek Woman in a Man's World*

The basis of doing gender is accomplished through socialized construction of meaning. While individuals draw on ideals about what it is to make a meaningful contribution in the workplace, there is evidence that female breadwinners feel restricted by their gender identity. Through our interviews with each woman, their exertion of more traditional masculine traits contributed to legitimacy in this socially constructed world that emphasizes male-bound success. Below we will illustrate the experiences of our female breadwinner interviewees.

The healthcare profession has been historically masculine in nature, other than nursing in a hospital setting. Given the prominence of pharmacy as the initial point of contact in community healthcare, the role of a pharmacist is complicated as patients of all backgrounds and temperaments seek their professional advice and service. Often, patients are unforgiving in their conduct. Both Meredith and Zara described their masculine strategy of being emotionally detached, directive, and their need to be seen as in control with certain patients, is a proven coping mechanism with problematic patients. Zara felt that her refusal to show any type of emotion other than what is expected of a pharmacist is characteristic of the profession's evolution: predominately male until the formalized programming of pharmacy curriculum in post-secondary education. In other words, a female in the masculine world of pharmacy must play the game or else be played.

Irene is employed as an office administrator at a local community college in Halifax. She does not see herself enacting masculine traits at work, mostly due to her work being viewed as traditionally female. However, Irene identifies with having a greater latitude of autonomy and empowerment at work, even as an office administrator, than at home as she relies on her husband to lead the family in nearly every domain. This was also an important aspect – the male head of household – to Zara as well. It was clear that this dynamic was informed by their personal faith and “traditional” values.

Importantly, each interviewee discussed his/her gender role at home as being typically feminine. They themselves felt that their primary-earner socioeconomic status did not interfere with their sense of femininity. While they felt as though their jobs require a sense of masculinity, they

quickly revert back to their gendered familial roles after work. Irene captured the essence of our interviews with the females in defending her breadwinner status and of being secure in her feminine role as a mother and wife: “There are things I can do as a female... but I don’t want to... and I choose not to. I feel feminine at home even if I am the breadwinner in a world of men.”

### *The Male Experience of a Feminizing Role at Home*

In keeping with the social construction of gender theme of this study, we identified instances where males often view their work experience in masculine terms while describing a certain feminization in their role within their family. More specifically, the male interviewees felt a dissonance between masculine and feminine traits in their caregiving at home. Interviewees indicated that this intrapersonal tension is managed by understanding their family dynamic, female breadwinning and the greater involvement of fathers in child rearing, is a growing trend in the 21<sup>st</sup> century.

One way the male interviewees felt a dissonance between masculine and feminine traits in their role as a father is through their experience at work. Our male interviewees described traditional male traits of strength, decision, and logic as key masculine traits exhibited at work. Such traits were viewed as being “essential” in their work within customer service and contributing to the achievement of organizational objectives. However, they have both found that demonstrating more feminine traits at work provide a certain level of interpersonal success that masculine-dominate traits cannot achieve. Emerson, a customer service representative in the hospitality industry, discusses how intentionally projecting a caring and gentle demeanor has proven effective in his work:

That is really what guest services is [about] – caring. Sometimes I have to be very intentional about it... We have repeat customers, and for those who you develop a relationship with, that [caring] starts to come naturally... Here’s what you know: The upset repeat customer is coming back next week and you don’t want him coming back wondering if his stay will be good. He’s coming back and you care about that.

Kevin, a specialist in supply chain management, also tells a similar story of projecting a stereotypically feminine trait in achieving results at work:

I’m a good listener. When you work in a company with over thirty people, there’s at least thirty different problems. You’ve got to be able to listen to people. When we’re trying to meet a deadline but little Sally is sick, and need John to work twelve hours overtime, you have to be able to

hear his side of the story. His personal life, you don't want to interfere with his professional life but it happens all the time. It's real life.

At home, masculine traits of strength and logic may not always be appropriate when parenting young children. Our male interviewees discussed seeing the benefit of using self-described feminine traits as caring, listening, and loving in raising their children. Aside from the transactional nature of leveraging “best organizational practices” in the home as fathers, the males describe using feminine traits as being bound by personal agency. They felt that they are not bound by social expectations of being an involved father (i.e. a calm and gentle man weakened by his wife's breadwinning status).

Another key finding in the feminizing role at home had to do with the male's childhood. Specifically, how the father's emotional absence affected their view of childcare as a man. A common thread throughout the experience of our male interviewees was their emotionally-detached father/father-figure during childhood. Only one (out of three male participants in total) had their biological father present in the home. Two male participants had a step-father and regarded their mother as the chief caregiver and provider. Regardless of their family-of-origin, each male interviewed expressed a commitment to be “emotionally invested” in their own family. One can only speculate motive, however, the tone of the conversation enabled us to believe the feminine characteristic of “emotion” is used to compensate for the lack thereof of a fatherly love stemming from childhood experience. Speaking from my own childhood experience, I endeavoured from a young age to not only be a father that I had not known, but also that of an emotional support in all aspects of the home. In this case, the male interviewees unabashedly relish their affection for their children and are comfortable with that being a label of femininity.

## **Discussion**

The central contribution of this study is that it combines traditional gender themes of trait theory, family income, and social construction of gender while considering the familial dynamic of a female breadwinner. In providing empirical support for the theoretical claim that masculine and feminine traits are characterized differently at work than at home, we feel that the interactional processes in both domains have reinforced gendered differences (Duetsch, 2007; Risman, 2009). We also endeavoured to investigate the differences between male and female definitions of breadwinning; investigating the gendered interpretation of primary-earner status. Throughout the interviews, we found individual factors shaped the decision to have men be secondary-earners within their family; the current economic climate, personal choice, and education attainment as rationale. As a collective, neither gender felt the breadwinner status to be of significant importance within their respective relationship, regardless of who earns more money. Being engaged in meaningful work was a theme with our female interviewees whereas men felt a genuine sense of pride in their wives work. Specifically, male participants felt a sense of responsibility and duty at home to support the advancement of their spouse's career. This type of family dynamic appears to provide increased support for women's employment and a greater understanding of feminism.

The interpretation of our findings should consider several key limitations. First, we recognize the limited sample size of our study restricts inferences to the general population. The use of a convenience sample of female breadwinning couples means that the extent of the diverse experience of the interviewees represents those of the population of female primary-earner family dynamics is largely unknown. We also recognize that involving ourselves in the research process has certain positive and also negative aspects. However, we could not conceive a way that would complete the research without being personally involved, as the consenting participants we interviewed had a pre-existing work relationship, in varying degrees, with the authors. We choose to acknowledge this bias, and hope it has enriched the analysis of our findings. In addition, as previously discussed, the demographic characteristics of the couples interviewed provides information about the heterosexual, predominately white, middle/upper-class, Canadian family experience. Future research will need to consider the role of sexual orientation, ethnicity, and race, in shaping the experiences of the family dynamic in couples featuring a prominent breadwinner.

### **Conclusion**

Throughout this study, we have sought to characterize the advancement of women in societal prominence, where the growing number of female breadwinners continue to transform the family dynamic. Considering trait theory, we have found that both men and women leverage gender traits to their advantage in both work and home settings. From the findings of our study, we believe the disruption of patriarchal dominance, social structures, and work norms to be inevitable as women attain higher levels of education and benefit from economic restructuring. Women are, thus, poised to support their families financially in a greater dimension than ever before, with a partner at home cheering their success every step of the way.

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## Appendix A – Interview Guide

Our research methodology allowed for a semi-structured questioning format and thus, each question was considered to be a guide. We feel as though the questions were best answered in a conversation-styled discussion that formed a narrative of breadwinning and masculinity and femininity roles in a familial context. Follow-up questions were asked if it elicited clarity, meaning, and/or context.

### Female Interview Guide

(Have them make two lists before we ask any other questions so that they aren't responding reactively later on)

1. Can you make a list of behaviours or traits that you would say are masculine?
2. What about a list of behaviours or traits that you would define as feminine?
3. Tell me about your upbringing. In terms of the family dynamic, what roles did your mother (or mother-figure) fulfill? What roles did your father (or father-figure) fulfill?
4. Tell me about your work. What do you do? What do you like about it? What do you dislike about it?
5. How would you define breadwinning? What does it mean to you?
6. How do you feel when you hear the word "breadwinning/breadwinner?"

*Follow Up:* Are there specific emotions that you can identify?

7. When we started this discussion, we had you make a list of masculine traits. Which of these traits do you see yourself using at work?

*Follow Up:* Can you think of any examples of when you've had to be masculine at work?

*Follow Up:* What about at home? Which of these traits (if any) would you say you use at home with your family?

8. We also had you make a list of feminine traits. Which of these traits (if any) do you see yourself using at work [in your daily life if not working]?

*Follow Up:* Can you think of any examples of when you've had to be feminine at work?

*Follow Up:* What about at home? Which of these traits (if any) would you say you use at home with your family?

9. How has your relationship changed, if at all, since you became the breadwinner in the family?

*Follow Up:* Have there been any issues you'd feel comfortable sharing that you and your partner had to work through with you being the breadwinner?

10. Do you see yourself being the breadwinner in your family for the long term? Is it important to you that you are?

*Follow Up:* Why is it important to you? Why isn't it important to you?

11. Is there anything else that you'd like to share with us today? Is there anything we haven't asked about that you'd like to talk about?

### Male Interview Guide

(Have them make two lists before we ask any other questions so that they aren't responding reactively later on)

1. Can you make a list of behaviours or traits that you would say are masculine?
2. What about a list of behaviours or traits that you would define as feminine?
3. Tell me about your upbringing. In terms of the family dynamic, what roles did your mother (or mother-figure) fulfill? What roles did your father (or father-figure) fulfill?
4. Tell me about your work. What do you do? What do you like about it? What do you dislike about it?
5. How would you define breadwinning? What does it mean to you?
6. How do you feel when you hear the word "breadwinning/breadwinner?"

*Follow Up:* Are there specific emotions that you can identify?

7. When we started this discussion, we had you make a list of masculine traits. Which of these traits do you see yourself using at work?

*Follow Up:* Can you think of any examples of when you've had to be masculine at work?

*Follow Up:* What about at home? Which of these traits (if any) would you say you use at home with your family?

8. We also had you make a list of feminine traits. Which of these traits (if any) do you see yourself using at work [in your daily life if not working]?

*Follow Up:* Can you think of any examples of when you've had to be feminine at work?

*Follow Up:* What about at home? Which of these traits (if any) would you say you use at home with your family?

9. How has your relationship changed, if at all, since your spouse/partner/wife became the breadwinner in the family?

*Follow Up:* Have there been any issues you'd feel comfortable sharing that you and your partner had to work through with your spouse/partner/wife being the breadwinner?

10. Do you see your partner/spouse/wife being the breadwinner in your family for the long term? Is it important to you that you are/are not?

*Follow Up:* Why is it important to you? Why isn't it important to you?

11. Is there anything else that you'd like to share with us today? Is there anything we haven't asked about that you'd like to talk about?

## **LES FACTEURS DE SUCCÈS CHEZ LES PME CANADIENNES : COMPARAISON HOMMES – FEMMES**

Cette étude tente de mieux comprendre la problématique entourant la performance économique des petites entreprises par l'étude des facteurs de succès. À cet effet, les facteurs de succès des répondants de l'échantillon ont été identifiés afin d'en ressortir les plus importants et de voir s'il y avait des différences selon le genre. Une analyse factorielle fut aussi effectuée afin de regrouper les variables individuelles dans des groupes plus limités. Les résultats des analyses révèlent plus de similarités que de différences dans les facteurs de succès privilégiés par les répondants de l'étude en comparaison avec les études répertoriées sur le sujet. Le même constat peut être observé dans les résultats entre les hommes et les femmes.

### **Introduction**

Les petites et moyennes entreprises (PME) jouent un rôle important dans l'économie canadienne. À titre d'exemple, au début 2013, le Canada comptait 1 107 540 entreprises, dont 1 087 803 petites entreprises (1 à 49 employés) représentant 98,2 % des entreprises au Canada. Les petites entreprises jouent un rôle important dans la création d'emplois au Canada, ayant créé 77,7 % de tous les emplois dans le secteur privé entre 2002 et 2012. Au total, les petites entreprises ont créé en moyenne un peu plus de 100 000 emplois par année durant cette période. En 2011, on estimait que les petites entreprises étaient à l'origine d'environ 27 % du PIB du Canada. (Industrie Canada, 2013)

Par ailleurs, une forte proportion d'entreprises cesse leurs activités chaque année. Parmi les PME créées en 2008, 80 % ont survécu une année complète et seulement 72 % des PME créées en 2007 ont survécu deux ans. Cette diminution du taux de survie s'explique en grande partie par la baisse du taux de survie des microentreprises (1 à 4 employés), qui est passé à 68 %, tandis que le taux de survie des autres petites entreprises est demeuré stable à 86 %. (Industrie Canada, 2013) Considérant que le taux de mortalité des jeunes entreprises est très élevé et que les survivantes ont souvent des performances marginales, il s'avère important de comprendre les facteurs qui limitent leur succès ou y font obstacle.

L'étude des facteurs de succès permettra d'apporter des éléments additionnels afin de mieux comprendre la problématique entourant la performance économique des petites

entreprises. Plus précisément, les objectifs de cette recherche sont de 1) déterminer auprès d'entrepreneurs les facteurs qui ont contribué au succès de leur entreprise, 2) de voir s'il existe des différences entre les hommes et les femmes et 3) de regrouper les variables individuelles dans des composantes plus limitées. Pour y arriver, nous aurons recours à un échantillon de 115 femmes et 252 hommes entrepreneurs canadiens. À date, très peu d'études ont été menées sur des comparaisons hommes-femmes. Pourtant, Industrie Canada (2013) rapporte que 33.8 % des petites entreprises canadiennes appartiennent exclusivement ou à parts égales à des femmes et que l'activité économique des PME canadiennes appartenant majoritairement à des femmes se chiffre à plus de 117 milliards de dollars par année (La Presse, 2015) d'où l'importance de considérer les femmes entrepreneures dans les études portant sur l'entrepreneurship.

Une meilleure compréhension de cette problématique permettrait, dans un premier temps, de livrer des informations clés aux entrepreneurs eux-mêmes (les erreurs à éviter, les précautions à prendre) ainsi qu'aux instances gouvernementales afin des aider à développer des programmes mieux adaptés aux besoins des entrepreneurs. De plus, de telles initiatives minimiseraient le niveau d'incertitude face au phénomène de création et de développement d'une d'entreprise, faisant en sorte que plus d'individus seraient intéressés par une carrière dans les affaires.

C'est dans ce sens que ce travail tentera, dans un premier temps, d'examiner la littérature sous-jacente à la problématique de cette recherche et, dans un deuxième temps, de préciser la méthodologie de recherche et de présenter les résultats de l'étude. Le tout sera suivi d'une discussion sur les résultats et d'une conclusion.

## **Revue de la littérature**

Des modèles théoriques ont été développés afin d'identifier les variables les plus susceptibles d'expliquer le succès ou la réussite des entreprises. A titre d'exemples, mentionnons les modèles de Morris et al. (2006), Blawatt (1995), Naffziger *et al.* (1994), Box *et al.* (1993), Herron et Robinson (1993), Keats et Bracker (1988) et Cragg et King (1988). Une constatation qui ressort de l'étude de ces modèles théoriques est l'importance accordée aux variables caractéristiques personnelles, environnement personnel ou immédiat et environnement externe dans l'étude de la performance entrepreneuriale.

Les caractéristiques personnelles d'un individu comprennent principalement les caractéristiques démographiques, sociologiques, psychologiques des entrepreneurs (y compris les motivations) et les compétences. Les variables dites démographiques peuvent se résumer à l'âge, au niveau de scolarité, à l'expérience, aux antécédents familiaux, à l'état civil, au rang familial et au sexe. Bien que les variables démographiques exercent une influence certaine sur la décision d'un individu de démarrer sa propre entreprise (Naffziger *et al.*, 1994), les chercheurs en entrepreneurship s'entendent sur le fait que ces variables ne permettent pas d'expliquer à elles seules le phénomène entrepreneurial (Greenberger et Sexton, 1988). Les études de Brush et Hisrich (1991) et de Moore et Buttner (1997) sont des exemples de recherche qui tombent dans cette catégorie. Ils ont en effet trouvé un lien entre l'expérience dans le domaine et la performance de l'entreprise.

Les caractéristiques psychologiques sont les traits de personnalité (attitudes et valeurs) généralement associés au fait d'être entrepreneur. Ces traits qui s'acquièrent par le vécu (par exemple, l'éducation, l'expérience, les antécédents familiaux, etc.) déterminent les intentions de comportement des individus. Contrairement aux caractéristiques démographiques qui ne nécessitent aucune mesure, les caractéristiques psychologiques doivent être mesurées à l'aide d'un instrument de mesure validé. Les spécialistes s'entendent sur la pertinence de certains traits de personnalité dans le phénomène entrepreneurial. Parmi ceux les plus souvent cités on relève les regroupements suivants : créativité et innovation, besoin d'indépendance et d'autonomie, besoin d'accomplissement, tendance à la prise de risques modérés et contrôle du destin (Cachon 1992). Par exemple, dans l'étude de McGraw et Robichaud (1995) la variable contrôle du destin fut reliée à une plus grande utilisation des pratiques de gestion par les entrepreneurs. Cependant, l'ensemble des recherches sur les déterminants psychologiques n'ont pas permis, à ce jour, d'établir de liens entre les traits de personnalité et la réussite en affaires, ni d'identifier les traits qui permettent de différencier les entrepreneurs des non entrepreneurs (Blawatt, 1995).

La variable compétence se distingue des variables démographiques et psychologiques du fait qu'elle peut être plus facilement modifiée. C'est une variable très dynamique par sa nature qui a surtout suscité l'attention des chercheurs en entrepreneurship au début des années 1990 lorsque des spécialistes, tel Gartner (1989), ont recommandé d'abandonner la recherche sur les déterminants psychologiques. McCormick et Tiffin (1974) définissent la compétence comme un construit psychologique qui, contrairement au comportement, est inférée et qui explique l'efficacité des comportements. La compétence représente ce que la personne est capable de faire et indique sa capacité d'apprendre et d'exécuter des tâches. Selon Pettersen et Jacob (1992), la compétence est constituée des aptitudes (qui servent à apprendre de nouvelles habiletés); des habiletés (capacités apprises par formation ou par expérience pour exécuter des tâches ou des fonctions professionnelles à un emploi donné); et des connaissances (habiletés particulières fondées sur la possession d'informations). Parmi les recherches ayant porté sur les compétences mentionnons celles de Penrose (1959) sur la capacité managériale, Gibb et Davies (1990) sur la capacité d'entretenir un réseau et Gibb et Scott (1985) sur les habiletés techniques.

Quant à l'environnement immédiat de l'entrepreneur, il correspond au contexte dans lequel il évolue (par exemple, ses responsabilités familiales, l'influence du conjoint, ou l'emplacement de l'entreprise) tandis que l'environnement externe aborde les aspects compétitivité, structure de l'industrie, technologique, réseaux d'affaires et financement (Cooper, 1993). À ce sujet, les recherches confirment l'importance de la participation et du soutien moral du conjoint ou de la famille (Ferguson et Durup, 1997) et de la participation des entrepreneurs aux réseaux d'affaires au succès d'une entreprise. (Watson, 2012)

Dans notre étude, contrairement aux caractéristiques psychologiques qui s'acquièrent par le vécu et qui doivent être mesurées à l'aide d'un instrument de mesure validé, nous ferons appel à des variables de succès plus susceptibles d'être modifiées notamment les compétences de l'entrepreneur et le contexte dans lequel les comportements surviennent (environnements immédiat et externe). Par exemple, les compétences de l'entrepreneur peuvent changer suite à l'acquisition de nouvelles habiletés ou connaissances tandis que les facteurs contextuels comme

le support gouvernemental ou l'accès au financement peuvent aussi être altérés par des intervenants tels que les gouvernements ou les institutions financières.

Les études répertoriées sur les facteurs de succès se divisent essentiellement en deux groupes de chercheurs soit un premier groupe qui s'est intéressé aux facteurs de succès en utilisant des échantillons mixtes d'entrepreneurs et un second groupe qui a étudié plus spécifiquement les facteurs de succès des femmes entrepreneures. Parmi les recherches menées par le premier groupe de chercheurs mentionnons les études de Benzing *et al.*, (2009, 2005, 2005), Chu *et al.*, (2008, 2011) et Zimmerman et Chu, (2013). Il est à noter que toutes ces études ont utilisé un instrument de mesure des facteurs de succès développé par Hung M. Chu (Chu et Katsioloudes, 2001).

Dans l'étude de Benzing *et al.*, (2009) réalisée en Turquie les facteurs de succès suivants se sont révélés être les plus importants : « honnêteté », « charisme ou être amical avec les clients », « bonnes habiletés générales en management » et « bon service à la clientèle ». C'est l'énoncé « support gouvernemental satisfaisant » qui a été sélectionné au dernier rang par les répondants. Les études menées au Vietnam (Benzing *et al.*, 2005) et en Roumanie (Benzing *et al.*, 2005) ont aussi rapporté les l'énoncé « charisme comme étant le facteur de succès le plus important suivi au deuxième rang par l'énoncé “bon service à la clientèle” dans le cas de la Roumanie et de “bon produit à un prix compétitif” pour le Vietnam. Dans l'étude de Chu *et al.*, (2008), les répondants du Nigéria ont choisi les énoncés “travailler de longues heures” au premier rang, suivi de l'énoncé “bonnes habiletés générales en management” et des énoncés “bon service à la clientèle” et “charisme” comme troisième et quatrième choix respectivement. Le choix “impliqué politiquement” a été le choix le moins populaire auprès des répondants. L'étude menée en Chine par Chu *et al.*, (2011) révèle les mêmes facteurs à l'exception du premier choix qui est l'honnêteté. Enfin, les facteurs “bonnes habiletés générales en management”, “formation appropriée”, “maintiennent des registres comptables à jour” et “impliqué politiquement” constitue les quatre premiers choix des répondants du Vénézuéla. (Zimmerman et Chu, 2013) Le tableau 1 résume les résultats obtenus de ces différentes études.

**Tableau 1 : Études sur les facteurs de succès**

<b>Variabes</b>	<b>Benzing <i>et al.</i>, (2009) Turquie</b>	<b>Benzing <i>et al.</i>, (2005) Vietnam</b>	<b>Benzing <i>et al.</i>, (2005) Roumanie</b>	<b>Chu <i>et al.</i>, (2008) Nigeria</b>	<b>Chu <i>et al.</i>, (2011) Chine</b>	<b>Zimmerman <i>et al.</i> (2013) Argentine</b>
Bonnes habiletés en management	3			2	3	1
Charisme; amical avec les clients	2	1	1	4	4	
Formation appropriée						2
Bon produit/service à un prix compétitif		2				
Bon service à la clientèle	4		3	3	2	
Travailler des longues heures				1		
Maintien des registres comptables à jour						3
Impliqué politiquement						4
Réputé pour son honnêteté	1		2		1	

Quant au groupe de chercheurs ayant étudié les facteurs de succès des femmes entrepreneures nous présenterons les résultats des recherches suivantes : Robichaud *et al.*, (2010), Maysami et Gobi, (1999) et Zhu et Chu, (2010). Les facteurs de succès considérés comme étant les plus importants dans l'étude de Robichaud et al. (2010) mené sur un échantillon de 54 femmes canadiennes ont été « honnêteté », « bon service à la clientèle », « travailler de longues heures » et « charisme ». Un résultat semblable a aussi été obtenu dans l'étude de Zhu et Chu (2010) réalisée sur 180 femmes chinoises où les énoncés « honnêteté », « travailler de longues heures » « bonnes habiletés générales en management » et « charisme » ont été les quatre premiers choix des répondantes. Lorsque comparé à l'étude de Robichaud *et al.*, (2010), seul l'énoncé « bon service à la clientèle » ne s'est pas classé dans les premiers choix étant préférés au lieu par l'énoncé « bonnes habiletés générales en management ». Quant à l'étude de Maysami et Gobi (1999) menée sur un échantillon de femmes au Singapore, les facteurs de succès cités comme étant les plus importants ont été « qualité du produit ou du service », « les caractéristiques personnelles », « qualité du personnel » et « la connaissance du produit et du service ».

À la lumière de ces résultats, les facteurs de succès qui semblent le plus se démarquer sont le « charisme », « honnêteté », « bonnes habiletés générales en management » et « bon service à la clientèle ». En effet, ces facteurs de succès s'avèrent être les choix les plus populaires chez les deux sexes et dans l'ensemble des pays où l'instrument de mesure a été utilisé. Il sera intéressant de voir si des résultats similaires se dégageront de notre étude.

## **Méthodologie**

### **Définition d'une PME**

Les recherches démontrent qu'il n'y a pas de définition universelle d'une petite et moyenne entreprise (PME). Dans notre étude, nous avons retenu la définition de PME de l'Organisation de Coopération et de Développement Économiques (OCDE) qui définit une PME comme une entreprise de moins de 250 employés.

### **Échantillonnage, procédure d'expérimentation et mesure des variables**

Le cadre d'échantillonnage correspond à 6 000 entreprises soit 3 000 entreprises de l'Ontario et 3 000 entreprises des provinces de l'Atlantique. Ces données proviennent d'une banque de données obtenue d'InfoCanada. Une fois la population définie, la collecte des données s'est faite de deux façons : dans le cas de l'Ontario, les données ont été colligées au moyen d'entretiens téléphoniques tandis que pour les provinces de l'Atlantique, les entrepreneurs contactés étaient invités à remplir le questionnaire en ligne au moyen du logiciel « SurveyMonkey » ou par la poste, et dans ce cas, une copie papier leur était envoyée. Dans les deux cas, des appels téléphoniques ont été effectués au préalable afin d'obtenir la participation des entrepreneurs. Cette procédure d'expérimentation a permis de contacter 2 544 entreprises en Ontario pour un taux de réponse de 8.7 % (221/2 544) et 1 002 entreprises dans les provinces de l'Atlantique : taux de réponse de 15.4 % (154/1002). Les raisons suivantes expliquent pourquoi certaines entreprises n'ont pu être contactées : 1) le numéro de téléphone n'existait plus ou 2) le

propriétaire n'était jamais présent ou disponible au moment des appels. Le nombre total de répondants pour le Canada se chiffre à 367 soit 115 femmes et 252 hommes.

La collecte des informations s'est faite au moyen d'un questionnaire développé par Hung M. Chu (Chu et Katsioloudes, 2001). Ce questionnaire a été utilisé dans de nombreuses études à travers le monde notamment en Roumanie, au Vietnam, en Inde et dans plusieurs pays d'Afrique. L'instrument de mesure des facteurs de succès met en évidence 17 énoncés. Des échelles de type Likert furent utilisées pour mesurer ces variables. L'échelle Likert allait de 1 = aucune importance à 5 = une très grande importance.

### **Traitement et analyse des données**

Le traitement statistique des données a été fait à l'aide de SPSS. Plus spécifiquement, les analyses et les tests statistiques suivants ont été utilisés : test non paramétrique (test de Mann-Whitney); test de la différence des moyennes (tests t); l'analyse des composantes principales communément appelée analyse factorielle; sans oublier l'analyse statistique univariée (statistiques descriptives tels la moyenne et l'écart-type).

## **Résultats**

### **Profil des répondants**

Le tableau 2 présente le profil des entrepreneurs et de leur entreprise selon le genre. Les résultats statistiquement significatifs obtenus sur le profil des entrepreneurs révèlent que les hommes sont plus âgés que les femmes (57 % sont âgés de plus de 50 ans comparativement à 37 % pour les femmes) et ont plus d'expérience dans le domaine (50 % des hommes ont plus de 11 ans d'expérience contre 35 % pour les femmes). Parmi les résultats non significatifs à l'avantage des hommes, on remarque que ces derniers travaillent plus d'heures par semaine que les femmes (46 % des hommes travaillent 56 heures et plus par semaine contre 36 % dans le cas des femmes) et qu'ils sont mariés ou vivent avec un conjoint dans une proportion plus élevée (89 % versus 84 % dans le cas des femmes).

Aucune différence n'a été observée entre les deux sexes dans les variables personnelles suivantes : débuté leur entreprise par nécessité, déjà appartenu une entreprise, enfants à charge, niveau de scolarité, années d'expérience en gestion et le niveau de support du conjoint. Dans ce dernier cas, il est intéressant de noter que les conjoints supportent fortement leurs partenaires, et ce indépendamment du sexe de l'entrepreneur (89 % des conjointes dans le cas des hommes entrepreneurs et 86 % des conjoints dans le cas des femmes entrepreneures).

En ce qui a trait aux variables organisationnelles où une différence significative est observable, on remarque que les entreprises appartenant aux hommes se concentrent davantage dans le secteur fabrication (19 % d'entre eux œuvrent dans ce secteur contre 12 % pour les femmes entrepreneures), qu'elles sont plus âgées que celles des femmes (24 % des entreprises appartenant à des hommes existent depuis plus de 21 ans contre 17 % dans le cas des femmes), et

qu'elles sont situées dans des localités de plus grande taille (48 % des entreprises appartenant à des hommes sont situées dans des localités de plus de 100 000 habitants en comparaison à 35 % des entreprises appartenant à des femmes). Finalement, le niveau d'endettement des entreprises appartenant à des hommes est moins important que celui des entreprises appartenant à des femmes (30 % des entreprises appartenant à des hommes ont un niveau d'endettement jugé très ou extrêmement élevé versus 44 % dans le cas des entreprises appartenant à des femmes).

Par ailleurs, les entreprises appartenant aux femmes sont plus petites en terme de chiffre d'affaires (31 % ont un chiffre d'affaires inférieur à 100 000 \$ comparativement à 19 % pour les hommes). En terminant, mentionnons qu'aucune différence significative n'a été observée pour ce qui est des variables organisationnelles suivantes : secteur du commerce de détail, secteur des services, mode de création de l'entreprise, nombre de partenaires et nombre d'employés.

**Tableau 2 : Profil des hommes et des femmes**  
(Femmes : n=115, Hommes : n=252)

Caractéristiques personnelles			Caractéristiques organisationnelles				
	Femme %	Homme %		Femme %	Homme %		
<b>Âge de l'entrepreneur***</b>			<b>Taille de la ville*</b>				
	Entre 20 et 29 ans	61	42	Moins de 25 000	39	30	
	Entre 30 et 49 ans	37	57	25 000 à 100 000	26	22	
	Entre 50 et +			Plus de 100 000	35	48	
<b>Niveau de scolarité</b>			<b>Chiffre d'affaires***</b>				
	Secondaire non complété	2	12	Moins de 100 000 \$	31	19	
	Secondaire	37	30	100 001\$ à 500 000\$	48	38	
	Collège ou universitaire	61	58	500 001\$ et plus	21	43	
<b>Marié ou vie avec conjoint</b>	84	89	<b>Nombre d'employés</b>				
	85	84		1 à 5 employés	80	75	
				6 à 10 employés	12	12	
				11 employés et plus	8	13	
<b>Années d'expérience dans le domaine**</b>			<b>Secteur d'activité</b>				
	Aucune expérience	26		17	Commerce de détail	32	31
	1 à 5 ans	15		15	Service	56	50
	6 à 10 ans	24		18	Fabrication	12	19
	11 ans et +	35		50			
<b>Années d'expérience en gestion</b>			<b>Création de l'entreprise</b>				
	Aucune expérience	42		36	Créé	63	73
	1 à 5 ans	17		21	Acheté	28	20
				9	7		

6 à 10 ans	18	20	Hérité et franchise		
11 ans et +	23	23			
<b>Contribution du conjoint au revenu familial</b>			<b>Âge de l'entreprise***</b>	28	11
Aucun support	45	52	1 à 5 ans	30	29
1% - 25%	8	7	6 à 10 ans	25	36
26% - 60%	37	39	11 à 20 ans	17	24
61% - 100%	10	2	21 ans et +		
<b>Niveau de support du conjoint</b>			<b>Nombre de propriétaires /partenaires</b>		
Très peu et peu élevé	7	6	1	74	69
Moyen	7	5	2	21	26
Élevé et très élevé	86	89	3 et plus	5	5
<b>Nombre d'heures de travail par semaine</b>			<b>Niveau d'endettement**</b>	45	58
0 - 20 heures	4	4	Peu ou pas important	11	12
21 - 40 heures	27	22	Moyennement important	44	30
41 - 55 heures	33	28	Très ou extrêmement important		
56 heures et plus	36	46			

\*p<0.05; \*\*p<0.01; \*\*\*p<0.001

### Facteurs de succès

Le tableau 4 (colonne de droite) présentent les résultats d'une analyse sur l'importance accordée à l'ensemble des facteurs de succès. Ainsi, le facteur de succès jugé le plus important par les répondants est « offrir un bon service à la clientèle » avec une moyenne de 4.76, suivi au deuxième rang du facteur « travailler de longues heures » et au troisième rang, du facteur « charisme ou être amical avec les clients » avec des moyennes respectives de 4.72 et 4.65. C'est le facteur « honnêteté » qui prend la quatrième position avec une moyenne de 4.60. Les résultats du tableau 3 supportent l'ordre d'importance obtenu chez les facteurs de succès. En effet, 96 % des répondants considèrent un bon service à la clientèle comme ayant « une très grande importance » ou « une grande importance » tandis que 95 % des répondants disent la même chose au sujet du facteur « travailler de longues heures ». Les troisième et quatrième facteurs « charisme » et « honnêteté » obtiennent également des pourcentages élevés avec 94 % et 91 % respectivement.

À l'opposé, les deux choix qui reçoivent le moins de support sont dans l'ordre « impliqué politiquement » et « support gouvernemental satisfaisant » avec des moyennes 1.71 et 1.94 respectivement (tableau 4). Ce sont les deux seuls énoncés, parmi les 17 énoncés que compte l'instrument de mesure des facteurs de succès, qui obtiennent une moyenne inférieure à 2.00. Seulement 5 % des répondants, dans le cas de l'énoncé « impliqué politiquement », et 12 %, dans

le cas de l'énoncé « support gouvernemental satisfaisant », les considèrent comme étant soit « très important » ou « extrêmement important » (tableau 3). C'est donc dire qu'en général, les entrepreneurs de notre échantillon ne se fient pas sur le support des gouvernements ou des instances politiques pour assurer la réussite de leur entreprise.

Par ailleurs, les deux premières colonnes du tableau 4 présentent les résultats d'une analyse comparative des énoncés selon le genre. Voici les éléments qui ressortent de cette analyse :

- Aucune différence n'est à signaler dans les quatre premiers choix des répondants c'est-à-dire que les hommes et les femmes ont choisi, dans le même ordre, les quatre facteurs suivants : offrir un bon service à la clientèle, travailler de longues heures, charisme et honnêteté. En outre, la moyenne obtenue sur chacun de ces facteurs est presque identique chez les deux sexes.
- Même constat au niveau des deux facteurs les moins importants dans la mesure où les facteurs de succès impliqué politiquement et support gouvernemental satisfaisant ont été choisis aux derniers rangs chez les deux sexes.
- Les seuls énoncés où des différences statistiquement significatives ont été trouvées entre les hommes et les femmes sont « implication communautaire et relations d'affaires » ( $p < 0.05$ ), « maintien des registres comptables à jour » ( $p < 0.01$ ) et « support gouvernemental satisfaisant » ( $p < 0.001$ ). Dans chacun des trois cas, on observe des moyennes supérieures dans le cas des femmes entrepreneures de l'échantillon. C'est donc dire que les femmes entrepreneures accordant plus d'importance à ces trois facteurs que les hommes entrepreneurs de l'échantillon.

**Tableau 3: Pourcentage des répondants sur l'importance des facteurs de succès**

<b>Variables</b>	<b>Une très grande importance (%)</b>	<b>Une grande importance (%)</b>	<b>Une certaine importance (%)</b>	<b>Peu Important (%)</b>	<b>Aucune importance (%)</b>
Bonnes habiletés générales en management	52	36	11	1	0
Charisme; amical avec les clients	71	23	6	0	0
Support gouvernemental satisfaisant	5	7	14	26	48
Formation appropriée	28	21	28	8	15
Accès au financement	18	15	20	20	27
Expérience acquise en affaires	38	22	17	13	11
Support de la famille et des amis	39	24	22	9	6
Facteurs de marketing comme la promotion des ventes	15	15	37	19	14
Bon produit/service à un prix compétitif	52	30	14	3	1
Bon service à la clientèle	80	16	3	1	0
Travailler des longues heures	77	18	4	1	0
Emplacement	40	14	23	12	10
Maintien des registres comptables à jour	22	16	25	19	18
Habilité à gérer du personnel	34	25	20	10	11
Implication communautaire et relations d'affaires	19	19	33	14	16
Impliqué politiquement	3	2	14	24	57
Réputé pour son honnêteté	75	16	4	3	2

**Tableau 4 : Moyenne des facteurs de succès selon le genre et selon l'échantillon total**

Variabes	Homme N=252	Femme N=115	Échantillon total
Bonnes habiletés générales en management	4.38	4.44	4.39
Charisme; amical avec les clients	4.65	4.64	4.65
Support gouvernemental satisfaisant***	1.80	2.19	1.94
Formation appropriée	3.31	3.48	3.37
Accès au financement	2.72	2.85	2.76
Expérience acquise en affaires	3.66	3.61	3.63
Support de la famille et des amis	3.81	3.80	3.80
Facteurs de marketing comme la promotion des ventes	2.96	3.07	2.99
Bon produit/service à un prix compétitif	4.25	4.39	4.28
Bon service à la clientèle	4.75	4.78	4.76
Travailler des longues heures	4.74	4.70	4.72
Emplacement	3.58	3.74	3.61
Maintien des registres comptables à jour**	2.94	3.34	3.06
Habilité à gérer du personnel	3.52	3.74	3.59
Implication communautaire et relations d'affaires*	3.04	3.35	3.14
Impliqué politiquement	1.69	1.77	1.71
Réputé pour son honnêteté	4.60	4.62	4.60

\*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$  (Mann-Whitney test);

### Analyse factorielle

Les informations collectées sur les facteurs de succès ont été soumises à une analyse des composantes principales (aussi appelée analyse factorielle) afin de connaître leur structure factorielle. Le critère pour la rétention des facteurs est celui de Kaiser (valeur propre  $\geq$  ou  $=$  à 1,00). Seuls les énoncés dont le poids factoriel et les communautés (aussi appelé qualité de représentation) entre les variables étaient égal ou supérieur à 0,50 ont été retenus. Suite à l'application de ces critères, les énoncés suivants n'ont pas été retenus : facteurs de marketing, expérience acquise en affaires, formation appropriée et travailler de longues heures.

Le tableau 5 présente le résultat de l'analyse factorielle pour les facteurs de succès (analyse factorielle en composantes principales et rotation orthogonale en mode varimax). Les résultats définitifs de l'analyse factorielle suggèrent trois regroupements : le facteur 1 correspond aux caractéristiques personnelles et du produit/service (5 énoncés), le facteur 2 est lié au soutien aux entreprises (4 énoncés), et le facteur 3 porte surtout sur l'environnement immédiat (4 énoncés). Bien que les trois échelles présentent des valeurs propres et des pourcentages de la variance expliquée assez similaires, c'est l'échelle caractéristiques personnelles et du produit/service qui s'est avérée la plus forte lors de l'analyse (% de la variance expliquée de 20.25 et une valeur propre de 2.63) suivie du facteur soutien aux entreprises (% de la variance expliquée de 19.55 et

une valeur propre de 2.52) et du facteur environnement immédiat (% de la variance expliquée de 16.07 et une valeur propre de 2.09). Le pourcentage total de la variance expliquée est de 55.77 %.

La consistance interne des 3 échelles calculées par l'alpha de Cronbach varie de .69 à .76 ce qui indique une bonne consistance interne en tenant compte du nombre d'énoncés. À ce sujet, Nunnally et Beinstein (1994) mentionnent que pour un instrument composé de petites échelles de 3 à 4 énoncés un coefficient alpha de 0,70 et plus est jugé satisfaisant et indique que les échelles semblent mesurer le même construit.

**Tableau 5 : Facteurs de succès obtenus suite à l'analyse factorielle**

	Facteur 1 caractéristiques personnelles et du produit/service	Facteur 2 soutien aux entreprises	Facteur 3 environnement immédiat	Communautés entre les variables
Bonnes habiletés générales en management	, 579			, 501
Charisme; amical avec les clients	, 715			, 542
Bon produit/service à un prix compétitif	, 705			, 567
Bon service à la clientèle	, 820			, 673
Réputé pour son honnêteté	, 698			, 508
Support gouvernemental satisfaisant		, 766		, 600
Accès au financement		, 722		, 554
Maintien des registres comptables à jour		, 731		, 592
Impliqué politiquement		, 722		, 534
Support de la famille et des amis			, 680	, 535
Emplacement			, 689	, 520
Habilité à gérer du personnel			, 661	, 587
Implication communautaire et relations d'affaires			, 641	, 566
Valeur proper	2.633	2.527	2.090	
Pourcentage de variance expliquée	20.25	19.44	16.07	
Consistance interne (alpha de Cronbach)	, 76	, 74	, 69	

Dans l'analyse des composantes principales, les valeurs propres obtenues pour chaque facteur indiquent l'importance de chacun des facteurs dans l'explication de la variance associée à ces variables et les pourcentages obtenus indiquent le pourcentage de la variance expliquée par chacun des facteurs. Il est important de bien comprendre que les résultats obtenus dans l'analyse factorielle ne permettent pas de déterminer les facteurs qui sont les plus importants aux yeux des répondants. Par exemple, bien que le facteur « soutien aux entreprises » arrive au deuxième rang dans le pourcentage de la variance expliquée dans l'analyse factorielle avec 19.44 % (tableau 5), le tableau 6 montre qu'il arrive au troisième rang dans l'importance attribuée aux facteurs par les répondants avec une moyenne cumulative de 2.36. C'est le facteur « caractéristiques personnelles et du produit/service » qui s'est avéré le facteur le plus important chez les répondants avec une moyenne cumulative de 4.54 suivi du facteur « environnement immédiat » avec une moyenne de 3.52.

Enfin, la comparaison des moyennes cumulatives des trois échelles de facteurs de succès selon le genre (tableau 6) révèle que les hommes et les femmes affichent des scores presque identiques relativement au facteur « caractéristiques personnelles et du produit/service » avec des moyennes de 4.52 pour les hommes et 4.58 pour les femmes. En revanche, les femmes de l'échantillon accordant une plus grande importance au facteur « soutien aux entreprises » que les hommes (moyenne de 2.52 pour les femmes en comparaison à 2.28 pour les hommes). Ce dernier résultat est statistiquement significatif à 0.05.

**Tableau 6: Moyenne cumulative des facteurs de succès selon le genre**

<b>Facteurs</b>	<b>Moyenne Homme</b>	<b>Ecart-type</b>	<b>Moyenne Femme</b>	<b>Ecart-type</b>	<b>Moyenne échantillon</b>
Caractéristiques personnelles et du produit/service	4.52	.53416	4.58	.46977	4.54
Soutien aux entreprises*	2.28	.89045	2.52	1.05946	2.36
Environnement immédiat	3.48	.97868	3.64	.86537	3.52

\*:  $p < 0.05$ ;

Note: Le calcul de la moyenne pour chacune des échelles a été obtenu en faisant la moyenne de l'ensemble des items ou des énoncés constituant chaque facteur. Par exemple, le score obtenu pour l'échelle « soutien aux entreprises » correspond à la moyenne des réponses obtenues sur les quatre énoncés composant ce facteur (voir tableau 4).

### **Discussion et conclusion**

Cette étude tentait de mieux comprendre la problématique entourant la performance économique des petites entreprises par l'étude des facteurs de succès. À cet effet, les facteurs de succès des répondants de l'échantillon ont été identifiés afin d'en ressortir les plus importants et de voir s'il y avait des différences selon le genre. Une analyse factorielle fut aussi effectuée afin de regrouper les variables individuelles dans des groupes plus limités.

Les résultats des analyses révèlent plus de similarités que de différences dans les facteurs de succès privilégiés par les répondants de l'étude en comparaison avec les études répertoriées sur le sujet. En effet, trois des quatre premiers choix identifiés dans notre étude sont « offrir un bon service à la clientèle », « charisme ou être amical avec les clients » et « honnêteté » ont été également les choix les plus populaires dans les études répertoriées sur le sujet (voir tableau 1). La seule différence à signaler est le choix « travailler de longues heures » qui a été choisi au deuxième rang dans notre étude alors qu'il a été sélectionné qu'à une seule reprise dans les autres recherches répertoriées soit dans l'étude de Chu et al. (2011) où il arrive au premier rang.

Le même constat peut être observé dans les résultats entre les hommes et les femmes de l'échantillon dans la mesure où les hommes et les femmes ont choisi, dans le même ordre les quatre facteurs de succès suivants : « offrir un bon service à la clientèle », « travailler de longues heures », « charisme » et « honnêteté ». Dans chacun des cas, la différence dans la moyenne obtenue entre les hommes et les femmes était moins que 0.04. Ces résultats appuient ceux répertoriés dans la revue de la littérature dans la mesure où les facteurs de succès les plus souvent mentionnés s'avèrent être les mêmes, peu importe le genre ou le pays.

Seulement trois différences statistiquement significatives ont été observées dans le choix des facteurs de succès selon le genre. Ces choix sont « implication communautaire et relations d'affaires » ( $p < 0.05$ ), « maintien des registres comptables à jour » ( $p < 0.01$ ) et « support gouvernemental satisfaisant » ( $p < 0.001$ ). Dans chacun des cas, on observe des moyennes supérieures dans le cas des femmes entrepreneures de l'échantillon. Les paragraphes qui suivent tentent d'apporter des éléments de justification à ces résultats

D'abord, l'importance de l'implication dans la communauté et des relations d'affaires par les femmes entrepreneures pourrait s'expliquer par les travaux de Brush (1992) qui suggèrent que les femmes entrepreneures perçoivent et approchent la conduite de leurs affaires différemment des hommes. Contrairement aux hommes entrepreneurs, les femmes d'affaires verraient leur entreprise comme un réseau de relations plutôt qu'une unité économique séparée comme c'est le cas chez les hommes entrepreneurs. Selon cette approche, la femme d'affaires serait le centre d'un réseau de relations comprenant la famille, la communauté et l'entreprise. Autrement dit, lorsqu'une femme acquiert ou démarre sa propre entreprise, elle ne crée ou n'acquiert pas une entité économique distincte, mais ne fait qu'intégrer à son existence un nouveau réseau de relations. Désormais l'entreprise fait partie intégrante de la vie quotidienne de la femme entrepreneure, au même niveau que le sont sa famille et la communauté dans laquelle elle réside. L'approche de Brush (1992) qui prend son fondement dans la psychologie et la sociologie suggère que les femmes entrepreneures, contrairement aux hommes, accordent une place particulière à la création de liens interpersonnels. Les hommes seraient, quant à eux, plutôt caractérisés par un plus grand besoin d'autonomie, de logique et de prise de décisions structurées. Les chercheurs en sociologie, dont Aldrich (1989), suggèrent que les raisons à la base de ces perspectives divergentes sont le résultat des structures sociales en vigueur dans la société, comme le lieu de travail, le mariage et la famille.

Parallèlement, les chercheurs s'entendent sur l'importance des relations d'affaires dans le succès d'une entreprise. L'importance des relations d'affaires ou des réseaux comme thème de

recherche n'est plus à démontrer puisqu'il se retrouve dans bon nombre de publications qui s'accordent pour dire que c'est un élément clé de la performance entrepreneuriale. (Filion, 1990; Aldrich, Reece et Dubini, 1989; Staber, 1993; McGregor et Tweed, 2000; Lerner *et al.*, 1997, St-Cyr et Gagnon, 2004). Par exemple, les études de McGregor et Tweed (2000), St-Cyr et Gagnon (2004) et Watson (2012) ont établi un lien entre l'utilisation des réseaux et la performance. En particulier, le rapport GEM 2004 sur les femmes entrepreneures (Minniti *et al.*, 2004) suggère que les femmes qui connaissent d'autres entrepreneurs seraient plus susceptibles de démarrer une entreprise. Par ailleurs, d'autres chercheurs (Lavoie, 1988; Collettere et Aubry, 1990; Cromie et Birley, 1992; Minniti *et al.*, 2004) ont trouvé que les femmes tendent à sous-utiliser les réseaux.

Plusieurs explications peuvent être avancées pour tenter d'expliquer l'importance accordée par les femmes entrepreneures à l'énoncé « maintien de registres comptables à jour » par rapport aux hommes. À titre d'exemple, la littérature mentionne que les femmes propriétaires d'entreprise ont moins d'expérience en affaires que les hommes (Fischer *et al.*, 1993, Industrie Canada, 2015) tandis que Hisrich et Brush (1984) et Chaganti (1986) font ressortir que les femmes évalueraient fréquemment leurs habiletés financières en dessous de celles des hommes. En outre, Industrie Canada (2013) rapporte que les femmes propriétaires d'entreprise doivent, dans le cadre du processus de demande d'emprunt, présenter une documentation plus complète que leurs homologues masculins. Elles sont tenues plus souvent que leurs homologues masculins de fournir chaque type de document requis. En particulier, les femmes propriétaires d'entreprise sont nettement plus susceptibles que leurs homologues masculins de devoir produire des états financiers personnels, une évaluation des actifs à financer et leurs prévisions de trésorerie. Les éléments mentionnés dans ces recherches pourraient expliquer, en partie, pourquoi les femmes en affaires sont davantage portées à maintenir des registres comptables à jour.

Quant à la différence observée chez la variable « Support gouvernemental suffisant », elle pourrait peut-être s'expliquer par les nouvelles tendances des gouvernements provinciaux et fédéraux à mettre en place des programmes destinés uniquement aux femmes en affaires ou celles qui veulent démarrer une entreprise. En effet, de nombreux centres de formation pour les femmes entrepreneures ont vu le jour à travers le pays au cours des dernières années. La promotion de ces centres de service pour les femmes entrepreneurs a peut être créé un sentiment de dépendance à l'égard de ces services et une demande accrue pour ces services.

À titre d'exemple, en Atlantique, le gouvernement canadien, par l'entremise de l'Agence de promotion économique du Canada Atlantique (APECA), finance des bureaux ou des organismes pour les femmes en affaires. Le programme « Initiative Femmes en Affaires » est un exemple d'organisme créé pour venir en aide aux femmes entrepreneures. Parce que l'APECA reconnaît l'incidence qu'ont les femmes entrepreneures sur l'économie de la région de l'Atlantique, elle s'engage à fournir les outils et le soutien dont elles ont besoin pour réussir. C'est ainsi que des bureaux gouvernementaux ont vu le jour dans les quatre provinces de l'Atlantique : le « Newfoundland and Labrador Organisation of Women Entrepreneurs » à Terre-Neuve, le « Centre for Women in Business » en Nouvelle-Écosse, l'« Association des corporations au bénéfice du développement communautaire » au Nouveau-Brunswick », et le « Prince Edward Island Business Women's Association » à l'Île-du-Prince-Édouard. En passant en revue les sites internet de ces organismes, on peut observer des services de conseils

personnalisés sur le démarrage ou la gestion d'entreprise, des renseignements sur les ressources pour les petites entreprises, la possibilité de formation et de réseautage, pour ne nommer que ceux-ci. Ces mêmes services sont disponibles dans la plupart des provinces canadiennes, tous supportés par le gouvernement fédéral ou les gouvernements provinciaux.

Par ailleurs, l'énoncé « support de la famille et des amis » qui a été choisi au 6<sup>e</sup> rang par les deux sexes avec une moyenne de 3.80 démontre bien l'importance de la participation et du support moral de la famille et des amis dans le succès de leur entreprise. Les résultats obtenus sur la variable « niveau de support du conjoint » (tableau 2) appuient ce point de vue dans la mesure où les conjoints supportent leurs partenaires dans une proportion de 89 % dans le cas des hommes entrepreneurs et de 86 % dans le cas des femmes entrepreneures. De nombreuses recherches confirment aussi l'importance de la participation et du support moral du conjoint ou de la famille pour le succès de l'entreprise (Miller et al, 1999; Ferguson et Durup, 1997; Mallika, 1995; Falkenberg et Monachello, 1990).

L'analyse factorielle a permis d'identifier trois groupes de facteurs de succès : « caractéristiques personnelles et du produit/service », « soutien aux entreprises » et « environnement immédiat ». Ainsi, l'analyse factorielle a permis de réduire l'ensemble des 17 variables de succès en des dimensions plus générales permettant ainsi de dégager une image globale des facteurs au lieu d'une considération individuelle. Dans ce sens, les trois facteurs obtenus suite à l'analyse factorielle reflètent bien les variables identifiées par les modèles théoriques dans l'étude de la performance entrepreneuriale mentionnés dans la revue de la littérature soit les caractéristiques personnelles qui entrent dans le premier facteur obtenu soit « caractéristiques personnelles et du produit/service », l'environnement personnel ou immédiat qui correspond au troisième facteur « environnement immédiat » et finalement, l'environnement externe qui coïncide avec notre facteur « soutien aux entreprises » composé de l'accès au financement, impliqué politiquement, support gouvernemental satisfaisant. En outre, les facteurs obtenus dans notre étude sont comparables à ceux obtenus dans d'autres études sur le même sujet. À titre d'exemple, dans l'étude de Zhu et Chu (2010) l'analyse factorielle a aussi résulté en trois facteurs soit un premier facteur appelé « personal and business attributes » qui ressemble de près à notre facteur « caractéristiques personnelles et du produit/service », « support and knowledge » qui comprend les énoncés accès au financement et support gouvernemental satisfaisant de notre facteur « support aux entreprises » et « social involvement » qui comprend l'énoncé implication communautaire contenue dans le facteur « environnement immédiat ».

Finalement, la comparaison des moyennes cumulatives des trois échelles de facteurs de succès selon le genre permet de constater que les hommes et les femmes s'entendent sur l'importance de l'échelle « caractéristiques personnelles et du produit/service » dans le succès de leur entreprise. Ce résultat ne surprend pas considérant que cette échelle est constituée en bonne partie d'énoncés qui sont arrivés dans les choix les plus importants sous les deux sexes. Cependant, les femmes entrepreneures de l'échantillon accordent une plus grande importance au facteur « soutien aux entreprises » que les hommes tel que démontré par le résultat statistiquement significatif obtenu. Ce résultat peut s'expliquer de plusieurs façons. En plus des explications avancées précédemment pour tenter de justifier la préférence accordée par les femmes entrepreneures à l'égard de l'énoncé « maintien de registres comptables à jour », certains

chercheurs soutiennent qu'il existe une discrimination dans l'attribution des prêts selon le genre de l'emprunteur (Marleau, 1995; Coleman, 2000; Riding et Swift, 1990). Selon ces auteurs, les femmes obtiendraient des prêts avec des conditions moins favorables que ceux des hommes notamment des taux d'intérêt plus élevés ainsi que des garanties plus importantes seraient exigées sur les prêts consentis aux femmes. Une étude récente (Industrie Canada, 2015) révèle qu'un nombre nettement plus important de femmes entrepreneures que d'hommes entrepreneurs ont vu leur demande de financement rejetée, car les femmes avaient en moyenne des garanties insuffisantes.

L'étude présente certaines limites en terme de validité externe. Par exemple, le fait que les petites entreprises sélectionnées ne sont pas nécessairement représentatives des entreprises en général ne nous permet pas de dégager des conclusions pouvant être généralisées à l'ensemble des petites entreprises. Aussi, notre recherche ne porte que sur les facteurs de succès et ne prend pas donc en compte les autres déterminants du développement ou de la croissance des petites entreprises. Dans le cadre d'une recherche future, il serait judicieux d'intégrer à notre modèle d'autres variables afin d'obtenir un modèle de recherche plus complet.

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## **SOCIAL ENTREPRENEURSHIP EDUCATION IN CANADA: PASSION AND PRACTICE**

### **ABSTRACT**

Social entrepreneurship education still is a fairly young area of interest within the field of entrepreneurship education, but is growing rapidly in terms of research and practice. Frameworks for analysis and development of respective curricular approaches and courses have recently been suggested to support the further development of the field. Applying those frameworks to the analysis of respective syllabi at various Canadian universities may result in a comparative discussion of practices and passionate development of well-designed and learner-centered courses. In this paper, we contextualize social entrepreneurship education by reviewing how the literature has addressed important terms, concepts, and issues. Next, we present and discuss relevant frameworks that have proven to be of benefit to the analysis of educational approaches. Finally, we use one of these frameworks to analyze social entrepreneurship syllabi at Canadian universities (Fornaciari & Lund Dean, 2014).

### **INTRODUCTION**

Social entrepreneurship (SE) is passionately and increasingly being practiced around the globe (AshokaU, 2014). However, while entrepreneurship (E) is an established area of scholarly focus since the late 17<sup>th</sup> century (Landstrom, 2007), SE has only recently entered the academic arena and still is a field under development (Mueller et al., 2014). As such, definitions of SE are plenty and far apart, which is one of the key issues that need to be addressed in order to move this field forward in the academic realm (Mueller et al., 2014).

Often SE is understood as entrepreneurship with social impact or with focus on a social mission resulting in a dual- and, more recently, a triple bottom line approach (Slaper & Hall, 2011). Using business oriented entrepreneurship as the foundation may also be due to the fact that

the majority of scholarly papers on SE and SEE are written by authors associated with business schools and published in academic business or management journals (AshokaU, 2014). In addition, varied approaches – while casting a wider net – often originate outside of traditional business schools or in the field of SE practice (Dacin, Dacin & Matear, 2010). As a result, social entrepreneurship education (SEE) in this “tradition” is aiming at educating change agents from various disciplinary backgrounds and for different fields of practice.

Further, some specific perspectives and valid arguments add to the variety of approaches and to the confusion of scholars and practitioners who are working on passionately moving the field to the stage of academic maturity and well established and understood practice. For example, the social business (SB) movement, based on Mohammad Yunus’ definition of social business as a business with social impact but without any consideration for profit generation (Kickul, Terjesen, Bacq, & Griffiths, 2012) and Wesley’s adamant attempts to clearly differentiate SE from social innovation (SI) (Weber, 2012), adds some potential for clarity which has not yet been widely accepted let alone been implemented (Mueller et al., 2014).

In this paper, we first contextualize social entrepreneurship education by reviewing how the literature has addressed important terms, concepts, and issues. Second, we present and discuss relevant frameworks that have proven to be of benefit for the analysis of educational approaches. Third, some of these frameworks will be used to analyze social entrepreneurship syllabi at Canadian universities; Fornaciari and Lund Dean’s (2015) recent presentation of an andragogical approach to syllabus development will be at the heart of our analysis. Fourth, resulting practices and issues will be compared and discussed and some first recommendations will be offered.

## LITERATURE REVIEW

In this first section of our paper, we will first review the literature in regard to relevant terms, concepts, and issues. This will help contextualize SE and SEE accordingly. It will further allow creating a framework for the analysis of SEE syllabi.

**Terminology** - “The Meaning of Social Entrepreneurship” (Dees, 1998) wasn’t captured and defined before Dees – the “Father of Social Entrepreneurship Education” (Worsham, 2012, p. 442) – suggested in his seminal work that SE “combines the passion of a social mission with an image of business-like discipline, innovation, and determination“ (Dees, 1998, p. 1) and offered the following “idealized” definition of a social entrepreneur: “Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning,
- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created” (Dees, 1998, p. 4).

Since then, SE has had several definitions crossing many disciplines, thus making it a challenging

field (Dacin, Dacin, & Matear, 2010). The ongoing ambiguity around the concepts of SE makes it “difficult ... to develop appropriate courses and programs” (Lawrence, Phillips & Tracey, 2012, p. 319).

In 2007 Tracey and Phillips identified "two overlapping conceptions of social entrepreneurship ... in the literature" (p. 265). While one was focusing on achieving social change or transformation without a commercial emphasis, the other clearly connected the entrepreneurial approach with the social purpose. Clearly, while both the social and the innovative aspects were strongly and almost unanimously highlighted, SE syllabi did vary in regard to more business oriented concepts and some of the components of the definition as suggested earlier by Dees (1998). Hence, Nicholls' (2011) suggestion seems to ring true: “Social entrepreneurship may represent a ‘walrus’ subject that can mean everything (and nothing?) to all interested scholars, a fluid institutional space with porous borders and hazy meanings” (Nicholls, 2011, p. 9).

Based on their earlier suggestion and supported by a recent trend, Lawrence, Phillips and Tracey (2012) continue to suggest differentiating between social innovation and social entrepreneurship while recognizing that “the distinctions are ones of emphasis rather than hard edges” (p. 319). They propose associating SE more with leveraging market mechanisms and ensuring financial sustainability while linking SI to innovative and potentially transformative solutions to social problems, often also “associated with inter-organizational and intersectoral collaboration” (p. 320).

Similarly, when interviewed by Weber (2012), Frances Wesley differentiates between the concepts of "social innovation" and "social enterprise" to support clear thinking, research and teaching (p. 410). For her, social enterprise is "social entrepreneurship plus business... an enterprise with a social goal that also seeks to make a profit.... Social entrepreneurship is about creating a new product or process which serves an existing market or an existing structure, ... but it doesn't actually address the broader system dynamics that created the problem in the first place" (p. 411). On the other hand, for Wesley “social innovation” is the overarching “umbrella concept” that describes “broader change in society”. She calls social innovators “institutional entrepreneurs” who creatively experiment with and work on changing the system including its political and economic components to effectively problem-solve in a broader and often messier context. Entrepreneurs are needed at both levels and ideally in “innovative hybrid forms” (p. 411).

This also has consequences for SEE, as entrepreneurs need to be prepared through development of practical skills and analytic frameworks. In particular, they need clear definitions, knowledge about tools required for organizational development, and the skills and networks for innovative partnerships and forms of cooperation (Weber, 2012).

As a result, existing approaches to SEE have to be understood in the context of their interpretation of SE, SI, and SB. Given the literature on education in these fields mostly speaks of SEE in general and considering that we wanted to cast as wide a net as possible in collecting and analyzing syllabi relevant to the field, in this paper we will be using the term SEE acknowledging

that the SE component entails both the business focused and the wider social impact interpretation of SE as well as the broader SI and the very specific SB conceptual approaches. However, our detailed analysis and resulting discussion and recommendation will again reflect the necessary differentiations in understanding and interpreting SE as found in Canadian syllabi of SEE.

**Research and Practice** - SEE already does play a major role in supporting the skill-building process for social entrepreneurs, their communities and society at large (AshokaU, 2014); it also can play an increased role by “nurturing the next generation of social entrepreneurs and supporting them in their efforts to create social value in innovative ways” (Lawrence, Phillips & Tracey, 2012, p. 320). However, very little research has been done to investigate either the content or the pedagogy of SEE to date. Additional research will also be necessary to add legitimacy to the field of SE and SEE alike and in particular to provide SEE with the theoretical and andragogical frameworks as well as the information needed to inform sound and evidence-based curriculum design and teaching (AshokaU, 2014). First, the existing diffusion and confusion around terms and concepts need to be overcome and converging definitions need to be identified (Lawrence, Phillips & Tracey, 2012). Second, the existing ambivalence or paradox of resistance to managerial labels and the need for managerial skills needs to be discussed and dissolved (Howorth, Smith & Parkinson, 2012, p. 372). Third, the fragmented body of information about and material for SEE needs to be further developed towards a higher degree of maturity (Lawrence, Phillips & Tracey, 2012).

**Meaning and Purpose** - Learning in general is related to community and identity, meaning and values (Wenger, 1998; Howorth, Smith, & Parkinson, 2012). This appears to be particularly true for Generation Y students, who seem to increasingly look for what matters to them (Fornaciari & Lund Dean, 2014). “In concert, people all over the world are longing for deeper harmony between their purpose, education, and profession. Social entrepreneurship is filling those needs” (AshokaU, 2014, p. 43). Moreover, universities and university administrators have recognized the respective appeal of SE and SI. Finally, Ashoka’s (2014) recent presentation of Trends in Social Innovation Education has found that student demand for SEE really is the primary motivator for course and program development. In turn, course design in SEE has to recognize that and ensure relevancy and focus on value creation, meaning and purpose.

**Learning Outcomes** - Learning outcomes are considered to be important in SEE to provide legitimacy, prove relevancy, and to measure impact both of theoretical and experiential learning; some universities have started identifying and tracking respective learning outcomes (AshokaU, 2014). In August 2010, AshokaU (2011) have drafted a list of “Learning Outcomes for Social Entrepreneurs and Changemakers” (p. B-1) that address understanding the field and engaging with the community (“Ways of Knowing”), thinking and problem-solving (“Ways of Thinking”), communicating and cooperating (“Ways of Interacting”), and understanding self and having a sense of purpose (“Ways of Being”).

Furthermore, given the significance of a learner-centered approach in the context of demand-driven education and principles of andragogy (see our respective section further down), learning outcomes need to be developed and defined by instructors in cooperation with learners

who jointly share the responsibility for course outcomes and course related decision-making (Fornaciari & Lund Dean, 2014).

Based on the potential significance of measurable learning outcomes, this study will also investigate to what degree learning outcomes are clearly identified and negotiated in the respective syllabi. However, this paper does not evaluate the outcome assessment that institutions might use (if any) or measure the impact based on these outcomes.

**Topics** - While there is data indicating that the key focus of SE Initiatives including SEE is sustainability (32%), followed by SE theory (27%), venture creation (20%) and social change theory (20%) (AshokaU, 2014, p. 6), only few studies exist that study the topical coverage of SEE in more detail (Brock & Steiner, 2009; Welsh & Krueger, 2009). However, several claims are being presented that suggest that SEE needs to move beyond teaching individual topics in isolation and to organically integrate various topics, approaches, and sectors (Vidal, Smith, & Spetic, 2015; Lawrence, Phillips & Tracey, 2012; Kwong, Thompson & Cheung, 2012; Pache & Chowdhury, 2012). Only truly interdisciplinary and cooperative approaches will be able to help students to effectively address issues of sustainability (Kickul, Janssen-Selvadurai, & Griffiths, 2012; Howorth, Smith & Parkinson, 2012).

**Experiential and Social Learning** - The importance of practice and experiential learning is recognized by SE practitioners and experienced faculty alike (Welsh & Krueger, 2009). “Teaching social entrepreneurship effectively is all about developing a balanced program that blends theory and practice” (Worsham, 2012, p. 449). In fact, between 50 and 75% of current SEE is based on practice, service, and experiential learning opportunities “with a significant portion of the overall course grade attributed to the project (approximately 30%)” (Brock & Steiner, 2009, p. 17). Further, a supportive experiential focus can be of particular help for SE learners who may lack a formal education background and who may otherwise be intimidated by a normal (business) school setting (Lawrence, Phillips & Tracey, 2012). Active engagement and successful performances can help develop self-efficacy and social identity (Smith & Woodworth, 2012). Finally, Fornaciari and Lund Dean (2014) suggest that one of the generally accepted principles of andragogy is that “adults learn through trial-and-error experience” (p. 702).

## **PEDAGOGY AND ANDRAGOGY IN SEE**

The primary focus of this paper is on the current teaching approach for SEE in Canada. The recent SEE literature extensively discusses various pedagogical approaches and perspectives. Only a few explicitly acknowledge the fact that most SE learners are adult learners by choosing the term andragogy (or learner) over pedagogy (or student). Given that demand from “students” is one of the key drivers of the growth for SEE, a learner-centered approach and andragogy seem appropriate. In the following we present what earlier reviews of SE course material (Welsh & Krueger, 2009; Brock & Steiner, 2009; AshokaU 2011) have found in terms of pedagogical approaches and discuss more recent contributions that have enriched the pedagogical and andragogical discourse regarding SEE.

Brock and Steiner (2009) mention service learning as a pedagogical approach well utilized in SEE (75%). They also found that the ratio between classroom and practice based learning is about half and half. These results are confirmed by the findings of Welsh and Krueger (2009). The latter also emphasize “the wide range of approaches faculty are taking to teach social entrepreneurship... [due to the] diversity of instructor backgrounds...[and identify a] need to develop a set of common best practices and determine what content and methods are most productive” (p. 36f).

Anderson and Krathwohl (2001) have introduced a three-step creation process for SEE oriented towards practice-based learning. First, in “problem representation” learners try to understand the problem and work on developing ideas for solutions. Second, in “solution planning” they evaluate the ideas generated earlier and translate them into concrete plans. Third, in “solution execution” they are implementing their preferred option based on their recommendations resulting from the earlier phases. Similarly, Pache and Chowdhury (2012) claimed that teaching "about" SE and SI – with a focus on knowledge – needs to be balanced with teaching "for" SE and SI by adding a focus on practical skill development.

Probably, the most influential contribution to the discourse about pedagogical – or andragogical – frameworks has recently been made by Fornaciari and Lund Dean (2014); their discussion of “The 21st century syllabus” certainly is at the core of our methodological approach (see further down). Based on respective student development literature about the Generation Y they “explore how and why the role of a course syllabus has changed, particularly in the management education realm, using the andragogy literature to frame the discussion” (Fornaciari & Lund Dean, 2014, p. 701). They particularly employ “four analytic frames from the current syllabus development literature—syllabus as contract, as power, as communication or signaling device, and as collaboration” (ibid.) – to guide their discussion.

The traditional syllabus provides “an operational roadmap” orienting students about the what, when, who and how technicalities of the course. However, syllabi often do not well reflect the needs of current students in terms of adult learners and, as Fornaciari and Lund Dean claim, “our students are not using our syllabi with any regularity toward its intended purpose” (p. 703f.). Instead the authors suggest that andragogical principles guide the development of syllabi. Adult learners need to know why they are learning and they prefer intrinsic motivators. Further, they prefer experiential and problem-based learning that is immediately relevant to them. Finally, adult learners should own their learning and be involved in any decision-making about their learning. As a result of applying these principles, syllabi can become “much more than unidirectional instruments and can assist in constructing both intellectual and psychosocial meaning with students” (Fornaciari & Lund Dean, 2014, p. 703). The authors hold that most syllabi to date are used with a focus on instructor control and as contractual or power instruments. They further suggest that utilizing syllabi as communication or collaboration device is more promising in regard to a learner-centered, androgical approach.

In a follow-up paper Lund Dean and Fornaciari (2014) provided the following set of tips and recommendations that “requires both a philosophical shift and an actual implementation in practice” (p. 730):

- Consider Moving Toward Inclusive Syllabus Language and Policies, Signaling Mutual Respect....
- Consider Streamlining Syllabi to Recognize Reading Habits of Today's Students....
- Consider the Schedule Portion of the Syllabus as Most Important for Students....
- Consider Syllabus Design and Layout for Accessibility and Engagement....
- Consider Students' electronic-based worldview for readability....
- Consider Designing the Syllabus as a Resource and Go-To Document" ....
- Consider Our Own Ambiguity Preferences to Balance Structure With Student Input.... (p. 725ff)

In this paper we will examine a small portion of the overall population of SEE courses to start to examine whether instructors have begun to make this philosophical shift. Specifically, using the above tips as a checklist, we examine the extent to which existing SEE courses in English-speaking Canadian universities have been designed with pedagogical (or andragogical) underpinnings. We believe this is important not only as a "pulse check" on syllabi (on an admittedly small scale), but also to provide a baseline understanding of pedagogy/andragogy in SEE courses for the purpose of benchmarking future improvements.

## **METHOD**

**Design** – Course syllabi were collected in collaboration with a large-scale, worldwide study of the outcomes of entrepreneurship education entitled the "Entrepreneurship Education Evaluation (EEE) Project" (<http://www.eeersearch.com>). For this paper, two of the authors initiated the syllabus search by examining the online course catalogues for all 80 English-speaking publicly funded Canadian universities (Government of Canada, 2015). This produced the discovery of 16 courses, representing 20 percent of the original sample of 80 schools (no school had more than one SEE course listed). Next, we contacted the assigned instructor for each of the 16 syllabi by email to request an electronic copy of their individual syllabus. This resulted in a final sample of 10 syllabi representing a 56% response rate from the instructors.

**Participants** - All 10 courses were taught at the university level, with 70 percent listed as undergraduate courses and 30 percent listed as graduate courses. In terms of province of origin, 20 percent of the syllabi came from New Brunswick, and 20 percent came from Nova Scotia, and 20 percent came from Ontario. The remaining 40 percent came from Newfoundland, Quebec, Manitoba, and British Columbia with 10 percent each.

**Variable Coding** – Syllabi were coded for a variety of variables (see Table 1). Two researchers, both of whom were authors of this paper, independently coded the syllabi. Discrepancies between the raters, which were few, were resolved via a search for errors in the data sheet and/or the syllabi.

**TABLE 1**  
**Coding Framework for Review of SEE Syllabi**

<b>Factors/ Criteria</b>	<b>Coding instructions/options</b>
Country	Name
State/Province	Name
University/College name	Name
Department/Faculty	Name
Instructor	Name
Instructor background	Describe if info available (e.g., practitioner/social entrepreneur; academic specialist, etc.)
Contact (when / how)	0: no info; 1: accessible; 2: Very accessible (includes email and / or phone)
Course Title	Name
Course Number	Number
Term & Year	Term & Year of syllabus
Program context	0: no info; 1: major; 2: minor; 3: certificate or diploma
Course level	0: non-credit; 1: undergrad; 2: graduate
Course required	0: elective; 1: required elective; 2 required course
Course requirements	0: none & open to all; 1: prerequisites (req. courses); 2: limited to program students
Course topics	List of topics
• Opportunity recognition	0: no; 1: yes
• Innovation	0: no; 1: yes
• Acquiring limited resources	0: no; 1: yes
• Measuring social impact	0: no; 1: yes
• Building sustainable business models	0: no; 1: yes
• Scaling social innovations	0: no; 1: yes
Course material	List of required books, readings, cases
Course objectives/outcomes	List of outcomes / objectives
• Measurable outcomes	0: no; 1: yes
• Outcomes measured through assessment	0: no; 1: yes
• Collection of competencies	List
• Critical thinking explicitly mentioned	0: no; 1: yes
Course policy	Policy description
Course assignments	Assignment description; Assignment weights; grading

	scale
Teaching approach	describe if info available
• Reflective learning approach / method	0: no; 1: yes
• Supportive learning approach / safety	0: no; 1: yes
• Introduce to/identify with SE community	0: no; 1: yes
• Stimulate confidence in acquisition of tools, abilities, resources	0: no; 1: yes
SE definition	describe and / or refer to definition adapted from literature
SE conceptualization	0: no info; 1: focus on business approach towards societal problems; 2: focus on social impact irrespective of commercial means
SE vs. SI	1: Focus on social innovation; 2: focus on social entrepreneurship
Pedagogy vs. andragogy	0: instructor focus/control 1: mixed (some learner input) 2: highly learner centered (collaboration on most/all syllabus elements)
• Inclusive language and policy	0: no; 1: yes
• Syllabus "streamlined"	0: no; 1: yes (if key elements from student perspective are presented readable and short)
• Schedule portion highlighted	0: no; 1: yes
• Layout and design accessible & engaging	0: no; 1: yes
• Considers students' electronic worldview	0: no; 1: yes (if electronic version exists and / or many electronic links and resources are available)
• Syllabus offers additional relevant resources	0: no; 1: yes
• Structure is balanced with student input	0: no; 1: yes
Challenges facing social entrepreneurs/innovators	
• Accountability addressed	0: no; 1: yes
• Double bottom line addressed	0: no; 1: yes
• Management of multiple identities addressed	0: no; 1: yes
• Addresses context of social problems	0: no; 1: yes

• Addresses political nature of enterprise/solution	0: no; 1: yes
• How are these challenges addressed?	Describe if info available
Project-based	0: no; 1: yes
Community engaged	0: no; 1: yes
Involves service learning	0: no; 1: yes
Involves creating own venture	0: no; 1: yes
Emphasis on innovation	0: no; 1: yes
Emphasis on values/ethics	0: no; 1: yes
Emphasis on sustainability	0: no; 1: yes
Business plan approach	0: no; 1: yes
Case study approach	0: no; 1: yes
Three phases of creation process addressed	0: problem representation only; 1: includes solution planning; 2: includes solution execution
Critical perspectives	0: no critical perspectives on SE apparent; 1: critical perspectives included

## RESULTS

**Descriptive Statistics** – The descriptive statistics derived from the seven pedagogy/andragogy variables associated with this research are presented in Table 2.

**TABLE 2**  
**Pedagogy vs. Andragogy in 10 Canadian University Syllabi**

<b>No.</b>	<b>Inclusive Language (1 = Yes; 2 = No)</b>	<b>Streamlined (1 = Yes; 2 = No)</b>	<b>Schedule Portion Highlighted (1 = Yes; 2 = No)</b>	<b>Layout/Design Accessible/ Engaging (1 = Yes; 2 = No)</b>	<b>Considers Students' Digital Worldviews (1 = Yes; 2 = No)</b>	<b>Relevant Resources Provided (1 = Yes; 2 = No)</b>	<b>Allows for Student Input (1 = Yes; 2 = No)</b>	<b>Overall # of Yes per syllabus</b>
<b>1</b>	2	1	2	1	1	2	2	3
<b>2</b>	1	2	1	2	2	1	2	3
<b>3</b>	2	1	1	1	2	1	1	5
<b>4</b>	2	2	1	2	2	1	1	3
<b>5</b>	1	2	1	1	1	2	1	5
<b>6</b>	1	2	1	1	2	2	1	4
<b>7</b>	2	2	2	2	2	2	1	1
<b>8</b>	2	1	1	2	1	2	2	3
<b>9</b>	2	2	1	1	2	1	1	4
<b>10</b>	2	2	1	2	1	2	1	3
<b>TOTAL</b>	30% 'Yes'	30% 'Yes'	80% 'Yes'	50% 'Yes'	40% 'Yes'	40% 'Yes'	70% 'Yes'	

**Details** – Most of the ten syllabi investigated (80% and 70% respectively) demonstrate that the course schedule – an element that is of strong relevance to students – is highlighted within the syllabus and that the course allows for student input. For half of the syllabi the design and layout was found accessible and engaging. Only 40% of the syllabi seem to consider students’ digital worldviews and provide additional relevant resources. Finally, only 30% use inclusive language or are “streamlined” to accommodate students’ preference for brevity and conciseness.

None of the syllabi demonstrate full “compliance” with the andragogy variables (“Yes” for all seven variables). Two syllabi show “compliance” with five variables and two with four variables; the rest of the syllabi only comply with one to three of the andragogy variables. Clearly, most of the courses examined in this study were designed with pedagogical principles in mind rather than andragogical ones. Therefore, the results of our study confirm the respective observations of Fornaciari and Lund Dean (2014). Implications of these findings are discussed below.

## DISCUSSION

**Results** – The results of our study mirror AshokaU’s (2011) findings and suggest that “despite increased interest, rigorous, relevant and innovative social entrepreneurship curricula and teaching resources remain scarce” (p. 15) and androgical principles of syllabus design are not yet well addressed. Drawing on frameworks developed by Fornaciari and Lund Dean (2014), our study has shown that SE syllabi do not yet well address the need of today’s learners and the required “philosophical shift and actual implementation in practice” (Lund Dean & Fornaciari, 2014, p. 730) is still outstanding.

The language of reviewed syllabi is rather exclusive (instructor and control oriented) and does not well support the also existing intention of instructors to invite learners to take control of their own learning. In addition, many of today’s learners may not well connect to existing syllabi because the documents do not readily “recognize [the] reading habits of today’s students” (Lund Dean & Fornaciari, 2014, p. 726) and still offer too much information that may not be perceived as relevant by students. Learners will likely focus on what they consider to be of key importance and what in fact is highlighted in most syllabi that were analyzed: the course schedule (ibid., p. 727); other elements might simply not be read. This is not surprising given that only half of the syllabi investigated appear to be designed and laid out for “accessibility and engagement” of today’s learners (ibid.) and even less “consider students’ electronic-based worldview for readability” or design the syllabus as “resource and go-to-document” (ibid., p. 729).

**Implications** – Clearly, the potential of a SE syllabus as a tool of collaboration to shift the focus from compliance to creative learning by transferring most of the instructor's position power to the students to create their own learning (Fornaciari & Lund Dean, 2014) has not yet been fully realized. This potential and its embedded objective of student-centered learning agrees with the target of SEE of equipping the next generation of social entrepreneurs with the skills and tools required to create social impact in innovative ways (Lawrence, Phillips & Tracey, 2012). While contractual syllabi are “defensive...and designed to close policy loopholes” (Fornaciari & Lund Dean, 2014, p.

706), they often are demotivating and do not build trust and engagement. Syllabi as power instrument demonstrate the instructor to be in control (for example, by the dominant usage of “I” and “you” over “we”). Perceiving the SEE syllabi as collaboration encourages active engagement through experiential and social Learning. As previously mentioned, blending theory and practice (experiential and social learning) is achieved by assigning various projects, such as: initiating one’s own venture, building a business plan, providing consultations & recommendations to existing social enterprises....etc. – Referring to syllabi as collaboration complies with the meaning and purpose of learning as well as learning outcomes within the context of a learner-centered approach drawing on the principles of andragogy.

However, the fact that andragogically designed syllabi are lacking may also reflect Fornaciari’s and Dean’s (2014) concern that “andragogical syllabus design... fundamentally depends on student readiness levels to participate” (p. 711). Since not all students may be as ready for a full student-centered or self-directed learning experience, they may miss the “structure and [perceived] certainty” (p. 717) of contractual approaches and push back in spite of existing evidence for better student performance in the context of learner-centered approaches.

Before progress can be made in the development of SEE, we maintain that it is essential that its instructional frameworks are conducive to the learning styles of its recipients and balance their various needs. Based on the criteria used in this study for assessing SEE syllabi, we recommend the development of new, learner-centered social entrepreneurship courses and syllabi that also accommodate learners’ needs for structure, guidance, and safety.

**Limitations** – Clearly this study is based only on a small sample size of ten syllabi within Canada only. Both the small sample size and the lack of precision of some of the syllabi made it difficult to completely analyze the syllabi using all criteria and frameworks as discussed in this paper. Reviewing more syllabi also from other countries and including more comprehensive additional information about the respective SE courses would enable researchers to more effectively analyze the required engagement between the various stakeholders of SEE from different perspectives. While we tried to overcome some of these shortcomings by checking the related websites and by contacting the instructors, a more comprehensive approach will likely garner more solid and broader results.

**Future Research** - A few ideas emerge from the literature reviewed that suggest further directions SEE and SEE research might take. Pache and Chowdhury (2012) “recognize that other institutional logics may influence social enterprises in important ways, such as, for instance, the community logic or religious logics. Depending on the profile of the students and the environments in which they plan to launch their social ventures, it may be highly relevant to add ... pathways for socialization into these additional logics” (p. 507). Further, it likely will be worthwhile in a few years to specifically revisit the framework and tips presented by Fornaciari and Lund Dean (2014; and Dean & Fornaciari, 2014) and to investigate to what extent the respective principles and suggestions have been applied in SEE.

One of the very promising recent publications that might add to the framing of SEE is the threshold concept approach presented by Vidal, Smith, and Spetic (2015). In their contribution they ask and answer the basic question, what is the “underlying game” or “threshold conception” of SE? They point out that SI and SE “courses contain a web of threshold concepts (i.e., ethics, corporate social responsibility, and sustainability) that need to be understood in unison...[and that have] social, environmental, and economic responsibilities that are interconnected and interdependent” (p. 497).

Rather than teaching relevant topics “as distinct separate concepts” they argue that teaching social entrepreneurship by the very nature of the subject (integrating several interrelated, interconnected, and interdependent concepts, each of them being equally important in explaining the overall concept) needs to organically integrate these topics. As a result, a threshold approach might help “students have a better grasp of the interconnections and interdependencies ... when these separate concepts are presented as a web of threshold concepts that transform the understanding of one another” (p. 498).

Vidal, Smith, and Spetic (2015) further emphasize the “human-centered educational approach” of SEE courses that “requires students to develop both inward and outward focuses; students need to realize what their values and beliefs are, while understanding how their actions may affect others. Grasping this connection between inward and outward focuses leads to the integration of old and new knowledge about themselves and business management in general” (p. 503). Finally, the authors demonstrated “that a web of threshold concepts may serve as the threshold conception for a more advanced-level course” (p. 520).

Another recent set of publications on “Neuro-Entrepreneurship” (for example, Krueger & Wuebker, 2014) might also prove fruitful for the further discourse on and research about SEE. While earlier Chia (1996) had already identified the “cultivation of the ‘entrepreneurial imagination’” as “the singular most important contribution university business schools can make to the business community” (p. 409), the more recent attempt to harvest the results of neuro-science for the development of characteristics of social entrepreneurs will likely inform course and syllabus development. For example, Krueger and Wuebker (2014) suggest that experiential learning and case studies may be “beneficial to develop opportunity recognition abilities” (p. 10). Within the same symposium proceedings paper, Frederiks also claims “teaching how we know is essential for students to develop an entrepreneurial mindset” (p. 17).

## **CONCLUDING REMARKS**

In this paper, we first reviewed terms, concepts, and issues of SEE. Then we discussed various frameworks for analyzing SEE and focused on presenting Fornaciari and Lund Dean’s (2014) suggestion for a learner-centered and andragogical approach to syllabus development. Finally, we have used this particular framework to analyze and describe to what extent ten SE syllabi from Canadian universities apply andragogical versus pedagogical principles. While we plan on expanding the very limited sample of our exploratory and descriptive research study to allow for a more comprehensive review of SEE at a global scale and including additional criteria and variables, we found that the

majority of existing SE syllabi in Canada still do not take advantage of the potential and promises of andragogical principles; learners in general and emerging social entrepreneurs in particular need to be better supported in their need for purposeful, meaningful, and collaborative engagement with their communities. Together with Fornaciari and Lund Dean (2014) we conclude:

While we recognize that not every instructor looks for ways to give up both power and control in the classroom, traditional syllabi are often barriers that prevent us from experiencing the satisfaction and fulfillment that we initially sought within the profession.... For an andragogical syllabus to be an effective collaborative tool, we have to recognize the dialogical nature of those principles. (p. 718f.)

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## INFORMATION TECHNOLOGY INFRASTRUCTURE SUPPORT FOR OMNICHANNEL RETAILING

This paper features a description of the information technology (IT) support for omnichannel retailing. The retailing industry is facing the newfound customer demand for a unified experience in buying from various sales channels. Top retailers are modeling how to make this transition using innovative technologies for the “front-end” customer experience and “back-end” order management.

### Introduction

Interesting changes are happening in the retail marketplace that are clearly being dictated by customers’ needs in the light of the multiple touch points they could use to reach the retailer. With the Internet, online electronic, virtual stores, and marketplaces became commonplace. Currently, use of smartphones and global positioning systems, along with social media marketing, has powered location based mobile commerce, following the tracks of customers demanding retailers to enable them to purchase anything, anytime, anywhere. Thus, the concept of “omnichannel retailing” emerged.

There are memorable examples of leading-edge retailers that are now launching their own omnichannel initiatives. Those of Macy’s and Bloomingdale’s are particularly notable and capitalizing on the full interplay of their various sales channels. Bloomingdale’s Palo Alto store is its most digitally advanced to date. Sophisticated techno-features complement the industrial elegance of the physical storefront. Shoppers at this location enjoy wall-mounted tablets in smart fitting rooms that will enable them to look up colors, sizes, product ratings/reviews/recommendations for specific items they have picked (Wilson, 2014). The touchscreen feature of the tablets lets shoppers call for assistance from sales associates nearby. These rooms also have tables with charging stations for shoppers’ devices. Sales associates are also armed with mobile devices that act as point-of-sale (POS) terminals as well so that purchases can be captured immediately and quickly completed anywhere in the store. These same devices also enable sales associates to check product availability and communicate with customers via email, text, or smartphone. Bloomingdale’s CEO Tony Spring explains the intention behind these technological store embellishments (Lewis, 2015):

“...The third component is technology. I leave it for third because I don’t believe the future of stores is turning them into the websites. Stores have a reason for being. **We talk**

**about the importance of discovery. It's the combination of merchandise, people, visuals, events, and a store experience that is very important. Technology, combined with humanity, gives you consistency.** [bold letters added] The customer expects that. I don't like having a great experience in shoes and a lousy one in women's sportswear. We have a new fitting room service tool with an iPad in every fitting room that lets the customer communicate with the associate to get additional items, sizes or colors. I'm passionate about this because the fitting room leads to conversion. If she's getting undressed and trying clothes on, she's engaged. We added community tables around the fitting room, and charging stations, trying to think about what the future of shopping will be. We added large touch screens in shoes, handbags and the home store to try to expand the assortment. This way, the customer in one of the smaller stores has the opportunity to see the rest of the assortment. However, it's assisted selling, not self-service. It's the way many generations like to shop now...." (Lewis, 2015).

Bloomingdale's is also targeting iPhone users by integrating the phone's Passbook feature into the retailer's short messaging system (SMS) marketing campaign (Johnson, 2014). The retailer uses a Passbook link that will enable customers who use iPhones to store promotional offerings such "SMS subscribers can take off \$25 on almost every \$100 spent, up to \$400!" on Passbook. SMS marketing campaigns have done well such as that of Kiehl, which achieved a 73 percent redemption rate on their offerings. Another online retailer, Julep, received 5,000 mobile opt-ins to its SMS phone campaign within the first 24 hours.

Macy's, a major U.S. retail chain, operates 850 department stores in 45 states, the District of Columbia, Guam, and Puerto Rico, using the physical store retail brands, Macy's and Bloomingdale's, and the online brands, macys.com and Bloomingdales.com (Kats, 2011). Within the wider Macy's umbrella chain, similar omnichannel retailing drives are taking place. Certain Macy's stores are using digital mannequins to allow shopper viewing of multiple changes in outfits throughout the day (Speer, 2012). In the shoe department, digital displays of shoes sit side by side the physical shoes themselves to show shoppers the full line of colors and material per shoe style. In the make-up department, the Clinique counters have tablets that enable shoppers to select skin products that match their skin tone and the unique characteristics of their complexion. Custom-designed kiosks called "Beauty Spots" will enable shoppers to search and select skin products from the complete range of brands carried in the store (Kats, 2011; Speer, 2012). A human "Beauty Spot" concierge will also be present to help shoppers and check out purchases using a mobile POS. Mobile devices are also made available in the fine jewelry section to demonstrate jewelry features and encourage shoppers to mix and match different pieces.

The objective of this study is to give a detailed qualitative description of the information technology (IT) support needed to enable the omnichannel retailing experience involving a retailer's sales channels. This study will also pinpoint the challenges that the IT departments of retailers need to face as they embark on this ambitious but unavoidable hurdle in the today's physical and digital marketplaces.

## Literature Review

“...The omnichannel concept is perceived as an evolution of the multichannel. While the multichannel implies a division between the physical and online store, in the omnichannel [world] customers move freely between the online (PC), mobile devices, and physical store, all within a single transaction process...the journey should be smooth and ...provide a seamless, unified customer experience, regardless of the channels used....” (Pioytrowicz & Cuthbertson, 2014). To Vanheems (2009), omnichannel retailing refers to “...a strategy of assembling various channels into a single distribution system promoting interchangeability and the transfer of customers between channels....” The Aberdeen Group (2012), a U.S. IT consulting firm, considers omnichannel retailing “...as a set of integrated processes and decisions that support a unified view of a brand from the perspective of product purchase, return, and exchange, irrespective of the channel (in-store, online, mobile, call center, or social)....”

“...Omni-channel can be defined as a synchronized operating model in which all of the company’s channels are aligned and present a single face to the customer, along with one consistent way of doing business. In this model, companies replace the many views of the customer they often hold today with one unified view of the customer—enabling them to respond in a consistent way to the customer’s constantly evolving needs. In an omni-channel approach, the service provider’s brand effectively operates as a single channel, orchestrating high-value customer experiences across all touch points. The customer experience it delivers is seamless, consistent and personalized through the integration of agent-assisted channels with digital channels such as social media, so that customers can interact whenever, wherever and however they want with the provider, across all channels....” (Carroll & Guzman, p. 4).

Figure 1 graphically represents the key components of an omnichannel retailing IT platform.



Figure 1: Functional Areas and Business Services on an Omnichannel Retailing IT Platform (Mittal, 2014)

## Research Methodology

This study used the qualitative research method of content analysis, focusing on content in very recent literature from vendors' websites, vendor IT demos, vendor executive interviews, and trade literature material.

## Findings

The following is a detailed discussion and description of the different elements that need to come together to support an omnichannel retailing IT environment.

### Order Management Systems

Before the days of omnichannel retailing, each selling channel had its own order management system sitting enabled by its own separate IT infrastructure support system (Sheldon & Silvermann, 2014). With the impending demands of omnichannel retailing, however, this arrangement quickly became a liability. There arose the need to reconfigure the backend support for all channels used by a retailer to ensure an integrated delivery service that

encompassed order capture, point-of-sale (POS) systems, inventory management, distribution and warehousing, outbound logistics and delivery, etc. Within this collection of functionalities, however, order management systems (OMS) bears the burden of coordinating all orders received from a product's different distribution channels and ensuring fulfillment of the order in the most efficient and expeditious way.

Within the context of the demands of omnichannel retailing, OMSs have gained increasing importance. They are no longer just fulfill basic operational requirements of order fulfillment and delivery, but are a crucial aspect of determining customer experience now that customers are capable of using multiple channels simultaneously in one purchase transaction. The OMS, in effect, will need to serve as the enterprisewide order capture hub for orders originating from physical storefronts, online store websites, affiliated social networking sites, mobile sites, contact centers, points of service, kiosks, and field sales force. As a result, any one sales associate could gain a complete view of a customer's profile and purchasing history

Having the appropriate omnichannel retailing IT infrastructure in place can generate up to 30 percent additional income for ebusiness enterprises (Sheldon & Silverman, 2014).

Typically in the traditional environment, the warehouse management system oversaw the inventory in distribution centers, the point-of-sale (POS) system or retail merchandising system controlled inventory held in store shelves, and the enterprise resource planning (ERP) system regulated inventory involved in the supply chain. In an omnichannel world, the OMS needs to assume the role of central overseer of these systems under a federated overarching structure. Doing so, the OMS will be able to produce a consolidated view of all inventory at any point in time and decide if a product can be made available for sale and the time and manner in which it could be delivered if the order could be fulfilled.

This OMS should also enable distributed management of orders using an order orchestration engine that does the following: capture orders from all sales channels; configure order processing workflows; route orders using intelligent algorithms across all fulfillment centers; and allocate inventory using logic. Furthermore, the OMS should respond to scenarios involving recurring orders, pre-orders, back-orders, partial shipments, drop shipments, digital or service items, and order splitting.

The new breed OMS also enables sales associates of brick-and-mortar stores to fulfill online orders or orders from other sales channels to be fulfilled from store-held inventory. While it is possible to revise old POS systems so that they can enable fulfillment of orders from sales channels other than the physical store, it is too much trouble to do so. Using an OMS designed from the outset to perform this task is a much easier route to take. The OMS should have easy to learn and use end user interface, preferably accessible in a mobile device, that makes it almost mindless for sales associates on the floor, with minimal training, to manage the fulfillment of orders from the physical store. The new breed of OMSs has true visibility into the enterprise's inventory flows in all sales channels and the life cycle of an order after it is submitted and accepted by the system. This gives them true authority to define the disposition of requests for modifying existing orders, which, in itself, is a complex task to perform. In reality, an entire host

of factors involving an array of constraints and dependencies determine whether or not an order could be changed or cancelled. This is because making changes could involve the following: re-allocate inventory, adjust prices, adjust promotional offers, recalculate applicable taxes, and process additional payments or refunds. Because of the way older pre-omnichannel retailing ecommerce solutions are designed and their limited scope, they typically do not have the functionalities that could address the processing required for modified or cancelled orders.

### **Logistics Considerations**

An accompanying challenge for the omnichannel retailer is the logistics strategy it needs to design to ensure that ordered products are delivered to customers expeditiously and at low costs (Spencer & Schellenberg, 2015). According to Internet Retailer (2014), Amazon.com leads the Global 500 ecommerce firms in terms of sales volume. Amazon.com is a “model” retailer in many ways and in terms of logistics, having successfully orchestrated the setting up of a network of DCs and use of order-management algorithms that calculate the customer’s location, desired shipping speed, product availability, and inventory location (McCorvey, 2013). Amazon claims being able to ship products ordered by customers from the appropriate warehouse within about 2.5 hours from the time the customer hits the “purchase” button.

Retailers, hard pressed to approximate that kind of speed and efficiency, must rely on the alignment of the following elements: well-designed information technology (for OMS and payment processing), operations (order picking and packaging of ordered products), and physical site selection for warehouses and distribution centers (DCs). The OMS component has been previously discussed. The logistics information systems component should help find a destination zip code, appropriate delivery route using an algorithm, the shortest delivery time frame, and the cheapest shipping method (Spencer, & Schellenberg, 2015). On the physical side, the retailer will also need to decide from where shipments will be made. Shipments from a wide range of possible inventory locations are at its disposal: national fulfillment center (single location); regional fulfillment centers (multiple locations); local, metro, or small fulfillment locations (fresh products); brick-and-mortar stores; customer pick-up from physical stores or pick-up lockers; direct shipments from vendors to customers; and multiple shipments from vendors to customers (Spencer, & Schellenberg, 2015).

One of the distinctive features of omnichannel retailing is the use of the brick-and-mortar store as a local fulfillment center for other sales channels as well such as online ecommerce orders (Salerno, 2014). In order for this “get local” fulfillment strategy to work, however, a sound inventory control system should be in place that can: correctly and quickly review the delivery destination; select inventory from the closest physical store to the destination; initiate a picking activity from the store inventory to precede transport of the products to the shipping center for delivery according to the window of time specified by the customer (i.e., same day, next day, three days, a week, etc.). Such stores are using their receiving docks as the center for shipping out orders.

Retailers could also supplement their in-store fulfillment facilities with another local/regional ecommerce fulfillment center to ensure in-store stock availability and speedy

replenishment during brisk sales periods involving walk-in customers in the physical store. Retailers are also using the ecommerce platforms of third parties like established marketplaces like Amazon.com, eBay.com, and Alibaba.com in order to extend their logistics capabilities. Through signed contracts, these retailers are not only exposing their products using the well-known brand name and global market reach of these widely recognized online marketplaces, but also capitalizing on the excellent logistics capabilities of these marketplaces, specifically Amazon.com.

### **Technical IT Infrastructure Considerations**

This section deals with the more technical aspects of a retailer's IT Infrastructure to support its omnichannel retailing initiative. IT infrastructure "...is everything that supports the flow and processing of information in an organization, including hardware, software, data, and network components...." (Pearlson & Saunders, 2013, p. 169).

First of all, it has been recommended that a retailer's omnichannel retailing applications should rest on a single platform (Boston Retail Partners, 2014). Having a single, centralized platform simplifies the task of integrating point-of-sale (POS), mobile, and online ecommerce site transactions. This means a single shopping cart can be created that follows the customers as they interact with these different sales channels. With a single platform, the retailer can also consolidate servers, operating systems, and business applications at its own data center, on the cloud, or a combination of both.

The technology platform suggested by WIPRO (Mittal, 2014) consists of the following layers. The first layer is the interaction channels layer, which consists of hardware and software support for the different sales channels used by the retailer. These are the physical store, online ecommerce website, kiosks, smart phones, other handheld devices like iPads, and point-of-sale (POS) registers.

The second layer is the channel integrator layer, which will sit between the end channels and the enterprise business services layer. This layer is responsible for making it easy for different sales channels, such as the mobile sales channel, for instance, to add any kind of device -- iPhones, BlackBerrys, tablets, etc. --- to the range of choices that can be presented to customers for reaching the retailer. The channel integrator layer also assures the security of enterprise business services and allow access to them only to authorized customers.

The third layer is the enterprise business services layer which provides all sales channels with business services they need in order to function. Examples of these enterprise business services are: recommending a product to the customer; creating gift registries; authorizing coupons; calculating sales taxes; redeeming loyalty coupons; looking up inventory availability for a product, etc. This layer ensures that the different sale channels are serviced by backend systems applications that will provide these business services.

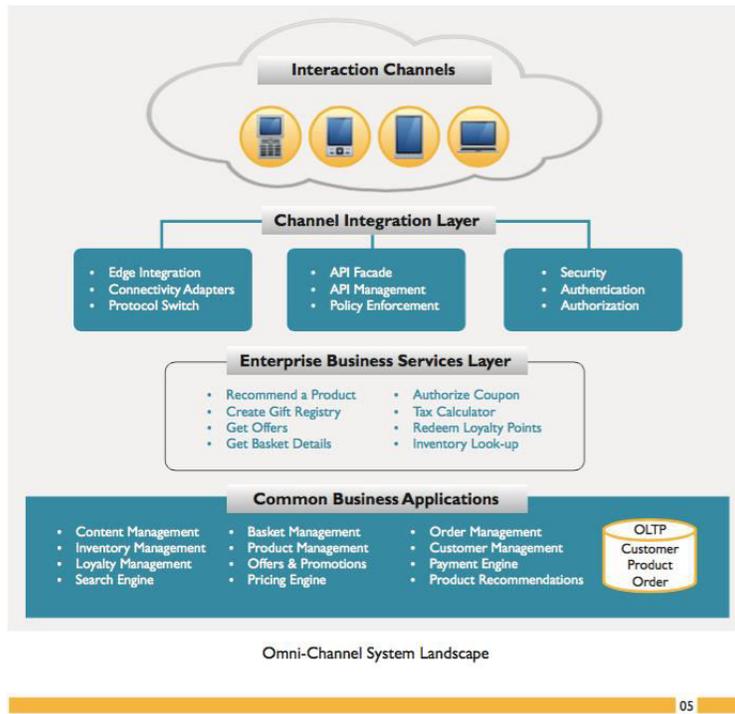


Figure 2. Different Layers on an Omnichannel System Landscape (Source: Mittal, 2014)

The fourth layer is common business applications layer. This layer addresses the need to coordinate and harmonize critical backend transaction processing systems that support the retailer such as: inventory management system, order management systems, enterprise resource planning systems, and others. This layer also provides a common online transaction processing system (OLTP) to enable customers to change sales channel and continue their transactions from where they left off in any one channel. The end result is that all sales channels will really be working as one mega channel --- a single cohesive point of contact for the customer.

## Supporting IT Infrastructure Elements



Figure 3. Unified Commerce Enterprise Middleware  
(Source: Boston Retail Partners, 2014)

## Middleware/Services Oriented Architecture

In the real world, a retailer with legacy systems supporting different sales channels could have varying retail systems in place already. To handle a situation like this, middleware or a service oriented architecture (SOA) layer could be used. Middleware refers to "...different types of software that sit between and provide connectivity for two or more software applications. Middleware translates information between disparate systems..." (Baltzan, 2014, p. 301). Services-oriented architecture or SOA defined as "An application architecture in which all functions are defined using a description language and have invocable interfaces that perform business processes." (Webopedia website). Both middleware and SOA allow varying and disparate retail systems to act as one (Mittal, 2014). So, for instance, should customer transactions require data from a different retail systems, then, the middleware will make sure that data is fetched, analyzed, and returned in real-time to the transactions involved. Also, the use of middleware and SOE makes available what are called "Web Services" that respond to the needs of certain common and repetitive customer transactions or events. So, for instance, the retailer's developers can create a common set of web services needed in processing an order. For example, doing a customer contact search by customer ID, customer name, address, phone number, or

loyalty ID can be developed as a web service and reused over and over again when the need arises. Another type of relevant web service is calculating sales taxes by state in the U.S.

### **Master Data Management (MDM)**

The IT infrastructure for omnichannel retailing should also have a master data management functionality that ensures that data captured, shared, distributed, and used across sales channels is consistent, accurate, complete, and timely (Mittal, 2014). The MDM functionality covers the needed business rules and data governance policies that are needed to harmonize and merge data from various retail systems. Furthermore, the MDM provides a central repository for all master files used by the system. This facilitates the design and deployment of a standardized global data schema that can be used in the centralized single platform. Having the MDM ensures speedy generation of reliable data analyses results embodied in reports and query responses.

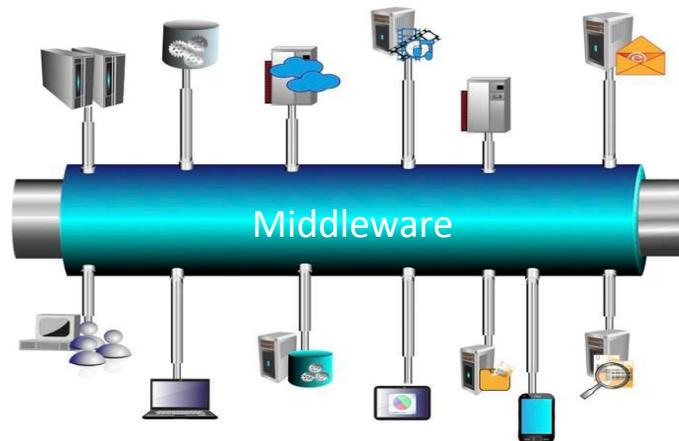


Figure 4. Middleware Connectivities  
(Source: Boston Retail Partners, 2014)

### **Business Process Management (BPM)**

A “business process” is a set of tasks or activities with a specific end goal in mind. A firm has hundreds of business processes that are being executed manually, automated, or a combination of both. Different software products used by a retailer each embody a set of business processes or the way work has to be performed for a specific goal. BPM tools, on the other hand, give business users and the IT team the ability to define, execute, monitor, and optimize business processes involving both information system and human interactions within and outside the firm. In the retailing business, this is important as the retailer needs to interface with customers, suppliers, and other trading partners. In the case of omnichannel retailing, there are multiple

retail systems and sales channels involved. BPM tools allow the retailer to monitor certain activities in stores. So, for instance, store managers can monitor retail store performance using specific key performance indicators and take action when the numbers dip below acceptable levels. Visibility into business processes enables the retailer to make quick and appropriate changes. BPM tools also allow the retailer to make operational management decisions using repeatable business rules and events (Mittal, 2014). For example, business rules could be designed about when discounts could be applied to a customer purchase or when coupons could be issued to a pre-specified group of highly valued customers. The increasing demands of customers in the omnichannel retailing world makes BPM tools necessary to allow the business end users and IT team to create new business processes to respond to these demands. So, for instance, the teams can develop retail business processes that can easily be deployed on mobile devices.

### **Omnichannel Retailing on the Cloud: IBM Commerce on the Cloud**

Capabilities for omnichannel retailing can be acquired rather quickly using cloud computing services and software as a service, in particular. Cloud computing is defined as "...A computing model enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction." (Valacich & Schneider, 2016, p. 463). The particular service a retailer would use is "software as a service" defined as "A cloud computing model in which a service provider offers applications via a cloud infrastructure." (Valacich & Schneider, 2016, p. 475).

IBM offers an integrated cross-channel commerce platform called "Commerce on the Cloud" service, which will be described herewith (IBM, 2014). IBM offers a wide range of services for retailers who would like to speedily embark on omnichannel retailing --- from designing an ecommerce strategy through to designing the online website itself, deployment, support for ongoing business operations, maintenance, and security via "IBM Commerce on Cloud." IBM offers prebuilt online store templates that can be used for business-to-business or business-to-consumer online websites, out-of-the-box integration tools for linking with other third-party systems, and business user tools for site management. IBM also assists clients to move back and forth between on-premise or cloud deployment or a combination of both (i.e., "hybrid" cloud) as business conditions change.

#### **Retailer Experience:**

The online websites that can be designed from prebuilt templates in the IBM Commerce on the Cloud solution, support the following features:

- Advanced search engine optimization
- Catalog browsing
- Product comparisons
- Product information pop-ups

- Multi-angle product images
- Shopping cart
- Inventory status
- Order history and status
- Store locator
- Coupon wallet and wish lists

Prebuilt templates can be used for online storefronts meant to be viewed from desktop personal computers, laptops, or tablets. A mobile storefront with the same features can also be created, which customers can view from their smartphones. Customers can quickly place orders through an expedited mobile checkout process. Customers also have the option to order via their smartphones and pick up the items from the store nearest them using a store locator feature.

All the retailer has to do is load product catalog data onto the chosen template and customize certain areas of the user interface to reflect the firm's unique logo, brand message, marketing pitches, and content such as the firm's history in the "About Us" page. All this can be done without the involvement of the firm's IT department.

IBM's Workspace Management tool enables the retailer end users to schedule and publish online website content changes, track the changes, perform quality control, and preview daily changes prior to publishing them. In cases of emergency, urgent changes can be processed immediately.

The online website catalog tool enables retailer end users to manage master catalogs and sales catalogs and create linkages between products to enable cross-sell and up-sell suggestions to customers. Site search capabilities are also provided and optimized using product attributes customers can specify to quickly find products.

The IBM product also allows retailers to have inventory visibility and sourcing capability across sales channels. With the IBM software, retailers will be able to use rules-based order promising and scheduling so that inventory can be allocated based on distribution nodes and regions to meet order specifications in the best possible way. Retailers can have a real-time view of supply and available-to-promise inventory; thus, customers are less likely to be disappointed by "out-of-stock" or "back order" messages and will more likely complete the purchase with their shopping carts rather than abandon them.

The cloud software also manages retailer digital assets such as all website content used --- text, product images, marketing ads, audio files, video files, and anything else used for marketing and promotions.

IBM has integrated a third party web acceleration solution to maintain high levels of online website store performance, scalability, and availability for retailers.

## **Customer Experience**

In terms of customer experience, the online webstore is set up so that customers perform advanced faceted searches, make product comparisons, and populate shopping carts. Customers from all over the world can be serviced in terms of payment options as IBM uses a secure payments gateway that not only recognizes various global monetary denominations but also prevents data theft and is compliant with the Payment Card Industry (PCI) standards. Retailers have the option to use the Avalara AvaTax service to ensure that taxes are accurately calculated and recorded in the payment process. This way retailers can ensure they are compliant with the laws and reduces the risk of penalty from tax audits.

## **Retailer Experience: Sales and Marketing Promotions and Data Mining (Web Analytics)**

Post order customer care is very important for customer retention. The solution on the cloud enables retailers' call center employees to use online self-service tools to serve customers more effectively. Customer service representatives will be able to send order confirmations and shipment email notifications, and investigate payment, settlement, and back-order issues that require following up with customers.

The cloud solution also has many features to facilitate a host of marketing activities by retailers such as creating a wide range of marketing promotions --- order promotions, shipping promotions, catalog and product category promotions, and multiple item promotions. The precision marketing engine can be configured to generate alerts to retailers when shopping carts are abandoned, orders are placed, social media activities are initiated by customers, or when search terms or a referring URL is typed in a browser. The data generated by the engine can help retailers offer customers with targeted offers such as custom landing pages or product cross-sells or up-sells.

Retailers can also avail of the services of Bazaarvoice software, which works with the IBM cloud solution. Bazaarvoice will enable customers to express their opinions about the products via online social communities. The retailers, in turn, "data mine" this user-generated content to derive actionable insights that can propel their product design improvement, customer service, and marketing initiatives.

Another third party service available to retailers is an email marketing solution that generates targeted email messages to customers.

Finally, the software solution has web analytics features via the IBM Coremetrics module meant to capture customer online behaviors and provide retailers with insights based on collected customer data. This web analytics software module generates reports on site metrics and site performance that should guide

personalized and on-target product recommendations to customers.

**Conclusion:**

Retailers seriously looking at omnichannel retailing possibilities are faced with a number of challenges in the road ahead. Perhaps the most formidable challenge at this time is information systems disparity among a retailer's many sales channels. An RSR Research report also reveals other barriers for retailers: (1) 59 percent of study respondents cited "coordinating with other channels to create a seamless brand experience; (2) optimizing inventory deployment across channels --- 52 percent; (3) understanding and accommodating how different consumer segments engage with us --- 49 percent; (4) cost effective shipping and fulfillment --- 44 percent; (5) coordinating price and promotions with other departments --- 33 percent; (6) have not yet defined what a differentiated online experiences looks/feels like ---18 percent; (7) processing and/or accounting for returns --- 17 percent; and (8) sharing accurate product data with our channel partners --- 15 percent (NetSuite, 2014). The availability for cloud computing and in particular, software as a service will help these retailers overcome the top IT technological challenge of systems disparity as illustrated by the IBM Commerce on the Cloud solution.

Though surprising, the emergence of physical brick-and-mortar stores as a classic favorite sales channel is prompting significant initiatives among leading-edge retailers. For instance, fast-fashion retailers like H&M and Uniqlo are widening the geographic scope of their outlets and firms like Macy's, Bloomingdales, Marks & Spencer, and The Gap are staging new services like order fulfillment off their physical stores and adding IT-powered features in the store to support compelling customer experiences in trying products and interacting with sales associates (Brown, Mendoza, & Moriarty, 2014). This is an appropriate response to today's customers who will only intensify their demand for customized fulfillment of their preferences from the early stage of product exploration to the final stage of order processing.

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ASB 2015  
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**POLITICALLY-CONNECTED DIRECTORS:  
A CANADIAN PERSPECTIVE ON EX-POLITICIANS AND FORMER GOVERNMENT  
OFFICIALS JOINING CORPORATE BOARDS OF DIRECTORS**

We surveyed Canadian board members about the motives, disincentives and selection criteria for nominating an ex-politician or former government official to a corporate board. Using resource dependence theory, we found that the anticipated benefits from the literature were not as fully expected by our survey sample. Compared to the majority of studies in our field, our use of the Canadian context, director surveys and resource dependence theory represents a novel approach to the topic.

In Canada, as elsewhere, it is not uncommon for ex-politicians and former government officials to join corporate, institutional or voluntary boards after their term of public service has ended. Former Prime Minister Brian Mulroney is chairman of Quebecor, and has served on many corporate boards since his retirement from politics. Frank McKenna, former premier of New Brunswick, serves as the deputy chair of TD Bank Group, one of the country's largest financial institutions. David Peterson, once premier of Ontario, is on a number of corporate boards including that of Rogers Communications. Kevin Lynch, the former Clerk of the Privy Council, is the vice-chair of BMO Financial Group. Whether elected to public office, or serving as a senior bureaucrat in government, many corporations seek out the advice and counsel of these individuals for a variety of reasons.

The purpose of this study is to examine the motives and disincentives, along with selection criteria considerations, of nominating political or government-experienced individuals to serve as directors on Canadian corporate boards. Hillman (2005, 476) defined political directors as those individuals who had been elected to political office or whom were political

appointees. We expand upon Hillman's definition so as to include seasoned government bureaucrats who were employed – beyond just being appointed – in the government service by having ten or more years of experience. We limit our analysis to Canadian headquartered, for-profit firms and to directors with previous Canadian political or governmental experience at the municipal/regional, provincial/territorial or federal levels.

Our research questions are as follows:

1. What are the motivations, if any, for having former politicians or government officials becoming members of a corporate board;
2. What disincentives, if any, are there in having former politicians or government officials become a member of a corporate board?; and
3. What selection criteria are appropriate in recruiting a former politician or government official to serve on a corporate board?

### **Literature Review**

We employ a resource dependence theory (RDT) perspective to the topic of political director selection. First popularized by Pfeffer and Salancik (1978), the theory highlights “organizations['] attempt[s] to reduce others' power over them, often attempting to increase their own power over others” (Hillman, Withers and Collins (2009, 1404). This includes the role of government as it concerns the affairs of the organization. Of one of the assumptions inherent in the resource dependence view, as compared to more economic-oriented theories such as transaction cost economics, is that there is a certain degree of managerial discretion in terms of decision-making, one example of which would include the nomination of candidates to the board of directors. Director selection therefore represents a strategic choice for managers, and from an RDT viewpoint, a mechanism for managing the firm's relationship with its political environment. Linkages such as those arising from having directors with previous political or governmental experience can “help stabilize the organization's exchanges with its environment and reduce uncertainty” (Pfeffer and Salancik, 1978, 145). Hillman et al. (2009, 1408 cf. Pfeffer and Salancik, 1978) described four organizational benefits from an RDT perspective that relate to director selection:

- information in the form of advice and counsel;
- access to channels of information between the firm and environmental contingencies;
- preferential access to resources, and;
- legitimacy.

Empirical support for information acquisition was found by Kor and Misangyi (2008). The authors found an inverse relationship, suggesting that newer firms lacking in internalized experience seek experienced outside directors to mitigate this deficiency. However, the authors also acknowledge a weakened relationship as the firm ages, attributing this to institutionalized norms and practices for board member selection and social ties between managers and directors (2008, 1351-52). Westphal (1999, 16) also found empirical evidence to suggest that CEO-board friendship ties were “positively related to the level of advice and counsel interactions on strategic issues” but did not extend to the activity of CEO monitoring by the board. The information provision strategy identified by Hillman and Hitt (1999) found weak empirical support in Hillman and Wan (2005). Studies of corporate political activity, particularly lobbying, have been extensively examined (Hillman, 2005; Huse and Rindova, 2001; Agrawal and Knoeber, 2000). Preferential access to resources have also been studied in a variety of ways, often through the use of procurement contracts and/or impacts on the financial performance of the firm. For example, Goldman, Rocholl and So (2013) have found that boards with political connections to the winning party in American elections experienced significant benefits in terms of the awarding of political contracts. Faccio, Masulis and McConnell (2006) examined access to government bailouts. Faccio (2006) explored the effect on corporate financial performance of political connectedness in countries with a reputation for corruption. While the benefits that may arise from having a board member with political connections have been well studied, less examined are the director characteristics that mediate the relationship between director selection (the independent variable) and their relationship to the benefits accruing to the firm from their service (the dependent variables).

Hillman (2005, 466) began to address this topic “by examining both the board-environment and the board-performance links, and by examining a specific director characteristic relevant to board-environment alignment, the presence of directors with political experience.” Other studies have delved deeper into the characteristics of board members. For example, Lee, Lee and Nagarajan (2014) argued that firms with independent directors that share political alignment with the CEO are associated with lower performance and valuations, greater internal conflict, and a higher propensity to commit accounting fraud. Our interest with this article are on the additional characteristics of individual board members who have previous political or governmental experience. Goldman et al. (2013) examined the role of political affiliation in achieving preferential access to resources, in this case, government procurement contracts. Lester, Hillman, Zardkoohi and Cannella (2008) employed three compound variables – depth, breadth and deterioration – to examine a variety of director characteristics. These characteristics included their knowledge of public policy making, access to governmental decision makers (Hillman, Cannella and Paetzold, 2000), and how government functions in order to reduce firm uncertainty about government processes (Carroll and Hall, 1987). Other characteristics include tenure in office (Lester et al, 2008; Roberts, 1990). Lester et al (2008) found that directors with past political or government experience are heterogeneous in value: those with greater breadth and/or depth are rewarded with more board opportunities than those with less experience. These characteristics are worthy of more enhanced examination.

From our review of the literature, there seems to be three issues worthy of consideration. The first issue might involve the motivations for nominating a board member with past political or governmental experience. The perfunctory reason for doing so might be to obtain one or more of the four benefits identified by Pfeffer and Salancik (1978) but left unaddressed is whether there might be additional motives, or the relative importance of the four benefits already itemized. A related issue is the generalizability of these motives and whether the system of governance – such as parliamentary versus republic and other governmental forms (Hillman and Keim, 1995) might affect business-government relations.

The second aspect, hitherto unaddressed, is whether there are factors that might impair the desirability of nominating said board member. The assumption is that to obtain one or more of Pfeffer and Salancik's (1978) benefits necessitates either the appointment of a board member with suitable governmental or political experience, or the pursuit of some alternative corporate political activity (CPA). While CPA is a very broadly studied subject, the demotivating factors that tilt the firm away from director selection in favour of other considerations is not well understood.

A third consideration within the topic of directors with the characteristic of past political or governmental service, is whether are there additional criteria beyond that found in the literature (Roberts, 1990; Hillman et al., 2000; Lester et al, 2008) that might make a given prospective directive more desirable than others. The issue of heterogeneity of directors has been raised in this context (Lester et al., 2008) but the level of analysis leaves room for much additional discussion.

## **Research Methods**

Research involving boards of directors has involved much consistency over the years. Pugliese et al (2009) found 114 empirical papers written to boards and strategy written between 1972 and 2007. Of these, fully 62% were focused on the American context which, with its federalist style of government, is markedly different from other countries, both in terms of institutional structure and in terms of corporate governance practices (Feleagă, Dragomir and Feleagă, 2010). Agency theory was the dominant theoretical perspective in US-centric articles (25%) than in non-American-oriented articles (8%). The sole use of archival data accounted for 40% of the empirical papers reviewed, outpacing the use of multiple data sources, such as surveys interviews and other means including archival data. The preponderance of American-focused, archival data-supported, agency theory-oriented empirical papers represents a limitation on our understanding of corporate governance. Adding to the limited diversity in methodological approaches to studies of boards of directors are the data collection challenges involved in this undertaking.

The methodological challenge in collecting empirical data on corporate governance is well documented (Leblanc, 2003; Pugliese, Bezemer, Zattoni, Huse, Van den Bosch and Volberda, 2009) given that corporate boards are reticent to open their discussions to non-directors. To access directors while circumventing the gatekeeping challenges of reaching out via investor relations departments, we leveraged alumni of the Director's College, all of whom had received their Chartered Director certification through this joint director education program of the Conference Board of Canada and McMaster University.

Alumni of the Director's College represent a diverse slice of the collective board membership in Canada. Graduates serve on corporate, not-for-profit, voluntary and quasi-governmental boards in a variety of industries and economic sectors. The organization kindly forwarded our invitation to participate in an anonymous and confidential online survey to 705 alumni of the program. A total of 317 invitations were opened by participants, with 24 invitations not reaching their intended recipients. In total, there were 122 individuals who undertook the survey, which consisted of 23 questions pre-tested with board members in Canada. This represented a 38% initial response rate. For the survey pre-test, we asked participants to identify the three most significant motivations that might support nominating a director with political experience to their board; the response options were completely open-ended. Similarly for the issue of the disincentives in nominating a director with political experience, pre-test survey respondents were given an open-ended opportunity to provide their responses. For the third research question involving the selection criteria for choosing a director, respondents were provided a list of 17 potential selection criteria, drawn from the literature (Roberts, 1990; Hillman et al., 2000; Lester et al, 2008) and the authors' experiences with boards of directors and senior management. For the full survey, potential responses to the motives and disincentives were condensed from the results of the pre-test. Survey respondents were asked which of eight motives were appropriate responses using a five-point Likert scale ranging from *strongly agree* to *strongly disagree*. These motives consisted of the following potential options:

1. As a means for the firm's representatives to connect with current politicians in government;
2. As a means of influencing public policy;
3. To gain access to government contracts;
4. As a means of helping the board understand how government works;
5. To positively impact upon the firm's reputation;
6. For the potential political director's unique skill set or abilities;
7. As a thank you for serving a political party; and
8. As a thank you for serving in government.

Potential responses to the disincentive to appoint a political director question were limited to the six most representative responses following the pre-test:

1. Not recruiting the best candidate for the board vacancy;

2. Some ex-politicians may view board membership as a reward for their years in government, rather than a service to our organization;
3. It may negatively affect future access to government contracts;
4. High profile politicians may be controversial;
5. Negative impact on the reputation of the company; and
6. Their value to the board declines with changes in government.

Participants were also able to consider a variety of selection criteria in relation to their suitability for the position. These choices were drawn from the literature and author experience working with directors and senior executives across a variety of industries and organizational types in Canada. Respondents used a five-point Likert scale ranging from *very important* to *very unimportant*. The prospective selection criteria included:

1. Director fit with the organization's current/future corporate strategy;
2. Previous board experience;
3. A high public profile;
4. A well respected individual;
5. Being a friend of an existing board member;
6. Being a friend of the CEO;
7. Having a large network of contacts in business;
8. Having a large network of contacts in voluntary organizations (e.g. charities, community organizations);
9. Having a large network of contacts in politics;
10. Work experience in a relevant regulatory agency;
11. Work experience in a relevant government department;
12. Work experience in a variety of different government departments;
13. Work experience with different levels of government, e.g. federal, provincial, municipal;
14. Having the same political affiliation with the party in government;
15. Having work experience with different political parties;
16. Having Cabinet experience (versus serving solely as a backbencher); and
17. Having served as Prime Minister or Premier (versus solely being in Cabinet or a backbencher)

A total of 82 respondents completed the survey, representing a 26% completion rate for those that opened the invitation to participate. Respondents were asked at the outset of the survey to describe their director-level experience. Our sample set of 82 respondents consisted of those with directorships primarily in the not-for-profit sector (44%), publicly-traded firms (15%), and crown corporations (15%) with the remainder consisting of those serving on the boards of privately-held firms, hospitals and school boards. The typical respondent had extensive director experience consisting of two corporate boards, one institutional board and three voluntary boards over an average 15 year period, which pre-dated the existence of the Director's College, reducing the prospective of sample bias. Respondents' averaged completion of the survey in 21 minutes and 48 seconds; a significant period of time.

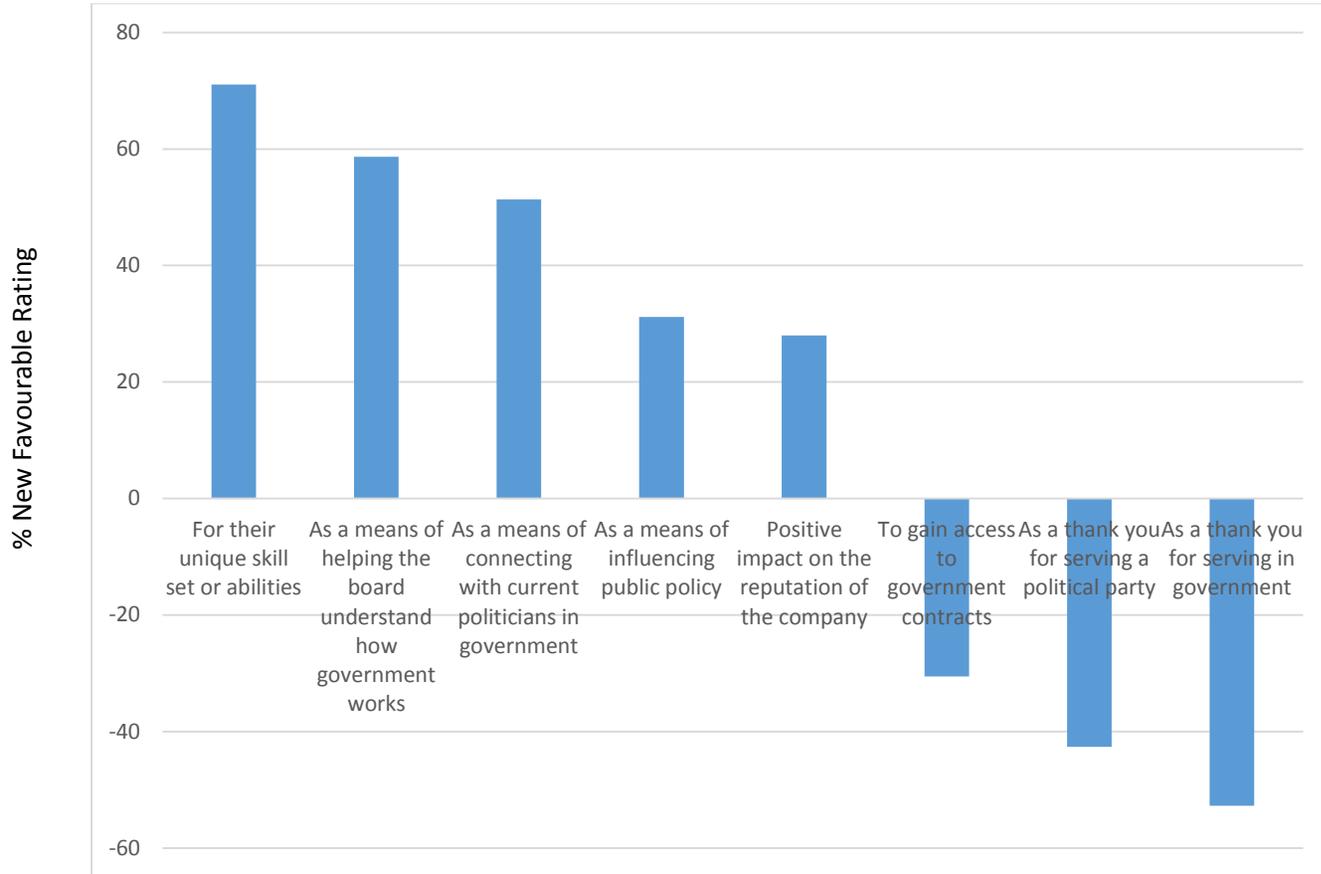
Data collected from the online survey instrument was downloaded into spreadsheet format. It was cleaned of aborted responses and then imported into SPSS for analysis. Given the use of Likert scales, the resulting responses consisted of ordinal data. Non-parametric statistical analysis was the appropriate method of analysis, and this was undertaken. Analytical processes included descriptive statistics such as frequency analysis (reported here) and a variety of non-parametric analysis (for future reporting). For the purposes of this article, we confined our reporting to three of the 23 questions: those concerning the research questions involving the motives to recruiting a director with political/governmental experiences, the disincentives for doing so, and the selection criteria involved in identifying appropriate individuals.

## **Findings**

Our first research question asked respondents as to the prospective motivations, if any, for having former politicians or government officials becoming members of their board of directors. Respondents were provided nine possible responses, drawn from the literature and author experiences, and these were validated with directors during a survey pre-test. Using a five-point Likert scale, respondents were asked whether they strongly agreed, somewhat agreed, were neutral, somewhat disagreed, or strongly disagreed with each statement. Respondents could also choose a “prefer not to answer” option or leave the question blank. For those that provided an answer to a given criterion, we totalled the “strongly agree” and “somewhat agree” choices and subtracted the “somewhat disagree” and “strongly disagree” choices, and divided the result by the total number of responses to the five-point Likert scale which included the neutral response option. The result is a percentage figure which represents the net favourable response, among respondents, to each motive for recruiting a director with past political or governmental experience. As we can see in Figure 1, below, the motives that respondents reported as being the most impactful among the provided options (with their net favourable response rates) were:

1. The unique skill set or abilities of the prospective director (71%);
2. As a means of helping the board understand how government works (59%); and
3. As a means of connecting with current politicians in government (51%).

**Figure 1:  
Motives for Nominating a Politically-Connected Director**



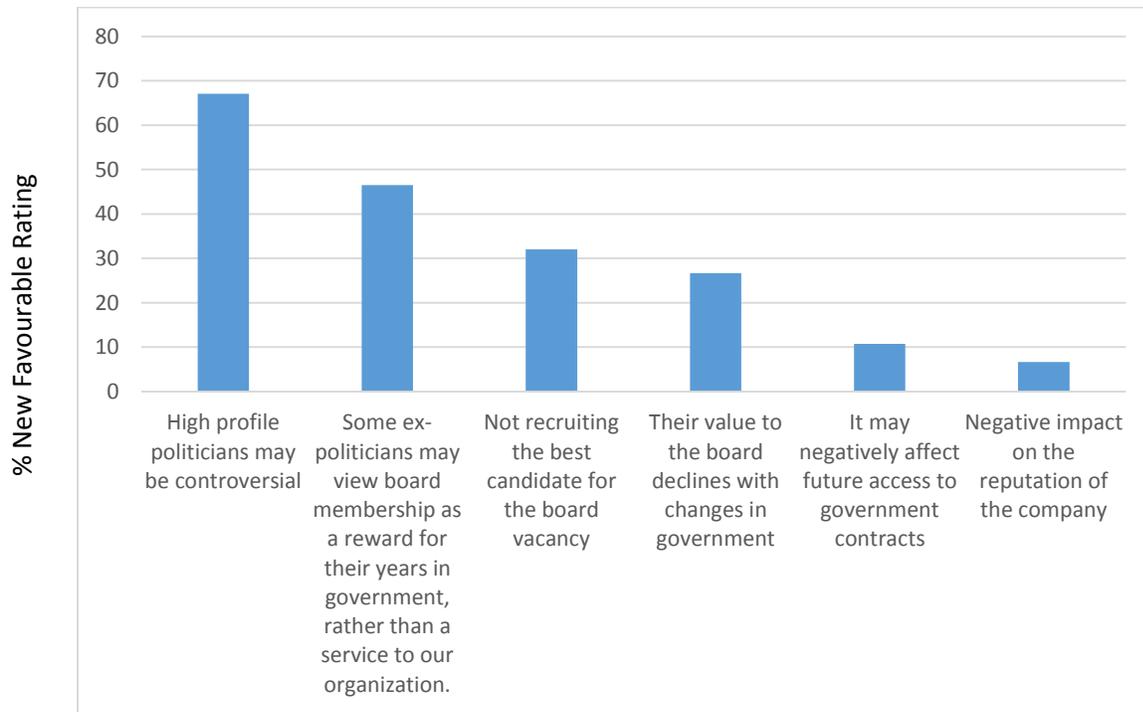
At the opposite end of the spectrum, the survey results for the three least significant motives had more negative than positive agreement among our respondents. That is to say that more respondents somewhat or strongly disagreed with the prospective motive than somewhat agreed or strongly agreed. These included:

1. As a thank you for serving in government (-53%);
2. As a thank you for serving in a political party (-43%); and
3. To gain access to government contracts (-31%).

The mean net favourable response among the choice of motives was 14%. The median result among the eight choices was 30%. The standard deviation for the sample was 49%.

Respondents were next asked to assess their agreement with six potential disincentive to recruiting a director with past political or governmental experience. Six options were provided as drawn from the literature and author experience and vetted during a survey pre-test. All six options had positive net favourable responses, indicating more respondents somewhat agreed or strongly agreed with the proffered disincentive, than somewhat disagreed or strongly disagreed. The disincentives are depicted in Figure 2 below:

**Figure 2:  
Disincentives for Nominating a Politically-Connected Director**



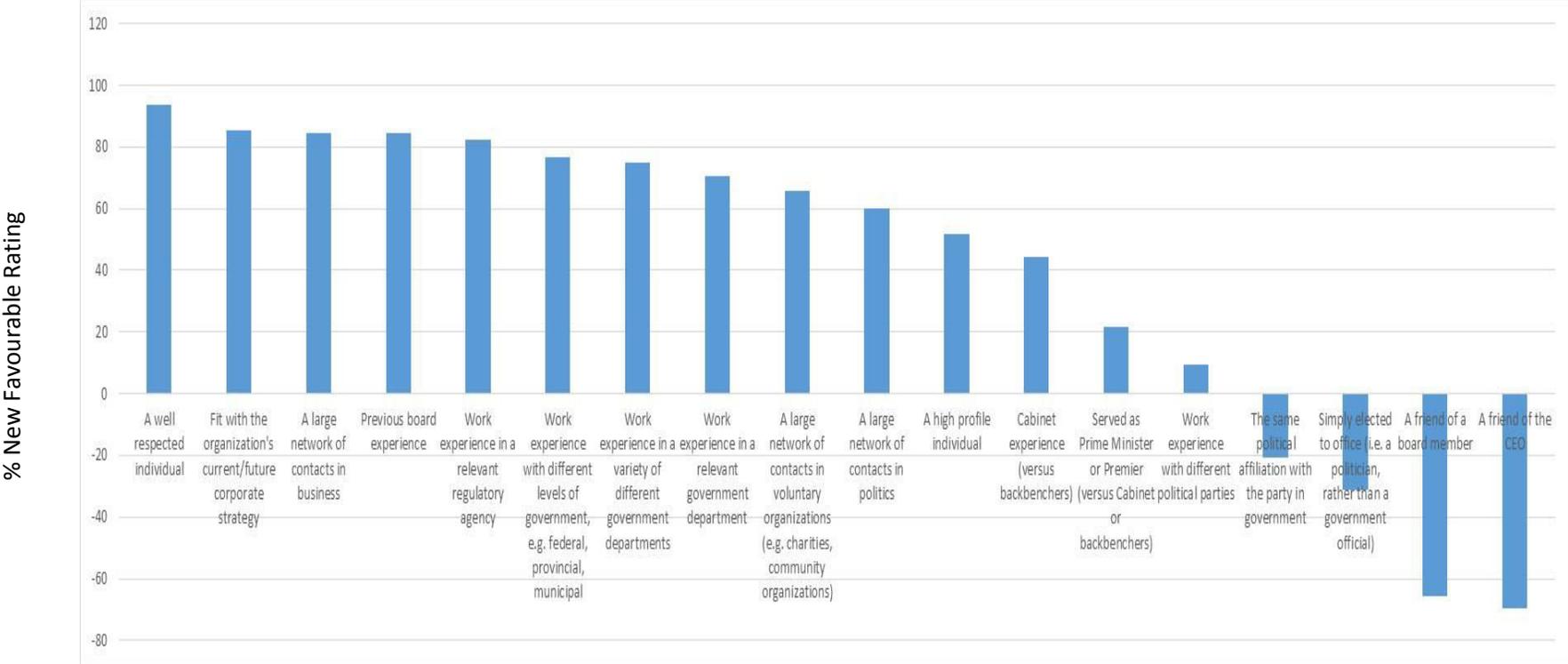
The disincentive for which respondents agreed was the most significant was that high profile politicians may be controversial; 67% more respondents agreed than disagreed as to this distinctive. Conversely, just 7% more people agreed than disagreed that recruiting a political director might have a negative impact on the reputation of the company. The mean net favourable rating was 32% across the six disincentives, with a media response of 29% and a standard deviation of 23% for the sample.

Our third research question examined 18 potential selection criteria drawn from the literature and author experience; once again, these potential selection criteria options were validated during a survey pre-test with directors. Perhaps as a function of the breadth of prospective choices, results for this research question produced the largest mean net favourable response (40%), the largest median response (63%) and the largest sample standard deviation (53%) among the three research questions for which we are reporting results. The selection criteria for which respondents most significantly agreed (and the net favourable responses) were:

1. A well-respected individual (92%); and
2. An individual that fits well with the organization's present or future corporate strategy (85%);
3. (Tie.) Having a large network of contacts in business (84%); and
3. (Tie.) Previous board experience.

As shown in Figure 3, four of the 18 criteria received a negative net favourable response, indicating general disagreement with the prospective selection factors. Being a friend of the CEO was viewed as the least significant selection factor (-70%), in direct contrast to the findings of Westphal (1999). Other perceived non-relevant criteria included being a friend of an existing board member (-66%). Almost a third more people disagreed than agreed that the act of being elected (i.e. being a politician, rather than a former bureaucrat) was an important selection factor. Twenty-one percent more respondents disagreed than agreed that a prospective director should have the same political affiliation as the party in government

**Figure 3:  
Selection Criteria for Nominating a Politically-Connected Director**



## Discussion

### Implications for Theory

This article provides much insight into the motives, disincentives and characteristics of politically-connected directors. From a resource dependence perspective, Pfeffer and Salancik (1978) described four benefits of such individuals: advice and insight into political processes; access to information; access to resources; and legitimacy. Our findings suggest that these anticipated benefits are experienced heterogeneously by firms who elect or appoint politically-connected board members. The dominant motivations among the board members surveyed suggest access to information is the primary motive for nominating a politically-connected director. Respondents reported their primary motives as directors' "unique skill set or abilities" and "understanding how government works" which are consistent with Pfeffer and Salancik's first benefit. The third most-reported motive was in order to connect with existing politicians in government; a motive that is consistent with Pfeffer and Salancik's second benefit. This was followed by "as a means of influencing public policy", which was not among the benefits described by Pfeffer and Salancik. Creating a positive impact on the reputation of the firm, which is consistent with the authors' benefit of legitimacy, was viewed as positively among respondents as a motive for nominating politically-connected directors. However, the benefit of obtaining preferential access to resources such as procurement contracts, was rejected as a motive by the majority of respondents to our survey. Our findings suggest that the motives for nominating politically-connected directors – in order to obtain the benefits outlined by Pfeffer and Salancik for the firm – are neither collectively nor universally experienced by firms who appoint or elect such directors.

In terms of the disincentives, we found our director respondents to be in compliance with expectations from resource dependence theory. The most significant reported disincentive was that high profile politicians might be viewed as controversial. Nominating such an individual to the board might undermine the perceived legitimacy of the board. Our survey respondents also expressed concern that some ex-politicians or former government officials might view their board appointment as a reward for past service in government, rather than as a service to the firm. As a result, the politically-connected director might be less willing to share information on the functioning of government, secure access to government information or preferential treatment in obtaining contracts, etc.; activities which serve the interests of the firm but require additional effort on behalf of the newly minted director. Not recruiting the best candidate for the board vacancy was a concern – and contrasts sharply with the most rejected prospective selection criterion – in friendship with the CEO – in contrast to Westphal (1999) who suggested the latter was a relevant director selection factor; much has changed in terms of the expected processes exercised by nominating committees in the past two decades and our results may reflect such progress. While concerns expressed about the declining value of political connections over time (Lester et al., 2008) and the possibility of reputation risk (Pfeffer and Salancik, 1978; Hillman et al., 2009) are consistent with the literature, access to government contracts diverged from

expectations. Our respondents appeared willing to sacrifice preferential access to government contracts now, for future access to government contracts later, if they could do so through more ethical business conduct. This runs counter to expectations from the literature (Pfeffer and Salancik, 1978; Hillman et al, 2009).

Regarding the appropriateness of the prospective selection criteria for directors, most of the results were consistent with resource dependence theory. The most favoured selection criteria can all be associated with RDT-oriented benefits, including director candidates being well respected (legitimacy, access to information, access to resources), and fit with the organization's present or future strategy (enabling the pursuit of these benefits). Interestingly, the third most important criterion chosen was a large network of contacts in business; this factor had more than 20% more support than a large network of contacts in politics, which resource dependence theory would suggest would be a more highly regarded criterion for politically-connected directors. Similarly, our fourth criterion – previous board experience – bucks RDT expectations. If the appointment of a politically-connected director is intended to bridge the business-government divide, then previous board experience, if any, should be valued to a much lesser degree. RDT theory as is may need further refinement in order to account for these differences in expectation.

These results, which are part of a broader study of politically-connected directors, suggest that political culture and the degree of corruption are relevant factors in the benefits experienced by firms of nominating politically-connected individuals to their boards of directors. Our survey indicated that a minority of respondents – one in five – believed that the purpose of an ex-politician or former government official on a board is to gain access to government contracts. The view of the minority, while consistent with the literature (Pfeffer and Salancik, 1978; Hillman et al., 2009), is counter to our findings. To explore this contrast further, we conducted a series of ten follow-up qualitative interviews with experienced board members: individuals who had participated in our initial survey and who were willing to further our investigation. A total of 17 individuals indicated such a willingness and while all were contacted, only 10 followed through with an interview. Thus, our interview participants were a convenience sample and were not selected based on their answers in the survey. Each interview lasted an average of 27 minutes and was digitally recorded and transcribed. Interview participants all suggested that the use of politically-connected directors to secure preferential access to government contracts would be unethical. Further, all respondents said that they would not condone such activity for the firm(s) for which they are board members, even in the event rival firms were engaged in this ethically questionable conduct. The unanimous view was that such behaviour would inevitably become public – at some point – and the participating firms would likely be sanctioned through an inability to compete for future government contracts for a significant duration. However, when pressed as to whether these views would extend to their firm operating in foreign countries with reputations for political corruption, there was less equanimity as to the appropriate course of action.

An implication of the above is that firms which may not expect to experience the full range of benefits identified by Pfeffer and Salancik will likely prioritize which benefits matter more than others, and the trade-offs between less of an additional benefit already experienced with the desire for more of a benefit that hitherto being up for debate. Further research is merited in order to examine the degree of interdependence among these benefits. Additionally, empirical testing of the conditions in which these benefits are perceived within industries and among countries would enhance our understanding of the degree to which these resource dependence theory-based benefits are generalizable beyond a particular political geography. Lastly, further refinement of these benefits may be justified. For example, Pfeffer and Salancik viewed lobbying activity as part of a firm's legitimacy-building efforts; a view of "the organization as a political actor, involved in lobbying to alter the environment" (Pfeffer and Salancik, 1978, 190), either individually or through "collective organizations" (1978, 218). The desire to not simply mitigate the effect of public policy on the firm, but rather to attempt to project the firm's interests to shape such policies, blurs the lines between legitimacy-seeking firms responding to the environment, and power-projecting firms seeking to alter it. This condition also brings the resource dependency theory into competition with stakeholder theory, social capital and political capital theory, and institutional theory for its descriptive utility.

### **Implications for Practice**

From a practitioner standpoint, our survey suggests those directors already serving on corporate boards have strong perceptions of the advantages and disadvantages associated with nominating politically-connected directors. Furthermore, there appears little uncertainty as to the most and the least desirable selection characteristics when considering such corporate governance actions. Boards that wish to contemplate such a move would be well advised to discuss the possibility thoroughly with the existing board members, not just within the nomination committee but among the full board, so as to achieve consensus about the direction the board intends to take: our results suggest that considerations of the addition of a politically-connected director are perceived markedly different from directors considered for other purposes. For a board to sustain fit among board members, and to delineate a strategic direction with a common commitment among board members, these considerations are best had before any such appointments take place.

For boards looking to benefit from a politically-connected board member, our research suggests expectations be tempered: that not all the theoretical benefits outlined by resource dependence theory – such as advice about government, access to information, preferential access to recourses, and legitimacy – accrue to every firm that undertakes such an appointment. Relatedly, that the anticipated benefits which may accrue are not necessarily evenly distributed across the industry by firms making similar appointments as the benefits are not homogeneously experienced. Accordingly, the 'mileage' that each firm receives from such actions may vary. This is especially troubling for firms aspiring to achieve specific benefits from a given appointment:

while benefits may result, they may not be the benefits intended at the outset. Therefore, firms may wish to consider methods to replace politically-connected directors that are not producing the desired benefits; adding additional politically-connected members to their board; supplementing their corporate political activities with further business-government staff expertise, either directly or via the use of consultants and lobbyists; or alternatively, declining to use politically-connected board members and retiring those that are already in place.

A final consideration relates to corporate strategy, governance practices and organizational structure. There may be strategic benefit in the firm assessing whether prevailing industry forces within a particular country are likely to provide one or more of the benefits outlined by Pfeffer and Salancik, and whether these benefits support the strategic objectives of the firm. For example, if the firm is seeking to benefit from preferential access to government contracts, nominating an ex-politician to the board of a subsidiary in the context of a low corruption index-based country is likely to produce different results than a similar effort in a high corruption-indexed country. This has implications for firm strategy and corporate governance. If Chandler's (1962) thesis that organizational structure should be subordinate to the firm's strategy, then in a resource dependent environment, the corporate governance structure of the firm may need to be altered to support a subsidiary-based design in order to maximize differing benefit-rich opportunities. Correspondingly, in a resource-dependent environment where the corporate structure of the firm is not subordinate to business strategy, in that it may be relatively sticky irrespective of the changing resource dependencies, then more refined market selection and a greater flexibility in the use of business tactics may be required to achieve similar business performance results. Firms seeking to gain a competitive advantage through the use of politically-connected directors, and whose operations involve international business in ethically ambiguous business climates, may find it beneficial to employ subsidiary corporate structures to adapt to prevailing economic conditions.

### **Limitations and Future Research**

This article has sought to address three key objectives: to describe the motivations in having a political-connected individual join a corporate board; the disadvantages in doing so; and the selection criteria when assessing particular prospects. We surveyed experienced board members in Canada that had served not just on corporate boards but in a variety of other organizational types. We employed resource dependence theory to assess the implications of our findings for members of both the academic and practitioner communities while contextualizing our study within the literature. This provided added value compared to the extant literature which historically has over-emphasized the American context, the use of archival data, and the use of agency theory (Pugliese et al, 2009). Thus our article provides a novel contribution to the field by exploring in greater depth the nuances of politically-connected directors in a less well-studied geographic context. While the Canadian political system, with its Westminster style of government is shared by many Commonwealth countries across the globe, our singular Canadian

focus may not be generalizable in all circumstances. Further, while our study was large and diverse in terms of respondents' board experiences, a common characteristic is that all are alumni of the Directors College, a shared program offered by McMaster University and the Conference Board of Canada; our convenience sample may not be fully representative of the views of all corporate directors in Canada.

In the future, our field would benefit from additional research examining the relative importance of the different benefits identified by Pfeffer and Salancik (1978), and the conditions under which boards are willing to undertake trade-offs of one benefit for another. Additionally, the divide between seeking politically-connected directors as the source of these benefits and the use of government relations departments in the acquisition of these benefits could prove of interest. Finally, more research in to the recruitment processes firms use to appeal to prospective politically-connected directors, the timing of their approach (before or after their exit from government), and comparisons to recruitment of non-politically-connected directors would add value to our field. Such research would further our understanding of the dynamic conditions involved in director selection wherein the prospective candidates are ex-politicians and former government officials.

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## **LEADERSHIP'S EFFECTS ON EMPLOYEE WELL-BEING: SYNTHESIZING THE QUALITATIVE EVIDENCE**

The scholarly literature related to leadership and well-being has involved relatively few qualitative studies. We sought to synthesize current qualitative literature relating to leadership's effects on employee well-being in order to broaden our understanding of leadership and well-being, as well as compare the qualitative and quantitative approaches to this important topic.

Leaders at all levels of an organization's hierarchy can have considerable impact on the well-being of their employees (Gilbreath & Benson, 2004; Kuoppala, Lamminpää, Liira, & Vainio, 2008; Skakon, Nielsen, Borg, & Guzman, 2010). Most people spend a large portion of their lives at work and, consequently, under the influence of organizational leaders. The average working Canadian, for example, spends thirty hours per week at work, which accounts for over a quarter of weekly waking life (Statistics Canada, 2015). Understanding employee well-being and how to enhance it is of critical importance. In the present paper we focus on leadership as a major influencer within the complex web of organizational factors that influence employee well-being. The purpose of this study was to synthesize qualitative research on leadership and well-being, to compare it to quantitative findings, and to determine the extent to which evidence from different paradigms converges or offers diverse insights on this important topic. We begin with an overview of the existing quantitative research on leadership and well-being before discussing qualitative approaches to research and our systematic review of qualitative studies in this area.

### **Defining Well-Being**

Well-being refers to "the state of being comfortable, healthy, or happy" (Oxford English Dictionary, 2015) yet it is not a discrete, consistently operationalized concept. To date, conceptualizations of well-being at work include burnout, organizational commitment, and quality of working life (Kara, Uysal, Sirgy, & Lee, 2013); occupational stress (Dobrevva-Martino, Villeneuve, Strickland, & Matheson, 2002); positive feelings one has towards oneself in a work environment (Van Dierendonck, Haynes, Borrill, & Stride, 2004); lack of depression and anxiety, and positive mood (Shier & Graham, 2011). Systematic reviews of the quantitative research have synthesized these findings into broader concepts of well-being that include job satisfaction, emotional exhaustion, and job balance (Kuoppala et al., 2008; Skakon et al., 2010). These various conceptions and operational definitions provide insight into the nature of well-being, illuminate its malleability, and its inherent subjectivity.

## Perspectives on Leadership and Relations with Employee Well-Being

From the quantitative research literature we see leader support and consideration among the most significant behavioral influencers of employee well-being (Kuoppala et al., 2008; Skakon et al., 2010). *Supportive leadership* involves a leader showing care towards employees' feelings, concerns, performance, and other personal factors. Employees supported by their leaders often feel more comfortable and committed at work, and have generally higher well-being (Dobrevá-Martínová et al., 2002; Hakanen, Bakker, & Schaufeli, 2006; Moyle, 1998; Rhoades & Heisenberg, 2002). In contrast, leaders who behave in negative and abusive ways towards employees are likely to hinder employees' well-being (Harris & Kacmar, 2005; Tepper, 2000; Yukhymenko-Lescroart, Brown, & Paskus, 2014). Negative interactions have been found to relate to employees' decreased organizational commitment, job satisfaction, and life satisfaction; and increased psychological distress and depression (Tepper, 2000).

The impact of leader support and consideration may in part be explained by Bowlby's (1969) theory of attachment (Hudson, 2013). Leaders who are able to form secure attachments with others may positively influence employee well-being by providing a secure base of support (Hudson, 2013). Hackman and Wageman (2007) noted that secure leaders are better able to achieve organizational goals and focus on employees, as they are not preoccupied with their own insecurity. Hudson (2013) mentioned how such leaders provide employees with support and a secure base, while working to develop employees' self-esteem and confidence. Healthy leader-follower relationships resulting from secure leaders were noted to bring meaning and value to employees' work, allow employees to feel comfortable being creative, and lessen employee stress (Hudson, 2013). In contrast, unhealthy relationships formed by insecure leaders have been shown to lead to symptoms of stress and stress-related illnesses (Cooper & Payne, 1991), as well as contribute to low levels of follower satisfaction, motivation, and involvement (Hudson, 2013).

The importance of leader support and consideration is highlighted in Greenleaf's (2002) theory of *servant leadership* (Lanctot & Irving, 2007). Servant leadership focuses on ethics, virtue, and morality, and emphasizes employee welfare and well-being. Spears (1998) outlined the main qualities that constitute a servant leader – listening ability, empathy, interpersonal and self-awareness, stewardship, and commitment to people's growth. Jaramillo, Grisaffe, Chonko, and Roberts (2009) argued that subordinate welfare is the very essence of servant leadership. In addition, Chung, Jung, Kyle, and Petrick (2010) outlined two foundational factors of servant leadership – trust in leader and leader support. Supportive leadership behaviours are consistent with a servant leadership perspective with research demonstrating that servant leadership enhances fair treatment, team effectiveness, and trust (Parris & Peachey, 2013).

*Leader-member exchange theory (LMX)* adopts the notion that leaders vary in their treatment of certain employee groups. Members of an "in-group" develop high quality relationships with the leader, based on trust and respect; whereas members of an "out-group" form distant and contractual relationships with the leader (Liden, Erdogan, Wayne, & Sparrowe, 2006). The effects of high-quality LMX have typically shown positive results relating to employee well-being. Zhang, Tsingan, and Zhang (2013) found that high-quality LMX reduced the effects of stressors which lead to higher job satisfaction and lower turnover intentions. Epitropaki and Martin (2005) found

that high quality LMX relationships between leaders and employees were positively related to job satisfaction, well-being, and organizational commitment. Conversely, there is also evidence that some employees (e.g., those with high negative affect) do not benefit from high quality LMX, and instead experience high levels of work tension (Brouer & Harris, 2007). Furthermore, the larger the perceived difference between a leader's favoured and non-favoured groups, the lower was overall employee satisfaction and well-being. "Out-group" employees showed the highest levels of work tension (Brouer & Harris, 2007). The LMX research demonstrates the importance of the nature of leader-employee relationships on employee well-being.

Bass's *Full Range Leadership Model* may also be used to help us understand relations between leadership behaviors and employee well-being (Bass, 1990; Bass, & Riggio, 2006). This model is comprised of three main leadership approaches. The first approach, *transformational leadership*, focuses on the leader inspiring and motivating employees with a strong vision while providing intellectual stimulation and individualized consideration. This style of leadership consistently shows positive effects for employee well-being and related factors. For example, Arnold and Connelly (2013) found transformational leadership improved employees' feelings of involvement, cohesiveness, commitment, performance, and engagement. What's more, investigations of this leadership style on employee burnout found that employees tended to experience less burnout when transformational leadership was used (Densten, 2005; Leithwood et al., 1996; Seltzer et al., 2005; Sosik & Godshalk, 2000).

The second style, *transactional leadership*, focuses on the leader providing contingent rewards based on employee performance, and taking action to respond to deviations from norms (Bass, 1990; Bass, & Riggio, 2006). Whereas transactional leadership does not inherently negatively affect employee well-being, it has been shown consistently to be less closely related than has transformational leadership to well-being criteria (Skakon et al., 2010). Transactional elements can have positive impact on employee well-being when incorporated into an overall transformational leadership philosophy (Bass, 1999).

*Laissez-faire or passive leadership* is the third style within the full range leadership model and has been associated with the most detrimental results. Bass (1998) noted that laissez-faire leadership is significantly less effective than are transformational or transactional leadership in virtually all organizations. In their meta-analysis, Judge and Piccolo (2004) found laissez-faire leadership to negatively affect the same factors that were positively affected by transformational leadership; namely job satisfaction, satisfaction with leader, and perceived leader effectiveness. Skogstad, Einarsen, Torsheim, Aasland, and Hetland (2007) argued that laissez-faire leadership is in fact a type of destructive leadership. The effect of leader inaction is far from neutral. Laissez-faire leadership has been linked with higher amounts of employee bullying as well as role conflict, role ambiguity, and employee conflict (Skorgstad et al., 2007).

A leader's personality, positive work attitudes and feelings, and emotional intelligence have all been identified as important prerequisites of effective transformational leadership (Walter & Bruch, 2009). Based upon their systematic review, Walter and Bruch (2009) created a model that outlines the importance of positive leader affect for transformational leadership. A leader's emotional intelligence was found to play an important and complex role in this model. In essence, high

levels of emotional intelligence can act as a buffer when leaders are experiencing negative affect. A leader who has high emotional intelligence and is experiencing negative affect can “ignore” a certain amount of the negative affect in order to still produce transformational leadership.

A leader’s ability to regulate his or her emotions is important for employee well-being since emotions can be contagious. Researchers examining emotional contagion experimentally have found that positive emotions displayed by a leader increased followers’ positive moods (Bono & Ilies, 2006). These findings have been further substantiated by evidence that a leader’s high level of stress or poor well-being has been associated with employees’ high levels of stress and poor well-being (Skakon et al., 2010). Hackman and Wageman (2007) argued that a leader’s ability to avoid high stress and poor well-being is likely linked to support they receive from their own leader. This likely indicates the need for a continual chain of leader support throughout an organizational hierarchy in order to facilitate well-being throughout the organization.

### **Potential Contributions of Qualitative Research on Leadership and Well-Being**

There is no doubt that the current research provides us with various approaches, conceptualizations, and findings relating to leadership’s effects on employee well-being. However, we noticed that the extant knowledge base in this area is based primarily on quantitative research and seems to be lacking in-depth qualitative research. Quantitative work generally focuses on using existing theoretical models to identify constructs to measure numerically and analyze statistically to identify relations with other variables within those models. Occasionally, quantitative researchers have also used experimental manipulations. The measures used in such studies are meant to reflect participants’ feelings, perceptions, attitudes, beliefs, and behaviours. Unfortunately, we still have little insight into the lived experiences of employees from descriptions in their own words. The quantitative research fails to capture the personal nature of these concepts, including employees’ accounts of how leaders have affected the employees’ well-being.

Various approaches to qualitative research exist, but generally the *people* aspect takes a more fundamental position in qualitative than in quantitative studies. Qualitative research focuses on human responses intimately embedded in their contexts. Qualitative work does not typically aim to measure various psychological constructs, but allows participants to express subjective meanings in their own language. Qualitative research is becoming more accepted and prominent in organizational research (Gephart, 2004; Pratt, 2008). However, the amount of qualitative work on leadership and well-being is significantly overshadowed by quantitative work. Several comprehensive reviews of the quantitative literature exist in this domain (Donaldson-Feilder et al., 2013; Kuoppala et al., 2008; Skakon et al., 2010; Walter, & Bruch, 2009). Our search uncovered no systematic reviews that included, let alone dealt exclusively with, qualitative literature related to leaders’ effects on employee well-being. Skakon et al. (2010) recognized this issue in their systematic review and called specifically for more qualitative research.

Our aim in the present study was to integrate current qualitative literature relating to leadership and employee well-being. By bringing together the concepts, themes, and findings of the qualitative literature we hoped to broaden our collective understanding of leadership and well-being through in-depth accounts by those involved. This study also sought to compare and contrast the

findings and approaches of this qualitative literature with current quantitative literature in order to determine commonalities, divergences, contextual factors, and new understandings of concepts within this important research area.

## **Method**

The crucial criterion for inclusion of a primary study in the present systematic review was that the primary study had to have used a qualitative methodology to study leadership and employee well-being. PsycINFO was the main database we considered, with nearly all reviewed studies being drawn from it. Other databases including, PsycARTICLES, ERIC, and Business Source Complete were considered briefly. However, since they provide no methodological filters the latter databases are not discussed further. PsycINFO provided both a methodological filter and appropriate substantive content.

The overall process of this systematic review was informed by Craig, Sainsbury, and Tong (2007), and Meline (2006). We adapted the seven-step process for conducting a systematic review outlined by Meline, Meline, and Craig et al.'s suggestions for determining the relevance and quality of studies were instructive and guided the creation of our specific selection criteria.

### **Selection Criteria**

Only scholarly articles published in the period of 2005-2015 were considered. These publish date constraints were used to focus on recent research. Qualitative studies often situate themselves within a context of current quantitative-informed paradigms of leadership; and thus, often comment on, or are critical of, these modern paradigms. This fact lends itself to an aim of this study, being to contrast qualitative and quantitative research on leadership and well-being.

Primary studies had to focus explicitly on leader actions and their effect on employee well-being, or concepts related to well-being. We sought qualitative studies specifically and were open to any methodological approach that was qualitative in nature. An included study had to report, at least partially, employee responses and attitudes. Studies that only reported on leader perspectives were omitted. The overall quality of studies was also considered using the Craig et al. (2007) thirty-two item checklist for reporting qualitative studies. We were only able to consider studies written in, or translated to, English, though no restrictions were placed on the culture of study participants.

The main keyword categories for our search were: Leader, Employee, and Well-Being. Keywords used in the Leader category included, "leader", "leadership", "manager" and "supervisor". Keywords used in the Employee category included, "employee", "subordinate", and "follower". Keywords used in the Well-Being category included, "well-being", "job satisfaction", "organizational health", "organizational wellness", and "organizational support". From these keywords 267 studies were retrieved. After title, abstract, and methodology screening, the total of relevant studies was reduced to 25. After full text screening of these 25 studies, the number of relevant studies was reduced to nine.

In addition to the studies identified via PsycINFO, one additional study was obtained from a request sent to the Academy of Management’s Organizational Behavior Listserv. This request specifically asked for qualitative studies, published or unpublished, that examined leader actions and employee well-being or work attitudes. The obtained study was screened by title and abstract, as well as full text. It was then accepted as a relevant study, bringing the total number of relevant, included studies to ten (see Table 1). The first author led the development and implementation of the search strategy, consulting with the research team in the development of the inclusion and exclusion criteria. The first author conducted the searches, screened studies for inclusion or exclusion, and conducted the detailed review of primary studies.

Table 1

**Qualitative Studies Included in the Systematic Review**

Study	Focus of Study	Participants	Data Collection Method	Analysis Method
Carter & Baghurst (2014)	Employee perspective on servant leadership	11 employees from a servant leadership led restaurant	Focus groups, documented data, observation	Van Kam method of data analysis
Cunliffe & Eriksen (2011)	Relational leadership theory	6 Federal Security Directors, 4 Screeners at 6 US airports	Ethnography: Semi-structured interviews	Abduction: Seeking “surprises” in the data
Dhar (2012)	Employee perceptions of organizational support	36 project managers, team leaders, executives of an Indian IT company	Semi-structured interviews	Hermeneutic phenomenological analysis
Hulpia & Devos (2010)	Distributed leadership and organizational commitment	59 principals, assistant-principals, teachers	Semi-structured open ended interviews, focus group	Comparative analysis
Karakas & Sarigollu (2013)	Benevolent leadership & creating virtuous & compassionate organizations	32 managers, employees and other stakeholders of an Anatolian Tiger company	Semi-structured interviews	Interpretive phenomenological analysis: Narrative inquiry
MacDermid et al. (2008)	Workers’ views of workplace health	40 male and female workers from both traditional and emergent employment	4 semi-structured interviews, 7 focus groups	Thematic analysis

Parry & Kempster (2014)	Follower narratives experiencing charismatic leadership	Executives and MBA students in executive development programmes	Focus groups	Aesthetic narrative positivism
Wallis, Yammarino, & Feyerherm (2011)	Individualized leadership dyadic relationships	Leader-subordinate pairs of senior executives	One-on-one semi-structured interviews	Thematic analysis
Wallo, Ellström, & Kock (2013)	Managers' and co-workers' understanding of leadership in an industrial organization	4 managers, 14 first-line managers, 17 operators	Case Study: semi-structured interviews	Thematic analysis
Shier & Graham (2011)	Factors that impact social workers' subjective well-being	13 social workers who had the highest scores on a subjective well-being measure	Ethnography: semi-structured interviews	Analytic induction

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### Analysis Strategy

The ten research articles deemed relevant for this study were reviewed thoroughly and analyzed for common themes. Much like the qualitative studies themselves, the results and themes within this study are interpretive in nature. That is, our systematic review is an example of an interpretive synthesis (Rousseau et al., 2008). Preliminary themes were identified by synthesizing employee and leader reports. Those themes were then applied across all ten studies and further adjusted and refined. The authors of specific primary studies explicitly outlined some of these themes whereas other themes have been organically interpreted from study findings. Given the contextual and interpretive nature of leadership and well-being, our understanding of their relationship can never be truly complete. Like other interpretive syntheses, our findings provide possible rather than definitive explanations and insights (Rousseau et al., 2008).

## Results

### Leader Support, Commitment, and Loyalty

Nine out of the ten primary studies mentioned the importance of leader support, or commitment/loyalty for employee well-being. Followers used metaphors of support when describing positive feelings towards their leaders. A “flotation device in a sea of doubts,” and an “oasis in the

desert” were used to describe the support employees felt from their leader (Parry & Kempster, 2014). Employees receiving support from leaders, through guidance and supervision, reported positive feelings towards their supervisor, feelings of belongingness and commitment to their organization, as well as increased morale (Dhar, 2012).

The importance of leaders supporting employee self-worth was commonly mentioned throughout the studies. Leaders practicing individualized leadership were able to show support for employee self-worth by trusting their employees, as well as believing in their abilities, integrity, and personal motivation (Wallis, Yammarino, & Feyerherm, 2011). An employee from the Wallis et al. study explained:

*Even just yesterday, she came down here and we had just terminated one of our physician groups...and I guess I appeared somewhat frazzled, so last night she called me at home to say, 'Are you okay? You're my barometer, so when you're frazzled then I know...it's affecting others.' It's just her sensitivity and taking the time to call me to see what was doing... It's like the best possible situation. Somebody who I feel extremely comfortable with, sharing my feelings, I don't have to worry about any kind of political games or issues, I tell her what's on my mind, and she accepts me! (p. 193)*

Leader-follower relationships that prioritized elements of support had strong impacts on employee well-being, with employees reporting feelings of validation (Wallis et al., 2011), honour in belonging (Shier & Graham, 2011), safety (Parry & Kempster, 2014), and team cohesion and respect (Hulpia & Devos, 2010). Employee feelings of self-worth support were also reported when leaders respected and valued employee opinions, and allowed employees to have a voice (Shier & Graham, 2011). In contrast, leaders perceived as needlessly authoritative and power hungry fostered unhealthy work environments and poor well-being (Carter & Baghurst, 2014; Shier & Graham, 2011).

Middle-management, being visible as both leaders and followers, also spoke to the importance of commitment, particularly their commitment to their own subordinates (Wallo, Ellstrom, & Kock, 2013). Leaders' commitment to their employees facilitated their position as a role-model and enhanced employee participation, commitment, and positive relationships. Employees also reported notions of positive well-being when managers showed commitment to employee health and safety (MacDermid, Geldart, Williams, Westmorland, Lin, & Shannon, 2008).

Servant leadership has an explicit focus on employee support and well-being, and is often considered to prioritize employees over any other organizational concern (Carter & Baghurst, 2014; Jaramillo, Grisaffe, Chonko, & Roberts, 2009). Carter and Baghurst focused exclusively on an organization practicing servant leadership and found generally positive reports from employees. Servant leaders actively worked to provide support for their employees' success. This commitment to employees was also seen in benevolent leadership (Karakas & Sarigollu, 2013). Leaders in a benevolent leadership organization focused on establishing environments that facilitate total support for employees, from material, to emotional, to educational, and to an extent, familial. Employees

reported feeling compassion and care from their leaders and coworkers. Prioritizing employee support over such things like administrative duties or profits seems to have general positive effects for employee well-being.

### **Leader-Follower Relationships**

The theme of leader-follower relationships is substantively similar to the leader support theme and was almost as prevalent in the primary studies. Employees sometimes mentioned notions of loyalty and commitment in a familial sense, regarding their leaders as similar to a family member (Karakas & Sarigollu, 2013; Parry & Kempster, 2014). Interestingly, these notions were sometimes accompanied by reports of “tough-love” or familial-like anger towards the leader. This illustrates the complex nature of these relationships (Parry & Kempster, 2014). Feeling of brotherly love and parent-like support were reported as positive influences at work for employees:

*[My leader] has been as close to me as my own brother. He even helped me organize my wedding. He is my mentor. I rely on him as my spiritual guide and I seek advice from him. His time, energy, and patience have no limits. He is an extremely sincere and modest person. I feel very lucky to know him (Karakas & Sarigollu, 2013, p. 670).*

Seven out of the ten studies mentioned leader-follower relationships, with employees reported the benefits of having positive relationships with their direct leader or supervisor. The benefits of a healthy leader-follower relationship, established with trust and openness, are clearly outlined by a satisfied employee:

*I couldn't be successful in my job without the relationship I had with Mary because she runs with that senior group, and so she was able to do lots of context setting for me and also to be a thought-partner on difficult issues, and because we had amazing trust in our relationship, I could feel free to talk with her about all the confidential stuff I was hearing and knew was going on, and she could feel free to do the same. And in that context we could figure out, okay, what's best for the organization, what's best for the client, and how can we work together to resolve that (Wallis, Yammarino, & Feyerherm, 2011, p. 192).*

Employees noted the benefits of being viewed as independently able, yet emphasized the importance of a positive interdependent relationship between themselves and their leader (Wallis et al., 2011). Overall, leader-follower relationships were seen as important by both leaders and followers, and were commonly recognized as being a crucial facet of effective organizations (Cunliffe & Eriksen, 2011; Shier & Graham, 2011; Wallo et al., 2013).

Benefits for well-being were reported by employees whose leaders focused on establishing healthy relationships. An organization shifting its leadership philosophy from task-oriented, process-oriented, and authoritative to team-management and relationship-oriented saw benefits for employees. Employees reported that leaders were more sensitive to their needs and provided them

more autonomy (Wallo et al., 2013). The importance of the leader-follower relationship has also been noted as more important than effective leadership practices (Shier & Graham, 2011), with an employee's relationship with their direct supervisor being their most salient work relationship and having the greatest potential to positively or negatively impact their well-being (MacDermid et al., 2008). Leader-follower relationships have also been conceptualized as the foundation of charismatic leadership (Parry & Kempster, 2014). Effective relationships facilitate effective charismatic leadership, which led to employee reports of warmth, affection, and support.

Not only has the leader-follower relationship been considered the foundation of charismatic leadership, but it has also been considered the foundation of leadership itself. It has been noted that leaders, by necessity, are in relation with others. Through leaders' recognition of this fundamental reality, along with their commitment to foster good relationships, employee well-being is enhanced (Cunliffe, & Eriksen, 2011). Effective leaders value employees as humans with whom to build relationships, as opposed to manipulable objects within a system. This view focuses on the human value of both members of a relationship, and facilitates individualized treatment as well as notions of growth and development (Parry & Kempster, 2014; Wallis et al., 2011).

### **Dialogue and Communication**

The interpersonal nature of leadership demands a great deal of communication from leaders and the quality of this communication can impact employee well-being. The importance of this theme is apparent in that six of the ten primary studies mentioned the importance of communication. Employees reported positive well-being when their leader was consistently available for open communication with employees (MacDermid et al., 2008). Otherwise, employees reported feelings of bitterness and lack of respect for their supervisor. Quality communication between leaders and followers was also shown to build cohesion and trust. Employees in an educational environment felt this communication to be far more important than rules, procedures, or task-specialization in promoting their well-being (Hulpia & Devos, 2010).

Leader-follower communication provides a means of showing support and building relationships (i.e., communication is integral to the two themes reported previously). For example, employees reported the importance of their ideas being heard and valued by their leaders for employees' self-worth (MacDermid et al., 2008; Shier & Graham 2011). A leader being actively available and visible for communication with employees is a key social competence of leaders (Hulpia & Devos, 2010) and both leaders and employees have reported that leaders need social competence (Wallo et al., 2013). Employees reported substantially lower organizational commitment when leaders avoided communication, or did not make themselves visible. Communication within employee teams, involving leaders or not, is also important to employees (Wallo et al., 2013). Developing environments that facilitate strong employee-to-employee communications should help foster peer relationships (Hulpia & Devos, 2010; Wallo et al., 2013).

Several studies point to the dialogical nature of leadership, and how interpersonal communication is its very foundation (Cunliffe & Eriksen, 2011; Parry & Kempster, 2014; Wallis et al., 2011). Leaders providing employees with individualized treatment—shown to be highly positive for employee well-being—have emphasized the dialogical nature of their leadership (Wallis et al.,

2011). It is within leader-employee dialogues that shared meanings are created, as well as beneficial employee contributions and participation. Thus, leadership communication is conceptualized as an active process by which leaders engage in dialogue—as opposed to leader-centric monologue—in order to discover meaning and facilitate employee well-being (Cunliffe & Eriksen, 2011). Effective leaders use these dialogues to question, provoke, answer, agree, and object with employees, as opposed to dictating and ordering employees. The positive effect of this process is outlined by an employee from the Wallo et al. (2013) study: *“The best is if someone comes with a problem and asks, “What should we do in this case? What do you think?” Then there is a dialogue right away, and a solution is found... It feels good.”* (p.230)

### **Employee Empowerment**

In five of the ten primary studies, employee empowerment was mentioned as positively impacting well-being. The studies examining servant and benevolent leadership philosophies outlined employee empowerment as an integral leadership practice (Carter & Baghurst, 2014; Karakas & Sarigollu, 2013). These leadership styles prioritize employees over other organizational concerns, and thus work to support and empower them. Employee empowerment is not limited to these leadership styles, however, as employees seem to respond to empowerment in various organizational environments.

In leader-follower dyads characterized by individualized leadership, followers often felt empowered by their leaders as a result of trust and respect being shown by the leader (Wallis et al., 2011). Leaders empowered their followers by providing them with increased responsibility and autonomy, in conjunction with support and trust in their abilities. As a result, employees reported feeling motivated and inspired to do their best. Leaders rewarded employee performance with further responsibilities. It was these intangible rewards of increased challenge and responsibility that were emphasized as most meaningful by employees (Wallis et al., 2001).

Intangible benefits resulting from empowerment seem to be consistently valued by employees. Leaders emphasizing employee empowerment by allowing participative decision making were part of environments with higher employee organizational commitment and satisfaction (Hulpia & Devos, 2010). A principal within such an organization discussed the importance of employee empowerment in this respect: *“The school is carried by the whole school team, not a middle layer selected by the principal. I want to run the school with the whole team. If teachers are not empowered, it fails”* (p 571).

Employees also reported finding the intangible—in this case, the social, cultural, and mental—as more meaningful and impactful on their overall well-being than the tangible and safety hazards (MacDermid et al., 2008). Thus, employee empowerment, participative decision making in particular, was identified as a solution to increase employee well-being.

## Personal Growth and Development

Empowerment is one means of fostering personal growth and development. Four of the ten primary studies had leaders or employees describe the importance of personal growth and development. The ability for employees to develop themselves within their work environment is often linked with notions of well-being (Carter & Baghurst, 2014; Hulpia & Devos, 2010; Karakas & Sarigollu, 2013). Similarly, leaders focusing on their own personal development were seen to positively influence employee well-being.

The studies examining servant and benevolent leadership outlined an explicit focus on employee growth within their leadership philosophies (Carter & Baghurst, 2014; Karakas & Sarigollu, 2013). For benevolent leadership, in particular, the leader established an organization that works to enrich the lives of people spiritually and emotionally, more so than materialistically. Employees are inspired and motivated to grow and strive for betterment:

*I am in a continuous battle with myself. I am in search for a better self—more compassionate, kind, and considerate. If you ever want to progress and transcend yourself, you need to engage in constant reflection and struggle with yourself. You have to keep questioning yourself each and every minute. You have to go beyond comfort and convenience, and always force yourself to pursue challenges. It is not easy, but this constant striving and self-awareness is the key to progress and positive change (Karakas & Sarigollu, 2013, p. 671).*

Employee development through learning has also been connected to positive effects for employee well-being (Wallo et al., 2013). Linked with empowerment, personal development through learning develops employee confidence in their skills and motivation to do their work. Organizations that emphasize personal and professional development tend to have higher commitment and satisfaction among employees (Hulpia & Devos, 2010). In contrast, organizations with a lack of concern and direction for personal growth have been linked with lower employee commitment and satisfaction. These issues were discussed by a teacher from Hulpia and Devos' (2010) study who outlined her leader's lack of support for the development of the staff: "*We have to solve our own problems. The principal loses himself in details. The important things, like supporting and encouraging teachers, that doesn't happen*" (p. 569). The principal recognized these issues within the organization: "*A self-evaluation revealed that in our school there is a lack of communication and a lack of appreciation from the leaders towards the teachers. And it's true, teachers do need more support, but I don't know how*" (p. 569).

Leaders' focus on their personal development was also linked to benefits for employee well-being (Karakas & Sarigollu, 2013; Wallo et al., 2013). Some leaders mentioned the importance of developing their own selves, and through this, coming to know oneself as a manager. Leaders felt this made them better able to lead and facilitate the development of their employees (Wallo et al., 2013). Leaders also mentioned the necessity of self-questioning and monitoring in order to avoid self-centeredness. These processes allow the leader to stay committed to the best interests of their employees, as opposed to their own interests (Karakas & Sarigollu, 2013).

## Discussion

Having examined available qualitative studies related to leadership and employee well-being, it is clear that there is support for many of the theories derived from the quantitative research. Much of the qualitative research uses concepts similar to those found in the quantitative studies and theories synthesized previously (Kuoppala et al., 2008; Skakon et al., 2010). For example, fundamental factors of Bass' transformational leadership – consideration, support, stimulation and growth – make up significant themes within the qualitative literature. In addition, there is general consistency in the language used to describe various leadership approaches. Both the quantitative and qualitative research agree on the importance of leaders supporting their employees, facilitating effective communication, as well as empowering, growing, and stimulating employees. These similarities between the methodologies provide converging evidence for the styles of leadership that are beneficial for employee well-being. However, the qualitative literature also makes some distinct contributions. The understanding of leadership as a concept, and the language surrounding it, is not equivalent between the methodologies. The qualitative literature challenges various notions that are often embedded within the quantitative literature.

### **Divergences in Leader Focus and the Power of the Follower**

The current models of leadership, informed by quantitative research, are often leader-centric. They tend to focus on top-down determinations of important leader characteristics, traits, and actions that are deemed to be foundational to a leadership style and can be adopted by others (Perry & Kempster, 2014). These conceptions of leadership, referred to as essentialist, often view followers as quasi-sterile items within organizational systems that are manipulated by leaders. Certain qualitative approaches to leadership challenge this concept of leadership by placing more emphasis on the follower (e.g. Auvinen, Aaltio, Blomqvist, 2013; Hulpia & Devos, 2010; Perry & Kempster, 2014;). Perry and Kempster (2014), for example, challenged the notion that charismatic leadership involves a particular set of traits, and argued that it is instead defined from the bottom-up by perceptions of the followers. They argued that the follower in a charismatic leadership relationship, in fact, has more influence in the relationship than the leader does because it is the follower that judges the extent to which the leadership is charismatic and whether or not that is perceived favourably in the workplace. Similarly, Wallis et al. (2011) argued that the follower has a great deal of influence in deciding whether or not, or to what extent, to respond to effective leadership practices. Factors often conceptualized within an effective leadership relationship such as trust, respect, and acceptance are argued to require a significant amount of input from the follower as well as the leader. Even the best leadership characteristics will not result in employee well-being if the employees themselves are not believers in the process.

As a result of the leader-centric and comprehensive models of leadership, a “hero-” or “saviour-like” conception of leaders can often emerge. These models conceptualize leaders as single discrete entities who “save” their organization from harm. It is the leader who acts and the follower who responds (Alvesson & Sveningsson, 2003; Hulpia & Devos, 2010). In contrast to the “lone hero” conception of leaders, Hulpia and Devos (2010) outlined the importance of distributed leadership, in which leadership practices are dispersed across a team. Leadership practiced in this way was shown to be very beneficial for employees, who were also participating as leaders.

By giving employees an active role in leadership, leaders encourage ownership of and investment in the governance and success of their workplace environment.

### **Leadership as a Social Identity**

Leadership is, by necessity, a social practice. Though its social nature is not entirely neglected by the quantitative literature, notions of how and where the “social” fits into leadership can vary substantially between quantitative and qualitative work. Within the qualitative literature leadership is frequently conceptualized as a socially-constructed identity, or as existing within a context of social-construction. This is in stark contrast to conceptualizations within the quantitative research, where the focus is more often what leaders do as opposed to who leaders are.

In quantitative research, the social aspect of leadership is central, yet not foundational. Understandings of leadership operating within the quantitative literature tend to conceptualize leadership as a process, or system, which is implemented in social scenarios. In qualitative understandings of leadership, the social is commonly viewed as foundational—the social scenario is the very event that constitutes leadership. Auvinene et al. (2013) offered an important clarification: the leader is viewed as an identity that is created in the social realm, not an identity that steps into the social realm in order to influence it. They view both the leader and organization as a sharing of interpretations and meanings that allow for organized activity. In line with this, Alvesson and Sveningsson’s (2003) notion of leaders “extra-ordinizing” mundane activities leads to conceptualizing leadership as something akin to a “collective faith” within organizations.

Parry and Kempster (2014) offered a social-constructionist view of leadership by conceptualizing it as created through dialogue and relationships. The organic nature of these concepts is reflected in their notion of leader and follower identities as “emerging and becoming” relationships. Cunliffe and Eriksen (2011) reached a similar conclusion by starting with an overall relational ontology of leadership. This ontology was ideologically applied to leadership scenarios in order to view leaders as constituted by their relations to others. Cunliffe and Eriksen thus conceptualized leaders as embedded in an intersubjective, dialogical reality. In this light, organizations come to be understood as communities and conversations, rather than systems.

### **Limitations of this Study**

Inherent limitations of qualitative research are present in this synthesis. In addition, there are limitations within interpretive synthesis as a methodology. Whereas interpretive synthesis has the benefit of evaluating both data and interpretations of data from multiple studies, the explicit focus on human experience can cause internal validity and effect sizes to be ignored or downplayed (Rousseau et al., 2008). What’s more, systematic reviews in general are most commonly used by quantitative studies. Many qualitative studies challenge the current quantitative informed paradigms, and attempt to situate themselves outside of them. Thus, conducting a systematic review of the qualitative literature may simply be re-entering these qualitative understandings into quantitative informed approaches; and thus removing some of their intended value. Qualitative researchers critical of the use of interpretive synthesis have referred to this as “context-stripping” (Rousseau et

al., 2008), as the narrative and contextual nature of qualitative research may simply be most valuable in its original, solitary, form.

A further limitation of this study is that a systematic review of the quantitative literature was not conducted simultaneously. This review, instead, relied upon findings from previous literature reviews of the quantitative literature. As a result, the comparisons made between the two methodologies may be somewhat incomplete. Finally, the general lack of qualitative research in this area limits the insights and conclusions that can be offered. If more qualitative work existed in this area, the themes and overall findings of this study could be refined.

## **Implications**

Qualitative work is not only valuable in and of itself, it also has the ability to enhance and progress quantitative research. The types of data obtained from qualitative work, often being narrative in nature, have the ability to provoke critical thought as well as valuable questions. These two methodologies can also work in tandem through methodological triangulation in order to illuminate a research topic from multiple directions and highlight where there is and is not converging evidence.

Qualitative research stimulates a focus on the subjective person and allows for theories to be informed by the study participants more directly. This allows for practical, ground-up, people-oriented theories that relate in a direct way to their subject matter. However, there still remain important research questions related to leadership and well-being that have been left relatively untouched. The concept of well-being itself, for example, deserves more attention with qualitative approaches. The notion of “what is a leader?” is often more heavily studied, while investigations into conceptions of well-being are relatively scarce. Qualitative investigations focusing on the nature of well-being and how it is experienced by employees would be enlightening.

Achieving effective leadership is not a simple task. The complexities and shifting landscapes in which leaders work means that leadership can be considered “a chain of improvisational steps in significantly fragmented work practices” (Wallo et al., 2013, p. 229). Leaders may desire to be effective, but simply “*don’t know how*” (e.g., Hulpia & Devos, 2010, p. 569). This illuminates the need for leadership education and development to foster employee well-being and organizational effectiveness. Qualitative research has potential to provide memorable and actionable lessons for practice, grounded in cumulative knowledge. For example, “stories are effective teaching tools” because they inspire people to act and provide knowledge about how to act effectively (Heath & Heath, 2008, pp. 205-206).

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## **DIFFERENCES IN STUDENT JOB ATTRIBUTE PREFERENCES FOR SMES AND MNCs IN UGANDA**

Increasing graduate employment in SMEs is a challenge in many sub-Saharan countries. This study analyzes career prospects of undergraduates in Uganda by establishing which job attributes predict overall attraction to SMEs and MNCs by gender. The study utilized a systematic sample of under graduates to rate 17 job attributes. SMEs are rated poorly on all attributes compared to MNCs.

### **Graduate unemployment in Uganda**

The current credit crunch is predicted to have adverse effects for the developing world. The ILO (in Naude, 2009) predicts that unemployment will rise by 20 million across the world, since many companies are likely to scale down their activities. Graduates in the developing world are likely to face more unemployment as Multi National Corporations (MNCs) restrict their operations. Kotler & Armstrong (2004) define MNCs as firms whose activities are carried out in more than one country. Policy makers must seek avenues to reduce graduate unemployment rates and growing graduate underutilization. Graduate unemployment is a major problem in Uganda, a country with 32.9 million people, the majority of who are young people (UBOS, 2011). The number of universities in this country had increased to 21 by 2007 (UNCHE, 2007), up from one in 1922 (Makerere University) i.e. four public and 17 private, while university student population per annum had risen from 5000 in the 1970's to 137,190 by 2006. As of 2013, there was over 45 degree awarding institutions in the country (Campus Times 2013). Of the 390,000 students who finish tertiary education each year, only 8000 have jobs to fight for in the formal sector, thus the unemployment rate stands at 80% and underemployment stands at 17% (NCDC, 2011). The unemployment problem has been compounded by downsizing in the public sector as well as privatization of government parastatals and could be partly mitigated if graduates were willing to work with SMEs.

SMEs are the sector in which the entrepreneurial spirit resides (Vinten & Alcock, 2004). Specifically, small businesses are defined as those that employ up to 20 people, and medium businesses as those that employ 20 or more, but not more than 200 (Freeman and Lawley, 2005). SMEs often account for the majority of firms and a substantial proportion of employment in both developed and developing states (Hallberg, 2001). SMES are important in that they have numerical significance and reach the poorest communities which warrant them appropriate support irrespective of any other advantages or disadvantages (Haggblade, Hazell, & Reardon, 2002).

Unfortunately, many graduates do not want to work with SMEs because they are not sure of the benefits of doing so (Holmes, Green & Edgan 1998). Graduates view SMEs as poor payers, short on fringe benefits yet demanding long working hours, and less likely to offer induction and training that would improve their career prospects (Hanage, Johnson & Mullen, 1994). This is aggravated by the fact that a sizeable number of SMEs do not last beyond 5 years of their start up and are thus not viewed as secure sources of employment (Westhead & Matlay, 2005). Parents may also be dismayed when their children are employed by SMEs (Hanage *et al.*, 1994). In effect encouraging graduates to work for SMEs is one issue that has bothered employers in SMEs for some time (Moy & Lee, 2002), yet there is no single answer to this problem (Hanage *et al.*, 1994). A possible starting point would be to examine graduate work expectations and job decision behaviors, which include the decision to apply for and accept a job, as well as satisfaction with and commitment to the job (Schwab, Rynes & Aldag 1987) in Moy and Lee (2002 p.341). This is important because a conflict between graduate expectations and actual experiences influences job satisfaction and worker commitment negatively (Jusoh, Simun & Chong, 2011).

Schmitt & Chan (1998) as cited in McCulloch & Turban (2007, p.63) posit that selection systems are designed to measure applicant knowledge, skills and personal characteristics that are related to job performance, hence a lot of research in the employee selection literature focuses on variables that recruiters employ to evaluate applicants (see Lievens, Dam & Anderson, 2002 for a review). However, Sutherland (2012) argues that individuals have values and work orientations which they bring to the workplace, therefore they will gravitate towards work types which conform to these values and orientations. He further asserts that employee selection being a social process between two parties (the applicant and the organization), both parties gather information about each other before forming a relationship. This means that job applicants have their own expectations and criteria (action frame of reference or work preferences) for evaluating prospective employers. The central hypothesis of this perspective is that “intrinsic characteristics of work situations are indeterminate and workers’ attitudes and behavior are dependent upon the prior expectations that workers bring to their places of work” (Goldthorpe, Lockwood, Bechhofer & Platt, 1968) as quoted by Sutherland (2012 p.195).

Work preferences refer to outcomes that an individual would want to gain from paid work (Gilbert, 2008). It is a multi dimensional construct that includes work values (Rounds & Armstrong, 2005), job attributes (Konrad, Ritchie, Lieb, & Corrigan, 2000) and practical work related constructs (Dowd, 2006) as cited by Gilbert *et al.* (2008 p.57) among others. These variables influence career choice decisions (Brown, 1996), are critical determinants of job attitude as well as work motivation (Brenner, 1998), are related to job satisfaction (Rounds, Dawis, & Lofquist, 1987) and are correlated with person to environment fit (Gilbert, Sohi, & McEachern, 2008). Hence if employers get to know how applicants evaluate jobs, then they would examine their workplace policies to assess their attractiveness to potential employees. This would enable them to craft effective recruitment strategies as well as position their organizations more favorably for attracting and retaining qualified staff. Further, employees are likely to derive more satisfaction from their jobs if employers provided them with the things they value (Phillips,

Phillips & Cappel, 1994). Such job satisfaction could benefit organizations through greater work productivity (Iaffaldano & Muchinsky 1985) and commitment.

This paper contributes to the literature on work preferences by validating the findings of earlier studies in this domain in an emerging market context. Specifically, the study analyzes the career prospects of undergraduates from the organizations' attractiveness perspective by establishing which job attributes predict overall attraction to SMEs and MNCs by gender, given the marked variability in the importance attached to various job attributes by graduates in various contexts. For example much earlier work by researchers like Powell (1991) identified the job itself, compensation or security and the work environment as the most important job attributes to graduates. However, Phillips *et al.* (1994) identified opportunity advancement, job security and fringe benefits as the main considerations for choosing prospective employers. Other researchers identified different attributes e.g. participation in decision making ( Lee & Ho, 1989 in Moy and Lee, 2002 p.341), advancement opportunities and flexibility (Zedeck, 1977), good working relations with supervisors (Chow & Luk, 1996) and working conditions (Turban, Eyring & Campion, 1993). Further, studies on job attribute preferences by gender show mixed results (Chew & Teo, 1993).

In summary, while there is an abundance of literature about employer expectations of their staff, there is a paucity of information about the expectations of employees and the extent to which they desire a variety of specific outcomes from their work (Sutherland, 2012). Further, most research on graduate employment has been done in the developed world. There is a lack of literature on this subject in the developing economies. It is hoped that the study will provide policy makers and practitioners with a clear understanding of work values and job attribute preferences in SMEs and MNCs in an emerging market context. The paper proceeds as follows. The next section gives a highlight of the theoretical back ground and literature on organization attractiveness, while the subsequent section outlines the methodology and findings of the study. A concluding discussion wraps up the paper.

## **Literature Review**

### **Definition of Career**

The literature is replete with evidence that higher education plays an important role in preparing graduates to manage their careers (Nabi & Bagley, 1998). Career is defined differently by various researchers. To some it is a job (Wilensky, 1960) i.e. it is a succession of related jobs, arranged in a hierarchy of prestige through which persons move in an ordered predictable sequence. To others it is the evolving sequence of a person's work experience over a period of time (Arthur, Hall & Lawrence, 1995). Careers reflect relationships between people and the providers of official position (institutions) and how these relationships fluctuate with time. Occupational aspirations and career preferences are important issues in student career attainment (Dazinger & Eden 2007). Super's (1980) study of career stages established that an individual's self concept is shaped by occupational choice (work preferences) and the career progress.

## **Theoretical framework**

The attraction of prospective applicants into organizations has received increased attention in the literature (see Breugh & Starke 2000 for a review). A key research question in this regard is what factors affect applicant attraction to organizations? Some studies have emphasized the Person-environment fit perspective, while others e.g. Cable & Turban (2001) have applied marketing principles to the problem of selecting and retaining employees. This study is anchored on the former.

### **Person Environment Fit**

The employer and the applicant should be interested in seeing to it that there is a good fit between the work environment and applicant's innate characteristics. This congruence is conceptualized as the person-environment (P-E) fit. This concept originates from the person-environment interaction theory (Lewin, 1935). Positive individual and organizational outcomes are likely to emanate from a good fit (Sekiguchi, 2006). For example the nearer the fit to one's job preferences, the greater the employee's work satisfaction (Rounds et al., 1987) and job commitment (Barrick et al., 2003). Conceptually P-E fit is a multidimensional construct (Sekiguchi, 2006). It includes the person-job (P-J) fit which matches the knowledge, skills, and abilities of the person with the job requirements (Edwards, 1991), the person-group (P-G) fit which matches individuals with work groups (Werbel & Johnson, 2001) and the person-organization (P-O) fit which matches the individual with the characteristics of the organization (Kristof, 1996).

### **Person Organization Fit (P-O fit)**

Although there are various conceptualizations of P-O fit, broadly it is defined as the compatibility of individuals with the organizations in which they are employed (Kristof, 1996). This concept focuses on the fit of the individual with the organization, rather than fit with a specific job or group (McCulloch & Turban, 2007). Further, there is a distinction between complimentary fit and supplementary fit. Complimentary fit is a situation where a person or the organization provides attributes that the other party needs, while supplementary fit occurs when a person and the organization are similar on fundamental characteristics (Muchinsky & Mohan 1987). This study focuses more on complimentary fit. Generally, P-O fit is associated with positive outcomes because individual needs are met, and or because people work with others who have similar characteristics with them (Kristof, 1996).

Advocates of the P-O fit concept include Schneider's (1987) ASA model which posits that organizations attract select and retain people who fit the organization and that applicants are attracted to various organizations depending on their interests, needs, norms and personality. Chatman (1989) advances the notion that individuals are attracted to organizations that have values and behavioral norms they perceive as important. Pervin (1989) concurs with these views and suggests that individual behavior is influenced by personal goals and perceptions of opportunities for fulfilling of these goals provided by the organization. In summary the central hypothesis of the P-O fit theories is that people will select or gravitate towards jobs and remain

members of organizations that enable them to achieve their goals and needs (McCulloch & Turban, 2007).

### **Job Design**

Hackman and Oldham (1974) developed the theory that a job should be designed to possess the fundamental characteristics needed to create conditions that foster high motivation, satisfaction and performance. They assert that three psychological states namely experienced meaningfulness, experienced responsibility and knowledge of results must be present for the development and maintenance of internal work motivation. Five job characteristics (skill variety, task identity, task significance, autonomy and feedback) are said to affect these three psychological states, which are in turn essential ingredients for employee motivation and other positive work outcomes. Hackman & Oldham believe that individuals with strong growth needs (such as young graduates) will respond to jobs that are high on the five core dimensions above because such jobs provide opportunities for fulfilling their professional advancement needs.

### **Marketing Approach**

The marketing literature may provide researchers with a solid conceptual basis for studies in the recruitment domain (Lievens et al 2002), since employee attraction and retention have a lot of parallels with attracting and keeping customers. For example Cable & Turban (2000) as cited by Lievens et al (2002 p.583), used the brand equity concept to explain applicants' job search activities. Their argument is that the image of an organization has similar effects to that associated with brands in marketing and established that applicants recalled more information from advertisements of companies with a good image and were willing to earn a little less in such a company. Similarly, Highhouse, Zicker, Thorsteinson, Stierwalt, & Slaughter, (1997) emphasize the importance of company employment image (cf brand image in marketing) and translated brand profiling techniques used in marketing to a recruitment scenario. In much the same way, Slaughter et al (2001) as quoted by Lievens et al (2002 p.584) used the brand personality concept to further examine organizational attractiveness. In short the use of marketing principals may help organizations to attract better applicants, and can go a long way in explaining career decisions of undergraduates.

### **Job Attributes in SMEs and MNCs**

Job attributes are the most important criteria on which job seekers base their job choice decisions (Moy & Lee, 2002). Job attribute preference refers to the values that individuals attach to various intrinsic and extrinsic job characteristics and rewards (Chew & Teo, 1993). Behling, Labovitz and Gainer (1968) propose a job choice model, in which job choice is premised on weighing the advantages and disadvantages of job attributes associated with a given job. This evaluation process is partly dependent on the perceived importance and attractiveness of the attributes (Schwab et al., 1987 in Moy & Lee, 2002 p.341). Many graduates believe that SMEs face financial constraints, thus they do not consider SMEs to be desirable employers (Brinks, 1996). Graduates want to satisfy their lower end needs by seeking extrinsic rewards in their first job (Lau & Pang, 1993). Teo & Poon (1994) in Singapore established that MNCs were rated as

more attractive than SMEs along attributes such as pay, fringe benefits, career prospects and marketability. Although this finding applies to a more developed country, it is possible that MNCs in Uganda are rated the same way. Based on these facts, it is hypothesized thus:

*H1: MNCs are rated higher on job attributes such as pay, fringe benefits, job security, than SMEs.*

Ahmadi and Helms (1997), demonstrated that small firms were the most receptive and largest business segment for employment. They adapt well to the domestic and international competitive environment, respond better to shifting demands because there are fewer parties involved in decision making, specialize in niche markets, keep open minds and respond quickly to change, keep low overheads and maintain high productivity. Further, SMEs maintain close personal relationships with their customers, suppliers and workers (Bygrave, 1994). Although these findings are from a western context, it is possible that they are applicable to an emerging market context, thus:

*H2: SMEs are rated higher on fostering relationships with their employees than MNCs.*

### **Gender and Job Attributes**

Gender and job choice can be approached from a number of different yet interlinked perspectives. For example, sex role socialization theory outlines the process by which individuals learn the behavior that a culture defines as appropriate for their sex, and provides an explanation about sex differences in occupational orientation, job related skills and career choice (Marini and Brinton, 1984 in Chow & Ngo 2000 p.16). As a result of sex role socialization, men and women are likely to have different evaluations of job choice factors (Chow & Ngo, 2002). Gender self schema can also explain job choice orientations. Gender self schema is a person's psychological construction of self, anchored on a number of aspects, most usually gender (Terjesen, Vinnicombe & Freeman, 2007). Thus there are two categorizations of gender self-schema: male gender self-schema (associated with masculinity, career roles, values and beliefs which are considered appropriate to men) and female gender self schema (associated with femininity and family roles, norms beliefs and values held about women). Thus individuals seek a gender self - schema which is in line with their sex (Bem, 1981). A Meta-analysis by Konrad *et al.* (2000) finds effect sizes to support significant sex differences consistent with gender roles and stereotypes, especially the gender stereotype that interpersonal relationships are more important to women. Lacy, Bokemeier & Shepard (1980) demonstrate that the traditional role for men is income provision, thus they are more likely to put emphasis on pay. More recent research is consistent with earlier findings that men are more likely to indicate preferences for attributes which are in line with male gender self schema and masculine stereotypes. An example is Nicholson (2000) who established that pay and status represent objective career success for men. Similarly, Eddleston, Veiga & Powell (2006) found that male managers are more likely to prefer status based career satisfiers, and less likely to prefer socio emotional career satisfiers. On the other hand, Relational Theory (Miller, 1976 in Terjesen *et al.*, 2007 p.506) posits that women develop a sense of self and personal worth, which is shaped by a sense of connection to others. In line with this theory, women's satisfaction is linked to the development of interpersonal

relationships (Powell & Mainiero, 2003). Based on these arguments, we advance the following hypotheses:

*H3: Male students rate pay and fringe benefits higher than female students in both SMEs and MNCs.*

*H4: Male students rate prestige higher than female students in both SMEs and MNCs*

*H5: Female students rate relationships higher than male students in both MNCs and SMEs*

### **Research Methodology**

This section enumerates the 4 phase procedure that we used to identify the predictors of attractiveness to SMEs and MNCs, as well as test H1-H5.

**Phase 1:** The study started with a literature review on job attributes and gender. This was combined with conversations with students about the type of attributes they would like to see in a job in SMEs and MNCs, as well as consultations on the subject with managers in both SMEs and MNCs. Following this qualitative study, data was collected from a systematic sample of final year Business Faculty students from a large private university in Uganda, using their class lists as a sampling frame.

#### **Measures:**

Attractiveness to SMEs was measured with three items from Chow & Ngo (2000). Similarly attractiveness to MNCs was measured with these same items by substituting MNCs for SMEs. Respondents were requested to indicate the extent to which they agreed with the perceived attractiveness statements to these firms on a 5 point likert scale, ranging from “1” strongly disagree to “5” strongly agree. For example “I am willing to work with a SME”. The 17 job attributes measured in this study were obtained from Chew & Teo (1993). Respondents were requested to rate each attribute on a 5 point likert scale in terms of how important each item was when choosing a job, “1” not important at all to “5” Most important. Students were requested to indicate their age and gender. To cater for common method bias, respondents were assured of confidentiality. We also reduced their evaluation apprehension by assuring them that there were no right or wrong answers. The questionnaire items were also kept simple and precise. In all a total of 235 usable questionnaires were collected.

**Result:** Since the study was carried out in four phases, the results for each phase are presented in a separate section. The descriptive statistics of the sample are presented first.

#### **Descriptive Statistics**

Men students made up 46% of the sample while 53% were female. 21 students did not indicate their gender. Their ages ranged from 19-48, with a mean of 24 years (SD 3.90) and a mode of 23 years.

**Phase 2:** Each variable was checked for normality by checking its descriptive statistics to get kurtosis and skewness. Since Kurtosis was not within the +1 to -1 range for all the variables, the data was not normal and it was log transformed. In order to reduce the large number of attributes (23) to a manageable size, factor analysis was employed. Regression factor scores were saved for each respondent for further analysis (Norusis, 1990). Principal axis factoring (promax rotation with Kaiser Normalization) was carried out by first constructing a Pearsonian correlation matrix between each pair of the 23 items. Bartlett's test of sphericity tested the null hypothesis that the resultant 23x23 correlation matrix was an identity matrix, all diagonal coefficients are equal to one, and off diagonal items are zero (those that are not zero it is due to chance). The null hypothesis was rejected ( $\chi^2 = 1414.905$ ,  $df=235$ ,  $p=0.000$ ) meaning that factor analysis could proceed. The Kaiser Meyer-Olkin (KMO) test of sampling adequacy coefficient was 0.780, further reinforcing that factor analysis was appropriate. This exercise yielded 8 oblique factors (named in table 1), each with Eigen value > 1 and accounting for 65.7% of the variance. Oblique factors were preferred because they rotate to simple structure and agree more with psychological theory than orthogonal factors (Kline, 2000). Most of the items loaded as expected, except those that loaded on factor 5. However, some items did not reach 0.7 cut off for reliability (Nunnally & Bernstein 1994). Loewenthal (2001) posits that if a scale has a small number of items, it may not be possible to get a high reliability value and thus a coefficient of 0.6 may be sufficient. Based on these arguments all factors with alpha > 0.6 were retained, while Training (alpha 0.49) was excluded from subsequent analysis. A correlation matrix of the retained factors is presented in table 2.

**Table 1: Constructs and Factor Loading**

Constructs and Items	Loading	Eigen Value	Alpha	AVE	$\sqrt{\text{AVE}}$
<b>Relationship</b>					
Meeting competent co workers	.866	2.14	.73	.58	.76
Meeting sociable co workers	.644				
<b>Benefits</b>					
Provision of an attractive salary	.791	1.77	.70	.45	.67
Job security	.749				
Fringe benefits	.425				
<b>Travel and Allowances</b>					
Opportunity to travel	.577	1.50	.62	.26	.52
Opportunity to meet people on job	.446				
<b>Prestige</b>					
Company location	.644	1.01	.60	.32	.57
Job title accorded	.723				
Company size	.321				
<b>Training</b>					
Provision of training	.628	1.23	.49	.33	.58
Company reputation	.483				
<b>Challenging work</b>					
Opportunity to use my abilities	.598	1.00	.60	.03	.54
Opportunity to learn new skills	.588				
Opportunity for rapid advancement	.448				
<b>Willingness to work for MNC</b>					
A job in MNC would be attractive	.598	5.05	.75	.47	.69
I am willing to work for a MNC	.853				
A MNC satisfies my expectations	.594				
<b>Willingness to work for SME</b>					
A job in SME would be attractive	.765	1.82	.73	0.48	.69
I am willing to work for a SME	.734				
A SME satisfies my expectations	.562				

Extraction method: Principal axis factoring; Rotation method: Promax with Kaiser Normalization.

**Table 2: Zero Order Correlations of Constructs**

	1	2	3	4	5	6	7
Relationships	<b>.76</b>						
Travel	.178**	<b>.60</b>					
Benefits	.403**	.569*	<b>.67</b>				
Prestige	.375**	.328**	.574**	<b>.57</b>			
Work	.119	.329**	.455**	.476**	<b>.54</b>		
MNC	.325**	.199*	.469**	.463**	.277**	<b>.69</b>	
SME	-.076	.176*	.060	.110	.007	.057	<b>.69</b>

N= 211, Listwise. p<0.05\* 2 tailed p<0.01 \*\* 2 tailed  
 AVE in bold on diagonal

**Note:** The correlation matrix shows that only benefits had a significant and positive correlation with attraction to SMEs. However, all the factors had significant and positive correlations with attraction to MNCs, with the factor benefits having the highest correlation. All correlations with MNCs are higher than those in SMEs. Also benefits and travel have the highest inter factor correlation, meaning that they are closely related. However, factors should not correlate so highly as if they are measuring the same underlying construct. This is the concept of discriminant validity (Siekpe, 2005). Discriminant validity was assessed by examining the factor correlation matrix and average variance extracted (AVE) (Reinartz, Kraft, & Hoyer, 2003). The square root of AVE should exceed the correlations in the rows and columns for adequate discriminant validity (which is the case in this study), indicating that more variance is shared between the construct and its indicators than with other constructs (Fornell & Lacker 1981). Since only one variable (benefits) was significantly correlated to attraction to SMEs, no further analysis was done for this sector.

**Phase 3:** To identify the attributes that predict attractiveness to MNCs, multiple regression (stepwise) was carried based on a recommendation by Hair, Anderson, Tatham, & Black (1992: 66) i.e. the factor that correlates highest with the dependent variable be entered first, followed by the factor with the highest significant partial correlation with the dependent variable while controlling for the factor that was entered first. The analysis was done for both the total sample and for men and women separately. Hence (benefits) the factor with the highest correlation with the dependent variable (Attractiveness to MNCs) was entered first. Partial correlations between the dependent variable and the other independent variables were calculated while controlling for benefits (after removing the effects of benefits on the dependent variable) as presented in the table 3 below.

**Table 3: Partial Correlations with MNC Controlling for Benefits**

Variable	Beta ( $\beta$ )	p
Travel	-.936	.176
Prestige	.268	.000
Relationships	.167	.015
Challenging work	.081	.242

$$AVE = \frac{\sum \lambda_i^2}{\{\sum \lambda_i^2 + \sum (1 - \lambda_i^2)\}} \dots\dots\dots (1)$$

$\sum \lambda_i^2$  = sum of the squared loading  
 $\sum (1 - \lambda_i^2)$  = sum of the residual variances

**Note:** Table 3 shows that only prestige and relationships had significant partial correlations, and thus were the only variables to enter the model in that order. Table 4 below presents the findings of the regression analysis.

**Table 4: Willingness to Work With a MNC**

	Standardized regression coefficients		
	Step1	Step2	Step3
Benefits	.469**	.303**	.271**
Prestige		.289**	.264**
Relationships			.116
Adjusted R <sup>2</sup>	.217**	.269**	.277**
Adjusted R <sup>2</sup> change		.056**	.011

N=211, Listwise p<0.001\*\*\*

**Note:** The table shows that the two most important variables that predict attractiveness to work with MNCs are benefits ( $\beta=.469$ ) and prestige ( $\beta=.289$ ) thus supporting H1. However since correlation in SMEs is only with benefits, H2 is not supported. Next multiple regression analysis was done to test H3-H5, i.e. identify the most important predictors of attractiveness to MNCs by gender. Table 5 presents the results of this analysis.

**Table 5: Multiple regression analyses predicting willingness to work with MNC by Gender**

	Standardized Regression Coefficients				
	MEN		WOMEN		
	Step1	Step 2	Step1	Step2	Step3
Benefits	.482**	.305**	.415**	.252**	.238**
Prestige		.248**		.354**	.264**
Relationships					.234**
Adjusted R <sup>2</sup>	.224**	.246**	.164**	.256**	.295**
Adjusted R <sup>2</sup> change		.030**		.099**	.045**

p<0.001\*\*\* N=91 (Men), N=103 (Women) Both cases Listwise.

The table shows that benefits is a better predictor for working with MNCs for men ( $\beta=.482$ ) than it is for women ( $\beta=.415$ ) hence supporting H3. However the reverse is true when we consider prestige i.e. women ( $\beta=.354$ ) compared to men ( $\beta=.248$ ). Hence H4 is not supported. When a third variable relationships was added to the model for men, it was not significant, while for women it was significant ( $\beta=.234$ ), meaning that this variable is a predictor for attracting women into MNCs, thus supporting H5.

Lastly, the tolerance values of the independent variables in this study were closer to 1 meaning that there were no collinearity problems.

**Phase 4:** Lastly we use a 75-25% validation strategy to support the generalizability of our findings. This was done by dividing the data into two, using the split command in SPSS. The validation requires that the regression model for the 75% job attribute sample, replicate the pattern of statistical significance found in the full data set. First, in the analysis of the 75% job attribute sample, the relationship between the independent variables and the dependent variable was statistically significant  $F(2, 162) = 30.820$   $p < 0.001$ , as was the overall relationship in the analysis of the full data set  $F(2, 208) = 39.719$   $p < 0.001$ . Second, the change in R<sup>2</sup> should demonstrate statistical significance in the analysis of the 75% sample. The R<sup>2</sup> change of .062 was statistically significant  $F_{change}(1, 160) = 13.76$   $p < .001$ . Third the pattern of relationships for the individual variables and the predictor variable was the same for the analysis using the full data set and the 75% sample. The relationship between benefits and the dependent variable in the full data set was  $t = 4.212$   $p < .001$  and the same analysis using the 75% sample was  $t = 3.501$   $p < 0.01$ . On the other hand prestige for the full data set was  $t = 3.66$   $p < .001$ , compared to  $t = 3.711$   $p < .001$  for the 75% sample. Fourth, the total proportion of variance explained in the full sample model was .276 compared to .284 for the validation sample. The value of R<sup>2</sup> for the validation sample was larger than the value for the full sample model, implying a better fit than one obtained in the full

sample. This validation supports the generalizability of the findings of the analysis to the population represented in the data set.

## Discussion

An employee's commitment to an organization is a function of fit between certain job attributes and what he/she hopes to get (Chow & Ngo, 2000). Many studies illustrate the relationship between extrinsic/ intrinsic job attributes and job satisfaction. This study has identified both intrinsic and extrinsic attributes that undergraduates consider important in their quest for jobs, namely relationships, benefits, travel, prestige and challenging work. Many graduates consider relationships important, because they provide a social net work that can be a source of contacts for future purposes. Benefits and travel are the most highly correlated factors in this study. This is possibly because travel has a monetary element in the form of allowances and expense accounts. Prestige and challenging work are both intrinsic variables that attract graduates to work with firms. Many people in Uganda think getting a job in an MNC is prestigious (Walter, Rosa, Barabas, Balunywa, Serwanga, Namatovu & Kyejjusa, 2004). A graduate can be given a set of perks that boosts his / her prestige. Similarly many companies train employees after which they give them challenging work and responsibilities. This is satisfying and motivating to the graduate. As noted above, job characteristics are antecedents of organizational commitment (Meyer, Irving & Allen, 1998). To stem quitting intentions and boost productivity, employers should design jobs with these attributes in mind.

The study finds no correlation between attraction to SMEs and the entire job attributes except benefits. In the view of these respondents, SMEs perform poorly along these dimensions so they would not consider working for them based on these attributes. However, since all the attributes are strongly correlated with attraction to MNCs, undergraduates in this sample rate all these variables highly than in SMEs. This is consistent with Teo & Poon (1994) and Lee and Moy (2002) in which studies SMEs were rated poorly by undergraduates on attributes such as pay, fringe benefits, job security, while MNCs were rated highly on these attributes. Unlike Chew & Teo (1993) who find challenging work as the most important job attribute (intrinsic factor), but consistent with many other studies ( Ding, 1999; Lange, 2009) this study has established that benefits (extrinsic factor) are the main job attributes that undergraduates consider in their quest for jobs in MNCs and SMEs. This explains why many graduates do not prefer to work with SMEs. Graduates would like to satisfy their extrinsic needs (including care for their extended families) especially with their first job (Lau & Pang, 1993), and this is particularly true in cultures that emphasize embeddedness, where a major purpose of work is to serve the perceived needs of dependants including friends (Munene, Schwartz, & Smith 2000).

Unlike Chow & Ngo (2002) who find no gender differences in job attribute preferences, this study finds men and women to differ in job attribute preferences for masculine type items like salary inline with gender stereotypes. Consistent with Powell & Mainiero (2003) and Konrad *et al.* (2000), the study illustrates that women more than men, consider relationships as an important job attribute. In line with earlier work on gender self schema, and consistent with Terjesen *et al.* (2007), our results show that men place a higher importance on salary. This is

consistent with Lange (2009). These findings indicate in summary that a lot still needs to be done in order to attract graduates into SME ranks. A multi pronged approach is recommended by this paper. First SMEs have to improve their image in order to attract graduates, as suggested by Cable & Turban (2000). This can be done by participating in exhibitions, improved communication with the outside world and offering students' placements for internship. Secondly, SMEs should design recruitment packages that can at least match up to recent graduates extrinsic rewards (Moy & Lee, 2002). Further, government can stimulate graduate recruitment into SMEs by ensuring that public policy favors SMEs e.g. reduce the tax burden of SMEs so that they pass on the savings in terms of higher salaries and allowances.

### **Theoretical and Practical Implications**

From a theoretical stand point, the paper validates the P-O fit theory since students base their job attribute preferences on their extrinsic needs and wants. Further, MNCs have a good image compared to SMEs seems to lend support to the extending of marketing concepts into job preference research. From a practical stand point, since perception of organization attractiveness can influence job pursuit intentions, practitioners need to become familiar with the job attributes desired by graduates in emerging markets. Employers should pay attention to these attributes in order to attract, motivate and retain young people in their organizations.

### **Impact on Society**

Given the high levels of unemployment in Uganda, there is need to encourage students to set up their own businesses and also work with SMEs. This study points out to society why students prefer to work with MNCs and shun SMEs. Society needs to change its attitude towards SMES and hence impress upon students the importance of SMEs in the economy in spite of their shortcomings. Society could also pressurize government to set up pro SME policies in order to encourage students to work with the SMEs.

### **Conclusion**

Skills shortages are a major cause for SME failure and this problem can be overcome by encouraging more graduates to work in SMEs. This study set out to establish the most important job attributes that attract graduates to MNCs and SMEs. It has been established that SMEs are rated poorly than MNCs on all attributes. Graduates consider extrinsic attributes more important than intrinsic ones; further, there are gender differences in the perception of the job attributes in accordance with gender stereotypes. Thus the problem of skills shortages within SMEs is still paramount given the perception of SMEs by graduates. A more favourable policy towards SMEs by government could alleviate the problem.

### **Directions for future research**

There is need to replicate this study with a bigger sample involving more Ugandan universities and a bigger range of jobs attributes. This study only considers the perceptions of the graduates towards SMEs and MNCs. There is need to examine the perceptions of the employers

in these organizations as far as recruiting graduates is concerned i.e. establish the extent to which MNCs consider Ugandan graduates to be employable. The extent to which SME and MNC jobs are rated along the five job characteristics in the Hackman & Oldham (1974) model needs to be examined. Further research should investigate how individual differences, job types, and their interactions influence attraction to organizations. Future studies need to test and validate the marketing logic in recruitment, by borrowing well researched theoretical concepts like brand image, brand equity, brand awareness and brand personality.

### **Limitations of the study**

The study sample consisted of undergraduates from only one university and the job attributes considered in the study were also limited in scope. Further, the study considered only Business Faculty students. Conceptually, this study was limited to the P-O fit model which accounts for organizational attractiveness in terms of applicant needs and wants, rather than attractiveness using marketing theory. Further, although work preference is a multi dimensional construct, this study was limited conceptually since it only examined job attribute preferences. Methodologically, this study could be influenced by method bias, since it depended mostly on self reports. In spite of these limitations, it is hoped that the study findings will erect a platform from which further diagnosis of organization attractiveness in emerging markets will be launched.

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## **CULTURAL PREDICTIONS OF ENTREPRENEURIAL ORIENTATION AND THE MODERATING ROLE OF ENTREPRENEURIAL COMPETENCIES ON GRADUATE ENTREPRENEURIAL INTENTIONS: A CROSS SECTIONAL SURVEY OF UGANDA**

This study seeks to establish whether the low graduate start-up in this country is attributed to variability in cultural perception of risk and proactiveness, (entrepreneurial orientation), and the extent to which entrepreneurial competencies (knowledge) moderate the relationship between entrepreneurial orientation on one hand and entrepreneurial intentions on the other.

### **Graduate Entrepreneurship**

The importance of entrepreneurship in the economies of developing and developed countries is well documented in the literature, and many of these states urge their citizens to pursue entrepreneurship (Chowdhury, 2007). In spite of this, there is limited knowledge as to why there are varying rates of entrepreneurship in different countries, and why certain ideas are more successful in some countries than in others (Busenitz, Gomez & Spencer 2000, cited in Kollmann, Christofor and Kuckertz 2007). While many studies offer various explanations for these discrepancies, a growing body of literature posits that culture is a major determinant of entrepreneurship in any country (Kreiser et al. 2010) and hence a key explanatory variable for the above discrepancies. However, what has not been properly explained is the impact of culture on entrepreneurial behavior (Hayton, George & Zahra 2002 in Kreiser et al. 2010 p. 960). Following Kraus et al. (2005), as well as Kollmann et al. (2007), this study extends the cultural line of inquiry to an individual level in order to establish the extent to which cultural variables influence two of the dimensions of entrepreneurial orientation namely risk taking and proactiveness among graduate students in EA, and the extent to which this relationship accounts for the low start-up among them. Further, following Sull (2004) who asserts that the critical task of entrepreneurship lies in managing uncertainty in something new, this study seeks to examine the extent to which uncertainty management tools (entrepreneurial competencies) namely knowledge, experience and networks moderate the relationship between entrepreneurial orientation on one hand and entrepreneurial intentions on the other in order to throw more light on graduate start-up. This focus is in light of the high levels of unemployment in this region and the fact that entrepreneurship involves taking risks of some kind (McClelland 1960 cited in Kreiser et al. 2007p.962).

In examining entrepreneurship and economic development, it should be noted that policies aimed at only enhancing quantity of entrepreneurship are questionable (Shane 2009 cited

in Nystrom 2009), as an increase in the quality of new start-ups is vital (Nystrom 2009). In this regard, the aim of many entrepreneurship education programs is to increase both the quantity and quality of graduate start-ups, as well as improve societal attitudes towards entrepreneurship in the long run (Galloway & Brown 2002). However, not all graduates embrace entrepreneurship, hence policy makers and scholars should concentrate on the question: Why do some people pursue possible opportunities for profit, while others do not (McMullen & Shepherd 2006 cited in Begley & Boyd 1987)? Why do some people (graduates), develop the intention to start a business (and possibly eventually start a business) yet others do not (Tucker & Selcuk, 2009)?

In Uganda, the majority of entrepreneurs are not graduates, and do not even have a high school certificate (Walter et al. 2005). The Ugandan press is awash with stories of people who did not go far in the academic arena, but who have become millionaires through entrepreneurship (e.g. NewVison Pakasa column 02/04/12), while many graduates walk the streets in search of jobs. Of the 390,000 students who finish tertiary education each year in this country, only 8000 have the prospect of getting a job in the formal sector, thus the unemployment rate stands at 80% and underemployment stands at 17% (NCDC 2011). Both unemployment and underemployment would be drastically reduced if some of the graduate students embraced entrepreneurship by setting up their own businesses. However, *anecdotal evidence suggests that Ugandans regard white collar employment in government service or big business as the most prestigious form of employment. Self-employment has a comparatively low status, and is undertaken if only one has to* (Walter et al.2005).

Given this scenario, it is not surprising that entrepreneurial activities are dominated by non-graduates which is a serious short coming in light of the need to improve the quality of entrepreneurship. Since entrepreneurial intentions are a precursor to performing entrepreneurial behaviors (Kolvereid 1986; Bird 1988), action in the absence of intention is unlikely (Lee & Wong, 2004). Thus low levels of intent to start up amongst graduates is of great concern (Wu & Wu, 2008) and remains a key research question (Nabi & Holden, 2008). Low start up among graduates is attributed to the presence of perceived barriers in their environments. Some of these barriers are lack of start-up funds (Nabi, Holden & Walmsley, 2006), lack of skills (Galloway & Brown, 2002) negative societal attitudes towards entrepreneurship (Morrison 2000) and fear of social embarrassment or failure (Robertson et al. 2003) among others. McMullen and Shepherd (2006), propose a conceptualization of entrepreneurship in terms of uncertainty and argue that since the entrepreneurial process takes place overtime and the future is unknowable, then entrepreneurial action is inherently uncertain (Mises 1949 cited in McMullen & Shepherd 2006). Thus the rewards of entrepreneurship are unattainable without inherent risks (Sull 2004). However, uncertainty is subjective i.e. different individuals may experience different doubts in similar situations (Lipshitz & Strauss 1997 cited by McMullen & Shepherd 2006). *This subjectivity in the way uncertainty is viewed could be due to differences in risk perception or differences in attitude towards risk ( Palich & Bagby 1995).*

Empirical evidence demonstrates that entrepreneurs' risk profiles or risk propensity are not different from those of wage earners (Wu & Knott 2006). However, even if they do not have a high risk propensity, individuals who perceive less risk than others may unknowingly take risky action (Simon, Houghton & Aquino 2008), i.e. Entrepreneurs start ventures because they do not

perceive the risks involved, and not because they knowingly accept high levels of risks. Since risk perception influences the decision to start a venture, it is important to establish what leads to variations in risk perception (Simon et al 2008 p.114). Culture could probably provide an answer to the question of variability in risk perception and many authors highlight the importance of culture in entrepreneurship (Frese and Wang 2005; Hayton, George & Zahra 2002): The influence of culture in entrepreneurship is unquestionable, since individuals' personalities and behaviors, environment as well as social norms are all influenced by the national culture. In other words culture gives rise to entrepreneurship potential (Lee & Peterson 2000 p.403).

Past research has shown both cross-cultural differences in risk choice and in risk perception (Hess & Weber 1998). This suggests that cross cultural differences in risk perception may be at the center of differences in the way members of different cultures choose among risky options. Put differently, actions and understandings about risk are informed by socially and culturally structured conceptions and evaluations of what the world should be and should not be (Boholm 1998 p.135). Hofstede (1980) as cited by Thomas and Mueller (2000 p.60) states, "*strategies for dealing with uncertainty are rooted in culture and are reinforced by basic institutions such as family, school and state.*" In line with these assertions, cultural values, beliefs and norms are key variables in influencing entrepreneurship since they are the immediate sources of legitimation (moral approval) that endorses an activity in a society (Etzioni, 1987p.9). Another line of argument is that of risk avoidance. Some scholars suggest that since the social embeddedness of African culture emphasizes social order, Africans maintain order by avoiding unnecessary risks (Onuejeougwu, 1995) and restrain actions that might disrupt the traditional order (Munene *et al.*, 2000); Lastly, research findings have confirmed the cultural dependence of proactive behaviors (Kreiser et al 2007). For example, proactive cultures emphasize entrepreneurial initiative by encouraging their members to pursue and participate in new markets (Lee & Peterson 2000 p.406).

Some researchers (e.g. McGrath et al.1992) assert that entrepreneurial orientation (proactivity, risk taking and innovativeness) is associated more with individualistic cultures than collective ones. However, Rao (2004) cited by Ahmad (2007) questions such a conclusion: *If entrepreneurs in collectivist societies are less prosperous than those in individualistic cultures, how can the success of collectivists in Asia e.g. Singapore be explained?* In answer, Pearson and Chatterjee (2000) cited in Ahmed (2007), suggest that both cultural orientations can be successful, what matters are the competencies possessed by a person i.e. His/her "underlying characteristics such as generic knowledge and specific knowledge" (Bird 1995 p.51). Hence, adopting the right mix of competencies in each context could be the determinant of business success (and not necessarily the cultural orientation). McMullen and Shepherd (2006) posit that the difference between entrepreneurs and non-entrepreneurs is the possession of applicable knowledge which reduces perceived uncertainty to a point that makes entrepreneurs believe that they have identified a viable opportunity.

This study focuses on graduate startup by transferring culture from a societal level to an individual level and by transferring the entrepreneurial orientation construct from a firm level (Lumpkin & Dess 1996) to an individual level of analysis (Krauss et al. 2005). Since a person's perceptions rather than objective reality account for the decision to start a venture (Krueger &

Brazeal 1994) and since actions are often governed by perceptions rather than facts (Timmons & Spinelli 2007p.85), the first objective of this study is to examine the extent to which graduates' cultural orientations predict their perception of risk and proactiveness and eventually entrepreneurial intentions.

Given that entrepreneurial competencies may be context specific (Pearson & Chatterjee 2001 cited in Ahmad 2007), competencies that are highly valued in one culture may differ from those that are valued in another context (Hofstede & Bond,1988) and acting entrepreneurially in an individualistic culture for example may be different from doing so in a collective culture (Marino et al. 2002 cited by Ahmad 2007).Hence the second objective of this study is to examine the extent to which knowledge moderates the relationship between graduates' cultural orientation and the perception of risk/ proactiveness on one hand and entrepreneurial intentions on the other. To fulfil these objectives, the study constructs and seeks to test a culturally based model that incorporates cultural orientation variables, entrepreneurial orientation, and intention (figure 1). Further, since studies on the perception of risk need to address the question of how risks are embedded in the social fabric, the study also examines the role of other possible explanatory variables like filial piety, optimism and cultural tightness/looseness of the society. This study is in response to a call by Bruton, Ahlstrom and Obloj (2008) who urge for research to develop a better understanding of contextual factors that influence entrepreneurial behavior in developing countries.

This study is justified because most of publications on graduate entrepreneurship originate from the US and other Western countries (Kruger et al. 2000) and thus focus on graduate entrepreneurship in the context of mature and stable economies (Matlay, 2006). Hence little is known about entrepreneurship in emerging economies (Bruton et al. 2008 p.1). The transferability of such study findings to contexts where the task and psychic environments may be different remains a key question (Thomas & Muller, 2000). In addition, most studies of entrepreneurship have focused on older entrepreneurs, yet people are likely to start a business in the age range 25 to 44 (Liles, 1974), hence little is known about young adults' views on entrepreneurship (Henderson & Robertson, 2000 p. 279). The rest of this paper is organized as follows: Section two presents the literature review which incorporates the theoretical frame work, a motivation of the various hypotheses, and the study model. Section three outlines the proposed methodology, while section four presents and discusses the study findings. Section 5 concludes the paper.

## **Literature review**

A central question in the entrepreneurship literature is what factors drive students' entrepreneurial intentions (Schwarz et al. 2009)? Many studies that have attempted to answer this question have concentrated on personality factors (Wang and Wong, 2004), rather than on contextual factors (Turker and Selcuk, 2008), thus neglecting various external circumstances that might influence student career choice to starting a business. Following Kostova's (1997) conceptualization, three institutional profiles make up a country's environment i.e. a regulatory (government policies and laws), cognitive (shared knowledge) and normative (culture). While all these dimensions influence entrepreneurship (Busenitz et al. 2000), culture is particularly

important because cultural values and norms will either compliment or conflict with a community's ability to develop a strong entrepreneurial orientation (Lee & Peterson 2000 p.404).However, extensive research in entrepreneurship, has not arrived at agreed position on entrepreneurial activity within cultures (Shane 1996 in Mitchell, Seawright & Morse, 2000) and across cultures (McDougall & Oviatt 1997 as quoted by Mitchell et al. 2000).

### **Entrepreneurial orientation**

Conceptually, entrepreneurship is regarded as a product of entrepreneurial orientation and it is what counts most in the pre-nascent stage (Kollmann et al 2007).Entrepreneurial orientation refers to the entrepreneurial process i.e. how entrepreneurship is undertaken- the methods, practices and decision making styles used to act entrepreneurially (Lee & Peterson 2000 p. 405). Some researchers have conceptualized an entrepreneurial orientation as consisting of three dimensions namely innovativeness (experimentation), risk taking and proactiveness (Covin & Slevin 1989 cited in Kreiser et al 2010). However, others argue that entrepreneurial orientation is composed of five dimensions i.e. autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness (Dess & Lumpkin 1996).A key area of disagreement in the literature is the risk taking dimension which has yielded different outcomes. Since the degree of risk aversion as well as peculiarities in risk perception determine career choice, (Kihlstrom & Laffont 1979) cited in Freytag & Thurik 2007), it is of paramount importance to examine the impact of contextual factors (cultural orientation) on perception of risk and proactiveness, and how the perceived risk influences graduate entrepreneurship. Another area of conflict within the literature is whether entrepreneurial orientation is a firm or individual level construct. According to Shane 2003, (cited in Kollmann et al. 2007 p.12) discovery of an entrepreneurial opportunity and the decision to pursue it takes place at an individual level. Further, Krauss et al. (2005) argue that while not emphasized explicitly, the widely used Covin & Slevin (1986) entrepreneurial orientation instrument which measures innovativeness, risk taking and proactiveness is actually a measure of self-reports by individuals mostly owners and managing directors (Zahra, Jennings & Kuratko 1999).Hence this study views entrepreneurial orientation as an individual level construct.

## **Theoretical Framework**

### **The Theory of Planned Behavior**

The theory of planned behavior (TPB) views entrepreneurial intent as an immediate determinant of planned behavior (Fishbein and Ajzen, 1975).The model holds that attitude, subjective norm and perceived behavioral control predict intention which also in turn predicts behavior. These three cognitive variables are called motivational antecedents by Ajzen (1991). If a person evaluates a suggested behavior as positive (attitude), those important to him/her approve of the behavior (subjective norms), and the person feels he/she can successfully execute the behavior (perceived behavioral control PBC) then a higher intention (motivation) to perform the behavior results. However, the contribution of the three motivational antecedents of the TPB in explaining entrepreneurial intention is not established beforehand (Linan and Chen, 2009) i.e. the

specific configuration of relationships between these constructs has to be empirically determined for each specific behavior (Ajzen 1991).

In this study entrepreneurial intent is defined as self-acknowledged conviction by a person that they intend to set up a new business venture and consciously plan to do so at some point in the future (Thompson, 2009). Bird (1988), defines intentionality as a state of mind directing a person's attention, experience and action towards a specific goal to achieve something, hence intentions is not a dichotomy but a continuum (Shapiro & Sokol 1982 in Kouriloff, 2000). Although there is an extensive body of literature on the relevant variables affecting entrepreneurship (See meta-analysis by Rauch, Wiklund, Lumpkin and Frese 2009 for example), there is still a profound lack of knowledge regarding the more qualitative factors that influence the decision to start up i.e. the entrepreneurial intentions of people in a society/ territory (Linan et al. 2009). Further, little research has yet empirically studied the effects of culture on entrepreneurial intentions in different regions (Linan et al. 2009). Given that having a preference for self-employment increases the probability of actually being self-employed (Grilo & Thurik, 2005) understanding the factors that influence entrepreneurial intentions is a key phase in understanding the venture creation process (Lee, Wong, Foo & Wong, 2011).

### **Image Theory**

Image theory describes how important decisions are made by individual unaided decision makers (Beach & Mitchell 1987). The central premise of the theory is the self-image, (driven by self-concept) which is the personal beliefs, values, ethics etc. of the individual decision maker. The self-concept itself is defined as the sum of all a person's feelings about the self (Kullmer et al. 1998). It is a multiplicity of identity (Burke 1980), described as personal characteristics, feelings and images (Burke 1980), as well as rules and social status. In image theory for a person to make a decision to adopt or reject a plan, the decision rule is that the plan must both be compatible with the self-image (not violate his/ her principles) and show promise (feasibility) of attainment. On the other hand, progress toward a goal is halted if the projected image (the anticipated state/ goal) is found to be incompatible with the trajectory image or agenda for the future (Beach & Mitchell 1987). Hence, the self-concept does not just reflect on going behavior, but instead mediates and regulates this behavior (Markus & Nurius 1986 p.299). Some researchers have linked motivation directly to the self-concept. Markus and Nurius (1986) present a theory of possible selves defined as self-conceptions of one's perceived potential (feared or desired) which serve to individualize global motives and thus serve as a cognitive component of motivation. Possible selves are the ideal people that a person would like to become, he /she could become or is afraid of becoming (e.g. the unemployed). The reservoir of possible selves emanates from one's sociocultural and historical background.

Further in image theory, behavior is driven by the relationship of self and other people, and especially the way the individual perceives himself/ herself as separate from or connected with other people. This connectedness is culturally driven, therefore culture determines the self, consequent upon which two construals emerge: The independent (individualistic) and the interdependent (collective) construals. The former is characterized by the will to be independent of others and to discover and express one's unique attributes (Johnson, 1985 in Markus and

Kitayama 1991 p.226), and portraying oneself as a person whose behavior is guided by one's own thoughts, actions, feelings rather than referring to other people. The dominant aspect of this theory is that the person is described as autonomous and independent or individualistic. On the other hand, the interdependent construal is characterized by connectedness. Thus one defines himself/ herself in relation to others, hence his / her behavior is contingent upon what the individual feels are the thoughts, views, feelings of others in the relationship.

### **The Cultural Theory of Risk**

The perception of risk is inherently social (Gustafson, 1998), hence risks need to be put in the context in which they are experienced (Lima and Castro 2005 p.722). Fear involves the perception of risk and the cultural theory of risk (Douglas & Wildavsky 1982 cited by Mamadouh 1999) attempts to account for the relationship between culture, risk and fear. Many studies have provided evidence for the efficacy of cultural theory with the main premise of this theory being that attitude towards risk is a derivative of social norms (Braman and Kahan 2003), hence society uses a cultural lens to examine all types of phenomena. This means that there is no culturally unmediated phenomena (Lima & Castro 2005). Cultural theory argues that people choose what they fear in relation to the way they live or in relation to their culture, hence the most important predictor for selecting what people fear are not individual cognitive processes, but socially shared world views or cultural biases that shape individual perceptions (Dake 1992).

### **Definition of Culture**

Hofstede (1980 p.25) defines culture as “the collective programming of the mind which distinguishes the members of one human group from another” i.e. social systems can exist only because human behavior is not random, but is predictable to some extent. This programming can be inherited (Hofstede, 1980 p.2) or can start early in life resulting in patterns of behavior that continue over time, thus setting the cultural context (Hofstede 1980 as quoted by Freytag & Thurik, 2006 p. 122). Culture manifests its self in values and in more superficial ways through symbols, heroes and rituals (Hofstede 1980 p.1). Values are “broad tendencies to prefer a certain state of affairs over others” Hofstede (1980 p.19). In studying values, we compare individuals, while in studying culture, we compare societies (Hofstede 1980 p.15). Thus while one can be both individualistic and collectivist, a country culture is predominantly one or the other (Hofstede 1980 p.293).

### **Culture and Entrepreneurship**

Psychological research demonstrates that values, beliefs and behavior are linked (Freytag & Thurik 2006), hence differences in culture in which these values and beliefs are embedded play a big role in influencing entrepreneurial behavior (Thomas & Mueller, 2001). In their Giessen-Amsterdam model of entrepreneurship, Frese and Wang (2005) argue that actions, visions, goals and strategies as well as personality, human capital, environment and business success are all influenced by culture. Thomas and Mueller (2000 p. 289) posit that “since entrepreneurship by definition encompasses the initiation of a new venture, frequently outside traditional boundaries, we would expect contextual factors such as culture to have “a significant impact”. Most research

about the influence of culture on entrepreneurship has followed Hofstede's (1980) conceptualization of culture based on five dimensions of culture each rooted in a basic problem with which all societies have to cope, but on which their answers vary, namely collectivism, uncertainty avoidance, power distance and masculinity and long term orientation. However, empirical evidence for the relationship of these dimensions and entrepreneurship is weak and often contradictory (Hayton et al. 2000 cited by Zhao et al. 2012). While Shane 1992 established that power distance is positively correlated to innovation, this relationship was found to be negative in another study (Shane 1993). This implies that there could be variables moderating the relationship between culture and entrepreneurship (Zhao et al 2012 p.451).

### **Cultural dimensions and entrepreneurship**

As earlier stated, Hayton et al (2002 p.34) and other researchers concur that entrepreneurship is enhanced by cultures that are high on individualism, low on uncertainty avoidance, a low power distance and high on masculinity: "*Ceteris paribus, the greater the cultural distance from these ideal types, the less the aggregate individual and national levels of entrepreneurship.* Specifically, low power distance is a special characteristic of entrepreneurs, regardless of whether the culture is low or high on power distance (Mcgrath et al. 1992:119). Mueller et al. (2002) agree with this position, except for the power distance variable, where they argue that low power distance cultures would promote entrepreneurship.

Other researchers contest the role of individualism in the literature. For example Morris, Avila and Allen (1993) in Zhao et al. (2010) posit that high individualism may be dysfunctional for entrepreneurship. Similarly, while Dwyer, Mesak and Hsu (in Zhao et al. 2010) find a positive relationship between power distance and innovation, Shane (1993) reports a negative relationship. Meantime, the collectivist-individualistic debate of the entrepreneur is not yet resolved. While micro-stream researchers posit that "those who generate variety (founders and corporate entrepreneurs) tend to be individualistic, the macro -stream researchers associate both individualism and collectivism with economic growth and innovation (Tiessen, 1997 p.367). In this view, individualism and collectivism are not polar ends of a continuum i.e. neither of them critically encourage nor discourage entrepreneurship, rather they influence how its functions are performed: variety generation needs individual creativity and initiative, while resource leverage is anchored on efficient relationships that thrive under a collectivist setting, but can be induced by means of contracts between individuals. This, explains the economic growth of Confucian collective Asian states and the individualistic western countries: "Researchers should be comfortable with an apparent paradox that collectivism facilitates entrepreneurship, but does not deny the critical role of individualism" (Tiessen 1997 p.380).

### **Cultural orientation**

Sharma (2010 p. 789) asserts that there is no consensus on the conceptual and operational definition of individual level personal cultural orientations. Some people define culture as an interrelated set of elements consisting of knowledge, beliefs, values, laws, morals and other behaviors that a person acquires as a member of a particular society (Usuner 1996). Following this definition, cultural orientation is defined as individual values that can be found across

countries or cultures (Yoo & Donthu 1998) and refers to the independent identification with both the minority and majority culture (Oetting & Bieaus 1990-91). Cultural orientations are antecedents and consequences of individual value priorities and are a consequence of personal learning through interactions with one's social environment such as family, workplace, community, etc. Cultural Orientation is therefore not inherited but learnt which means that a person can develop a new cultural orientation when exposed to a new environment.

### **Uncertainty avoidance and perception of risk**

Uncertainty avoidance, is the extent to which societies take deliberate measures to reduce ambiguity (Hofstede, 1980), by use law, technology and religion etc. The stronger a society's desire to curb uncertainty, the more the need for rules (Hofstede, 1980 p.147). Further Hofstede argues that there is a firm theoretical link between tolerance of uncertainty and risk taking. Since cultures differ in their avoidance of uncertainty, they create different values for such things as formality and tolerance for ambiguity (Sandhu, Sidique & Riaz, 2011). Hence in high uncertainty avoidance cultures, breaking rules is not tolerated rendering these cultures more resistant to change (House et al. 2004). Coping with uncertainty avoidance is partly a non-rational process, hence dealing with it is a motivation by security or a motivation by fear (Hofstede 1980 p.386).

Since uncertainty avoidance is a search for safety, people in high uncertainty avoidance communities limit themselves to known risks (what is different is dangerous) while those in low uncertainty avoidance societies take risks, including unknown risks (what is different is curious); thus there is more tolerance for diversity in low uncertainty avoidance countries (more comfortable with ambiguity, chaos, novelty and convenience) and more fear of things foreign in high uncertainty avoidance countries, hence they seek clarity, structure and purity (Hofstede, 1980 p.170). Joy & Kolb (2008) also observe that in high uncertainty avoidance societies, there is a high fear of failure and preference for tasks with sure outcomes, clear guidelines and less risk. In general, people in low uncertainty avoidance countries feel more able to influence society at large, because uncertainty avoidance implies a willingness to enter into the unknown (Hofstede 1980 p. 165).

*H<sub>1</sub>: Low uncertainty avoidance culturally oriented students will perceive less risk than higher uncertainty avoidance culturally oriented ones, leading to a higher variance explained in entrepreneurial intentions of the first group.*

### **Power distance and perception of risk**

According to Hofstede (1980), the basic underlying variable in power distance is inequality in prestige, wealth, power etc. It is the degree to which a community accepts and endorses authority, power differences and status privileges (House et al. 2004). Power distance deals with the need for dependence as opposed to the need for interdependence in a community. Low power distance communities seek to minimize power distance, while high power distance societies use it as the basis for social order. High power distance societies do not give the individual an opportunity to do what he/she wants but give guidance for people to do what is socially right and proper (Joy & Kolb 2008). People in such cultures will have less freedom and

autonomy to make bold decisions (Kreiser et al. 2010). Kohn (1969) as quoted by Hofstede (1980 p.99) established that power distance is highly correlated with obedience. Thus in high power distance societies, respect for one's parents and the elderly is an important value which lasts as long as the parents are alive. According to Takya-Asiedu (1993 p. 94), critical career decisions are made by parents even before their children go to secondary school. Parents entreat children to follow the traditional career path (Law, Medicine, and Management) which suppresses their entrepreneurial spirit. On the other hand, children in low power distance societies are socialized to become equals sooner in life, thus pursuing the notion of autonomy (Hofstede 1980, p.100). Power distance also correlates significantly with uncertainty avoidance ( $r=.78$ ) such that in western countries the effect of uncertainty avoidance and power distance is difficult to separate (Hofstede 1980 p.150). Further, resources in high power distance cultures are available to only a few, and information is hoarded (House et al. 2004), yet risk assessment is information based (Norton & Moore 2006). Gelekanycz (1997) in Zhao et al. (2010) observe that high power distance is associated with maintaining the status quo. People with this cultural orientation seem to need a lot of support before making decisions, hence:

*H<sub>2</sub>: Low power distance culturally oriented students will perceive less risk than higher distance culturally oriented ones, leading to a higher variance explained in entrepreneurial intentions of the first group.*

### **Masculinity and perception of risk**

Hofstede (1980) argues that masculinity is related to the division of emotional roles between men and women. Masculinity is the degree to which power and achievement are modelled as masculine (Hofstede 1980 P.280) or the extent to which individuals are assertive, confrontational and aggressive in their relationship with others (House et al. 2004). Masculinity is characterized by competitiveness versus warmth and collaboration. Cultures which are high on masculinity place a large premium on material goods and prestige and individuals exhibit a high need for achievement. On the other hand, cultures which are low on assertiveness communicate indirectly to save face, try to be in harmony with their environment (House et al. 2004), are less competitive and place more emphasis on improving intrinsic aspects of the quality of life such as service to others (Hofstede 1980 p.297). Joy and Kolb (2008) add that highly assertive societies appreciate dominant and tough behaviors from all of its members. They believe that anyone can be successful through hard work, take initiatives and are competitive in nature (House et al. 2004). On the other hand, societies that are low on assertiveness consider assertiveness unacceptable, endorse modesty and tenderness and cherish people and relationships (Joy & Kolb, 2008).

High masculinity and low uncertainty avoidance are both highly correlated with high need for achievement (Hofstede 1980 p.164). Low uncertainty avoidance depicts a great willingness to enter the unknown, while high masculinity means assertiveness and ambitiousness. Hence a combination of these two match the picture of McClelland's achievement motivated individual, thus:

*H<sub>3</sub>: High masculinity culturally oriented students will perceive less risk than higher low masculinity culturally oriented ones, leading to a higher variance explained in entrepreneurial intentions of the first group.*

### **Collectivism and perception of risk**

Collectivism is related to the level of integration of people into groups (Hofstede, 1980). Differences in attitudes towards achievement and aspirations for success may be related to cultural factors or the way people are integrated in groups, for example the theory of achievement motivation suggests that collectivists are constrained in their motivation to achieve and that achievement behavior is individualistic (Nelson & Shavitt 2002 p.440). Further, collectivists are motivated by socio-oriented goals, not individual oriented achievement goals (Triandis 1995 cited by Nelson & Shavitt 2002). Group membership has roles, obligations and duties that go with it and it is of paramount importance to maintain harmony and save face of the group members (Joy & Kolb 2008). Conversely, people from a more individualistic society have a more autonomous orientation, might not easily be influenced by in groups because of low power distance and might not fear risks because they are more active to get somewhere (Hofstede 1980:233). In line with this, Damaraju et al. (2010) argue that the impact of fear of failure is higher in collective societies than individualistic societies, because the stigma of failure is more acute in collectivist cultures and hence acts as a deterrent to entrepreneurship. However, it has been argued elsewhere that collectivism helps entrepreneurship because collectivistic societies provide more social support and resources e.g. families could provide the needed resources for one's entrepreneurial endeavors and the needed social security in the event that things do not work out (Zhao et al 2010). Weber & Hess (1998) advance their cushion hypothesis in which they argue that collectivist societies perceive the riskiness of risky options as smaller because group members will come to the rescue of a person who experiences a loss after selecting a risky option, while in individualistic cultures a person making a risky decision will be expected to personally bear the possibly adverse consequences of their decisions. Many studies view individualism and collectivism as opposite ends of each other (Sharma 2010). However, people may maintain both independent and interdependent self- construals, and each of these may be activated according to the pertaining situation (Markus and Kitayama 1991), thus:

*H<sub>4</sub>. Individualistic culturally oriented students are likely to perceive less risk than those with a collective cultural orientation resulting in higher variance explained in their entrepreneurial intentions.*

### **Uncertainty avoidance and proactiveness**

According to Mueller & Thomas (2001) in Kreiser et al (2010), in uncertainty – accepting communities there is a major belief that conflict and competition can take place within a framework of fair play and can be employed in a constructive manner. On the other hand, in high uncertainty avoidant cultures, conflict and competition are dysfunctional and should be avoided. Further, entrepreneurs in uncertainty accepting cultures are likely to perceive more opportunities as existing in the external environment than will entrepreneurs in uncertainty avoidant cultures (Thomas & Mueller, 2001). The favorable perception of the external

environment will most likely make entrepreneurs in low uncertainty avoidant cultures more proactive, hence:

*H<sub>5</sub>. Students with a low uncertainty avoidance cultural orientation will be more proactive and will have higher variance explained in entrepreneurial intentions.*

### **Masculinity and proactiveness**

Masculine communities place a big emphasis on proactive behaviors (Kreiser et al 2010 p.964). People in masculine cultures make strategic moves to explore environmental opportunities than people in feminine cultures who develop a more reactive stance. Since people in masculine cultures have an inherent drive to finish first, it is hypothesized thus:

*H<sub>6</sub>. Students with a high masculine cultural orientation will be more proactive than those with a low masculinity cultural orientation and variance explained in entrepreneurial intentions will be higher in the first group.*

### **Collectivism and proactiveness**

Studies examining the relationship between collectivism and entrepreneurship have yielded inconsistent findings (Kreiser et al. 2010). For example some researchers posit that individualism results into more levels of entrepreneurship (Shane 1993), others assert that individualism may actually hinder entrepreneurial behavior in firms (Franke Hofstede & Bond 1991, Tiessen 1997 cited by Kreiser et al.2010). At an individual level, and especially in the beginning phase of an enterprise, the existence of networks places the entrepreneur in a social context (Lee & Peterson 2000 p.409). Since entrepreneurs tend to rely on informal networks (family, friends, businesses) to assist them in various activities, opportunities will thus come to those who are well positioned within these networks (Aldrich & Zimmer 1986 cited by Lee& Peterson 2000 p.409). Since entrepreneurs are resource dependent, they usually have to look for such resources externally (Begley et al 2005 cited by Kollmann 2007 p.21), hence:

*H<sub>7</sub>. Students with a collective cultural orientation will be more proactive and will have higher variance explained in entrepreneurial intentions, than those with an individualistic cultural orientation.*

### **Explanatory variables**

#### **Cultural tightness- looseness**

Questioning the sole reliance of values on the study of culture, Gelfand, Nishii and Raver (2006) propose a theory of cultural looseness tightness, which refers to the strength of social norms and the degree of sanctioning within a culture. They posit that extensive focus on values has a subjective bias, since it ignores external influences on behavior such as cultural norms and constraints, social networks and components of a large social structure (p.1225). Earlier, theorists like Triandis (1989 cited by Gelfand et al 2006) argue that cultural tightness -looseness is an important, yet neglected dimension of culture, which is distinct from collectivism –individualism. Societal tightness- looseness has two major components i.e. the strength of social norms, or how

clear and prevalent they are in a community and the strength of sanctioning or how tolerance there is for deviation from these norms within a society (Gelfand et al 2006). This dimension could have important implications for entrepreneurship, since tight and loose societies are differentiated by their rates of innovation versus stability and degree of conformity versus deviance (Gelfand et al 2006 p. 1238).

## **Optimism**

A possible moderator between entrepreneurial orientation and entrepreneurial intentions could be optimism. Kahneman (2011) posits that having an optimistic orientation is both a blessing and a risk, because optimistic people e.g. inventors and entrepreneurs make decisions that have an impact on the life of others. Kahneman argues that optimistic people seek challenges and are lucky: in fact luckier than they acknowledge. Their confidence sustains a positive affect that helps them acquire resources from other people, raise the morale of their workers and enhance the chances of prevailing. According to Scheier and Carver (1985 cited by Leung, Moneta & McBride-Chang 2005), “optimism is a longitudinally and cross-situational stable tendency to believe that one will experience positive as opposed to negative life events.” Optimists entreat the external view that examines specific causes, while pessimists rely more on the internal view that examines more general causes (Buchanan & Seligman 1995 in Leung et al. 2005), hence optimism is a cognitive temperament that positively evaluates past happenings and more positive expectations of future events (Leung et al. 2005 p.339). Optimists view their limitations as temporary and are more ready to accept reality (Scheier et al 1986 cited by Leung et al. 2005). In short, an optimistic temperament encourages persistence in the face of obstacles (Kahneman 2011) and is thus an important virtue in the domain of entrepreneurship.

## **Competencies: Knowledge**

According to Baum et al. (2001) in Ahmad (2007), the most recent approach to understanding how an individual's behavior might impact upon business outcomes focuses mainly on competencies, for example knowledge. Sandler-Smith et al. (2003) argue that small business owners should have a diverse array of skills across a range of competency domains, performing a generalist role. Entrepreneurs need to be proactive and possession of entrepreneurial competencies plays a big *role in this regard if they are to minimize the negative impact of a turbulent environment*. Knowledge has been defined as justified true belief (Becerra-Fernandez & Sabherwal 2001) and plays an important role in entrepreneurship (Sommer & Haug 2010). Knowledge can also be defined as personalized information i.e. knowledge depends on an individual and is shaped by his or her needs and initial amount of knowledge possessed (Tuomi 1999). Knowledge can be gained from engagement in the practice of certain behaviors and from studying. This means that there are many more sources of knowledge than just personal practice (Sommer & Haug 2010). There are different types of knowledge, for example Kogut and Zander (1992) cited by Becerra-Fernandez & Sabherwal (2001) delineate between information (what something means) and know how (knowing how to do something). Knowledge can also be viewed as tacit or explicit, with the former referring to knowledge that can be expressed in numbers and can be shared, while the latter refers to knowledge that includes insights, intuition and hunches and is thus difficult to share. Prior information, whether developed from work

experience, education or other means enhances the entrepreneurs capacity to understand and apply information in ways that those who do not have this information cannot replicate (Roberts 1991 cited by Shane 2000). Hence a person's idiosyncratic prior knowledge forms a knowledge base that enables him/her to recognize certain opportunities not recognized by others (Venkataraman 1997). Thus while opportunity recognition and development form the core of entrepreneurial activities (Pech & Cameron 2006 cited by Ahmad 2007 p.58), only a small set of the population will possess prior information that could lead to the discovery of this opportunity (Shane 2000). There are three major dimensions of prior knowledge that can facilitate the discovery of an opportunity namely prior knowledge about markets, prior knowledge of ways to serve markets and prior knowledge of customers' problems (Shane 2000). Generally, the more one consciously knows about a certain behavior, the higher his or her likelihood of performing that behavior. Hence entrepreneurial knowledge is an important entrepreneurial resource (Barney et al 2001 cited by Sommer & Haug 2001), for example in the start-up process:

*H<sub>8</sub>: knowledge will moderate the relationship between entrepreneurial orientation and intention resulting in a higher variance explained in intention for all cultural orientations..*

## **Research Methodology**

### **Research design**

This study employed a triangulation technique in that both qualitative and quantitative research designs were used (Campbell and Fiske 1959). Phase one of the study was qualitative i.e. talking to and holding conversations with various experts in the field of management, entrepreneurship and education, scholars, students, parents to gain an in-depth understanding of the study concepts. This enabled the researcher to place the study in context. Phase two of the study employed a cross sectional research design, in which data was collected from a systematic sample of final year business students at Uganda Christian University N=200 (This study will cover two universities in each EA country, Uganda is the first one), using a questionnaire. Since the data was to be partly analyzed by factor analysis, the recommendation Hair *et al.*, (1998) i.e. the sample should be six times as large as the number of items in the questionnaire for EFA (a maximum of 30 items for any dimension in the questionnaire) so the minimum sample size was 200. In order to overcome common method bias, a number of procedural measures were taken (Podsakoff and Organ, 1986 p.540). For example respondents were assured of confidentiality and anonymity and that there were no correct or wrong answers.

### **Measures**

Instruments with robust psychometric properties and that adequately cover the behavior domain of interest were employed in this study, in order to avoid sub optimal mapping of constructs (Van der Vijver and Leung 2000p.36).

## Measurement of culture

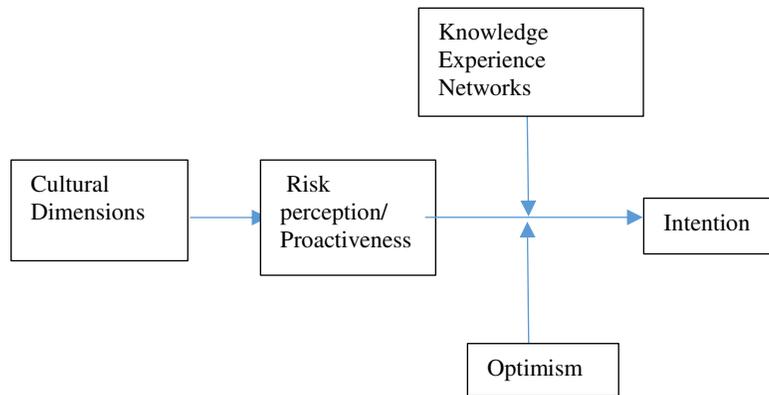
Some researchers suggest that the best way of measuring cultural orientation is by use of the scenario format questions. Konig et al (2007 p.212) argue that to avoid committing an ecological fallacy, cultural research that is oriented towards an individual level of analysis should employ cultural orientation scales. In this regard, Peng et al.(1997) posit that scenario scales are the most criterion valid method of measuring cultural orientations because they reduce noise or the different interpretations of terms in different cultures, as well as the relativity of social comparison terms (Chirkov et al. 2005). Further, the scenario method has the ability to reduce desirability bias which is a major problem of attitudinal scales (Triandis et al. 1998 cited by Chirkov et al. 2005). However, Peng et al. (1997 p.341) put a disclaimer to their assertions when they posit that their findings can scarcely be expected to settle validity issues concerning values studies: their findings do not mean that rating or ranking methods cannot have cross cultural validity, nor do the findings mean that well-constructed scenarios will always give more valid results than other methods. Thus the important thing is that whatever method is used cross cultural validity cannot be assumed but must be proved.

In line with this call by Peng et al. (1997) to treat their findings with caution, some researchers have not found the scenario based scales to be reliable and have abandoned them. Lalwani, Shavitt and Johnson (2006) established in a principal components analysis of the Triandis et al. (1998) 16 item scenario measure, that items did not load as expected, most factor loadings were not significant ( $<0.4$ ) and the reliabilities of the dimensions were not acceptable (Cronbach's  $\alpha < 0.7$ ). Another major problem with scenario based scales is their availability. For instance while Konig et al. (2007) develop scenario based scales of business owners based on the GLOBE dimensions, (hence they are not applicable in the case of other subjects e.g. students), scenario based scales to measure other cultural dimensions (uncertainty avoidance, masculinity, femininity, long-term orientation etc.) are not so common or were developed in the west, hence they may not be valid in an emerging market context. In light of these arguments, cultural orientation in this study was measured using the Yoo and Donthu (2001) 26 item cultural orientation scale. This scale is anchored on likert based scales ranging from "1" strongly disagree to "5" strongly agree and has been widely used in marketing research.

Cultural tightness-looseness was be measured with the Gelfand et al (2011) six item scale. Gelfand et al (2011) reported extensive validity for the instrument, and reliabilities are reported to be in the range .55 to .82 (Church et al 2011).Entrepreneurial orientation was measured with the 10 item Bolton and Lake (2012), questionnaire. Items in this scale are anchored on a five point likert scale ranging from "1" strongly disagree to "5" strongly agree. Intention was measured by the Entrepreneurship Intentions Questionnaire EIQ (Linan and Chen,

2009), validated by these authors using structural equation modelling. The EIQ measures intention on a likert scale anchored on a 7 point scale ranging from “1” strongly disagree to “7” strongly agree. Optimism was measured with 10 items from the Life Orientation Test (Scheier & Carver 1985), validated by Leung et al (2005). It is a measure anchored on a 5 point likert scale. Since filial piety teaches people to be obedient to their parents and is also identified as a reason for going into business (Idris 2009), then 10 items from the Filial Piety Scale (Ho, 1996) were included in the questionnaire. Prior knowledge will be measured using the scale from Mathew and Lumpkin (2007), anchored on 1 total disagreement to 7 total agreement. Data analysis was carried out using, t-tests, factor analysis and linear regression.

Figure 1: Study Model



The model shows that cultural dimensions predict entrepreneurial orientation, which in turn influences entrepreneurial intention. On the other hand the model shows that competencies (knowledge, experience, networks) as well as optimism, moderate the relationship between entrepreneurial orientation and intention.

## Result

This section presents the study findings. First, the study sample consisted mostly of men (52%), while the rest were women and the average age of both groups was 24. Second, factor analysis of the cultural oriented scale, the entrepreneurial orientation scale and the entrepreneurial intentions questionnaire was carried out to examine the discriminant validity of these measures. Most of the items on these scales loaded as expected (results not shown due to space constraints). Further, reliability of all the scales met the 0.7 cut off (Nunnally and Bernstein 1994). Second, data analysis started by construction of a correlation matrix of all the study variables (appendix 1) followed by regression analysis. In the results are presented in the tables below,

Mas=masculinity, Pd= power distance, UA= uncertainty avoidance, Col= collectivism, Indv=individualism

**Table 1: Cultural variables/ Entrepreneurial orientation versus intention**

	df	F	R <sup>2</sup>	B	p
Mas	1	.126	.001	-.025	.503
Mas + pro	2	5.83	.030	-.171	.017**
Mas + pro+ risk	3	3.46	.046	-.131	.064
UA	1	.691	.003	.059	.916
UA+Pro	2	4.41	.027	-.168	.028**
UA=pro+ risk	3	3.64	.045	-.134	.058
Pd	1	1.36	.007	-.083	.225
Pd+ pro	2	2.28	.023	-.127	.075*
Pd + pro+ risk	3	3.58	.052	-.173	.015**
Col	1	.057	.000	-.017	.974
Col+ pro	2	2.75	.027	-.166	.021**
Col + pro +risk	3	3.07	.045	-.134	.058
Indv	1	1.44	.007	-.085	.694
Indv + pro	2	2.95	.019	-.153	.031**
Indv + pro +risk	3	3.12	.031	-.130	.076

p<.01 \*\* p<.05 \*\*\*p<.000

**Note:** The table above shows that cultural orientation dimensions (individualism, collectivity, uncertainty avoidance and masculinity predict intention through proactivity. However, power distance does not predict intention through proactivity, but does so when risk is added. When risk is added to the model in the case of individualism, collectivity, uncertainty avoidance and masculinity the relationship is not significant (p>.05).

**Table 2: Knowledge / Proactiveness moderation**

	df	F	R	B	p
Mas	1	.301	.002	-.065	.876
Mas + pro	2	4.19	.045	.495	.005***
Mas + pro+ pro X know	3	4.68	.074	-.723	.021**
UA	1	.181	.001	-.032	.671
UA+Pro	2	4.06	.044	-.228	.005***
UA=pro+ pro X know	3	4.52	.071	-.714	.023**
Pd	1	.646	.007	-.083	.225
Pd+ pro	2	4.42	.047	-.211	.005***
Pd + pro+ pro X know	3	4.70	.075	-.710	.022**
Col	1	.398	.002	-.047	.911
Col+ pro	2	3.75	.040	-.198	.008***
Col + pro + pro X know	3	4.42	.070	-.731	.019**
Indv	1	1.19	.007	-.081	.906
Indv + pro	2	3.83	.041	-.192	.012**
Indv + pro + pro X know	3	4.43	.070	-.725	.025**

\*p<.01 \*\* p<.05 \*\*\*p<.000

**Note:** The table above shows that knowledge moderates the relationship between all cultural variables and proactiveness on one hand and intention on the other.

**Table 3: Knowledge/ Risk moderation**

	DF	F	R <sup>2</sup>	B	p
Mas	1	.301	.002	-.041	.584
Mas + risk	2	4.19	.045	-.210	.005**
Mas + risk + risk X knowledge	3	3.82	.061	-.126	.086
UA	1	.181	.001	-.032	.671
UA +risk	2	1.73	.019	-.135	.071
UA+ risk+ risk X know	3	1.17	.019	-.063	.823
Pd	1	.646	.004	-.060	.423
Pd+ risk	2	1.84	.020	-.130	.083
Pd + risk+ risk X know	3	1.24	.021	-.077	.784
Col	1	.398	.002	-.047	.529
Col+ risk	2	5.19	.006	-.060	.425
Col + risk + risk X know	3	1.44	.024	-.130	.072
Indv	1	1.19	.007	-.081	.276
Indv + risk	2	2.00	.022	-.123	.096
Indv + risk + risk X know	3	1.35	.022	-.170	.803

\*\* p<.05 \*\*\*p<.000 \*p<.01

**Note:** The table above shows that knowledge does not moderate the relationship between all the cultural variables and risk on one hand and intention on the other. The table also shows that masculinity significantly predicts intention, while all the other cultural orientations do not.

**Table 4: Low/high cultural orientation and intention**

		df	F	R <sup>2</sup>	B	p
Low masculinity	Mas	1	1.59	.025	-.160	.260
	Mas + risk	2	2.49	.077	.227	.090
	Mas + risk + pro	3	4.11	.077	-.126	.929
High masculinity	UA	1	.131	.033	-.180	.647
	UA + risk	2	3.07	.139	.342	.010*
	UA+ risk+ pro	3	4.11	.250	-.340	.025*
Low Power Distance	Pd	1	.004	.000	-.006	.000
	Pd+ risk	2	2.13	.033	.184	.041*
	Pd + risk+ pro	3	1.90	.044	-.110	.231
High power Distance	Col	1	15.9	.727	-.852	.007**
	Col+ risk	2	12.4	.832	.483	.136
	Col + risk + pro	3	7.08	.842	-.098	.654
Low uncertainty Avoidance	UA	1	2.03	.225	.474	.290
	UA + risk	2	11.2	.790	1.08	.007**
	UA + risk + pro	3	6.90	.690	.219	.547
High Uncertainty avoidance	UA	1	.504	.003	-.056	.722
	UA+ risk	2	3.85	.046	.207	.004*
	UA + risk + pro	3	3.26	.058	-.116	.115
Low Collectivism	COLL	1	4.46	.130	-.360	.036*
	COLL + risk	2	4.12	.238	.329	.058
	COLL + risk + pro	3	.010	.238	.011	.173
High Collectivism	COLL	1	.048	.001	.024	.991
	COLL + risk	2	1.55	.036	.188	.055
	COLL + risk+ pro	3	1.67	.057	-.148	.173
Low Individualism	INDV	1	2.36	.441	-.664	.018
	INDV +risk	2	16.4	.940	-.709	.063
	INDV + risk + pro	3	898	1.00	-.430	.050*
High Individualism	IND	1	.687	.005	-.071	.968
	INDV + risk	2	.225	.032	-.165	.068
	INDV + risk + pro	3	.219	.047	-.123	.983

\*p<.01 \*\* p<.05 \*\*\*p<.000

**Note:** The table above shows that students with a low uncertainty avoidance cultural orientation also perceive less risk explaining 7.9% variance in intention ( $p < .05$ ), compared to students who have a high uncertainty avoidance cultural orientation explaining 4.6% variance in intention ( $p < .05$ ), thus  $H_1$  is supported. Similarly, students with a low power distance cultural orientation perceive less risk explaining 3.3% ( $p < .05$ ) variance in intention, compared to those with a high power distance cultural orientation  $p > .05$ , thus  $H_2$  is supported. The table above also shows that students with high masculinity cultural orientation perceive less risk, explaining 13.9 % ( $p < .05$ ) variance in intention, compared to those with a low masculinity cultural orientation which explains only 7% ( $p < .05$ ) thus  $H_3$  is supported. On the other hand, collective culturally oriented students perceive high risk, such that both groups high and low do not explain variance in intention significantly  $p > .05$ , hence  $H_4$  is not supported. Coming to proactiveness, high masculinity culturally oriented students are more proactive explaining 23% variance in intention ( $p < .05$ ), compared to the low masculinity culturally oriented students who explain only 7% in intention, thus  $H_5$  is supported. However for both high collectivism and high individualism, at the 0.1 level of significance, collectivists perceive less risk than individualists, hence the variance in intention is higher 3.6% for the first group than the latter 3.2%, hence  $H_6$  is not supported. Collective culturally oriented students are more proactive than individualistic culturally oriented students, since the former explain 2.7% variance in intention ( $p < .05$ ), compared to 1.9% explained by the latter group, thus supporting  $H_7$  (Table 1). Lastly, knowledge moderates the relationship between proactiveness and intention for all cultural variables, since there is an increase in variance explained in each case ( $p < .05$ ) see table 2, thus supporting  $H_8$ . However, knowledge does not moderate the relationship between risk and intention for all cultural variables ( $p > .05$ ) in each case (table 3).

## Discussion

Consistent with McGrath et al (1992) and Hayton et al (2002) the finding above indicate that students with a masculine, low power distance and low uncertainty avoidance cultural orientations are more entrepreneurial i.e. are both proactive and risk taking, while students with a collective cultural orientation are proactive but seem to be risk averse. Since Uganda is generally a collective society, this could possibly explain the low start up rate among graduates. This finding is consistent with those who think that the stigma of fear of failure is high in collective societies (Damaraju 2010), but is inconsistent with the Weber and Hess (1993) cushion hypothesis. While the literature is full of assertions that an individualistic orientation is more likely to take on entrepreneurship in the western world (Shane 1993) in this study individualists do not have a high entrepreneurial intent which is surprising. However, this is possibly because they do not fit in properly in society seem/look like they are “rebels” or social deviants i.e. at a time when one is young and needs support from family and friends to be able to develop an entrepreneurial intent, those with an independent self-construal are not favorably

looked upon by society, hence they may not be able to leverage resources to enable them start a business or develop entrepreneurial intent.

Knowledge is a key factor that makes people proactive and hence develop a high entrepreneurial intent, but does not do so for risk. In other words, risk remains a threat to entrepreneurial intent, even in the face of knowledge. Possibly the more knowledgeable a person becomes about threats in an industry/ business, the more risk averse they become i.e. entrepreneurs do not just take on more risk, they perceive less risk ( Simon et al 2008). Lastly some back ground factors could throw more light in explaining the findings, namely optimism, filial piety and cultural tightness/ looseness. As shown in the correlation matrix (Appendix 1), optimism is significantly correlated with uncertainty avoidance ( $r=.388^{**}$ ) masculinity ( $r=.153^{**}$ ) and intention ( $r=.150^*$ ). This could partly explain why people with these two cultural orientations have a high intent to start up. While cultural tightness is significantly correlated with uncertainty avoidance ( $r=.218^*$ ), risk ( $r=.226^{**}$ ) and optimism ( $r=.238^*$ ), it is not significantly related to proactivity and intention, meaning that students who perceive the norms and values of their society to be unfavorable to entrepreneurship may not start up. In a similar vein, filial piety is not significantly related to proactivity and intention, while it is significantly related to risk ( $r=.244^{**}$ ), optimism ( $r=.297^{**}$ ) and cultural tightness ( $r=.201^*$ ). This possibly means that in a culturally tight, collective society as is the case in Uganda where self-employment is the least preferred option (Walter et al.2005), parental influence against start up is a real possibility, as espoused by Takya-Asiedu (1993) and this could also possibly explain the low graduate start up in this country.

## Conclusion

The purpose of this study is to try and ascertain whether low start up in E.A (taking Uganda as an example) can be explained by the impact of cultural orientation on two dimensions of the entrepreneurial orientation construct, namely risk and proactiveness. This study establishes three facts. One consistent with theory, masculinity and power distance and low uncertainty avoidance account for most of the variance in entrepreneurial intention through proactiveness, while collectivism accounts for the least variance in entrepreneurial intent through proactiveness. Second, risk seems to be the major explanation for the low entrepreneurial intent in this study, as most of the regression equations exhibited none significant results for this variable. Third, again consistent with the literature, entrepreneurial competencies, i.e. knowledge (in this study), moderates the relationship between proactiveness and intention for all cultural variables. However, knowledge does not significantly moderate the relationship between risk and intention for all cultural orientations. Going by these results, it is plausible to conclude that the low startup of graduates in this mainly collective country is attributed to a high perception of risk, even when these students are knowledgeable. This situation could be made worse by cultural tightness of Ugandan society, coupled with filial piety. The government of Uganda has set up a number of projects, intended at availing credit to young people who want to start a business. Knowing the entrepreneurial orientation of these people could be very useful before funds are disbursed.

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**Appendix 1: Correlation Matrix**

UA2	1												
COL 2	0.15	1											
PD	-0.14	0.24*	1										
MAS	-0.01	-0.09	0.39**	1									
IND	0.11	0.08	-0.05	0.032	1								
INT	0.006	-0.006	-0.111	-0.099	-0.039	1							
PRO	0.3**	0.15	-0.079	-0.026	-0.058	0.072	1						
RISK	0.2	0.19**	-0.22**	-0.064	0.27**	0.27**	0.25**	1					
OPT	0.33	0.1	0.011	0.16**	0.035	-0.15*	0.20*	0.131	1				
KNOW	0.3**	0.12	-0.21**	-0.18*	0.075	-0.011	0.24**	0.28**	0.122	1			
CULT	0.22*	0.12	-0.113	0.067	0.20*	-0.088	0.014	0.23**	0.24**	0.13	1		
FLIP	0.12	0.109	-0.121	0.035	0.073	-0.077	0.073	0.26**	0.29**	0.104	0.20*	1	

UA= uncertainty avoidance, COL=collectivism PD= power distance, MAS=masculinity  
 IND=individualism, INT=Intention, PRO=proactiveness, RIS= risk, Opt=Optimism, KNO=  
 knowledge, CULT=cultural tightness, FLIP= filial piety

\*p<.01 \*\* p<.05 \*\*\*p<.000