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Feature Paper

"Beyond The Business School: An Interdisciplinary Examination Of Interest In Entrepreneurship"

This paper was presented by Nancy M. Levenburg & Paul M. Lane, Grand valley State University at the 2003 Allied Academies Conference on October 15 - 18, 2003 in Las Vegas, Nevada.

The importance of entrepreneurship to the economic health of the U.S. has been well documented. Interest in creating and owning a small business has never been greater than it is today. Moreover, students are increasingly choosing to start their own businesses both before and during college as well as post-graduation. While traditional, specialized majors within many business schools are designed from the perspective that graduating students will seek employment in specialized departments within large established organizations, students who are interested in creating new businesses or rapidly growing existing firms need to develop an array of skills that will support their new venture, including planning, risk-taking, market analysis, problem-solving, to name a few. This is because successfully launching a new product venture requires the mastery and blending of skills that are different from those required to maintain an organization. An additional complication arises from the fact that while new venture opportunities exist within nearly all academic disciplines, the majority of entrepreneurship initiatives at U.S. colleges and universities are offered by business schools... and for business students. If a goal is to assist students within as well as outside the business school, it is important to understand the similarities and differences among business school students and their non-business counterparts. A study was conducted among all students enrolled in courses during the summer of 2003 at a U.S. Midwestern regional university regarding their entrepreneurial backgrounds, interests, and needs. Students were able to complete the 27-item survey electronically. In total, 728 students responded to the survey during a one-week period in June. Among all respondents, 59.1 percent expressed a desire to start their own new venture and 73.5 percent indicated that they wanted to be self-employed, with no significant differences between business and non-business majors. Chi-square testing failed to reveal differences between academic major and interest in starting a business or between academic major and awareness of new venture opportunities within their academic disciplines, suggesting that perceptions and interest in new

ventures do not lie exclusively within the business school; instead, they are perceived to exist throughout University disciplines. A moderate positive correlation was found between students' interest in starting a business and interest in taking entrepreneurship courses, with the strongest interest in entrepreneurship courses coming from academic disciplines outside of the business school and engineering, the two disciplines that most frequently offer entrepreneurship courses and curricula.

To read the entire paper on "Small Business Research Program An Alternative Financing Source", visit the SBANC Web Site at <http://www.sbaer.uca.edu/research/2003/Allied/Entrepreneurship/05.pdf>

Tip Of the Week

"Why Is It So Difficult To Raise Money? The Problems Of Uncertainty And Information Asymmetry"

Information Asymmetry Problems

The fact that entrepreneurs have or recognize information about their business opportunities that investors don't have or can't recognize creates three problems for raising money. First, entrepreneurs are reluctant to disclose information to investors, requiring investors to make decisions on limited information. Entrepreneurs need to keep secret the information that they have about their opportunities and their approaches to exploiting them. If other people learned this information, then they could pursue the same opportunities. Moreover, investors have the money necessary to exploit the opportunities (otherwise the entrepreneurs wouldn't be talking to them about financing). So entrepreneurs don't want to tell investors too much about their opportunities or ways of exploiting them, lest the investors exploit the opportunities without them. As a result entrepreneurs keep information about their opportunities hidden, and investors have to make decisions about financing ventures with less information than entrepreneurs have.

Second, the information advantage that entrepreneurs have makes it possible for them to take advantage of investors (see figure 6.1). Entrepreneurs can use their superior information to obtain capital from investors and use it for their own benefit instead of the benefit of the company. For example, suppose an entrepreneur tell his investor that he needs a large expense account because clients in that industry will not make purchases unless they are wined and dined or because the entrepreneur likes fine food and wine and will use the expense account as a way to dine out. Why? Because the entrepreneur supplies the information about the need for the expense account, and it might not be true.

Third, the investor's limited information about the entrepreneur and the opportunity creates the potential for a problem called adverse selection. Adverse selection occurs when someone is unable to distinguish between two people, one who has a desired quality, and the other who doesn't. Because it's not possible to distinguish between the two people, the one without the desired quality has an incentive to misrepresent her attributes and say that she has the desired quality. For example, some entrepreneurs have what it takes to build a successful new company and some don't. If investors can't tell one from the other, those without the ability to build successful companies will mimic the behavior of the others to get financing. For instance, they protect themselves, investors have to charge a premium to pay for the losses incurred from backing the wrong people. Because talented entrepreneurs don't want to pay this premium, they withdraw from the financing market, leaving only the entrepreneurs that investors don't want to back, creating adverse selection.

Uncertainty Problems

Investors also face a variety of problems because new ventures are very uncertain. First, they have to make judgments about the value of opportunities and the ability of entrepreneurs on the basis of very little actual evidence. The factors that determine those ventures that will become valuable investments—things like the demand for the new product, the financial performance of the firm, the ability of the entrepreneur to manage the company, and so on—cannot be known for certain until after entrepreneurs obtain financing and exploit their opportunities because these things cannot occur without the investment of someone's capital. So if the entrepreneur doesn't have a patented technology or a long track record of building successful business (which most ventures don't have), then the investor has to make a decision about the venture on the basis of very little hard evidence, making the financing decisions very risky.

Second, entrepreneurs and investors often disagree about the value of new ventures. Because new ventures are uncertain, no one really knows for sure how profitable—if at all—a new venture will be. So investors make their financing decisions on the basis of their own perceptions about the profitability and attractiveness of ventures, which are almost always lower than those of the entrepreneur. Why? Remember in Chapter 5, when we indicated that entrepreneurs are overoptimistic, they often face difficult bargaining over the value of the venture.

Third, investors want to make sure that entrepreneurs will pay up if their ventures prove not to be valuable, especially if they are lending money to the venture. That way, the investor is risking less. Obviously, the entrepreneur can't tap the venture for funds to pay back the investor if the venture proves to be failure because a failed venture won't have any money. So investors ask entrepreneurs to provide collateral, or something of value that can be sold if the venture fails—such as the entrepreneur's home! (see Figure 6.2) The problem with this arrangement is that many entrepreneurs need capital because they don't have anything of value; otherwise, they would finance the new firm themselves.

Why did we tell you about these uncertainty and information asymmetry problems, which might seem like abstract concepts? Because, by telling you about these problems, we can make it easier for you to understand how investors solve them. That way you can learn why venture finance works the way that it does.

"Entrepreneurship: A Process Perspective" Robert A. Baron and Scott A. Shane, Southwestern, Thompson Corporation, 2005, page 135-136.

Call For Papers

"Fourth International Conference On Knowledge, Culture And Change In Organizations."

The Fourth International Conference On Knowledge, Culture And Change In Organizations will be hosted by the University of Greenwich in the historic Old Naval College on the river Thames in London. The conference will be held on August 3 - 6, 2004. An exciting array of speakers from the academic and business worlds will be their.

Submission Deadline: February 20, 2004

For more information on this conference, visit <http://www.ManagementConference.com>

Call For Papers

"2004 Strategic Management International Conference"

The 2004 Strategic Management International Conference will be held on October 31 - November 3, 2004 at the Caribe Hilton near old town in beautiful San Juan, Puerto Rico. This year's theme is Strategic Balance: Driving Innovation and Maintaining Performance.

Submission Deadline: February 16, 2004

For more information on this conference, visit <http://www.smsweb.org/activities/conference/index.html>

Call For Papers

"International Applied Business Research Conference"

The next ABR Conference will be held at the beautiful Caribe Hilton in San Juan, Puerto Rico during the week of March 15 - 19, 2004. All submissions are to be sent by e-mail attachment to <mailto:cluter@wapress.com>

Submission Deadline: February 15, 2004

For more information on this conference, visit <http://www.wapress.com/abrcmain.htm>

Conference

"ASBE 29th Meeting"

The Association for Small Business and Entrepreneurs (ASBE) invites you to submit a competitive paper for the 29th Annual Meeting that will be held on March 24-26, 2004 in Albuquerque, New Mexico at the La Posada de Albuquerque hotel. This years focus is "Small Business & Entrepreneurship: Meeting the Challenges in a Changing World."

For more information on this conference, visit <http://www.sbaer.uca.edu/asbe/call2004.cfm>

Conference

"The 2004 Allied International Conference"

The Allied Academies will hold its 2004 international meeting in New Orleans, Louisiana. Presentation dates will be April 7 through April 10, 2004 , with registration on the evening of April 7. Registration materials are due by March 1. When contacting the conference hotel, be sure to tell them you are with the Allied Academies conference. Use promotion code ALA, Hilton New Orleans Riverside 1-800-HILTONS.

For more information on this conference, visit <http://www.alliedacademies.org/neworleans-call.html>

Announcement

"Academy Of Family Business" An Academy of the Allied Academies "

The journal for the Academy Of Family Business is seeking reviewers and papers if intrested please contact the Editor, Dr. Don B. Bradley III at DonB@uca.edu.

If you have any comments about the SBANC Newsletter, or if you know of an upcoming Small Business event to promote, please contact Lester W. Clements II at newsletter@sbaer.uca.edu

The SBANC Newsletter is provided as a service to the members of our affiliates: **Academy of Collegiate Marketing Educators (ACME), Association for Small Business & Entrepreneurship (ASBE), Decision Sciences Institute (DSI), Federation of Business Disciplines (FBD), International Council for Small Business Congress (ICSB), Institute for Supply Management, The International Small Business Congress (ISBC), Marketing Management Association (MMA), Small Business Administration (SBA), Service Corps of Retired Executives, Small Business Institute (SBI), Society for Marketing Advances (SMA), United States Association for Small Business & Entrepreneurship (USASBE), U.S. Department of Veterans Affairs and Western Decision Sciences Institute (WDSI).** If you are interested in membership or would like further information on one of our affiliates, please see our web site at <http://www.sbaer.uca.edu>

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