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Classical Model of Economics: A  
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of NJ Food Industry Startups**

Calum Turvey and Cris Pires

**Agricultural and Rural Finance  
Markets in Transition**

Proceedings of Regional Research Committee NC-1014  
Minneapolis, Minnesota  
October 3-4, 2005

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# **Entrepreneurship and the Neo-Classical Model of Economics: A Reality Check from Eight Case Studies of NJ Food Industry Startups**

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4 October 2005

## **Introduction**

- Entrepreneurship = An initial building block of employment in the U.S.
- Increase in small businesses = increases in personal wealth and employment
- Small firms = 99% of all businesses in U.S.
- Majority of previous research based on the causes of small business failures

## The Research Problem

- High rate of small firm failures
- Decrease in firms births since 2000, increase in firm terminations and bankruptcies
- Economic downturn since events of Sept. 11, 2001
- Global Entrepreneurship Model: 10 detriments to U.S. entrepreneurs

## The Research Problem, cont.

Table 2 Indicators Related to Small Business 1990 2002					
	1990	1995	2000	2001	2002
Number of businesses					
Employer Firms (nonfarm)	5,073,795	5,369,068	5,652,544	5,629,600	5,595,200
Self-employment (unincorporated)	10,097,000	10,482,000	9,907,000	9,826,000	9,650,000
Business tax returns (nonfarm)	20,219,400	22,555,200	25,106,900	25,631,200	26,363,800
Sole proprietorship tax returns (nonfarm)	14,149,000	16,157,000	17,570,500	17,904,900	18,389,000
Business turnover					
Employer firm births	584,892	594,369	<b>574,300</b>	545,400	<b>550,100</b>
Employer firm terminations	531,400	497,246	<b>542,831</b>	568,300	<b>584,500</b>
Bankruptcies	63,912	50,516	<b>35,219</b>	39,719	<b>38,155</b>

Source: U.S. Small Business Administration, Office of Advocacy

## Entrepreneurship vs Innovation

- Baumol Argues that Entrepreneurship and innovation are not the same thing
- It is the set of rules and not the supply of entrepreneurs or the nature of their objectives that undergoes significant changes from one period to another and helps to dictate the ultimate effect on the economy vis the allocation of entrepreneurial resources
  - W.J Baumol “Entrepreneurship: Productive, Unproductive and Destructive”

## Schumpeter (1912): On Entrepreneurship and Innovation

- innovation is more than just a tweaking of technology
  - The introduction of a new good.... Previously unseen by consumers; or a new quality previously inexperienced by consumers
  - The introduction of a new method of production, not necessarily a new scientific invention, and one that extends from manufacture to the handling of commodities.
  - The opening of a new market to trade that was once foreign to the producer even if trade in the commodity had previously existed.
  - The conquest of a new source of supply of raw materials or half-marketed goods regardless of whether the source exists currently or has to be created.
  - The carrying out of the new organization of any industry like the creation of a monopoly or the breaking up of a monopoly position

## Baumol on Schumpeter

- Baumol asks (and so do we) what influences the flow of entrepreneurial talent among the various activities in Schumpeter's list?
- Entrepreneurship reflects the "innovative acts of technology transfer that take advantage of opportunities to introduce already-available technology, perhaps with modification, to geographic locales whose suitability for the purpose had previously gone unrecognized or at least unused."

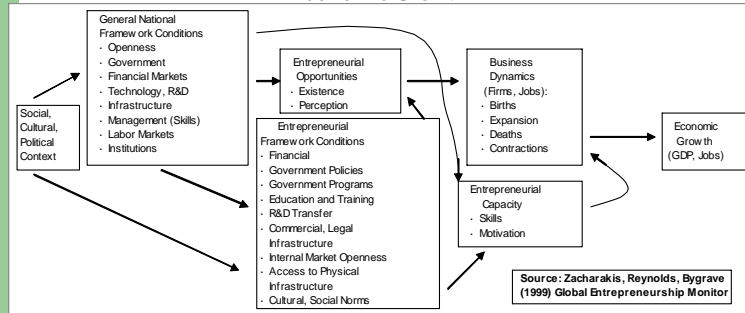
## Baumol and Rent Seeking

- entrepreneurial activity is driven by the structure of payoffs in the economy, which define the rules of the game...leading to two propositions...
  - 1) the rules of the game that determine the payoffs to different entrepreneurial activities DO change dramatically from one time and place to another and
  - 2) Entrepreneurial activity changes direction from one economy to another in a manner that corresponds to the various rules of the game.
- Entrepreneurship is about rent seeking behaviour
  - Rents seeking can have positive or negative effects
  - Innovation is almost always positive in terms of welfare
  - Therefore innovation and entrepreneurship are not synonymous over the domain of entrepreneurial activity

# Global Entrepreneurship Model

Figure 1

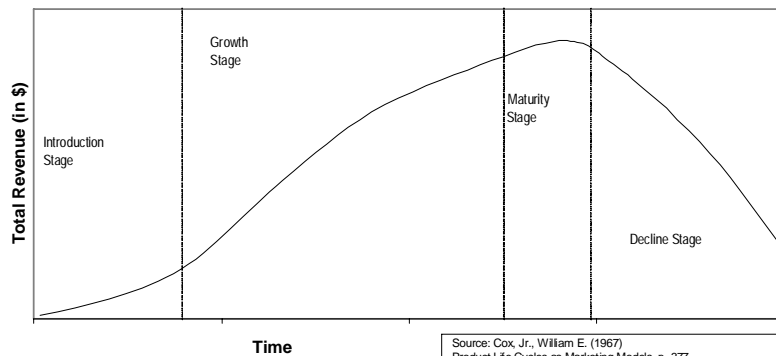
**Conceptual Model: The Entrepreneurial Sector and Economic Growth**



# Business Life Cycle Model

Figure 2

**The Life Cycle Curve**



# Life Cycle, Monopoly and Competition

Figure 3. The organizational life cycle-level of competition dyad and organization adaption

	EARLY STAGES	LATE STAGES
LITTLE OR NO COMPETITION	(1) Lack of dependencies and constraints in pursuing goals: Critical problems: * resources * marketing approach * formalization of structure * market acceptance	(2) Environment neither threatening nor constraining: Critical problems: * stabilizing the firm's position * formalization and control * stability
INTENSE COMPETITION	(3) Turbulent environment, action of competitors may constrain, dictate: Critical problems: * identity niches * monitor competition * realignment of the organization vis-à-vis the competition	(4) Muddling behavior, simply reacting: Critical problems: * maintain market position * further image via differentiation & focus strategy * cost control

Source: H. Dodge, S. Fullerton, J. Robbins, *Stage of the Organizational Life Cycle and Competition as Mediators of Problem Perception for Small Businesses*, 1994

**Table 4** Reason Given By Founders For Establishing Their Enterprises

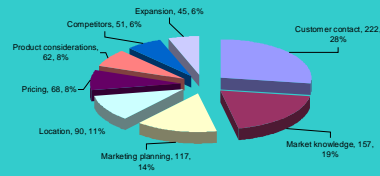
Reason	Total Frequency	Men	Women
Autonomy	58	32	26
Achievement	46	23	23
Job dissatisfaction	46	25	21
Money	35	21	14
Career dissatisfaction	26	6	20
Child rearing	14	1	13
Outlet for skills	9	5	4
Offer employment	8	4	4
Market opportunity	6	4	2
Job insecurity	6	4	2
Entrepreneurship	6	6	0
Inheritance	5	3	2
Status	4	2	2
Others	8	3	5
	277	139	138

Source: Dr. Stanley Crombie, *Motivations of aspiring and female entrepreneurs*

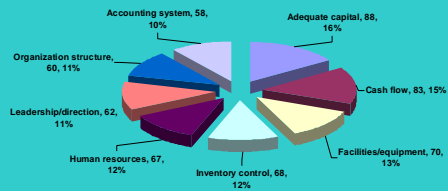


## Problem Identification in Entrepreneurial Firms

Figure 4. Problems identified by small businesses



**Internal Problems**



Source: R. Dodge, R. Puffer, J. Robbins, *Stages of the Organizational Life Cycle and Competition as Indicators of Problem Perception for Small Businesses*, 1994

## Objectives

- 1) To determine the dominant barriers to firm growth encountered by various small businesses in rural areas.
- 2) To assess how closely related these barriers are to the disadvantages to U.S. entrepreneurs described in the Global Entrepreneurship Model.

## Objectives, cont.

- 3) To identify a set of business strategies common among successful, established firms or surviving young, start-up businesses.
- 4) To determine the motivations common to rural entrepreneurs in the stage of business conception.
- 5) To estimate the impact of increased internet access on the development of small businesses in rural areas.

## Methods & Procedures

- Qualitative research
- 8 Case studies
- “The case study method enables students to discover and develop their own unique framework for approaching, understanding, and dealing with business problems. To the extent that one can learn business practice in a classroom, and the limits are substantial, it achieves its goal efficiently. Equally important, case method teaching is intellectually stimulating for the faculty. In current jargon, it is teacher friendly, affording the instructor opportunities for continuous self-education”

## The Sample

- 8 firms involved in the food industry
- Clients of the Rutgers Food Innovation Center (RFIC)
- Range from early start-ups to young successful firms

## Means of Data Collection

- Interviews of entrepreneurs- structured around developed questionnaire (Escalante)
- Covered following topics: inbound logistics, operations, outbound logistics, marketing and sales, service, procurement, technology development, human resource management, and firm infrastructure

## Value Chain Activities and Barriers to Growth (Escalante, Porter)

- Inbound Logistics. Activities associated with receiving, storing and disseminating inputs to the product
- Operations. Activities associated with transforming inputs into the final product.
- Outbound Logistics. Activities associated with collecting, storing, and physically distributing product to the buyers,
- Marketing and Sales. Activities associated with providing a means by which buyers can purchase the product and inducing them to do so,
- Service. Activities associated with providing service to enhance or maintain the value of the product
- Procurement. The function of purchasing inputs used in the firm's value chain .
- Technology Development. Consists of a range of activities that can be broadly grouped into efforts to improve the product and the process.
- Human Resource Management. Consists of activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel.
- Firm Infrastructure. Activities including general management, planning, finance, accounting, legal, government affairs, and quality management.

## 8 Sample Firms

<i>Name of Firm</i>	<i>Business Activity</i>	<i>Year Started</i>
American Jubilee Desserts	Scratch Baking	2003
Circle M Fruit Farms	Peach Cider Prod.	2003
Spring Creek Farm	Jam Production	1999
3 Generations of Food	Tomato Sauce Prod.	2003
Heritage Vineyards	Wine Production	2000
Garden State Family Farms	Dairy Cooperative	2005
Real Tea	Iced Tea Production	2004
Bellview Winery	Wine Production	2000

## Results

- Only 25% delegated a substantial portion of business tasks
- 62.5% incorporated a democratic decision-making style
- Same firms also employed management teams
- 5 of 8 found incubator resources to be highly significant

## Results, cont.

- Primary marketing strategy: ½ niche, ½ diversification
- Level of product promotion varied greatly between all firms
- 87.5% described their quality of labor as “high”, while only 1 of 8 firms encountered problems with labor turnover

## Results, cont.

- 75% utilized informal in-house training, while only one firm employed external trainers
- 62.5% developed company websites: valuable, cost-effective marketing tool
- 50% were under-capitalized during business launch
- 75% used their retained earnings to source additional capital expenditures, while 75% claimed an operating line of credit was available to them

## Conclusions

- 1) To determine the dominate barriers to firm growth encountered by various small businesses
  - Undercapitalization: 4 of 8 at business launch, each one during first year of operations
  - Lack of Funds for Product Promotion: 5 of 8- low sales levels, low market exposure
  - Insufficient Employee Compensation: only part-time workers, minimum to low wages
  - Acquiring a Cost-Effective Manufacturing Space and Retail Location: main financial setback

## Conclusions, cont.

- 2) To assess how closely related these barriers are to the disadvantages to U.S. entrepreneurs described in the GEM model
  - 6 of the 10 GEM detriments were to some extent applicable to the study
- 3) To identify a set of business strategies common among successful, established firms or surviving, young start-up businesses
  - All but one developed a formal business plan

25

## Conclusion, cont.

- During first year of operations, all but one firm hired only part-time employees
- More than half of entrepreneurs assembled management teams: those who made greater progress within the first year
- 75% implemented informal in-house training: far less costly, allowed for personal supervision

## Conclusions, cont.

- 4) To determine the motivations common to rural entrepreneurs in the stage of business conception
- 5 of 8: Genuine passion for their products
  - 5 farm-based entrepreneurs: need to increase profits to preserve their farms
  - While planning, all 8 exhibited total confidence and optimism regarding their skills and firm potential

## Conclusions, cont.

- 5) To estimate the impact of increased internet access on the development of small businesses in rural areas
- Half of sample: excellent research and communication tool
  - Two entrepreneurs: used for sourcing suppliers of complimentary goods
  - None utilized e-commerce, yet all planned to in near future
  - 5 of 8: most useful as marketing tool



## Final Conclusions & Recommendations

- No two businesses or entrepreneurs are alike
- No single policy could cover all issues pertinent to entrepreneurship
- Policies should focus on increasing funding and awareness of facilities such as the Rutgers Food Innovation Center (RFIC)– Better marketing of such programs and facilities

## Final Conclusions & Recommendations

- Investment in rural entrepreneurship is worthwhile: 99% of all firms in U.S. are “small businesses”– undercapitalization is a major hurdle for start-ups