

Determinants of Business Climate Perceptions in Small and Medium-Sized Enterprises: Does Managerial Ownership Matter?

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This study examines the relationships between entrepreneurial orientation (EO), firm performance, and perceptions of business climate perceptions (BCP) in small- and medium-sized enterprises. Analysis of the relationships also involves assessing to what extent agency effects may cause differences in BCP by owner managers and non-owner managers. The samples for this study were 461 owner managers and 281 non-owner managers of businesses employing less than 250 people in “hurricane-affected” parishes in central Louisiana. The sample firms were selected (every 10th firm) from licensed businesses and the data collected by a telephone survey conducted by the LSU Office of Institutional Research. This survey was sponsored by Shell Oil Company.

Full sample results found a positive association between BCP and overall performance, while favorable BCP was negatively associated with sales growth and risk taking. The results of the study found similar associations between EO, firm performance, and BCP in both owner managed companies and non-owner managed firms, although risk aversion and overall performance were more strongly associated with favorable BCP in the non-owner manager sub-sample and revenue stability had a stronger relationship with BCP in the owner manager sub-sample. The results of the study found that managers who had pursued less risky strategies had more favorable views of the business climate during challenging economic conditions. Also, the similar attitudes of non-owner managers and owner managers concerning the business climate suggest that the interests of non-owner managers and owners are relatively well aligned in this sample of externally controlled SMEs.

The extent to which non-owner managers and owner managers have similar views about the business environment, competitive conditions, and strategic issues facing a business is of interest since many investors in small and medium-sized enterprises (SMEs) are unable to manage the business themselves. Many entrepreneurs have investments in a number of businesses or lack certain operating expertise needed in a particular business and, by necessity, are required to contract with non-owner agents to manage the company’s operations. Business owners who have ceded control of day-to-day operating decisions to agent managers are best served when contract terms and monitoring create consistent views of situational factors, risk acceptance, and decision making behavior between owners and non-owner managers. Agency theory has examined this dispersion of ownership and control. The agency problem, as described by Ross (1973) and Eisenhardt (1989), constitutes a misalignment of interest between an agent acting as a representative of a principal. This misalignment primarily arises from divergent goals and information asymmetries as the agent’s behavior, as well as personal intent, cannot be fully known and controlled by the principal whereas the principal bears the risks and gains the residual compensation (Ross, 1973; Davies & Prince, 2010). Monitoring expenditures incurred by the principal, moral hazard, bonding expenditures incurred by the agent, as well as residual losses are the most common agency costs emerging from the described dispersion (Jensen & Meckling, 1976; Shapiro, 2005). This study examines the relationships between entrepreneurial orientation (EO), firm performance, and perceptions of business climate perceptions (BCP) in SMEs. Analysis of the relationships also involves assessing the extent to which agency effects may cause differences in BCP by owner managers and non-owner managers.

The local business climate is among the various factors that influence the success of many SMEs and shapes entrepreneurial intentions to launch new ventures in a community. Two facets of BCP by the owner managers and non-owner managers of SMEs were examined in this study - perceived institutional support and perceived community support. Perceived institutional support included views on the supportiveness of entrepreneurial businesses by bankers and investors, local government and policy, groups and organizations, and media. Perceived community support was assessed by the extent to which the owner managers and non-owner managers of SMEs believed business people were viewed as positive role models in the community.

It is expected that BCP will be associated with the EO of the owner manager or non-owner manager of the SME and that those respondents with higher levels of EO will have more favorable views of the business climate. In addition, it should be expected that owner managers and non-owner managers of businesses with higher levels of performance would have more favorable views of the business climate. Agency theory predictions about the effects of monitoring and contracts suggest that the BCP of owner managers and non-owner managers will be similar.

THEORETICAL FOUNDATIONS

For a variety of reasons, it is sometimes neither efficient nor practical for owners of SMEs to actually manage their businesses. In such cases, it is indispensable for the owner to have the option of contracting with an agent to make day-to-day decisions regarding the SMEs' operations and expenditures. Depending on the owner's circumstances and the scope and the size of the organization, the agent's control may even be extended to long-term strategic and financial decisions.

It should be expected that the priorities and objectives of agents and owners may differ based upon divergent interests (Dalton, Hitt, Certo, & Dalton, 2007). Excessive agency costs can arise when agents are free to pursue a course of action that maximizes the agent's personal utility instead of company performance (Ross, 1973). While agents may possess managerial control over a non-owner managed SME, owners are able to minimize agency costs through contracts and monitoring that effectively aligns the interests of owners and agent-managers (Eisenhardt, 1989).

Agency theory has examined this dispersion of ownership and control. The agency problem, as described by Ross (1973) and Eisenhardt (1989), constitutes a misalignment of interest between an agent acting as a representative of a principal. This misalignment primarily arises from divergent goals and information asymmetries as the agent's behavior, as well as personal intent, cannot be fully known and controlled by the principal whereas the principal bears the risks and gains the residual compensation (Ross, 1973; Davies & Prince, 2010). Monitoring expenditures incurred by the principal, moral hazard, bonding expenditures incurred by the agent as well as residual losses are the most common agency costs emerging from the described dispersion (Jensen & Meckling, 1976; Shapiro, 2005). To overcome the differences in goal attainment and reduce costs associated with it, the two parties can enter into a contract of mutual satisfaction. This contract provides incentives for the agent to achieve the goals of the principal (Jensen & Meckling, 1976). Yet, although a growing body of empirical research fails to support the explanatory power of agency theory (Dalton, Hitt, Certo, & Dalton, 2007; Ghosal, 2005), and in its focus on economic self-interests is suggested to be inconsistent with the behavioral assumptions of agents as viewed in most theories of organization (Lubatkin, 2005), agency problem is seen as real and intractable (Lan & Heracleous, 2010).

Considering the different types of control in a firm, the principal-agent relationship as well as the extensiveness of the agency problem might vary. In particular, systematic differences between owner-manager and management-controlled firms in regard to risk propensities are apparent and are specified by McEachern's taxonomy in the following:

RISK AND CONTROL IN SMES

McEachern (1975) created a taxonomy to describe the different states of control in a firm. Three ownership categories are classified:

1. Owner-managed: the owner both operates and controls the firm;
2. Externally-controlled: an individual with no ownership manages the firm but is closely monitored by owners or dominant stockholders possessing a majority of the firm's shares;
3. Manager-controlled: the manager both operates and controls the firm with no stockholder possessing a dominant position among external shareholders.

The manager of an owner-managed SME's willingness to accept risk is dependent on and positively related to his/her anticipation of future returns (Black & Scholes, 1973). Owner-managers recognize that high risk strategies can result in the opportunity for greater personal wealth. This risk-seeking behavior is further supported by the likelihood that the owner-manager's job security is not subject to evaluation by outside stockholders (McEachern, 1975). The peril of insolvency; however, impacts and limits the owner-manager's risk strategy (Jones & Butler, 1992).

Control of agency problems as such should have less impact on owner-managers because of the shared interests of principals and agents (Ang, Cole, & Lin, 2000; Jensen & Meckling, 1976). However, professionalization and practical applications denotes that owner-managers will delegate authority to middle level managers who are not necessarily owners (Hofer & Charan, 1984). Thus, professionalization can lead to agency problems when private companies are externally-controlled (Chua, Chrisman, & Bergiel, 2009).

Managers of externally-controlled SMEs are inclined to tolerate levels of risks that are only as great as that acceptable to the owner of the manager-controlled SME. Unlike a portfolio-balancing investor, an owner of a SME is most likely the dominant stockholder of the SME and may have a large portion of his/her funds invested in the firm (McEachern, 1975). Hence, due to a personal vulnerability to poor firm performance, the dominant shareholder will increase his/her active role in the firm to verify the agent's behavior and to cause changes in management aiming to improve performance (Eisenhardt, 1989). Accordingly, they are willing to replace executives more frequently when performance declines (Salancik & Pfeffer, 1980). Considering agency theory, as the majority of a manager's human capital is tied to the firm, as well as his/her work and income largely dependent upon firm performance, he/she will not be willing to participate in uncertainties of entrepreneurial activities which influences the factor of risk-bearing (Denis, 2001; Larraza-Kintana, Wiseman, Gomez-Mejia, & Welbourne, 2007; Jones & Butler, 1992).

In conclusion, the risk acceptance/avoidance behavior of owner-managers and managers of externally-controlled firms tend to be similar. The third category, manager-controlled firms, although part of McEachern's taxonomy, is not further discussed due to its non-applicability in the current sample.

RESEARCH PROPOSITIONS AND HYPOTHESES

The hypotheses of this study suggest that business climate perceptions are related to the entrepreneurial orientation of the firm's managers and firm performance. It is also expected that the business climate perception/entrepreneurial orientation relationship will vary among respondents in owner managed firms and managers in externally controlled firms.

ENTREPRENEURIAL ORIENTATION

Various factors affect why a company may outperform or underperform its rivals, including disparate affects of competitive forces, the relative competitive power of its internal resources and capabilities, or timing. In addition, the entrepreneurial orientation of a company may contribute to its success in the marketplace.

In general, EO refers to a firm's propensity towards entrepreneurship as reflected in managerial decision-making, policies and procedures, and organizational culture. Although EO has been widely examined since Miller's originating article in 1983, it remains a construct that is not uniformly defined (Covin & Lumpkin, 2011). According to George and Marino (2011), the lack of consistency in defining the construct is particularly problematic in its nature and descriptions, which essentially relates to its dimensionality, the range of organizational processes, and the relationship between EO and its dimensions.

Yet, based on the discussion by Miller (1983, 2011), EO is a firm-level construct, defined by the propensity of a company's top management to take calculated risks, engage in product-market innovation, and exhibit strategic proactiveness by exploiting market opportunities. As such, EO indicates how a firm operates rather than what it does or the industry it competes in (Lumpkin & Dess, 1996). The conceptualized elements risk-taking, innovativeness, and proactiveness are derived from a scale of 11 entrepreneurial dimensions of strategy discussed by Miller and Friesen (1978). Covin and Selvin (1989) amplified the scholarly acceptance of the EO construct with development of a nine-item scale of the EO construct built on the initial work of Miller (1983) and Khandwalla (1976).

The EO theorem development has distilled to two distinctive views: the unidimensional view of EO based on the work of Miller (1983) and Covin & Slevin (1989) and the multidimensional view conceptualized by Lumpkin and Dess (1996). "In the unidimensional view of EO, the latent construct is understood to exist only to the extent that risk taking, innovativeness, and proactiveness are concurrently manifested by the firm" (Covin & Lumpkin, 2011) and if one or more of these elements are not persistent, the company cannot be considered entrepreneurial (Miller, 2011). Lumpkin and Dess in 1996, introduced the multidimensional or five-dimension approach, which manifests EO as a "superordinate construct with the dimensions of risk taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy" (Covin & Lumpkin, 2011).

In contrast to the unidimensional view, the multidimensional view does not restrict entrepreneurial behavior to the situations where all three dimensional requirements are fulfilled. While all five dimensions are significant in the entrepreneurial process, one or a combination of some might be more important depending on the strategic orientation, the lifecycle stage, the economic conditions, or the type of opportunity a company pursues (Lumpkin & Dess, 1996). Though there is disagreement about the dimensionality of the EO construct, numerous studies support the reliability and validity of both the unidimensional and the multidimensional views (e.g., Wiklund, 1999). As both approaches are widely accepted, this study focuses on the five-dimensional conceptualization suggested by Lumpkin and Dess (1996).

RISK TAKING

Risk taking refers to a company's willingness to deal with uncertainty and commit significant resources to opportunities with reasonable and costly chances of failure (Miller & Friesen, 1978). Busenitz (1999) theorizes that entrepreneurs, in contrast to non-entrepreneurs, have a more favorable view of business conditions/situations and hence, according to Palich and Bagby (1995), tend to categorize business situations as such as less risky.

INNOVATIVENESS

Innovativeness is a company's propensity to engage in and support new ideas, processes, and knowledge resulting in novel products, services, and a competitive advantage over rivals (Lumpkin & Dess, 1996). Based on Covin and Miles (1999), innovation is the most critical factor for defining entrepreneurship.

PROACTIVENESS

Proactiveness reflects the scope to which a firm anticipates and acts on future demands (Lumpkin & Dess, 1996; Miller & Friesen, 1978). The activities planned ahead may not be related to current operations, but might refer to expected future or latent customer needs, and changes in the company's internal as well as external environment. Besides product innovation, diversification or new market entry, proactiveness can also include "strategically eliminating operations which are in the mature or declining stages of the life cycle." (Venkatraman, 1989, p. 949).

COMPETITIVE AGGRESSIVENESS

Competitive aggressiveness relates to the ways a firm responds to threats and challenges in its intermediate external environment. Hence, it is about challenging competitors in an effort to improve relative performance (Lumpkin & Dess, 1996). The goal is often an increase in market share, aggressive prices or advertising competition (Vilcassim, Kadiyali, & Chintagunta, 1999) or innovation (Banbury & Mitchell, 1995).

AUTONOMY

Autonomy refers to the need for independence for leaders and employees internally as well as externally to make key decisions independently, to pursue opportunities as well as realizing a vision or a novel idea (Lumpkin & Dess, 1996). According to Miller (1983), the most entrepreneurial firms had the most autonomous leaders.

Previous studies on the interrelation between EO and the business environment have established a relationship between entrepreneurial perceptions and the strategic posture, such as innovativeness, risk taking, proactiveness, competitive aggressiveness, and autonomy (Lumpkin & Dess, 1996). As perceptions and the environment tend to influence EO, EO is inclined to influence the business climate perception, such that entrepreneurs high in EO perceive the business climate more favorably.

H1: Entrepreneurial orientation will be positively associated with business climate perceptions by both owner managers and non-owner managers of SMEs.

BUSINESS CLIMATE PERCEPTIONS

The local business climate has major implications for the success and growth potential of entrepreneurial businesses and SMEs. In general, the local business climate is comprised of local government policies and regulations, financing available for local businesses, local educational institutions, local media, local community groups and organizations that support SMEs, and local values that may or may not recognize and champion entrepreneurs as role models. Because the local business climate has such important bearing on the success of local businesses, the perceptions of the business climate by the owners and managers of SMEs should be expected to shape strategic and operating decisions at such firms. In addition, BCP may be shaped by internal characteristics of the entrepreneur such as their propensity to accept risk, proactiveness, commitment to innovation, competitive aggressiveness, and desire for autonomy. Also, it should be expected that the ownership level, control over decision-making, and personal exposure to risk will affect business climate perceptions by business owners and managers.

Although broadly used, the term “business climate” is not clearly defined in the current literature; however, Bittlingmayer, Eathington, Hall & Orazem (2005) provide a comprehensive definition by referring to it as “the local economic conditions that foster or retard the birth or growth of firms” (p. 1). According to the International Economic Development Council’s Reference Guide (2012), “a good business climate ultimately allows businesses to conduct their affairs with minimal interference while accessing quality high inputs and customers at low costs”. A favorable business climate is hence inevitable for and related to economic growth and prosperity (Drucker, 1999; Henderson & Robertson, 2000). Referring to the influences of business climate, the numerous factors can be categorized into perceived institutional support, and perceived community support. This framework is basis for the current study.

PERCEIVED INSTITUTIONAL SUPPORT (BCP I)

Bankers and investors. Access to and availability of funding is crucial and a major obstacle for entrepreneurial businesses in every stage of their lifecycle (Bitzenis & Nito, 2005; Chatman, Altman, & Johnson, 2008). The perception of the local business climate is therefore highly dependent on this factor. Financial support can influence an entrepreneur’s choice of a local community to locate a business or even whether to pursue a new venture. According to Liguori, Maurer, Bendickson and Weaver (2012) it is indispensable for a community to understand the needs and the challenges entrepreneurs face in regards to financing a SME. Crane and Meyer (2006) suggest that lack of seed money, lack of venture capital, and lack of angel investors can be major obstacles to entrepreneurial development. This is supported by Velazquez, Moore and Dahlkemper (2009) who emphasize the problems related to this to the variety of financial impediments. Hence, inadequate efforts by community leaders to enhance financing opportunities for SMEs can hinder the development of positive business climate perceptions among owners and managers of SMEs, whereas local communities who can create an environment of support and availability of local financial might see a rise in venture growth and creation (Liguori, *et al.*, 2012).

LOCAL GOVERNMENT AND POLICY

Local governments can damage perceptions of the local business climate with the passage and implementation of numerous or overly burdensome policies; whereas owners and managers of SMEs welcome ample financing opportunities, decision makers in these businesses tend to value the lower levels of government interference in the local business environment (Dennis, 2006). However, there are many policies a local government can implement to support, promote, and attract business ventures. For example, low state and local taxes, and cooperative relationships are among the various possibilities to create a successful business climate (Plaut & Pluta, 1983). Active interaction and communication between government officials and its entrepreneurs is furthermore influencing whether a community is perceived entrepreneurial (Birch, Haggerty, & Parsons, 1999).

Keating (2011) suggests that economic growth and job creation is impaired by a disproportionate amount of governmental burdens. Although policymakers may limit the maximization of new ventures because of conflicting goals, they have the power and tools to contribute to a positive business climate (Campbell, Heriot, Jauregui, & Mitchell, 2012). Policies that focus on stable communities and adaptability to technological and economic changes seem to be positively related to new opportunities and sustainable growth. Accordingly, while challenges tend to be numerous and significant, the local government can produce a supportive atmosphere and provide the basis for venture growth by positively shaping the local business climate, at least in the long-run.

COMMUNITY GROUPS AND ORGANIZATIONS

Community groups such as local chambers, rotary, economic development, and social activist groups play a valuable role in creating a positive business environment (Dennis, 2006). Community involvement in the business climate is important for two reasons. First, social support in a community can encourage entrepreneurs to start a business or provide them with the feeling of feasibility and attainability (Krueger & Brazeal, 1994). And, secondly, community groups can support and collaborate with entrepreneurs to improve their access and availability of financial resources. Hence, according to Liguori *et al.* (2012), community groups present great opportunities by connecting business leaders and entrepreneurs to generate greater entrepreneurial activity.

MEDIA COVERAGE

The media takes a significant place in influencing the perception of the local business climate. In addition to providing news and coverage, it generates publicity and awareness for local entrepreneurs and increases engagement in the community. The media exposure can cast entrepreneurship in a positive, attractive light, leading to amplified support and legitimacy for entrepreneurial within the community (Liguori, et al., 2012).

While publicizing entrepreneurial success stories makes starting a business more feasible (Krueger & Brazeal, 1994) and more desirable, negative reporting in form of entrepreneurial failures or a perceived recessive business climate tend to deter potential entrepreneurs. Hence, the perception of the favorableness of the local business environment tends to be impacted, negatively or positively, by the media coverage on entrepreneurial business and the local business climate (Birch et al., 1999, Hustedde, 2007)

PERCEIVED COMMUNITY SUPPORT (BCP II)

Community support of entrepreneurs is to some extent determined by how entrepreneurs are viewed as role models in the community. Based on the research of Goetz (2008), individuals who start their own businesses are highly valued and admired for their determination, work ethics, drive and expertise in communities with positive business climates. The relationship between the emergence of new entrepreneurs and the presence of entrepreneurial role models is positively related (Shapero & Sokol 1982; Timmons, 1986; Matthews & Moser, 1995). In general, the embracing of entrepreneurs as role models within a community shapes the perception of the local business climate by owners and managers of SMEs.

Overall, there are many opportunities for governments, bankers, communities, and media to positively shape the BCP. Yet, besides these external factors, the respective BCP is suggested to be influenced by the entrepreneur's current success. Whereas, entrepreneurs' in high-performance firms tend to perceive the business climate as more favorable, underperforming firms are inclined to attribute their low performance to its weakness. Hence, a weak business climate might not only dampen investments and emergence of new ventures but also encourage market exits.

H2: Firm performance will be positively associated with business climate perceptions by owner managers and non-owner managers of SMEs.

As discussed in the beginning of this study, many investors in small and medium-sized enterprises are unable to manage the businesses themselves. Accordingly, agency theory was applied and it was suggested that business owners who have ceded control of day-to-day operating decisions to agent managers are best served when contract terms and monitoring create consistent views of situational

factors, risk acceptance, and decision making behavior between owners and non-owner managers. Based on the prior theoretical analysis and due to the interrelation between BCP and EO as well as the control structure, agency effects tend to be reduced.

- H3: The relationship between entrepreneurial orientation and business climate perceptions for owner managers and non-owners will be consistent since externally controlled firms are closely monitored by a dominant stockholder.
- H4: The relationship between firm performance and business climate perceptions for owner managers and non-owners will be consistent since externally controlled firms are closely monitored by a dominant stockholder.

METHODOLOGY

SAMPLE AND PROCEDURES

The sample for this study included 461 owner managers and 281 non-owner managers of businesses employing less than 250 people in “hurricane-affected” parishes in central Louisiana. The sample firms were selected (every 10th firm) from licensed businesses and the data collected by a telephone survey conducted by the LSU Office of Institutional Research. This survey was sponsored by Shell Oil Company.

The Pearson product-moment correlation coefficients (*r*) among the study variables were calculated for both samples and the combined group. Hierarchical multiple regression analysis was used to identify the incremental contribution of the control variables, entrepreneurial orientation, and organizational performance metrics to the variance in the dependent variables, perceived institutional support and perceived community support. Expecting shared variance among the study variables, sector, size, and industry were entered as control variables in Step 1. The entrepreneurial orientation variables were entered in Step 2, and the performance metrics were entered in Step 3.

MEASURES

Business climate perception was measured along two dimensions, institutional support (BCP I) and perceived community support (BCP II). The independent variable, entrepreneurial orientation, was measured with the five dimensional EO measure developed by Lumpkin & Dess (1996). The five dimensions are risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy. The performance measures used were sales growth, overall performance of the business, and performance relative to the industry.

RESULTS

CORRELATION ANALYSIS

The Pearson’s *r* correlation matrices for the full sample and sub samples of non-owner managers and owner managers are presented in Tables 1, 2, and 3.

HIERARCHICAL REGRESSION ANALYSIS

Full sample results of the hierarchical multiple regressions for institutional support (BCP II), Step 1, indicate the control variables of sector ($\beta = .095$; $t = 1.99$; $p < .04$) and industry ($\beta = .002$; $t = 2.05$; $p < .04$) produced an R^2 of 1.68. Step 2, adding the EO dimensions of innovation, proactiveness, risk-taking, and autonomy did not produce a significant contribution. In Step 3, sales growth ($\beta = -.75$; $t = -3.61$; $p < .003$) and overall performance ($\beta = .088$; $t = 2.36$; $p < .01$) produced an R^2 of 9.5. The overall model ($F = 4.06$; $p < .001$) indicates that sales growth and overall performance account for about 10% of the variance in institutional support (See Table 4).

The full sample results for perceived community support (BCP II), Step 1 included only the control variable industry ($\beta = .002$; $t = 2.01$; $p < .04$), and produced an R^2 of 1.1. In Step 2, risk taking ($\beta = -.07$; $t = -2.57$; $p < .01$) was the only significant EO independent variable, contributing an R^2 of 1.9 to the model. In Step 3, sales growth ($\beta = -.04$; $t = -2.05$; $p < .02$) and overall performance ($\beta = .07$; $t = 2.11$; $p < .03$) contributed an R^2 of 4.46, producing an overall model R^2 of 7.5 ($F = 3.2$; $p < .0003$). The full sample results for BCP II are also presented in Table 4.

Non-owner managers' results for BCP I produced a model in which none of the independent variables were significant: thus H1 and H2 were not supported. Entrepreneurial orientation and firm performance had no linkage with perceived institutional support. In the model for BCP II, the non-owner managers' results revealed no significant relationship between the control variables, and perceived community support. In Step 2, risk-taking ($\beta = -.10$; $t = -2.26$; $p < .025$) was negatively linked to institutional support and produced an R^2 of 3.26 (see Table 5), also failing to support H1. Overall performance ($\beta = .14$; $t = 2.29$; $p < .022$) was positively related to institutional support and contributed an R^2 of 7.6 to the model, supporting H2 and contributing to the overall R^2 of 12.15 ($F = 1.91$; $p < .041$). The non-owner managers' perceptions of community support increased as the overall performance of their firm increased.

Owner managers presented a slightly different profile than the non-owner managers. In the model for BCP II, in Step 1, none of the control variables were significant. Risk-taking in Step 2 was marginally and negatively significant ($\beta = -.06$; $t = -1.94$; $p < .05$) with an R^2 of 2.4, providing support for H1. Contrary to our hypothesis, risk taking behaviors (entrepreneurial orientation) were negatively linked with perceived institutional support. In Step 3, sales growth ($\beta = -.06$; $t = -3.11$; $p < .002$) was negatively linked to institutional support, and produced an R^2 of 8.7, failing to support H2, and producing a combined model R^2 of 11.6 ($F = 3.02$; $p < .0008$). Owner managers whose firms experienced increasing sales growth perceived reduced institutional support, contrary to the hypotheses – see Table 6. There were no significant relationships between perceived community support and the independent variables for the manager owner sample, thus H1 and H2 were not supported for owner managers.

Table 1: Correlation Matrix for the Full Sample

	Variable										
Variable	Sector	Firm Size	Innovation	Proactive	Comp. Aggress.	Risk Taking	Autonomy	Sales Growth	Overall Performance	Relative Performance	Institutional Support
Firm Size	-0.024										
Innovation	0.002	0.097*									
Proactiveness	0.022	0.056	0.453 [‡]								
Competitive Aggressiveness	-0.040	-0.082	0.050	0.071							
Risk Taking	0.027	0.002	0.298 [‡]	0.352 [‡]	0.138 [†]						
Autonomy	0.040	0.017	0.049	-0.037	0.002	0.094					
Sales Growth	-0.026	-0.100	-0.076	-0.158 [‡]	-0.070	-0.083	-0.079				
Overall Performance	-0.033	0.111*	0.124 [†]	0.178 [‡]	-0.051	0.130 [†]	0.051	-0.405			
Relative Performance	-0.002	0.088	0.078	0.335 [‡]	-0.062	0.090	0.022	-0.247*	0.534 [‡]		
Institutional Support	0.102*	0.031	0.002	-0.017	-0.065	-0.063	0.034	-0.232*	0.210 [‡]	0.122*	
Perceived Community Support	0.091	0.042	0.011	0.002	-0.026	-0.119*	0.054	-0.159*	0.164 [‡]	0.111*	0.628 [‡]

* p. < .05; † p. < .01; ‡ p. < .001.

Table 2: Correlation Matrix for Non-Owner Managers Sub-Sample

	Variable										
Variable	Sector	Firm Size	Innovation	Proactive	Comp. Aggress.	Risk Taking	Autonomy	Sales Growth	Overall Performance	Relative Performance	Institutional Support
Firm Size	-0.028										
Innovation	0.078	0.113									
Proactiveness	0.119	0.051	0.396 [‡]								
Competitive Aggressiveness	0.010	-0.152	0.096	-0.022							
Risk Taking	0.015	-0.059	0.186 [*]	0.356 [‡]	0.052						
Autonomy	0.057	-0.010	0.033	0.117	0.105	0.291 [‡]					
Sales Growth	-0.096	-0.105	-0.084	-0.250 [‡]	-0.094	-0.021	-0.203 [‡]				
Overall Performance	-0.021	0.157	0.132	0.208 [‡]	-0.024	0.009	0.128	-0.449 [‡]			
Relative Performance	-0.017	0.148	0.132	0.387 [‡]	-0.091	0.067	0.142	-0.380 [‡]	0.518 [‡]		
Institutional Support	0.144	-0.032	-0.014	0.071	-0.037	-0.015	-0.061	-0.192 [*]	0.205 [‡]	0.206 [‡]	
Perceived Community Support	0.051	0.029	0.022	0.133	-0.042	-0.123	-0.013	-0.173 [*]	0.273 [‡]	0.227 [‡]	0.624 [‡]

* p. < .05; † p. < .01; ‡ p. < .001.

Table 3: Correlation Matrix for Owner Managers Sub-Sample

	Variable										
Variable	Sector	Firm Size	Innovation	Proactive	Comp. Aggress.	Risk Taking	Autonomy	Sales Growth	Overall Performance	Relative Performance	Institutional Support
Firm Size	-0.079										
Innovation	-0.040	0.124									
Proactiveness	-0.031	0.110	0.476 [‡]								
Competitive Aggressiveness	-0.407 [‡]	-0.017	0.012	0.128 [*]							
Risk Taking	0.025	0.093	0.356 [‡]	0.372 [‡]	0.166 [†]						
Autonomy	0.018	0.028	0.065	-0.106	-0.045	0.000					
Sales Growth	0.057	-0.140 [*]	-0.061	-0.101	-0.084	-0.118	-0.026				
Overall Performance	-0.078	0.067	0.110	0.154 [†]	-0.065	0.195 [†]	0.012	-0.376 [‡]			
Relative Performance	-0.008	0.028	0.041	0.298 [‡]	-0.015	0.130 [†]	-0.044	-0.145 [*]	0.538 [‡]		
Institutional Support	-0.011	0.079	-0.038	-0.083	-0.084	-0.141 [*]	0.043	-0.225 [‡]	0.181 [†]	0.068	
Perceived Community Support	0.035	0.045	-0.013	-0.082	0.005	-0.146 [*]	0.088	-0.107	0.068	0.009	0.590 [‡]

* p. < .05; † p. < .01; ‡ p. < .001.

Table 4: *Regression Results for the Full Sample*

BCP I Institutional Support						BCP II Perceived Community Support					
Variable	β	T	P-Value	R ²	ΔR^2	Variable	β	T	P-Value	R ²	ΔR^2
Step 1						Step 1					
Control Variables:						Control Variables:					
Sector	0.095	1.999	0.046			Sector	0.053	1.218	0.223		
Size	0.000	1.273	0.203			Size	0.000	0.972	0.331		
Industry	0.000	2.050	0.040			Industry	0.000	2.014	0.044		
				1.683						1.101	
Step 2						Step 2					
Innovation	0.011	0.300	0.764			Innovation	0.047	1.439	0.151		
Proactiveness	-0.001	-0.041	0.967			Proactiveness	0.005	1.644	0.870		
Competitive Aggress.	-0.023	-0.659	0.510			Competitive Aggress.	0.017	0.510	0.611		
Risk Taking	-0.028	-0.952	0.342			Risk Taking	-0.071	-2.569	0.011		
Autonomy	0.029	0.833	0.405			Autonomy	0.047	1.418	0.157		
				1.648	-0.034					3.018	1.917
Step 3						Step 3					
Sales Growth	-0.075	-3.613	0.000			Sales Growth	-0.043	-2.252	0.025		
Overall Performance	0.088	2.358	0.019			Overall Performance	0.073	2.115	0.035		
Performance to industry	0.016	0.389	0.698			Performance to industry	0.013	0.328	0.743		
				9.530	9.564					7.474	4.456
Full Model:						Full Model:					
F	4.06					F	3.2				
p<	0.001					p<	0.0003				

Table 5: *Regression Results for Non-Owner Managers*

BCP I Institutional Support						BCP II Perceived Community Support					
Variable	β	T	P-Value	R ²	ΔR^2	Variable	β	T	P-Value	R ²	ΔR^2
Step 1						Step 1					
Control Variables:						Control Variables:					
Sector	0.139	1.818	0.071			Sector	0.026	0.397	0.692		
Size	0.000	0.346	0.730			Size	0.000	0.541	0.589		
Industry	0.000	1.398	0.164			Industry	0.000	1.513	0.132		
				2.541						1.285	
Step 2						Step 2					
Innovation	0.049	0.790	0.431			Innovation	0.068	1.265	0.207		
Proactiveness	0.025	0.472	0.638			Proactiveness	0.045	0.954	0.342		
Competitive Aggress.	-0.053	-0.908	0.365			Competitive Aggress.	-0.007	-0.129	0.897		
Risk Taking	-0.009	-0.190	0.849			Risk Taking	-0.101	-2.259	0.025		
Autonomy	-0.012	-0.197	0.844			Autonomy	0.010	0.177	0.860		
				2.538	0.003					4.544	3.259
Step 3						Step 3					
Sales Growth	-0.033	-0.841	0.402			Sales Growth	-0.022	-0.644	0.521		
Overall Performance	0.098	1.416	0.159			Overall Performance	0.138	2.298	0.023		
Performance to industry	0.112	1.563	0.120			Performance to industry	0.042	0.634	0.527		
				10.647	8.109					12.149	7.606
Full Model:						Full Model:					
F	1.57					F	1.91				
p<	0.1133					p<	0.0419				

Table 6: *Regression Results for Owner Managers*

BCP I Institutional Support						BCP II Perceived Community Support					
Variable	β	T	P-Value	R ²	ΔR^2	Variable	β	T	P-Value	R ²	ΔR^2
Step 1						Step 1					
Control Variables:						Control Variables:					
Sector	0.034	0.642	0.521			Sector	0.032	0.524	0.600		
Size	0.000	0.537	0.591			Size	0.000	0.169	0.866		
Industry	0.000	1.012	0.312			Industry	0.000	1.242	0.215		
				0.494						0.510	0.000
Step 2						Step 2					
Innovation	-0.025	-0.688	0.492			Innovation	0.029	0.689	0.491		
Proactiveness	-0.003	-0.083	0.934			Proactiveness	-0.016	-0.381	0.703		
Competitive Aggress.	-0.010	-0.273	0.785			Competitive Aggress.	0.041	0.926	0.356		
Risk Taking	-0.060	-1.943	0.053			Risk Taking	-0.068	-1.851	0.065		
Autonomy	0.028	0.806	0.421			Autonomy	0.063	1.502	0.134		
				2.895	2.401					2.924	2.414
Step 3						Step 3					
Sales Growth	-0.063	-3.113	0.002			Sales Growth	-0.041	-1.669	0.096		
Overall Performance	0.065	1.834	0.068			Overall Performance	0.035	0.805	0.422		
Performance to industry	-0.008	-0.205	0.838			Performance to industry	-0.006	-0.116	0.908		
				11.607	8.712					5.828	2.904
Full Model:						Full Model:					
F	3.02					F	1.46				
p<	0.0008					p<	0.1479				

DISCUSSION

It was expected in Hypothesis 1 that higher levels of EO would be associated with higher BCP. The results of the full sample analysis found no relationship between EO and BCP I (institutional support), however a negative association between risk taking and BCP II (perceived community support) was identified, with more risk averse managers having higher BCP than those managers having a higher tolerance for risk. The results of the study indicate that firm performance explains the greatest percentage of variance in BCP among owner managers and non-owner managers of SMEs—confirming Hypothesis 2. While overall performance was positively related to BCP I and BCP II, the relationship between sales growth and both facets of BCP was negative. This suggests that managers of companies with more stable revenues had higher BCP than managers of growth companies. This finding is consistent with the relationship between risk taking and BCP in that more conservative-minded managers had higher BCP than more aggressive managers of SMEs.

The results of the regression analysis examining the responses of non-owner managers and owner managers support Hypothesis 3 with risk aversion being associated with BCP II for both owner managers and non-owner managers. BCP II was also associated with competitive aggressiveness in owner managers, but not for non-owner managers. BCP I was negatively associated with sales growth in the owner manager sub-sample, but not in the non-owner manager sub-sample. However, Hypothesis 4 was supported when looking at the BCP II results with a positive association between overall performance and BCP II in the non-owner manager sub-sample and a negative association between sales growth and BCP II in the owner-manager subsample.

The relationships affecting business climate perceptions for both owner-managers and non-owner managers of the SMEs examined in this study were relatively similar. The economic conditions in central Louisiana may partly explain why both categories of managers tended to be more satisfied with the business climate when they believed their company had pursued low relative risk strategies. It is quite likely that managers wishing to pursue aggressive growth strategies would be dissatisfied with a business climate not conducive to rapid growth. The similar attitudes of both types of managers in this study supports the theory that the actions and interests of non-owner managers are closely aligned with the interests of shareholders in externally controlled firms that are closely monitored by the principal or other dominant stockholder.

IMPLICATIONS AND FUTURE RESEARCH

The study addresses agency problems in SMEs and provides support for close monitoring of non-owner managers by principals and other dominant stockholders. The selection of professional managers by entrepreneurs unable to manage their business interests and the terms of employment contracts are critical issues in SME ownership. The results of the study found that managers who had pursued less risky strategies had more favorable views of the business climate during challenging economic conditions and that attitudes of non-owner managers and owner managers concerning the business climate were quite similar. The relationships found in this study disclosed similar attitudes concerning business climate perceptions and risk tolerance and aggressiveness. It is likely that close monitoring, job tenure of non-owner managers, owner/manager communications, and employment contract terms created a sufficiently tight alignment of manager and shareholder interests in the sample. In addition, the effect of Hurricane Katrina on the business climate for the businesses included in this sample may have contributed to a close alignment of interests since communications between managers and principals may have been frequent.

This research examining agency affects in SMEs could be improved with the addition of measurements of owner/manager communications, manager incentive compensation, and owner/manager work history. For example, alignment of the interests of owners and managers in externally controlled SMEs

would be expected to be higher in firms with frequent and high quality communications between owners and management. Also, decision making in non-owner managed SMEs may be more consistent with the desires of owners when compensation plans effectively link management incentives with owner interests. The percentage of variance explained by the model may also be improved with the addition of measures examining the working relationships between owners and managers. Specifically, it could be expected that that decision-making alignment between owners and non-owner managers would be higher where non-owner managers had first worked as a subordinate to the owner and then succeeded the owner as chief manager of the company. There is reason to extend this study to develop a better understanding of the decision making of agents employed to manage SMEs since it is not at all uncommon for business investors to be predisposed with other ventures or otherwise unable to manage the day to day activities of the enterprise.

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