



## SMALL FIRM RELOCATION INTENT: AN ASSESSMENT OF ANECDOTAL CAUSES

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### Abstract

Using institutional theory, we examine the effect of local business climate perceptions on small firm owner's intention to stay or relocate. We posit that business climate perceptions are a pseudo-institutional factor, given they can regulate and control economic transactions. As such, entrepreneurs make choices to agree (stay) or disagree (relocate) within the institutional environment. Specifically, the impact of educational support, overall climate perceptions, and general community support were significant factors influencing entrepreneur intentions to stay or relocate.

Key Words: business climate, institutional environment, relocation intent

The institutional location within which small firms operate remains an elusive key ingredient in understanding the determinants of entrepreneurship (e.g., Acs et al 2008). Institutions are cognitive, legal and cultural bonds on human activity (North, 1990; DiMaggio & Powell, 1983). One important construct of an institutional setting is the culture where a business is located. One way to measure culture is through the use of the business climate. Using institutional theory, the present study seeks to identify and measure entrepreneur perceptions of the business climate that play a crucial role in the entrepreneurs' decision to relocate their business. Locations surrounded by strong and inviting business climates will have an easier time attracting and maintaining local businesses. While, the traditional understanding of business climate has been broad and difficult to define in the past, institutional theory offers some insight into describing how some individual climate features synthesize together to form a successful business climate (Scott, 2001; Fogel, Hawk, Morck, & Bernard, 2006). The features specifically studied are attitudinal and based upon entrepreneur perceptions of the values and attitudes within a community, including government support, local business history and residential quality of life. Favorable perceptions of the climate indicate that entrepreneurs will be willing to stay; unfavorable perceptions indicate that they will be willing to leave.

This paper suggests that cultural, institutional, and government perceptions will combine to encourage entrepreneurs to stay where the business was formed. Previous research has found positive correlations between business climates and state industrial growth in manufacturing (Fogel et al., 2006; Della-Giusta & King, 2006). This paper continues this by examining the impact that it will have with business outside of the manufacturing domain, especially those businesses which are less psychical capital intensive.

Developing hypotheses based on the theorizing of Oliver, this paper posits that firms with a high degree of resources are more able to escape or rebel against institutional pressures. Oliver points out that institutions are not monolithic entities able to dictate their rules and regulations ad hoc (Oliver, 1991). As such, organizations do have the ability to manipulate, hide, defy or avoid institutional rules and settings. Organizations with resources can escape institutional pressure through moving to a different setting (Oliver, 1991). An example of one of these resources would be the ability to form new entities; as such some localities will make it in the best interests of the entrepreneur to move. Successful entrepreneurs are the minority, and thus when a successful entrepreneur is unhappy, other localities will make a play for their services (Fogel, et al., 2006). As such, these entrepreneurs will be willing to accept the risk associated with relocation to settings that they perceive as more favorable. If they find a situation that will be more encouraging for their interests and needs, their willingness and intent to relocate will increase (Baumol, 1993). The suggestion that this paper makes is that other local governments should provide more favorable business climates in order to attract entrepreneurs (Della-Giusta & King, 2006).

Institutions have provided a pathway for the development and maintenance of human interactions (DiMaggio & Powell, 1983). While neoclassical economics focuses on how markets function, institutional economics focuses on how markets come to be (North, 1990). In positions where it is costless to transact, the relevance of the institutional setting is diminished (Coase, 1960). Since few, if any, actual markets function in such a way, given institutional rules and settings play a key role in establishing where economic activity will occur. To wit, the entrepreneur when confronted high costs of transacting such as barrier entries or costs of regulation, will be less like to expand his business. As calculators of risk, entrepreneurs search to find the most appropriate markets to function within.

We posit that, practically speaking, local governments need be aware that how they are perceived by the entrepreneur (eg. creating high barriers to entry through impact taxes and fees) has repercussions with regard to entrepreneur intention to relocate (Casson, 1993). Given that entrepreneurship and small business are heavily correlated with job creation, local governments seeking to retain small firms need create environments that are perceived as firm friendly.

## **INSTITUTIONS**

Scholars have long noted that entrepreneurial activity is dependent on the economic environment, which could either be supportive or detrimental (North, 1990). The economic environment is determined through a multitude of factors including rules and regulations, the quality of government, availability of education and a supporting culture. These factors generally are classified under the heading of institutions, which North (1990) describes as the constraints on behavior imposed by the state of societal norms that shape economic interactions. In this sense, institutional theory focuses on the framework of how institutions will impact human transactions (Scott, 2001). The more forceful an institutional setting, the more forceful the rules and regulations of the institution will be. Over forceful rules and regulations could damage and impede economic progress (Fogel et al., 2006).

Fogel and colleagues (2006) discuss five crucial factors that will determine the abundance of entrepreneurs, with the first being rules, regulations and property rights. The enforcement and protection of these rules will allow for transactional trust to emerge which will allow for more capital to be sprung upon the entrepreneur. The second crucial factor discussed is government as both the creator and enforcer of rules and regulations. Insufficient government protection will allow the most powerful firms to take what the entrepreneur has created; too much government will place burdensome rules and regulations. Related to the second factor, the third will be the ability of large corporations to protect the status quo through government lobbying. Large corporations with concentrated control will protect the status quo, which will effectively block new entrepreneurs, by creating extremely high, and artificial, entry barriers. Fogel et al's fourth crucial factor is culture. Cultures with high degrees of power distance will fail to honor self-made success and will consider that those actions to be illegitimate. Lastly, the fifth crucial factor is very basic institutions such as universal education. Entrepreneurs will be attracted to areas where there is a high level of human capital. Since, workers are required to build the firm (Penrose, Fogel).

## **INSTITUTIONAL THEORY AND CHOICE**

What is the entrepreneurial act and why could localities be dependent on it? Scholars have debated exactly what the entrepreneurial act is since Cantillon coined the term centuries ago. The common perception is that the entrepreneur is an innovator who starts and operates a thriving new business, though, the definition of entrepreneur is far more complex). The entrepreneur could be considered to be an arbitrageur in that they perform various middle man activities, creating, in the process, more valuable commodities than they would have previously (Hayek, 1948). The net result of their activities is that they allow for the more efficient coordination of the economic process than would have previously occurred. The entrepreneurial function is extremely important, for it created the existence of the organization itself (Coase, 1937).

Who then are the entrepreneurs? The economics literature has described the entrepreneur as a risk taker, indeed some economists have argued that the entrepreneur primarily takes

on risks that other businesses would generally not consider taking on. In fact some recent has demonstrated that entrepreneurs portfolios were more poorly diversified than other individuals and they often bear higher risks. Yet, others have generally found that entrepreneurs are more calculating than other businessmen (Baumol, 1968). They are not just blind risk takers; rather they embrace risk because they have calculated new potentials. As such, their willingness to embrace risk will be likely to be that are willing to break from the past, more likely to break with the societal norms, a willingness to have a strong need for achievement, a willingness to make difficult decisions. The picture which emerges is that they are extremely driven people who have strong and powerful needs for achievement and independence.

The picture that emerges from the personality characteristics of the entrepreneur is that they are willing to go against institutional rules and trends (McClelland, 1961). Since they are not bound by other stakeholders, entrepreneurs need not be overly concerned with organizational inertia, so the primary decision maker will be the entrepreneur (Mintzberg, Ahlstrand, & Lampel, 1998). Oliver developed a typology which explains which strategies an organization will take to allow them to escape the domination of an institutions (Oliver, 1991). The first general and generic concept is acquiescence this will occur when organizations will accede to institutional pressure. Acquiescence is likely to occur when organizations lack the ability to overcome institutional pressure or when they are striving to achieve legitimacy. The second important consideration is compromise which occurs when actors have to achieve legitimacy with multiple institutional forces. Avoidance occurs is the organizational attempt to preclude the necessity of conformity. Organizations will hide their non-conformity through taking various steps. Defiance is the second issue related to conformity in that organizations will take steps to actively resist. Manipulation occurs when actors attempt to influence the institutional process (Oliver, 1991).

Oliver describes which types of organizations and antecedents an organization will select to avoid institutional pressure. We could expect that entrepreneurs will be limited by which actions they could choose. For example, they lack the ability to really influence government in that they do not have the funds necessary to hire the best lobbyists. Indeed, a tremendous amount of anti-trust law has been shaped by large corporations, who have used the law to effectively blunt competition (Stigler, 1971) or can they compromise, since it is difficult to overcome government regulations. Government regulations force compliance via the power of the courts. The second important argument is that they cannot acquiescence because the rules and regulations will often be too difficult for the firm to comply with.

One final option entrepreneurs are left with, then, is avoidance. Oliver proposed that avoidance is most likely to occur when firms have a high degree of constituents; a high degree of content and a high degree of uncertainty are imposed on the organization. The first concept refers to the presence of institutional constituents which include the state, professions, interest groups and the general public. Multiple constituents mean higher degrees of chance for avoidance to occur because various institutional actors will not agree upon how to enforce the institutional norms and regulations. Since, a firm could move from one municipality to another, avoidance could be a very effective method of leaving institutional problems behind. Content refers to the consistency of pressures that an organization will face. Organizations face a series of pressures that are both external and internal. The expectations that an institutional will place on the focal firm will be different than what the focal firm may not to go through. The second concept will be uncertainty. Uncertainty has been described as the degree to which future states of the world cannot be anticipated or predicted. Institutional pressures can protect firms from uncertainty. It is important to note that entrepreneurs need uncertainty to promote their firm (Knight, 1957).

What entrepreneurs do not need, is uncertainty as to whether or not they will receive benefits from the construction of their business (Fogel et al., 2006).

The avoidance strategy consists of three tactics. The first tactic would be concealment. The concealment would consist of strategies to disguise nonconformity. This would occur from paying lip-service to institutional norms, such as claiming to implement a program without doing so. The second important tactic would be buffering, which is to reduce the attempt that it is externally inspected, scrutinized, or evaluated by detaching or decoupling technical activities from external contact. For example, educational organizations are buffered from outside observers from the details of their instructional activities. The final and most dramatic aspect is escape, where the organization exits the domain where the pressure is implied. An example would be a chemical companies shifts there operations from the first world to the third world as a means of avoiding institutional control. This paper speculates that entrepreneurs will consider escaping as an option because they will have the ability to go to another institutional setting where their talents will be appreciated.

The assumption that the majority of entrepreneurs open their businesses in their current place of residence is quite true. Yet it is also important to note that most entrepreneurs will face at some point in the life cycle of the business where they can make a decision for location change. One important consideration for is the shift from the firm to the environment where the firm finds itself. Therefore, both the external and internal environment will play a function in determining where the firm will reside. As such, they will make a consideration to move the business when the outsidess factors will inhibit the function of their internal environments.

The previous theorizing supports the development of six hypotheses. These hypotheses are largely developed from Fogel et al. Previous research has suggested that business owners seek out support from local governments, and, than when local governments provide incentives for business owners, it is positively related to the small business owners' willingness to stay. These hypotheses suggest that role that a strong educational system will play in perceptions of climate as well as other forms of business.

**Hypothesis 1:** The entrepreneur's perception of overall business climate favorableness will be positively related to the intent to stay (not relocate).

**Hypothesis 2:** The entrepreneur's perception of support from local community groups and organizations will be positively related to their intent to stay (not relocate).

**Hypothesis 3:** The entrepreneur's perception of area college and university support will be positively related to their intent to stay (not relocate).

**Hypothesis 4:** The entrepreneur's perception of business community cohesiveness will be positively related to their intent to stay (not relocate).

**Hypothesis 5:** The entrepreneur's perception of community emphasis on business will be positively related to their intent to stay (not relocate).

**Hypothesis 6:** The entrepreneur's perception of community encouragement of new firm creation will be positively related to their intent to stay (not relocate).

## METHOD

### Data Collection

Utilizing the INFOUSA database, business owners in the state of Louisiana were randomly selected and contacted via a mixed mode approach to participate in the survey. Useable responses were obtained from a total of 497 respondents for an overall participation rate of 41.5% calculated using the AAPOR Participation Rate 4 formula (AAPOR, 2008). Respondent firms were from a variety of industries (including manufacturing, farming, retail, food & beverage, transportation, etc.), thus providing a reasonable amount of generalizability to the study findings. The survey was kept as brief as possible as past research has shown that small business owners were less likely to respond to lengthy surveys (Elstrott, 1987; Sampsell, 1984). All surveys were gathered between August 1 and September 30, 2008 by a third party research firm specializing in public data collection.

### Participants

Gender participation was fairly equally distributed with male respondents (50%) and female respondents (49%). In terms of business size (based upon number of employees), 69% had between 1 and 9 employees, 16% had between 10 and 25, 10% had between 26 and 100, and 4% had between 101 and 250. 49% of respondents indicated they were the business owner/manager, 11% indicated they were the owner but not the manager, and 38% indicated they were the manager but not the owner. 27% of respondents were in the retail/wholesale industry, 3% were in manufacturing, 50% were in the services industry, and 4 percent identified themselves as being in other assorted industries.

### Measures

**Independent Variables: Local Business Climate Perceptions.** The National Federation of Independent Businesses (NFIB) measure of Local Business Climate was used (NFIB, 2007-2009). This scale utilized a five-point Likert-type scale anchored "strongly disagree" and "strongly agree." A representative item is "Local community groups and organizations go out of their way to support local businesses, including people trying to start them." Higher scores reflect more positive perceptions of the business climate.

**Dependent Variable.** The internal-consistency estimates of reliability were all  $\alpha > .70$ .

### Results

Hierarchical binary logistic regression was used to test each of the proposed hypotheses and results are reported in Table 1. Overall, full support ( $p < .05$ ) was found for three of the six hypotheses and partial support ( $p < .10$ ) was found for an additional two hypotheses. The results indicated that the individual entrepreneurs overall perception of business climate had a positive and significant effect upon the decision to stay, thus Hypothesis 1 was supported ( $p < .05$ ). Hypothesis two (relating to perceived support from community groups and organizations) was also supported, indicating that community organizations do have a significant positive influence on entrepreneur intentions to stay. Hypothesis three was partially supported by the data, indicating that while local college and university support is important, it is not the dominant factor in a firm's decision to stay or relocate. Perceived community cohesiveness (Hypothesis 4) was not supported by the data, so while it intuitively would make sense, it was not a significant influence upon firm relocation considerations. Hypothesis 5 (relating to a perceived community emphasis on business) was supported,

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indicating that entrepreneur perceptions of the communities interest in business did positively relate to their intention to stay within a community. Lastly, community encouragement of new firm creation was positively marginally related to entrepreneur intent to stay, thus Hypothesis 6 was partially supported.

Table 1: Hierarchical Binary Logistic Regression

	Predictors	Step 1 Sig.	Step 1 Exp (β)	Step 2 Sig.	Step 2 Exp (β)
<b>Hypothesis 1</b>					
	Business Size	.128	.647	.137	.648
	Industry	.206	.810	.235	.819
	Ownership Status	.557	.883	.706	.922
	Female	.111	.539	.118	.543
	Overall Climate Perception			.012*	2.866*
<b>Hypothesis 2</b>					
	Business Size	.089	.612	.122	.638
	Industry	.136	.793	.156	.800
	Ownership Status	.455	.864	.700	.925
	Female	.274	.675	.229	.645
	Group/Organization Support			.006**	.638**
<b>Hypothesis 3</b>					
	Business Size	.067	.570	.067	.569
	Industry	.115	.779	.115	.777
	Ownership Status	.575	.895	.668	.918
	Female	.265	.664	.215	.633
	College/University Support			.087†	.769†
<b>Hypothesis 4</b>					
	Business Size	.067	.590	.069	.591
	Industry	.200	.822	.201	.822
	Ownership Status	.314	.824	.448	.862
	Female	.217	.645	.151	.596
	Cohesiveness			.108	.756
<b>Hypothesis 5</b>					
	Business Size	.120	.641	.148	.664
	Industry	.283	.842	.304	.847
	Ownership Status	.459	.862	.379	.837
	Female	.277	.669	.265	.661
	Community Emphasis			.022*	.677*
<b>Hypothesis 6</b>					
	Business Size	.095	.619	.101	.622
	Industry	.273	.842	.329	.857
	Ownership Status	.342	.829	.390	.844

	Female	.353	.716	.388	.732
	New Firm Encouragement			.061†	.737†
Note: N= 497      ** p < .01      * p < .05      † p < .10					

## **DISCUSSION & MANAGERIAL IMPLICATIONS**

Overall, the various perceived business climate dimensions were shown to influence entrepreneur relocation decisions. Often, much emphasis and talk occurs regarding how to create and stimulate new businesses within a community, and less on how communities can work to retain their current business pool. This study sought to show that an entrepreneur's decision to stay or relocate their business is based upon a series of individual community characteristics, all aggregating to form the entrepreneurs overall perception of the business climate. The overall perception of business climate was above all the most influential factor in determining firm relocation intention, indicating that entrepreneurs use an overall barometer of the business climate to guide their location decisions. The more positively they perceive the local business climate to be, the more likely they are to stay within that climate. This phenomenon is simplistic and intuitive. The real contribution of this research is the exploration of the specific factors that influence entrepreneur business climate perceptions. Support from community organizations, universities and colleges all positively influenced entrepreneurs to remain within their current community. Likewise, a community emphasis on both business and new business creation also positively influenced entrepreneurs to remain within their current community.

## **LIMITATIONS & IMPLICATIONS FOR FUTURE RESEARCH**

Data were collected at only one point in time; thus raising two issues. First, no temporal changes could be studied or discussed. Further longitudinal studies are needed to determine the effect of time on the results of this paper. Second, as with any single method data collection, common method bias is always of concern. Future studies looking at business climate perceptions at a single point in time should look to include marker variables that can be used to assess common method effects or some other means to control for or avoid common method variance.

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