Is this the Beginning of the End for the Mom and Pop business? An Exploratory Study

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The purpose of this study is to investigate the potential factors that indicate whether graduating students will seek employment at a Mom and Pop company (50 or less employees) or a company that has greater than 50 employees. A survey was administered to alumni of a college of business at a Midwestern public regional university. A regression analysis was conducted that measured the relationship between the graduates that were initially employed at and spent at least 2 years at a larger company and the predictor variables of program effectiveness, faculty effectiveness, major, minor, gender, and age.

INTRODUCTION

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The Small Business Administration (SBA) identifies a small business as one that contains less than 100 employees or has annual revenue of less than $5MM (SBA, n.d.) However, the federal government identifies a small business as one that is not dominant in the field in which government contracts are sought (Small Business Size Regulations, n.d.) and the size depends on the North American Industry Classification Systems Codes (NAISC). This definition is does not take revenue into account. For the purposes of this paper, a small business will be known as a Mom and Pop business and employ 50 people employees or less. Nationwide, the average number of employees per business is 17 and the average number of employees for Kentucky businesses is 16 (Small Business Size Regulations, n.d.). While there were some interesting results that emerged from the data, nothing was significant in this area of research. Instead several potential predictors including GPA, age, and major were identified that that may indicate tendencies of graduates to migrate to larger companies as opposed to the Mom and Pop business.

A review of the literature revealed a significant gap in the amount of published work that described the transition of college graduates into small companies or large companies based on the criteria of GPA, major, age, and the other factors already mentioned. Additionally, published data were scarce with respect to these predictors.

METHODOLOGY

The design of this study is exploratory in principle, allowing a deeper and more meaningful probe into specific areas of knowledge (Morse & Richards, 2002). While this paper is quantitative in nature, there are qualitative principles that emerge based on a comparison of the published literature with findings after analyzing the data. These data were analyzed from the results of a survey sent to all business college graduates. Portions of the survey that were germane to this study can be found in the Appendix.

The questionnaire was administered to graduates of the college of business through contact from the alumni office. There were over 400 responses before the dataset was reduced to 179 valid responses for this paper. A regression analysis was performed to determine if any of the variables could be predictors for the size of the company in which a graduate might decide to work. The independent variables used in this model were program effect, faculty effect, major, minor, gender, age, GPA, and additional education. Program effect was defined as how strongly the student felt the college of business curriculum had an impact on their job capabilities upon graduation. Individual items for this variable included communication skills, problem solving skills, critical thinking skills, creative thinking skills, teamwork skills, management skills, and computer skills. The average score for each of these items represents the program effect for each student. The faculty effect variable was calculated in a similar way as the program effect variable except students were asked how strongly they felt the faculty had an impact on their job capabilities upon graduations. Individual items for this variable included faculty subject matter knowledge, academic advising, fostered motivation, assistance outside of class, assignment feedback, and respect. The other variables used in this model are self-explanatory.

FINDINGS

Only the *major* variable was found to be significant at p=.046. The minor, gender, and age variables had negative beta coefficients but because they were not significant no further analysis was done. Although there were no other significant regression results, there were several interesting phenomena that emerged from the analysis. There was a slight negative relationship between the gender as well as the age of graduates, and their employment with larger companies. This may indicate that female graduates tend to gravitate toward larger companies. Additionally, this relationship indicated that older students have a tendency to remain in smaller companies. Finally, there was a slight negative relationship between students seeking additional education and their employment with larger companies, indicating that graduates did not continue their education if they were employed by companies greater than 50 employees.

DISCUSSION

Based on this study and a review of literature, it would appear that "Mom and Pop" businesses may be in jeopardy because of the tendency of college graduates that prefer to work for larger companies. Studies are inconsistent in their findings in that some indicate family businesses to be more desirable than nonfamily ones, while other studies have found the opposite to be true (Dyer, 2010).

TABLE 1
REGRESSION ANALYSIS FOR SIZE OF COMPANY EMPLOYED BY STUDENTS THE MODEL HAD AN R SQUARE VALUE OF .043 WITH AN F STATISTICS OF ONLY .205 SIGNIFICANCE

Variable	Beta Coefficients	Significance
(constant)	2.785	.000
Program Effect	.145	.355
Faculty Effect	.002	.991
Minor	-.046	.106
Major	.062	.046
Gender	-.121	.407
Age	-.029	.515
GPA	.044	.614
More Education	-.008	.955

One possible cause of attraction may be that Mom and Pop businesses normally have a succession plan that are family member concentric; however, this plan is not documented in 70% of the businesses (Beck, 2009). Further, Beck concluded that 64% of family-owned [mom and pop] businesses do not require family members to have qualifications or experience in the business. This phenomenon may be a deterrent to seek employment for recent college graduates. Some small businesses, like CPA firms, consist of over 70% family members and this rate may be increasing (Telberg, 2002). CPA firms though, as exception would require a specific college degree.

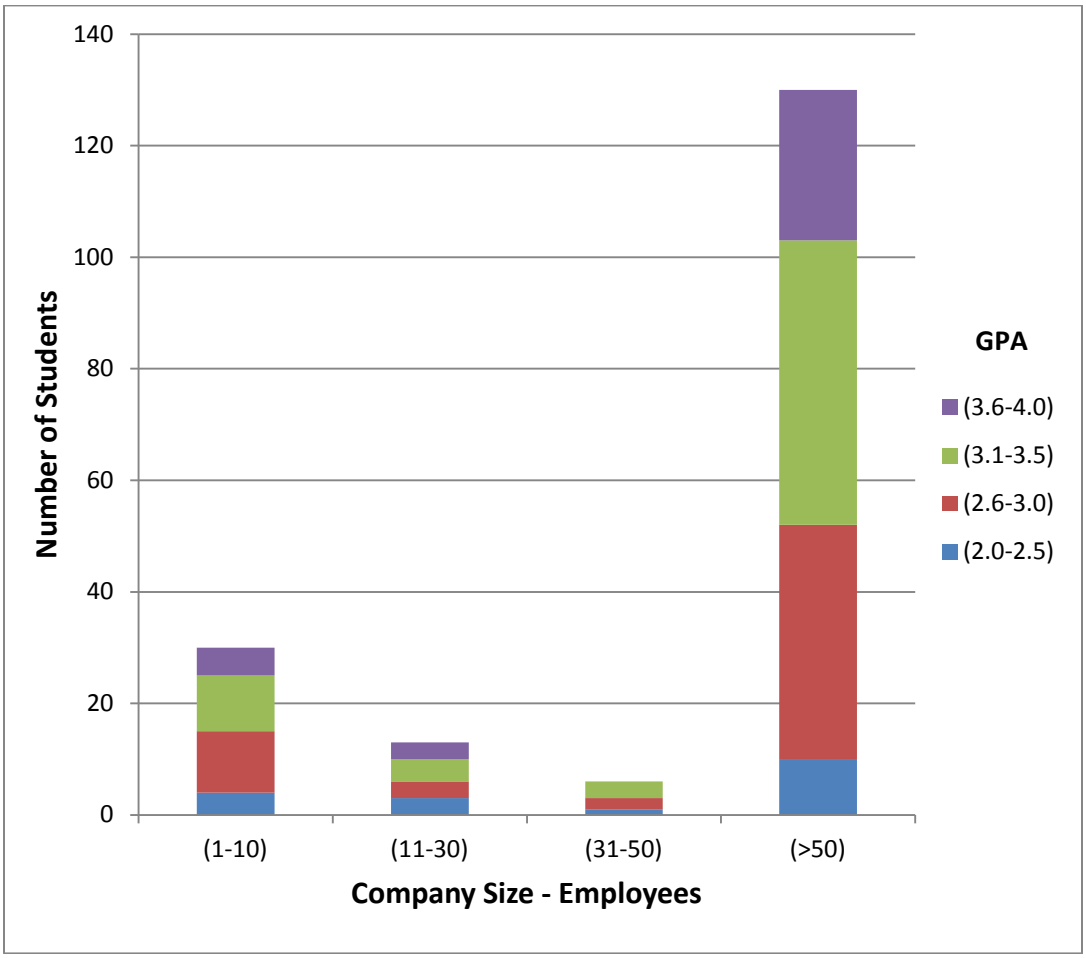
One might speculate that the great recession of 2010 had an effect on this phenomenon by driving younger employees to mom and pops, but as long as 25 years ago, Holland & Boulton (1984) observed that family business were "characterized as small, inbred, backward, and riddled with nepotism" (p. 16). They also found that this perception was largely false in that family businesses were "persevering and prospering" (p. 16). Perhaps this perception is partially explained by Dyer's (2010) findings that family firms have different success and failure criteria than nonfamily businesses. Criteria like family goals and relationships; and family assets and liabilities typically drive the mom and pop decision-making process.

An interesting employment fact is that 600,000 new employer firms (containing at least one employee) start up every year in the United States (Grote, 2002). Even though the global recession may appear to alter these statistics, (Kauffman, 2010), reported that they have decreased only .1% for 2009. Of the 600,000 start-ups, "66% remain open at least two years, 50% at least four years, and 40% at least 6 years" (Grote, 2002, p. 54-55). Because of this high mortality rate, many businesses convert to franchises. While they may keep personnel employed, the entraprenurial business identity is lost and the business owner now answers to the franchisor (Stapp, 2010). Also, another reason for small business mortality rates is that some small businesses may not have a significant web presence, sufficient numbers of educated employees, or flexible relationships that are nurtured by larger companies (Besser & Miller, 2010).

There are many arguments that propose that small business mortality rates suffer from the relative quality of recent high school graduates across the United States (Malott & Martinez, 2006; McHaha & Fitzpatrick, 2010). However, Jameson (2007), discovered that scores in reading and math [literacy rate] have been stable since the 1980s and that one reason that literacy rates appear to be increasing in colleges and universities is because the metric used is the significant number of enrolled students. He said that the significant rate of enrolled students have increased more than 50% since the 1980s. Jameson further discusses that researchers are doing year to year studies and not looking at the phenomenon longitudinally.

This paper addresses GPA for the business school graduates and their company size distribution. Several interesting concepts emerge from Chart 1. Of the 179 students that responded to the survey, 130 or 73% of the total students have worked for a larger (>50 employees) organization for more than 2 years. Of the remaining 49 respondents, only 17% report that they are working for a small, mom and pop company. While some of these students may have began working for larger firms, literature has revealed that approximately one third of these firms will still be in business after two years (Grote, 2002). One other consideration of literacy may be disguised as GPA inflation. Grades have continually crept up over the years (Faurer & Lopez, 2009; Gordon & Fay, 2010) and this presents a delimma for both student and professor. Are professors maintaining high standards that provide academic challenges sufficient to adequately prepare students? Are students skirting the system in order to receive desired grades but lacking in the skills and discipline to start a Mom and Pop operation? While diminished academic standards and inflated grades produces unprepared students (Babcock, 2010), the credibility (Wongsurawat, 2009) of both grades and academic disciplines may be marginalized.

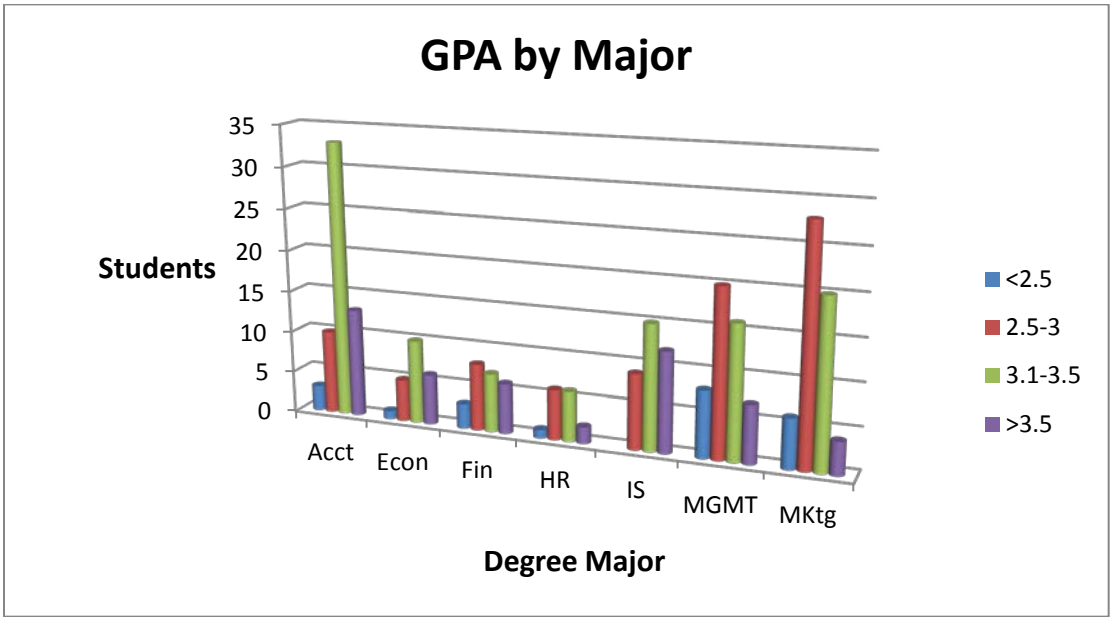
CHART 1
GRADE POINT AVERAGE OF STUDENTS BY COMPANY SIZE



Additionally, as annotated in Figure 2, one can see the grade inflation found in Accounting, Management, and Marketing. This accounts for grade credibility (Wongsurawat, 2009), but may lend itself to other areas as student preparation, achievement, or discipline readiness. Consider that over 75% of the students that have graduated from this particular business college are employed in larger (>50

employees) firms. One must wonder whether the real story is that these students are avoiding the Mom and Pop businesses based on some of the reasons already addressed.

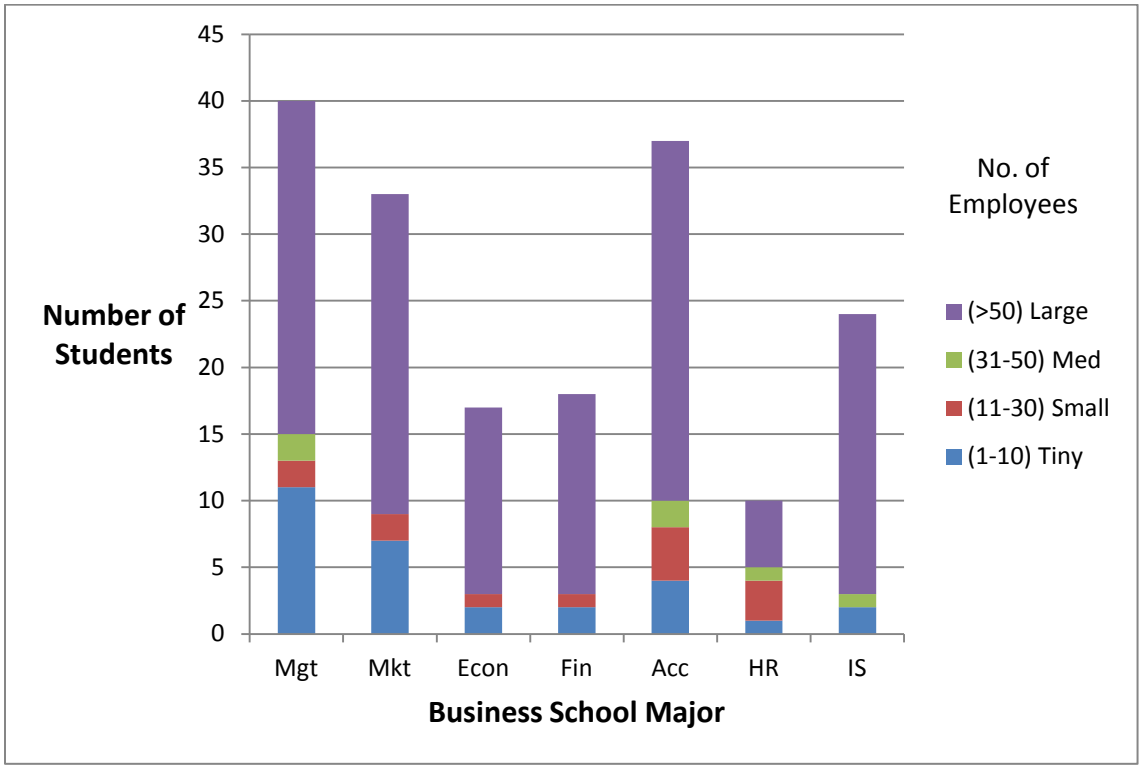
FIGURE 2
GPA DISTRIBUTION BY MAJOR



Jones, Woods, Coles, & Rein (2001), proposed that small and medium size businesses are "often resistant to the opportunities that are offered by skilled graduates" (p. 59). During this same case study, the authors discovered that graduates are often reluctant to work for smaller businesses because of limited growth potential. Falk & Leoni (2009), purported that certain individuals, depending on their degree would either begin start-up businesses upon graduation or work for a smaller company. Additionally, these graduates would possess the following attributes: very diverse skills, very social and highly motivated. Complementing this study, Gardner (2010), discovered that larger companies are cyclic in their needs and most recently, those needs are health care; agriculture and food production; government; and professional and scientific services.

Examining Chart 2 provides some basis for this in that most graduates are seeking employment in the areas of management, marketing, and accounting disciplines; whereas, human resources, finance and economics majors are the bottom three disciplines entering the workforce. It appears that Information Systems is at midpoint with most majors selecting larger companies. This may be due to the perception that additional training, greater career opportunities, employment security, and higher salaries prevail with the larger firms. Not considering the major, Haynes & Johnson (2005), found that small business loans were issued on a discriminatory basis with their study across racioethnic groups. This may also reinforce the perception related to employment security, higher salary, and even opportunities for advancement especially among minorities.

CHART 2
BUSINESS MAJOR BY COMPANY SIZE



Entrepreneurship is one of the fastest growing areas in higher education (Finkle, 2010). The findings in this recent study indicate that there were over 350 job openings but less than 250 candidates vying for the positions. Therefore, it is plausible that this is a growing field that is producing many majors that would save the Mom and Pop businesses. However, it appears that something is amiss with the vast number of business school graduates and the fact that many of the Mom and Pop business are closing (Paruchuri, Baum, & Potere, 2009). One may assume the Wal-Mart effect where big business has had a large negative impact on the small [Mom and Pop] business (Paruchuri et al, 2009), or possibly the training received while studying entrepreneurship may not be equipping the graduate with the skills necessary to succeed in a Mom and Pop business.

RECOMMENDATION

Based upon the findings, further research is needed to address issues such as grade inflation in certain majors and whether graduates feel that they have received the necessary skills from their institution to either begin a small business or work for one. Ahmed, et al (2010), revealed that many entrepreneur students actually begin at large companies, learn the business, and then transition to the small business. Additionally, they found that the onus for entrepreneurial activity is placed squarely on the student as "attitude, demographic characteristics and education" (p. 14).

This study should be replicated at other business colleges across the region and eventually the United States. The goal would be to see if the findings are consistent, and to see if a larger sample size would

result in more statistically significant findings. Either way, the Mom and Pop businesses appear to be struggling with longevity in the United States market.

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APPENDIX

Listed below is a subset of the survey questions used in this research. The name of the university and college of business have been replaced with "Xs" to protect the identity of the school.

Thank you for participating in the alumni survey. Please be assured that your confidentiality will be protected should you choose to provide any identifiable information. Contact me, xxxxxxxxxxxx, if you have any questions about the survey.

Your responses will help us greatly to improve the quality of the curriculum and programs with the XXXXXXX College of Business.

Please indicate how the following areas had an impact upon your job upon graduation.*****

1. Please answer all of these questions related specifically to your undergraduate program of study in the XXXXXX College of Business only.

XXCOB Program Curriculum (Impact on my job capabilities upon graduation)

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Develop written communication skills.	☐	☐	☐	☐	☐
Develop oral communication skills.	☐	☐	☐	☐	☐
Develop interpersonal skills.	☐	☐	☐	☐	☐
Develop problem solving skills.	☐	☐	☐	☐	☐
Develop critical thinking skills.	☐	☐	☐	☐	☐
Develop creative thinking skills.	☐	☐	☐	☐	☐

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Develop teamwork skills.	☐	☐	☐	☐	☐
Enhance my decision making skills.	☐	☐	☐	☐	☐
Develop fundamental management skills for entry-level employment.	☐	☐	☐	☐	☐
Develop computer skills with various software packages that were utilized in the industry.	☐	☐	☐	☐	☐

4. Please answer all of these questions related specifically to your undergraduate program of study in the XXXXX College of Business only.

XXCOB Faculty (Impact on my job capabilities upon graduation)

	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
Were knowledgeable and possessed technical skills that were relevant to my career.	☐	☐	☐	☐	☐
Provided me academic advising.	☐	☐	☐	☐	☐
Promoted an atmosphere that fostered my motivation.	☐	☐	☐	☐	☐
Were available to assist me outside classes.	☐	☐	☐	☐	☐
Provided me clear, specific, and informative feedback regarding my achievement.	☐	☐	☐	☐	☐
Respected me as an adult individual.	☐	☐	☐	☐	☐
I am satisfied with the overall quality of the XXCOB faculty.	☐	☐	☐	☐	☐

21. Gender

☐ Male ☐ Female

22. Location

City

State

23. Age

☐ under ☐ 25-30 ☐ 31-35 ☐ 36-40 ☐ 41-50 ☐ 51-60 ☐ over 60

24. Major / Minor

		Management	Marketing	Economics	Finance	Accounting	Human Resources	Entrepreneurship	Information Systems
Major(s) while XXX?	at	☐	☐	☐	☐	☐	☐	☐	☐
Minor(s) while XXX?	at	☐	☐	☐	☐	☐	☐	☐	☐

Other (please specify) _____

25. Graduation Year from XXX?

_____

26. GPA

☐ 2.0-2.5 ☐ 2.6-3.0 ☐ 3.1-3.5 ☐ 3.6-4.0

27. Have you had any further education since graduating from XXX?

☐ Yes ☐ No