

For small business owners, consultation means fewer missteps

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UC's Jeremy Woods investigates pitfalls made in small business decision making by interviewing Cincinnati-based entrepreneurs. Credit: Dottie Stover, U. of Cincinnati

If small business owners want to avoid costly mistakes, it pays to consult with others.

That's the finding of new research from the University of Cincinnati that will be presented both nationally and internationally – first on May 6-8 at the Family Enterprise Research Conference in Grand Rapids, Mich., and again on June 15-18 at the International Council of Small Business Conference in Stockholm, Sweden.

The research was conducted by one-time entrepreneur Jeremy Woods, currently a doctoral student in UC's College of Business. With this

research, Woods has set out to integrate his hands-on business experience with evidence-based studies. His interest in small business decision-making mistakes stems from his activities as the owner of a licensing business in the international music industry, a time when he made serious errors related to product design and pricing.

Because he is all too familiar with the pitfalls of decision making in small business, Woods is researching escalation of commitment, a phenomenon where business owners justify increased investment in a course of action based on the cumulative prior investment, even if the cumulative cost of continuing with the original course of action outweighs the expected benefits.

"In other words, small business owners continue to pursue failing ventures simply to prove that they were right," says Woods, " We've all had the 'I'm going to make this work' feeling, but sometimes the best decision is to walk away – an action that doesn't come easy for driven and determined entrepreneurs."

Fortunately, according to Woods' research, the escalation of commitment phenomenon can be avoided by systematically seeking the input of respected colleagues.

"Consultation with outside advisors can bring more information and fresh perspectives into the decision-making process and convince business owners to pursue alternative options," says Woods, who based his research on the Panel Study of Entrepreneurial Dynamics, a national questionnaire sponsored by business professors studying entrepreneurship. The questionnaire surveys more than 1,200 start-up business owners across the country. Woods mined that data and discovered a significant correlation between consulting with outside advisors and achieving revenues sooner.

Woods will now take his research further. Starting in May, he will work with more than 400 research participants, including small business owners and graduate business students, presenting each with a business scenario involving pursuit of a sluggish sales prospect and experimental manipulations for consultation with outside advisors. After reading the scenario, research participants will answer questions about the decision-making process, including their confidence level and their perception of the value of the course of action they are pursuing.

"This is when the real fun begins," says Woods, who looks forward to conducting in-depth interviews this summer with small business owners. "Not only do we have the opportunity to give small business consultants some concrete, empirical findings to justify the value of their suggestions. We also have the opportunity to work together with small business owners to identify practical ways to choose between alternative courses of action."

Provided by University of Cincinnati

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