



Ernst & Young Entrepreneur of the Year Case Series

TEACHING NOTES

JOHN CONCANNON

JFC

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These teaching notes were prepared by Dr. James A. Cunningham* as the basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

The *Ernst & Young Entrepreneur of the Year Case Series* highlights the entrepreneurial pathways and strategies of successful Irish entrepreneurs. By platforming positive role models, the cases aim to foster entrepreneurial endeavour among students. The cases are based on the Ernst & Young Entrepreneur of the Year Award finalists and are edited by Dr Colette Henry at the Centre for Entrepreneurship Research. This project is a joint initiative of Ernst & Young, the Centre for Entrepreneurship Research (DKIT) and InterTradeIreland. InterTradeIreland is responsible for the promotion of trade and business on an all-island and cross-border basis.

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1. CASE SYNOPSIS

This case study outlines the growth of JFC. Based in Tuam, Co. Galway, Ireland, the company competes in the plastics industry through the use of rotation moulding manufacturing. JFC exports to over 30 countries, employs 200 people and has operations in Ireland, the UK and Poland, with a sales office in Holland. The company diversified its product portfolio from agri-related products to manufacturing products for different industries such as transport, construction, medical and environmental services. In 2005, JFC's turnover reached €30 million. Internationally, the plastics industry is experiencing cost-based pressures due to oil price fluctuations and slackness in consumer demand for plastic-based products. The major challenge that JFC now faces is to continue to innovate while maintaining the company culture as it expands.

2. TEACHING OBJECTIVES

This is a rich case study with many potential learning objectives. The *primary learning objectives* are concerned with exploring the issues of managing an SME with an international orientation, maintaining the entrepreneurial spirit and dealing with the key tension of how entrepreneurs becoming more managerial and employees becoming more entrepreneurial. The *secondary learning objectives* are concerned with the implications of growth for JFC and in the company's capability to continue to grow through a combination of further international expansion and product diversification. *Tertiary learning objectives* focus on developing the soft skill sets of students by simulating events pertaining to high growth entrepreneurial contexts. By preparing a 10 minute investment pitch, along with a presentation and written report as management consultants appointed to advise John Concannon on the future strategic direction of JFC, the case allows students to simulate business negotiations between JFC and venture capitalists. This allows students to develop their oral and written communication skills, experience teamwork and develop their negotiation and analytical skills.

The case study also allows students to gain a greater understanding of how to assess the competitive environment of a sector which has traditionally been seen as unattractive. It affords students an opportunity to develop their analytical skills and to conduct PEST and Five Forces analyses. This aspect of student learning is further enhanced, as students have to develop and generate logical strategic options for JFC.

Finally, the case study lends itself to business negotiations and to developing a pitch for presentation to potential investors, including venture capitalists. The students can role play JFC's management team and a venture capitalist company (Private Equity Partners) in terms of negotiating a deal in relation to equity investments, which is supported by the analysis generated by each group. Furthermore, instructors can get groups of students to make a 10 minute investment pitch to Venture Capitalists/Investors, thereby developing their ability to communicate by preparing a short and concise persuasive presentation in this context.

3. TEACHING SCHEME

The case study can be used in a variety of ways. Typically, the instructor will lead a class discussion based on the questions assigned to the case. The varying formats which are proposed by the case author can compliment additional learning approaches such as learning logs, diaries, etc.

Proposed Session

From the case author's experience of teaching the case in different lecturing contexts, the case can be used in a number of different formats. Each format assumes the students have read the case prior to class discussion.

Format I: Entrepreneurship Focus

In this context, the case would slot in towards the end of a course/module when students have gone through several weeks of looking at various issues on entrepreneurship. This is a single session of 120 minutes.

Format

0-5 Minutes Introduction

This time allows the instructor set the learning objectives of the case and the main themes. To begin the case, instructors (if they have internet access in the lecture theatre) should go to www.jfc.ie website or, alternatively, use the exhibits in the case itself.

5-20 Minutes Question 1

This is a major question as there are several different perspectives. Instructors are encouraged to illicit as many different perspectives as possible and should use a white board to outline the different definitions. The instructor might also ask for a show of hands regarding the definitions.

20-35 Minutes Question 2

There are two parts to this question. The instructor should, where possible, structure the debate in terms of first part of this question, since students tend to be totally unstructured in their answering. For the second part of the question, instructors should have two columns - one for leadership and one for entrepreneurs - on a white board which would assist the class discussion. In addition, instructors could consider this issue again in light of other entrepreneurs that have been discussed or featured in previous lectures.

35-50 Minutes Question 3

A suggestion for instructors is to prepare headings for this answer before running the case. Some instructors may leave it open to students and omit any analytical tool such as the PEST analysis recommended by the case author. It is critical to reinforce to students the need for analytical rigour in terms of their analysis.

50-70 Minutes Question 4

The instructor should involve different students or groups in undertaking the Five Forces analysis and strengths and weaknesses of JFC. Normally, students have no major problems

undertaking this analysis, but it is important for instructors to reflect on the conclusions after carrying out this analysis.

70-90 Minutes Question 5

A number of strategic options are outlined in the case analysis. Instructors can use groups or individuals to generate such analysis.

90-110 Minutes Question 6

All groups should address this question. The instructor should ask one group to argue for the case to pursue the equity-based investment, and another group to argue against pursuing the investment. It is suggested that the instructor tries to get an initial discussion going by asking for a show of hands, then move on to deal with the other parts of the question dealing with alternative sources of finance. Then wrap up the question with another show of hands regarding the interest of Private Equity Partners, and ask why students may have changed their minds.

110-120 Minutes Questions 7

This question is designed to get students to reflect. It also allows the instructor to reflect on the overall learning objectives of the case.

Format II: Entrepreneurship and Raising Equity Focus

This format is run over two sessions – firstly, a single session of 90 minutes, the same as format 1, followed by a session which is focused on group (4/5 students) presentations, where each group is charged with making a 10 minute investment presentation or ‘pitch’ as part of JFC’s management team to a gathering of venture capital firms looking to invest.. Instructors are encouraged, where possible, to allocate some prizes for the best investment presentation and to get other faculty members to listen and give feedback to each group. Ideally, if possible, instructors should attempt to invite a venture capitalist/entrepreneur to come and listen to the pitches and give some feedback. In terms of assessing each presentation, it is recommended that instructors use criteria such as timeliness, quality, persuasiveness, visual aids, visual impact, consistent message and teamwork.

Instructors can get groups to present, followed by questions and answers and then give some feedback after the presentation or at the end of the session. In addition, instructors might get the class to role play the ‘venture capitalists’ and then to vote for the best investment ‘pitch’. (the X Factor voting)

Assignment:

Enterprise Ireland has set up an event for high growth companies to pitch to a number of venture capitalist firms at a half day event to be held in Dublin in two weeks time. EI has invited John Concannon and his management team to come along to this event and to prepare a 10 minute presentation to the venture capital investors. JFC’s management team have decided to make a pitch for €20million to aid the international expansion of the company.

Format III: Entrepreneurship and Business Negotiations

This is a format which can be run over two sessions and is suitable for both 3rd and 2nd level contexts. This format is run as a single session of 90 minutes, the same as format 1, and the follow on session is focused on business negotiations between JFC and Private Equity Partners as they attempt to reach agreement regarding the equity investment. Instructors should divide the class into groups (4/5 students) representing JFC and Private Equity Partners. Ideally, to run these business negotiations, instructors will need a number of additional rooms to run parallel sessions. If this proves problematic, then just use two groups and hold the business negotiations in the one room. If possible, instructors should video the parallel business negotiation proceedings and edit them down so the whole class can see how each of the business negotiations progressed.

The brief for both parties has been detailed by the case author. The text by Fisher and Ury – “*Getting to Yes*” - might be useful in this context. If the instructor has videoed the various proceedings, then a debriefing session should be held in the follow up session. If no videoing has occurred of the business negotiations, then the instructor should get each group to outline if they achieved an agreement, its terms, the value of the equity investment and other issues that may have arisen during the negotiations. In addition, instructors might get students to write up their experiences as part of their learning log for the course.

Assignment:

Context (to be handed out to both groups):

JFC has met Private Equity Partners investment team on two previous occasions, and this meeting has been set up to negotiate an equity investment. Private Equity Partners have been impressed by both the management team and the revenue model that the founders of the business have developed.

JFC Management Team (To be handed out only to JFC groups):

In preparing for this meeting, the management team of JFC discussed various issues surrounding this potential equity investment by Private Equity Partners (PEP). The team have been impressed by the professionalism and the track record of Private Equity Partners. The team are concerned that PEP’s investment might impact adversely on their existing company culture, and the team want to keep future equity investment opportunities open and to pursue the focus of competing directly with the top players. JFC is seeking an equity investment of €20million for 8 per cent of the company.

Private Equity Partners Negotiating Team

(To be handed out only to Summit Partner Groups)

Your investment team have been tracking the rise of JFC since 2001 and the team have been impressed by the management team and their product range. In preparing for the negotiations there are some issues that are non-negotiable. These include an appointment to the board of directors and the creation of the position of Chief Financial Officer, a review of the business operations and future investment plans, and an exit investment mechanism. Furthermore, the negotiation team have been instructed to secure these non-negotiable issues first before

discussing the level of investment, which is capped at €15 million for 10 per cent equity investment.

Format IV: Entrepreneurship, Raising Equity and Business Negotiations

For this format, it is suggested that instructors could run the previously described format in one session, typically over a morning or afternoon session, and use the case as a capstone to reinforce key learning objectives. This would assume that students have read the case and have prepared the questions for discussion.

Proposed Session Structures

- Entrepreneurship - 120 minutes

Instructors would run the case as outlined in format 1.

- Raising Equity - 50 minutes

For this session you would allocate students into groups and get them to prepare a 5 minute pitch.

- ‘Pitch Presentations’ - 30- 60 minutes

Depending on the class size, you get each group to present its ‘pitch’ to potential venture capital investors.

- Business Negotiations - 60 minutes

Run the session as outlined in format III

Format V: Crafting Strategy in an Entrepreneurial Context

This format would be most suited to a course that introduces students to the principles of industry analysis. Instructors would give this assignment to groups of 4/5 students who are tasked as management consultants to advise JFC’s management team regarding its future direction. Students would be required to give a 15 minute presentation and a 8 to 10 page written report, both a which should be graded and feedback given to the students so they have an appreciation of the crafting strategy in an entrepreneurial context. In getting students to undertake such an assignment questions arise regarding how much additional research each group should undertake in addition to reading the case. The assignment is as follows:

Your group is one of the strategy consulting teams operating in Ernst & Young’s Dublin office and you have been retained by the management team of JFC to examine the state of the industry, to explore the main environmental factors, the drivers of change and to recommend strategic options. In addition, JFC want your team to advise them on whether they should pursue the opportunity of equity investment by Private Equity Partners. You are required to prepare a 10 page report for this assignment and a 15 minute presentation that you will make to the management team of JFC.

It is suggested that instructors get students to hand up their 10 page report first followed by presentations. This allows for a more robust question and answer session at the end of each presentation.

4. QUESTIONS FOR DISCUSSION

APPROACH 3RD LEVEL

- 1.) Define the industry in which JFC competes?
- 2.) Is JFC an entrepreneurial company? Would you describe John Concannon as an entrepreneur or a leader?
- 3.) Identify the main environmental forces affecting the markets in which JFC competes? Which of these forces are the most significant drivers of change and why?
- 4.) What are the main strengths and weaknesses of JFC?
- 5.) Develop strategic options for JFC and outline the merits of each option?
- 6.) Should JFC pursue equity-based investment opportunities to grow the business? What are the alternative funding sources available to JFC? What expertise would equity-based investors bring to JFC?
- 7.) Can JFC's entrepreneurial culture be maintained as the company continues to grow?

APPROACH 2ND LEVEL

1. Is JFC an entrepreneurial company? Would you describe John Concannon as an entrepreneur or a leader?
2. What are the main strengths and weaknesses of JFC?
3. Should JFC pursue equity-based investment opportunities to grow the business? What are the alternative funding sources available to JFC? What expertise would equity-based investors bring to JFC?
4. Can JFC's entrepreneurial culture be maintained as the company continues to grow?

5. CASE ANALYSIS

1. Define the industry in which JFC competes?

This question allows the instructor to go the heart of attempting to answer ‘the who we are and what businesses we are in’ question that companies in different stages of entrepreneurial growth struggle to answer. In the case of JFC, students may have different interpretations of the industry in which JFC competes. Some students can argue that it is primarily a plastics company, therefore, it is competing in the plastics industry. Other students can argue that JFC is competing in the agri-products, construction, storage, etc. industries, given the diversified portfolio of products that it manufactures.

Instructors should attempt to get some class discussion going in relation to industry definition and, if there is group think focusing on one definition such as plastics, then the instructor should play ‘devil’s advocate’ and highlight other possible definitions. The reality for JFC is that it competes primarily in the plastics industry. John Concannon’s definition of the industry in which he competes is built around seasonality and building a portfolio of products that will ensure that JFC has output and sales throughout the year. JFC’s initial reliance on the agri-products sector means that the company is impacted to some degree by seasonality. Since the crisis in the sector was due initially to foot and mouth, this meant that JFC had to develop new market opportunities. This tension of having a dual definition (plastics versus seasonality) may cause problems for the business going forward, as it seeks equity investment. (For instructors, a good article to use in conjunction with this question is McTavish (1995)).

2. Is JFC an entrepreneurial company? Would you describe John Concannon as an entrepreneur or a leader?

This question is designed to get students to develop their understanding of what are the characteristics of an entrepreneurial company, and provides the basis for subsequent questions. In dealing with the question students will raise some or all of these issues.

Vision and Idea: John Concannon certainly had a good idea with his first plastic product - that of a cattle feeding system. He demonstrated great drive and ambition in getting the idea into start-up phase, and was not put off by set backs in terms of getting support to develop the product, or in the difficulties he experienced getting this initial product into different distribution channels. Interestingly, there is no real evidence to suggest that he had a vision to build a large SME, but circumstances may have dictated this expansion coupled with Concannon’s passion for new product development and innovation. In hindsight, like any good idea, the ultimate test is “why did I not think of that idea”.

Product: When he developed his first product and succeeded in getting the product into Mitchelstown Co-Op, appeared on the Late Late Show and gained Premier Award at the RDS Spring Show, the product’s originality was really validated, and this facilitated greater market acceptance. Moreover, actively buying machinery for manufacturing and setting this up meant that Concannon had greater control over his product development and his

production quality. His ideas, coupled with a proven manufacturing capability, provided him with a strong platform to develop the business.

Opportunity Recognition: John Concannon expresses his vision in constantly seeking new opportunities to develop additional products. The breadth and depth of JFC’s product line is impressive. One of the most significant opportunities that JFC developed was the Corrie-pipe™ which came about from a visit to Kavanagh Foundry in Birr Co. Offaly.

Risk Taking and Persistence: Looking back to 1987, the industry landscape was very bleak with very few start-up companies and a generally poor economic situation. At this time, the International Monetary Fund was closely monitoring Ireland’s worsening economic situation. Starting up a business at this time was high risk, particularly after Concannon’s lack of success selling smoke alarms door to door. Overall, Concannon is a risk taker and is persistent, and this was again shown after the foot and mouth crisis which impacted on the company’s performance. The company was able to cope with this crisis and, in the midst of this, take some risks with developing new plastic products for different sectors.

Passion, Problem Solving and Creativity: These are characteristics that pervade JFC from Concannon himself downward. There is evidence of a passion to succeed, the company does not see operating in the West of Ireland as a particular problem, and JFC are constantly being creative. This is evidenced further by their ability to take on customised plastics project products.

The second part of the question focuses on the common characteristics of an entrepreneur. Instructors could use the table below that outlines some of the common characteristics derived from the literature on entrepreneurship and leadership to lead the discussion about Concannon. It is clear that he both possesses entrepreneurial and leadership characteristics, and this aspect could be broadened out to a class discussion about the commonalities of entrepreneurship and leadership. In doing so, instructors could draw on the work of Burgelman, McGrath and MacMillan, and Stevenson and Gumpert.

Characteristics	Concannon
Ability to motivate	√
Achievement Orientation	√
Creativity	√
Persistence	√
Risk taking	√
Vision	√

Source: Adapted from Kuratko, D and W. (2001) *Strategic Entrepreneurial Growth*, Harcourt College Publishers.

3. Identify the main environmental forces affecting the industry in which JFC competes? Which of these forces are the most significant drivers of change and why?

This question is designed to develop students' analytical skills. Using PEST analysis, the student can assess the main environmental forces affecting the plastics industry. This form of analysis usually generates the following issues.

PEST Analysis of the Plastics Industry:

Political Factors

- Global and country stability, particularly in oil and energy
- Legislative protection for the environment which could impact on the types of ingredients and the manufacturing process for plastics

Economic Factors

- Fourth largest manufacturing industry group in the US in 2004, accounting for 3.4 million jobs and \$438 billion in shipments
- Over 100 million tonnes of plastic produced this decade
- UK market produces 6 million tonnes of plastic products – see Exhibit 6.
- Increased energy cost cutting into manufacturers' bottom line, and some are not in a position to pass this onto the customers.
- Irish plastics industry employs 9,000 people and there is positive outlook to 2008.
- Sluggish demand for plastic based products

Socio-cultural Factors

- Increase usage of plastic products across a range of sectors, as per the example in Exhibit 6.
- Packaging plastics remains the most domain sector, with building and construction being no. 2.
- Cheapness and flexibility of plastic products is proving attractive to customers.

Technological Factors

- Rotational moulding technology is constantly evolving, hence more opportunities to get involved with one-off projects.
- High scalability in terms of automation

Students can use their PEST analysis as a basis to analyse which forces are the most significant drivers of change. This is where students gain insights into transforming the information generated through the PEST analysis into an identification of the main environmental influences affecting this industry, namely:

- Energy costs
- Environmental regulations
- Technological development with respect to production and new product developments.
- Sustained global economic recovery
- Sluggish demand for plastic products.

4. Undertake a Five Forces analysis. What are the main conclusions from this analysis? What are the main strengths and weaknesses of JFC?

Applying the Porter framework normally yields the following kind of analysis:

Potential Entrants

The barriers to entry are *high* due the capital-intensive nature of the machines required for the manufacturing process. In addition, to ensure shortened payback periods, competitors need to operate their plant on a 24/7 basis. Barriers are lower for companies that develop their own product designs rather than outsource manufacturing to a third party company.

Product Substitutes

The threat is *medium*. The substitute for plastic packaging would typically be paper, whereas for plastic based pipes it is concrete.

Customers may have higher switching costs if they use other substitute products, but have low switching costs between plastic manufacturers and suppliers.

Power of Suppliers

Given the fragmented nature of the supplier base their power is *low*.

Power of Buyers

Given the fragmented nature of the buyer profile, but the number of competitors in the market, the power of the buyer is high, as buyers can switch between plastic based products and others, choosing from a variety of plastic manufacturers.

Competitive Rivalry

Give the size, scale and importance of the industry, competitive rivalry for the industry is intense, based on product, service, technology, information and geographical coverage.

Overall, applying Porter's analysis illustrates to students that the power of buyer is very high and that they have a dominant role in the competitive dynamic of this sector. Moreover, it highlights that plastic firms are competing intensely against each other and that plastic output is only marginally increased year on year. The industry is currently not attractive, given high barriers to entry, the power of buyers and the intense competition in the industry.

In identifying the strengths and weaknesses of JFC, students typically suggest the following:

Strengths

- John Concannon
- Innovative culture for new product development
- Product depth and diversity
- Technology
- Agile manufacturing process
- Investment in Poland leading to Eastern European Expansion.

Weaknesses

- Exposure to currency risks
- Operating in high cost base economies (Ireland & UK)
- Exposure to energy risks
- Possibility of key personnel leaving the business
- Possible need for an overarching brand identity
- Need for capital to invest in further product and market expansion.

5. Develop strategic options for WRI and outline the merits of each option?

Students will generate strategic options around the following options:

Protect/Build

In protecting and building, JFC can assess its existing product portfolio so it can seek opportunities to increase its sales for its products in existing and new geographical regions. This means having a sales and marketing structure developed in different geographical regions that supports such efforts. This requires further investment, and JFC would need to analyse where the growth sectors and geographical regions are in order to maximise returns if resources are scarce. Recent acquisitions have proved successful and show that JFC has the capability to acquire more companies in this sector and assimilate them into the JFC culture and organisation.

Product Development

This is one of JFC's core competences. The ability to develop a plastic-based product and bring it to the market. Opportunities to bring this expertise forward lie with mussel floats, water treatment equipment and developing accessories and other ancillary products based their existing product portfolio.

Market Development

The developing Polish market and geographical expansion from this base into other Eastern European economies that are beginning to develop industrially means that there will be future opportunities for JFC to extend the product lines of some existing products. Competing in these markets could provide further opportunities for further product develop specific to the needs of these markets. However, some of these products could then be marketed in more traditional markets and distribution channels. For this to be implemented successfully, JFC needs to continue to build and develop an organisational and management structure that supports this market development. This means hiring externally a more culturally diverse workforce and activity nurturing managerial talent from within.

In getting students to consider the strategic option, the instructor could then focus the discussion on feasibility, acceptability and suitability criteria for each of those options. In addition, Rumelt's work on evaluating business strategy would be an appropriate basis for class discussion.

6. Should JFC pursue equity based investment opportunities to grow the business? What are the alternative funding sources available to JFC? What expertise would equity based investors bring to JFC?

This question focuses on a scenario of opportunities that JFC could face in the form of a venture capitalist or other equity based investor who may have an active interest in taking an equity stake in the business and giving JFC a cash injection to facilitate its growth plans. This raises a key point in managing entrepreneurial growth – “in order to grow, the entrepreneur must go”. In the case of JFC, should outside interest in the business be considered? If so, the needs of both the founder and the employee must be met, and the match between these requirements and those of the outside investors must also be aligned. In order to protect itself against imitators and to continue to broaden its scope, JFC needs to have access to cash in order to compete at the next level in the industry and in other sectors. Deep pockets will be required for the next stage of development, particularly for any potential acquisitions. In sum, yes, JFC should consider outside equity investment.

Before getting students to consider alternative funding sources, the instructor should ask students to consider a number of factors that affect the availability of the various types of financing and their suitability and cost. These include:

- Accomplishments and performance to date
- Investor’s perceived risk
- Industry and technology
- Venture upside potential and anticipated exit timing
- Anticipated growth rate
- Venture age and stage of development
- Investor’s required return or internal rate of return
- Amount of capital required and prior valuations of the venture
- Founders’ goals regarding growth, control, liquidity and harvesting
- Relative bargaining positions.

With respect to alternative funding sources, students will generally draw up the following list:

- *Internal Sources:* Get existing shareholders to invest more cash in the business by buying more share in the business
- *Existing Cashflows:* Use the existing cashflows for its strategic development
- *Other Venture Capitalists:* JFC could seek other investment by preparing a road show presentation to investment houses based in Dublin, London and New York to raise the maximum amount of cash possible
- *Public Listing:* JFC could consider an initial public offering on some of the international alternative markets, before going for a full public listing.

7. Can JFC’s entrepreneurial culture be maintained as the company continues to grow?

This question is designed to focus students’ understanding on how entrepreneurial organisations attempt to become managerial while maintaining the entrepreneurial flair. In essence, the question should bring out the core tensions of ‘flexibility and independence’

versus 'order and systems' and 'innovation and creativity' versus 'control and planning'. For an entrepreneur, these are difficult paradoxes to manage, but are necessary if their business is to ultimately survive and grow. In the context of JFC, during this growth phase their primary focus has been on volume, increasing market share and viability. In their moves to grow the business, the managerial primary focus will change to cost control, emphasis on profitability and future growth opportunities. The decision making process will become more formalised, specialised and will span long and short term planning horizons. The challenge for JFC is that its management team has to become more managerial, while their employees are allowed to become more entrepreneurial. Putting in place an incentive and professional development path for each employee will assist in maintaining this entrepreneurial culture.

6. CASE SUPPORTS

Website for JFC: www.jfc.ie

7. REFERENCES

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