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A Resource-Based View

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PREDICTING DOWNTOWN AND SMALL BUSINESS SUCCESS: A RESOURCE-BASED VIEW

By

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ABSTRACT

PREDICTING DOWNTOWN AND SMALL BUSINESS SUCCESS:
A RESOURCE-BASED VIEW

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This study was a unique examination of small downtown business districts, and the businesses within each respective district. I employed resource-based theory to put forward a model that identifies a downtown's resources, and connects those to success. I posited that a downtown has two separate types of resources at its disposal: business resources and structural resources. Business resources are manifest in downtown businesses, while structural resources are created by the downtown (or community) itself. When utilized, these resources have a positive effect on the downtown's success.

Data were collected from 267 business owners in 11 small and medium-sized downtowns in Michigan, using a hand delivered, self-report survey instrument. I utilized structural equation modeling to test the hypothesized relationships between measurement variables and latent constructs. Confirmatory factor analysis was used to test the reliability and validity of the measurement variables. The model proposed in this study was a complex factor model, where some latent constructs were themselves indicated by latent factors. Business and structural resources, and downtown success were latent endogenous constructs. Business resources were indicated by the latent factors of entrepreneurial orientation, small business orientation and social capital. Structural resources were indicated by brand identity, business mix and community characteristics.

Downtown success was indicated by vacancies, relative firm performance and longevity of businesses.

Entrepreneurial orientation was indicated by innovativeness, proactiveness and risk taking. Small business orientation was indicated by business owner goals and emotional attachment. Social capital was indicated by trust, reciprocity, shared vision, homophily, network density and frequency of network interaction. Downtown image and positioning were indicators of brand identity. Business mix was indicated by business diversity and complementary businesses. Community characteristics were indicated by sense of place.

Results from fitting the structural model to the data showed small business orientation and social capital were significant indicators of the business resource construct. Social capital, brand image, business mix and community characteristics were all significant indicators of the structural resources construct. Business resources were not a significant predictor of downtown success, though the parameter estimate points to a moderate effect size. Structural resources were found to be a significant and positive predictor of downtown success.

Results support resource-based theory which maintains that firms with superior resources will have a competitive advantage over competitors. A key to this competitive advantage is the ability to maintain and differentiate resources from the competition's. Implications for downtowns imply that structural resources such as brand identity, business mix and sense of place are resources which may provide a sustainable competitive advantage.

DEDICATION

To my wife Kimberly, my children Kyle and Brett. Your support, patience and confidence in my ability to undertake this journey were essential to my success.

To my parents Jack and Rosemary, for instilling in me at an early age, the value of education and learning.

To my extended family including Pat and Judy Sweeney, Sharon, Susan and Kevin Sweeney for your unwavering support of Kimberly and our family.

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Chapter 1

Introduction

Significance of study

A city or town's "downtown" area has historically served as its cultural center, and its central business district. It is described by some as a community's "heart," and reflective of the community as a whole (Michigan Cool Cities, 2003; Runyan 2004a). Traditionally, a city's oldest businesses (including retailers) originated in the downtown area. For example, today's department stores (Macy's, May, Dillard's, Harrod's, etc.) originated in city centers. Though these large, well-known stores are used for illustration purposes, most downtowns had versions of these general merchandisers in their history (Levy & Weitz, 2004). Many moved to the suburbs when room for expansion was limited in the downtown area, while some simply went out of business. Due to the building constraints inherent in the typical downtown (Filion, Hoernig, Bunting & Sands, 2004), businesses requiring large amounts of space have typically moved from or located outside of the downtown (Levy & Weitz, 2004). Therefore, the downtown business was and is typically a small and independent firm.

Small retailers have been called the "glue" that bonds communities together (Irwin, Tolbert & Lyson, 1997). Over the past two decades the decline of the small, independent retailer has been well chronicled in the trade press, as well as in local, regional and national newspapers. Speculation as to the reasons behind this decline range from urban decay and business flight to the suburban malls (Hazel, 2002), to the lack of strategic planning (Conant and White, 1999), to the rise of Wal-Mart in small towns across America (McCune, 1994). Changes in the demographic landscape of the U.S., as

well as consolidation in the retail industry, has led to retail activity increasingly being concentrated in large-scale retail formats (Stone, 1995).

To illustrate, the effects of this decline in small independents can be seen in the restaurant and bookseller segments. From 1993 to 2004, the number of independent booksellers in the U.S. fell from 4,700 to 1,885, as measured by membership in the American Booksellers Association (Trachtenberg, 2004). They have of course been hit in succession by mall competition in the 1980's (e.g., Waldenbooks), discounters and big-box retailers in the 1990's (e.g., Kmart, Wal-mart, Border's), and the Internet in this millennium (e.g., Amazon, Barnes & Noble). Similarly, the independent restaurant has suffered from excessive competition from chains. Today, less than 15% of the full-service restaurants in the U.S. are independents (Gorodesky & McCarron, 2003). From the 1960's, they were pressured by fast-food formats such as McDonald's. But in recent years, they have been deluged by "mega-chains" (Gorodesky & McCarron, 2003) that can utilize niche-type strategies (e.g., Chi-chi's, Olive Garden, etc.) while obtaining economies of scale.

The movement of retailers and businesses to suburban locations may not cause concern for those in larger, urban areas. But the health and vitality of downtowns in non-urban areas is a different situation. Robertson (1999) describes the image projected by the downtown area of a small city as being "intertwined" with the "identity" of the community itself. Anyone who has driven through small towns can readily attest to the negative feeling one gets from a downtown with multiple empty storefronts and soaped windows. The State of Michigan has launched a statewide initiative called "Cool Cities," aimed at identifying and supporting the qualities that cities need to thrive in the future.

One of the key elements of this initiative is a city's "downtown" area, as this has been identified by Florida (2002) as an important part of attracting and keeping young, creative people. According to Florida, young and creative people are important for communities to grow and prosper.

Small towns are growing in population in many areas of the U.S. (McCarthy, 2004). Prior to 2003, the U.S. Census Bureau referred to most areas outside of urban centers and their surrounding suburbs, as "rural." That was probably a misnomer because towns of up to 50,000 residents, or small groups of towns that totaled even greater population totals, were labeled as rural. For example a town such as West Lafayette, Indiana, with a population of 29,300 (based on the 2000 Census) would have previously been labeled "rural." This city has a large world-class university (Purdue University), and the resultant diverse population base. It was not until 2003 that the Census officially recognized these non-urban, non-rural areas as "micropolitan" (McCarthy, 2004), signaling a recognition of the significant differences between these areas, urban areas and rural America.

The importance of the downtown is not just to the "psyche" of the surrounding community (Robertson, 1999). If we accept the downtown as a community's center or "heart," then it is important that center be vibrant and economically vital. Downtowns in small and medium-sized cities are typically "stored" with small businesses (Robertson, 1999; Billesbach & Walker, 2003; Guy & Duckett, 2003). Despite the attention paid to large retailers and chains, the small business is still very important to the economic vitality of cities, states and the country (Robbins, Pantuosco, Parker & Fuller, 2000). Though small business faces threats from the likes of Wal-mart (McCune, 1994),

opportunities for entrepreneurs still exist. Gillete (1998) notes that in most communities where Wal-mart is located, Wal-mart seldom tops 10% of area sales dollars. Small businesses can satisfy consumer demand by filling the "gaps" where items or services are not profitable for large firms (Julien, 1993; Buss, 1996). When entrepreneurs take advantage of opportunities they create jobs, lowering the unemployment rate, decreasing wage inflation and improving the overall productivity (Robbins, et al., 2000).

Small businesses are a source of continuous innovation and testing of new methods, products etc. (Acs, 1999). This process plays a vital role in market renewal and structure. There is little innovative about a Wal-mart moving into a town that already has a Target in place (for example). Further, when large retailers do enter, anecdotal evidence points to a decrease in the benefits and increased costs to local communities (Milchen, 2000). This includes increases in infrastructure spending, losses of existing jobs, and losses in general giving to the community. The loss of benefits was supported in focus group interviews (Runyan, 2004a), when one downtown coordinator suggested that the annual charitable giving of a large discounter was less than half that which had been given by the local grocer (who was being put out of business, presumably by the large discounter).

Yet for all the importance attributed to downtowns, a paucity of empirical work about downtowns appears in the literature. This is true in the marketing, retailing and urban planning fields. Robertson (1999) notes that most of the literature on downtown development neglects small cities, focusing rather on large urban areas. In the marketing and retailing literature, a similar gap exists, with the bulk of research being conducted on large retailers (Runyan, 2004b). The research involving non-urban, small town retailers

has tended to focus on either consumer behavior issues, or individual retailer behavior. In other words, previous research has looked at all of the components separately (downtowns and businesses) but not in a comprehensive manner.

The urban planning and public policy literature have reported research on the downtown from a developmental point of view, and often use planners or other city government officials as informants (Robertson, 1999; Filion, Hoernig, Bunting & Sands, 2004). Much of the city center research has been qualitative in nature, but takes a prescriptive approach, with no goal of theory building or causal inference (e.g., Schiller, 1994; Tomalin & Pal, 1994; O'Callaghan & O'Riordan, 2003). The small retailing and marketing literature have reported investigations of downtown retailers from a performance perspective, using business owners as informants (Miller & Kean, 1997b; Miller & Kim, 1997; Billesbach & Walker, 2003). This leaves a large gap in the literature, as both planners and business owners may have different goals for the same location, which produce different results for the downtown as a whole. For example, Robertson (1999) found that city planners (in small towns) listed potential problems in their downtown that included revitalization issues. Yet Billesbach and Walker (2003) found that small, downtown retailers listed revitalization as one of the least important factors in competing with major discount chains. To date, only a few scholars have investigated the performance of downtowns as an entity, and the variables that lead to successful performance (Niehm, 2002; Kean, Gaskill, Leisritz, Jasper, Bastow-Shoop, Jolly & Sternquist, 1998). What contributes to the success of a downtown is an important (and unanswered) question that calls for empirical research.

Problem Definition:

Do downtowns act like firms? The resource-based theory of the firm postulates that firms seek to gain competitive advantage in order to earn profits (Porter, 1980; Wernerfelt, 1984; Barney, 1991; Peteraf, 1993). To do this they utilize resources, and to the extent that those resources are superior to competitors,' they will be more successful. This is the resource-based view (RBV) of the firm, and it has become the prevailing theoretical framework in the management strategy literature (Peng, 2001). However no one (to date) has treated or identified downtowns as firms. As early as 1959, Penrose defined a firm as a collection of resources that can be human or physical. A downtown is a collection of firms, the collective performance of which is reflected in the success level of the downtown. As such, downtowns as entities may be looked at as firms themselves. Using this rationale, I propose that the definition of the "firm" be expanded to include downtown business districts as firms.

Downtowns are unplanned business districts (Levy & Weitz, 2004), eclectic in nature compared to most other business centers (e.g., malls, strip centers, industrial parks). Businesses that comprise a typical downtown might include retail, service, professional, medical, government, food, hotel, and entertainment. Perhaps due to this eclectic mix, or to the inherent independence of small business owners, many owners in downtowns do not see themselves as part of a group. Yet conceptually, members of the local community consider a downtown a single entity. Therefore, downtowns that knowingly (or unknowingly) act like a single business may be strengthening that perception amongst the local community (or other potential consumers). In a large focus group study involving 40 Michigan cities, respondents (local citizens) identified unique

strengths such as "walkable" downtowns, diverse shopping opportunities and hometown pride that their community possessed, that help their town compete with other cities (Michigan Cool Cities..., 2003). Focus group interviews with business owners have revealed the same sense of the city or downtown as a single entity (Runyan, 2004a).

Much of the research involving small businesses (and in particular retailers) has focused several themes: what makes for a successful business (DeKimpe & Morrison, 1991; Bates, 1995), how to compete with larger chains (Stone, 1995; Billesbach & Walker, 2003), or entrepreneurial issues such as network ties (Frazier, 2000); gender differences (Schmidt & Parker, 2003); goal orientation (Stewart, Carland, Carland, Watson & Sweo, 2003), and risk (Stewart & Roth, 2001). I argue that for individual small businesses in downtowns, none of the aforementioned strategies guarantee success. If a downtown is collectively unsuccessful, then existing businesses will (*ipso facto*) be unsuccessful. Businesses may still be open, but will not be successful (i.e., just "hanging on"). Additionally, it will be difficult for new ventures to be successful. So for a downtown to be successful, its businesses must be successful. But I posit that it is also true that for businesses to be successful, the downtown itself must be successful. To date no one has empirically investigated this issue from a resource-based view.

If downtowns really do act like firms, what are the resources that they possess, and of those, which do they utilize? Do successful downtowns achieve a type of "synergy" whereby the whole is greater than the sum of its parts (those parts being the independent businesses)? Do the businesses within a downtown exist in a "symbiotic" relationship with each other, whereby each has a small but significant effect on the others? One of the criticisms of RBV is that resources may be intangible, or poorly

understood by the organization (Rouse & Dallenbach, 1999). An *a priori* identification of constructs is made, based on focus group results, as well as extensive review of the literature. Specifically I identify two main areas from which a downtown may draw resources: its member businesses and structural sources. The business-specific constructs identified are entrepreneurial characteristics, social capital, and social network ties. The structural constructs are brand identity, business mix and community characteristics. A key contribution of this study is that it is designed to identify the resources that successful, non-urban downtowns possess. This will contribute to the body of literature in the RBV, urban planning and small business domains. It will also serve to guide downtown managers in identifying and nurturing proprietary resources, to help downtowns gain the competitive advantage needed in today's business environment.

Chapter 2

Review of Relevant Literature

Introduction

Downtowns have been characterized as a community's "heart and soul" (Robertson, 1999). Small retailers have been called the "glue" that bonds communities together (Irwin, Tolbert & Lyson, 1997). These statements may sound like hyperbole to some, but to downtown business owners these descriptions fit well. A downtown is a collection of firms, the collective performance of which is reflected in the success level of the downtown. As such, downtowns as entities may be viewed as firms themselves. The trade press has covered the demise, then recent rebirth of the downtown in large, medium and small towns (Hazel, 2002). Thus, the existence of successful and unsuccessful downtowns has been documented in that medium.

This research aims to investigate what makes a downtown successful, from a resource-based view. The RBV is a theoretical framework that has been used to explain the performance of firms. My study presents a new and unique conceptualization of downtowns and the small businesses that contribute to a downtown's economic viability. Figure 1 illustrates the conceptual model that I use to describe this relationship structurally. Hypotheses will be put forth for each of the posited relationships in the model. The model is complex, with two second-order factors: business and structural resources. These are indicated by several latent constructs. Thus hypotheses will be framed from this conceptual viewpoint.

Theoretical Framework

The resource-based view (RBV) of the firm has become one of the most widely used theoretical frameworks in the management literature. The foci of RBV are competitive advantages generated by the firm, from its unique set of resources (Wernerfelt, 1984; Barney, 1986; 1991; Peteraf, 1993). Barney (1991) identified four key attributes that a resource must have, in order to yield a sustainable competitive advantage. A resource must be: valuable, rare, imperfectly mobile, and non-substitutable. Peteraf (1993) further refined the framework by positing that resources must have the following four attributes to help a firm sustain competitive advantages: be heterogeneous; have *ex ante* and *ex post* limits in place to competition for that resource; and be imperfectly mobile. RBV is a still-emerging theory, and as such is still in the conceptualization phase. For example, though both Barney (1986; 1991; 2001) and Peteraf (1993; 1994) were early champions of RBV, neither has moved forward in an attempt to operationalize their own constructs of sustained competitive advantage. Studies that have been conducted using RBV as a framework for both model and theory building (Delios & Beamish, 1999; Peng, 2001; Dhanaraj & Beamish, 2003) have shown mixed results in terms of operationalizing constructs. But RBV has been cited as an important theoretical base, with marketing theorists such as Shelby Hunt (Hunt & Derozier, 2004) weighing in on its behalf.

It is beyond the scope of this study to operationalize all the constructs proposed in the RBV literature. Rather, RBV provides an overarching basis to identify the resources that downtowns possess and utilize, as well as answer the question of whether downtowns act like firms. As is the case in most of the RBV-based literature, RBV is

used to help identify resources that help firms gain and sustain competitive advantage. But further theory is often needed to support conceptual constructs. For example, when applying RBV to the finance sphere, financial theories would be used to support constructs of a firm's financial resources. In the same manner, each of the constructs in the proposed model is supported by its conceptual genesis.

I propose that business and structural resources are different in the following ways: *Business resources* are those created and possessed by individual downtown business owners. The business owners directly control the extent of each of these resources. They may benefit individually or collectively from those resources, and the downtown also may benefit from those resources. Managerial resources (the skills and abilities of managers) are important contributors to a firm (Castanias & Helfat, 1991). In the current study, business owners are conceptualized as the "managers" and the downtown as the firm.

Structural resources are those that are more macro in nature than the business resources previously discussed. They are resources that downtown business owners may benefit from or contribute to, but do not possess individually. These resources are also ones that may simply exist (e.g., economic base, diverse community) or may be created or directed (brand identity, business mix). However, direction of the resource in this case would not come from business owners. Downtown business owners may support a town's brand identity, benefit from and add to or support a diverse business mix and community characteristics. But they don't direct, or individually "create" these resources.

Literature from several domains provides the foundation for the resource-based view of downtowns. Entrepreneurial orientation, social capital and social networks form

the business resource construct. Those that form the structural resource construct are: brand identity, retail mix and community characteristics. I review research appearing in the extant literature and present support for hypothesized relationships of the latent indicators of both business and structural resources, as well as the influence of those resources on downtown success.

Resource Based Theory

The resource-based view of the firm has been referred to as the most influential framework for understanding strategic management (Barney, Wright & Ketchen 2001; Peng 2001). The seminal article on RBV is considered to be Wernerfelt's 1984 paper, and was based on Porter's (1980) competitive advantages work. Since that time Wernerfelt's work has been cited, along with Barney (1991), more than any other works in the management literature (Barney, Wright & Ketchen, 2001). It is used by most RBV authors to describe and operationalize constructs of competitive advantage. The key to competitive advantage though, is for firms to be able to sustain the advantages gained from superior resources. Sustained competitive advantage comes from a firm's resources and capabilities that include management skills, organizational processes and skills, information and knowledge (Barney 1991). In an early work that has since become widely used in the management field, Peteraf (1993) stated that there are four conditions that underlie *sustainable* competitive advantages. These are: heterogeneous resources within an industry; *ex ante* and *ex post* limits to competition; and imperfect resource mobility. Each of these extend from the resource-based view that a firm's resources that are distinctive or superior relative to its rivals, may become the basis for competitive advantage if they are utilized in the appropriate environmental opportunities (Andrews,

1971; Thompson and Strickland, 1990). Peteraf's (1993) four dimensions of competitive advantage deserve further explanation:

Heterogeneity- This concept implies that firms in an industry compete, but with varying capabilities (resources). Firms with marginal capabilities will only break even, while those with superior resources will earn profits. Though downtowns don't earn profits *per se*, the concept of just surviving (breaking even) versus thriving (earning profits) is applicable. All downtowns have some different types of resources. For example, a town might be situated on a large body of water, which would serve as a resource (perhaps attracting tourists). Another town down the road might be situated on the same body of water, but due to geography, also have a harbor within its downtown area. In this case, both towns share a similar resource, but the resource is heterogeneous and the one with the harbor might enjoy the benefit of not only tourists who arrive via car, but also those who arrive via boat. One might easily see the analogy here being applied to a town located on an interstate highway, versus one with a lesser volume of traffic located far off the same highway.

Ex ante limits to competition for resources- Prior to establishing a superior resource position, there must be limited competition for that resource or position. If there are no limits to competition for the resource, the cost of that resource will likely be "bid" up to the point that future profits will be depressed. Profits come from *ex ante* uncertainty. For example, if a retailer chooses a prime location of which no other retailers has knowledge, there would be *ex ante* limits to competition for that resource. Lower competition derived from knowledge heterogeneity (one knew what others did not), would keep the cost of acquiring the location down. If the retailer chooses correctly, then profits would be

realized. To explain further, in the above example of two towns on a body of water, both have access to the same resource, but one is slightly different. If, recognizing that its harbor might attract boaters, the downtown expanded *towards* the harbor (thus enticing boaters to disembark and shop, eat, etc.), it would have a first-mover advantage over the other town without any harbor.

Ex post limits to competition for resources- Competitive advantage can only be sustained if heterogeneity is preserved. *Ex post* limits are those that are in place to push down any competitive attacks after entry into the marketplace. The two main strategies to this are: imperfect imitability (making it difficult to imitate the superior resource), and imperfect substitutability (making it difficult for an inferior resource to be substituted for a superior one). Using our retailer location example, if no other locations as good as the original are available in a trading area, then this would satisfy imperfect imitability. If the original location were superior enough that a retailer of otherwise equal resources could not compete from another location, then this would satisfy imperfect substitutability. In the town comparison, it would be difficult for the town without the harbor to imitate (i.e., build their own harbor). However, if the town sans-harbor were to build a large "pier" into the body of water to substitute for a harbor (thus allowing boaters to dock and disembark), this could be a substitute. To the extent that the harbor was superior to the dock (as measured by boaters disembarking at one or the other), the resource would be imperfectly imitable and provide *ex post* protections.

Imperfect mobility- Resources are perfectly immobile if they cannot be traded. Resources that are imperfectly mobile are those that can be traded, but would be of less value to an outside firm, than to the one that currently employs them. A firm's reputation might be an

example of perfect immobility, while a firm's tacit knowledge might be imperfectly mobile. Locations can of course be traded. However, in the example of the retailer with the prime location, we can also apply this dimension of RBV. Knowledge of the superior location is now known to others (*ex post* of course), therefore increasing its value. For another retailer to acquire that location, a premium would have to be paid, thus lowering the rents realized in future trading. The example of the town with a harbor is an example of a perfectly immobile resource. One can't simply trade a "harbor" to another town.

In this research study, I posit that a downtown will possess certain resources with which it can gain competitive advantages. Those resources have been articulated as originating from two separate (yet related) sources: business and structural resources. In order for firms (downtowns here) to realize sustained competitive advantages, the four previous conditions need to be met (Peteraf, 1993). These four conditions are not conceptualized in the literature as constructs themselves, and have therefore not been operationalized. However the resource-based view of the firm maintains implicitly that successful firms (or downtowns) have resources that meet these four criteria.

Business Resources

Entrepreneurial Orientation

Entrepreneurial characteristics are viewed as resources to both the entrepreneur as well as the firm (Alvarez & Busenitz, 2001). In general, most researchers see entrepreneurs as individuals who tend to be innovative risk takers (Schumpeter, 1934; Baumol, 1993). Schumpeter (1934) described innovation as the single function that most characterizes an entrepreneur. In fact, much of the extant entrepreneurship literature assumes that entrepreneurs are a mostly homogeneous group (Stewart, et al., 2003). Yet a

search for an operational definition yields a number of similar yet disparate versions. These include one who is innovative and takes initiative (Schumpeter, 1934); one who has a personal value orientation (Gasse, 1982); one who is innovative and growth-oriented (Carland, Hoy, Bolton & Carland,1984): one who displays competitive aggressiveness (Covin & Slevin, 1989); one who undertakes a "new entry" (Lumpkin & Dess, 1996); or one who simply owns and actively manages a small business (Stewart & Roth, 2001). Depending on the frame with which one examines entrepreneurship, any definition may fit. For the purposes of this study, an entrepreneur is an "individual who assumes risk" in a venture, and "provides management for the firm" (Kilby, 1971). Entrepreneurial orientation is defined as innovativeness, pro-activeness and risk-taking (Covin & Slevin, 1989). Covin and Slevin refer to the construct as entrepreneurial orientation.

Entrepreneurs have traditionally been considered to exist only within small firms (Coase, 1937), but this view has changed (Carland, Carland & Busbin, 1997). The fact that employees within a large corporation can act in an entrepreneurial manner led to the term "intrapreneur" (Pinchot, 1985). Yet, the traditional view has led to a large corpus of research on the entrepreneurial orientation of small business owners. But there is likely a range of entrepreneurial characteristics that all business owners possess (Shane & Venkataraman, 2000). This was the view that Vesper (1980) took, when suggesting that entrepreneurs existed along a sort of continuum.

The sort of continuum to which Vesper (1980) refers may have at one end, a sort of "superpreneur" as reported by Niehm (2002). On the other end may be the small business owner who is not prone to risk and/or innovation. Carland et al. (1984) make a

distinction between entrepreneurs and small business owners; they describe an entrepreneur as one who "capitalizes on innovative combinations of resources for the purposes of profit and growth....". However, the small business owner is one who "operates a business to further personal goals and to produce family income....".

For this study, two separate theoretical frames for the entrepreneurship construct are employed, as I posit that entrepreneurship is a key dimension of business resources for downtowns. The first theoretical frame is that of entrepreneurial orientation. The concept of entrepreneurial orientation was operationalized by Covin and Slevin (1989) and consisted of 3 dimensions: innovativeness, risk taking and proactiveness. To a certain extent, small business owners would need to possess some higher levels of these dimensions (than the average person) in the face of competition in today's marketplace.

However, I also believe that there are a significant number of downtown business owners who are not entrepreneurs, yet are successful and contribute to the success of downtowns. Because downtowns and small business owners may be unique (compared to other organizations or firms), a second framework is utilized to measure entrepreneurial orientation. Carland, et al., (1984) established a typology of entrepreneurs by distinguishing between entrepreneurs and small business owners. Small business owners likely have different goals than entrepreneurs (Davidsson, 1989; Woo, Cooper & Dunkelberg, 1991). For example, entrepreneurs tend to place a greater emphasis on firm growth, while small business owners are more concerned with income goals (Carland, et al., 1984). However small business owners also may act in entrepreneurial ways, by making proactive decisions for example (Vesper, 1980; Carland, Carland & Busbin, 1997).

Entrepreneurial Orientation:

The concept of entrepreneurial orientation (EO) refers to the processes, practices and decision activities leading to new entry or opportunity for an individual/firm (Covin & Slevin, 1989). Some of the constructs of EO were suggested by earlier authors in the strategy domain. For example Miller & Friesen (1978) identified risk taking and innovation as effective management strategies. Fredrickson (1986) suggested proactiveness, risk taking and assertiveness. In the entrepreneurship domain, the construct of entrepreneurial orientation was operationalized by Miller (1983) and Covin and Slevin (1989). Their construct consisted of 3 dimensions: innovativeness, risk taking, proactiveness.

Innovativeness- Based on Schumpeter's (1934) early work, the concept of entrepreneurs as innovators has become accepted in the literature. Very few scholars argue this point. Innovativeness is an indicator of a firm's tendency to engage in and support new ideas, processes and creative methods. This type of activity may result in new processes, services or technologies (Lumpkin & Dess, 1996). Though the bulk of the extant innovation literature has focused on technology, innovation can occur in many areas. This includes management processes, promotion, human resources, visual merchandising, and other aspects of running a small business. These are all areas where a firm or small business owner could employ innovative techniques to improve the performance of their business. Innovation is an important aspect of EO as it reflects the means by which firms might pursue new opportunities (Lumpkin & Dess, 1996).

Some have described innovation as "a radically different way of doing something" (Niehm, 2002). This may be an extreme definition though, and have less

applicability to most entrepreneurs and especially small business owners. To be innovative, one need not be radically different. Radically different seems to imply a revolutionary change. It is more likely that the term evolutionary change is applicable in this case. This is an important distinction, supported by Lumpkin and Dess (1996), as well as Vesper (1980). Lumpkin and Dess (1996) suggest that innovativeness occurs on a continuum. This can include the willingness to try a new product line or committing fully to a new technology. An often-used method for assessing innovation is the number of new products or services a firm introduces, or the frequency of product/service line changes (Miller & Friesen, 1982: Covin & Slevin, 1989). This is innovative but not radical, and may actually be a form of creativity. Creativity has been used by many as a synonym for innovative behavior (Carland, et al., 1984; Stewart, et al., 2003).

H1 a: *Innovativeness is one of three significant and positive measurement indicators of the entrepreneurial orientation construct.*

Risk Taking- One of the earliest characteristics ascribed to entrepreneurs was that of risk taking (Lumpkin & Dess, 1996). The very idea of working for "oneself" implies the risk of not only lost capital, but the opportunity cost of having earned wages in the employ of another firm. The term risk has various meanings, depending on the context of the application. Three types of strategic risk were identified by Baird & Thomas (1985) as: a) venturing into the unknown; b) investing a large portion of assets; and c) heavy borrowing. The first of these types applies to small business owners in the sense that it implies a sense of uncertainty, as is discussed in the entrepreneurship literature in terms of social, personal or psychological risk (Gasse, 1982). Small business owners who adopt new ways of doing business or try a new product line are taking on risk to some degree.

Most studies of entrepreneurship have focused on the individual, rather than the firm (Lumpkin & Dess, 1996). That fact is germane to this study, as the entrepreneurship component is measured at the individual business level. EO has been used by Miller (1983) and Covin and Slevin (1991) to investigate risk taking by individuals within firms. This was operationalized as the manager being more likely to engage in bold rather than cautious acts. Some studies have addressed the problem of the individual who has a propensity to take risks, becoming risk averse within a firm (Miller, 1983; Lumpkin & Dess, 1996). This would lead to a firm being overall more risk averse. However, the very fact that individuals within a firm take risks should lead to a risk-taking firm. This same logic should apply to downtowns, since the risk taking propensity of its business owners should affect the overall risk taking perception of the downtown.

As is the case in most measures of behavior, there seems to be a range of risk taking (Lumpkin & Dess, 1996). Business owners will probably range from risk averse to risk prone. It is likely that the density of risk taking owners will have something to do with the risk taking characteristics of a downtown. Downtowns with business owners who are more risk prone, may lead to a downtown that is overall more risk prone. A downtown that is more risk prone (like a firm) would be more likely to take chances (incur debt, try new technology) in order to take advantage of marketplace opportunities.

> **H1 b:** *Risk taking is one of three significant and positive measurement indicators of the entrepreneurial orientation construct.*

Proactiveness- Proactiveness is the act of anticipating problems or opportunities prior to their occurrence, in order to be prepared for the problems and take advantage of the opportunities. Miller (1983) suggests that entrepreneurial firms are ones that are "first" to develop proactive innovations. This seems self-evident, as an innovation is a

new way of doing something, and thus by definition proactive. So though it is related to innovation, proactiveness is focused more on the pursuit of opportunities and initiating activities (Covin & Slevin, 1989).

Proactive firms seek new operations that may or may not be related to their present business, eliminate operations in declining stages of the life cycle, and bring in new products ahead of the competition (Venkataraman, 1989). They are willing to grab onto new market opportunities as leaders, even if they are not the first (Lumpkin & Dess, 1996). Lumpkin and Dess also characterize the opposite of proactiveness as being "passive" rather than "reactive." This too is an important distinction, as a small business owner with little foresight (i.e., not proactive), who nonetheless reacts to a market change or opportunity is likely to be in better shape long-term than the one who is passive and does nothing. Covin & Slevin (1989) describe one of the attributes of proactiveness as being competitively aggressive. Competitive aggressiveness describes the manner in which firms or business owners relate or respond to competitors. More specifically it refers to a firm's inclination to directly challenge its competition, with intensity (Lumpkin & Dess, 1996) or even unconventional tactics (Cooper, Willard & Woo, 1986). Utilizing unconventional methods to compete with others in the marketplace may be particularly important for downtown business owners (Cooper & Dunkelberg, 1986; Stone, 1995).

These characteristics (proactiveness; competitive aggression) would seem to apply to small, downtown business owners. For many reasons, but primarily economic, these types of businesses have little available capital for innovation. Yet they may adopt new processes that others have innovated, or bring new products to customers before

their competitors. The small business owner, exhibiting competitive aggression through proactiveness, is more apt to be successful than competitors.

H1 c: *Proactiveness is one of three significant and positive measurement indicators of the entrepreneurial orientation construct.*

When a small business owner acts in an entrepreneurial manner, that individual is more likely to be successful (Covin & Slevin, 1989; Stone, 1995; Niehm, 2002). As with a large firm made up of SBU's, the more successful the individual SBU's are, the more successful the firm is overall. I posit that successful downtowns have a significant number of small businesses within that are themselves successful.

H1 d: *Entrepreneurial orientation constitutes one of four significant and positive factorial indicators of the latent factor called business resources.*

Small Business Orientation- Because downtowns and small business owners may be unique (compared to other organizations or firms), it is important to make the distinction between "pure" entrepreneurs and small business owners. Carland, et al., (1984) established a typology of business owners by distinguishing between entrepreneurs and small business owners. They suggested that researchers should distinguish between entrepreneurial and small business "ventures," because they have different short and long-term goals. They recommend that there are also distinctions between entrepreneurs and small business owners, and define each as follows.

A *small business venture* is described as one that is independently owned, not dominant in its field, and does not engage in any new or innovative practices or marketing. *Entrepreneurial ventures*, on the other hand, are ones that engage in at least one of five categories of innovation suggested by Schumpeter (1934): introduce new goods, introduce new methods, open new markets, open new sources of supply and/or

business reorganization. A *small business owner* is one who establishes and manages a business with the purpose of furthering personal goals. An *entrepreneur* is one who establishes a business principally to pursue profit and growth. The entrepreneur is one who exhibits innovative behavior and employs strategic business practices.

Small business owners have different goals than entrepreneurs (Carland, et al., 1984; Davidsson, 1989; Woo, et. al., 1991). Stewart, et al., (2003) found that these two groups had different goals in terms of achievement motivation and risk taking, yet found no difference in innovativeness. Stewart and Roth (2001) found that growth-oriented business owners (entrepreneurs) had higher levels of risk propensity than income-oriented (small) business owners. Vesper (1980) points out that many business owners never intend for their venture to grow beyond a level that is controllable (by the owner), supporting the Carland, et al. (1980) typology. But this thinking does not take into consideration the very real possibility that an entrepreneur's original intentions may change over time. If entrepreneurs begin with goals of profit and growth, and subsequently decide to take a more controlled, low-risk, income-generating approach, they would be classified as small business owners and no longer as entrepreneurs.

Small business owners are more risk-averse (Stewart & Roth, 2001) and seek to keep their business at a controllable level (Vesper, 1980). These tendencies should lead to slower growth, but may also translate into long-term stability for the firm. This is distinctly different than the entrepreneur, who seeks profit maximization and growth. Stability may not be the result of high-risk, growth oriented strategies.

> *H2 a: Business owner goals are one of two significant and positive indicators of the small business orientation construct.*

Small business owners have different reasons than entrepreneurs for entering into and continuing with the operation of their business (Carland, et al., 1984; Stewart, et al., 2003). Small business owners' reasons tend to be more personal than economic (Vesper, 1980; Stewart & Roth, 2001). The owner perceives the business as an extension of his personality, and closely intertwined with family needs and desires (Carland, et al., 1984). The business will take up the majority of the owner's time and resources, and will be the primary source of income (Carland, et al., 1984; Stewart & Roth, 2001). Income-oriented small business owners will be substantially more risk-averse than growth-oriented entrepreneurs (Stewart & Roth, 2001).

As small business owners consider their business an extension of their own personality, they may channel their innovativeness by creatively matching their personalities to their business. Kanter (1988) found creativity to be a key component to competitiveness within established companies. Small business owners likely act in creative ways, perhaps in response to competition or small amounts of available capital. Litz & Stewart (2000) identified successful small retailers who responded to increased competition by offering customers the option of hours that amounted to the owner being "on call." This is certainly a creative method of adjusting hours of operation.

The personal motives of small business owners, as well as the significant amount of time and resources put into a business, point to a certain level of emotional attachment to the business that entrepreneurs may not exhibit. The attachment of the small business owner to his/her business may manifest itself in such ways as risk aversion (Stewart & Roth, 2001). But emotional attachment to a business may lead small business owners to work harder and longer at making the business a success. Such success would contribute

not only to overall business resources, but also to the success of the downtown as a whole.

H2 b: *Emotional attachment is one of two significant and positive indicators of the small business orientation construct.*

Small retailers that succeed over the long term must adapt to change in a positive way, and are proactive in the face of an ever-changing economy. Whether they are classified as entrepreneurs or small business owners, the characteristics of innovativeness and proactiveness should describe the characteristics of all successful small business owners. A continuum of business owners, from high to low on the entrepreneurial orientation scale, is likely to exist in any downtown. This is supported by Vesper (1980). Because of the increasing pressures faced by downtown businesses, those who exhibit little or no EO would be at one end of the Vesper (1980) continuum of entrepreneurship. And would be prone to financial difficulties. Superpreneurs (Niehm, 2003) in small towns would exhibit high levels on all the EO dimensions. This type of business owner would be the other extreme on the EO continuum.

Niehm found that the presence of superpreneurs had a positive effect on community success. Those business owners who measure highly on the EO construct will then be a positive force for any downtown. Yet, there can be negative results from too many firms that are high on the EO construct. When too many entrepreneurs practice innovation and risk taking, failures are bound to increase (Carland, Carland & Busbin, 1997). Downtowns should have a mix of business owners that falls along the continuum. As with any organization, the largest number of businesses will probably fall in the middle, meaning they have some entrepreneurial tendencies, but are neither high on the EO continuum nor low. They are the small business owner who spends the majority of

his/her time and energy on their business. These businesses lend stability to the downtown, by exhibiting steady, measured growth. Their business purposes are personal, and family-oriented, and they are emotionally attached to their business. These tendencies indicate a small business orientation, and also contribute to business resources.

> **H2 c:** *Small business orientation constitutes one of four factorial indicators of the latent factor called business resources.*

Social Capital

Portes & Sensenbrenner (1993) conceptualized social capital as the expectations for action within a group or organization, that affect economic goals of its members. Social capital is an intangible resource, and a term originally used to describe relational resources, occurring in cross-cutting personal ties (Tsai & Ghoshal, 1998). Social capital is manifest from social structures comprised of relationships (Putnam, 1995). Close relationships can create trust and obligations, and define expectations among trading partners (Gulati, 1995). Coleman (1988) suggested that social capital exists in organizations and communities alike. Like the economic version of capital, it is a productive resource for businesses (Coleman, 1990; Burt, 1992). Its value is derived from its focus on the positive outcomes of sociability (Portes, 1998).

While business owners can build up social capital amongst themselves, it is the community aspect that is important. Social capital may help to create competitive advantage for a firm, through the exchange of information among members (Nahpiet & Ghoshal, 1997). It can serve as a resource for downtown business owners, if it helps to increase the number of local consumers who patronize the downtown. Social capital

theory provides a means to help explain the interaction of local consumers and downtown business owners. Putnam (1993) found that there is a positive relationship between the amount of available social capital in an area, and the area's economic well being. Social capital theory may help to identify and explain a very perplexing resource for downtowns: local consumer behavior. Miller & Kim (1999) found evidence that social capital does explain some of the "inshopping" of local consumers in rural communities. Niehm (2002) suggests that the structure of small communities offers opportunities for the creation of social capital through network associations. The concept of social capital is also the basis for Miller & Kim's (1999) work on level of attachment to community, and was found to be a positive influence on local consumers' attachment.

The components of social capital that are salient to the current research are reciprocity, trust and shared vision (Tsai & Goshal, 1998). Relationships between individuals who have built trust, reciprocity and commitment through their networks have a comparative advantage (Burt, 1997; Tsai & Goshal, 1998), leading to deeper and finer-grained information exchange. If a downtown business owner can develop these types of relationships with local consumers, it may lead to better consumer feedback, and market knowledge. Berry (1993) for example, found that consumers' attitudes about a retailer's trustworthiness (a component of social capital) were important in forming patronage relationships.

Reciprocity refers to a "network" in which each member has something to provide to the other. When something is provided, there is an expectation of some sort of *quid pro quo.* Reciprocity contributes to social capital through network members who amass favors, which can be called upon as resources when needed (Portes & Sensenbrenner,

1993). Favors called "in" may lead to increased tacit knowledge between members. Miller & Kean (1997a) refer to community reciprocity as an expected exchange between local consumers and local retailers. They found that local consumers were more likely to shop with local retailers when those retailers expressed a high level of support for the community. Lumpkin, Hawes and Darden (1986) had similar findings, but also found that consumer attitudes about relationships with local retailers were a more important determinant of patronage than any other variable. Support for the relationship between reciprocity's effect on small business owners was found by Miller (2001). In her study of consumers in two rural towns, consumer satisfaction with reciprocity levels was a significant predictor of inshopping behavior. Thus, reciprocity helps small business owners to develop social capital with local consumers.

H3 a: *Reciprocity is one of three significant and positive measurement indicators of the social capital construct.*

Trust is defined as an assured reliance on the truth of someone or something (Merriem-Webster, 2005). It is a dependence on something in the future, or a contingency. Trust is a component of loyalty that underlies any firm's ability to create or maintain loyal customers. Trust and loyalty are often used interchangeably in the literature (cf. Chaudhuir & Holbrook, 2001; Datta, 2003). When a consumer develops trust in a brand or store, they may become loyal towards that store or brand, even if changes occur in the future (Datta, 2003). This is the type of loyalty small town retailers look to develop as an insulator against the future incursion of large retailers (Runyan & Johnson, 2003). Large retailers spend millions of dollars developing their name, in an effort to build loyalty from consumers by gaining their trust (Stone, 1995; Levy & Weitz, 2004). Understanding this, small retailers who have a well-developed level of social

capital in their community might be able to establish trust with local consumers, leading to greater loyalty and thereby gaining competitive advantage.

> **H3 b:** *Trust is one of three significant and positive measurement indicators of the social capital construct.*

Shared vision is the collective goals of a group, organization or in this case, a community (Tsai & Goshal, 1998). It is a part of social capital that pertains less to the idea of economic transaction between business owner and customer (implied in the constructs of reciprocity and trust), as it does to the collective interest or values of business owners. In this sense, shared vision is a construct related to how members of the downtown business group envision themselves as part of the downtown, and what common goals are shared. How downtown business owners perceive themselves in terms of group membership is discussed later in the social network section. Not all business owners may perceive themselves to be a cohesive group. In spite of this, shared vision can mitigate this perceived lack of cohesion, as studies have shown that a shared vision can serve to hold together a loosely coupled system (Orton & Weick, 1990). Nahapiet & Ghoshal (1997) referred to shared vision as one that facilitates a common understanding of collective goals. Tsai & Ghoshal (1998) found that it was a statistically significant and positive indicator of social capital.

Shared vision is also an important area with regards to the local community. Focus groups have shown that it is important for all stakeholders (especially downtown stakeholders) to support and "buy in" to marketing programs and image creation (Michigan Cool Cities..., 2003). To the extent that members of a community and

downtown business owners all view the importance of the downtown similarly, that downtown should be successful.

> **H3 c:** *Shared vision is one of three significant and positive measurement indicators of the social capital construct.*

Small business owners who can build a trusting relationship with local consumers will likely receive customer loyalty in return. If the loyalty from the consumer is manifest in patronizing the small business, then reciprocity has occurred. These two components of social capital should lead to success for the small business owner. The third component of social capital is shared vision. When business owners in a downtown share the same goals, it may translate into a more unified image to the consumer. If this occurs, then the social capital manifested in the trust and reciprocity from consumers could have a "halo" effect for other downtown businesses. The successful small business thus contributes to the success of the downtown through the development and use of social capital.

> **H3 d:** *Social capital constitutes one of four significant and positive factorial indicators of the latent factor called business resources.*

Social Network Theory

The social networks framework has its foci in the relationships *between* people (rather than their attributes), their interdependence and emergent effects (Granovetter, 1973; Borgatti,1999; 2003). One of the most influential works in social network theory was produced by Granovetter (1973), where the concept of weak versus strong ties in network relationships was introduced. Motivation for Granovetter's theory included the question of how large groups coordinate to make things happen (e.g., meeting an outside threat). This theoretical base has been used in the study of rural businesses and towns

(Frazier, 2000), the study of entrepreneurs in small towns (Niehm, 2002), career mobility (Granovetter, 1985; Burt, 1992), innovation diffusion (Kontopoulos, 1993; Swan & Newell, 1995) and consumer buying behavior (Miller & Kean, 1997a).

My study breaks new ground in this area by assessing downtowns from the framework of its resources, which are posited to include network ties. To maintain parsimony, dimensions of network theory that relate specifically to downtown business owners will be used. (To facilitate this, focus group results guide construct conceptualization). Much of the previous social network research has involved firms or business units (e.g., Ibarra, 1993; Burt, 1997; Tsai & Ghoshal, 1997; Shah, 1998), or unrelated individuals (e.g., Granovetter, 1973; Marsden & Campbell, 1984; Frenzen & Nakamoto, 1993). As independent business people, downtown business owners likely interact on informal bases with most of their neighboring business owners. Brush (1992) found that small firm managers engaged in person-to-person networking for environmental scanning. This supports other studies that have shown that small-firm entrepreneurs prefer personal information sources as opposed to non-personal sources (Birley, 1985; Peters & Brush, 1996).

The preference for personal information may be even more pronounced in those with high levels of entrepreneurial orientation. Frazier (2000) found that "superpreneurs" preferred these types of sources. However, small business owners likely act in autonomous ways, as they are responsible for their own business. Though downtown business owners may not see themselves as part of a group, they are apt to interact with each other on a formal basis as well. Formal interactions, within the context of their business roles, would be expected to occur with downtown business meetings. However,

formal interaction is not necessarily important for downtown business owners, as research shows little relationship between small firm performance and formal networking (Birley, 1985; Bates, 1994).

Density of networks refers to the number of ties that link network members, compared to the total possible ties (Granovetter, 1973). It is an indication of the interconnectedness of members in a network (Wellman, 1999). Dense networks may also be needed to form the social capital dimension of shared vision (Rowley, 1997; Brass, Butterfield & Skaggs, 1998). Density is an indicator of cohesiveness, and helps to establish trust among network members (Axelrod, 1984; Greve, 1995). Cooperation, commitment and collaboration are enhanced through density of network ties (Axelrod, 1984; Cross, Borgatti & Parker, 2002).

Previous research has shown that in an environment where everyone knows everyone else, dense (and "cliquish") networks are a disadvantage (Granovetter, 1985; Burt, 1992). This is because cliques form under conditions of strong ties, and one clique may withhold information from another (Granovetter, 1985). However, such environments with dense networks of weak ties should display few numbers of cliques. Following the earlier discussion of interaction, it is feasible that there are few strong ties between downtown businesses, except occasional cross-patronizing of businesses. Based on this logic, I posit that most ties between downtown business owners will be weak in nature. Granovetter (1973) showed that weak ties are usually more effective than strong ties in terms of disseminating new ideas and coordinating changes. The extent to which business owners establish informal network ties, may be an important factor in the success of fellow business owners and downtowns in general. This contention is

supported by Frazier's (2000) study of small business owners, where the network dimensions with strong ties did not have a significant effect on firm performance.

Ties within networks (between individuals) are affected by the density of those ties, the frequency with which interaction occurs, and the perceived level of homophily between members (Granovetter, 1973; Cross, Borgatti & Parker, 2002). These three dimensions of network theory are most relevant to this study. Ties between network members can be dense and frequent and be among homophilous persons, yet those same ties can and remain informal, and weak in nature (Cross, et al., 2002). In other words, small business owners within a downtown may tend to be similar (homophilous) and interact with each other frequently, yet maintain an informal relationship which manifests weak ties. Granovetter (1985, pg. 1361) refers to this as a "nodding" relationship between neighbors, where little is exchanged but small talk.

How network norms and values are disseminated and adopted will be a function of the underlying structure of the network (Borgatti & Foster, 2003). Network density can help explain shared attitudes and culture through interaction. Davis (1991), found (in a study of corporate takeovers), that density of networks was more important than strength of ties in explaining company adoption of "poison pills." The diffusion of an idea or shared practice is modeled as a function of interpersonal transmission along some "durable" communication channel (Borgatti & Foster, 2003). Weak ties between units of a firm were found to be valuable sources for new knowledge (Hansen, 1999), though those same weak ties were found to inhibit the transfer of complex knowledge. Information that may need to be disseminated among downtown businesses is probably not complex in nature. Further, small business owners are independent and would not be

prone to rely on other business owners for complex information. These business owners are more apt to rely on heuristics or outside expert advice. The announcement of a new business opening in a downtown would likely be disseminated between business owners, but the workings of a new small-business tax would probably be discussed with the owner's accountant.

> **H4 a:** *Network density is one of three significant and positive measurement indicators of the social network construct.*

Frequency of interaction is an indicator of resource "flows" between network members. Frequent contact between members provides increased opportunities to exchange information (Berg, Piner & Frank, 1986). This type of autonomy may lead to "loose" as opposed to "strong" ties with other business owners. High levels of communication have been positively associated with performance (Ostgaard & Birley, 1996). Coser (1974) refers to a large amount of weak ties as the "seedbed of individual autonomy." Successful downtowns may have small business owners who are members of several local organizations (e.g., Chamber of Commerce, Optimist's, Downtown Business Association, etc.), thus increasing the frequency of opportunity to interact and share knowledge, if they participate in meetings and gatherings. Small business owners have a smaller margin of error in decision making than larger, more resource "rich" competitors. Therefore, information from the immediate environment is critical, requiring more frequent collection through network interaction (Brush, 1992). When members in a social system interact in multiple roles over time, social capital is enhanced (Flora, 1998).

> **H4 b:** *Frequency of interaction is one of three significant and positive measurement indicators of the social network construct.*

Perceptual homophily is the extent to which persons perceive others as being like themselves (Blau, 1961; Lazerfeld & Merton, 1964; Cross, Borgatti & Parker, 2002). The notion that people tend to associate with others whom they perceive as similar is supported in general in the trade media and scholarly journals alike (McPherson, Smith-Lovin & Cook, 2001). Cross, et al., (2002) see homophily as increasing the likelihood of communication in groups. This is supported by previous research on networks. Ibarra (1992) found gender differences in communication, where those of the same sex were more likely to communicate within groups. Race has also been shown to have such an effect, as group members of the same race tend to communicate more often with each other (Ibarra, 1993). Age and position tenure produced the same type of within-group communication (Zenger & Lawrence, 1989). Frazier (2000) found that the levels of perceived homophily among small retailers was a positive indicator of network ties, and through network ties, a contributor to social capital.

H4 c: *The level of perceived homophily in the downtown is one of three significant and positive measurement indicators of the social network construct.*

A common practice of individuals seeking information is to communicate with those around them, particularly those who face similar decisions (Rogers, 1995). Small firm owners prefer sources of information that are personal in nature, including face-to-face meetings with sales representatives, industry experts or fellow small business owners (Birley, 1985; Brush, 1992; Peters & Brush, 1996). Personal sources of information would be in contrast to sources such as trade journals, or product catalogs. This preference for personal sources of information helps to explain how new ideas spread through and between community networks. When studying the relationship between

small business owners who exhibit varying levels of entrepreneurial orientation, this preference for personal information sources should be relevant.

> **H4 d:** *Social network ties constitute one of four significant and positive latent factorial indicators of the latent factor called business resources.*

Entrepreneurial orientation, small business orientation, social capital and network ties have all been hypothesized indicators of business resources. The entrepreneurial tendencies of proactiveness, innovation and risk-taking have been found to be predictors of successful firms (Miller & Friesen, 1978; Covin & Slevin, 1989). Small business owners are different from entrepreneurs (Carland, et al., 1984; Stewart, et al., 1999) and bring different strengths to their business than entrepreneurs (Carland, et al., 1984), but may provide stability to downtowns. Small business owners and entrepreneurs alike have opportunities to acquire social capital from the community (Miller & Kean, 1997a; Miller & Kim, 1999). This social capital has been shown to result in increased business from local consumers (Miller, 2001). Owners may also acquire social capital from the shared vision of fellow downtown business owners (Tsai & Ghoshal, 1998), as shared vision leads to a common understanding of downtown goals. Since small business owners are often full-time managers too, the opportunity to share information may be limited. Therefore the existence of a dense, but weak network of ties to other small business owners may facilitate the sharing of information about the downtown or community. This is an asset to small business owners, and the downtown as a whole.

These theoretical constructs have been shown to be interconnected by previous research. Burt (1997) found that social capital is most often produced when individuals determine on their own, how best to perform a job. This seems to describe the typical entrepreneur or small business owner, who usually does not have the luxury of a

company manual or mentor to guide them. Research by Flora (1998) revealed that social capital and entrepreneurial infrastructure contribute independently and jointly to community economic development. These are all resources possessed by small business owners and entrepreneurs, and available to the downtown. Through those business owners, small businesses form a resource for the downtown. To the extent that these business resources are present in some positive combination, they should provide a source of competitive advantage to the downtown, thus contributing to the overall success of the downtown.

> **H5:** *Business resources are significantly and positively related to downtown success.*

Structural Resources

Brand Identity

For my study, brand identity is conceptualized as the image that a downtown's CBD possesses, that differentiates it from other community shopping areas, as well as from competing downtowns. The term brand is one that is familiar to most and is traditionally used in conjunction with products. The classic definition from the American Marketing Association (1960) is that a brand is "a name, term, symbol or design, or a combination of them, intended to identify the goods or services of one seller or a group of sellers and to differentiate them from those of competitors." Grandi and Grimaldi (2003) describe brand as "a combination of attributes, communicated through a name, or a symbol, that influences a thought-process in the mind of an audience and creates value." They further argue that entities that can be considered as a brand include corporations, universities, countries or even a person. If we accept these definitions of brand, then it is

plausible that a downtown (a group of sellers) can achieve, hold or aspire to become a unique brand.

Brand identity research related to downtowns (or communities) is in its infancy in terms of theory and empirical work. A thorough search of the urban studies, marketing and branding literature revealed no work involving construct or measurement validation for downtown or place brand identity. Requests from experts in the marketing field resulted in recommendations that led to consumer behavior scales, designed to measure the recognition and loyalty for specific brands. There have been several recent studies which have attempted to operationalize the "town as a brand" construct (e.g., Walmsley & Jenkins, 1993; Walmsley & Young, 1998; Coshall, 2000; Hankinson, 2004a).

Most of the place-brand identity literature addresses tourism as its central focus, and can be found in two academic areas: urban planning and tourism/vacation marketing (Hankinson, 2004a). Creating a brand image has been deemed an important part of tourism marketing (Hankinson, 2004b). Ward (1998) reviews the historical development of place as "product." The construct of place as a product is further developed by other researchers (c.f. Ward & Gold, 1994; Ashworth & Voogt, 1994; van den Bergh & Braun, 1999). They identify the complexities of place, and therefore the difficulty with which they are marketed. As an example, for tourist destinations Ashworth and Voogt (1990) describe the destination "product" as a bundle of services and experiences. However, they also note that destinations operate at different spatial levels. Therefore, dissimilar constituents of consumers may view the "bundle" of services, products and experiences differently. Downtowns are "managed" by a mixture of public and private stakeholders, often making it difficult to present a consistent positioning proposition (Hankinson,

2001). Since consumers may perceive services and products differently, and the downtown itself is managed by different stakeholders, a positioning statement may not only be inconsistent, it may be perceived differently by the targets of the statement (i.e., consumers).

D'Hauteserre (2001) argues that branding is necessary for tourist destinations, due to the limited experience travelers may have with the destination. It is likely that the majority of downtowns in the U.S. are not tourist destinations themselves, or even part of a tourism community. But they still may seek to distinguish themselves from other towns. Like product brands, destinations can generate a set of expectations or image to the consumer or visitor (Metelka, 1981; Hankinson, 2004a). For tourist destinations, that brand image is the basis for a prospective tourist's choice (Pearce, 1982). This type of choice calculus might also be employed by local consumers, when deciding whether to shop (or dine, etc.) downtown. A downtown's brand image is therefore critical to its marketing success (Leisen, 2001).

Recently the concept of "branding" of towns has received widespread interest in both the trade press and scholarly journals. Towns across the U.S. have embarked on an effort to establish/create a local "brand" to stand out from other towns, through what is called "municipal branding" (Kershaw, 2004). Regardless of what it is labeled, the concept of branding is practiced by many towns and designed to create or highlight a sense of "place." But the concept of brand creation is different for each downtown. This is because downtowns do not all begin at the same "level" (Hankinson, 2004). A downtown that is within a community with a long history of economic decline would likely experience a strong negative image (Zelinsky, 1994). A well-known example of

this would be Flint, Michigan, which has been in economic decline for decades and is viewed negatively by people in that region of Michigan. The other end of the spectrum would be a community with a rich cultural history or long economic stability. Downtowns in these communities would have built a strong, positive image. These images that have been developed over a long period of time are often referred to as organic images (Gunn, 1997).

H6 a: *Image of the downtown is one of two significant and positive measurement indicators of the brand identity construct.*

Fiol (2001) posits that an organization's identity can be a source of competitive advantage. This identity helps to define to some extent a shared and collective sense of "who we are," (Albert & Whetten, 1985). Brand identity or image has been posited as a resource in the RBV literature (Barney, 1991; Peteraf, 1993; Runyan, 2004b). Brands are often used as examples of the type of resource that may be imperfectly mobile (Wernerfelt, 1984; Peteraf, 1993), as they may be traded; but only to the extent that they bring equal value to the new owner are they mobile. Thus, the creation of brand identity may be a key strategy in marketing a downtown to local consumers as well as tourists and other visitors. Brand names themselves have been considered corporate assets for decades (Levy & Weitz, 2004).

The message that conveys brand image to consumers is often referred to as positioning (McDaniel & Gates, 2001). A positioning statement communicates to consumers, how one firm's offerings are differentiated from competitors' offerings. It also signals to the consumer, how the firm wishes to be seen or perceived. As an example, the J.C. Penney website begins its positioning statement with "Who We Are" (J.C. Penney Positioning... 2004). Positioning is often accompanied by corporate slogans

or symbols, designed to convey and reinforce the firm's position in the marketplace (McDaniel & Gates, 2001). A strong and consistent position statement is necessary to stand out against competitors, and should help sharpen and strengthen a downtown's brand identity.

> **H6 b:** *Positioning is one of two significant and positive measurement indicators of the brand identity construct.*

Brand creation will be different for each downtown, and depend on the other resources that are available (Hankinson, 2004). It is becoming increasingly important for towns to create some sort of image, in order to distinguish themselves. Though research in this area has focused on tourism destinations (D'Hauteserre ,2001; Hankinson, 2004b), programs such as Michigan's Cool Cities Initiative (2003) have brought renewed focus to downtowns. Marketing and retailing textbooks advise that a clear and consistent positioning statement is imperative for any business (McDaniel & Gates, 2001; Levy & Weitz, 2004). Brand and image have long been considered resources (Barney, 1991; Peteraf, 1993). The ability to convey that image to the consumer, through a consistent positioning statement will lead to a strong brand identity, which becomes a resource for the downtown itself.

> **H6 C:** *Brand identity constitutes one of three significant and positive factorial indicators of the latent factor called structural resources.*

Business Mix

The concept of business diversity within a downtown or community does not appear frequently in the literature. However, it sometimes appears as retail mix (Levy & Weitz, 2004). I believe that the proper operationalization of this concept is optimal business mix, and I believe this term will be ultimately more valid, than retail mix or

business diversity. Empirical research from the central place domain supports the inclusion of optimal business mix. Though traditional central place theory (e.g., Christaller, 1935) did not account for the interrelationship between retailers, it does assume retailers selling different types of goods. Improvements on the original model, made by Huff (1963) and Reilly (1931), showed the agglomeration of diverse retailers in towns or shopping centers increased the attractiveness of those areas for consumers. Ghosh (1986) referred to this phenomenon as multi-purpose shopping. O'Kelly (1981) found that over 60% of all shopping trips are multi-purpose.

The foci of those earlier studies were consumer trips (Reilly, 1931; Christaller, 1935; Huff, 1963), site location of stores (Houston & Stanton, 1984) or the spatial organization of shops (Eaton & Lipsey, 1982; Mulligan, 1984; Ghosh, 1986). The latter two research streams are unrelated to the current study, as downtowns are almost exclusively unplanned shopping areas (Levy & Weitz, 2004). Therefore site selection and the spatial orientation of stores is out of the control of business owners and others in the downtown. In a planned center (e.g., mall, strip center), a developer or mall manager may be able to move tenants to optimal locations. In a downtown, business owners may own the building in which they are located, and therefore can't be forced to move. Owners who do not occupy the buildings they own, will need to lease to those who can pay the rent. Recalling the previous discussion of retail mix, it sometimes may be outside of the downtown stakeholders' (owners, consumers, etc.) control to determine who locates in the downtown area.

Retail agglomeration is bounded not only be the unplanned nature of downtowns and multiple ownership, but also by spatial constraints. Multi-purpose shopping has led to

(or been fueled by) the increase in large retail formats (e.g., hypermarkets, big box, category killers, etc.) as well as planned centers (e.g., malls, power centers, etc.). Messinger and Narasimhan (1997) concluded that the increase in large store formats have indeed been driven by increased multi-purpose shopping behavior. The space needed for these types of formats is not readily available in small downtowns. For this reason, it may be even more important for downtowns to actively seek a diverse mixture of businesses. Arentze, Oppewal and Timmermans (2005) found that different store types all contribute to destination attractiveness, even if no purchases are made from these stores. The very fact that a diversity of businesses exist in a downtown will likely have a positive effect on the downtown as a whole.

> **H7 a:** *The level of diversity in business formats is one of three significant and positive indicators of the business mix construct.*

Beyond the central place literature, there is a dearth of empirical research involving the concept of retail or business mix. Brown (1994) noted that the bulk of the location research is at the national, regional or urban levels of analysis. This leaves a gap in the literature pertaining to location within unplanned shopping districts (e.g., downtowns). In an extensive review of the location literature by Brown (1994), principle findings from studies identified two dimensions that are salient to my research. The first is the influence of magnet or "attractor" stores. These are referred to as anchors when discussing malls, and of course are usually large department stores. But Brown insists that the literature is clear on this construct- magnet stores are important customer-generators. Burns (1992) studied the perceived effects of anchor stores on nearby stores in a mall. He found that a "halo" effect can be generated to stores adjacent to anchor stores in malls. Wu and Petroshius (1987) found similar results, but the more familiar a

person is with the adjacent (non-anchor) store, the lower the halo-effects were. Few downtowns still have a large department store located in its district. However, other businesses may act as magnet stores for downtowns.

H7 b: *Magnet businesses are one of three significant and positive measurement indicators of the business mix construct.*

Complementary products and services are key strategies used by retailers to increase sales-per-customer (Levy & Weitz, 2004). Complementary products are those that may be presented or sold separately, but that often go together after the sale. A classic example is peanut butter, jelly and bread. Each is sold and displayed in separate sections of a grocery, but are often put together by the end user. By selling all three at once to the consumer, a grocer can increase revenue (Levy & Weitz, 2004). In the same manner, Brown (1994) notes that when customers move between shops in a center (or downtown, mall, etc.), they move between shops of similar or complementary products. This is consistent with classic gravity theory (Reilly, 1931), as is manifest in areas where restaurants agglomerate, etc.

Both the need for business diversity and the finding that customers shop at similar stores are supported in work by Maronick & Stiff (1985). They found that when choosing to shop downtown, the perceived assortment of benefits (quality and variety of stores) was the most important factor. The majority of the shoppers in this study were classified as "recreational" shoppers who are characterized as wanting store variety and a large number of related services (Bellenger & Korgaonkar, 1980). These empirical findings point to an optimal business mix for a downtown that is not a "one of each" type mix, but rather several of each type. In other words, any concerns by small business owners that new businesses in town will detract from their own revenues may be unfounded.

H7 c: *The number of complementary businesses is one of three significant and positive measurement indicators of the business mix construct.*

Optimal business mix may be difficult to quantify and to operationalize. Some research points to a "trial and error" method for developing retail mixes (Danneels, 1996). This is also the case for malls and shopping centers establishing a suitable store mix (Wenthe, Fredenberger & DeThomas, 1988). By identifying the business mixes of successful downtowns, this study attempts to extend the research on location and retail mix. Downtowns and small business owners have had decades to experiment with optimal mixes. An optimal business mix will be a valuable resource for a downtown.

H7 d: *Business mix constitutes one of three significant and positive factorial indicators of the latent factor called structural resources.*

Community Characteristics

Robertson (1999) as well as Filion, et al. (2004) make the observation that there is little in the extant literature that is focused on small town development, as its focus is generally on larger metropolitan downtowns. But Robertson (1999) also notes that many small downtowns have seen a shift from a retail base to more of a service base. In many cases, this has not been a planned shift, but one necessitated by the many small retailers who have been pushed out of business by malls and major discounters. In a study of small retailers, Billesbach and Walker (2003) found that a majority were not only located in downtowns or similar areas, but were also within 1 mile of a major discount chain. In recent years, many small retailers that were mainstays of downtowns (e.g., pharmacies, hardware, clothing) have disappeared due to the entrance of large retailers in their markets.

Since the early 1980's, significant changes have occurred in communities nationwide. Restructuring of many of our economic sectors (e.g., manufacturing, agriculture, services) has led to economic stress for many metropolitan and rural areas (Barkley, 1993; Leistritz & Hamm, 1994; Kean, et al., 1998). This stress has included major declines in relative income and migration to urban areas (Cook, 1990). Counties and communities in the U.S. that are adjacent to metropolitan areas have had fewer problems than rural areas (Leistritz & Hamm, 1994). This is also true for those communities whose economies are tourism-based (Frederick, 1993), though they too have been affected.

All of these changes have created what many would characterize as a hostile environment. Hostile environments are ones distinguished by precarious industry settings, harsh business climates, and the relative lack of exploitable opportunities (Covin & Slevin, 1989). Hostile environments are unpredictable in nature (Mintzberg, 1979), and in such environments, successful firms will be those who are proactive in gaining and maintaining competitive advantage (Covin & Slevin, 1989). Khandwalla (1977) developed the construct of environmental hostilities in a study of small Canadian firms. Results of that study support Covin & Slevin's (1989) contention that proactive and fast-moving small firms are more successful in hostile environments.

However a key finding in both the Khandwalla (1977) and Covin and Slevin (1989) studies concerns firms that are less proactive and entrepreneurially oriented. Those firms performed better in benign environments than in hostile ones. The inference in both studies is that entrepreneurial firms will perform well in either environment. Small businesses in general may be negatively affected by hostile environments. Kean et.

al., (1998) found that as hostility increased, small retailers relied less on focused strategy. They also found that increased hostility led to decreased retailer performance.

> **H8 a:** *Environmental hostility is one of three significant measurement indicators of the construct of community characteristics. It is negatively related to community characteristics.*

Previous researchers have used measures of community characteristics that include economic base, market size and the change in market size and purchasing power (Leistritz & Hamm, 1994; Kean, et al., 1998). If downtown business owners are proactive and innovative, market size may be less relevant. The reduction in market size may also not be problematic, if the change is small and not too dramatic. Entrepreneurs will find gaps in the market left by large retailers (Williams, 1999). But a community's economic base will likely play a very big role in the success of the downtown (Kean, et al., 1998). Kean, et al., (1998) used economic base as a measure of community characteristics. They utilized an *a priori* classification of communities as agricultural, tourism or manufacturing bases of economy.

> **H8 b:** *The community economic base is one of three significant measurement indicators of the community characteristics construct. It is positively related to community characteristics.*

The economic growth levels in a community are often seen as being dependent on attracting large manufacturing companies to locate in an area. Efforts to attract corporations or whole industries to a community have become commonplace in the past 10-15 years (Florida, 2002). The goal of attracting corporations or industries is manifested in the building of industrial or technology "parks," often utilizing public monies for construction and marketing of these "parks." The message: if we build it they will come. According to Florida (2002), this is a fallacy in today's information economy.

Today and in the future, the growth of cities and communities may depend on embracing and attracting the "creative class" (Florida, 2002; Michigan Cool Cities ...2003).

Florida's hypothesis is that long-term growth in communities will come from creating places where those who are creative want to live and work. He developed an index called the creative index, which is a composite of four other indices: innovation index, high tech index, gay index and the creative class index. The innovation index is based on the number of patents granted to persons or firms in a region. The high-tech index is a measure of high tech firms' output in a region, while the gay index is a measure of a region's number of gay couples. Finally, the creative class index is a combination of the percentage of super-creative and creative workers in a region. Members of the super-creative class include the following occupations: computer, math, architecture, engineering, education, training, library, arts, design, entertainment, sports, media, physical and social science. Creative professions include: management, business and financial operations, legal, healthcare, high-end sales and sales management. What most of these professions have in common is that a college education is required.

Florida (2002) uses census data to support his theory of the creative class, though he has not operationalized any of those constructs. Yet, the dimensions of the constructs that he articulates apply to my study. Specifically, the creative classes that he describes seek attributes *from* the communities in which they live that include: diversity, tolerance, safety and a sense of place. The Michigan Cool Cities Initiative (2003) identified the top three qualities that people want in a small or medium community as: walkable community, business development and historic preservation. The intersection of these two studies can be found in "safety/walkable communities" and "sense of place/historic

preservation." Small and medium-sized communities may not be as concerned with making their population diverse or in the dimension of tolerance. A case can be made that safe, walkable communities and historic preservation are dimensions of a sense of place. Finally, a downtown's non-shopping attractions can include a range of non-retail urban attractions, like work places and leisure facilities (Arentze, et al., 2005). This allows combining shopping with other activities such as banking, dentist/doctor visits, etc., creating other types of multi-purpose trips. When a downtown is a pleasant place to visit (for reasons other than shopping), local consumers develop a level of familiarity with the downtown district. Arentze, et al., (2005) posit that this may lead to more visits over time.

> **H8 c:** *Sense of place is one of three significant measurement indicators of the community characteristics construct. It is positively related to community characteristics.*

A downtown is part of a larger community. Downtown business owners will derive much of their revenues from consumers who live within the community (Huff, 1963). In my study, I have conceptualized the characteristics of the community as being reflected in its economic base, the overall external environment, the sense of place it creates and the diversity of the people who live there. The economic base of a community is one that has probably been created over a relatively long period of time. It is therefore difficult to change quickly. Communities with a diverse economic base will be more apt to be successful over the long run. A community that experiences extended periods of economic stress will provide little in the way of support and resources for a downtown. The environment external to the community has a direct effect on that community. As an example, a significant drop in automobile sales would negatively affect a community

heavily dependent on jobs tied to the automotive industry. A community that is a pleasant one in which to live, one with a "hometown" feel, is an asset to the downtown. This would be in contrast to the "bedroom" communities often referred to in the mainstream press, where people stay in between commuting to a large city to work and seek entertainment. The diversity of its citizens will play a large role in the personality of a community. Florida (2002) has shown that a diverse population, with a large percentage of creative and highly educated workers, is the most attractive of places for employers and other creative people.

All of these characteristics of a community are posited to be resources for the downtown. Even environmental hostility may be viewed as a resource, as it may spur innovative responses (Covin & Slevin, 1989). To the extent that a community has been proactive in diversifying its economic base, its population and has created a strong sense of place, it may insulate itself from the negative aspects of a hostile environment.

> **H8 d:** *Community characteristics is one of three significant and positive factorial indicators of the latent construct called structural resources.*

The interest in place branding has appeared recently in the mainstream press (Kershaw, 2004), and is posited to be an important part of the marketing of tourist destinations (Hankinson, 2004b). A downtown's brand identity is critical to its marketing success (Leisen, 2001). Many downtowns across the U.S. are placing a greater emphasis on attracting tourists, due in part to the large amounts of revenue they inject into the local community (Kershaw, 2004). To attract local consumers, as well as to entice tourists to spend more money, downtowns must provide an optimal mix of businesses at which these consumers may shop. Central place theory holds that shoppers will be attracted by a large and diverse number of shops (Christaller, 1935; Huff, 1963), and that centers that

have magnet stores are also sought by customers (Brown, 1994). However, the shops must be the right blend of products and services, with the correct mix of complementary businesses (Maronick & Stiff, 1985; Brown, 1994).

The community in which a downtown exists is also crucial to its success. Small businesses are particularly susceptible to hostile environments (Khandawalla, 1977; Covin & Slevin, 1989). The surrounding community can help mitigate some of the negative effects of such environments through providing a sense of place (Robertson, 1999; Florida, 2004a). Some aspects that make up a sense of place include safe downtowns, and a "hometown" feel. These characteristics may entice visitors to the town, or local consumers to inshop more often.

Together, brand identity, business mix and community characteristics are all posited to reflect the structural resources for a downtown. These resources are those that exist due to geography, or the collective efforts of the downtown (business mix). They are not possessed or created by any single small business owner, or downtown employee. Their presence in some level will be a predictor, through the construct of structural resources, of downtown success.

H9: *Structural resources are significantly and positively related to downtown success.*

Downtown Success

Downtowns do not produce financial statements in the manner of public and private firms. Therefore the ability to "measure" downtown performance is difficult at best. Because downtowns do not own the small businesses within their boundaries, they do not receive revenues from them. Many CBDs assess fees or dues (Tomalin & Pal, 1994), but these are for operation and community activities that benefit all businesses in

the CBD (e.g., marketing, street cleaning, parking, infrastructure, etc.). Thus downtown business owners are not only invested in downtown success via their own success, but also in the funding they provide to the CBD for communal purposes. Small business owners are likely to be aware not only of local competition (e.g., mall, discounters), but also nearby downtowns. They have then, a unique perspective on the performance of their CBD, relative to other competitors.

> **H10 a:** *The relative performance of the downtown is one of four significant measurement indicators of the downtown success construct. It is positively related to downtown success.*

The performance of firms is indicated by many different measures, but the most common are financial in nature (Paige & Littrell, 2002). In the extant literature, the unit of analysis in small business research is the small business itself (Runyan, 2004b). With very few exceptions (Kean, et al., 1998), downtowns are not utilized as a unit of analysis. Yet the preceding literature has formed a basis for viewing the downtown as a firm with resources, and as such, downtown performance is a measurable construct. A firm's performance may be measured by the performance of its strategic business units (Alon, 2001), including number of units and annual growth of those units. As this study has defined the downtown as a firm with resources (one of which is its small businesses), then the success of those small businesses should be an indicator of downtown success.

> **H10 b:** *Firm performance is one of four significant measurement indicators of the downtown success construct. It is positively related to downtown success.*

Success should also be a function of small business longevity (Wenthe, Fredenberger, & DeThomas, 1988). Stores that are in business longer, will likely be those that have adapted to changes in the marketplace. They are more likely to be financially

stable (Bates, 1995) than new ventures. Therefore, downtowns with a large percentage of long-lived businesses should have long-term stability and be more successful overall.

> **H10 c:** *Longevity is one of four significant measurement indicators of the downtown success construct. It is positively related to downtown success.*

A measure of downtown success that is closely tied to firm longevity is vacancies. Vacancies are storefronts that are not currently occupied by an active business. Vacancies may be a sign of poor economic conditions, reflecting the volatility of the small business sector. They may be a retail life-cycle issue (Fiorito & Greenwood, 1986) or an ineffective economic development authority (Morris, 2002). Conversely, vacancies may be a positive result of an active entrepreneurial community that fosters and encourages innovation and risk taking (Morris, 2002). The causes of business failure (which lead to vacant storefronts) have been the subject of many studies (Dekimpe & Morrison, 1991; Bates, 1995; O'Callaghan & O'Riordan, 2003). Yet the effects of the resulting vacancies upon the remaining small businesses has not been studied, and does not appear in the extant literature.

Downtown business districts are generally unplanned, but finite in size (Levy & Weitz, 2004). That is, unlike a mall or shopping center, it is difficult for a downtown to "expand," so vacant storefronts will be caused by a small business owner moving or going out of business. The CBD is usually defined by street boundaries, and buildings are already in place (Levy & Weitz, 2004). Logically the more successful firms are, the longer they will be in business and fewer vacant storefronts will exist.

> **H10 d:** *Vacancies is one of four significant measurement indicators of the downtown success construct. It is negatively related to downtown success.*

Summary

A downtown and the businesses that occupy its buildings, are involved in a symbiotic relationship. Each has resources that they share at some level, in order to compete and survive. These resources are posited to be business-specific or structural. The extent to which each business owner and CBD (individually and collectively) recognize, utilize and nurture those resources will determine the success of both the business and the downtown.

Chapter 3

Methodology

Focus Group Research

The theoretical framework used for the current study is unique, and therefore required some level of *a priori* qualitative research. When building theory or testing existing theory in a different field, there is often a need for qualitative research (Varadarajan, 1996; Summers, 2001). Qualitative research can often help the researcher to clarify the existence of constructs, conceptualize existing constructs or uncover previously unknown constructs (Summers, 2001).

Focus group interviews were conducted with small business owners and directors of the Downtown Development Authority (DDA) or similar group, in four Michigan towns. These towns, and their characteristics, are listed in Table 3, along with all towns in the current study. The towns had a population of between 4,700 and 14,000. The population of communities in this study includes that of the city or town, as well as the township within which the downtown exists. Population figures and characteristics for both the city and the township were obtained from the U.S. Census Bureau's "Factfinder" website (U.S. Census, 2004). The general profile of these cities supported including them in this focus group study.

The procedure used to enlist the participation of downtown businesses for the focus group research included a three-step process. I conducted a search of the World Chamber of Commerce Website for the email address of each downtown's Chamber of Commerce. Previous experience has shown that there is no "central" website for downtown groups or organizations. The World Chamber Website has proven in the past

to be very comprehensive (Runyan & Johnson, 2003), and a large percentage of even small downtowns have a Chamber of Commerce. The Chamber director was sent an email (see Appendix A) requesting the name and email address of the Downtown Development Authority (DDA) director, or a person in a similar position. Of the approximately 90 emails sent to Chambers of Commerce, nearly 65 were returned with names and addresses. I then sent emails to those 65 DDA directors. Of those 65, 45 replied to the email request to participate in focus groups. Of those 45, 32 expressed interest in further discussing the opportunity. Based on heuristics, I chose five downtowns that seemed to have some similarities, but also had diverse locations and economic bases. After establishing scheduled dates with five downtowns, I emailed the remaining downtowns and thanked them for their interest. The fifth DDA director eventually postponed, then cancelled the focus group date. By that time, I had completed the first four groups, and had gathered sufficient data to consider the project complete.

The traditional classifications of agricultural versus manufacturing based economies may not be as relevant as they once were. It is well documented that few communities in the U.S. still rely on agriculture, with less than one-percent of all residents engaged in an agriculture-related field (U.S. Census, 2004). Additionally, the manufacturing sectors of industry have also been under pressure. For these reasons, I sought to include towns that had more diverse economic bases. Additionally, one of the largest industries in Michigan is tourism. I classified the focus group towns as either tourist-dependent or non tourist-dependent, based on the opinion of the respective DDA Director, and my own knowledge of the towns and the state. The towns included in the focus group study had economic bases that were divergent from both the U.S. averages

and to each other on the following criteria: manufacturing, retail and food, agriculture and self-employment. Thus the sample of cities used was diverse enough to expect a varied range of answers on economic-related issues. The interviews were conducted at a business or office, located in each respective downtown.

The review of literature, and the conceptual model (Figure 1) served as the basis for developing a discussion guide for the interviews. The construct of "brand identity" was not conceptualized prior to the focus groups. Interviews were conducted with groups of between 8 and 12 participants, as recommended for optimal feedback and group interaction (McDaniel & Gates, 2001). All interviews were audiotaped, and then transcribed for further analysis. I kept field notes from each meeting. This served to fill in gaps where answers from participants were garbled, or too faint to understand. Every effort was made to utilize the same questions and discussion frame in both groups.

Following the focus group session with the fourth CBD, convergence was found on most of the key constructs in the conceptual model. The decision was made to stop following the fourth group, and not continue with more CBDs, due to this convergence of feedback. Additionally, the construct of "brand identity" (which had not appeared in the original discussion guide) was articulated to some degree by members in each of the groups. From these interviews, general constructs were confirmed, and others identified that seemed to describe the perceptions small business owners had towards their own business, their fellow business owners, local and regional competition and their own downtown business district. These interviews also were very important in determining scales to use, as well as in guiding the creation of scales (where none existed) to measure a construct.

Findings

Entrepreneurial orientation: Most focus group members were in agreement about what defines an entrepreneur. Terms such as risk taker, creative, innovative and motivated were used to describe entrepreneurs.

Small business orientation: Though members agreed on what terms describe an entrepreneur, many did not describe themselves as entrepreneurs. Several noted that they started their business because it fit their family schedule (e.g., children, school, spouse's job, etc.). Others felt that their downtown needed a certain type of business, and took it upon themselves to do the job. Several members felt that business owners brought different strengths to the downtown. Every group acknowledged the importance of owner-operated businesses in the downtown, as well as the importance of owners who lived within the community. One group noted that they would rather have an owner-operator of a national franchise chain in the downtown, than an independent but absentee owner. These group members opined that businesses with local owners lent more stability to the downtown.

Social capital: The existence of social capital received mixed support from focus groups. In terms of local consumers, some felt that local consumers expected downtown business owners to support the community, but this did not necessarily translate to improved business. Some said that if they stopped supporting the community (e.g., donations, etc.), local consumers would stop patronizing their business. Others disagreed. But what was generally agreed upon by tourist-dependent communities was: that the level of commitment made by the downtown business owners was not reciprocated by local consumers; and local consumers are not as loyal as "second-homers." Second-homers are

those people who make a community their second home. An example of this is the Chicago resident who owns a second home in Wisconsin or Michigan, and spend all or part of the summer living there instead of in Chicago. These consumers tend to want the downtown to maintain its "home town" feel and ambience. Thus, they tend to support the downtown businesses to a greater degree than local consumers who live there year-round.

Focus groups generally agreed that for the most part, local consumers trusted downtown business owners to be honest and fair in their business dealings. The groups that were split on this topic were the tourist-dependent towns. Several business owners from these groups reported that some local consumers had expressed feelings of being overcharged by downtown merchants.

Social network ties: When asked if they were part of a group, the majority of focus group members from all four towns answered in the negative. Some expressed wishes of acting more like a group, but most agreed that downtown business owners were not a group. Members used words like "independent," "my decision" and "autonomous" when asked why they did not make more group strategic decisions. These owners also reported having few really strong ties with other downtown business owners. They note that their ties and interaction tended to occur with cross-patronizing of businesses rather than during formal or informal meetings. An exception to this was one of the tourist-dependent towns, whose focus group members had very strong ties to each other.

Brand identity: The term "brand" did not surface often in the focus group discussions. However, the concept of identity did. The downtown was described by a few members (in different groups) as their community's "heart," and reflective of the community as a whole. These comments elicited near unanimous agreement from the

other members of each group. It was agreed that the image of the downtown was an important issue to all stakeholders, including those consumers who did not often shop downtown. In other words, if a downtown had a negative image or identity, the entire community might be seen in the same light.

Similarly, the term "positioning" did not emerge from any of the discussions. The term "message" was articulated several times though, and the general discussion was then directed towards exploring this topic further. There was mixed feedback about how each town conveyed its image to consumers (local and visitors). What was important to most though, was that their town tried to convey the message. One notion that emerged in particular was the theme of consistency. That is, the idea that all stakeholders in the downtown should be conveying the same image and the same message to consumers. This seems to be a problem in some towns, where the local government is perceived as not being in harmony with the needs and or desires of downtown business owners. Yet these business owners also expressed their desire to remain independent when it was suggested that they (owners) act more like a cohesive group, to address problems with local government (for example).

Business mix: Of approximately 40 participants in the four separate downtowns, 38 agreed that a diverse business mix was a key to downtown success. It was also articulated as diverse "retail mix" by some participants, but it was clear from discussions that the meaning was the same. From focus group discussions, it was clear that downtowns needed (and wanted) a significantly large percentage of its storefronts to be retail in nature. No distinction was made between product or service retailers, as the opinion was that retail stores bring consumers downtown to shop. Many respondents

opined that a doctor's office brought people downtown only for their appointment and did not facilitate shopping. However, participants thought that the presence of businesses such as banks, barbers, travel agents, etc. were just as important in differentiating a downtown (and bringing customers there). Yet the point was persistently made in subsequent focus groups that too many non-retail stores seemed to stifle "foot traffic.

In a downtown, business owners often own the building in which they are located, and therefore can't be forced to move. If the building/business owner does not maintain the building properly, this has a negative effect on neighboring businesses. An example noted in one focus group was a particular jewelry store, whose owner owned both the existing building as well as the adjacent one. The problem in this case was two-fold: the existing store carried very old and unappealing inventory, while the adjacent building had been vacant for several years. As independent business owners, there was little that neighboring businesses could do to ameliorate the situation. This exemplifies both an optimal business mix issue (the jewelry store) as well as a turnover issue. Though the vacant building had not turned over for years, it was still vacant and detracted from the overall ambience or image of the downtown.

The type of business that locates downtown may often affect business mix. As noted earlier, professional businesses such as doctors and lawyers are not perceived as traffic builders for other downtown businesses. Yet group members lamented that building owners (even ones who were fellow small business owners) often rented to these types of professionals. Building owners are forced to lease their buildings to those who can pay the rent. Small business owners understand that unless they are willing to buy the building themselves, they have little say in what type of business moves in next door.

Community characteristics: Contrary to some reports (Michigan Cool Cities..., 2003), communities do not seem to be as concerned with making their downtowns "hip and cool." One recent newspaper poll found that walkable streets, sense of community, gathering places were more important than arts, nightlife, etc. (Hornbeck, 2004). Focus group members revealed a similar concern with walkable downtowns to encourage browsing, as well as a sense of community. Little was said regarding population diversity, tolerance or other social issues that are the foci of the initiatives such as Michigan's Cool Cities. When the topic of historic preservation was brought up, the reaction of focus group members was that it (historic preservation) was often a waste of their money. The only reason many would be in favor of preservation was if it was intended for store front preservation, as this helped to maintain a consistent image to the consumer. From focus group feedback, a case can be made that safety, walkable communities and historic preservation are all dimensions of a sense of place.

Downtown success: When asked if their downtown was successful, there were mixed responses from each group. The difficulty seemed to be in the definition of success. Members whose businesses were struggling often said that the downtown was not successful, while those whose businesses were going well said the opposite. When asked if the number of vacancies might be a measure, there was general agreement from two of the four groups. The other two reported very few vacancies. One group member noted that a neighboring town had many vacant storefronts, and its DDA director often complained of how poorly the existing businesses were performing. Small business owners in most towns are likely aware of not only local competition (e.g., mall, discounters), but also nearby downtowns. If they do not know business owners in

neighboring towns, they likely hear through informal networks including customers from neighboring towns. These downtown business owners have then, a unique perspective on the performance of their CBD, relative to other competitors.

The feedback from these focus groups was a key source of information in setting an initial direction for the literature review, measurement and scale construction, and sample population parameter. The contributions of the focus group data can be found in many of the measures that reflect the structural resources of downtowns.

Sample

This study utilized a judgment sample, whereby 11 towns in Michigan were selected for inclusion. A judgment sample is a non-probability sample (also referred to as purposive), the elements of which are handpicked to serve the purpose of the study (Churchill & Iacobucci, 2002). For this study, I wanted only small-to-medium sized, *non-urban rural communities.* The USDA (1996) defines these communities as having populations of 5,000 to 30,000, and being located more than 30 miles from a metropolitan statistical area (MSA). Niehm (2002) included both these types of communities in her study, as well as those that are classified as *non-urban small* (30,000-60,000 and 20 miles or more from a MSA). With the growth of chains, malls and large discounters, it is likely that most communities of that larger size will have a great variety of shopping and entertainment choices (Gorodesky & McCarron, 2003; Levy & Weitz, 2004). Focus group feedback points to greater choices for shopping and entertainment as reducing the importance of the downtown to the community as a whole. In the review of the literature, I have established the importance of the downtown to small communities (Robertson, 1999). The success of the downtown and its small businesses should be more

important to smaller communities, than larger communities. Larger communities will have a greater number of shopping, dining and retail options than a small community.

The towns included in this sample fit the non-urban rural criteria used by the U.S. Census Bureau (2004). I selected three downtowns that are part of a tourist-dependent community, and three that are part of a non tourist-dependent community. These were classified *a priori* based on feedback from the DDA directors in each downtown. Business owners that are listed as part of the CBD are included in the sampling frame, and surveyed to provide their perceptions of the resources that their respective downtown possesses. Though previous studies in this area have excluded chain or franchise stores (Frazier, 2000), I included any business that does business within a downtown district.

Instrument

A self-report questionnaire is used to measure the constructs in the model. The instrument is developed from existing scales, the extant literature and from focus group responses. Structural equation analysis will be employed to test the previously articulated hypotheses. Structural equation modeling (SEM) uses specific nomenclature to describe the variables (endogenous, exogenous, dependent, independent, mediating and moderating) within the model. Variables that are not directly measurable are referred to as latent variables or constructs (Kline, 1998). These latent variables are indicated by using observed or manifest variables, which are directly measurable (Bollen, 1989).

Instrument development On the following pages, each construct and its scales are discussed, including reliabilities where reported. Existing scales were chosen based on theory, and each measure's fit with the current study. Scales that I have developed for this study are pre-tested to determine their psychometric properties, as well as to

determine how well they measure the constructs that they are intended to indicate (validity).

Following suggestions from Dillman (2000) and Churchill & Iacobucci (2002), the survey was laid out in such a way as to optimize response rate and completion of the entire survey. To obtain optimal results, the first part of the survey contained interesting questions that sought to show the respondent that I was interested in issues important to them. The middle part of the survey contained measures that were more difficult to answer, while sensitive and demographic variables were measured at the end of the survey. Pre-testing of the instrument before beginning the full study is also recommended (Dillman, 2000; Churchill & Iacobucci, 2002).

Pre-testing was conducted using 29 small business owners to complete the entire questionnaire. Though this is less than the recommended minimum number for a pre-test, the fact that all of the 29 respondents fit the profile of those who would be surveyed in the full study led me to accept this smaller number as sufficient. Undergraduate students were offered the opportunity to earn extra credit points, by taking one questionnaire each back to their hometown (the size of the town was required to match the profile of the sample). Each student was given specific instructions to find a small business owner in their downtown, and ask them to fill out the questionnaire. Each student was given a separate sheet of paper on which they were required to have the business owner write their name, address and phone number for follow-up after survey completion. This served two purposes: it insured that the students did not complete the survey themselves, and it allowed me to solicit feedback from the business owners regarding the survey and its measures.

The results of the pre-test were generally positive. One respondent felt that the bi-polar statements were confusing, and one other circled the bi-polar statements themselves rather than the corresponding scale number. Since these scales had been used in several previous studies, obtaining moderate to high reliabilities, I decided to leave them in their original form. The first four items in the pre-test instrument were forced-ranking scales that measured aspects of sense of place and community characteristics. Respondents were asked to rank the top three attributes out of 9-12 choices. More than half of the respondents incorrectly marked these items. Some ranked all three as "one," while others simply made check marks. The concept of sense of place, and community characteristics were also measured using other scales. Respondents were able to better understand these, and marked them according to instructions. For this reason, the first four items were eliminated from the final instrument. No other scales or measures were changed.

Scale reliabilities were all acceptable with the exception of business diversity and vacancies. Each of these produced Cronbach's alphas between .455 and .500. These scales were developed with feedback and assistance from two experienced researchers. Since no other scales exist to measure these two concepts, I decided to retain the scales as they were. This judgment was based on the exploratory nature of this study, expert input on scale development, as well as the small number of respondents. It was hoped that a larger sample would help improve these alphas. Scale alphas that were obtained from the final instrument are shown with their respective scales in Table 1.

Entrepreneurial orientation (ENTREP):

Entrepreneurial orientation is a latent factor, indicated in this study by three first-order factors called innovativeness (INNOV), proactiveness (PROACT) and risk taking

(RISK). These three first-order factors are indicated by measured variables from three scales. For these constructs I utilize scales from Covin and Slevin's (1989) strategic posture scale. The Covin and Slevin scale contains nine items that focus on innovation, proactiveness and risk-taking, and make up what they conceptualized as an entrepreneurial orientation (EO). The innovation scale and two of the risk-taking measures were adapted from existing instruments (Miller & Friesen, 1982). The proactiveness scale as well as one of the risk taking measures were created by Covin and Slevin (1989). Though the items in the scale focus on different dimensions of entrepreneurial orientation, it is important to assess the construct validity of the entire scale. Covin and Slevin (1989) factor analyzed the nine items and found them to be empirically related, constituting a distinct unidimensional entrepreneurial orientation. Composite reliability for the EO scale was .87 for the Covin and Slevin (1989) study.

The measures of the EO construct appear in Table 1. Each item is measured on a seven-point semantic differential scale, utilizing separate bi-polar statements. Respondents are asked to characterize their own strategic posture in terms of the nine items, with each item being a different set of bi-polar statements (i.e., there was no repeated anchor as in a Likert scale). The mean ratings on the items are used as the small business owner's entrepreneurial orientation score. The higher the score, the more entrepreneurial they are considered to be.

Small Business Orientation (SBO):

Small business orientation is a latent factor, indicated in this study by two first-order factors called purpose and goals (PURP) with five measures, and emotional

attachment (EMOT), with four measures. No scales exist that are intended to measure attributes of small business owners (in contrast to entrepreneurs). Much of the work that has been done to understand the differences between entrepreneurs and small business owners (cf. Carland, et al., 1984; Stewart, et al., 2003) has utilized proprietary personality scales such as the Jackson Personality Inventory (JPI) (Jackson, 1977). I propose a scale that measures the attributes of small business owners, as articulated by Carland, et al., (1984). These items are listed in Table 1, and are measured on a seven-point Likert scale anchored from "strongly disagree" to "strongly agree." Respondents are asked to note their level of agreement with nine separate statements about their purposes in establishing the small business, goals for the business and their emotional attachment to the business.

Social Capital (SOCAP):

Social capital is a latent factor, indicated in this study by three first-order factors called trust (TRU), reciprocity (REC) and shared vision (VIS). Scales that measure the constructs of trust and reciprocity are adapted from previously reviewed studies. To measure *trust,* I adapt scales originally operationalized by Tsai & Ghoshal (1998) and also utilized by Frazier (2000). The scale is a five-item scale, measured on a seven-point Likert scale anchored from "strongly disagree" to "strongly agree." The items are designed to measure how trustworthy the small business owner perceives he/she is in the minds of local consumers. The reliability for the scale was .96 in the Tsai & Ghoshal (1998) study and .75 in the Frazier (2000) study.

Reciprocity is measured using a scale consisting of five items, and appears in. The first three items in this scale have been used previously by Miller & Kean (1997a), achieving a reliability of .85, and Frazier (2000) who reported a reliability of .87. Each

item is measured on a seven-point Likert scale anchored from "strongly disagree" to "strongly agree." The items are intended to measure the extent to which small business owners feel that local consumers patronize their business, due to built up social capital (i.e., returning favors, *quid pro quo*, etc.). I add two items to the scale intended to measure whether the small business owner feels that their support of the community is directly reciprocated by customers patronizing their business.

Shared vision is a construct of social capital that I apply to the interaction of small business owners within a CBD. This part of social capital provides a level of support for small business owners, assuring them that others in their downtown are working for the same type of goals. I use the three-item shared vision scale from Tsai and Ghoshal (1998), as it fits the context of this study well. I made one change in the wording of the items to adapt to this setting. Specifically, I substituted the word "downtown" for the word "community" in the measurements. These items are measured on a seven-point Likert scale, anchored from "strongly disagree" to "strongly agree." The reliability reported by Tsai and Ghoshal (1998) was .71.

Social Network Ties (SNTIES):

Social networks is a latent factor, indicated in this study by three first-order factors called density (DENS), homophily (HOM) and frequency of interaction (FREQ). Social networks enable small business owners to share values and norms with fellow business owners. The extent to which this is successful will be a function of the density of the network ties (Borgatti & Foster, 2003), the frequency of interaction (Brush, 1992),

and the level of perceived homophily (Frazier, 2000) between members of the network. I use the Frazier (2000) scales to measure density and homophily. These scales were designed to measure networks of small retailers, and fit the framework of this study well. These scales were also operationalized by Niehm (2002) in a study of retail entrepreneurs. For the frequency of interaction scale, I use a scale based on the literature as well as focus group research.

Density is the number of ties that network members maintain (Granovetter, 1973). The construct is measured on a three-item, summated rating scale. Each item is intended to identify the degree to which network members interact with each other. Items were measured on a five-point scale, anchored from "not true at all" to "very true" in the original study. For my study I adapt the scale by increasing it to a seven-point summated scale with the same anchors. The reliability for the scale was reported as .84 by Frazier (2000), and as .89 in the study by Niehm (2002).

Perceived homophily refers to the extent to which people perceive others as being like them (Cross, Borgatti & Parker, 2002). The scale items used here to measure homophily were operationalized by Frazier (2000) and later by Niehm (2002). They are intended to measure the degree to which respondents feel that other network members share their outlook on life, values and business philosophy. The scale contains four items, each measured on a seven-point Likert scale anchored from "strongly disagree" to "strongly agree." The original scale was measured on a five-point Likert scale, and in studies using similar samples to my study, had reliabilities of .76 (Frazier, 2000) and .87 (Niehm, 2002)

Frequency of interaction is an indicator of how often network members have contact with each other (Berg, Piner & Frank, 1986). I utilize self-designed measures for this scale to better suit the context of this study. Frazier (2000) attempted to measure this construct using a three-item scale. The resulting reliability coefficient of .46 for the scale forced her to use a single-item measure, and eventually remove the measure from the theoretical model in the study. I believe that the wording of the instructions in the instrument that Frazier used may have contributed to the measurement difficulties.

Frequency of interaction is assessed using a three-item scale, intended to establish the number of times per week that a small business owner interacts with any of his fellow downtown business owners. Each item is measured on a different scale. To measure the number of fellow business owners with whom each respondent talks each week, an open-ended ratio measure is used. The respondent can answer from zero to as high as the total number of fellow business owners in the downtown. To measure the number of times per week (on average) the respondent talks with these fellow business owners, a seven-point ratio scale corresponding to the number of days in the week is used. To measure the number of times the respondent attends formal downtown business group meetings, an ordinal scale is used, with choices of never, once, twice, six or twelve times per year.

Brand Identity (BRID):

Brand identity is a latent factor, indicated in this study by two first-order factors called image (IMAG) and positioning (POS). As established in the literature review, brand identity as it pertains to places has seen little empirical work (Hankinson, 2001; 2004a; 2004b). Scales measuring brand identity for place (and certainly for downtowns) are non-existent. Guided by the extant literature and focus group feedback, I have

established scales to measure the perceptions of small business owners, of the downtown's brand image using a five-item scale and positioning statement, using a four-item scale. Each item is measured on a seven-point Likert scale, anchored from "strongly disagree" to "strongly agree."

Image refers to the small business owner's perception of whether an image for the downtown exists, if it is positive in nature and if it is consistently understood by fellow business owners and consumers. A downtown's *positioning statement* is tied to its image, but is different in that it deals with a stated symbol, name or word that provides information to consumers about what the downtown stands for. This is measured by asking respondents if the downtown has a symbol that is recognized by consumers, if that symbol is distinct from competitors' and is endorsed by fellow small business owners.

Business Mix (BUSMIX):

Business mix is a latent factor, indicated in this study by two first-order factors called diversity (DIV), magnet businesses (MAG) and one observed variable called complementary businesses (COMP). An optimal business mix refers to the diversity of businesses within the downtown, which is the most attractive to potential consumers. The theoretical framework for the business mix is drawn mostly from the central place literature, which has shown that agglomerations of diverse shopping outlets are most attractive to consumers (Huff, 1963; Brown, 1994). The importance of business diversity is also supported by small business owners within CBDs, as discovered in focus group research. The greater part of the empirical research on central place is based on mathematical analyses of secondary data (e.g., population, density, number of stores). Scale development is lacking in this area, requiring creation of scales to measure this

construct. Business mix is a latent construct in the model, not readily measurable. The literature and focus group feedback points to three salient indicators of business mix: diversity, magnets and complementary businesses (Brown, 1994).

Diversity of business offerings refers to the number of different formats, product and service offerings that exist in a downtown. I have developed a four-item scale that is proposed to assess the perception of the diversity of shops in the downtown, the willingness of existing businesses to accept new formats, and the perception of how optimal the current mix is that exists in the downtown. Each item is measured on a seven-point Likert scale, anchored from "strongly disagree" to "strongly agree." A fifth measure is employed to test the changes in business types over time. Wenthe, et al., (1988) found that changes in format and product offerings was a natural way for shopping districts to "fine-tune" their retail mix. Respondents were asked to note the length of time they had occupied their current location. If the time were less than two years, they were asked to list the type of store or product which was sold in that spot immediately preceding them.

Magnet businesses are those which attract consumers to the downtown area on their own. These are referred to often as destination stores (Brown, 1994; Levy & Weitz, 2004), and consumers will travel downtown just to shop at these stores. These types of stores will attract customers who will then often patronize other businesses downtown (Brown, 1994). The magnet business scale is designed to measure the presence of magnet stores in a downtown, perceived importance of magnet stores in a downtown and the perceived drawing strength of those stores. Each of these three items is measured on a seven-point Likert scale, anchored from "strongly disagree" to "strongly agree."

Complementary businesses are those that sell similar products, or products that may be sold in tandem. An example might be a sporting goods store and a uniform shop, or an art gallery and a camera shop. Research shows that a large percentage of customers move between complementary shops when in a downtown or shopping center (Brown, 1994). Other research supports this notion, as shoppers often seek a large number of related services when on a shopping trip (Bellenger & Korgaonkar, 1980).

Two measures are used to assess the level of complementary businesses, only one of which is subjective. The subjective item measures respondents' perceptions of the number of downtown businesses that complement the respondent's business. The second measure is based on the DDAs listing of businesses within the CBD. As a matter of business procedure, most DDAs maintain a list of member businesses, along with a brief description of the line of business in which each engages. This will allow an independent, *post hoc* analysis of each town's mix of complementary businesses. A downtown with a large amount of cross-complementary businesses should be most attractive to consumers seeking to maximize a shopping trip (Bellenger & Korgaonkar, 1980; Brown, 1994).

Community characteristics (COMCHAR):

Community characteristics is a latent factor, indicated in this study by two first-order factors called environmental hostility (HOST) and sense of place (SENSE), as well as two observed indicators. The two observed indicators are economic base and creative class. Community characteristics have been operationalized in previous studies (Kean, Niemeyer & Miller, 1996; Kean, et al., 1998). The Kean, et al., (1998) study used economic base as a characteristic measure. The study also used business environment as a predictor of small firm performance. I posit that the business environment is part of

community characteristics, and include it in this study. Recent work by Florida (2002) has shown that business climate may be more severely affected by community characteristics than has been previously thought. He has shown that there is a direct correlation between characteristics such as education levels, number of creative jobs and a sense of place, and the vitality of a community or region.

Environmental hostility may cause difficulties for small businesses, as the environment within which they operate is very important to their success (Khandawalla, 1977; Covin & Slevin, 1989). If the business environment is a hostile one, it will likely be more difficult to achieve success (Covin & Slevin, 1989). The Khandawalla (1977) *environmental hostility* scale is used for this study, as one of the indicators of community characteristics. The scale is a three-item scale, measured in a similar manner to the EO scales (Covin & Slevin, 1989). It asks respondents to characterize the external environment within which their firm operates, based on a seven-point semantic differential scale with bi-polar anchors.

The *economic base* of the community will likely also have an impact on the success of businesses and the downtown. The U.S. Census allows for multiple *ad hoc* classifications of economic bases. For this study, I make an *a priori* classification of downtown's surrounding economic base. Support for the ordinality of this scale can be found in countless media over the past two decades. The U.S. economy has changed to the point where few communities are based on agriculture, and manufacturing communities have suffered greatly too. Though the terrorist attacks in New York City (September 11, 2001) caused tourism to dip in the U.S. for some time, tourism is still

likely to be a stronger economic base for most communities than manufacturing or agriculture.

Further, my focus group research points to communities with second-home economic bases as having both strong tourism as well as wealthy part-time residents. Therefore an economic base dominated by agriculture would be posited to be the weakest, while one dominated by second-homers would be the strongest. The census data do allow for the classification of communities based on "second-homers." The number of housing units in a city is reported within the state of Michigan website (Michigan.gov). Along with this is reported the number of vacant housing units, as well as the number of housing units that are for "seasonal, recreational or occasional use." This of course does not include those second-home owners who rent apartments, but it would include condominiums used for seasonal rental.

A *sense of place* refers to how local residents feel about the community in which they reside. Focus group studies have shown that being able to safely walk around a downtown is an important attribute, and this is supported in other studies (Florida, 2002; Michigan Cool Cities, 2003). Important too are cultural attributes such as historic preservation and cultural diversity (Florida, 2002). The construct of sense of place is measured using four items. Respondents are asked to rate their downtown on the attributes of safety, walkability, historic preservation and cultural diversity. These items are measured using a seven-point summated rating scale anchored from "very" to "not at all" (e.g., very safe to not at all safe).

Creative class is a fourth indicator of community characteristics that is measured using attributes suggested by Florida (2002). From U.S. Census data, the number of

residents with college degrees, as well as those who fill jobs classified as being part of the creative class, will be calculated. Communities with a large percentage of residents who hold college degrees, tend to be more vibrant and attractive to others with college degrees (Florida, 2002). The greater the base of college-educated residents, the more attractive a community is to potential employers. The second attribute that is attractive to potential employers is the number of creative-type people in an area. Florida (2002) classifies two levels of creative class workers: super-creative core, and creative class. The presence of these groups is posited by Florida to enhance the attractiveness of a community. Therefore, the greater the percentage of workers who hold jobs classified in one of these two categories, the more attractive the community to other creative people, and following that, employers. A community that is high on the creative class measure and has a large percentage of residents with college degrees, should be a more vital community and have a more successful downtown.

Downtown Success (DTSUC):

Downtown success is a latent factor, and the dependent variable in this study. It is indicated by three first-order factors called relative downtown performance (RELTOWN), relative business performance (RELBIZ) and vacancies (VAC). It is also indicated by one observed variable called longevity (LONG). The success of a downtown is the end result of recognizing, utilizing and nurturing the resources at its disposal. This success depends on the success of both the small businesses within its boundaries and the development of resources within the community and the downtown.

To assess the *relative performance of the downtown*, I adapt the relative performance measure used by Frazier (2000) and Niehm (2002) to measure relative firm

performance. This is a three-item scale, asking the respondent to describe the performance of their firm compared to last year, compared to major competitors and compared other similar firms in the industry. The items are measured on a five-point summated rating scale, anchored from "poor" to "excellent." For my study, I adapt the scale to a seven-point, semantic differential scale, using the same anchors. I also have replaced "your store," with "your downtown" and "major competitors" and "other stores" with "major competing downtowns" and "other downtowns" respectively. Downtown business owners should be in the unique position to assess the performance of their downtown compared to other downtowns, as they have a unique perspective. As members of a downtown, they know whether or not their own downtown is successful. Focus group members reported going to neighboring downtowns to shop the competition, thus being able to expertly compare the two. The reliability for the original study was .84 (Frazier, 2000).

To measure the *relative performance of downtown businesses* I use the same scale as originally devised by Frazier (2000), making the same adaptation from a five-point to a seven-point scale. Small businesses are known for their reluctance to divulge financial information. These assessments have been shown to be consistent with actual performance measures such as revenue and profit growth (Venkatraman & Ramanujam, 1986). The reliability for the original study was .84.

Longevity is conceived to be a valid measure of downtown success, as it indicates stability. The sense of place articulated as an important attribute (Robertson, 1999; Florida, 2002) of downtowns, should be enhanced when businesses are successful and able to maintain a successful location. A single measure of longevity is utilized, asking

respondents to note how many years their business has been located downtown. The question specifically is designed to measure how long they have been downtown, and not in that "one" location. This distinction is made to avoid assigning a lower longevity score to a business that has been at its current location downtown for 1 year (e.g.), but for 20 previous years was across the street in the same downtown.

V*acancy* is posited as an indicator of downtown success. The causes of store mortality and duration have been the subject of previous studies (Houston & Stanton, 1984; Wenthe, et al. 1988). Empirical research has not been conducted on the effects of vacancies on shopping center image, downtown businesses or adjacent businesses. I use two separate measures to assess vacancies: the first is a simple ratio level variable that compares the number of vacant storefronts with the total number of downtown storefronts. A higher ratio would indicate a high rate of turnover or a slow rate of re-leasing. The second measure is a self-designed, three-item scale intended to gauge the perceived effects of vacancies on existing businesses. The items are measured using a seven-point Likert scale anchored from "strongly disagree" to "strongly agree."

Procedure

I employed a data-gathering procedure used in two previous studies and similar to the focus group research gathered for this study. I identified all downtowns in Michigan that fit the prescribed profile of between 5,000 and 30,000 in population, from the U.S. Census data. The same steps were followed, including emailing Chambers of Commerce to obtain those DDA director's emails that I did not already have (from the focus group studies). For this study, I did not select any certain number or type of downtowns or

communities. To ensure as large a sample as possible, I accepted any downtown that requested to be included.

Dillman (2000) offers many suggestions to help increase response rates in mail surveys. Since this study was not a mail survey, I adapted several of his suggestions to this study. The first was the process of pre-notification. The second was offering an incentive. Following agreement of the DDA director to participate in the study, the director becomes a "champion" of the research project. This entails announcing the study to downtown business owners (pre-notification), supporting the research as important to the downtown (incentive), and requesting their participation. The director also sets a date for distribution and a date for picking up the completed survey. In previous studies using this method, I have obtained response levels of between 38% and 72% from five downtowns (Runyan & Johnson, 2003). In that study, only one downtown had an extremely low response rate (8%).

A total of 14 downtowns requested/agreed to participate in the study. Of those, only 11 actually followed through and participated. Those towns are listed in Table 3 (Appendix A). The DDA director was instructed to denote the stores that were in its traditional CBD. One of four procedures was used for distribution and collection of surveys. The DDA director dropped off surveys, and picked them up; the DDA director dropped off surveys and I picked them up; I dropped off surveys and the DDA director picked them up; I dropped off surveys and picked them up. The method used for each town is denoted in Table 3, to allow for assessment of response rate differences. In each town, business owners who had not completed their survey by the assigned day were given the option of completing while pickup continued (allowing from 1-2 hours

additional time), or dropping off their survey later to the DDA director's office. All surveys were disseminated and collected over a three-week period. One week following the last collection, I received 20 total additional surveys from 7 different downtowns. Since these were returned so closely to the collection date, and were a small percentage of the total collected, no tests for response differences were considered necessary.

A total of 1108 surveys were disseminated in the 11 towns. A total of 272 were returned, for an initial response rate of 24.5%. Of those 272, five were deemed unusable for different reasons, including being completely blank. This provided a final response rate of 24.1%. This is a favorable response rate, considering what is normally achieved in studies of small businesses (e.g., Conant & White, 1999 – 13.1%; Frazier, 2000 – 12.1%). Copies of the questionnaire, emails to the Chamber of Commerce and the DDA director are located in Appendix A.

Sample Description

The sample consisted of 267 owners or managers of small businesses within the CBD of downtowns in 11 Michigan communities. The populations of these communities ranged from 2972 to 25496. There was a fairly even split in terms of gender, with 52% male and 44.9% female (less than 100% due to missing data). As a comparison, the Frazier (2000) study was based on a sample with 71% female small business owners, while the Miller (2001) study's sample was 65.3% female. The gender breakdown in my study is much more representative of the population of small business owners in the U.S. According to the U.S. Census (2004), males make up 65% of the persons in the U.S. who are self-employed (either incorporated or unincorporated). Respondents tended to be highly educated, with over 52% holding a bachelor's degree or higher. Approximately

43% of the sample (61% of those who responded to this question) were under 50 years of age.

Longevity of business operations was quite high for the sample, with 78% of the businesses being in existence for 7 or more years. Fifty-seven percent of the respondents reported their business as having existed for 16 or more years. The percentage of those businesses who had been located downtown were similar in terms of duration, with 69% reporting that their business had been downtown for more than 7 years. Forty-eight percent had been downtown for 16 or more years. In general, firms fit the profile of a small business as measured by number of full and part-time employees. Forty-four percent of the respondents reported having 2 or fewer full-time employees, including themselves. Over 65% of the respondents reported employing five or fewer part-time employees, including themselves. A detailed account of the sample characteristics can be found in Table 2.

Chapter 4

RESULTS

In this chapter, I will discuss the process used to test the hypotheses posited earlier. This includes explanation of data input, screening and initial analysis, as well as confirmatory factor analyses used to develop the final structural model. Much of the hypothesis testing is carried out within the process of fitting the CFAs. Due to the large number of hypotheses, I will briefly discuss each hypothesis test immediately following the respective CFAs. I used SPSS 11.5 to create the database for further analysis. After screening the data for input errors, I also looked at the raw data to assess any potential problems with non-normality. Some suggestions are offered for levels of skewness and kurtosis that are problematic (Hu, et al., 1992; Kline, 1998). These authors suggest 3.0 as a cutoff for skewness, and 10.0 for kurtosis. Above these levels, there may be problems further on when attempting to fit measurement and structural models. There were a few variables that had some potential problems in the current study. The most serious concerns were with the trust (TRU) scale. These data exhibited extremely skewed (over 3.0 in absolute magnitude) and kurtotic (over 10 in absolute magnitude) distributions. Since this scale had been used successfully in a previous SEM study (Frazier, 2000), I decided to use the scales without modification for initial CFAs.

The other variables which exhibited evidence of non-normality were much less problematic. These involved outliers that constituted a small number of cases per variable. Thus simply removing the outliers eliminated the skewness and kurtosis, while not contributing substantively to missing values problems. Those variables were V33 (frequency of interaction measure) and V74 (complementary business measure).

Structural equation modeling with LISREL 8.7 was used to test the hypothesized relationships as well as fit in the measurement and structural models. A two-step process was used, where confirmatory factor analyses (CFA) were conducted on the measurement model (Anderson & Gerbing, 1988) before testing the structural model. Estimates of structural parameters were obtained using the maximum likelihood (ML) in most cases. When another method of estimation was used due to normality problems, the method used is noted. ML estimation has been shown to be fairly robust to violations of normality, provided sample sizes are not too small (Bollen, 1989; MacCallum, 1995; Kline, 1998). Lisrel tends to be very sensitive to missing data values. For this reason, imputation is often required when even a seemingly small (e.g., 10%) portion of cases have missing values. I also used SPSS 11.5 to replace missing data values, prior to importing the data to Lisrel. The method used was replacing missing values with adjacent data points (within two points of the missing value).

Model fit was assessed using several methods. Following model specification and fitting the data, I assessed model fit by reviewing the χ^2 statistic. This measures the difference between the specified model's covariance structure, and the observed covariance structure (Bollen, 1989). What is desired is a non-statistically significant χ^2 statistic that suggests that the specified model is not significantly different from the null

model. If fit was not acceptable, I then reviewed the standardized residual matrices. This is done to assess large residuals which contribute most to poor fit. LISREL also provides modification indices based on Lagrangian Multiplier (LM) tests. LM tests identify parameters not specified, which if specified may contribute to better model fit. When reviewing residuals and modification indices, I first assessed the theoretical implications of any model re-specification. Modifications contrary to theory were not made, unless the change could be logically justified.

The majority of the data analyzed were multi-variate normal in nature, with the exception of the few previously addressed. Because χ^2 does not perform well under conditions of large sample sizes and non-normality, I also utilized several other statistics to assess model fit. These included root mean square error of approximation (RMSEA), non-normed fit index (NNFI) and adjusted goodness of fit (AGFI). All three of these indices adjust for model complexity (Bollen, 1989; Kline, 1998). I will use the following cutoff criteria in assessing model fit: RMSEA < .08; AGFI > .90; NNFI > .90; p>.05. These criteria are generally acknowledged as acceptable model fit (Bagozzi & Yi, 1988; Bollen, 1989; Kline, 1998). Where the χ^2 statistic is less than the p>.05 threshold, I will consider the other fit indices in deciding whether to accept the model as specified.

Factor Development

Using the two-step process, the measurement model is estimated using CFA. The exogenous indicators in the model include entrepreneurial orientation, small business orientation, social capital and social network ties, which are posited to indicate the endogenous construct of business resources, and brand identity, business mix and community characteristics posited to indicate the endogenous construct of structural

resources. Each of these factors are indicated by first-order factors (listed below by CFA), which in turn are indicated by manifest variables discussed in the literature review.

The conceptual model contains a large number of manifest (observed) variables, thus there is danger of producing an underidentified model due too many parameter estimates required. A solution to this potential problem is to average manifest indicators into a smaller number of indicators for latent constructs (Yuan, Bentler & Kano, 1997). I first conducted CFAs on each first-order factor. The purpose of this step was to confirm the loadings of manifest variables upon the theoretical latent construct, and provide direction for averaging the indicators for further model fitting. I will report the first-order CFAs using scales of manifest variables and explain how those variables were averaged to form composite measurement indicators for the latent factors in the model. Following that, I will report the fitting of the full measurement model for the latent constructs. The first set of CFAs below are for the business resource construct (as indicated by ENTREP, SBO, SOCAP and SNTIES) and the structural resources construct (as indicated by BRID, BUSMIX and COMCHAR).

First-Order Confirmatory Factor Analysis- Business Resources

Entrepreneurial orientation (ENTREP) was posited to be indicated by three latent indicators called innovativeness (INNOV), proactiveness (PROAC) and risk taking (RISK). The initial model was specified to include all variables in the original scales (see Table 1). Fit indices showed unacceptable fit for this initial model. The CFA revealed two variables that cross-loaded onto more than one construct (v21 loaded on INNOV and RISK; v22 loaded on both RISK and INNOV). The goal of this step of the analysis was to create composite scores for further model fitting. Additionally, Anderson and Gerbing

(1988) note that unidimensional measures allow for better testing of discriminant and convergent validity with latent constructs. For these reasons, v21 and v22 were dropped from the model. Additionally, the LM tests indicated that the errors of v28 & v29, as well as v24 and v27 should be allowed to covary. The wording of the measures for v28 & v29 was similar as was that for v24 & v27, and it made theoretical sense to allow the errors to covary.

Results of the CFA for the first-order factor after re-specification, were (χ^2 =14.12, df=9, n=256, p=0.118, RMSEA=.047, AGFI=.95). The manifest variables exhibited discriminant validity, as none loaded on more than one variable. All free parameters were statistically significant at the .05 level, indicating the measures had convergent validity (see Table 5).

Small Business Orientation (SBO) was indicated by two latent constructs called purpose and goals (PURP) and emotional attachment (EMOT). The initial model was specified to include all variables in the original scales (see Table 1). The fit indices were well outside of acceptable limits for this initial model. Results showed that two variables (v3 and v10) cross-loaded on both constructs. Additionally the LISREL output showed very high residuals between several measures and v3 as well as v4. Since the wording of v3 and v6 were similar, and that of v4 was similar to that of v2, it seemed that the measures were redundant and could be removed from the model without losing either reliability or validity. An argument could not be made for allowing v10 to load on the PURP construct. LM tests suggested allowing the errors of v7 and v8 to covary, along with the errors of v8 and v9. Since these were items within the same scale, their correlation was not unexpected, and it made sense to allow their errors covary.

Results of the CFA for the first-order factor, after re-specification were (χ^2 =17.77, df=11, n=264, p=0.087, RMSEA=.048, AGFI=.95). The manifest variables exhibited discriminant validity, as none loaded on more than one variable. However, though the model exhibited very good fit, there were problems with the PURP measures. None of the indicators were statistically significant at the .05 level, and two of the three (v2 and v5) were in the opposite direction of what was posited (see Table 6). The measurement indicators of EMOT all loaded significantly and in the posited direction, exhibiting convergent validity. Because most authors discourage using single-item indicators for latent constructs (cf. Kline, 1998), I was reluctant to discard the first-order construct of PURP. I decided to keep it in the model, with the intention of removing it if it caused fit problems with the full measurement model.

Social Capital (SOCAP) was posited to be indicated by three latent indicators called trust (TRU), reciprocity (RECIP) and shared vision (VIS). The initial model was specified to include all variables in the original scales (see Table 1). Fit indices showed unacceptable fit for this initial model. No variables cross-loaded in the CFA, but there were two variables that were causing large standardized residuals (v14 and v15). These variables were very highly correlated with both v12 and v13, and thus were removed from the model. The model was then re-specified and a second CFA conducted.

Results of the CFA for the first-order factor, after re-specification were (χ^2 =31.04, df=24, n=267, p=0.153, RMSEA=.033, AGFI=.95). The manifest variables exhibited discriminant validity, as none loaded on more than one variable (Table 7). The

measures showed convergent validity also, as all estimated parameters were statistically significant at the .05 level.

Social Network Ties (SNTIES) was indicated by three latent indicators called density (DENS), homophily (HOM), and frequency of interaction (FREQ). The initial model was specified to include all variables in the original scales (see Table 1). The initial attempt at fitting this CFA resulted in unacceptable fit measures. One measurement variable loaded on two constructs (v42 on HOM and FREQ). No substantive argument could be made for allowing this parameter to be freely estimated, as v42 is a measure of homophily and not of interaction frequency. There were no large standardized residuals, but the LM tests suggested allowing the errors of the following variables to covary: v34 and v35; v39 and v41; v42 and v43; v42 and v45. Allowing these errors to covary made sense theoretically, and since there were no large residuals, an argument could be made to keep all variables in the model. The model was re-specified with the LM modifications included.

Results of the CFA for the first-order factor, after re-specification were (χ^2 =36.66, df=28, n=267, p=0.126, RMSEA=.034, AGFI=.95). The manifest variables exhibited discriminant validity, as none loaded on more than one variable. The measures showed convergent validity also, as all estimated parameters were statistically significant at the .05 level (Table 8).

First-Order Confirmatory Factor Analysis- Structural Resources

Brand identity (BRID) was indicated by two latent indicators called image (IMAGE) and positioning (POS). The initial model was specified to include all variables in the original scales (see Table 1). The initial attempt at fitting this CFA produced

several problem parameters and unacceptable fit measures. While there were no cross-loading variables, several variables had very substantial standardized residuals. Specifically, v49 and v77 displayed high residuals with several variables from both scales. Variable 49 was a reverse-worded version of variable 51, and had a high negative correlation in univariate analyses. This meant that v49 and v51 were likely redundant measures of the same concept. Additionally, v77 was very similar to v78 in its wording and meaning, and both were highly correlated. For these reasons, both variables (v49 & v77) were dropped from further analyses.

LM tests suggested that 7 different errors covary. Rather than risk an over-specified model, I decided to run the model again without v49 and v77, but without any further modifications. This second CFA produced much better fit, but still below suggested cutoff criteria. This time the LM tests suggested only one modification, which was a path allowing the error terms of v52 and v58 to covary. Though the wording of the measures was similar, they were measuring two different ideas and thus a compelling reason for removing one or the other could not be made. But allowing their errors to covary was acceptable from a theoretical point, as they were part of the same scale.

Results of the CFA for the first-order factor, after the second re-specification were (χ^2 =23.54, df=12, n=259, p=0.023, RMSEA=.061, AGFI=.94). Though the model did not produce a non-statistically significant χ^2 statistic, the other fit indices were within the acceptable-to-good fit ranges. Though many authors suggest a RMSEA cutoff of .05 for good fit, and .08 for acceptable, Hu and Bentler (1995) have suggested that .06 is a better cutoff for good fit. The manifest variables exhibited discriminant validity, as none loaded

on more than one variable (Table 9). Convergent validity was also achieved, as all estimated parameters were statistically significant at the .05 level.

Business mix (BUSMIX) was posited to be indicated by two latent indicators called diversity (DIV) and magnet businesses (MAG), as well as one observed variable called complementary businesses (COMP). COMP was not included in this CFA, but rather will be included in the second CFA along with the composite variables derived from this CFA. The initial model was specified to include all variables in the original scales (see Table 1).

The first CFA produced a very good fitting model, with no items cross-loading. Results of the CFA for the first-order factor were (χ^2 =17.03, df=13, n=259, p=0.198, RMSEA=.035, AGFI=.96). There were two variables that exhibited standardized residuals that were moderately large, but with such a good fitting model it did not make sense to modify it further. All of the variables loaded cleanly on one factor, which provides discriminant validity for the construct. All parameters were statistically significant at the .05 level providing support for the convergent validity of the measures (Table 10).

Community characteristics (COMCHAR) was posited to be indicated by two latent indicators called environmental hostility (HOST) and sense of place (SENSE), as well as two observed variables called economic base and creative class. Both of the observed variables proved to have severe measurement problems, as many respondents did not answer the questions designed to measure these variables, or answered them incorrectly. Therefore *post hoc* tests will be performed to test whether there are

differences between downtowns based on economic base and creative class membership as indicated by Census data.

The initial model was specified to include all variables in the original scales (see Table 1). The first CFA produced less-than-acceptable fit, though there was no cross-loading of variables or large standardized residuals. The LM tests recommended that the errors be allowed to covary amongst all of the SENSE indicators. The one that made sense from a theoretical standpoint was to let v53 and v54 covary, as each measured similar ideas though distinct enough to keep both measures in the model. I decided to attempt to make only this one modification first, rather than any of the other suggested changes.

Following re-specification, the model was fit again and this time produced very good fit. Results of the CFA for the first-order factor were (χ^2 =17.07, df=12, n=259, p=0.147, RMSEA=.040, AGFI=.96). All of the variables loaded on only one factor each, which verifies the discriminant validity of the indicators. Convergent validity was also achieved, as each of the parameters in the model were statistically significant at the .05 level (Table 11).

First-Order Confirmatory Factor Analysis- Downtown Success

Downtown success (DTSUC) is a latent construct conceptualized as being indicated by three latent variables called relative downtown performance (RELTOWN), relative business performance (RELBIZ) and vacancies (VAC), and one observed indicator called longevity (LONG). LONG was not included in this CFA, but will be included along with the composite variables derived from this CFA, for fitting the second CFA. The initial model was specified to include all variables in the original scales (see

Table 1). The model achieved very poor fit for all indices, and there were multiple problems with large standardized residuals. The two variables that seemed to be the most problematic were v63 and v65 from the VAC scale. Both were causing large residuals with multiple measurement variables from other factors. Additionally, both were cross-loading on RELBIZ.

I first re-specified the model by dropping only v65, as it seemed that v63 was likely measuring a similar concept. There were no longer any cross-loading variables and fit improved markedly, but was still below acceptable cutoff levels. There were still standardized residuals involving v63. I re-specified the model without VAC and its measurement variables to see if this would provide not only a more parsimonious model but also better fit. The results were very poor, consequently I felt that leaving the VAC manifest variables v63 and v64 would make for a stronger test of the full measurement model later. LM tests suggested modifications including allowing several of the variable errors to covary. Since it was hypothesized that vacancies would affect downtown business performance, it made sense that one of the vacancy variables might be correlated with the RELTOWN or RELBIZ measures. It was also suggested that v80 and v83 be allowed to covary. There was a substantive argument for this, as v80 measures overall downtown performance and v83 measures overall business performance. Theoretically, if a downtown is successful, more of its small businesses will also be successful (and vice-versa).

Using the LM suggestions as a guide, I re-specified the model and allowed V63 and v80 to covary with v83. This provided a model with much better overall fit. Results of the CFA for the first-order factor were (χ^2 =25.32, df=15, n=259, p=0.046,

RMSEA=.051, AGFI=.94). All of the variables loaded on one factor each, which verifies the discriminant validity of the indicators. Convergent validity was also achieved, as each of the parameters in the model were statistically significant at the .05 level (Table 12).

Confirmatory Factor Analyses and Hypothesis Testing

The structural model tested in this study was complex in nature. There were a large number of formal hypotheses posited between first and second order constructs, as well as between second order constructs and endogenous factors. Each hypothesis is listed briefly in Table 4, and includes the overall result of the hypothesis testing (i.e., whether it was supported or not supported). I will discuss each of the hypotheses briefly in this section and note whether the hypothesis was supported, and briefly whether the results confirm or contradict the previous research. Parameter estimates and t-values can be found in the appendices, in each respective table as noted.

Using the CFAs for each of the first-order factors, composite variables were constructed for the next step in the model-fitting process. For this step, I wanted to test the fit of the both the endogenous latent constructs: business resources and structural resources. From a theoretical viewpoint, these two constructs represent distinct concepts, and should be indicated by discrete measures. To model this, I took an extra step in the process and conducted separate CFAs for business and structural resources.

Business resources (BUSRES) were indicated by the latent indicators of entrepreneurial orientation (ENTREP), small business orientation (SBO), social capital (SOCAP) and social network ties (SNTIES). The model was specified with each of the composite first-order factors serving as manifest indicators of the latent constructs. The initial specification resulted in unacceptable fit. Review of the standardized residuals

uncovered the following difficulties: the purpose and goals (PURP) indicator of SBO was causing severe fit problems; trust (TRU), reciprocity (RECIP), shared vision (VIS), homophily (HOM) and density (DENS) were all cross-loading onto SOCAP and SNTIES, as well as exhibiting large residuals amongst each other.

In evaluating the social capital and social network ties measures, it became apparent that there were two separate types of social capital being measured. I reconceptualized these two constructs as social capital (SOCAP), and combined four of the measures into one. The first new measure I called local capital (LOCAP), which represented measures of trust (TRU) and reciprocity (RECIP) "from" local consumers to the downtown business owner. The second measure I called business capital (BIZCAP), and it represented measures of shared vision (VIS) and homophily (HOM) amongst the downtown business owners. I also re-conceptualized social capital as one latent construct, dropping SNTIES in favor of only SOCAP. This meant that SOCAP was now indicated by four variables: LOCAP, BIZCAP, FREQ and DENS.

Because most researchers discourage using single-indicators for latent variables, I was reluctant to remove PURP from the model. The model was re-specified as noted above and fitted to the data, but with PURP included. The fit was quite improved, though the RMSEA still was above .08. The modification indices suggested that allowing LOCAP to load on SBO would greatly improve model fit. It seemed an effective argument, to consider SBO to be a function of emotional inputs, including the local capital (LOCAP) measures of trust and reciprocity.

The re-specified model demonstrated very good fit. Results of the CFA for the latent factor of BUSRES were (χ^2 =38.06, df=23, n=267, p=0.025, RMSEA=.050, AGFI=.94). Dropping PURP from this model would have slightly improved the overall fit (χ^2 =23.58, df=16, n=267, p=0.099, RMSEA=.042, AGFI=.95). However the loss of 7 degrees of freedom in exchange for approximately 14 chi-square units did not seem worth eliminating an important indicator from model. Therefore, I retained the first CFA which included PURP. The model lacked discriminant validity somewhat, as LOCAP loaded on both SBO and SOCAP. However, all other indicators loaded cleanly on one construct (Table 13). The model did show convergent validity as all of the parameters were statistically significant at the .05 level.

Hypotheses 1a-c: Innovativeness (INNOV), risk taking (RISK) and proactiveness (PROAC) were all hypothesized to be statistically significant and positive measurement indicators of entrepreneurial orientation (ENTREP). Each of these hypotheses were supported. The CFA revealed that each parameter estimate was statistically significant at the $p<.05$ level, and in the positive direction. This supports the previous research that has shown that innovativeness, risk taking and proactiveness measure entrepreneurial orientation (Covin & Slevin, 1989). This orientation is positive in nature, and helps predict success (Lumpkin & Dess, 1996).

Hypotheses 2a,b: Business owner purposes and goals (PURP), and emotional attachment (EMOT) to their business were each posited to be measurement indicators of the small business orientation construct (SBO). While H2a was not supported, the relationship between PURP and SBO was positive in nature, though not as strong enough to be statistically significant. The magnitude of this effect was not very large though, as

the standardized coefficient of the parameter was .232. Though larger than the .10 threshold considered to be a small effect, it is below the level considered to be a medium effect (Kline, 1998). However PURP seems to be an important part of the SBO construct, as the data fit the model better with PURP as part of the equation. H2b was supported, as the parameter estimate was statistically significant at the $p<.05$ level. This study is a first attempt to operationalize scales used to measure these constructs. The literature points to differences in entrepreneurs and small business owners (Carland, et al., 1984; Stewart, et al., 2003). Two key areas in which they differ are goals and purpose. The small business owner has goals that are more personally driven (e.g., family, personality, etc.). Based on my results, the goals that appear to be more important to the small business owner are those that involve the emotional attachment/investment in the business, than the "business" purpose of owning the firm.

Hypothesis 3a-c; 4a-c: Reciprocity (RECIP), trust (TRUST) and shared vision (VIS) were hypothesized to be statistically significant measurement indicators of the social capital (SOCAP) construct. Network density (DENS), frequency of interaction (FREQ) and perceived homophily (HOM) were hypothesized to be statistically significant measurement indicators of the social network ties (SNTIES) construct. The two latent constructs of SOCAP and SNTIES, and their respective measurement indicators, were causing multi-collinearity problems with model fitting. Previous research has found that network ties contribute to social capital (Rowley, 1997; Frazier, 2000). For these reasons, SNTIES and SOCAP were re-conceptualized as SOCAP. Additionally, RECIP and TRUST were measures involving local consumers,' while VIS and HOM

were measures involving downtown business owners. RECIP and TRUST became LOCAP (local capital) and VIS and HOM became BIZCAP (business capital).

Therefore hypotheses 3a-c and 4a-c should be restated as follows: LOCAP, BIZCAP, FREQ and DENS are statistically significant measurement indicators of the SOCAP construct. Support was found for all four of these hypothesized relationships, with parameter estimates that were statistically significant at the $p<.05$ level. These findings are in line with the large body of research that has found that these indicators are all important in the formation of social capital (c.f., Frazier, 2000; Cross, et al., 2002).

Structural resources (STRURES) were indicated by the composite latent indicators of brand image (BRID), business mix (BUSMIX) and community characteristics (COMCHAR). One additional manifest variable was included as an indicator of COMCHAR in this CFA; complementary businesses (COMP). As a single-item measure, it had not been included in the first-order CFA. The model was specified with each of the composite first-order factors serving as manifest indicators of the latent constructs. Using the results of the first-order CFAs, the model was initially specified using all manifest indicators. This initial model displayed very poor levels of fit. Examination of the standardized residuals highlighted one serious problem area, which was magnet businesses (MAG). Though the variable itself is an important part of the theoretical framework, the fit problems it was causing required its removal from the model.

The model was re-specified without MAG, and the fit improved dramatically. Results of the CFA for the latent factor of STRURES were (χ^2 =12.33, df=6, n=267, p=0.055, RMSEA=.063, AGFI=.95). The measures showed discriminant validity as each

loaded on separate constructs (Table 14). One indicator (HOST) was not statistically significant (at the .05 level), thus weakening the convergent validity of the scale. However the fit of the model was better with HOST than without, and I did not want to continue to the measurement model fitting stage using COMCHAR as a single-item construct. For those reasons, I left HOST in the model.

Hypotheses 6a,b: Image (IMAGE) and positioning (POS) were hypothesized to be statistically significant measurement indicators of a downtown's brand identity (BRID). Both of these hypotheses were supported, with parameter estimates that were statistically significant at the $p<.05$ level. This supports emerging research in the area of community brand image (Hankinson, 2004b), as well as the concept of image as a component of brand (Grandi & Grimaldi, 2003).

Hypotheses 7a-c: Diversity of businesses (DIV), magnet businesses (MAG) and complementary businesses (COMP) were posited to be statistically significant measurement indicators of the business mix (BUSMIX) construct. Hypotheses 7a and 7c were both supported, as parameter estimates were statistically significant at the $p<.05$ level. Hypothesis 7b was not supported. Hypothesis 7a and b find support in the theoretical literature on retail agglomeration (Huff, 1963; Ghosh, 1986; Arentze, et al., 2005).

Hypotheses 8a,c: Environmental hostility (HOST) and sense of place (SENSE) were hypothesized to be statistically significant measurement indicators of community characteristics (COMCHAR). Support for hypothesis 8c was found, as parameter estimates were statistically significant at the $p<.05$ level. This follows the theories of Florida (2002) that posit a community is defined by its sense of place. Hypothesis 8a

regarding environmental hostility was not supported. This is contrary to previous research that has found that environmental hostility is an actual measure of what is "happening" in a community from an economic perspective. However most of the firms in this study were small, and had been located downtown for many years. It is possible that they are insulated to some extent from environmental factors, and are even unaware of the level of economic hostility in their community.

Downtown success (DTSUC) was indicated by the composite latent indicators of vacancies (VAC), relative downtown performance (RELTOWN), relative business performance (RELBIZ), and the observed variable longevity of businesses (LONG). The model was specified using all four indicators of DTSUC. The fit was nearly acceptable, though LM tests suggested that allowing the error terms of VAC and RELBIZ to covary, would greatly increase fit. Following this change, the model was re-fit to the data, and very good fit was achieved (χ^2 =2.33, df=2, n=267, p=0.312, RMSEA=.025, AGFI=.98). The indicators showed partial convergent validity, as RELTOWN and RELBIZ were statistically significant at a $p<.05$ level, though VAC and LONG were not statistically significant. The lack of convergent validity was a concern, but neither of the variables showed problematic standardized residuals. Additionally, removing either from the model caused the fit of the model to decrease considerably. For these reasons, I retained all four indicators to be used in the structural model fitting stage (Table 15).

Hypotheses 10a-d: Relative downtown performance (RELTOWN), relative business performance (RELBIZ), vacancies (VAC) and business longevity (LONG) were all hypothesized to be statistically significant measurement indicators of downtown success. Both measures of relative success were found to be statistically significant

indicators of downtown success, with parameter estimates at the $p<.05$ level. Thus hypotheses 10*a* and *b* were supported. Previous research has shown that these types of measures serve as accurate measures of success (Frazier, 2000). Both VAC and LONG were attempts at creating new measures of success for downtowns. However neither were found to be statistically significant, thus both hypotheses 10*c* and *d* were not supported.

Measurement model:

From these final two CFAs, the following measurement indicators were retained for each endogenous construct:

Business resources (BUSRES): ENTREP, SBO, SOCAP
ENTREP is indicated by innovativeness (INNOV), proactiveness (PROAC) and risk taking (RISK).
SBO is indicated by emotional attachment (EMOT), purpose and goals (PURP) and local capital (LOCAP)
SOCAP is indicated by local capital (LOCAP), business capital (BIZCAP), frequency of interaction (FREQ) and density of ties (DENS)

Structural resources (STRURES): BRID, BUSMIX, COMCHAR
BRID is indicated by image (IMAGE) and positioning (POS)
BUSMIX is indicated by complementary businesses (COMP) and business diversity (DIV)
COMCHAR is indicated by environmental hostility (HOST) and sense of place (SENSE)

Using the manifest indicators derived from the preceding CFAs, a full measurement model can now be fitted to the data. I specified the model based on the CFAs, and achieved moderate fit with an RMSEA of .063. However the AGFI (.88) and NNFI (.86) were both below the acceptable levels suggested. There were large standardized residuals between BIZCAP and several other indicators of social capital. Since SOCAP was indicated by four measurement variables, it seemed acceptable to re-fit the model to see if BIZCAP was perhaps a redundant measure of social capital.

Modification indices also suggested allowing the errors of EMOT and LOCAP to covary. I re-specified the model with these two changes, and the resulting fit was very good. Results of the measurement model were (χ^2 =74.20, df=60, n=267, p=0.103, RMSEA=.030, AGFI=.92). Based on all but one indicator loading cleanly on separate constructs, the model showed signs of discriminant validity (Table 16). As earlier, LOCAP loaded on both SBO and SOCAP. The model also exhibited convergent validity, as all measures were statistically significant at the .05 level, except HOST.

Structural Model

The final phase of the analysis is estimating the structural model. It is this step at which the key theoretical constructs, which were hypothesized earlier, are tested. The final structural model provides the basis to test whether the crucial variables actually reflect the latent factors as hypothesized, and whether those factors actually predict the success of downtowns. This is conducted using the co-variances of the factors produced by the final measurement model (Bollen, 1989). The variables that measured ENTREP, SBO, SOCAP, BRID, BUSMIX and COMCHAR, were used to produce composite indicator variables for the two endogenous constructs of business resources (BUSRES) and structural resources (STRURES). When the structural model was initially fit to the data, the model would not converge. By examining feedback from the Lisrel output, there were two initial problems identified: the first included negative error variances, and the second was a negative theta epsilon matrix. To remedy this, I fixed the negative error variances (from VAC and BUSMIX) and also fixed the error co-variances of RELBIZ and RELTOWN. This allowed the model to converge, though the fit was far below acceptable levels. The LM tests suggested allowing the errors of ENTREP and SBO to

covary. I made this change, as well as releasing the constraint on the RELBIZ and RELTOWN that was previously imposed. The model converged, but the fit was still not good. LM tests suggested several modifications, including allowing SOCAP to load on BUSRES as well as STRURES, and allowing the errors of SBO and SOCAP, and SOCAP and BRID to covary.

I re-specified the model with these changes, and the fit improved noticeably. But the parameters from the independent constructs to the dependent construct were both statistically insignificant. After reviewing the standardized residuals and modification indices, a problem was revealed with the RELTOWN indicator of downtown success. The correlation between this and RELBIZ was very high, and seemed to be the largest contributor to poor model fit. It seemed plausible that RELTOWN and RELBIZ were redundant in this model, so there was a case to be made for removing it. I re-specified the model without RELTOWN, and the model achieved acceptable levels of fit (χ^2=47.02, df=24, n=267, p=0.003, RMSEA=.060, AGFI=.94). Additionally, the previously statistically insignificant path from STRURES to DTSUC became significant (Table 17).

Hypotheses 1d; 2c; 3d; 4d; 5: In hypothesis 1d, entrepreneurial orientation (ENTREP) was posited to be a statistically significant indicator of the business resources construct (BUSRES). This was not supported in the final structural model (Figure 3). Hypothesis 2c stated that small business orientation (SBO) was a statistically significant indicator of BUSRES. This was supported with the parameter estimate statistically significant at the p<.05 level. Social capital (SOCAP) and social network ties (SNTIES) were hypothesized in 3d and 4d (respectively) to be statistically significant indicators of

BUSRES. SOCAP and SNTIES were combined into one indicator labeled SOCAP and thus both hypotheses were also

combined. This new hypothesis was supported, as SOCAP was a statistically significant indicator of BUSRES at the $p<.05$ level. Finally, BUSRES was hypothesized in H5 to be a statistically significant predictor of DTSUC. This was not supported however.

Hypotheses 6c; 7d; 8d; 9: Brand identity (BRID) is hypothesized (6c) to be a statistically significant indicator of structural resources (STRURES). There was support for H6c, as the standardized parameter estimate was .565. This parameter did not produce a t-value, as the path was fixed at 1.00 to provide the metric for the latent construct of BUSRES. It is advised that the researcher use a variable that is expected to be a statistically significant indicator as the fixed variable when fitting the structural model (Bollen, 1989; Kline, 1998). The parameter estimate for BRID was .565, which was larger that the .400 for business mix (BUSMIX), which had a statistically significant parameter estimate at the $p<.05$ level. In hypothesis 7d, BUSMIX was posited to be a statistically significant indicator of STRURES. This was supported, as the parameter estimate was statistically significant at the $p<.05$ level. Community characteristics (COMCHAR) were hypothesized in 8d to be a statistically significant indicator of STRURES. This hypothesis was supported at the $p<.05$ level. In hypothesis 9, STRURES is posited to be a statistically significant predictor of DTSUC. This is supported as the parameter estimate is statistically significant at the $p<.05$ level.

Hypothesis 8b: Economic base was hypothesized to be a statistically significant indicator of the community characteristics construct. I was unable to test this hypothesis as written. The measure of economic base as constructed in the survey was unusable for

any meaningful analysis due to missing answers, as well as incorrect marking of surveys. I re-conceptualized the hypothesis to state that there was a statistically significant difference in the structural model fit of towns with economic bases that had high levels of second-home owners or tourists. To test this, I used a cross-validation method in Lisrel.

I separated the data set into two groups. One group contained cases from the three downtowns whose economic bases are dominated by second-home owners and/or tourists. This group totaled 88 respondents. The second group consisted of the remaining 8 downtowns whose economic bases were a mixture of manufacturing, retail and other. This group totaled 179. The alternative hypothesis for this method is that at least two parameters from the structural model are not identical across the two groups. As opposed to usual model fitting, I was looking for a statistically significant chi-square, with a $p<.05$. I fit both groups to the data, and the results were (χ^2 =512.14, df=69, n=267, p=0.00, RMSEA=.220, AGFI=1.00). The poor chi-square and the small p value allows for rejecting the null hypothesis that the samples fit the data equally. In other words, there is a statistically significant difference between downtowns due to economic bases, thus supporting the re-formulated hypothesis.

Summary of Results

The results of the overall analysis were positive in nature. Most of the established scales were found to indicate their hypothesized first-order factors. Scales that were constructed specifically for this study also performed well. Several scales did not perform as well as hoped, but show promise with future refinement. Though there was some correlation of error terms between SBO and ENTREP, those factors appear to be perceived by small business owners in downtowns as different concepts. Though SOCAP

and SNTIES were eventually combined due to multi-collinearity, this did not conflict on a theoretical level with previous research. Social network ties has been found to be a part of social capital (Frazier, 2000). BRID, BUSMIX and COMCHAR were all new constructs, the scales for which were developed specifically for this study. All three factors were statistically significant indicators of STRURES. SOCAP loaded on both BUSRES and STRURES in the structural model. Possible reasons for this are discussed in Chapter 5. While two of the four proposed indicators of DTSUC were not statistically significant (VAC, LONG), they were important enough to model fit that they were retained for the structural model.

The measurement model (Phi matrix) exhibited good fit, and allowed me to establish that business resources and structural resources are two distinct conceptual constructs. LOCAP did load on the SBO construct, but it was the only cross loading measurement variable. From the cross loading of SOCAP in the structural model, it appears that there are some underlying aspects to social capital that affect many different types of business resources.

The overall fit of the hypothesized structural model was good (see Figure 3). Structural resources were found to be a statistically significant predictor of downtown success. However business resources were not a statistically significant predictor of downtown success. What is intriguing about these findings is that the standardized parameter estimate for BUSRES is over .500, exhibiting a moderate effect size. The t-value for the parameter is greater than the t-value for the statistically significant parameter of STRURES. I will discuss possible causes for this in the conclusion section.

CHAPTER 5

DISCUSSION AND CONCLUSION

The goal of this study was to elucidate the existence of resources possessed by downtowns, and how successful downtowns utilize those resources to gain competitive advantage. To accomplish this, I conceptualized downtowns as firms and utilized resource-based theory as a framework for proposing that: downtowns possess resources that may or may not be unique. To the extent that they are unique and can be effectively employed and maintained, the downtown will be successful (Porter, 1980; Wernerfelt, 1984; Barney, 1986).

Resource-based theory (also referred to as RBV: resource-based view) is often used as a framework for explaining firm performance and holds that firms gain competitive advantage from unique resources that they possess (Barney, 1986; Peteraf, 1993). Peteraf (1993) proposed that RBV can help a firm to understand how to *sustain* its competitive advantages. She posited that resources must be heterogeneous, have *ex ante* limits to competition, *ex post* limits to competition and be imperfectly mobile. Through focus groups and literature search, I have attempted to identify the resources that downtowns may possess. Though this study does not measure the extent to which any resource meets Peteraf's four conditions, it was with those conditions in mind that the resources were identified.

To illustrate how the resources considered in this study meet Peteraf's (1993) four conditions for sustainability, the following four measures are noted. Downtowns may have a unique mix of businesses, compared to other downtowns. This gives them heterogeneity in comparison. To the extent that mix is optimal, they may be more

successful. Entrepreneurs have been identified as being both innovative and proactive (Schumpeter, 1934). Entrepreneurs within a downtown who develop a new business concept provide *ex ante* limits to competition for customers, by providing first-mover advantages. Small business owners who have an emotional attachment to their business may remain in the downtown, eschewing a move to another area or town. This provides *ex post* limits to competition for the downtown's resource (the small business). Finally, a downtown whose business owners have built up social capital within the community, provide a resource with imperfect mobility. To move a business to another community would require sacrificing any social capital built up within the existing community.

Though every measure in this study does not meet all four of the conditions proposed by Peteraf (1993), each was designed with the underlying theory in mind. I posited that downtowns would possess two distinct types of resources: those derived from business owners (business resources) and those derived from the downtown itself as well as the community (structural resources). The model put forward in this study was reflective of RBV, as it was complex in nature. I proposed a structural model with a large number of latent constructs indicating business and structural resources (respectively) and downtown success.

Business Resources

In this study, business owners within the downtown were hypothesized to possess certain resources. These resources contribute to the business's success, and then directly as well as indirectly to the success of the downtown. I posited that business resources were represented by four latent constructs: entrepreneurial orientation, small business orientation, social capital and social network ties.

Confirmatory factor analysis revealed that entrepreneurial orientation was not a statistically significant indicator of business resources. This seemed to be surprising, as studies like Niehm's (2002) found that the presence of superpreneurs in a community added to success. Entrepreneurs bring new ideas, concepts and ways of doing business (Miller, 1983; Covin & Slevin, 1989) and should bring those to a downtown as well. However, it is possible that there are not a large enough number of entrepreneurs in small downtowns to have an effect on the success of the downtown. The mean score of the sample, for the ENTREP factor was 4.49, with a variance of .99. This meant that the average respondent was fairly close to the middle on the 7-point scale, indicating a less-than-high tendency towards entrepreneurship.

There may be some link here between the size of a town and the types of entrepreneurs that locate within those towns. Schumpeter (1934) attached the term "innovative" to entrepreneurship, and innovativeness is an important component of entrepreneurial orientation Covin and Slevin's (1989). Creativity and innovativeness are similar characteristics of entrepreneurs (Lumpkin & Dess, 1996). Florida (2002) posits that creative people tend to seek towns or cities that offer them a certain "quality of life." This includes cultural and ethnic diversity, found in larger cities. Perhaps the most creative entrepreneurs locate in larger cities, as a lifestyle choice, as Florida suggests.

Over the past 20 years, many different types of retail and business locations have emerged. Retailers can locate in strip centers, malls and fashion centers. Technologically oriented entrepreneurs can locate in high-tech incubation centers, surrounded by other like-minded entrepreneurs. Small downtowns have finite areas in which to expand, causing rents to increase to the point where entrepreneurs see more potential return for

their investment elsewhere. Larger metropolitan areas most likely offer more opportunities for entrepreneurs to try their ideas.

Small business orientation was found to be a statistically significant predictor of business resources. Previous research in this area has not sought to investigate the effects of a small business orientation (Carland, et. al., 1984; Stewart, et. al., 1999; 2003). Rather those studies have established that there *is* such a thing as a SBO. Previous studies that have examined the effects of entrepreneurial orientation on business did not include the concept of SBO in their framework (Cooper & Dunkelberg, 1986; Stone, 1995; Niehm, 2002). Downtowns (especially small ones) are likely to have a large number of business owners who possess tendencies more closely associated with a small business orientation (Carland, et. al., 1984) than with entrepreneurs.

Overall, social capital was a very important factor in this model, as it was an indicator of both business and structural resources. However this "cross-loading" also caused some difficulties with construct multi-collinearity. I believe that after reviewing the results of this study however, the problem was that I tried to propose a framework where social capital existed in two separate domains: between small business owners and local consumers, and among small business owners within a downtown. The literature clearly demonstrates that social capital manifests from groups, interaction and relationships (Coleman, 1988; Portes & Sensenbrenner, 1993; Putnam, 1995; Tsai & Ghoshal, 1998). It is probable that the social capital that exists between business owners and local consumers is intertwined or at least related, to the relationships amongst business owners. This may be due to the size of the communities in the sample, or the nature of downtown businesses in general.

The smaller the community, the more likely it will be that downtown business owners will interact socially with a significant number of local consumers and with fellow business owners. Business owners and their families may interact with many others in the community at school, religious and other social functions. Within each of the communities involved in this study, only one public high school exists. This makes it more likely that business owners with children will interact socially with their customers (at least during the time when the children are school-aged) at school-related functions. Downtowns are seen by both local residents and business owners as a center point of a community. This brings local residents to the downtown for more than just shopping, as the downtown is often used for local parades, festivals and social gatherings. This certainly is not the case with a mall or a strip center.

Social capital was a statistically significant predictor of both business resources and structural resources. As a predictor of business resources, social capital helps to explain why business owners locate downtown and why they remain downtown. Miller and Kim (1999) found evidence that consumer inshopping as well as community attachment is affected by the presence of social capital. This type of "loyalty" to local business owners may serve to establish an owner's affinity for the location, that transcends monetary considerations. This would lend support to the contention of Carland, et. al., (1984), that small business owners are motivated less by profit growth than by personal goals attached to their business.

Business resources were not found to be a statistically significant predictor of downtown success, based on the specification of the structural model. The reasons for this are difficult to explain in light of previous research. Prior research has shown

entrepreneurial orientation to be a predictor of business success (Covin & Slevin, 1989; Niehm, 2002). Other studies have shown social capital contributes to firm success (Frazier, 2002) as well as to community economic well-being (Putnam, 1993). Though small business orientation has not been studied in the context of its outcomes to a firm, from a resource-based view it should contribute to downtown success. As I conceptualized SBO in this study, it is a set of positive characteristics. A small business owner's emotional attachment to his or her business may have something to do with longevity in a downtown. A small business owner who is emotionally attached to a business, may work harder to make that business a success, thus contributing to the success of the downtown as a whole. Customers who patronize a small business whose owner is enthusiastic and enjoys his or her business, may be more likely to return to that business and thus to the downtown.

The answer to the question of why business resources were not a statistically significant predictor of downtown success may have more to do with measurement issues than theoretical issues. Both business resources and structural resources exhibited high standard parameter estimates of their paths to downtown success. Yet only structural resources were statistically significant at the $p<.05$ level. Often times this type of occurrence is caused by collinearityamong the manifest indicators (Kline, 1998). Review of the SBO and ENTREP data revealed that there are some aspects of each being measured within the other respective scales. Additionally, focus group feedback identified some entrepreneurial characteristics that were exhibited by many self-described small business oriented persons.

Based on the preceding argument, it seems premature to conclude that business resources (indicated by ENTREP, SBO and SOCAP) is not a predictor of downtown success. Both entrepreneurial orientation and social capital have been shown to contribute to firm success. A small business orientation scale such as the one used in this study, has not been previously operationalized, nor has SBO been included in an investigation of firm success. The scales themselves need some refinement to eliminate redundant measures, and reduce the collinearity between constructs. But there is some promise in the conceptualization of business resources as being a unique set of resources for downtowns.

Structural Resources

The structural resources construct was the second set of resources hypothesized to predict downtown success. This construct was indicated by three latent factors: brand identity, business mix and community characteristics. The literature on these three factors is sparse in nature, and very little appears that involves the use of any of these constructs as predictors of downtown success. Florida (2002) uses some community characteristics as predictors of overall community success. However his work, like much of the work in this area, has its focus on large metropolitan areas. Florida utilized secondary data to support his theories. He combined several existing indices to form a new index of the "creative class." Though he makes an effective argument for the causal relationship between the existence of a creative "core" and a community's success, the relationship could be spurious.

Confirmatory factor analysis indicated that brand identity was a statistically significant indicator of structural resources. I conceptualized brand identity as the image that a downtown creates (or possesses) that differentiates it from other downtowns or shopping areas. The operationalization of brand identity or brand image as a measurable construct is in the early stages of work (Coshall, 2000; Hankinson, 2004a). However, the construct of "brand" has been the subject of much research in the past (cf. Grandi & Grimaldi, 2003). Brand identity is considered to be a resource (Barney, 1991), and as such can be utilized to gain competitive advantage by downtowns that have a positive brand identity.

Tourism may be a moderating factor in this case. Focus group results pointed to a difference in the existence of a downtown "image" between tourism-dependent downtowns and others. Tourism-dependent downtowns spoke of the "image" that they must maintain with potential visitors. The measures in the scale were designed to determine if the downtown had any image, and if local business owners and city government consistently supported it. Focus group feedback indicated that not all downtown business owners in tourist towns, were tourist dependent. Yet, the fact that tourism is the base for many fellow business owners could influence the results. Many authors consider brand image to be more important for tourist-dependent towns than others (Pearce, 1982; D'Hauteserre, 2001). If this is the case, then these downtowns are benefiting from their image. Tourism may serve as a sort of catalyst that helps spur business owners to support and maintain the downtown's brand identity, thus helping to present a consistent positioning statement to consumers.

Business mix was determined to be a statistically significant indicator of structural resources. The measurement indicators that made up this composite variable included complementary businesses and diversity of firms. Both of these measures emerge from the central place literature (Reilly, 1931; Huff, 1963; Ghosh, 1986). The concept of retail agglomeration is based on the theory that consumers shop where there are large numbers of diverse shops, which enables multi-purpose shopping (O'Kelly, 1981; Ghosh, 1986; Arentze, et al., 2005). Shoppers also tend to shop between similar businesses (Bellenger & Korgaonkar, 1980; Maronick & Stiff, 1985), lending support for the importance of complementary businesses.

Downtowns place a high level of importance on having a diverse mix of businesses, as was articulated in my focus group interviews. Recent work by Arentze, et. al., (2005) support this contention, as they found that different store types all contribute to the attractiveness of a destination, even if consumers do not actually purchase from those stores. In other words, the fact that there is variety of shopping choices at a location is an important incentive for consumers to come downtown. The diversity of businesses scale was constructed for this study, and is still in need of some refinement. The alpha was above the customary .500 level for acceptance, but I am not sure of the validity of one of the measures. Variable 61 (Table 1) may have been more a measure of acceptance of new businesses (i.e., belief in competition perhaps), than a measure of business mix diversity. Yet the scale overall, shows promise for future research in this important, yet under-researched area.

Caution should be used when interpreting the importance of complementary businesses in this study. The measure was based on a single item, which some respondents noted was difficult to answer. Originally, I intended to use an objective measure of complementary businesses to improve the validity of this construct. However only 4 of the 11 downtowns provided me with an independent listing of business type. This precluded using that measure in this study.

Community characteristics as indicated by environmental hostility, economic base and sense of place, were a statistically significant indicator of structural resources. While environmental hostility, as an indicator of COMCHAR, was not statistically significant, it was retained in the initial model fitting for theoretical reasons only. For the structural model, COMCHAR encompassed the sense of place measures. This is an important distinction, considering that one should be cautious when using single-item indicators for latent variables (Bollen, 1989; Kline, 1998). However, sense of place is a construct that appears often, in the urban planning literature (Robertson, 1999; Filion, et. al., 2004), and seems to be an important part of a downtown's resources. Sense of place was a concept suggested in many different ways during my focus group work. Sense of place is central to Florida's (2002) theory of the creative class. Downtowns that create and maintain a strong sense of place that is safe and walkable, will be increasing their structural resource base.

Structural resources overall, were a statistically significant predictor of downtown success. Through brand identity, business mix and community characteristics, a downtown uses its structural resources to gain a competitive advantage. This competitive advantage translates to overall downtown success. The importance of brand identity to

firms has been well established, and is now part of basic marketing strategy (McDaniel & Gates, 2001; Levy & Weitz, 2004). Based on the findings in this study, brand is also an important resource for downtowns. Brands in general are posited to be imperfectly mobile, as they are difficult to trade as well as copy (Wernerfelt, 1984). Brands as a resource may be more immobile than other resources a town possesses. An example is found among the downtowns in this study. One town is known for its "Bavarian" image, and the downtown reflects this in its business mix and architecture. During focus group interviews with business owners from this downtown, a "copycat" downtown was discussed. The town is approximately 70 miles to the south of the original, and in a more densely populated part of the state. Though I had heard of the town, I was unaware of its "copycat" branding attempts. Anecdotal reports are that the downtown does not enjoy the same level of success as the original.

Business mix is an important component of a downtown's success. This resource is developed through various means. Some towns report that they actively engage in seeking out small business owners that may meet a need in their town. Others report taking a more *laissez faire* approach to development, preferring to allow the market to predict and meet needs. Research has shown that the agglomeration of businesses has a positive effect on customer traffic (Reilly, 1931; Huff, 1963). This is because the majority of shoppers seek to maximize shopping time through multi-purpose trips (O'Kelly, 1981; Ghosh, 1986). Recent research has shown that multi-purpose shopping is a driving force behind the growth of large store formats (Messinger & Narasimhan, 1997). To compete successfully with these larger stores, as well as malls and power centers, downtowns must achieve optimal mixes of businesses. This includes the concept

of diversity as well as complementary businesses. The presence of magnet businesses does not appear to influence downtown success.

Community characteristics such as population demographics, economic bases and vitality are those over which downtowns may have little control. What a downtown can control is the sense of place that the downtown conveys to the consumers. This may be initiated at the DDA director's level, but the downtown business owners as a group must be supportive to maintain consistency. Recent research has revealed a desire for safe and walkable downtowns (Robertson, 1999; Florida, 2002; Michigan Cool Cities..., 2003). A downtown that is "inviting" to local consumers as well as visitors, draws the type of "foot" traffic that all retailers and small business owners desire. A term that is often used in the urban planning literature when discussing downtown revitalization is "historic preservation." This term seldom came up in my focus group interviews. However historic preservation may be embodied in some of the measures of brand identity. For example, the positioning construct (POS) is indicated by measures of a town's symbols or logo's. The previous example of the "Bavarian" downtown from this study can be used to further explicate. The preservation of "Bavarian-style" architecture in that downtown helps to maintain the consistent image of a "Bavarian" village. This is a symbol recognized by local consumers and tourists alike.

The importance of historic preservation to both consumers and downtown business owners may be consistency. A symbol, slogan or logo that conveys a message about a downtown, helps to build and maintain its brand image. From this viewpoint, historic preservation projects as well as brand building campaigns have the same types of consistency goals.

Social capital was found to be an indicator of both business and structural resources. I hypothesized that social capital would be an indicator of business resources, but not structural resources. SOCAP was a composite variable consisting of trust, reciprocity, frequency of interaction and density of network ties. Structural resources were posited to be made up of brand identity, business mix and community characteristics. Social capital may have a part in the creation of a brand identity, and the characteristics of the community. Building a brand image involves communication of ideas and images. Large companies do this in many different ways, using many different media. Small companies often do not have the financial ability to use the forms of communication used by large companies (e.g., billboards, radio, television, catalogs, etc.). Small businesses often rely on personal contact and word of mouth, to get out their marketing message. By communicating their brand message to local consumers, downtown business owners may also be building up social capital. This may present a sort of "feedback" loop, where brand building leads to the creation of social capital, which leads to opportunities to reinforce brand image through further communication with local consumers.

The components of sense of place include safe and walkable downtowns, as well as historic preservation and cultural diversity. Downtown business owners, through their interaction with local consumers, are able to convey the positive aspects of the downtown. By engaging in brand building, business owners build social capital and engender trust in local consumers. By maintaining a consistent positioning message, the downtown is a central place that provides a reliable focal point for the community. This

furthers the feeling of trust, and perhaps inspires reciprocity between consumers and business owners.

Alternative models

As with any structural equation modeling effort, there are myriad alternative models that could fit the data in my study. From the theoretical framework that I put forth in chapter 2, and following the methodology for testing structural models suggested by Anderson and Gerbing (1988) and Yuan, et. al., (1997), I specified the CFAs and the structural model from theory. In structural equation modeling researchers are continually faced with the dilemma of sacrificing model fit for theoretical relevance. I tried to balance these two goals in this study. It seemed equally important to achieve a good fit of the data to the theoretical model, as it was to retain the originally specified model. I engaged in item trimming based on review of standardized residuals produced in the Lisrel output. I re-specified model paths and co-variances based on LM tests, suggested through modification indices in the Lisrel output. Much of this study was exploratory in nature; the structural resource side of my model especially so, as few scales existed to measure the latent constructs I proposed.

Limitations of this Study

As with any research, the results of this study should be interpreted cautiously based on several factors. First, the sample was not random but rather was a judgment sample. This served the purpose of increasing response rates, as well as insuring inclusion of various types of downtowns. Secondly, there were several new scales used for this study. Some of them exhibited very high levels of reliability, while others were disappointing. These measures need further refinement before we can be confident in

their ability to measure the concepts for which they are intended. Thirdly, there were some difficulties in using some of established scales. The trust measures exhibited large amounts of both skewness and kurtosis.

The bi-polar statements used for several of the entrepreneurial orientation items seemed to be difficult for some respondents to comprehend. This was not a problem in the pre-test, and was not mentioned as a limitation in the literature (Khandawalla, 1977; Covin & Slevin, 1989). It appeared that some respondents were expecting a Likert scale, with 1 meaning "strongly disagree" and 7 meaning "strongly agree." Several respondents circled the number 7, but then circled the entire statement at the opposite end of the scale. In other words, they seemed to be saying that they "strongly agreed" with the statement at the other end of the scale. It may be more effective to place these bi-polar scales at the beginning of the survey in the future. However it seems rather problematic to do so, as these semantic differential scales are rather difficult to answer regardless. Difficult measures should normally be placed in the middle part of the survey, so that the respondent has some level of commitment to the survey (Dillman, 2000; Churchill & Iacobucci, 2002).

Finally, these data were gathered from business owners in the downtown areas of small-to-medium sized communities. The general hypothesis of my study is that business owners in downtowns act differently than those located in other areas of a community. Additionally I believed that downtowns as firms act differently than other business locations (e.g., malls, strip centers, etc.). Findings from this study should not be generalized to other types of firms or small business owners. Large downtowns may have different mixes of business and residential properties, and still be successful. Small

downtowns tend not to focus on residential concerns, as opposed to larger urban downtowns. Large urban downtowns are concerned with attracting people to the downtown to live, as well as to shop (Florida, 2002). The thesis is that people who live downtown will shop downtown.

The results of the CFAs as well as the measurement model indicate that measures designed for this study require further improvement. Scales developed for emotional attachment, brand image, positioning, business diversity and sense of place all performed well in this study. Scales used to measure business owner goals, complementary business, magnet stores and vacancies did not perform well. It is not clear if magnet stores are important to downtowns. The other scales noted here seem to address important constructs, and should therefore be further refined. The scales adapted for this study also produced mixed results. Serious difficulties were encountered with the trust measures (Tsai & Ghoshal, 1989) and the environmental hostility scales (Khandawalla, 1977). Though both scales have been used in previous studies (Miller & Kim, 1997; Frazier, 2000), they are in need of further refinement when studying downtown businesses. The skewness encountered with the trust scales is predictable, as most people believe themselves to be trustworthy.

Recommendations

Managerial Implications

Downtowns and the businesses within their boundaries are important components of a successful community. The connection between the downtown and the larger community has been established by previous researchers and a key component of this connection is social capital (Miller & Kim, 1999; Miller, 2001). The findings from this

study lend support for that, in that social capital was found to be part of the structural resource construct that positively affects downtown success. The importance of creating, strengthening and maintaining social capital between downtown businesses and the community, as well as among downtown business owners should be heeded by DDA directors as well as city governments. Though the business resources were not shown to have a statistically significant impact on downtown success, those resources did have some level of positive effect. Rather than trying to attract entrepreneurs, perhaps making a purposeful attempt to recruit business owners who have a small business orientation may have a more positive long-term effect on the downtown. I am not sure how a DDA might identify these types of individuals, or even if it is feasible.

Brand identity is an important part of any firm's overall strategic focus. Although in its early stages, research involving town-branding shows that it should be a focal point of downtown's overall strategy. Having an image that is both recognizable and consistent may be an effective tool in attracting and keeping customers (local and tourist). From an organizational perspective, the consistency component may be the most difficult for downtowns to control. One could see how the power of Wal-mart's "always the low price" slogan would be diluted if individual store managers decided they wanted to stock and sell designer clothing, rather than low-cost private label products. It would likewise be problematic for the "Bavarian-themed" downtown in this study, if a local merchant decided to build a Mexican restaurant with southwest-influenced architecture right on Main St. Yet a successful downtown should consist of successful small businesses, and such small business owners would avoid such a "transgression" if it posed a threat to the image of the downtown.

Business mix was the second component of structural resources that led to downtown success. From focus group interviews, I found that some DDAs actively seek to affect the mixture of businesses downtown. Because I did not identity which downtowns in this study engage in that practice, I can't determine if this had an influence on success. However I did find that business mix is an important part of downtown success. Downtowns with business owners who reported an optimal mix within their downtown, were more successful. Consumers prefer destinations that allow for multi-purpose shopping. When shopping in downtowns this may extend to multi-purpose "errands," where consumers can bank, lunch and shop for a greeting card all within one block. From these findings it seems clear that DDA directors should take a more active role in encouraging diversity of formats in their downtowns. This may be problematic for those directors without explicit authority to take such a role, as downtown business owners are independent business owners who don't like any portion of their business controlled by others.

Community characteristics are the most nebulous of the resources hypothesized in this study. The resource that had the most impact on structural resources was sense of place. Business owners have little control over the aspect of sense of place such as safety, walkability and overall ambience. Business owners control only their store and storefront. But collectively, they may exercise considerable control over these variables. DDA directors, business owners and local government should recognize the importance that a sense of place holds for downtowns, in the consumers' minds. Programs that include historic preservation then, are important to the extent that they increase the variables that make up a sense of place: safety, walkability, overall location ambience.

Future Research

As this study broke new ground in several research areas, the need for further refinement of theory, construct operationalization and scale development was to be expected. Some of these refinements and changes were covered in the discussion section, but there are a few other specific items that have yet to be mentioned.

Entrepreneurial orientation was not as important to business resources as a small business orientation. I suggested in the previous section, that it might be a good strategy for a DDA to identify and recruit those with a SBO, rather than try to attract entrepreneurs. Though Carland, et. al. (1984) first posited 20 years ago that there was a difference between entrepreneurs and small business owners, little has been done to fully operationalize the construct of a small business orientation. Based on my results, this distinction does exist, and SBO is more important to downtown success than entrepreneurship. Future research in this area should include further refinement of the SBO scale. A second instrument, that may be even more useful to DDA directors, would be an instrument to identify potential small business owners.

The creative class construct did not work well for this study. Florida (2002) used objective measures from the census. It may be necessary to rethink this construct as it pertains to small and medium-sized downtowns. The indices used by Florida (Gay, Bohemian and Creative) may not be relevant to, and are unavailable for small towns. These indices may not be relevant, as they reflect the type of people that tend to locate in large metropolitan areas. This is the main thesis of Florida's (2002) work; the creative class, which includes those who are gay or "bohemian." Though as a society we are much more accepting of ethnic and cultural diversity, small towns are probably not the types of

places to which gays and "bohemians" gravitate. However to test whether the creative class has an impact on downtowns, scales will need to be developed that measure both the presence of these groups, as well as their perceived effects on small business.

Economic base was not be able to be measured at anything other than a community basis, which means further attempts at measuring this at an individual respondent level may need to be abandoned. I had hoped to measure the communities economic base as perceived by the downtown business owners. Since focus groups had indicated that different businesses within a downtown relied on different segments of the customer base, it seemed that the importance of different bases might be revealed. However too many respondents either did not answer the question, or were so far from the correct proportion as to render their answer unusable.

Since the business mix construct is important to downtown success, a measure of this needs to be developed for future study. Though there was a measure of business-type, it was difficult to determine the effects of certain types of businesses on downtown success. One attempt was made by asking about magnet businesses. Future research may inform this area if measures are devised to determine the perceived effects that certain types of businesses have on downtowns. As an extension of this, the importance of complementary businesses was established in this study. But further work is needed to develop a reliable scale.

The downtowns in this study were part of moderately small to medium-sized communities. I would not generalize the results to very small towns, towns in rural areas, or to downtowns in urban areas. It would be interesting to extend this research to these areas. My sense is that the findings would be similar for rural and very small towns,

while the findings would be different in urban areas. I would posit that the social capital component of both business and structural resources would either diminish in importance, or disappear completely. Urban areas are spread out over larger distances, with shoppers and workers both commuting from far-flung suburbs. The chances to interact socially with customers would be few. A sense of place may exist in those urban downtowns, but I think it would be less proprietary (from the residents' view) than for small downtowns.

Finally, this research used the RBV framework to investigate downtowns. Little empirical work has been done using RBV. To date, no one has attempted to operationalize Peteraf's (1993) four conditions for maintaining a competitive advantage through RBV. Using this study as an initial step, it may be possible to test the extent to which some of the constructs in my study meet those conditions. For example, levels of SBO and ENTREP within a downtown may be cases of heterogeneous resources. Sense of place and brand image may provide *ex ante* limits to competition, if the downtown has a first-mover advantage. If a downtown has empowered its DDA with some authority for decision making, *ex post* limits may be realized by enforcing a consistent brand image throughout the downtown, or helping a key business to stay downtown. The historic or cultural preservation of a downtown, as well as social capital in general are imperfectly mobile. To "move" these resources to another location would certainly reduce their value. These constructs can all be measured and compared with other downtowns, to test the extent to which they meet Peteraf's (1993) conditions for resource-based competitive advantage.

Conclusion

Focus group feedback indicated a certain frustration by DDA directors and business owners, in their ability to influence the performance of the downtown. From this study it is clear that there are several resources at the disposal of downtowns on which they can capitalize (e.g., brand identity, social capital, business mix). Those resources can be controlled to some extent, and they have been shown in this study to have a statistically significant effect on downtown performance.

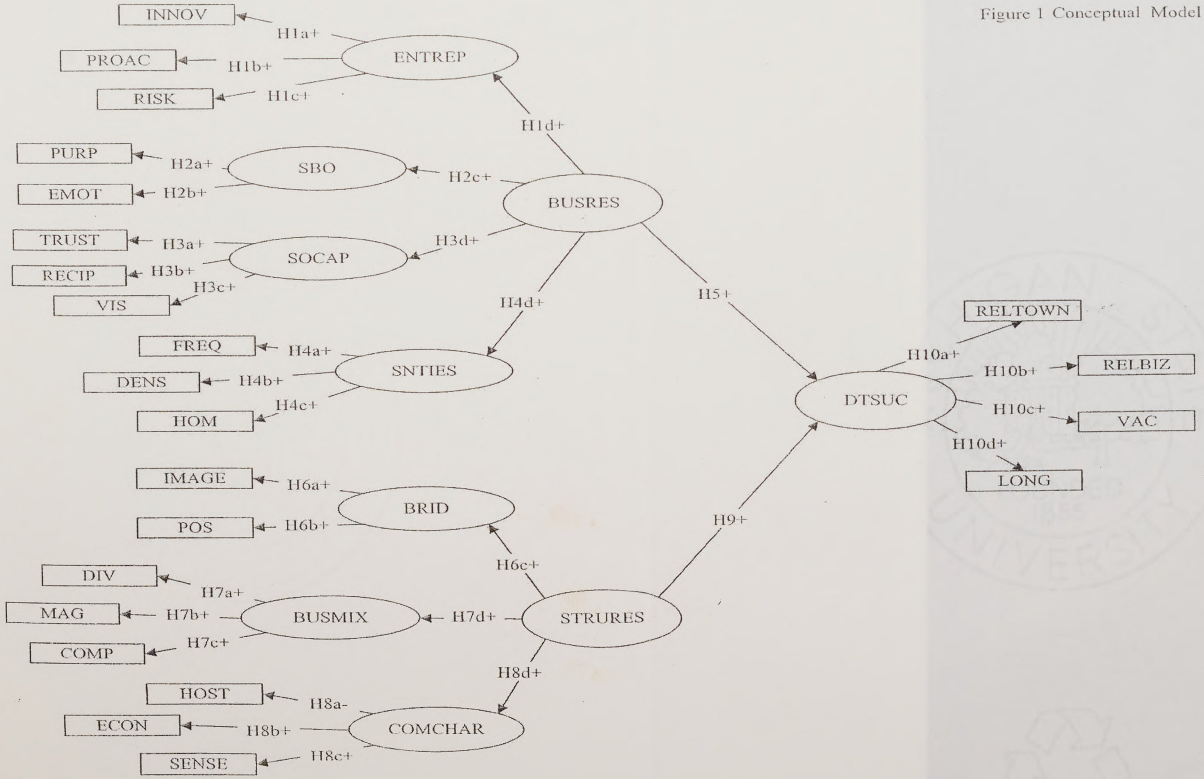
Results of this study are encouraging, in that I have been able to investigate new research areas within an established theoretical perspective. This research extends the literature in several spheres of study. Specifically, it serves as an attempt to operationalize the RBV framework, which is lacking in the extant literature. In addition, new ground is broken by linking small business research and the study of downtowns. Previous research has established the link between entrepreneurial orientation and firm success, but my study is the first to examine the link between small business orientation and firm success. Prior research on downtowns has focused on agglomeration (diversity of formats) and historic preservation (sense of place), or on the small businesses within those towns. No studies have looked at the links between brand image and downtown success.

APPENDICES

APPENDIX A

Figures

Figure 1 Conceptual Model



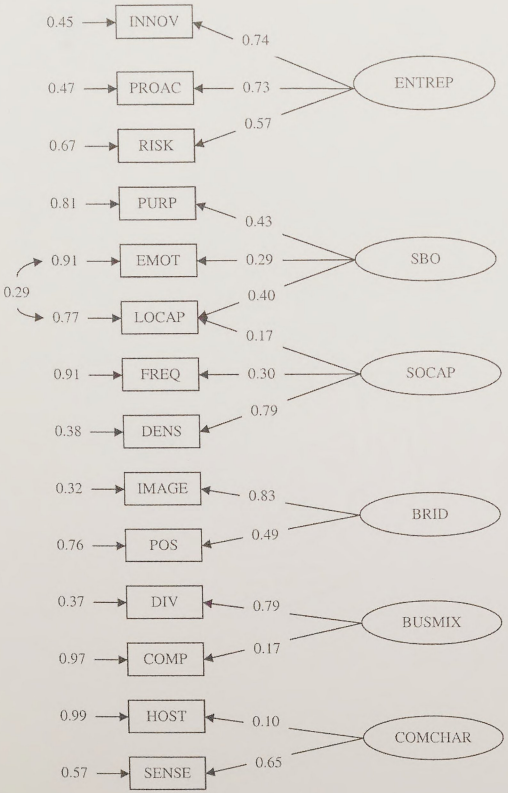


Figure 2 Measurement Model

χ^2=74.20, df=60, r=267, p=0.103, RMSEA=.030, AGFI=.92

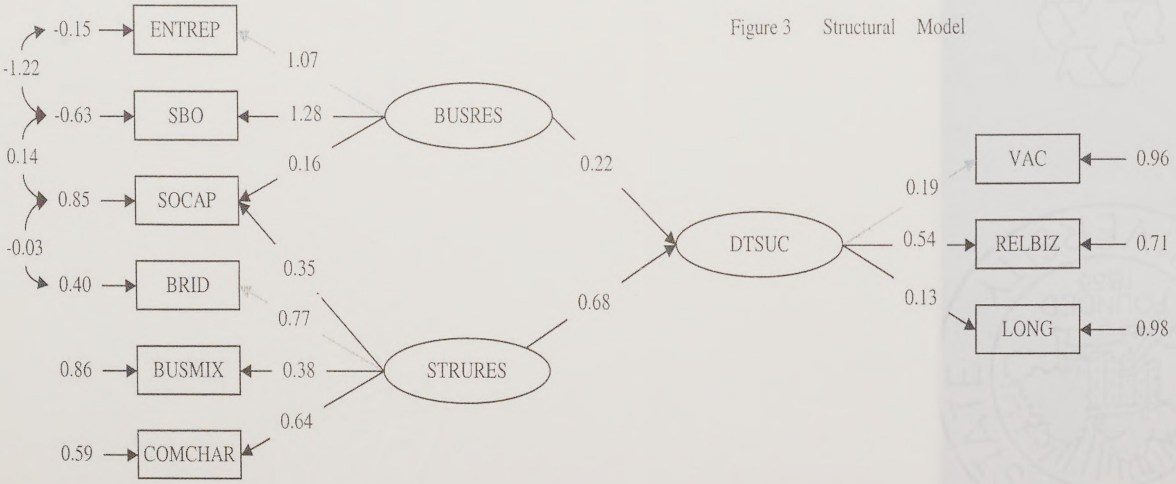


Figure 3 Structural Model

χ^2 =47.02, DF=24, n=267, p=0.003, RMSEA=.060, AGFI=.94

Figure 4 – Letter of request for DDA Director's contact information

Dear Chamber Director,

Would you please provide me with the name and contact information for
Your Downtown Development Authority Director? If your downtown does not have a DDA, would you please send me the name and contact number of the Downtown Business Group or similar organization in your town? Please feel free to respond to my email address with the information.

Sincere regards,

Rod Runyan
Doctoral Candidate
Michigan State University
East Lansing, MI

Figure 5 – Letter of invitation to participate in research study, sent to DDA Director

Dear DDA Director:

Would your central business district (CBD) be interested in an opportunity to learn what its key resources are, and how to use them to develop sustainable competitive advantages? We are launching a research project aimed at doing just that. Before going further, we want to assure you that there will be no monetary costs to your CBD or its members. This research is being conducted as part of a doctoral dissertation study.

We will be selecting six CBDs to participate in this research, which will involve asking your downtown business owners to complete a survey. This is the second stage in a study begun last spring. The first stage involved focus groups with small business owners. From the data we collected in the first stage, a survey instrument was developed to discover the resources that help make CBDs successful, and how those resources might be nurtured to provide competitive advantages. We will provide participating CBDs with the results of the study, as well as suggestions for identifying, creating and developing the resources that help CBDs to be successful.

If you are interested in being one of the participants in this research project, please reply to this email with your contact information, or that of the person whom we should contact in your community. This project will commence within the next month, so we will be selecting the participating CBDs during that time frame.

Sincere regards,

Rod C. Runyan
Doctoral Candidate
Michigan State University
East Lansing, MI 48224
runyanro@msu.edu
989-837-4287

Patricia Huddleston
Professor
Michigan State University
East Lansing, MI 48224

Figure 6 – Survey Instrument

This questionnaire is part of a study being conducted by Michigan State University. It is part of a multi-community study of downtown businesses to identify options that might help improve business. Please answer to the best of your ability. If you have questions or concerns regarding your rights as a study participant, or are dissatisfied at any time with any aspect of this study, you may contact - anonymously, if you wish - Peter Vasilenko, Ph.D., Chair of the University Committee on Research Involving Human Subjects (UCHRIS) by phone: (517) 355-2180, fax: (517) 432-4503, e-mail address: uchris@msu.edu, or regular mail: 202 Olds Hall, East Lansing, MI 48824. All answers will be kept confidential. If you have any questions about this research project contact Patricia Huddleston, Professor: 112 Human Ecology Bldg. East Lansing, MI 48824 (517) 353-9907; huddles2@msu.edu

1.1 For the following statements, we would like to know your personal feelings about your business. Please circle the number that best represents your level of agreement or disagreement with what the statement implies. A 1 means that you **strongly disagree** with the statement, while a 7 means that you **strongly agree** with the statement.

	Strongly Disagree			Neither agree nor disagree			Strongly Agree
I established this business this because it better fit my personal life than working for someone else	1	2	3	4	5	6	7
I have no plans to significantly expand this business in size or sales revenue.	1	2	3	4	5	6	7
My goals for this business are more personally oriented than financially oriented	1	2	3	4	5	6	7
This business is my primary source of income	1	2	3	4	5	6	7
My goal for this business includes expanding to multiple (2 or more) locations	1	2	3	4	5	6	7
I consider this business to be an extension of my personality	1	2	3	4	5	6	7
My goals for this business are interwoven (interconnected) with my family's needs	1	2	3	4	5	6	7
I love my business	1	2	3	4	5	6	7
I am emotionally attached to my business	1	2	3	4	5	6	7

1.1 In this section, we want to know how you think local consumers feel about you as a business owner. Please circle the number that best describes your agreement or disagreement with the statement.

Considering how local consumers perceive me as a business owner...

	Strongly Disagree			Neither agree nor disagree			Strongly Agree
These people would trust me with personal information about themselves	1	2	3	4	5	6	7
I am considered to be dependable by these people	1	2	3	4	5	6	7
These people would say that I am trustworthy	1	2	3	4	5	6	7
These people would say I am sincere	1	2	3	4	5	6	7
I can be trusted by these people to not take advantage of them	1	2	3	4	5	6	7

Considering local consumers' patronizing my business ...

	Strongly Disagree			Neither agree nor disagree			Strongly Agree
These people are generally fair in dealings with me	1	2	3	4	5	6	7
If I did not support the community, these people would stop patronizing my business	1	2	3	4	5	6	7
These people would be willing to do me a favor if asked	1	2	3	4	5	6	7
We do favors for each other from time to time	1	2	3	4	5	6	7
These people patronize my business because I support the community	1	2	3	4	5	6	7

2.1 When responding to the following statements, we would like to know your perceptions, as the owner or manager of the business. For each statement, please circle the number that best represents how you feel about the two opposing viewpoints.

In general, as the owner or manager of this business, I:

Favor a strong emphasis on the marketing of tried and true products	1 2 3 4 5 6 7	A strong emphasis on R&D technological leadership and or services innovation
Strongly favor low-risk projects (with normal and certain rates of return)	1 2 3 4 5 6 7	Strongly favor high-risk projects (with chances of very high returns)
Believe that owing to the nature of the environment, it is best to explorer it via timid, incremental behavior	1 2 3 4 5 6 7	Believe that owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve my firm's objectives

In terms of new lines of products or services over the past five years, your firm:

Has introduced no new lines of products or services	1 2 3 4 5 6 7	Very many new lines of products or services
Changes in product or service lines have been mostly minor in nature	1 2 3 4 5 6 7	Changes in product or service lines have been quite dramatic

In dealing with competitors, my business:

Typically responds to actions which competitors initiate	1 2 3 4 5 6 7	Typically initiates actions which competitors then respond to
Is seldom the first business to introduce new products/services, administrative techniques, operating technologies, etc.	1 2 3 4 5 6 7	Is very often the first to introduce new products/services, administrative techniques, operating technologies, etc.
Typically seeks to avoid competitive clashes, preferring a "live-and-let-live" posture	1 2 3 4 5 6 7	Typically adopts a very competitive "undo-the-competitors" posture

When confronted with decision-making situations involving uncertainty, I:

Typically adopt a cautious, "wait-and-see" posture in order minimize the probability of making costly decisions	1 2 3 4 5 6 7	Typically adopt a bold, aggressive posture in order to maximize probability of exploiting potential opportunities

How would you characterize the external environment within which your business operates?

Very safe, little threat to the survival and well-being of my business	1 2 3 4 5 6 7	Very risky, a false step can mean my business' undoing
Rich in investment and marketing opportunities	1 2 3 4 5 6 7	Very stressful, exacting, hostile; very hard to keep afloat
An environment that my business can control and manipulate to its own advantage, such as a dominant firm has in an industry with little competition and few hindrances	1 2 3 4 5 6 7	A dominating environment in which my business' initiatives count for very little against the tremendous competitive, political, or technological forces

2.2 In this section, we want to know about you and your fellow business owners and managers.

Considering your fellow downtown business owners and managers, how many of them do you talk with at least once per week?

_____

Of those that you talk with **at least once per week**, please consider just the ones with whom you talk the most frequently. How many days in a week would you usually speak with these people?

1 day ____ 2 days ____ 3 days ____ 4 days ____ 5 days ____ 6 days ____ 7 days ____

How often do you attend (formal or informal) downtown business meetings?

every month ___ every other month ___ twice a year ___ once a year ___ never ____

Please circle the number that best represents your level of agreement or disagreement with what the statement implies. A **1** means that you **strongly disagree** with the statement, while a **7** means that you **strongly agree** with the statement.

Considering your fellow downtown business owners and managers...

	Strongly Disagree		Neither agree nor disagree				Strongly Agree
These people share the same ambitions and visions for our downtown's future	1	2	3	4	5	6	7
These people like to work toward achieving downtown goals	1	2	3	4	5	6	7
These people are enthusiastic about projects that benefit the whole downtown	1	2	3	4	5	6	7

Still keep in mind your fellow downtown business owners and managers, and circle the number the number that represents how true or untrue you feel each statement is. A **1** means that the statement is **completely untrue**, while a **7** means the statement is **very true**.

Considering your fellow downtown business owners and managers, is it true that...

	Completely Untrue		Neither true nor untrue				Completely True
They know each other by name	1	2	3	4	5	6	7
They talk to each other regularly about business/downtown issues	1	2	3	4	5	6	7
They see each other regularly in business/downtown situations	1	2	3	4	5	6	7
I am similar to these people in terms of my outlook on life	1	2	3	4	5	6	7
I am similar to these people in terms of my likes and dislikes	1	2	3	4	5	6	7

	Completely Untrue			Neither true nor untrue			Completely True
I am similar to these people in terms of my business philosophy	1	2	3	4	5	6	7
I am similar to these people in terms of my values and beliefs	1	2	3	4	5	6	7
These people would be willing to do me a favor if asked	1	2	3	4	5	6	7
We do favors for each other from time to time	1	2	3	4	5	6	7
These people patronize my business because I support the community	1	2	3	4	5	6	7

2.3 In this section we want to know your perceptions of aspects of your downtown. Please circle the number that best represents your level of agreement or disagreement with the statement. A 1 means that you **strongly disagree** with the statement, while a 7 means that you **strongly agree** with the statement.

In the minds of local consumers, tourists or visitors...

	Strongly Disagree			Neither agree nor disagree			Strongly Agree
Our downtown has a negative image	1	2	3	4	5	6	7
Our downtown has an established image	1	2	3	4	5	6	7
Our downtown has a positive image	1	2	3	4	5	6	7
Downtown business owners and local government present a consistent image of the downtown	1	2	3	4	5	6	7
Consumers would rate the downtown area as safe	1	2	3	4	5	6	7
Consumers would rate the downtown area as "walkable"	1	2	3	4	5	6	7
Consumers would rate the downtown as excellent in its historic preservation	1	2	3	4	5	6	7
Consumers would rate the downtown as excellent in its culturally diverse opportunities	1	2	3	4	5	6	7

As a downtown business owner or manager, I believe that...

Downtown business owners have a consistent view of the downtown's image	1	2	3	4	5	6	7
There are not enough different businesses downtown	1	2	3	4	5	6	7
The mix of businesses in our downtown is optimal for attracting consumers	1	2	3	4	5	6	7
Downtown business owners welcome new businesses that open here	1	2	3	4	5	6	7
Our downtown has a very diverse mix of businesses	1	2	3	4	5	6	7
Less vacant storefronts would mean an increase in consumers downtown, leading to increased business	1	2	3	4	5	6	7
The number of vacancies has a negative effect on consumers' perceptions of the downtown	1	2	3	4	5	6	7
The number of vacancies is so low that it has no effect on downtown business	1	2	3	4	5	6	7

Magnet businesses are those that attract large numbers of consumers to your downtown.

Magnet businesses are very important to our downtown's overall success	1	2	3	4	5	6	7
The magnet business or businesses in our downtown have more drawing power than any other single business	1	2	3	4	5	6	7
If a magnet business closed it would have a significant, negative impact on the whole downtown	1	2	3	4	5	6	7

Does your downtown have magnet businesses? If yes, please write the name or names of each in the space provided. If you need more space, feel free to add a sheet to this survey.

_____ _____ _____

_____ _____ _____

2.4

A complementary business is one that may not directly compete with yours, but sells products or services that consumers see as similar or that complement yours.

How many other downtown businesses sell products or provide services that are complementary to your business?

_____

For the following statements, please consider a symbol as a landmark (Mackinac Bridge), slogan (Water, Winter Wonderland) or logo (The Mitten), etc .

	Strongly Disagree			Neither agree nor disagree			Strongly Agree
Our downtown has a symbol or symbols readily recognized by consumers	1	2	3	4	5	6	7
Our symbol or symbols are distinct from other downtowns that are our competitors	1	2	3	4	5	6	7
Our symbol or symbols are endorsed and supported by downtown business owners	1	2	3	4	5	6	7
Downtown business owners and local government endorse and support the same symbol(s)	1	2	3	4	5	6	7

From the business types listed below, please check the **one** that most accurately reflect your business.

Type of business

_____Financial Services
_____Medical Services
_____Personal Services
_____Real Estate
_____Restaurant
_____Bar
_____Sales/Repair Services
_____Retail: Jewelry, accessories
_____Retail: Clothes, shoes
_____Retail: Cards, gifts
_____Retail: Housewares, Hardware
_____Retail: Computers, electronics
_____Gallery: Art, museum, etc.
_____Other (please list)

2.4 In order to compare your downtown to other successful downtowns, the following information about performance is very important. Please circle the number that best represents your estimate of the performance of both the downtown as a whole and your own business. A **1** means you rate the item as **poor** and a **7** means you rate it as **excellent.**

	Poor		Neither poor nor excellent				Excellent
How would you describe the overall performance of the downtown as a whole last year	1	2	3	4	5	6	7
How would you describe the overall performance of the downtown as a whole, relative to your downtown's major local competitors (e.g., mall, etc)	1	2	3	4	5	6	7
How would you describe the overall performance of the downtown as a whole, relative to other downtowns in your region	1	2	3	4	5	6	7
How would you describe the overall performance of **your** business last year	1	2	3	4	5	6	7
How would you describe the overall performance of **your** business relative to your major competitors	1	2	3	4	5	6	7
How would you describe the overall performance of **your** business relative to other businesses like yours in the industry	1	2	3	4	5	6	7

If you have been in your location less than two years, please list the type of store or product which was sold in your location immediately prior to opening your business. _____

Please note the percentage of each category below, that you feel makes up your community's economic base. Please make the amounts add up to 100%.

Agricultural _____ Manufacturing _____ Tourism _____ Second-homers _____ Other _____

3.0

Is this a family owned business? _____Yes _____No How long have you owned this business? ____Years

How long has this business existed? _____Years How long have you been located downtown?____Years

Does your store have more than one location?_____Yes____No If yes, how many total units? _____

What is the estimated revenue of the store or branch in the downtown location? $_____

In the past fiscal year, what level of net profit did your business achieve (Check only one please)
0 ___ 1%___ 2% ___ 3% ___ 4% ___ 5% ___ 6% ___ 7% ___ 8% ___ 9% ___ 10% or more _____

How many full-time people do you employ (including yourself)? _part-time (including yourself)? _____

What is your gender? _____Male _____Female What year were you born? _____

What is the highest level of education you completed?

_____High School graduate
_____Some college
_____College graduate
_____MS/MA/MBA
_____Ph.D.
_____Other

What field, if any, did you work in prior to this business? _____

APPENDIX B

Tables

Table 1. Latent Constructs and Observed Indicators: Content and Scale Reliabilities

Latent Factor	**Entrepreneurial Orientation (ENTREP)**		
First-Order Factor	Innovativeness (INNOV) 1 to 7 Bi-polar statements		
V21	Favor a strong emphasis on the marketing of tried and true products or services	**OR**	A strong emphasis on R&D, technological leadership and innovation
V24	Has introduced no new lines of products or services	**OR**	Very many new lines of products or services
V25	Changes in product or service lines have been mostly of a minor nature	**OR**	Changes in product or service lines have been quite dramatic
Alpha	**.606**		
First-Order Factor	Proactiveness (PROAC) 1 to 7 Bi-polar statements		
V26	Typically responds to actions which competitors initiate	**OR**	Typically initiates actions which competitors then respond to
V27	Is seldom the first business to introduce new products/ services, administrative techniques, operating technologies, etc.	**OR**	Is very often the first to introduce new products/ services, administrative techniques, operating technologies, etc.
V28	Typically seeks to avoid competitive clashes, preferring a "live-and-let-live" posture	**OR**	Typically adopts a very competitive, "undo-the-competitors" posture
Alpha	**.576**		
First-Order Factor	Risk Taking (RISK) 1 to 7 Bi-polar statements		
V22	Strongly favor low-risk projects (with normal and certain rates of return)	**OR**	Strongly favor high-risk projects (with chances of very high return)
V23	Believe that owing to the nature of the environment, it is best to explore it gradually via timid, incremental behavior	**OR**	Believe that owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve my firm's objectives
V29	Typically adopt a cautious, "wait-and-see" posture in order to minimize the probability of making costly decisions	**OR**	Typically adopt a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities
Alpha	**.608**		

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Small Business Orientation (SBO)**
First-Order Factor	Purpose and Goals (PURP) 1= Strongly disagree; 7 = strongly agree
V2	I established this business because it better fit my personal life than working for someone else.
V3	I have no plans to significantly expand this business in size or sales revenue
V4	My goals for this business are more personally oriented than financially oriented
V5	This business is my primary source of income
V6REV	My goal for this business includes expanding to multiple (2 or more) locations
Alpha	**.455**
First-Order Factor	Emotional Attachment (EMOT) 1= Strongly disagree; 7 = strongly agree
V7	I consider this business to be an extension of my personality
V8	My goals for this business are interwoven (interconnected) with my family's needs
V9	I love my business
V10	I am emotionally attached to my business
Alpha	**.706**

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Social Capital (SOCAP)**
First-Order Factor	Trust (TRU) 1= Strongly disagree; 7 = strongly agree
V11	These people would trust me with personal information about themselves
V12	I am considered to be dependable by these people
V13	These people would say that I am trustworthy
V14	These people would say I am sincere
V15	I can be trusted by these people to not take advantage of them
Alpha	**.947**
First-Order Factor	Reciprocity (RECIP) 1= Strongly disagree; 7 = strongly agree
V16	These people are generally fair in dealings with me
V17	These people would be willing to do me a favor if asked
V18	We do favors for each other from time to time
V19	These people patronize my business because I support the community
V29	If I did not support the community, these people would stop patronizing my business
Alpha	**.791**
First-Order Factor	Shared Vision (VIS) 1= Strongly disagree; 7 = strongly agree
V36	These people share the same ambitions and visions for our downtown's future
V37	These people like to work toward achieving downtown goals
V38	These people are enthusiastic about projects that benefit the whole downtown
Alpha	**.871**

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Social Network Ties (SNTIES)**
First-Order Factor	Density (DENS) 1= not true; 7= very true
V39	They know each other by name
V40	They talk to each other regularly about business/downtown issues
V41	They see each other regularly in business/downtown situations
Alpha	**.867**
First-Order Factor	Homophily (HOM) 1= not true; 7= very true
V42	I am similar to these people in terms of my outlook on life
V43	I am similar to these people in terms of my likes and dislikes
V44	I am similar to these people in terms of my business philosophy
V45	I am similar to these people in terms of my values and beliefs
Alpha	**.862**
First-Order Factor	Frequency of Interaction (FREQ) Ratio scales
V33	Considering your fellow business owners and managers, how many of them do you talk with at least once per week?
V34	Of those that you talk with at least once per week, please consider just the ones with whom you talk the most frequently. How many days in a week would you usually speak with these people? 1-2-3-4-5-6-7?
V35	How often do you attend downtown (formal or informal) business meetings: every month; every other month; twice a year; once a year; never?

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Brand Identity (BRID)**
First-Order Factor	Image (IMAGE) 1=Strongly disagree; 7=Strongly agree
V49REV	Our downtown has a negative image
V50	Our downtown has an established image
V51	Our downtown has a positive image
V52	Downtown business owners and local government present a consistent image of the downtown
V58	Downtown business owners have a consistent view of the downtown's image
Alpha	**.847**
First-Order Factor	Positioning (POS) 1=Strongly disagree; 7=Strongly agree
V75	Our downtown has a symbol or symbols readily recognized by consumers
V76	Our symbol or symbols are distinct from other downtowns that are our competitors
V77	Our symbol or symbols are endorsed and supported by downtown business owners
V78	Downtown business owners and local government endorse and support the same symbol(s)
Alpha	**.941**

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Business Mix (BUSMIX)**
First-Order Factor	Diversity (DIV) 1= Strongly disagree; 7=Strongly agree
V59REV	There are not enough different businesses downtown
V60	The mix of businesses in our downtown is optimal for attracting consumers
V61	Downtown business owners welcome new businesses that open here
V62	Our downtown has a very diverse mix of businesses
Alpha	**.563**
First-Order Factor	Magnet Businesses (MAG) 1= Strongly disagree; 7=Strongly agree
V66	Magnet businesses are very important to our downtown's overall success
V67	The magnet business or businesses in our downtown have more drawing power than any other single business
V68	If a magnet business closed it would have a significant, negative impact on the whole downtown
Alpha	**.808**
First-Order Factor	Complementary Businesses (COMP) Ratio scale of perceived number of complementary businesses reported by each respondent.
V74	How many other downtown businesses sell products or services that are complementary to your business?

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Community Characteristics (COMCHAR)**		
First-Order Factor	Environmental Hostility (HOST) 1 to 7 Bi-polar Statements		
V30REV	Very safe, little threat to the survival and well-being of my business	**OR**	Very risky, a false step can mean my business' undoing
V31REV	Rich in investment and marketing opportunities	**OR**	Very stressful, exacting, hostile; very hard to keep afloat
V32 REV	An environment that my business can control and manipulate to its own advantage, such as a dominant firm has in an industry with little competition and few hindrances	**OR**	A dominating environment in which my business' initiatives count for very little against the tremendous competitive, political, or technological forces
Alpha	**.749**		
First-Order Factor	Sense of Place (SENSE) 1=Strongly agree: 7=Strongly disagree		
V53	Consumers would rate the downtown area as safe		
V54	Consumers would rate the downtown area as "walkable"		
V55	Consumers would rate the downtown as excellent in its historic preservation		
V56	Consumers would rate the downtown as excellent in its culturally diverse opportunities		
Alpha	**.752**		
V106	Economic Base of Community - Agricultural=1; Manufacturing=2; Tourism=3; Second-homer's=4		
V107	Creative Class Jobs – Ratio scale of percentage of super-creative and creative occupations in community		
V108	Creative Class Education – Ratio scale of percentage of community that holds a college degree or higher		

Table 1. continued. Latent Constructs and Observed Indicators

Latent Factor	**Downtown Success (DTSUC)**
First-Order Factor	Relative Downtown Performance (RELTOWN) 1=Poor; 7=Excellent
V80	How would you describe the overall performance of the downtown as a whole last year?
V81	How would you describe the overall performance of the downtown as a whole, relative to your downtown's major competitors (e.g., mall, etc.)
V82	How would you describe the overall performance of the downtown as a whole, relative to other downtowns in your region
Alpha	**.907**
First-Order Factor	Relative Business Performance (RELBIZ) 1=Poor; 7=Excellent
V83	How would you describe the overall performance of your business last year
V84	How would you describe the overall performance of your business relative to your major competitors
V85	How would you describe the overall performance of your business relative to other businesses like yours in the industry
Alpha	**.873**
First-Order Factor	Vacancies (VAC) 1=Strongly disagree; 7=Strongly agree
V63	Less vacant storefronts would mean an increase in the consumers downtown, leading to increased business
V64	The number of vacancies has a negative effect on consumers' perceptions of the downtown
V65REV	The number of vacancies is so low that it has no effect on downtown business
Alpha	**.585**
V95	Longevity – Ratio scale of the number of years the business has existed downtown

Table 2. Sample Characteristics

Sample Characteristic	Frequency	Percentage*
Gender		
Male	139	52.0
Female	120	44.9
Age		
40 or less years	47	17.6
41-50 years	69	25.8
51 years and over	91	34.1
Education		
High school graduate	35	13.1
Some college	73	27.3
College graduate	112	41.9
Post-graduate degree	28	10.5
Family Business		
Yes	180	67.4
No	75	28.1
Years business has existed		
6 or less	49	18.3
7-15	55	20.6
16-30	75	28.1
31 or more	78	29.2
Years in downtown		
6 or less	74	27.7
7-15	56	21.0
16-30	66	24.7
31 or more	52	23.2
Years of current owner		
6 or less	78	29.2
7-15	64	24.0
16-30	66	24.7
31 or more	14	5.2
Full-time employees		
None	27	10.1
1-2	90	33.7
3-5	54	20.2
6 or more	28	10.5
Part-time employees		
None	24	9.0
1-2	86	32.2
3-5	65	24.3
6 or more	55	20.6
* Less than 100% due to missing data		

Table 3. Community Characteristics

Characteristic	Alma[2]	Brighton[4]	Cadillac[4]	Charlevoix[1,5]
Total Population	9275	6701	10000	2994
Sex:				
Female	5102 (55%)	3572 (53.3%)	4774 (47.7%)	1587 (53.0%)
Male	4173 (45%)	3129 (46.7%)	5226 (52.3%)	1407 (47.0%)
Race:				
White	8695 (93.7%)	6474 (96.6%)	9655 (96.6%)	2842 (94.9%)
Black	49 (0.5%)	23 (0.3%)	21 (0.2%)	8 (0.3%)
Other	531 (5.8%)	204 (3.1%)	324 (3.2%)	144 (4.8%)
Housing Occupancy:				
Total housing units	3476	3241	4466	2096
Occupied housing units	3220 (92.6%)	3103 (95.7%)	4118 (92.2%)	1375 (65.6%)
Vacant housing units	256 (7.4%)	138 (4.3%)	348 (7.8%)	721 (34.4%)
For seasonal, recreational, or occasional use	20 (0.6%)	13 (0.4%)	78 (1.7%)	644 (30.7%)
Educational Attainment:				
High School Graduate (includes equivalency)	1862 (34.6%)	1243 (27.1%)	2270 (35.2%)	659 (31.8%)
Bachelor's Degree	640 (11.9%)	877 (19.1%)	757 (11.7%)	323 (15.6%)
Graduate or Professional Degree	449 (8.3%)	544 (11.9%)	374 (5.8%)	148 (7.1%)
Industry:				
Agriculture, forestry, fishing & hunting, and mining	29 (0.7%)	0	42 (0.9%)	0
Manufacturing	733 (18.2%)	711 (19.2%)	1183 (26.4%)	200 (15.8%)
Retail Trade	495 (12.3%)	537 (14.5%)	654 (14.6%)	221 (17.5%)
Educational, health, and social services	1284 (31.9%)	729 (19.7%)	876 (19.5%)	262 (20.7%)
Arts, entertainment, recreation, accommodation, and food services	435 (10.8%)	342 (9.2%)	485 (10.8%)	132 (10.4%)
Class of Worker:				
Self-employed workers in own not incorporated business	187 (4.6%)	176 (4.7%)	282 (6.3%)	122 (9.6%)

Table 3. Continued - Community Characteristics

Characteristic	Escanaba[1]	Fowlerville[2]	Frankenmuth[4, 5]	Lake Orion[4]
Total Population	13140	2972	4838	2715
Sex:				
Female	7000 (53.3%)	1553 (52.3%)	2680 (55.4%)	1366 (50.3%)
Male	6140 (46.7%)	1419 (47.7%)	2158 (44.6%)	1349 (49.7%)
Race:				
White	12570 (95.7%)	2862 (96.3%)	4780 (98.8%)	2655 (97.8%)
Black	14 (0.1%)	5 (0.2%)	13 (0.3%)	7 (0.3%)
Other	556 (4.2%)	105 (3.5%)	45 (0.9%)	53 (1.9%)
Housing Occupancy:				
Total housing units	6258	1211	2240	1320
Occupied housing units	5800 (92.7%)	1158 (95.5%)	2123 (94.8%)	1198 (90.8%)
Vacant housing units	458 (7.3%)	55 (4.5%)	117 (5.2%)	122 (9.2%)
For seasonal, recreational, or occasional use	36 (0.6%)	5 (0.4%)	19 (0.8%)	45 (3.4%)
Educational Attainment:				
High School Graduate (includes equivalency)	3001 (33.6%)	757 (41.9%)	1100 (30.2%)	343 (18.0%)
Bachelor's Degree	1212 (13.6%)	150 (8.3%)	794 (21.8%)	355 (18.6%)
Graduate or Professional Degree	526 (5.9%)	49 (2.7%)	364 (10%)	202 (10.6%)
Industry:				
Agriculture, forestry, fishing & hunting, and mining	60 (0.1%)	15 (1.1%)	19 (0.9%)	0
Manufacturing	845 (14.6%)	365 (26.7%)	293 (13.6%)	355 (21.9%)
Retail Trade	810 (14.0%)	192 (14.0%)	277 (12.9%)	151 (9.3%)
Educational, health, and social services	1227 (21.2%)	185 (13.5%)	372 (17.3%)	296 (18.2%)
Arts, entertainment, recreation, accommodation, and food services	821 (14.2%)	103 (7.5%)	208 (9.7%)	166 (10.2%)
Class of Worker:				
Self-employed workers in own not incorporated business	359 (6.2%)	115 (8.4%)	101 (4.7%)	80 (4.9%)

Table 3. Continued - Community Characteristics

Characteristic	Mt. Pleasant[3]	Petoskey[2]	Sault Ste. Marie[2]	South Haven[5]	Sturgis[5]
Total Population	25946	6080	16542	5021	11285
Sex:					
Female	14222 (54.8%)	3275 (53.9%)	7452 (45.0%)	2709 (54.0%)	5861 (51.9%)
Male	11724 (45.2%)	2805 (46.1%)	9090 (55.0%)	2312 (46.0%)	5424 (48.1%)
Race:					
White	23124 (89.1%)	5726 (94.2%)	12239 (74.0%)	4155 (82.8%)	10306 (91.3%)
Black	951 (3.7%	20 (0.3%)	1077 (6.5%)	644 (12.8%)	139 (1.2%)
Other	1871 (7.2%)	334 (5.5%)	3226 (19.5%)	222 (4.4%)	840 (7.5%)
Housing Occupancy:					
Total housing units	8878	3342	6237	2979	4529
Occupied housing units	8449 (95.2%)	2700 (80.8%)	5742 (92.1%)	2095 (70.3%)	4293 (94.8%)
Vacant housing units	429 (4.8%)	642 (19.2%)	495 (7.9%)	884 (29.7%)	236 (5.2%)
For seasonal, recreational, or occasional use	38 (0.4%)	474 (14.2%)	86 (1.4%)	716 (24%)	14 (0.3%)
Educational Attainment:					
High School Graduate (includes equivalency)	1869 (21.0%)	1119 (26.4%)	3383 (32.9%)	979 (27.7%)	2624 (38.5%)
Bachelor's Degree	1871 (21.0%)	774 (18.3%)	1141 (11.1%)	494 (14.0%)	573 (8.4%)
Graduate or Professional Degree	1716 (19.3%)	540 (12.7%)	598 (5.8%)	288 (8.2%)	362 (5.3%)
Industry:					
Agriculture, forestry, fishing & hunting, and mining	53 (0.4%)	10 (0.3%)	30 (0.5%)	8 (0.4%)	72 (1.3%)
Manufacturing	593 (4.5%)	246 (7.8%)	290 (4.4%)	576 (25.2%)	2421 (45.3%)
Retail Trade	1975 (15.0%)	583 (18.5%)	893 (13.5%)	222 (9.7%)	539 (10.1%)
Educational, health, and social services	4655 (35.5%)	850 (26.9%)	1848 (28.0%)	410 (17.9%)	825 (15.4%)
Arts, entertainment, recreation, accommod., and food services	3154 (24.0%)	454 (14.4%)	1141 (17.3%)	356 (11.2%)	353 (6.6%)
Class of Worker:					
Self-employed workers in own not incorporated business	398 (3.0%)	307 (9.7%)	258 (3.9%)	152 (6.7%)	237 (4.4%)

Key for Table 3

1 = DDA office dropped off surveys and picked up
2 = DDA office dropped off surveys and I picked up
3 = I dropped off surveys and DDA office picked up
4 = I dropped off surveys and picked them up
5 = Focus group towns

Table 4. Hypotheses – Business Resources Construct

Hypothesis	Variable/Factor Relationships	Results
H1 a	Innovativeness indicates entrepreneurial orientation	supported
H1 b	Risk taking indicates entrepreneurial orientation	supported
H1 c	Proactiveness indicates entrepreneurial orientation	supported
H1 d	Entrepreneurial orientation indicates business resources	not supported
H2 a	Business owner goals indicates small business orientation	not supported
H2 b	Emotional attachment indicates small business orientation	supported
H2 c	Small business orientation indicates business resources	supported
H3 a	Reciprocity indicates social capital	supported
H3 b	Trust indicates social capital	supported
H3 c	Shared vision indicates social capital	supported
H3 d	Social capital indicates business resources	supported
H4 a	Network density indicates social network ties	supported
H4 b	Frequency of interaction indicates social network ties	supported
H4 c	Perceived homophily indicates social network ties	supported
H4 d	Social network ties indicates business resources	not tested
H5	Business resources predict downtown success	not supported

Table 4. continued. Hypotheses – Structural Resources Construct and Downtown Success

Hypothesis	Variable/Factor Relationships	Results
H 6 a	Image indicates brand identity	supported
H6 b	Positioning indicates brand identity	supported
H6 c	Brand identity indicates structural resources	supported
H7 a	Diversity of businesses indicates business mix	supported
H7 b	Magnet businesses indicate business mix	not supported
H7 c	Complementary businesses indicate business mix	supported
H7 d	Business mix indicates structural resources	supported
H8 a	Environmental hostility indicates community characteristics	not supported
H8 b	Economic base indicates community characteristics	not support
H8 c	Sense of place indicates community characteristics	supported
H8 d	Community characteristics indicate structural resources	supported
H9	Structural resources predict downtown success	supported
H10 a	Relative downtown performance indicates downtown success	supported
H10 b	Relative business performance indicates downtown success	supported
H10 c	Vacancies indicate downtown success	not supported
H10 d	Business longevity indicates downtown success	not supported

Table 5. Parameter Estimates for First-Order CFA - ENTREP

Path Label	Parameter Estimate	t-value	Standardized Estimate
V24, INNOV	1.12	10.02*	.656
V25, INNOV	1.45	13.68*	.933
V26, PROAC	.84	9.26*	.616
V27, PROAC	1.07	10.81*	.721
V28, PROAC	.60	5.53*	.387
V23, RISK	.75	5.74*	.566
V29, RISK	.44	4.37*	.332
INNOV, PROAC	.74	12.49*	
INNOV, RISK	.80	6.49*	
PROAC, RISK	.80	6.27*	
*p<.05			
χ^2=14.12, df=9, n=256, p=0.118, RMSEA=.047, AGFI=.95			

Table 6. Parameter Estimates for First-Order CFA - SBO

Path Label	Parameter Estimate	t-value	Standardized Estimate
V2, PURP	-.81	-3.05	.538
V5, PURP	-.44	-2.73	.207
V6, PURP	.01	.096	.000
V7, EMOT	1.13	8.97*	.806
V8, EMOT	.48	4.54*	.276
V9, EMOT	.71	8.34*	.616
V10, EMOT	1.46	9.58*	1.05
PURP, EMOT	-.65	-3.12	
*p<.05			
χ^2=17.77, df=11, n=264, p=0.087, RMSEA=.048, AGFI=.95			

Table 7. Parameter Estimates for First-Order CFA - SOCAP

Path Label	Parameter Estimate	t-value	Standardized Estimate
V11, TRUST	.69	12.58*	.685
V12, TRUST	.90	18.27*	.900
V13, TRUST	.97	20.69*	.969
V17, RECIP	.36	5.59*	.360
V18, RECIP	.78	12.92*	.774
V19, RECIP	.85	14.18*	.848
V36, VIS	.68	12.18*	.685
V37, VIS	.94	18.51*	.943
V38, VIS	.85	16.08*	.854
TRUST, RECIP	.59	11.83*	
TRUST, VIS	-.03	-.43	
RECIP, VIS	.14	2.04	
*p<.05			
χ^2=31.04, df=24, n=267, p=0.153, RMSEA=.033, AGFI=.95			

Table 8. Parameter Estimates for First-Order CFA - SNTIES

Path Label	Parameter Estimate	t-value	Standardized Estimate
V33, FREQ	3.38	2.65*	.316
V34, FREQ	.45	1.93*	.314
V35, FREQ	.74	2.57*	.469
V39, DENS	1.08	12.63*	.787
V40, DENS	1.10	14.44*	.837
V41, DENS	1.15	15.65*	.916
V42, HOM	1.16	13.97*	.837
V43, HOM	.89	11.43*	.685
V44, HOM	.98	13.01*	.755
V45, HOM	1.03	13.83*	.806
FREQ, DENS	.30	2.55	
FREQ, HOM	.28	2.33	
DENS, HOM	.54	10.40*	
*p<.05			
χ^2 =36.66, df=28, n=261, p=0.126, RMSEA=.034, AGFI=.95			

Table 9. Parameter Estimates for First-Order CFA - BRID

Path Label	Parameter Estimate	t-value	Standardized Estimate
V50, IMAGE	.99	10.89*	.663
V51, IMAGE	1.41	14.05*	.825
V52, IMAGE	1.18	12.72*	.761
V58, IMAGE	.74	7.63*	.510
V75, POS	1.80	18.17*	.905
V76, POS	1.76	19.19*	.933
V78, POS	1.40	15.20*	.800
IMAGE, POS	.47	8.17*	
*p<.05			
χ^2=23.54, df=12, n=259, p=0.023, RMSEA=.061, AGFI=.94			

Table 10. Parameter Estimates for First-Order CFA - BUSMIX

Path Label	Parameter Estimate	t-value	Standardized Estimate
V59, DIV	.59	5.03*	.374
V60, DIV	.70	4.78*	.346
V61, DIV	.56	4.94*	.360
V62, DIV	1.64	8.03*	.969
V66, MAG	1.32	13.32*	.806
V67, MAG	1.26	13.22*	.800
V68, MAG	1.14	10.83*	.663
DIV, MAG	.13	1.78	
*p<.05			
χ^2 =17.03, df=13, n=259, p=0.198, RMSEA=.035, AGFI=.96			

Table 11. Parameter Estimates for First-Order CFA - COMCHAR

Path Label	Parameter Estimate	t-value	Standardized Estimate
V30, HOST	1.05	10.46*	.663
V31, HOST	1.03	12.07*	.768
V32, HOST	.94	11.55*	.735
V53, SENSE	.46	5.66*	.374
V54, SENSE	.72	7.27*	.500
V55, SENSE	1.65	11.65*	.985
V56, SENSE	.95	8.32*	.872
HOST, SENSE	.08	1.15	
*p<.05			
χ^2=17.07, df=12, n=264, p=0.147, RMSEA=.040, AGFI=.96			

Table 12. Parameter Estimates for First-Order CFA - DTSUC

Path Label	Parameter Estimate	t-value	Standardized Estimate
V63, VAC	.54	2.71*	.400
V64, VAC	1.37	2.91*	.916
V80, RELTOWN	1.29	17.22*	.866
V81, RELTOWN	1.32	17.48*	.883
V82, RELTOWN	1.32	16.12*	.837
V83, RELBIZ	.98	13.67*	.728
V84, RELBIZ	1.10	17.86*	.905
V85, RELBIZ	1.06	17.24*	.883
VAC, RELTOWN	-.16	-1.85	
VAC, RELBIZ	.06	.85	
RELTOWN, RELBIZ	.48	8.95*	
*p<.05			
χ^2 =25.32, df=15, n=263, p=0.046, RMSEA=.051, AGFI=.94			

Table 13. Parameter Estimates for CFA - BUSRES

Path Label	Parameter Estimate	t-value	Standardized Estimate
INNOV, ENTREP	1.00		.728
PROAC, ENTREP	.76	7.91*	.748
RISK, ENTREP	.59	7.66*	.608
PURP, SBO	1.00		.232
EMOT, SBO	2.54	2.58*	.660
LOCAP, SBO	1.90	2.61*	.663
FREQ, SOCAP	.47	3.24*	.268
DENS, SOCAP	1.00		.900
LOCAP, SOCAP	.13	2.03*	.663
BIZCAP, SOCAP	.58	4.32*	.583
ENTREP, SBO	.07	1.99	
ENTREP, SOCAP	.21	2.33	
SBO, SOCAP	.04	1.37	
*p<.05			
χ^2 =38.06, df=23, n=267, p=0.025, RMSEA=.050, AGFI=.94			

Table 14. Parameter Estimates for CFA - STRURES

Path Label	Parameter Estimate	t-value	Standardized Estimate
IMAGE, BRID	1.02	12.12*	.848
POS, BRID	.80	7.45*	.479
COMP, BUSMIX	.41	2.24*	.164
DIV, BUSMIX	.91	3.93*	.818
HOST, COMCHAR	.12	1.48	.104
SENSE, COMCHAR	.77	2.77*	.616
BRID, BUSMIX	.69	3.82*	
BRID, COMCHAR	1.21	2.82	
BUSMIX, COMCHAR	.99	2.32	
*p<.05			
χ^2=12.33, df=6, n=267, p=0.055, RMSEA=.063, AGFI=.95			

Table 15. Parameter Estimates for First-Order CFA - DTSUC

Path Label	Parameter Estimate	t-value	Standardized Estimate
VAC, DTSUC	-.11	-1.54	.094
RELTOWN, DTSUC	1.36	23.07*	1.00
RELBIZ, DTSUC	.50	7.84*	.458
LONG, DTSUC	.97	.62	.038
*p<.05			
χ^2 =2.33, df=2, n=267, p=0.311, RMSEA=.025, AGFI=.98			

Table 16. Parameter Estimates for Measurement Model

Path Label	Parameter Estimate	t-value	Standardized Estimate
INNOV, ENTREP	1.05	10.81*	.742
PROAC, ENTREP	.76	10.65*	.728
RISK, ENTREP	.58	8.61*	.574
PURP, SBO	.50	3.56*	.436
EMOT, SBO	.30	2.57*	.293
LOCAP, SBO	.33	3.03*	.479
LOCAP, SOCAP	.14	1.91*	.479
FREQ, SOCAP	.53	3.57*	.298
DENS, SOCAP	.89	6.09*	.787
IMAGE, BRID	.99	12.35*	.825
POS, BRID	.82	7.78*	.490
COMP, BUSMIX	.42	2.36*	.170
DIV, BUSMIX	.88	4.28*	.794
HOST, COMCHAR	.11	1.42	.099
SENSE, COMCHAR	.82	2.83*	.656
ENTREP, SBO	.17	1.31	
ENTREP, SOCAP	.24	2.59*	
ENTREP, BRID	.00	-.01	
ENTREP, BUSMIX	.10	1.08	
ENTREP, COMCHAR	.16	1.32	
SBO, SOCAP	.31	1.87	
SBO, BRID	-.01	-.04	
SBO, BUSMIX	.35	2.21*	
SBO, COMCHAR	.04	.24	
SOCAP, BRID	.54	5.09*	
SOCAP, BUSMIX	.42	3.03*	
SOCAP, COMCHAR	.56	2.45*	
BRID, BUSMIX	.72	4.17*	
BRID, COMCHAR	1.17	2.88*	
BUSMIX, COMCHAR	.96	2.42*	
*p<.05			
χ^2=74.20, df=60, n=267, p=0.103, RMSEA=.030, AGFI=.92			

Table 17. Parameter Estimates for Structural Model

Path Label	Parameter Estimate	t-value	Standardized Estimate
ENTREP, BUSRES	1.00		1.07
SBO, BUSRES	2.99	5.27*	1.28
SOCAP, BUSRES	4.83	2.84*	.160
SOCAP, STRURES	.76	4.45*	.350
BRID, STRURES	1.00		.770
BUSMIX, STRURES	.84	5.38*	.380
COMCHAR, STRURES	.83	8.86*	.648
BUSRES, DTSUC	3.10	1.60	.220
STRURES, DTSUC	1.23	2.12*	.680
DTSUC, VAC	.17		.190
DTSUC, RELBIZ	.44	2.09*	.540
DTSUC, LONG	3.72	1.31	.130
*p<.05			
χ^2 =47.02, DF=24, n=267, p=0.003, RMSEA=.060, AGFI=.94			

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