

RUNNING HEAD: Square One

Square One: A Case Study Into an Entrepreneurial Recording Studio

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Introduction

Entrepreneurship is an important aspect of the music industry, especially in the recording studio business (Daley, October 2001, para. 17). In a region where over 1,500 companies comprise the entertainment industry (Nashville Chamber of Commerce, para. 1), owning one's own business is a reality for many people. Nonetheless, Billboard Magazine says it best, that "most recording studio proprietors will say that theirs is a very difficult business in which to be financially successful" (Walsh, para. 1). The reality of owning this type of business can be both challenging and rewarding.

Steve Allen, owner of Square One Studio, a recording studio located in Franklin, Tennessee, knows first hand of the risks and rewards. Getting his foot in the recording studio door with a well-timed, by-chance conversation he started his journey in the music industry. Allen happened to catch a radio program that Roger Bennett, of the southern gospel group the Cathedrals and then-owner of Square One Studio, was on, called the radio station, asked for and received an internship position at Square One. Allen grew in his engineering and business skills by attending college, which along with an intense dedication and devotion to his job at Square One, helped things come together. Now, at only age 22, Allen is in the process of owning the very studio where he was once an intern.

In the fall of 2001, when Roger Bennett decided it was time to move on and sell Square One Studio, Allen was very interested in the chance to buy the studio. Having been an intern and engineer there for some time, Allen looked long and hard for a lending institution to loan him the money. However, due to his age, lack of experience, and other

factors, no institution would lend him the money he needed. With no one willing to take a chance and give him financial backing, Allen seemingly had nowhere to turn to make his dreams of owning a recording studio come true.

When the situation seemed bleak for Allen, the owner came through with a deal that Allen could not refuse. Allen and the owners agreed that after making a down payment out of his own pocketbook, Allen would be given eighteen months to start paying for the real estate and lease the studio, in bi-monthly installments (S. Allen, personal communication, March 11, 2002). A portion of each payment goes toward principal, and the rest goes to interest. At the end of the eighteen-month trial period, Allen has two options. He can either:

- A) pay cash for the rest of the amount owed on the studio, or
- B) if still in need of financial backing, and if the financial records of the studio are maintained properly, to secure the services of a traditional financial institution and borrow the capital needed to secure the studio.

The challenge for Allen is clear. How will he be able to create the financial success to pay for the part of Square One he is using now, while also saving his money and keeping the financial books at their peak for his chance to own his own business in a market that sees over 600 businesses go bankrupt a year (American Bankruptcy Institute, 2001)?

Management Environment

Management leaders provide direction when decisions need to be made, policies and procedures should be set for precedents, and goals are to be planned for the short and long terms (Poshman, p. 27). Top quality management is used to “preserve, protect,

perpetuate and promote” an organization (Poshman, p. 27). The management in an organization outlines the flow of work, as well as “the relationships, responsibilities, and authorities of the positions on the organization” (Poshman, p. 28). A stable philosophical base for managing personnel, combined with concrete policies and procedures for management of resources, results in effective delegation to a motivated and devoted staff (Vleck & Wiman, p. 206). Being a media manager means being “expected to have the authority, ability, and influence to provide expected or desirable outcomes” (Sohn, Wicks, Lacy & Sylvie, p. 38), and that power comes from several different places, whether it be a written precept, a matter of custom, an informal guide, or the use of expert information.

The management at Square One Studio is deeply involved with all aspects of guidance and decision-making in the current, critical beginning phases. Management of finances and human resources is essential in any studio manager’s book (Daley, February 2001, p. 98), especially at Square One Studio. For example, at Square One, this requires Allen to make a large investment in studio space. The future of his purchasing Square One Studio depends, in part, on his ability to keep up with all transactions involving money flowing into and out of the business. Also, there is the ever-important factor of cost versus benefit. When work is contracted out, management must make decisions as to whom they will hire, how much it will cost to contract this service, what the contracted party can do, and when the work can be accomplished. Failure by contracted parties to perform tasks adequately and on time reflects poorly upon not only themselves, but also on the reputations of Square One and Allen as well.

Due to monthly payments that need to be made to lease the studio, payments for the real estate, and payments for interest, money cannot be spent whimsically. In addition, the equipment in the recording studio needs to be maintained to keep the studio running at peak performance. This means the decision making process for use of company resources must be carefully scrutinized. Sohn et al. (1999) defined decision making as “the allocation of scarce resources by individuals or groups to achieve goals under conditions of uncertainty and risk” (p. 2). These circumstances have never been as true as they are for this aspiring new business owner.

The literature that is being used throughout this study places the management of small businesses and recording studios as an endeavor that can be made profitable and challenging. Within trade publications, reports of new studios being bought help to define the opportunity at Square One Studio as an event that deserves notice and attention. “The new generation of Nashville studios is characterized by small, affordable rooms run by young people with equal parts enthusiasm, optimism and attitude - three necessary components to even getting out of bed in the morning in this business,” (Daley, December 2000, p. 197). Allen has all of this and more. In academic journals, the study and research of management and decision-making opportunities within small businesses and the media management community is warranted and well documented. Small business journals are characterized by their research into the problems faced by small business owners, especially when dealing with problems of finances, efforts to plan for uncertain futures, and creating a vision and modus operandi for employees to follow.

Overview of Available Literature

The problems and opportunities facing a new studio and business owner are well documented in trade journals and academic journals. The business of management and the development of management are topics that have been receiving much scientific, empirical study over the past 25 years or so. Finance, planning, and solidifying future strategy to run businesses are three areas where much work has been done, but much still needs to be learned before these matters can be put to rest.

Much has been written about the flow of finances in new, small businesses. Cash, known as “the most liquid of assets” (Providence Business News, October 2001), creates its own, distinct problems. In a new business, such as the one that Square One and Allen find themselves in, readily available money can be in short supply. “The National Federation of Independent Business Education Foundation and Wells Fargo has found that cash flow is a continuing problem for one out of every five small business owners,” (Providence Business News, October, 2001).

Almost half of small business owners suffer from cash flow problems, but not on a continuous basis (National Federation of Independent Business, 2001). The report focuses on companies in the small business economy that undergo financial problems with cash and why they think they feel the crunch of cash flow problems. The study finds there are a few major problems small businesses have with cash flow, primarily collection of money owed and seasonality. The Small Business Journal (2002) has also provided support to the dilemma of obtaining money when a small business owner needs it.

Relating that to Square One Studio, when it is time to make a bi-monthly studio payment to the owners, Allen has a choice to make. If he has the money readily

available, he can write a check and draw upon funds from an account set up for that purpose. However, if his cash supply is running low, he may have to make a payment from an account set up for another reason, such as to provide for the purchase of the studio at a later date, thus changing the intentions of the accounts and possibly setting a pattern undesirable for growth and progress.

Innovation is a key concept in the durability of financing a small business. The Daily Business Journal covers the subject thoroughly throughout their journal. Over-reliance on conventional ways of conducting a music business and on authoritative figures can be bad for innovation and bad for business (Daily Business Journal, 2002). Trade publications such as US Newswire have also covered topics of small business innovation. There are areas of Innovation Management that have not been explored fully, including the development of processes and business strategies. Georgellis, et al. (2000) in the Journal of Small Business and Enterprise Development have also studied the dynamic involved with innovation and small business growth.

Planning, mission statements, and having a clear strategy for action have all been studied for their effectiveness in making a successful business, with mixed results. In many textbooks that cover management, “planning (is often described) as the first of four basic and essential managerial tasks” (Perry, 2001, p. 201). Sohn, et al (1999) liken planning to decision making, which is covered extensively in the very opening chapter of their book.

Planning has been difficult to quantify (Perry, 2001). One reason is that planning is just a single part of the entire managerial process. However, in a review of managerial processes and success or failure of business, “the literature strongly suggests the

argument that, in small business, planning is a key issue” (Rue & Ibrahim, 1998, p. 24). In a study by Perry (2001), planning was found to be an issue either not taken up at all or “if any planning at all was done, there was a tendency to do a moderate amount” (Perry, 2001, p. 204). In the businesses that did have managers with a focus on planning, the indicators in the study pointed to planning reducing firm failure and increasing growth over those businesses with no planning structure. A lack of planning is common for small businesses, and especially common for businesses with fewer than five people employed (Perry, 2001). If managers, such as Steve Allen, have few (or in his case, no) employees, then communication of business plans may not be of prime importance.

Rue and Ibrahim (1999), as already stated, pronounce planning to be “a key to success” and a way to improve performance (p. 24). They found that “greater planning sophistication is associated with growth in sales,” and that there was a moderately significant relationship between planning and perceived performance compared with industry standards (Rue & Ibrahim, 1999, p. 29). The problem here, however, is which stimulus caused what effect? Did more sophisticated planning make for more growth, or did more growth encourage managers to conduct more elaborate planning?

O’Gorman and Doran (1999) look at planning and the use of mission statements and compare that to company performance. They state that planning and the use of control systems can be used by managers to keep the entrepreneurial vision shared and communicated among the staff, new managers, and new investors (O’Gorman & Doran, 1999, p. 59). Looking at past literature on mission statements, they see “the development and management of business missions (as) fundamental for the survival and growth of any business” (O’Gorman & Doran, 1999, p. 60).

The research of O’Gorman and Doran also provides insight into what small businesses emphasize with their mission statements. Using an earlier empirical study by Pearce and David (1987) as a basis for this study, they found that “concern for survival”, the “product or service”, and “concern for the customer” rank in the top three provisions in mission statements, in higher-performing and lower-performing businesses alike. The analysis shows that “mission statements of high-growth SMEs (small and medium-sized enterprises) do *not* exhibit more of Pearce and David’s eight components than the mission statements of low-growth SMEs” (1999, p. 63). Companies with a large amount of growth do not have more thorough mission statements than those with smaller amounts of growth.

The study does show what kind of attributes mission statements do have, as well as what managers hold high as their objectives for the company. This is useful to set an example for managers to follow in the creation of their own business’s mission statement. Square One Studio can be judged based on the information provided therein and use the findings of the study to create a mission statement that reflects the purpose and intent of the studio, while also giving solid direction for the future of the business for others to follow.

In a company growth study by Orser, Hogarth-Scott, & Riding (2000), it was found that companies that experienced growth were companies that:

- A) relied on a business plan,
- B) were younger, and
- C) were larger and incorporated (p. 50).

They note that the business plan variable in their study is incredibly revealing, in that it “suggests that growth follows from the owner/manager’s intentional actions taken to plot the future course of their business” (Orser, et al. 2000, p. 50). The evidence supports the notion that expansion and planning go hand in hand.

The growth of Square One Studio is something that should be on the mind of the manager, Steve Allen, particularly at the early stages of the business’s development. The current, early stages are critical, because this time will be looked upon in the future as a time that sets the tone and direction for the company. In addition, if Allen were to need a loan from a lender, the early stages of the business would be taken into account as to how the company has been performing in its market.

Research Questions

Upon further investigation into Square One, a few things are expected to become more apparent. First off, there may be practices that management engages in that might be harmful to company progress. Out of the decisions and choices that are made concerning the way Allen operates Square One Studio, they should all be situated in a knowledgeable base of judgment and with a keen interest on keeping his company profitable. However, not all of the functions of the company may be the most optimized for the best performance and operation of Square One Studio.

Planning and forecasting business trends and objectives have been proven to have a positive effect on business development. Preparation and contingency plans are almost never shown to have a negative effect (Rue & Ibrahim, 1998). An important aspect of business at Square One Studio that deserves attention is the effect of future planning and a more concrete formulation of goals and strategies on the success of the company. If

there are matters of business that arise without a solid plan of action in place, Square One may find itself in an unpleasant predicament due to the management's lack of planning. Is Square One Studio equipped with the necessary policies and planning to create a more advantageous environment for business success?

A review of the available literature points to money being a concern for small businesses. What kind of managerial decision opportunities are there for Allen to utilize so that he may preserve and increase his liquid financial resources that may not be taken full advantage of currently?

Present Business Practices

Square One Studio is under the direction of one person, Steve Allen. He has no employees, and contracts out all of the necessary help he needs: a secretary, producers, engineers for mixing and mastering, and other jobs when he cannot be there himself (S. Allen, personal communication, March 11, 2002). "Contracting out everything else I need help with makes it easier for me to get on with the parts of the business I know and like to do. It also keeps me from having to pay payroll taxes" (S. Allen, personal communication, April 3, 2002). This gives Allen total control over his studio. The use of contracted employees also makes bookkeeping and financial resolutions easier as well. To hire employees, an employer must set up a system of bookkeeping that allows for government mandated deductions, such as social security and taxes, to be taken out by the employer. With contracted employees, they (or the company they are being contracted from) are the ones responsible for making allowances to the government. Book keeping is made understandable and easier by the use of contracted employees.

Square One Studio also gets help from other outside sources. Allen praises the help given by the Small Business Center located in Murfreesboro, Tennessee. “The Small Business Center is wonderful. I highly recommend them to anybody in a small business that needs help. They know what they are talking about and how to get you the help you need for the right price.” (S. Allen, personal communication, April 3, 2002). The Small Business Center in Murfreesboro, part of the Rutherford County Chamber of Commerce, is a free service to anyone with his or her own small business in need of help. They offer help with setting up a business, working with a new business person, walking through the steps of creating a business plan as well as the purpose of the business, to make the business plans become more feasible (S. Allen, personal communication, April 9, 2002).

Another very important outside resource Allen depends on are his friends in the music industry. “I have a few friends that have become successful businessmen in the music industry. They help me and keep me from making the same mistakes they made in the business,” (S. Allen, personal communication, April 9, 2002).

For Allen, it is easier to keep things like vision statements, policies and procedures of operation in his head than to have them written down. With the company still in its early stages, the opportunity has not come up for Allen to make these things concrete. Also, with no employees, there is no need to communicate direct company policy to them.

With no employees to be trained, no one to be taught, nor any staff member to be instructed on how to go about doing their job, a written plan of company policy and correct procedures for making decisions is not something that is high on the list of

priorities. However, there is also no written plan for the future. Allen knows what he wants to do and how to get it done, but there are no physical records of what is to be accomplished by Square One. “The main goal of Square One Studio is to provide quality recording services to my clients. I also have the goal to make this business as successful as I can in order to be able to buy it when the time comes.”

(S. Allen, personal communication, April 9, 2002). He goes on to say that a mission statement is absolutely quintessential to success with a small business.

Square One Studio does operate on a set of rules and guidelines, but they have not been written down. The guidelines for payment to use the studio are straightforward. After you book the studio for use, half of the total price must be paid two weeks before the first session. The balance is to be paid before the first session starts. The original, master copies of all recordings done are kept as collateral in case the payments fall through. “We’re actually extremely flexible with our payment policy. Especially when working with an established client, we might not even discuss payment until the work is completed, because I know that artist very well and know that they will have the funds available” (S. Allen, personal communication, April 9, 2002).

Some things must be set in stone, however. Allen keeps all the financial records at Square One with help from a software program, and receives help with taxes from an accountant (S. Allen, personal communication, April 9, 2002). His main goal, at the end of the eighteen-month period he has to run the business, is either to buy Square One Studio outright or to find a traditional financial institution to lend the money to buy the studio facility and equipment. With that in mind, Allen makes sure that his fiscal reports are all kept with great accuracy. Either way Allen goes, he will have to show the records

of how successful the business was under his management to the current owners and his financial backers, should they be needed.

Redirecting Managerial Practices

Based on available research, conclusions can be made about the prudence of the managerial decisions made thus far at Square One Studio. Also, there are areas of management at Square One that can be tweaked and improved in the future to continue the growth and success of the business.

The cash flow puzzle impacts every aspect of Square One Studio. If there is no money coming into the company, the bills are not paid and the payments for the studio do not get easier to make. When there is a cash flow problem, there are ways to resolve it, some better than others. When the situation comes up at Square One, there is the choice of drawing upon personal resources, such as the personal accounts and investments of the owner, Steve Allen. Square One Studio can also look to borrow the money from an institution in the form of a short-term loan. As discussed earlier, receiving financial backing from a lending institution was not possible for Allen at the time Square One Studio was up for sale. However, now that he has been running the business full-time for several months, it may be possible to get a smaller loan to cover something like a studio lease payment.

Two other ways small business owners resolve cash flow problems is by adjusting scheduled purchases and adjusting scheduled payments (National Federation of Independent Businesses, 2001, p. 4). This presumes managerial control over the purchasing of new equipment; e.g. postponing buying a new microphone, or delaying the contracting of someone's service. However, there is always an opportunity cost

associated with this method of resolving a cash flow situation. If Allen stalls in contracting someone to perform a service, then that person might not be available due to future engagements.

Adjusting scheduled payments is an area that a manager might have even less control over. Some payments incur only a small interest charge or late fee. However, some payments, such as Allen's payment to the studio owners for leasing the studio and the real estate, have more far-reaching implications. Since it is possible that Allen will have to go to a lending institution for a loan to buy Square One in the future, any late payment during this, his trial period, would surely have a negative impact on the prospects for a loan. Adjusting scheduled payments, then, would not be the best option for the management of Square One Studio.

One-quarter of small business owners with a continuing cash flow problem name uncollected receivables as a source of difficulty (National Federation of Small Businesses, 2001, p. 1). One of the most important things that Allen does is that he makes as sure as he can that he is paid for the use of his studio. He gets one half of the total price to be paid two weeks before the first work is begun (S. Allen, personal communication, March 11th, 2002). The other half of the total price is paid the day the work is to be performed.

An important thing to consider is the nature of the recording studio business. There are people in the recording business who try to scam a studio owner or rip off a studio for free studio time. "There are many methods that people will employ to avoid paying you," says Arty Skye in *Home Recording Magazine* (2002, p. 50). Some of the suggestions Skye gives are already used at Square One Studio, such as collecting at least

50 percent of the money as a deposit and making sure the payments have been made before starting work.

There are other practices mentioned that Allen might want to invest energy in to ensure he does not get caught up in a cash flow problem relating to not getting paid by clients. Skye also suggests asking the client, when booking the studio, about other studios the client has booked time at in the past, then calling those studios and asking the manager about that client (2002, p. 51). And, while it is Allen's policy to hold the work done (CDs, tapes, etc.) as collateral, it is also a good policy to hold work completed when being paid by a check until that check clears the bank. In some instances, that cannot be done, however. It is possible to call the bank listed on the check and asking if the funds are available. "If the funds are not available, don't take the check" (Skye, 2002, p. 52).

If receiving money into the company is a problem for recording studios, it is clear that things can be done to help with the problem. A set of financial policies will help ensure people know and abide by studio policy. Skye understands the importance of having policies in place:

I have policies in place at my studio now from which I try to never stray.

We state them clearly before any time is booked so there are no misunderstandings later. I have them listed on my web site, and when necessary, I'll fax them over to the client as well. (p. 53).

Here is where Allen might come across some difficulty, since he has no written policy on payment for services. If there were ever to be a discrepancy between the studio and a client over payment issues, with no written policy for these payment issues the studio could be led into the unsettling territory of payment disputes. A plan including

more written policies covering customer relations would help avoid the pitfalls incurred in the relationship between the client, the studio, and the flow of cash between the two. Different situations *do* call for different measures. When Allen knows the client, and when that artist is well-known, money and payment are not near the issues they are when working with up-and-coming, new, and unknown artists.

In fact, there are many aspects where an increase in planning and related topics would be beneficial for Square One Studio. Previous research reveals that planning, in the very least, does not hinder the performance of a small business such as Square One (Rue & Ibrahim, 1998, p.30). Greater planning sophistication is also associated with a growth in sales (Rue & Ibrahim, 1998, p. 29). These things should be looked at by a small company that, like every small business, needs growth to survive. Also, “firms with no written plans exhibited a slower growth rate” than firms where planning was undertaken (Perry, 2001, p. 204). Other studies suggest that planning seems to reduce the probability of firm failure (Perry, 2001) (Orser, et al., 2000). Based on the evidence that has been revealed regarding planning and the use of mission statements, there are some managerial practices that can be suggested to maximize the opportunity Allen has at Square One Studio.

Square One Studio should not hesitate to build a business plan, which includes goal setting, both short-term and long-term, a plan for policies and procedures for ensuring a smooth operation of business, and a written mission statement. This needs to be accomplished so everybody that aligns themselves with Square One Studio, whether it be a contracted secretary, an independent mastering engineer working on a project at Square One, or a bank being sought out as a potential investor, will know what the

company is there to do and will understand the vision and the purpose for the future of Square One Studio.

Planning is a factor in making effective decisions (Sohn, et al., 1999, p. 184). In addition, the more short and long-term plans are based in an organization's mission, the more concrete and real they can become (Sohn, et al., 1999, p. 184). When planning *is* done, "there was a tendency to do a moderate amount" and "multiple planning activities" are accomplished (Perry, 2001, p. 204). Managers either plan a lot or not at all. Making plans for the short-term, such as when to schedule a certain client for studio time, can be fairly cut and dry. Longer-term planning, however, can be more difficult and may need more resources of information. This can include what engineer should be hired to work with what kind of client, when to buy what new piece of studio gear, and may also include payments toward purchasing that studio equipment as well as payments for leasing the studio itself. Some planning, like in decision making, can be programmed. These plans and decisions can be items like lease payments or paying for contracted, regular work.

So, making plans helps businesses. It certainly does not hurt a business. Moreover, in the case of Square One, financial planning may be absolutely necessary if the need for a loan from a financial institution comes about. Keeping records of past financial accounts should also help provide information for the future proceedings at Square One Studio, when projecting future earnings and upcoming economic prospects.

Within the scope of long-range planning, mission statements are used to keep the organization's financial, strategic, and control plans and systems in perspective (O'Gorman & Doran, 1999). Mission statements make growing and changing into a

larger business easier and more successful, because they provide a stable base of philosophy on which to guide the company's future (O'Gorman & Doran, 1999).

Research suggests that what is included in a mission statement has much to do with the growth and vision of a company.

What should to be included in an organization's mission statement is the subject of much debate. Campbell, Devine and Young, Falsey, Collins and Porras, and Pearce and David have all looked at the question of mission statement qualities in the past thirteen years. The study by O'Gorman and Doran (1999) provides information as to what components make up mission statements for small and medium sized businesses. They suggest "that the firms (included in the study) emphasize 'concern for survival' (77 percent), their 'product or service' (72 percent), and their 'concern for the customer' (64 percent) in their mission statements" (O'Gorman & Doran, 1999, p. 62) as the top three things they found in small business mission statements.

Including these things in the mission statement of Square One Studio would be a step in the right direction. The sooner Square One develops a mission statement, the sooner the long-range plans for the company can be broadcast to the music community in which Square One Studio resides. O'Gorman and Doran also reveal what kinds of trends currently exist in small business enterprise and what managers of small business look to focus on. If "concern for survival," their "product or service," and "concern for the customer" are the top three features for other small businesses, then research suggests that these things should be considered, if not followed, by Allen at Square One Studio as well.

Discussion of Findings

This study provides provisional support for the assertion that a change in some managerial practices at Square One Studio would result in increased opportunity for this media organization. Planning and exploring company goals with an eye on making a statement about the mission of the company would place Allen in a better position to achieve his goals.

Even with no concrete, written plans, and no written policies and procedures for the way business should be conducted at Square One Studio, Allen is already accomplishing his goal of successfully running the company, so that he will have the opportunity in the future to purchase the company from its present owners. However, analysis of the current managerial literature (Orser, et al. 2000; Perry, 2001; Rue & Ibrahim, 1998; O’Gorman & Doran, 1999) shows that companies with written plans and goals, companies that engage in moderate amounts of planning, and companies that create more sophisticated plans tend to perform better in their markets than companies that do not.

With a set of specific policies and tactics, Square One should have an advantage when it comes to relaying their goals and communicating their tactics to contracted employees as well as the music industry community. Also, having a set of policies and procedures to base decisions and practices on has been shown to improve financial conditions. The article by Skye (2002) shows the dangers of recording studios not having standards and policies. The use of written policy reduces the risk associated with clients who try to scam the studio and not pay for services rendered. The suggestions provided

also might help the manager when and if there is ever a time he finds a need for help from a financial institution.

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