The Influence of Internal and External Factors to the Performance of Indonesian Small and Medium Enterprises

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ABSTRACT

This paper try to answer two basic questions i.e., first, what is the impact of internal and external environment to the performance of Indonesian small and medium scale enterprises. Second, are there any differences between high and low performance SMEs in term of characteristics of entrepreneurship orientation, strategy, structure and environmental uncertainty. One hundred and eighty four respondents were withdrawn from four provinces in Indonesia. Research revealed that entrepreneurships characteristics and strategy as well structure contribute to the performance of Indonesian SMEs. Moreover, it was found that high performance SMEs have different internal and external characteristics compare with low performance firms.

INTRODUCTION

Small and medium enterprises play an important role both in develop and developing countries (Yu, 2001). Some of these roles are as job provider, income distribution through business opportunities and rural development and also increase investment and development of entrepreneurship (Kotey and Meredith, 1997).

The role of small business is more important in developing country, especially for Indonesia (Swasono, 1986). The development of Small and Medium Enterprises (SME) have brought some positive impacts although haven't able to change Indonesian economic structure as a whole. This sector has absorbed 85% of employment in all economic sectors (Wie, 1992; Swasono, 1986). In order to empower the contribution of SMEs to economic development, Government of Indonesia has issued some financial and non financial policies to achieve the goal above (Zainuddin and Basri, 1990). However, there are still some findings about SME bankruptcy while some SMEs very success running their business instead.

Some writers believed that the performance of SMEs are contributed by many factors such internal and external to the SMEs their self (Kotey and Meredith, 1997; Pearce and Robinson, 2002). So far there is no comprehensive study about factors that contribute to development and performance of SME. Based on the facts above, this empirical study is aimed to find out about contribution of the entrepreneurship characteristics of the owner of SMEs, strategy, structure and environmental conditions to the performance of SME in Indonesia. This research is trying to answer the following questions: (1) Which one of the following factors contribute significantly to the performance of SME, entrepreneurship orientation, strategy,

structure or business environment? (2) Are there any differences between highly and low performing SMEs in term of characteristics of entrepreneurship orientation, strategy, structure and environment uncertainty?

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LITERATURE REVIEW

Factors determine Company Performance

Performance of a business is influenced by internal and external factors. These factors are entrepreneurships characteristics of the owner, strategy, structure and business environment (Pearce and Robinson, 2000; Navahandi and Malekzadeh, 1997, Herd, Wafa and Jantan, 2001). Nevertheless, research related with factors contribute toward performance of SMEs are limited. There are only small number of research in developing countries (Bjerke, 2000). In the last two decades, it seems that researches about SME are focused about (1) government role and policy in developing SME (2) Characteristic and performance of SME (Ainuddin and Sa'odah, 2001), except Hashim (2000). In his study, Hashim (2000) by using strategic model approach explained the factors contribute to the performance of SMEs. According this model, there are three strategic factors which determine business performance, they are entrepreneurship orientation, organization structure and external business environment. The integration of three factors above significantly influent business performance.

Crag and King (1988) formulated a model to find out about SME performance. The model explains that financial performance of SME is influenced by management practice as internal factor and by market as external factor. Both variables which influent financial performance are also influenced by characteristic of manager as antecedent variable.

Entrepreneurship Characteristics and Performance of SME

Some research show that there some outstanding attitudes of entrepreneur. Some of the attitude are, risk taker, proactive, more flexible and innovative (Hashim 2000; Kotey and Meredith, 1997; Ainuddin and Sa'odah, 2001). Risk taker attitude shows a tendency to challenge something. This attitude related with commitment to allocate some resources in order to get appropriate return. Risk taker attitude positively related with business performance. A business/company led by this type of manager will able to win competition to cope the market (Ainuddin and Sa' odah, 2001; Collie and Sparks, 2000). Proactive is an attitude which always try to predict the future and preparing some alternative actions to enter the future. Proactive manager will always ready to face environmental change with well planned strategy and lead the company reach better performance than the competitor.

Flexible refers to social attitude and orientation to adapt with environment. Flexible person tend to be informal challenger, self confident, humorous and easy to accept changes (Miller and Toulouse, 1986). Therefore, this person will able to sensitively anticipate environmental

change and make himself succeed in highly uncertain environment (Ainuddin and Sa'odah, 2001). Innovative attitude always make improvement and create a better and different system of activities. This type of manager use to produce new product and service to win the market (Miller and Toulouse, 1986). Therefore a company with this type of manager will highly perform (Kotey and Meredith, 1997)

Business Strategy and Performance

Some experts defined about business strategy and each experts has their own definition (Mintzberg, 1994). For example, Glueck (1980) said that strategy is an action to face environment by empowering coordinated resources in order to reach the goal. Generally, there are three generic strategies at company level which can be used in competition (porter, 1980).

First, *Cost leadership,* a company will try to offer product and service with relatively lower price than competitor. Therefore a company will implement tight control and supervision. Over expenses. Second, *Differentiation,* this strategy rely competitive advantage on unique product and service produced by company without ignoring quality. Uniqueness can be showed in form of frame, technology and customer service. Last, *Focus,* a company will fully empower all resources to serve a certain segment, for example, serving a group of buyer or market segment at certain geography. In serving selected target, a company is able to use cost advantage or differentiation. A company with competitive advantage will perform better than others (Kim and Lim, 1988). However, Keen et.al.,(1998) didn't find any significant relationship between generic strategy and business performance.

Structure and Firms Performance

There are two general organizational structure, mechanic and organic (Burns and Stalker, 1961, in Ainuddin ad Sa'odah, 2001). In mechanic structure, relation pattern is inflexible and formal, there is no division of work, and decision making is centralised. On the other hand, in organic structure, the relationship pattern fairly informal, the decision making involve subordinate and relatively flexible with regulation. Mechanic structure is suitable for stable environment while organic structure is suitable for dynamic environment (Miller and Toulouse, 1986)

Business Environment

Environment variable consist of physic and social factors which directly considered in decision making of organization (Duncan, 1972). In other word, uncertainty is a perception of someone's inability to predict something appropriately because unable to differentiate between relevant and irrelevant data (Milliken, 1987).

Environment condition directly influent company's ability to reach the goal (Pearce and Robinson, 2000), external environmental change such as, government policy, public taste, technology and socio-cultural bring effect toward company's performance. Freeman (2000) concluded that base on observation in some countries, external condition, especially government policy significantly influent performance of SME.

Research Model

Base on literature review, this research will use the model, as described below:

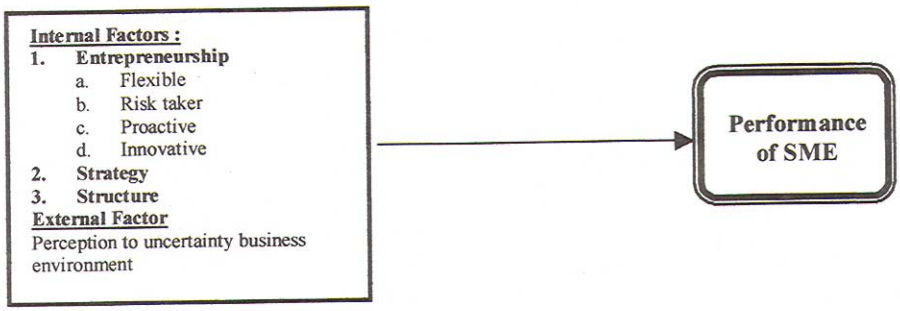

Figure 2. Theoretical Framework

Research design above shows that performance of company is a function of internal and external factors. Success in improving performance depend on some factors such as attitude, entrepreneurship, strategy, structure and environment.

Hypotheses

Based on the literature review and research model therefore the hypotheses of this research are:

Hypotheses 1: Entrepreneurship orientation of the owner, organizational structure. strategy and business environment will contribute to the performance of SMEs.

Hypotheses 2 : There will be difference in term of their entrepreneurship orientation, strategy, organizational structure and business environment between high and low performing SMEs

METHODOLOGY

Sample

Object and unit of analysis of the research is SME in Indonesian listed in Directory of Indonesia's Manufacturing Company in the 2001. The directory contains information about company's name, address, number of employment, product and contact person of about 20.000 companies.

Mostly SME located in Java & Sumatra, therefore, sample were taken from both island. According to Sekaran (2000) to guarantee generalization of the result of the research for this

research samples were targeted, as much as 377 firms. Anticipating low rate of respond rate, selected samples were greater than targeted sample (Newman, 2000). Based on condition above, the research selected about 500 SMEs as targeted sample by using stratified random sampling. Among the 500 questionnaire send to SMEs chosen as the respondents, only 183 questionnaires returned back, giving the 37 % respond rate.

Measurement

Strategy

Measurement for strategy is adapted and modifled from Govindarajan (1989) dan Dess & Davis (1984). There are 12 items u~ed to measure generic strategy prioritized by the SMEs by using Likert-scale from I to 7 (from 1 very prioritized to 7 un prioritized).

Entrepreneurs Orientation

Measurement of Entrepreneurs Orientation such risk orientation, innovativeness,

Performance

Financial performance is measured by using average return on equity (ROE) and sales growth in last five years. This measurement Prestasi diukur dalam bentuk data objektif dan diukur menggunakan persepsi manejer/pemilik tentang profitabilitas, pertumbuhan penjualan. Pertanyaan untuk mengukur prestasi subjektif ini menggunakan pertanyaan yang dikembangkan oleh Sulaiman (1989).

Entrepreneurship orientation

This research use the measurement developed by Miller and Friesen (1982); Nahavandi dan Malekzadeh (1997) to measure the entrepreneurship orientation with the some modification and adaptation. The entrepreneurship orientation cover attitude toward risk, innovativeness, flexibility and proactive. There 16 items used that measure using Likert scale from 1 to 7 (from 1 highly agree to 7 highly disagree).

Organizational Structure

This variable is measured by using questionnaire developed by Miller dan Friesen . (1982).
Items related with work relationship and Likert berskala 1-7 (highly agree to highly disagree).

Environmental Uncertainty

Environmental uncertainly will be measure by using questioner which developed by miles & snow (1978). The measurement used some question related to environment dimension such as : marketing condition, government policy finance, labor and competition. The measurement used Likert scale from 1 - 7 (from very predictable to very unpredictable). From the questioner

acquired some values which describe perception of manager owner of SME toward environmental uncertainly, the higher the value, the higher the environment uncertainty.

Organizational Structure

Variable of organizational structure will be measured by using questioner which developed by Miller & Friesen (1982). Questioner related to organizational structure by using Likert scale from 1 - 7 (from strongly agree to strongly disagree). The higher the mean score given by respondent, the structure tend to be more mechanistic.

Data Analysis

Number of research simple is 184 SME (Sole proprietorship) samples were taken in 4 different provinces, Jakarta Special Territory, west Java, west Sumatra and north Sumatra. Samples were distributed proportionally in all provinces. Fifty one sample (27,7 %) coma from DKI, fifty sample from west java and for west and north Sumatra ware 49 and 38 SME

Legal form of Company Business

Composition of sample consist of 95 sole proprietorship firm or 51% of total samples, 51 firms or 27,7% ware corporation, 31 firms or 16,8% leave limited corporation and 3 samples or 1.6% were cooperation and other 2.2%

Number of Employed

Sample company generally consist of28 employed, where as minimum number is 5 and maximum number 170. Based on number of employed sample can be grouped into categories. Company with employee < 19 persons, between 20 and 99, and> 99. There 93 companies which have less than 19 employee and 88 company have between 20 to 99 employee and 2 companies have more than 99 employee.

How business Started

Among 183 samples, 149 or 81 % of total sample started the business from 2000. 26 sample or 14.1% more continuity of parents business and sample that start the business through acquisition and other way were 8 or 4.4%. This composition show that company sample are started by entrepreneur.

Amount of Equity and Source of Initial Equity

Majority of initial equity is less than 10 million Rupiah or 94 sample 51.1 % samples that use initial equity four 10 to 50 million Rupiah. There are 42 or 22.8%, 24 samples or 13.0% from 51 to 100 million and 23 samples or 12.5% bigger than 100 million.

Generally initial equity come from saving, 109 samples (59,2%). The second sources are loan/debts, 50 samples (27.2%) and 29 samples or 12% use other sources.

Product Market

Most of 183 samples sell their product around the business location. There are 111 or 60,3% samples sell their product around the business location, 24 samples or 13,0% sell their product to other provinces, while 37 sample or 20,1 % to other town. Sample that export their product just 11 or 6%. Base on market composition, most of SME sell their product around the business location or locally, but some of them have tried to enter international market.

Company's Age

As can be seen in table 4.1, the first SME was started in 1957 and the newest was started in 2000. It means the eldest company is 45 years old, while the youngest is 12 years old. In average most of SME started in 1992 or their average age is 9,377 years.

Manager's Characteristics

Table 2 shows characteristic of entrepreneur of research sample. The characteristic consist of age, position in company and formal education background

Sex

Most of entrepreneur are male, 145 samples or 78,8%, while female just 38 samples or 20,7% from 183 samples.. This composition shows that SME is more interesting for male than female.

Position in Company

As can be seen in table 2, 137 samples or 74,5 of managers are owner of SME. There only 38 samples or 20,7% of sample just as manager, while only 8 samples or 4,3% as member of company. These figures show a phenomena that most of SME are led directly by the owner. There only few SME which led by professional manager

Formal Education

Among 183 samples, more than a half or 45% are senior high school graduates. While bachelor only 12,6% and the smallest are diploma graduate, only 8,7%. This composition shows that generally, educational background of sample are relatively high. It is interesting to note that some of them are bachelor and certainly will influent the way they manage the business.

Age

In average, the age owner are 43 years old, while there are 97 of respondent younger than 43 and 85 elder than 43 years old.

Table 2
Characteristic of Respondent

	Frequency	Percentage (%)
Sex		
Male	145	79,2
Female	38	20,8
Total	**183**	**100**
Educational Level		
≤ Junior high school	41	22,4
Senior high school	103	56,3
Diploma	16	8,7
Bachelor	23	12,6
Total	**183**	**100**
Age (year)		
<43	97	53
>43	85	47
Total	**182**	**100**

Validity and Reliability Research Instrument

Test Validity conducted with analyze factor to question used to measure the nature of entrepreneurship. to know reliability seen from Cronbach Alpha. Questions. told enough reliable if Cronbach Alpha is the than 0,50. conditions used to determine questions which enter in one factor if loading factor equal or more than to 0,3 and if all loading factor for a few factor, hence the questions aborted because do not authenticity as a means of measure.

Validity of Entrepreneurship measurement

Factor analyze run for 16 questions used to measure the nature of the entrepreneurship gave 6 factors (variance 64,31 %, KMO=0,645, sig =0,000). First factor consist of 4 question which comprising the nature of innovation, pro-active and risk, pursuant to payload factor from each question, this factor is named with nature of creative and dare to (IRP) with Cronbach Alpha *(ci)* is 0.68. The second factor consist of two question, based on the factor loading the factors is called Innovative (II) and its Cronbach Alpha is 0,68. Third factor contains two item that related with risk and innovation (IP) and its Cronbach Alpha is 0,64. whereas sixth and fifth factor do not have good enough reliability hence it can not be included for further analysis. Instrument reliability can be seen in Table 3 as following:

No.	Names factor Variables	Number of Question	Cronbach Alpha
1	Innovative and Risk Averse	4	0,68
2	Innovative (II)	2	0,68
3	Active pros (PP)	2	0,56
4	Innovative and Active pros (IP)	3	0,64

Tables 3, Number of Question and Cronbach Alpha of Entrepreneurships Measurement

Organization Structure and Strategy

There are 15 question used to measure SMES business strategy. Result of reliability test to that question got by Cronbach Alpha equal to 69,90. Reliability test to question which measuring organization structure at SMES obtained by Cronbach Alpha 73,30. this variable can be analyzed furthermore because owning high reliability, trom result of reliability test and validity to used instrument hence concluded that the instrument valid enough and reliable.

Result

Existence of internal factor influence (entrepreneurships, structure of organization, and strategy) to SMES performance. following representing result of hypothesis test use Ordinary Least Square (OLS) analysis, independently variable of nature of entrepreneurships, strategy, structure, environmental with SMES profit margin as variable dependent. from regression analysis seen that internal factor variable which cover the nature of entrepreneurships, strategy, environmental and organizational structure of SMES give contribution to margin of profit variation by significantly (R2=21,7, assess F=6,94, p=0,000). pursuant to result of this analysis hence acceptable hypothesis

Partial analysis show that strategy significantly influence the performance of SMEs (t=3,766, p=O,O,OOO, B=2,403) so also the things of with environment (B=5,040, t=6,276, p=O,OOO). Negative number shows progressively SMEs make account of emphasis at repair and thrift (modification) to business operation hence excelsior of performance. Nature of innovative entrepreneurships and take a fancy to risk (IRP), active pros (PP), and innovation by partial influence SMES performance.

Table 3
Summary Result of Regression Analysis

Model	B	t	Sig
(Constant)	-4,750	-,559	,577
Environmental Uncertainty	5,040	6,276	,000
STRATEGY	2,403	3,766	,000
STRUCTURE	,277	,243	,808
IRP	7,458	2,915	,004
II	-3,997	-2.044	,043
PP	-2,765	-2,490	,014
IP	-1,544	-1,123	,263
R^2	21,7		
F	6,94		
Sig	0,000		

Hypothesis 2

In this hypothesis test, SMES performance to the two group that is which have high performance (margin of profit> sample mean) and SMES of including faction have low performance if small margin of profit from sample mean.

Result of Test T (ttes! seen to have tendency is existence of difference of internal factor) nature of entrepreneurships, strategy, organization structure) and external (environment) among SMES which is have low performance and condition have high performance to SMES which is have high performance to have big margin of profit from 20%, more flange to emphasis strategy and cost-saving repair of process compared to SMES owning margin of profit <10. But that way, this difference not all significant, difference which is significant met for the characteristic of strategy (assess F=14,807, p=O,OOO) and nature of active pros (assess F=6,011, p=0,015)

Analysis

Internal Factor of SMES And Performance
Statistical descriptive data show that generally SMES have good performance in the last three year even though Indonesian economy is still in crisis. This can be seen from their performance resilience from SMES in face of environmental situation of business although found the existence of crisis impact to SMES activities (Corpulent, 2000). Efficacy of SMES face crisis might be because of internal factor, like nature of entrepreneurships, relation pattern in used strategy and company in face of change

Nature of entrepreneurships represent of resources which can processed to become excellence compete (Littunen, 2000). Responder measuring up to entrepreneurships like having or creativity have innovative head, like risk and active pros to always to look for unusual action to face emulation of business (Miller & Toulouse, 1986). while less owning responder of creativeness and fear to take risk bring an action against which is "peaceful" and tend to as follower and often lose time in grabbing opportunity (Nahavandi & Malekzadeh, 1993). Creative entrepreneur and innovative also measure up to be never give up and accompanied with attitude like to strive and have life style which orienting at higher level performance (Atkinson, Bartlet & Duchemenaut, 1997)

Organizational Structure

Although result of research shows relation among structure with performance did not find any significant, but that way, from this result is known that at informal structure, flexible and decision making have the character of democratic will push atmosphere creation which is conducive for the creativity. So that will create new idea able to fulfill requirement of consumer (Miller & Toulouse, 1986).

Environmental Uncertainty and SMEs'S Performance

This research show that environment have an effect to SMEs'S performance. Environmental change of external like change of governmental policy, and change of society, technological change and social change of culture giving impact to company which finally will influence

company performance. This result in line with Freeman's study (2000) that found out that the condition of external environment especially government policy has an significant impact to the SMEs'S performance.

The ability in formulating and implementing the strategy in facing the environmental background personality of manager job experience leading company (Herri, 2002). Manager which is innovative and risk taker for example facing change of social values and or technological change by implementing differentiation strategy. Creative xand innovative managers tend to create marketing strategy and product and production matching with consumer needs. They can come up with difference and in advance step into market to fill the need of customers and enable to conduct market penetration and improve advantage (porter, 1980)

High and Low Performing SMEs

Result of research shows that SMES which have high performance have more giving characteristic emphasis cost-saving, marketing method modification and production, and also braid good with consumer and also measure up to active pros. This matter can be explained that company clearly define the way of competing will be more have better performance (porter, 1980). In a condition changing swiftly hence appropriate strategy is strategy which orienting at unique (Miller & Friesen, 1982) this matter can explain why company which have high performance to differ in the case of strategy compared to company which is have low performance, that is condition of Indonesia business environment changing swiftly is so that needed by strategy which is creative and innovative.

Conclusion and Suggestion

As conclusion of this research is internal factor especially strategy, structure and entrepreneurships orientation contribute to the SMEs'S performance. Strategy which prioritize modification and cost-cutting and also the nature of entrepreneurships which active, taking a fancy to innovative and risk taker and playa part in to determine storey; level advantage of SMES

Perception to environmental uncertainty is also influenced by SMES performance, this matter because of environmental change which deliver opportunity and threat. Company capable to harmonize change with strategy more success exploit opportunity and threat is minimized.

Ability to yield and strategy adaptation depend on nature of and entrepreneur entrepreneurships characteristic. entrepreneur which is innovative, creative, like to account risk tend to embrace strategy which is “other" or which is unique than with competitors (Herri, 2002) :

Although environmental condition of not yet stabilized because Indonesia not yet convalesce the than economic crisis. SMES still able to performance menunjukan is effort good, that is with profitability storey level more than 20%. authorized capital Founding of SMES generally come from saving, this matter can show that the limited SMES capital employed in opening effort

Authorized capital used to found SMES come from saving which [is] its limited amount which also pursue them to be able to go further, will very assisting if there [is] skim addressed to assist small industry in founding effort. And development of entrepreneurships orientation such as those which told previously can be disseminated by various method and forum among others with training, discourse, and discussion.

Implication

This research give contribution to improvement the practice of SMEs, and made as basis for compilation of policy and also add research related with SMEs'S performance. Among its implication is that the importance of developing of nature of entrepreneurships giving contribution to SME's performance like risk averse and innovative. Performance not only influenced by internal factor like entrepreneurships attitude but also by external environment of SMES.

Future Research

Although the number of sample of this study is quite large enough, however considering the large number of SME's in Indonesia. It is advisable to conduct the same research to confirm the result of this research using larger sample.

This research samples almost 100% are coming from manufacturing sector and the result is limited to this sector. For the future research, there is a possibility to use another business sector such as service or trade industries as a sample. And it will enlarge the generability of the study. Moreover, related research in the future can use behavioral and entrepreneur life style instead as the independent variable that can predict in determining the variation SME's performance.

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APPENDIX A

Characteristics	Frequency	Percentage (%)
Proprietorship		
Limited Company	51	27,7
Partnership	31	16,8
Personal	95	51,6
Cooperation	3	1,6
Other	4	2,2
Total	**184**	**100**
Employee		
<19	93	50,8
20-99	88	48,1
>99	2	1,1
Total	**183**	**100**
Starting the Business		
Continuation from Parents	26	14,2
Started from the beginning	149	81,4
Buy	2	1,1
Other	6	3,3
Total	**183**	**100**
Capital		
<10 Millions	94	51,4
10-50 Millions	42	22,9
51-100 Millions	24	13,1
>100 Millions	23	12,6
Total	**183**	**100**
Sources of capital		
Saving	109	59,6
Borrowing	50	27,3
Other	24	13,1
Total	**183**	**100**
Marketing Area		
Local	111	60,7
Outside Province	24	13,1
Outside Region	37	20,2
Export	11	6,0
Total	**184**	**100**

EXPERT SYSTEM PARAMETERS FOR EVALUATING REASONING OF SME'S ENTREPRENEUR

By

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ABSTRACT

Small and medium enterprises (SME) have remarkable role in social and economic development. SME's entrepreneurs use their reasoning and knowledge in evaluating opportunities; sometimes they face confusing situations between accepting and rejecting these opportunities.

Expert Systems (ESs) are used as computer system to mimic the human experts in solving complex problems in specific domains, these ESs acquire huge amount of knowledge and reasoning.

This paper aims at initiating some parameters of evaluating the reasoning of SME's entrepreneurs using ES. The knowledge base (KB) of the ES includes marketing strategy, marketing segmentation, pricing and promotion domains.

RATIONALE

Small and medium enterprises (SMEs) have remarkable role in social and economic development. The roles of SMEs in the social and economic development are respectively [5]: Raising productivity through technical, and other forms of innovation. Creating more jobs for the unemployed. Facilitating the transfer of technology. Commercializing new inventions and products. Restructuring and transforming the economies of the nation. Reducing the unprogressive social organizations. Making markets more competitive. Stimulating redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. Improving the premature talents of human resources. Creating new markets and facilitating their expansion into international markets. Performing these roles effectively is conditioned by entrepreneur's reasoning ability to explore and interpret opportunities.

INTRODUCTION

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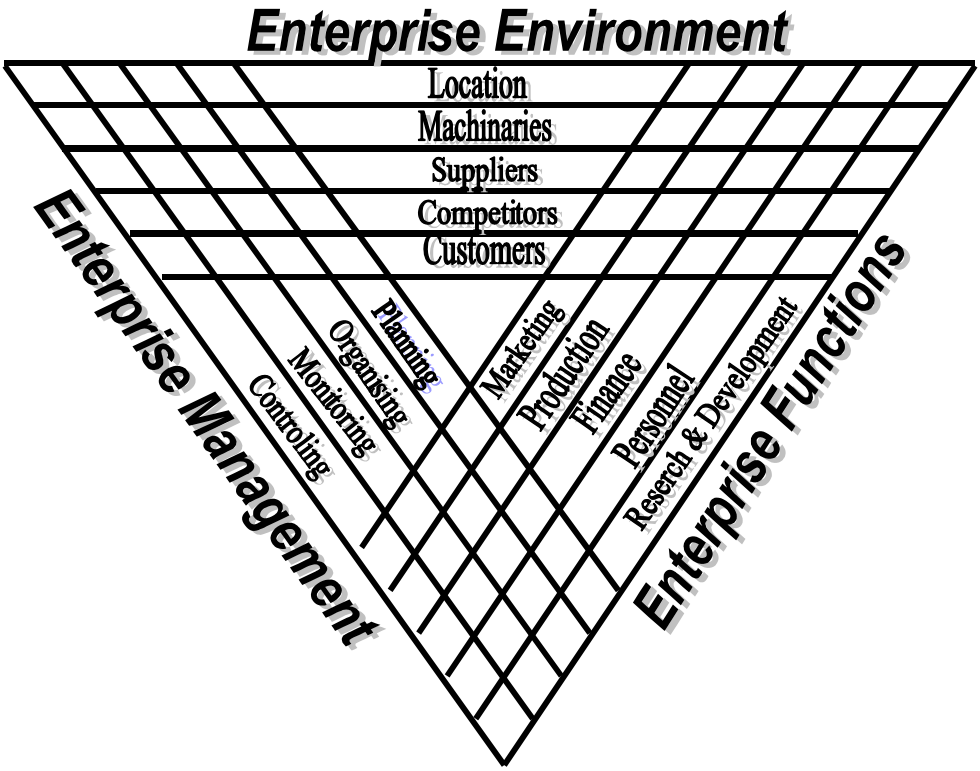
There are many definitions of SME; the definitions of SME cited in this paper are based on two sets of considerations. First set includes social and economic considerations; SME must be defined according to its expected role in the social and economic development. The second set of considerations include the enterprise ecology, i.e. SME's entities belong to large enterprise entities, in so fare as its environment, management function, and enterprise functions.

Social and economic considerations:

The SME roles in the social and economic development can be performed if and only if entrepreneurs themselves manage SMEs.

Enterprise ecology considerations:

For all enterprises, they are composed of three main parts, enterprise environment, enterprise functions, and enterprise management. Enterprise environment, being a sub-environment of the general external environment, and the direct interface between enterprise and the external environment, consists of five entities: customers, suppliers, competitors, machinery, and location. Enterprise functions, which are the tools of interpreting the enterprise environment and transforming it into products or services, consist of five entities: marketing, production, finance, personnel, and R&D functions. Enterprise management, which is the brain of enterprise in achieving its objectives, consists of four entities: Planning, organizing, controlling, and monitoring functions. All these entities are interrelated and constitute the second set of considerations, as shown in Figure 1.



On the basis of the previous sets of considerations. The definition of Small Enterprise: "An enterprise owned by an entrepreneur, where all enterprise functions and

management are run by him". The definition of Medium enterprises: "An enterprise owned by an entrepreneur, where all enterprise functions, and management are mainly run by him with some other delegations". The definition of large enterprise: "An enterprise owned by stock holders, and is directed by a board of directors, where all enterprise functions, and management are run by specialized managers". Figure 2 represents the differences between small and large enterprises, where medium enterprises are a transition state between the small and large enterprises.

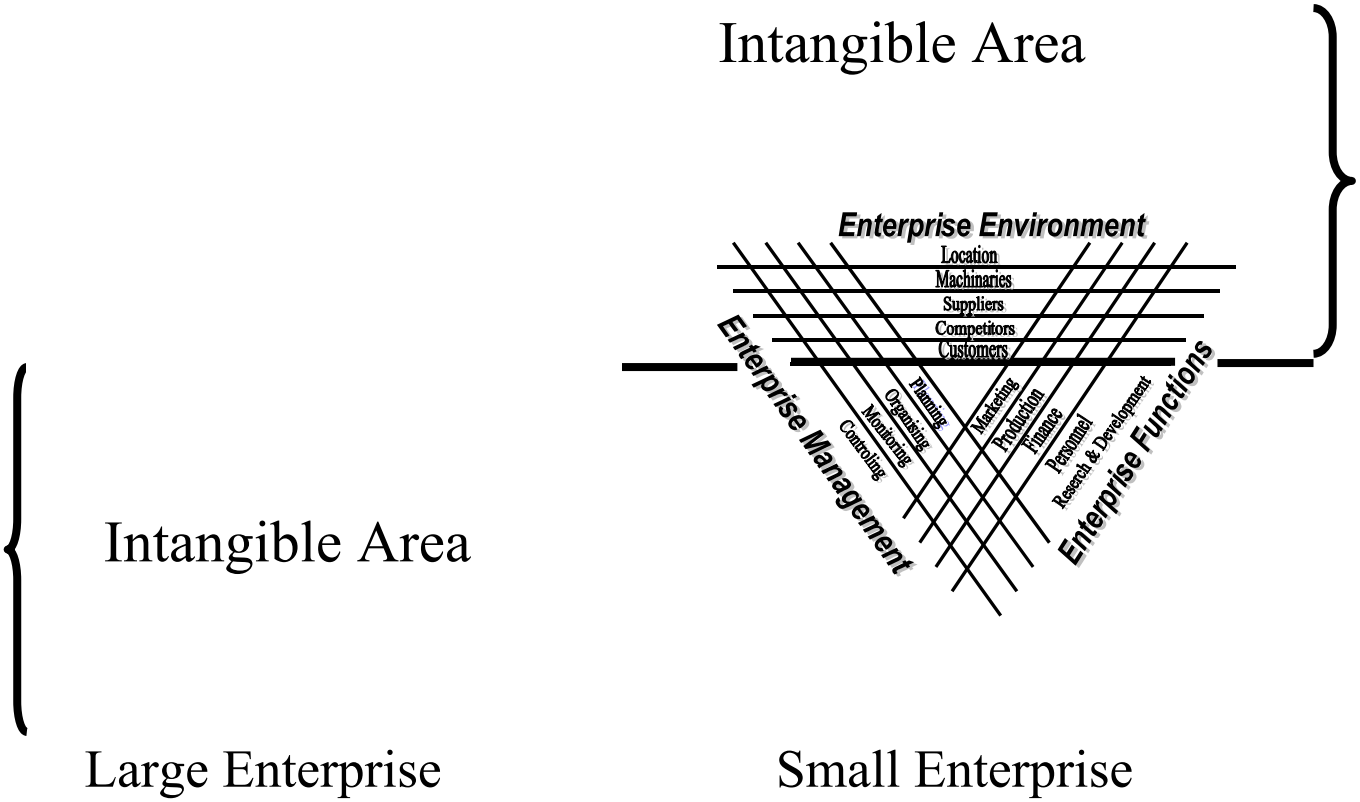


Figure-2

Expert system:

is a computer system used to mimic the human expert in solving a complex problem in a specific domain. ES is a branch of Artificial Intelligence (AI) [3]. ES is composed [1] of five parts, Knowledge Base, Inference Engine, User Interface, and Development Engine. Knowledge Base: contains all facts and their relations in a specific domain. Inference Engine: is the thinker of the system, which is able to think on the basis of the available knowledge included in the KB. User Interface: is the interface between the user and the ES, which has the ability to respond to the user in friendly interface, using the available knowledge and type of reasoning. Development Engine: is the tool used to develop the expert system by knowledge engineers and human experts.

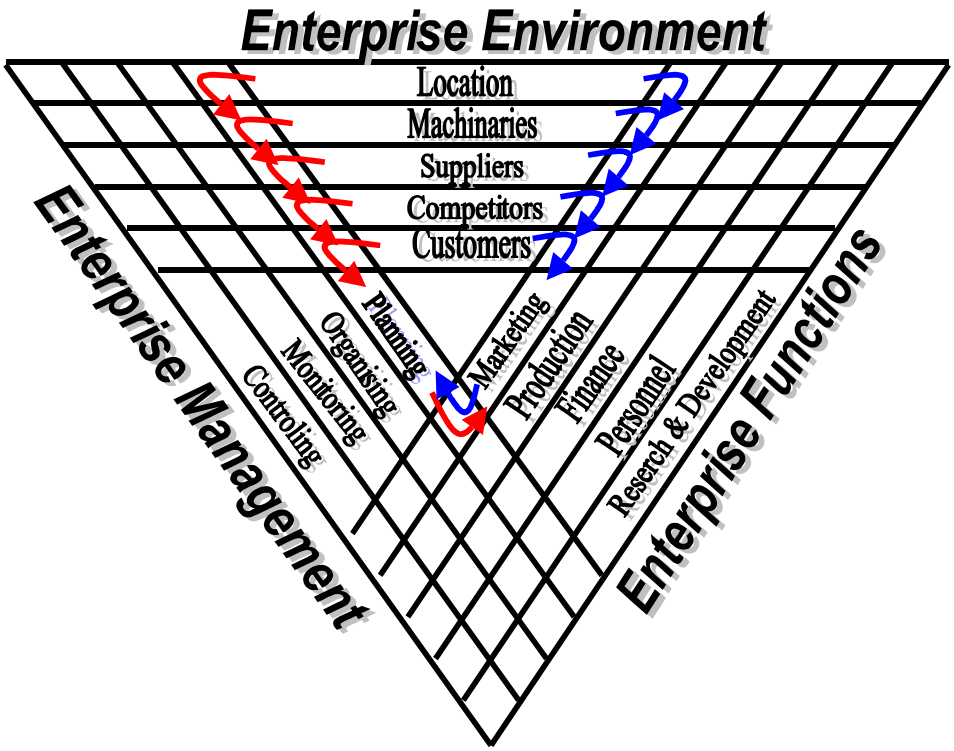
Expert system is developed through five steps. Step-1: identification and definition: At this step the domain problem will be defined. Step-2: Developing prototypes: Where the definition of the problem is completed, the ES developer should develop some prototypes to be sure that they get the right definition of the problem.

Step-3: According to the problem definition and the developed prototypes, ES developers will construct the ES using the available tools. Step-4: After constructing the ES, it should be tested by a set of human experts, providing that the results of this testing concludes that the ES and the human experts are agreed on 90%. Step-5: This is the last Sept and includes the ES maintenance and integration, where ES should be updated and integrated with whatever applications related to the same filed of interest.

At this paper, ES development will be confined to step2, where a prototype has been developed to investigate entrepreneurs' reasoning in assessing their business opportunities.

SME's environmental changes and reasoning:

Entrepreneurs' ability of adaptation depends on their capabilities of interpreting how to distinguish between opportunities and threats under environment changes. Opportunities are created if at least one entity of the enterprise environment changes from one state to another, as shown in red flow, Figure-3. Threats are created if at least one entity of the enterprise environment changes from one state to another, without adapting these changes by the enterprise functions, as shown in blue flow, Figure-3.



Problem domain:

Based on these definitions of SME, two of three parts of SME are hidden in entrepreneur's mind. Entrepreneur's decisions are taken on the basis of his/her faculty of previous

knowledge and reasoning. Reasoning is drawing conclusions from a set of facts [2], there are many types of reasoning used by entrepreneurs to solve their problems, such as spatial, memory-based, commonsense, default, causal, and case–based reasoning. There are many types of management problems, which face entrepreneurs during the enterprise life cycle, and they get used to solve these problems by reasoning. These problems are interpretation, diagnosis, debugging, prediction, planning, monitoring, and controlling problems. Problem domain will be confined to the interpretation problem.

Interpretation problem:

This type of problem occurs during explaining summarized results from enterprise environment changes. The explanation process is composed of two cycles. The first cycle of explanation: the enterprise management (planning entity) should transform the enterprise environment changes to opportunities, as shown in Figure 3, in red flow. The second cycle of explanation: the enterprise management (planning entity) should transform the enterprise environment changes to threats on its market situation if it failed to acquire the opportunities, as shown in Figure 3, blue flow.

Interpretation is a mental process, where entrepreneurs' decisions depend on their knowledge and some types of reasoning.

Interpretation problem is a function of time, where social needs changes by time, and also of the competition gape, as shown in Figure 4.

Interpretation of the social needs should be faster over time long. Otherwise the enterprise will lose its competitive advantage, which is the core of problem, where ES is used.

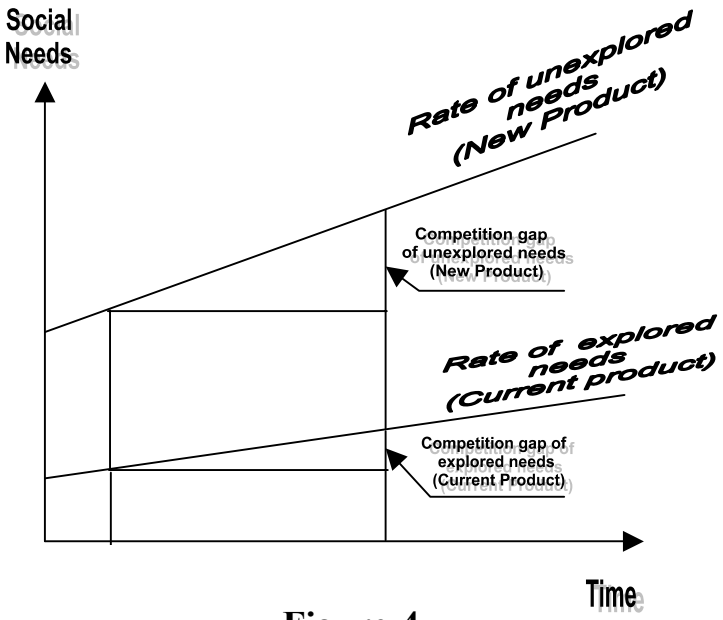


Figure-4

Expert system parameters:

The objective of these parameters is to explore the hidden domain of entrepreneur's reasoning in solving SME's problems in assessing opportunities. A prototype has been developed as a tool of investigating the interpretation of the entrepreneur's reasoning.

The parameters of ES for evaluating reasoning of SME's entrepreneurs of assessing opportunity will be confined to two types of SME's management problems: interpretation, and diagnosis problems, and to one type of entrepreneur's reasoning: case-based reasoning. The parameters of ES will consist of two parts: KB parameters, and User interface parameters.

KB parameters:

The knowledge domain used in the ES prototype consists of two types of knowledge [4]. The first type is marketing segmentation, which used as Knowledge Interpreter (KI) in interpreting the customers entity of the enterprise environment changes to a set of opportunities, as shown in class2, and class3, Figure 5. The second type of knowledge is marketing strategy, which used as KI to interpret the enterprise environment changes to threats on the marketing situation, as shown in class0, and class1, Figure 5.

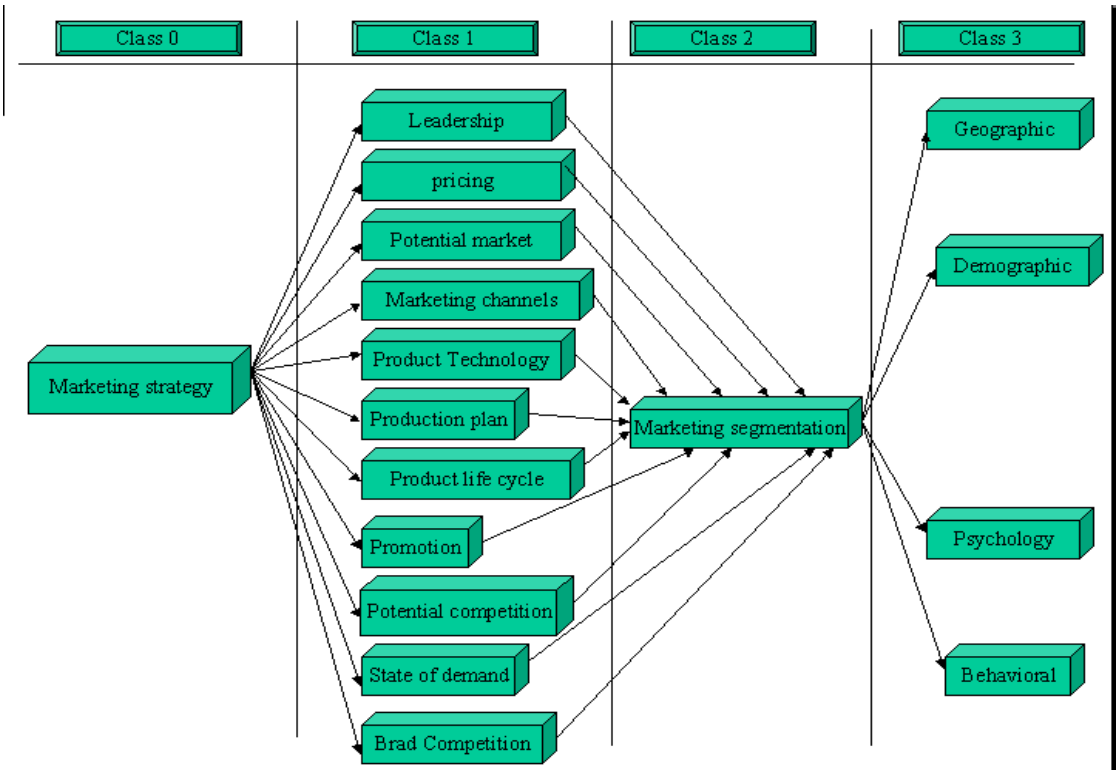


Figure 5

User

Interface parameters:

The interface used in the prototype is menu drive windows as shown in figures 6, 7, 8, 9,and 10 respectively

Marketing segmentation - Figure-6

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SEGMENTATION VARIABLES FOR CONSUMER MARKETS

AGE                      OLDER FAMILY              OCCUPATION
[ ] Under 6              [ ] Married no kids       [ ] Professional, technical
[ ] 6-11                 [ ] Married kids <18 old  [ ] Manager, officials
[ ] 12-19                [ ] Married kids >18 old  [ ] Clerical, sales
[ ] 20-34                ANNUAL INCOME             [ ] Craftsmen, foremen
[ ] 35-49                [ ] Under LE 2500         [ ] Operatives
[ ] 50-64                [ ] 2500 - 5000           [ ] Farmers
[ ] 65+                  [ ] 5000 - 7000           [ ] Retired
SEX                      [ ] 7000 - 10000          [ ] Students
[ ] Male                 [ ] 10000 - 15000         [ ] Housewives
[ ] Female               [ ] 15000 - 20000         [ ] Unemployed
FAMILY SIZE              [ ] 20000 - 30000         EDUCATION
[ ] 1-2                  [ ] 30000 - 50000         [ ] Grade school or less
[ ] 3-4                  [ ] > 50000               [ ] Some high school
[ ] 5+                   RELIGION                  [ ] High school graduate
YOUNG FAMILY             [ ] Moslems               [ ] Some college
[ ] Single               [ ] Catholic              [ ] College graduate
[ ] Married, no kids     [ ] Protestant            NATIONALITY
[ ] Married kids <6 old  [ ] Jewish                [ ] Egyptian
[ ] Married kids >6 old  [ ] Other                 [ ] Foreigner
F3-Sign F7-KI F8-Exit F9-CLS
```

Marketing segmentation - Figure-7

```
SOME COMMON PROMOTION TOOLS

ADVERTISING                SALES PROMOTION            PUBLICITY
[ ] Print ads              [ ] Contests               [ ] Press kits
[ ] Broadcast ads          [ ] Games                  [ ] Speeches
[ ] Packing-outer          [ ] Sweepstakes            [ ] Seminars
[ ] Packing-inserts        [ ] Lotteries              [ ] Annual reports
[ ] Mailings               [ ] Premiums               [ ] Charitable
[ ] Catalogs               [ ] Sampling               [ ] Donations
[ ] Motion pictures        [ ] Fairs and trade shows  [ ] Public relations
[ ] House magazines        [ ] Exhibits               PERSONAL SELLING
[ ] Brochures, booklets    [ ] Demonestrators         [ ] Sales presentaion
[ ] Posters                [ ] Couponing              [ ] Sales meetings
[ ] Directories            [ ] Rebates                [ ] Telemarketing
[ ] Reprints of ads        [ ] Low-interest financing [ ] Incentive programs
[ ] Billboards             [ ] Entertainment          [ ] Sales samples
[ ] Display signs          [ ] Trade-in allowances
[ ] Purchase displays      [ ] Trading stamps
[ ] Audiovisual
[ ] Symbols, Logos

F3-Sign F8-Exit F9-CLS
```

Promotion tools - Figure-8

```
PSYCHOGRAPHIC & BEHAVIORAL SEGMENTATION

SOCIAL CLASS               BENEFITS SOUGHT            Readiness stage
[ ] Lower lowers           [ ] Quality                [ ] Unaware
[ ] Upper lowers           [ ] Service                [ ] Aware
[ ] Lower middles          [ ] Economy                [ ] Informed
[ ] Upper middles          USER STATUS                [ ] Interested
[ ] Lower uppers           [ ] Nonuser                [ ] Desirous
[ ] Upper uppers           [ ] Ex-user                [ ] Intenting to buy
lifestyle                  [ ] Potential user         ATTITUDE TOWARD PRODUCT
[ ] Straights              [ ] First-time user        [ ] Enthusiastic
[ ] Swingers               [ ] Regular user           [ ] Positive
[ ] Longhairs              USAGE RATE                 [ ] Indifferent
PERSONALITY                [ ] Light user             [ ] Negative
[ ] Compulsive             [ ] Medium user            [ ] Hostile
[ ] Gregarious             [ ] Heavy user             CITY
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Pricing method - Figure-9

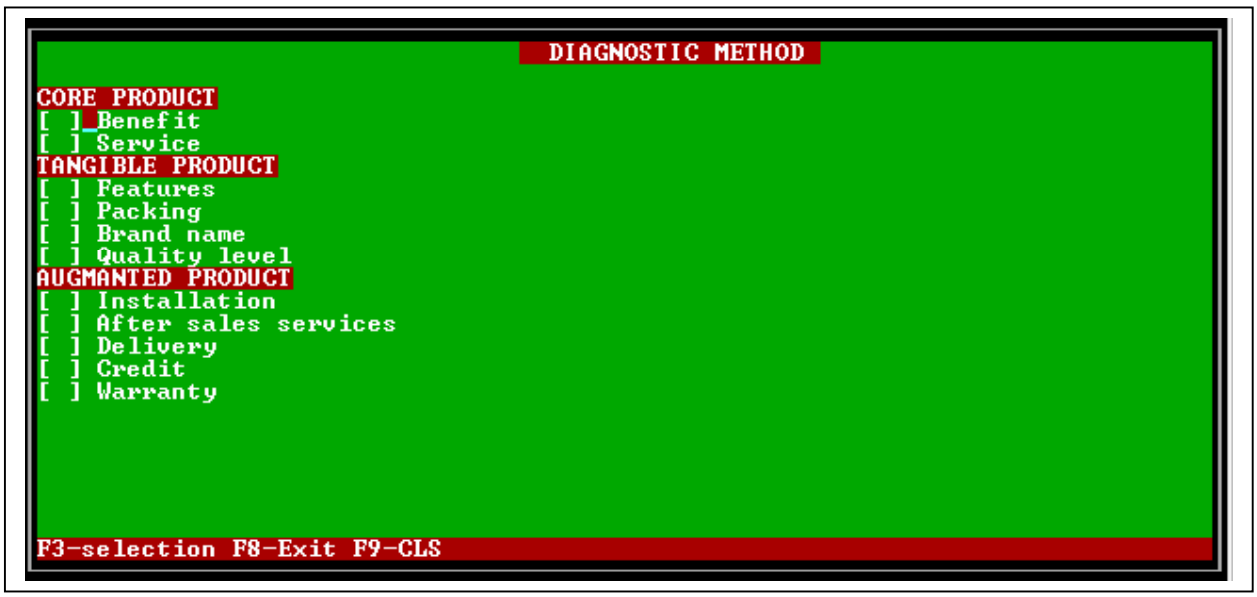

Figure-10 – Marketing strategy

RESULTS AND CONCLUSIONS

Results focus on two subjects. First, the effect of using KI in interpreting the enterprise environment changes to opportunities and threats. The second subject, observation on the entrepreneur's reasoning of interprets opportunities and threats.

RESULTS

1. The ES prototype interpretation on 24 cases of SMEs, shown that 95% of the ES conclusions are in agreement with the human experts.

2. The ES prototype assets 88% of SMEs in interpretation opportunities and threats.

3. Experimentation shows that the entrepreneurs are accustomed to use spatial and default reasoning in identifying enterprise opportunities and threats.

4. The tentative planning manner is used for the planning and follow-up of the SMEs, it assists in minimizing their risks, while it slows their potential growth rate.

5. The main functions of the entrepreneurs emphasize of using heuristic approach in solving their problems.

6. The developed ES prototype demonstrates that it can interact with the entrepreneur's marketing.

CONCLUSIONS

From the previous results of the ES prototype it is concluded that: The ES is considered as a reliable and efficient tool that could assist business incubators in achieving the followings:

- Assessing entrepreneur’s reasoning in the domain of business opportunities.
- Approving the credibility of the SME to be granted loans.
- Training the new entrepreneurs in planning and follow-up of their enterprises.

FUTURE RESEARCH DIRECTION

Interpretation is not only the unique type of problem that faces Entrepreneurs while managing their SMEs, but also there are different types of them, such as diagnosis, debugging, prediction, planning, monitoring, and control reasoning. This type of reasoning should be taken into consideration in case of supporting entrepreneur in SME development.
Diagnosis problem: This type of problem occurs during identifying causes of given information about customers, suppliers, competitors, machinery, and location, in order to identify the appropriate strategy of marketing, production, financing, personnel, and R&D.

Debugging problem: This type of problem occurs during formulating strategies into the enterprise functions based on given constraints of customers, suppliers, competitors, machinery, and location.

Prediction problem: This type of problem occurs during inferring likely consequences of the hypothetical strategies of enterprise functions in a specific product or service.

Planning problem: This type of problem occurs during devising a method for making enterprise strategies achieve their objectives.

Monitoring problem: This type of problem occurs during comparing observations of the enterprise environment with established standards of enterprise function strategies.

Controlling problem: This type of problem occurs during guiding the enterprise function strategies, based on the enterprise environment.

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SPIRITUALITY AND ENTREPRENEURSHIP: THE DRIVING FORCE BEHIND THEIR GREAT SUCCESS?

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ABSTRACT

The current researchable proposition, "the relationship between spirituality and entrepreneurship as the driving force behind their success," has emerged from two previous studies conducted by the researchers. The answer to the broader question required an in-depth study of entrepreneurs, specifically to explore the underlying factors surrounding their personal values and sense of spirituality as it relates to their business and their current work life experiences. To answer those questions, twenty entrepreneurs from a diverse group, based on gender, years in business, level of profits, size, and industry, were interviewed. The respondents gravitated to one of two main motivational factors. On one end of the spectrum there were a group of respondents motivated by the accumulation of wealth. While on the opposing end, another group existed whose ultimate source of motivation rested on the belief that the entrepreneurial experience would allow them to fulfill their emotional and/or spiritual void. The most interesting finding was the subset of entrepreneurs with low socioeconomic upbringing that appeared to "straddle" the motivational spectrum by displaying an equal measure of motivational attributes from both ends of the spectrum, wealth accumulation and spiritual/emotional. A hypothesis, which needs further testing, suggests that a low socioeconomic life experience is a major contributor for their hybrid status. In addition, there was a notable difference in the entrepreneurial experience of respondents with an entrepreneurial role model and those that were foreign born.

INTRODUCTION

The life of an entrepreneur is typically far more stressful than that of their corporate brethren. Since the ultimate success or failure of their business entity falls squarely on their shoulders, entrepreneurs must assume more areas of responsibility. An additional source of stress for entrepreneurs derives from the higher level of instability that is inherent to entrepreneurial ventures. More times than not an entrepreneur must work without the security of regular paychecks, medical insurance, and retirement funds, which as a result increases their level of anxiety. Research has shown that the average work day for an entrepreneur can easily stretch to twelve hours or longer (Jamal and Badawi, 1995), and because entrepreneurs frequently do not have a clear separation between their work and non-work activities they face higher levels of stress at work and its demands often dominate their lives (Jamal, 1997).

So the question is why, why would a person of sound body and mind willfully decide to pursue such an arduous lifestyle? What is it that drives a person to become an entrepreneur? Is it innate or is it a product of a set of life experiences? Do entrepreneurs possess an assemblage of personality traits that pull them into entrepreneurship or does their motivation lie in external factors, which push them to initiate self-employment? The research project detailed in this paper investigates the motivational factors that drive entrepreneurship by examining previous correlating research studies, as well as an analysis of in-depth interviews of a diverse sample of entrepreneurs.

BACKGROUND LITERATURE

Tug of War (Pull vs. Push)

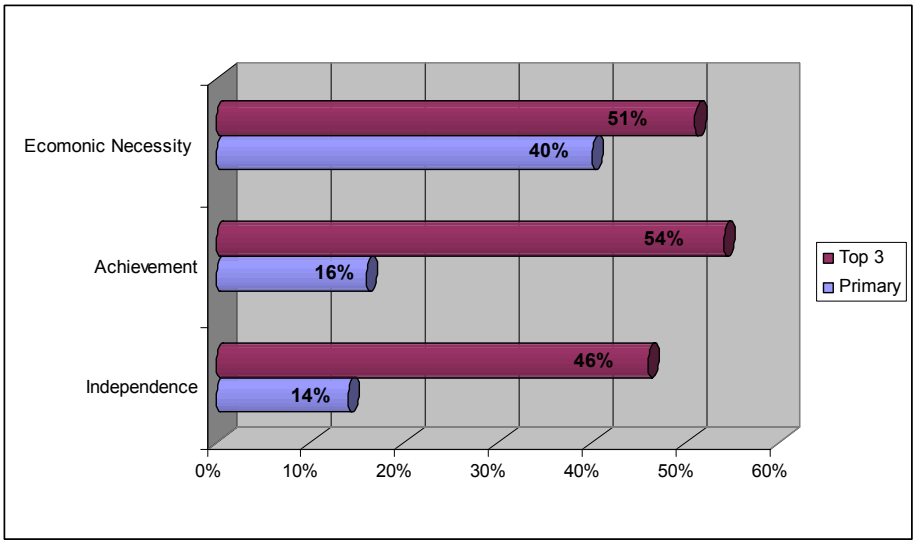
Two streams of thought have developed as to why an entrepreneur assumes the personal, social, and financial risks associated with initiating a venture; one school of thought suggest that intrinsic factors drive some individuals to engage in entrepreneurial behavior. This ideology characterizes the pull theory, wherein an individual's need for achievement (McClelland, 1961), internal locus of control, belief in self-determination (the belief that the outcome of events will be influenced by the individual's efforts) (Rotter, 1966, Brockhaus, 1982), higher propensity for risk-taking (Slevin and Covin, 1992), and strong sense of personal ability to perform (Boyd and Vozikis, 1994) beckon them into entrepreneurship. The opposing stream of thought maintains that negative situational factors result in some individuals being pushed into entrepreneurship. Among the negative events that have been categorized as push factors are low level of job satisfaction due to a lack of spiritual fulfillment (Mitroff and Denton, 1999), economic necessity, conflicts at one's place of employment, joblessness (Olofsson et al., 1986), career setbacks (Gilad, 1986), and limited alternative opportunities (Greenberger and Sexton, 1988). There is empirical evidence in support of both the pull and push theory, (Gilad, 1986, Hisrich, 1988, Olofsson et al., 1986). So the question follows, is the entrepreneurial spirit the product of pull or push factors, or are both needed

One Size Fits All?

Entrepreneurs come in a multitude of forms; they differ by gender, ethnic background, nationality, religious affiliation, and socio-economic status. Therefore, it would follow that the motivational factors responsible for their entrepreneurial drive would vary as well. There are several studies that affirm this logic; a recent survey fielded by The Hartford Financial Services Group (Cooper, 2002) found that 60% of individuals that wanted to start their own business were primarily motivated by financial success, while the main motivator for established business owners was the ability to make their own schedule (62%), demonstrating that there are stark differences in motivation between would-be entrepreneurs and current entrepreneurs. A research study conducted in England by the Small Business Service (2001) found that entrepreneurs belonging to a minority ethnic group derived a higher level of motivation from the respect drawn from working for oneself, the ability to be at the forefront of ideas, and having the opportunity to lead and motivate others than their non-minority counterparts, substantiating that there are major motivational differences among entrepreneurs of differing ethnic backgrounds. While yet other surveys administered among men and women business owners have revealed money as a greater motivational source for men, while women were found to be more inspired by the business idea itself (Barclay, 2000; DeMartino and Barbato, 2001), noting that there are indeed disparities for entrepreneurial motivations between genders as well.

Researchers have tested the effectiveness of both pull and push motivators. One such study provided entrepreneurs with a collection of nine pull and push potential motivational influencers; job satisfaction, social status, economic necessity, power, wealth, achievement, independence, opportunity, and career security (Solymossy, 1997). The entrepreneurs were asked to select up to three influences as their key motivators, and to rank them in order of their importance. Table A below highlights the responses given most often by the respondents.

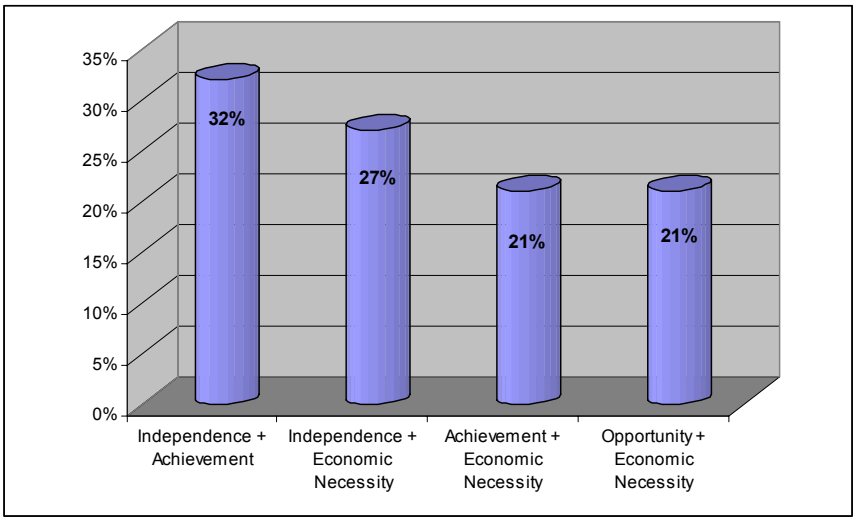
Table A: Top motivational influences



Solymossy's research found economic necessity (a push motivator) to be the most influential factor for starting an entrepreneurial endeavor. The majority of respondents (51% overall) chose economic necessity as one of their three motivations, with 40% listing it as their primary motivator. No other single motivator was as pronounced a primary influence. The other top two influences, achievement and independence (both pull motivators), were identified as the primary motivating influence just 16% and 14% of the time respectively. However, both achievement and independence received a high level of mention for being one of the three overall motives (54% and 46%). Which suggest that push and pull motivators must be present to trigger entrepreneurial activity.

Solymossy's work went on to demonstrate that influences taken in tandem also compel entrepreneurial behavior to occur. Table B graphically highlights the findings of Solmossy's study. Stated by a third of the sample, the two dominate pull motivators, achievement and independence proved to be the most common influence combination, but the remaining top rated pairings were blends of pull and push influences,

Table B: Most frequent motivational influence pairings



which suggest that the combination of pull and push influences makes for a powerful motivating force as well. Solymossy concluded that a high percentage of entrepreneurial activity is the result of the synergic combination of both pull and push factors. Interesting to note, Solymossy also found that pull entrepreneurs and non-entrepreneurs shared similar attributes and risk aversion, while push entrepreneurs where significantly different from non-entrepreneurs. Additionally, "pull" entrepreneurs were found to be more successful than "push" entrepreneurs in both personal income and the sales per employee in their ventures.

Even with the extensive amount of work done in this field, a clear understanding of the motivational force behind entrepreneurship still does not exist. The impact of life experiences and the role of genetic background remain unclear. Whether entrepreneurs are driven by one ultimate source of motivation or rather a culmination of many factors also continues to be ambiguous. The purpose of this research project was to gain additional insight into

entrepreneurial motivation factors by obtaining the true-to-life experiences of entrepreneurs from an array of different backgrounds.

METHODOLGY

This research project was exploratory in its nature and aspired to amass a wealth of candid responses from entrepreneurs regarding their life experience, both prior to and during their entrepreneurial endeavor. The project was designed in this manner so that respondents were free to provide narratives that were relatively unbiased by the researcher's assumptions.

Sample

The entrepreneurs were assembled through convenience sampling. Respondents were selected from the researchers' personal and business contacts. The sample consisted of twenty small business owners from a variety of professional and educational backgrounds. The ratio of female to male respondents was 2:3, 15% were foreign born, and the total sample age distribution ranged from 25-68.

Research Instrument

A loosely structured interview guide was assembled to assure that respondents gave feedback relating to their entrepreneurial experience and the motivational forces that preempted it. The interview guide ensured that each respondent spent a portion of their time to answer the following questions. They are:

- What motivates entrepreneurs to get into (or out) of business?
- What personal values do entrepreneurs find the most important in their work?
- What is the role of meaning and purpose in deciding to be an entrepreneur and do they find it in their work life? If so, how?
- What is the entrepreneur's view of spirituality and its relevance in the business world and/or in the community?
- How do they define success as it relates to their business?
- What is the current business challenge facing the entrepreneur?
- What is the impact of family experience on their current work life?
- What is the impact of career experiences on their current work life?
-

Although the researchers were interested in the answers to these questions, every respondent was encouraged to speak openly about their entire life experience so that other areas of similarities among the respondents could be uncovered.

Analysis

The interview sessions were recorded and transcribed to enable a detailed analysis of each respondent's feedback. During the analysis stage, the transcribed accounts of the interviews were thoroughly examined for commonalties and noteworthy phrases (which could be used

as the basis for future assessments). Similar responses were placed into groups; some responses were common amongst the entire collective of respondents while others were distinct to members of smaller sub-groups. The accounts given by the respondents were then analyzed and divided into three like clusters.

RESULTS

The Sum of the Parts

The analysis of the feedback from this study suggests that entrepreneurs across varying backgrounds share a set of attributes. Every respondent expressed each of the following characteristics at varying levels of degree:

- High internal locus of control
- Aversion to complacency
- Discomfort for numerous rules and procedures
- Instinctively opportunistic
- Need for achievement

Although these attributes have been cited many times before as being motivational factors for entrepreneurship, this research study goes further to suggest that these motivational factors are not instilled but rather inborn. The amount of multiplicity in life experiences within the sample, which consisted of a cross section of individuals from different ethnic and socio-economic backgrounds, as well as varying genders, religious affiliations, and age groups, indicates that these universal traits may indeed be the result of genetics and not social learning. Using a logical progression of thought leads to the suggestion that entrepreneurs possess a measurable size of innate personality traits that are invariably unique to them. Although due to the small sample size and qualitative nature of this research project far more work needs to be performed in this area before the existence of inherent entrepreneurial traits can be regarded as true and factual.

The Dichotomy of the Entrepreneur

During the analysis process it became evident that many of the respondents gravitated towards one of two main motivational factors. The data collected represented a wide array of beliefs and opinions, but all of the viewpoints seem to adhere to a finite spectrum of motivational influences. On one end of this spectrum there was a group of respondents that were principally motivated by the accumulation of wealth. There ultimate goal being to create enough wealth for themselves that they would one day no longer need to work, which would allow them the opportunity to pursue the things in life that they truly wanted to do. While on the opposing end of this spectrum another group existed wherein their ultimate source of motivation rested in a belief that their entrepreneurial activity would allow them to fulfill an emotional and/or spiritual void that resided within them. This dichotomy of the entrepreneur transcended gender, age, and ethnic background. Both the group of respondents motivated by money and the group motivated by self-fulfillment contained individuals with well-

established, financially secure business owners as well as individuals with cash-starved start-up organizations.

For classification purposes, one end of the spectrum was termed “cash is king”, because a respondent that adhered to this driving force would be wholly motivated by money and financial freedom, while the opposing end of the spectrum was coined “make me whole”, since self-fulfillment was the sole aspiration of a respondent motivated by this force. None of the respondents completely embodied ‘cash is king’ or “make me whole”, but instead the ultimate source of motivation for each respondent existed as a muddled mixture of the two, wherein everyone in the sample retained a distinctly singular composition of attributes from each paradigm, which resulted in most of the respondents favoring one side of the spectrum.Table C that follows illustrates the collection of attributes that exemplify each pole of the spectrum.

Table C: Attribute Listing – Cash is king & Make me whole

Cash is king		Make me whole
Driven by financial rewards		Their work is their passion
Success = Money		Success = Reaching full potential
Work enables the ability to do what you really want		Work enables the ability to express themselves
Aspire to have future free time		Always want to be involved in the venture
Act ethically for sake of company		Ethical behavior is simply the right thing to do
Business and personal life are kept separate		Business and personal life are fully integrated
Spirituality and workplace do not mix		Spirituality is an integral part of their operation

While no one respondent epitomized either extreme there were several that heavily favored one of the two ends. The respondents that were closest to the “cash is king” paradigm, though all male, varied greatly in age (25-62), ethnic origin, and socio-economic status (some had recently began their venture, while others possessed many years of entrepreneurial experience). The fact that this end of the spectrum was represented by males gives credence to the previous work of Barclays, DeMartino and Barbato (2000, 2001), which proclaimed that men are more likely to be driven by the accumulation of wealth. The following is a list of quotes that distinguish individuals located on the “cash is king” portion of the spectrum from the remainder of the sample:

- “The point of being in business is to make money!”
- “The only way to gauge my level of success is to calculate the return on my investment.”
- “The more money I make, the less money I need…and with time I can do the things I really want.”
- “It just makes good business sense to treat our employees well…I don’t want someone coming back and suing the company or something”

- "If I come across someone who wants to mix business and spirituality, that's a big red flag, and I run the other way."

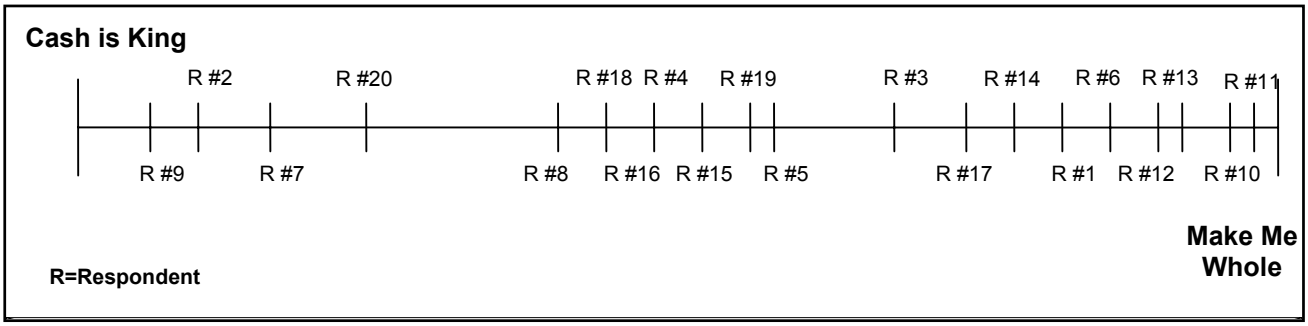
The collection of respondents that displayed the most likeness to the "make me whole" paradigm also exhibited highly dissimilar backgrounds. This group consisted of everything from an older Anglo male with no religious affiliation, to a foreign-born thirty something with devout religious beliefs, as well as a middle-aged mother who spent most of her professional life working for a corporation. Statements made by this group included the following:

- "I get so excited about it [my work] some times, I surprise myself…"
- "Purpose and meaning in my job is really doing the best that I can, but it's also giving back…"
- "I think I'll scale back, but I don't ever want to stop working."
- "It's hard to say where my business ends and my personal life begins"
- "My spirituality gives me the foundation for how I run my business."

Using "cash is king" and "make me whole" as archetypes, each respondent was assigned a position on the spectrum between the two opposing axioms that best represented his/her responses. Please refer to Figure 1 below for a visual representation of the motivation spectrum. A respondent's location on the spectrum alluded to their ultimate source of motivation, those within a close proximity to "cash is king" were more strongly driven by financial rewards, while individuals situated closer to "make me whole" yearned for self fulfillment or what Maslow termed self-actualization.

However, for the individuals located in the center of the spectrum a clear sense of the origin of their entrepreneurial vigor remained somewhat obscure. Unlike the other respondents that displayed a propensity for one of the two paradigms, this group of respondents exhibited a relatively equal amount of attributes from both paradigms essentially making them hybrids, which in turn made it is much more difficult to decipher their definitive motivational source.

Figure 1: Motivation Spectrum



A commonality amongst the respondents that were positioned in the middle of the spectrum helped to validated their placement as hybrids; each of them were raised in a lower socio-economic environment, which may have caused them to develop a fragile, yet perverse relationship with money, wherein their presumed level of financial instability continuously outweighed their actual situation. As a result, this group of respondents formed a monetary

fixation that caused them to constantly thrive to acquire more money. So although on many levels they emulated the "make me whole" paradigm their unending need to quell their fear of returning to a state of poverty possibly drove them to embrace many of the "cash is king" attributes. This group of respondents mentioned the following phrases:

- "…I'm still not where I want to be, being comfortable in not taking everything that's offered to me."
- "…you cannot be big spender, we not big spenders, we saving, we saving…we work hard and save."
- "…I have to hoard now for later."
- "..without money I am going to fail."
- "..I certainly do everything for money, but inside its work ability like what is really going to work."
- "..it started out about money, but it ended up being an emotional thing."
- "..you become too passionate about stuff and you can't let it overrule you because it is just a business but when it is yours, it does become personal so …it is the sad point."

Far more research must be done in this area before socio-economic status can be deemed the basis for why some entrepreneurs demonstrate an equivalent amount of attributes from both paradigms.

The appendix of this paper contains a graphical depiction of the relationship between "cash is king", "make me whole", and hybrid entrepreneurs.

Other Notable Similarities & Differences

Following in the Footsteps of…

A significant portion of the sample had a genealogical link to entrepreneurship. These respondents had very little in common aside from sharing a family history of entrepreneurial activity, yet they all articulated an early realization of their entrepreneurial drive and actively pursued a venture much earlier than the sample segment that did not have a family history of entrepreneurship. Some of the statements made by these respondents included the following:

- "Working for someone else? No, that wasn't even something I thought about."
- "I just always knew…from a very young age I knew I wanted have my own business and I knew it would have to be small."

Previous research work has shown that having the presence of an entrepreneurial role model, particularly in the same household, is extremely influential and is a significant contributor to the development of future entrepreneurship (Bandura, 1977; Scherer et al, 1989). However, in the circumstance where the entrepreneurial role model is also of the same ancestry it is unclear as to how much of the influence is due to social learning and how much is simply the result of genetics. Therefore, additional analysis work is needed in this area to better understand the relationship between entrepreneurial role models and their offspring.

It's all so new!

Just over 15% of the sample consisted of immigrants. This portion of the sample communicated that their own cultural background as well as their inability to immediately adapt to American culture also served to prompt their entry into the entrepreneurial lifestyle. The foreign born segment of the sample expressed feelings of frustration upon first arriving in the United States, wanting desperately to hold on to their cultural roots, but also longing for a sense of belonging and acceptance within their adapted homeland, but cultural issues, such as the language barrier proved to be too great. As a result for this group of respondents, initiating an entrepreneurial endeavor became an attractive alternative. Responses from this portion of the sample included the following:

- "That's the way Vietnamese people are…that's what my Grandmother and Great Grandmother would tell me"
- "It was pretty challenging because it was all brand new to us. We come from different country so we had to get use to the methods of how things are done here…"

Prior research has deemed that there are considerable motivational differences between native and foreign-born entrepreneurs and that the majority of these differences are attributed to cultural disparities and the adapted country's incapacity to welcome foreign cultural customs and mores (Walton-Roberts, Hiebert, 1997; Autio et al, 1997).

CONCLUSIONS

The research project demonstrated that regardless of background characteristics, entrepreneurs may possess a common set of traits that are exclusive to entrepreneurial individuals. The findings also suggest that there appears to be two subsets of motivational factors, which do not appear to be dependent on age, gender or financial security that are driving entrepreneurs. For some, "cash is king" is their predominant driver; for others the entrepreneurial venture is utilized as a means of accomplishing self-actualization and/or a sense of spiritual wholeneness –"make me whole." What is not clear from the study is why there is such a difference between these groups.

Other observable conclusions included the discovery of a subset of entrepreneurs with low socioeconomic upbringings that all theoretically "straddled" the motivational spectrum by displaying an equal measure of "cash is king" and "make me whole" attributes. A hypothesis was formed that named their low socio-economic life experience as the major contributor for their hybrid status, but a more detailed investigation is needed to determine its validity. The analysis of the exploratory data also uncovered a notable difference in the entrepreneurial experience of respondents with an entrepreneurial role model and those that were foreign born.

Although this research project provided an array of information pertaining to many facets of the entrepreneurial experience, it also exposed the following subject matters as topics for future research studies:

- **Motivation spectrum:** Why are entrepreneurs drawn to one end of the spectrum versus the other?
- **Motivation type:** which entrepreneurs are more financially successful 'cash is king", "make me whole", or hybrids; which are happier?
- **Motivational change**: Does an entrepreneur's placement on the spectrum change significantly over time
- **Parental entrepreneurial role models:** How much of their influence is genetic?
- **Foreign-born entrepreneurs:** Are they more drawn to entrepreneurship because of their own cultural values or because of the adapted countries inability to incorporate them into the larger society?
- **Socio-economic background:** What influence does the entrepreneur's socio-economic environment have on one's motivation? Does it change over time?

The research performed in this study cleared away a portion of the ambiguity surrounding the entrepreneurial experience, but much of the road to truly understanding what drives an individual to entrepreneurship has yet to be paved.

The area of entrepreneurship and spirituality is extremely important given our current environment. Due to the fast pace of our environment and instability in our world, individuals are experiencing a lack of meaning and purpose in their lives. Consequently, for many they are seeking to discover their true selves and, in the process, a higher purpose and meaning to their lives through their work. This spiritual journey, for many, is not necessarily confined to a religious framework. It is about focusing within, in order to find greater awareness of Self. Many have suggested that work can be a place where individuals can become truly actualized and find meaning and purpose. The heightened sense of insecurity, and loss of connection to the self and their values, has prompted many individuals to reconsider how to pursue their careers. The findings present important information for those individuals considering entrepreneurship as a career option. Through our research with entrepreneurs, we have found many individuals that have found a way to integrate their quest for spirituality or emotional wholeness as a result of their work. The results provide a basis for future research, in addition to important information for teachers and consultants as they support individuals seeking entrepreneurship as an alternate career option.

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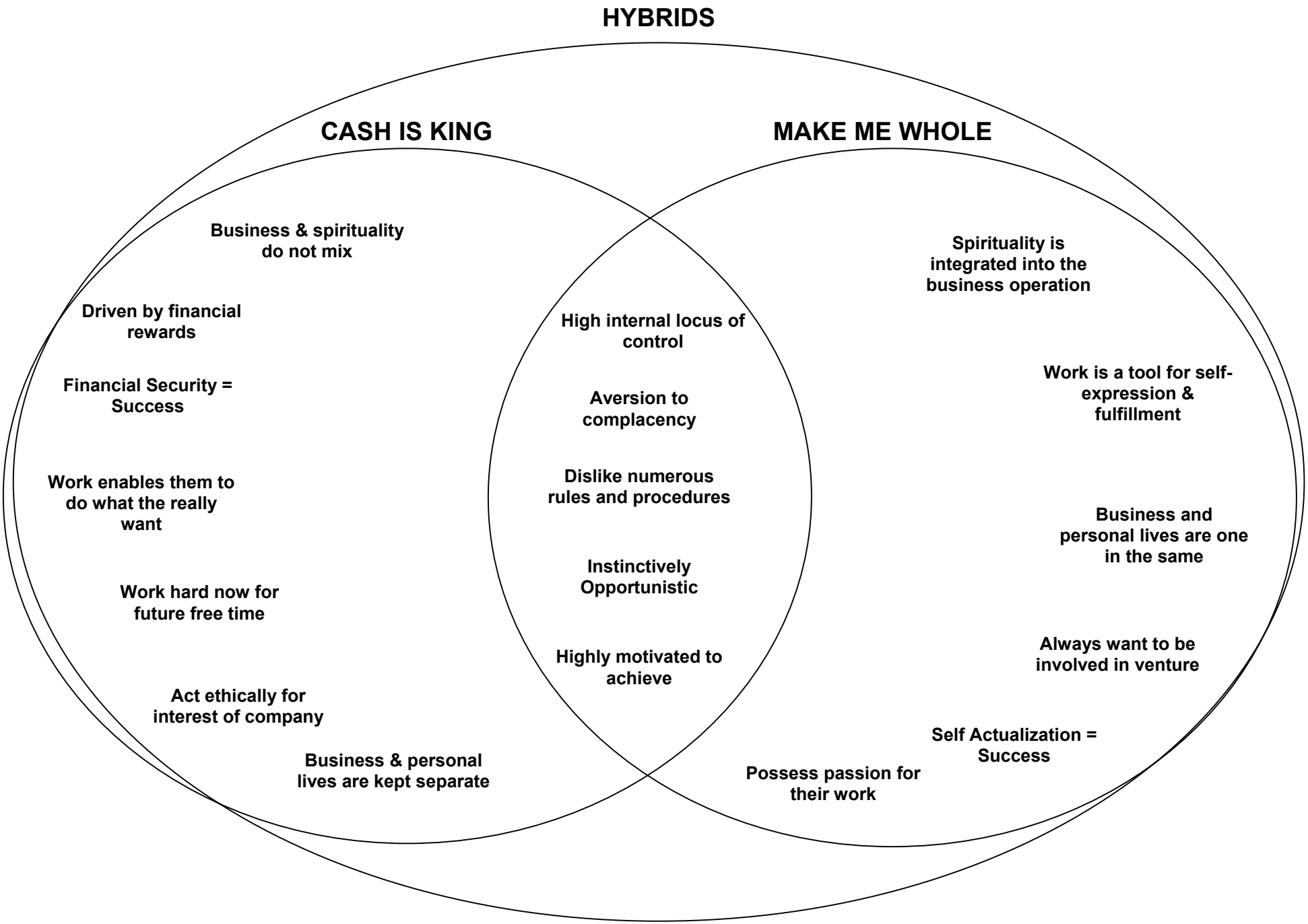
Appendix


HYBRIDS
CASH IS KING
MAKE ME WHOLE
Business & spirituality do not mix
Driven by financial rewards
Financial Security = Success
Work enables them to do what the really want
Work hard now for future free time
Act ethically for interest of company
Business & personal lives are kept separate
High internal locus of control
Aversion to complacency
Dislike numerous rules and procedures
Instinctively Opportunistic
Highly motivated to achieve
Spirituality is integrated into the business operation
Work is a tool for self-expression & fulfillment
Business and personal lives are one in the same
Always want to be involved in venture
Self Actualization = Success
Possess passion for their work

CROSS-CULTURAL ISSUES FACING SMALL FIRMS COLLABORATING WITH INTERNATIONAL PARTNERS: A CASE STUDY

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ABSTRACT

There has been a substantial increase in the number and variety of collaborative business relationships formed in recent years. Whilst such relationships might be important for all firms, they are likely to be even more crucial for smaller firms with scarce internal resources. Despite their recognised importance, many challenges are inherent in managing collaborative relationships, and again these may disproportionately affect small firms. These issues are illustrated using the case study of a collaborative relationship between a New Zealand (NZ) specialty chemical firm and a Japanese trading house. The case data reveals that both firms experienced difficulties attributable to differences in culture.

Keywords: collaborative relationships, cross-cultural issues

INTRODUCTION

Collaborative relationships enable firms to access other organisations' skills, markets and resources and are generally perceived to be beneficial. Whilst such relationships might be important for all firms, they are likely to be even more crucial for smaller firms with scarce internal resources. Small firms may find that the ability to compete globally is necessary for their survival, and may enter international markets with a local firm in the hope of better access and increased local market knowledge.

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Many challenges are inherent in managing collaborative relationships, and these too may disproportionately affect small firms. This research examines the challenges small businesses face in managing cultural differences with an international partner. These issues are addressed using the case study of a collaborative relationship between a New Zealand specialty chemical firm and a Japanese trading house. The Japanese trading house was to sell a commodity chemical extracted by the New Zealand firm using an innovative process. The product was to be sold in Japan for use in the manufacture of electronics.

The paper is divided into five sections including the introduction. The next section provides a brief review of pertinent literature on small and medium-size enterprises (SMEs) and cross-cultural issues in collaboration. The method through which the data were collected for the case study is then outlined. This is followed by a discussion of key insights from the case. The final section presents a summary and implications.

Literature Review

SMEs and collaboration

The literature in general proclaims the benefits of collaborating to combat such forces as the fast pace of technological change and strong global competition. Collaboration provides the firm with well-recognised benefits, such as economies of scale, access to financial resources, market and/or technology access and the development of core competencies (eg, Varadarajan & Cunningham, 1995; Madhok & Tallman, 1998). For instance, a firm may have access to unique technology but lack the resources and knowledge necessary to expand into key international markets. Collaboration enables such a firm to correct this deficiency by aligning with a partner possessing the required skills.

Many argue that limited resources are a key constraint that entrepreneurs face (Beamish, 1999). The lack of resources, combined with a low level of foreign market competence may prevent a firm from considering overseas markets. The resource constraints faced by SMEs are often accentuated by risk aversion and a lack of international management expertise (Rowden, 2001). Given the problems associated with smaller firms penetrating international markets, an important question is how effective collaboration might be in achieving this objective.

The issues associated with collaboration might be compounded in the high-technology arena that is characterised by longer lead times from research to application followed by shorter time-to-market (Litvak, 1992). In their study of the internationalisation of smaller technology-based firms Karagozoglu & Lindell (1998) found that adoption of an international orientation is viewed as crucial to the success and long-term survival of smaller firms. Partnerships agreements were seen as an important strategy to support the expansion overseas. Lee, Lim & Tan (2000) also argue that apart from overcoming resource disadvantages, a key benefit of alliances for small firms is the access to complementary expertise which enables greater strength and the ability to develop competitive advantage. Their study showed that alliances allow SMEs to compete more effectively and indicate that with collaboration such firms might be able to penetrate markets dominated by larger firms.

These advantages of collaboration are also applicable within the New Zealand context. The New Zealand business environment is characterised by a large proportion of small firms. The growth of these firms, and development of key international markets, is regarded as crucial to the overall development of the New Zealand economy (Coviello & Munro, 1995). Inadequate foreign market knowledge and experience are often hurdles that such firms face (eg, Johanson & Vahlne, 1977; Glaister & Buckley, 1996; Chetty & Campbell-Hunt, 2003). However, what has been termed the 'small firm effect' means that firms trying to operate internationally are often disadvantaged in their ability to access and take advantage of foreign markets (Akoorie & Enderwick, 1992). Essentially small firms may possess unique technologies or capabilities but are dependant on larger firms for market access.

Given some of the recognised benefits of collaboration, it would appear that many of the challenges associated with a small firm entering international markets could be overcome with the identification of a suitable international partner. The formation of such collaborations with distributors, customers and other relationship partners is suggested as important for the success of the small firm in operating overseas (Coviello & McAuley, 1999). This is particularly true of markets such as Japan where existing channels are difficult to penetrate and only limited access is available to end-users.

Cross-cultural issues

The nature of international collaborations is such that managers need to be aware of differing perspectives and cultures. In particular their impact on the success of cooperative strategies needs to be understood. Many researchers have studied the influence of culture on attitudes toward collaboration (eg, Steensma, Marino & Weaver, 2000).

Negotiating an agreement

With the potential problems that could be encountered in international collaborations, some emphasis needs to be placed on the initial negotiation process. This effectively allows for differences between partners to be minimised. However, Herbig & Gulbro (1997) caution that cultural differences magnify negotiation problems, the problem being that cultural differences can in fact lead to some mis-understanding during this process. The potential for disagreement is effectively accentuated when two people of differing cultures attempt to reach some form of agreement (Gulbro & Herbig, 1999). For instance, they suggest that the value of being frank and direct might be useful in some cultures, but not acceptable in others. In this paper they use Hofstede's key cultural attributes to examine the likely attitudes to negotiation. They find that culture does have an impact on negotiating behaviours with cultures that exhibit high power scores such as Japan spending less time compromising. Those cultures with high uncertainty avoidance scores would spend more time in the agreement stage, and collectivist cultures would spend more time planning and de-briefing. Overall, they summarise the key difference between for instance, the United States and Japanese culture, as that while the Americans negotiate a contract, the Japanese negotiate a personal relationship (Gulbro & Herbig, 1996).

Effectively, ignoring cultural differences might even halt the process of negotiation prior to, or during, the collaboration (Tung, 1991). This is unlikely to end once the collaboration has been initiated. During the course of collaboration it is inevitable that the forces internally and externally influencing the collaborative activity and the partners are likely to be continually evolving. Differences in uncertainty avoidance are likely to lead to differences in how partners perceive and respond to events in the environment of the collaboration

(Barkema & Vermeulen, 1997). Thus, a major prerequisite to a successful collaboration might be the negotiation of a sound agreement and accessing the necessary skills to negotiate on issues that arise during the course of the relationship. Whilst negotiating a sound agreement might be important, it is imperative that the impact of cultural differences on this process is recognised. Therefore, a formal agreement may serve as a starting point in collaboration but, where alliance partners exhibit cultural differences, what is being agreed to and how this might change in the long-term are also important.

Communication

Cultural differences ultimately influence how individuals and firms interact and communicate within collaborations. In this regard communication issues become an even greater concern in international collaborations where cultural differences are apparent (Das & Teng, 1997).

Differing cultures and decision-making styles often cause considerable frustration in international alliances (Johansson, 1995). The smaller firm may also face obstacles in adapting to differences in national cultures whilst lacking the resources those larger firms might be able to employ to counter this.

The more an organisation can learn about its partner, the greater the likelihood of success within the collaboration (Rowden, 2001). The key concern is that managers learn to recognise and manage these cultural differences. For example, trust and the fostering of a long-term relationship are important aspects of collaboration for many Japanese firms. Thus, in the case of countries such as Japan or China, relationships are vital and managers might be expected to spend considerable time and effort in nurturing these interactions (Tung, 1991). This view may not be shared by partners from Western cultures (Rowden, 2001).

Studies suggest important differences in how Western culture might differ from Japanese culture with regard to the issue of trust. Western culture appears to point to the importance of a legal agreement rather than long-term relationships. In contrast, Japanese managers associate trust with sincerity, personal relationships and control of decisions whilst distrust is associated with the production of formal legal agreements (Gill & Butler, 2003). Changes in the environment or the nature of this relationship might then be regarded as situations that result in distrust.

Parkhe (1991) suggests that an important facet of managing the interests of various parties is a structure that accommodates adjustments to changes in the internal and external environments of the collaboration. Buckley, Glaister & Husan (2002) suggest that an inherent aspect of flexibility is in fact cultural awareness. Their study of international joint ventures demonstrated the importance of knowledge and empathy for another's culture in an effective relationship. This was seen as a crucial partnering skill. Managers lacking in this level of awareness of cultural differences were likely to make assumptions regarding issues that were not in fact correct.

The impact of cultural differences and communication can also be observed in the way in which partners approach problem solving and conflict resolution. Collaborations where the distance between cultures is greater are more likely to experience conflict (Gill & Butler, 2003). For instance, whilst some cultures might regard conflict as healthy and part of the process of collaboration, other cultures may regard any conflict or confrontation as distasteful (Parkhe, 1991). The management of such situations requires a considerable

degree of common understanding regarding cultural differences apparent within the collaboration.

Given that an awareness of cultural differences is undoubtedly important, the key is in recognising that conflicting cultures and attitudes may result in collaborative failure (eg, Johansson, 1995; Williams, Han & Qualls, 1998). This suggests that success of an international collaboration is influenced, to some degree, by the partners understanding of each others culture.

METHOD

This case is part of a larger study on the performance of collaborative relationships in New Zealand. Case research was used in order to allow a deeper exploration of the research setting. A case study methodology was considered appropriate as it permits the study of 'real life' collaborations (Parkhe, 1993). Eisenhardt (1989) also advocates the use of case research as a strategy that focuses on understanding the dynamics present within the case. This view is supported by Bonoma (1985) who suggests that case research is ideal when the researcher wishes to build theory or theoretical insights.

Yin's (1994) guidelines for case study data collection have also been closely followed in this research. Specifically, multiple sources of evidence are used, a case study database has been created and a chain of evidence has been maintained. Data were collected from alliance participants in both organisations using a combination of in-depth interviews, semi-structured questionnaires, and cognitive mapping. Each interview was from one to two hours long. This aided a deeper understanding of the relationship from the perspective of participating managers. In particular it facilitated a comparison of the perspectives of participants within and between the two organisations. Secondary documents and archival records were used to support the contributions of key participants. For example, valuable information was collected and reviewed regarding the organisations involved in the relationship prior to the interviews. Subsequently, access was also gained to internal company documents. All interviews were transcribed and then analysed to highlight emergent themes. The transcripts were coded by two individuals according to a coding list.

This case considers a small firm with a unique technology seeking to enter the international arena. The case provides an interesting research setting for two key reasons. First, the two firms differ considerably in size. The New Zealand firm is a small entrepreneurial organisation with few employees. The overseas organisation is a significantly larger firm estimated to have billions of dollars in turnover each year. Much has been written on the advantages to a small firm in collaborating for overseas market access. In particular, small firms often rely on the resources that larger firms might bring to the collaboration. Second, technology has also been highlighted as an important aspect of collaboration. Specifically, the literature suggests that alliances are useful in dealing with technologically complex products or environments. Given that these two characteristics are present in this research setting, this case study allows for a consideration of various factors important in the formation and management of collaborations.

Insights from the case

Several factors which have impacted on this particular collaboration are discussed below. The section begins by providing background information to the case and outlining how

unexpected changes in the market led to an alteration to the technology used by the New Zealand firm. Interview data are used to outline how cultural differences merely compounded the impact of this key event. The reliance of the New Zealand firm on the skills and resources of the overseas partner is also evident by the continuation of this relationship.

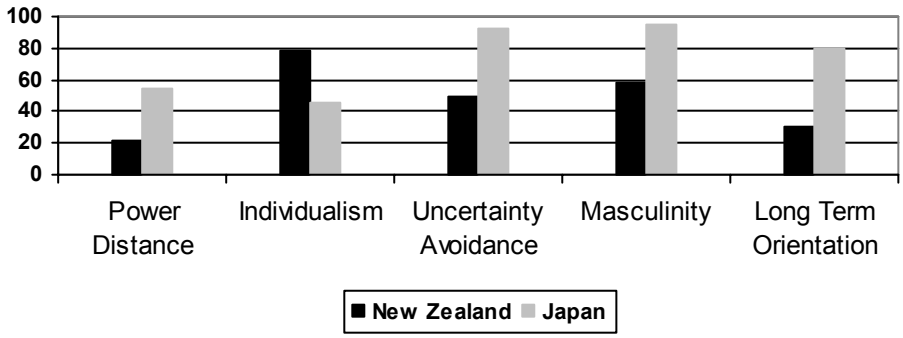
Background

This relationship involves a New Zealand speciality chemical firm (ChemCo) and a Japanese trading house (Distribution International). ChemCo, a small entrepreneurial firm, differs considerably in size from their Japanese partner. Distribution International is a large commodity trader characterised by small margins and a long chain of command.

The partners in this relationship are also based in countries with markedly different national cultures. Figure 1 shows how each country rates on Hofstede's Dimension of Culture Scales (http://spectrum.troyst.edu/~vorism/hofstede.htm). As shown in the figure, compared to New Zealand culture, Japanese culture is characterised by greater power distance, less individualism, and more uncertainty avoidance, and is more masculine and long-term oriented.

These differences did not bode well for this relationship from the beginning since Barkema & Vermeulen (1997) found that differences in long-term orientation, uncertainty avoidance, and masculinity all negatively influence joint venture survival (in descending order of importance). New Zealand and Japanese culture differ significantly on all of these dimensions, with the greatest difference on the long-term orientation dimension, the second greatest difference on uncertainty avoidance, and the third greatest difference on the masculinity dimension.

Figure 1: Dimensions of Culture



The New Zealand partner in this relationship possessed a unique technology for the extraction of a commodity chemical. This process was seen as providing certain benefits and a superior final product as compared with alternative extraction technologies. The application of this technology was the key focus in this collaboration and the relationship was created to support the innovative extraction process. The product was then to be sold to Japan for use in the manufacture of electronics. ChemCo perceived a niche, especially in the Japanese environment, for offering a high quality product customised to local market requirements.

Unfortunately, the entry of an aggressive new player in the marketplace resulted in a decrease in price for the chemical. At this time the New Zealand firm was also experiencing technology-related problems. These two factors made the proposed method an uneconomical extraction process at the prevailing market prices.

Smaller firms accessing overseas markets

Collaborations have been cited as effective tools to overcome size barriers, access crucial skills or markets (Lee, Lim & Tan, 2000) and maintain long-term survival (Karagozoglu & Lindell, 1998). This provides a key motivation to align with other partners. The data from this case reflect a similar situation. ChemCo highlighted Japan as an appropriate market for the product due to its heavy concentration of manufacturers who use the chemical to be extracted. However, whilst they possessed a technology that was unique, they lacked the resources and market knowledge to venture overseas with their product. Overall, the case displayed the classic resource constraint scenario described in the literature (Beamish, 1999).

ChemCo quickly recognised that the Japanese market is traditionally accessed through trading houses; selling directly was not a feasible option. Market penetration without the support of a "big brother" was seen as very difficult by the New Zealand firm. As a smaller firm, it was clear that ChemCo felt that they needed the support of a larger, resource-rich partner.

At this time ChemCo were approached by the Japanese trading house. After years of examining the activities of ChemCo, Distribution International approached the company with the possibility of developing a relationship. The Tokyo office had originally requested Distribution International NZ to investigate the activities of the firm, and Distribution International was aware of ChemCo's technology. As one ChemCo interviewee said:

"They approached us … they had actually been scoping us for a couple of years."

The extraction technology was thought to provide significant promise and have the added attraction of being marketable from an environmental perspective.

In this situation collaboration appeared to offer each firm access to complementary skills. The New Zealand firm offered a unique extraction technology while the Japanese firm provided resources, and more importantly, market access. Managers in both firms appeared to understand the value that collaboration could provide. The proposed collaboration allowed the New Zealand firm to compensate for the 'small firm effect' described by Akoorie & Enderwick (1992). The firms proceeded to negotiate an agreement.

Negotiating the collaborative agreement

The literature tends to indicate that the negotiation of an agreement might be complicated by cross-cultural issues when dealing with partners from different countries. Within this case the initial contract was essentially for the first right of refusal on the marketing and distribution of ChemCo's products through Distribution International NZ and Distribution International Japan. ChemCo was to supply Distribution International with 3,000 tonnes of the chemical per year from extraction using the innovative technology. The spirit of the

agreement was that Distribution International would purchase the product at a certain price, which would be previously agreed.

Although the agreement was designed to facilitate distribution in Japan, Distribution International provided an entrée into worldwide distribution. For ChemCo, a key requirement was that the partner staff had to demonstrate experience in marketing in Japan and be chemically minded. Managers at ChemCo went into the relationship with some awareness of the need to be cognisant of cultural differences when dealing with the Japanese market. The perceived potential for negative consequences on other opportunities and relationships from conducting business in the Japanese environment is summarised by one of the interviewees from ChemCo:

"It's not a case of where you are making mistakes, as can you make a lesser amount of mistakes; it is a complex society—you are always offending someone."

The managing director of ChemCo also outlined how cultural differences complicated the initial contract negotiation:

"A Japanese concept of a contract is totally different to a Western concept of a contract … It is automatically implied that it will change to suit the change in circumstances … [Now] we don't even bother getting interpreters, we don't bother putting things in Japanese, we put it in English so at least we can always look at it and say … we understand it … all it is is a sign of good faith …"

"The Japanese don't even like lawyers – they don't like contracts."

Given these challenges, ChemCo found Distribution International to be useful in the introduction stage of relationships in enabling key connections and contacts. As one of the ChemCo interviewees commented:

"If you have the name of a company that does US$102 billion turnover people assume that you are well connected … that gets you in the door – relationships form – they have probably been trading with the people that we have wanted to trade with for the last 15 years …"

The New Zealand firm regarded the size of their partner as a key advantage. Their motivation to collaborate was based on the access to markets and resources that were more readily available to the larger partner. In the initial stages the connection with Distribution International was seen as critical in generating access to international markets. This explanation of differences between Western and Eastern approaches to negotiation is very consistent with those discussed in the literature and described previously in this paper. Cultural differences, communication and conflict are discussed further in the following section.

Communication and conflict

Key differences in how both firms viewed a contract became apparent very early on in this relationship. Observations in this case support findings in the literature (eg, Gulbro & Herbig, 1999) regarding differing attitudes to negotiation and contracts. ChemCo appeared to recognise the importance of agreement while acknowledging that changes were inevitable. The Japanese firm did not see a contract as important and subsequent changes were viewed with some degree of mis-trust. This difference is described next.

The New Zealand firm responded to the previously outlined changes in the environment by searching for an alternative. In contrast the Japanese firm felt that this change in strategy on the part of the New Zealand firm was not conveyed to them in a timely or effective manner. In short, the New Zealand firm failed to consult their partner before proceeding with necessary adjustments to accommodate the fall in prices for the chemical and the technology problems that they were experiencing. As their interest was primarily based on the innovative technology initially proposed, this failure to adequately negotiate changes resulted in feelings of mis-trust on the part of Distribution International. After it had adjusted to changes in the market and proceeded with the manufacture of high-quality products, ChemCo found that the Japanese firm had considerable difficulty in adjusting and were reluctant to purchase the chemical from other processes. ChemCo management also describe themselves as naïve about Distribution International and their ability to perform:

"[We were] a little naïve that these people would definitely be able to perform and get us the results … we didn't fully understand how the market works and how much time it takes."

The situation was, however, viewed somewhat differently by their partner:

"We were informed of [the changes] but we weren't involved in the decision making … [our] thinking was that [we] had been deceived … [we] became more cautious in dealings with ChemCo."

ChemCo's reassessment of the extraction process appeared to result in a loss of faith by Distribution International, who had marketed the product on the basis of this method. The Japanese reaction to these changes was that they had been 'deceived', the key being that they did not feel that proposed changes to the production technology were communicated effectively. As one interviewee suggested:

I realise that we didn't have enough information … communication …"

In effect, the differing responses to the changes in environment and strategy support Barkema & Vermeulen's (1997) findings regarding cultural differences in uncertainty avoidance and long-term orientation. Within this collaboration the link between communication and conflict was intensified by cross-cultural differences. The process through which events unfolded to create a situation of increasing conflict is described next. The change in technology clearly created problems within this relationship—exacerbated by differences in culture and communication. This process is described by one of the ChemCo interviewees:

"I don't put [the lack of performance] down to necessarily any fault on Distribution International's side. The market changed – a new world competitor came in and dropped the price of the product by 50% and that … questioned the whole economies of the relationship … We ran into technical problems, so we couldn't deliver at those prices … When we adjusted to a new market we found that the Japanese company had difficulty in re-adjusting … they just didn't perform because they wouldn't change."

In the first instance this appears to be a cross-cultural difference, highlighting how Western and Japanese views of an agreement might differ (Gill and Butler, 2003); however, the overseas partner also pinpointed the lack of effective communication:

"It is more a case of misunderstanding … [there] wasn't enough communication".

Communication problems may have been evident from an early stage in the collaboration. However, issues associated with the change in technology served to strain these interfaces further.

The managing director of the New Zealand firm in the collaboration had this to say after things started going wrong with production:

"[Our overseas partner] didn't have the expertise, the commitment, the desire to figure out what the real issue was …"

This consequently affected the level of confidence that the New Zealand firm placed in their collaboration. As one ChemCo interviewee described:

"Trust and competency came up, I just don't think they are particularly confident".

These comments indicate that the New Zealand firm may have made certain assumptions regarding their partner's view. This classic situation demonstrates the importance of Buckley, Glaister & Husan's (2002) suggestion that a high level of awareness is a key component of effective collaboration.

Such issues created a perception that the partners were less compatible than previously thought. A ChemCo manager said:

"We are an entrepreneurial, aggressive company and Distribution International are a focused commodity trader …"

As the following quotes suggest, cultural differences were consequently perceived by ChemCo to contribute to the deterioration of the relationship:

"Japanese do not have the ability in their culture to handle failure—a bit of failure makes them very vulnerable and risk averse … they march to the beat of their own drum and we march to a different beat."

"The Japanese are prone to not giving you bad news … give me bad news, I love bad news—gives me something to do …"

The case data, however, provide no substantial evidence that either firm really tried to isolate the underlying concerns of their partner.

Ineffective communication between the partners was merely compounded by the lack of cultural sensitivity between the partners. In this case conflicts arising from these tensions were not resolved. Parkhe's (1991) observations regarding the differing views of conflict as healthy or distasteful may in part explain why the firms were unable to resolve the conflict through direct communication. The New Zealand firm lacked the ability to directly confront the Japanese firm. Rather than being able to directly resolve conflicts, the firms appear to have learned to deal with these issues.
Comments made by the ChemCo interviewees reflect this:

"Our relationship … has been a rocky one but has now stabilised …"

This level of stability was not achieved by clarifying or resolving issues; rather, ChemCo management suggest that they have altered the way in which they deal with their partner:

"The relationship with [our partner] is continually evolving … At this point in time we are … ring-fencing [our partner], saying this is where you are … "

The impact of these differences has been a relationship that did not achieve its objectives.

SUMMARY AND IMPLICATIONS

The purpose of this paper was to explore cross-cultural issues in collaboration using the case of a smaller firm collaborating with a larger overseas partner. The methodology used in this paper allowed a consideration of the relationship from both partners' viewpoints. The case method enabled an examination of how various facets of collaboration progressively complicated the potential for success. The case provides an interesting research focus as it involves a small technology firm thus combining two commonly cited motivations to collaborate.

The case data revealed that both firms experienced difficulties attributable to differences in culture in spite of the fact that they went into the relationship aware of the potential for such differences to create problems. A key advantage of the case method was that the process through which these differences manifested themselves was also observable.

Various factors have been highlighted as contributing to the unsatisfactory outcomes within this collaboration. In the first instance, the environment within which the relationship was functioning changed. The market was affected by the entry of a significant competitor and prices of the chemical dropped. These changes prompted a reassessment of ChemCo's technology. However, consequent modifications to production resulted in discontent between the two partners. As a smaller firm, the New Zealand partner lacked the resources and skills to enter the Japanese market. This view created a degree of dependence on the collaboration with the Japanese firm, regardless of how it was functioning.

Ultimately, cultural differences, poor communication, and a lack of consultation compounded the negative impact of environmental influences. Whilst the relationship functioned within a formal agreement, neither partner referred to this at the time of key changes to the production technology. In fact, the agreement was not able to provide guidance in this regard.

Implications

The initial contract negotiation process failed to account for the cultural differences of the partners in this case. In particular, the inability of the Japanese partner to accept changes was not anticipated. Whilst the firms did have a formal agreement it did not accommodate for changes such as those experienced. This tends to indicate that in some cases the process of generating an agreement based on a shared understanding between partners might be more important than the agreement itself. While no agreement can anticipate every contingency participating firms may face in the future, a good agreement will include a process for working through and resolving unexpected events regardless of whether

these result from forces internal to the alliance or participating firms or from external environmental forces like those that affected this alliance.

These findings suggest that the process of cross-cultural management needs to receive continued attention. Managing a collaboration effectively in the long-term requires an understanding of key cultural differences and an ability to manage these differences in such a way as to reduce conflict. Shortly after this case was completed, the New Zealand firm hired a new Asian Business Manager. Such an individual would be able to provide considerable support in understanding the impact of cultural differences and how these should be managed.

FUTURE RESEARCH

This case is part of a larger research project on the performance of collaborative relationships. This paper explores the impact that cultural and size differences might have on collaboration. Future papers will examine other influences on collaborative performance.

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THE LATE PAYMENT OF TRADE CREDIT FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

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ABSTRACT

This paper explores the literature on late payment of trade credit from a global perspective. Late payment of trade credit is a long-standing problem and is not isolated to one country (Pike, Cheng, & Chadwick, 1998). Poor credit management practices and being undercapitalised are two of the major concerns for small business as they feel powerless to do anything about their debtors' late payments (F. Chittenden & Bragg, 1997; Peel, Wilson, & Howorth, 2000).

The data for this paper was collected from a questionnaire on cash management practices in 2000 which included a question about the effects of late payment of trade credit on small businesses in a regional area of Australia (the Mid North Coast of New South Wales). The sample of small businesses was from manufacturing, construction and service industries. The database used to collect the names and addresses of the businesses was the Business Enterprise Register which is located at Southern Cross University, Coffs Harbour and contains over 13,000 businesses.

Pike and Cheng (2001) note that there is limited research in the main determinants of late or non-payment. Peel and Wilson (1996) found that there was a dearth of both theoretical and empirical small business research relating to cash management practices which encompasses late payment of trade credit. The paper outlines possible remedies, with legislation a starting point to finding a solution to the problem.

INTRODUCTION

The problem of late payment of trade credit has existed for a number of decades (Bates, 1971; Bolton, 1971; Wilson, Watson, Singleton, & Summers, 1996). Bates (1971) found from an 1954 Oxford Survey that creditors and debts exceeded 50 per cent of net assets, with small businesses being 23.2 per cent for creditors and 35.3 for debtors, compared with 18.6 and 24.2 percent respectfully in public companies. In comparison Wilson et al (1996) report from their 1994 survey that "on average it was found that 52 per cent of all invoices were actually paid late (after the due date) and 44 per cent of companies reported that such late payments caused them a significant problem and they were sensitive to late payment".

The credit squeeze of 1969 in Bristol (UK) saw small business advancing credit and the West of England Engineering Manufacturers Association made the statement "extended

credit by delaying payment of its bills to the small business” and the position was summed up in the following manner, "The typical small manufacturer is now facing a situation in which large customers are taking extended credit at a time when his own bank manager is compelled to refuse normal bank facilities"(Bates, 1971). Wilson et al (1996) stated that “trade credit often fills the finance gap, particularly for the smaller business that finds itself credit rationed from the banking sector”.

Whilst the Bolton Committee (1971) added to the debate by reporting that the vulnerability of small businesses during periods of "credit squeeze" exists when larger enterprises and government bodies could use their greater power to delay payment to small enterprises. The late payment problem is not confined to one country “... we were told that it is often serious in Japan, for example, and that there the Ministry of International Trade and Industry has powers to intervene on behalf of small firms with legitimate complaints of delayed payment by large customers, and to enforce payment (Bolton, 1971)”.

More recently Perry (1995) reported that the slow-down of economic activity in Europe over the past two years has resulted in slower receivables and financial difficulty for many businesses; and extending credit to businesses in the U.S.A from another country is not without risk. The International Credit Executives (ICE) reported that foreign affiliate trade receivables resulted from the following: excessive past dues, repetitive and large bad-debt write-offs; unusual extended credit terms situations; lack of adequate credit controls; and insufficient credit checking and credit information (Perry, 1995).

Whilst small businesses may suffer from their debtors not paying, they may benefit from making late payments to their own suppliers. The Bolton Committee (1971) claimed that “many firms grant credit in a haphazard fashion and have slow and irregular collection of debts”. The Bolton Committee (1971) goes further by stating that small businesses “on occasion neglect for weeks on end to submit bills for work completed or goods delivered and fail to take advantage of discounts for prompt payment of accounts thus failing to appreciate the effect by paying a very high rate of interest for the credit they are taking”. To continue the argument that this is happening today, from a UK small business experience suppliers have not efficient invoicing system, nor do they check credit worthiness of the clients which is seen by not having clearly established and agreed credit terms prior to sales for monitoring payment patterns (Wilson et al., 1996).

In Australia the same happens as seen from interviews conducted about payment issues... one-third of the small firms reported that their trade suppliers had been pressing for payment; had severely cut the period allowed for payment; or had introduced charges or penalties for late payment. Most of the small firms affected in this way had either been unable or unwilling to adopt similar procedures with their customers. In fact, some had been obliged to allow customers a longer period in which to pay their accounts when their suppliers were imposing more onerous credit terms than previously (Johns, Dunlop and Sheehan, 1989).

Problems with trade credit generally, and debtors in particular, are likely to vary from industry to industry. (Bolton, 1971) found that:

..as between small and large firms in similar trades it appears that there is no great difference in the use of trade credit: manufacturers, small or large, are net givers of trade credit and their ratios of debtors to turnover are not dissimilar; for non-manufacturers, a category dominated by the retail trades, debtors and creditors are more nearly equal.

Wilson et al (1996) found that the industry sectors in the UK that experienced the most severe problems from late payment of trade credit were:

- Construction
- Textiles, Leather, Clothing, Shoes
- Timber, Furniture

Yet the industries that considered credit terms to be important were:

- Metal and metal goods manufacturing
- Engineering
- Construction (Wilson et al., 1996)

It is not only industries but government departments which add to the problem by paying late and this was covered by the Bolton Committee (1971) that reported:

The public sector offers better prospects of improvement, and it is possible that a lead given here would have some effect in private industry. We were told that central Government departments themselves have a bad reputation in this connection, as well as nationalised industries and public authorities, and we therefore discussed the matter with Treasury. In the case of the departments, we are entirely satisfied that deliberate delay of payments does not occur. The number of payments is immense ..... and occasional mistakes inevitably happen, but prolonged and serious efforts have failed to produce a single valid case of deliberate delay. This is as it should be; departments have no liquidity problems and there is strong pressure to clear bills quickly. The average time taken is between one and three months, depending on the size and complexity of the contract. Some of the nationalised industries however (which do have liquidity problems) appear to be less conscientious; their average payment period is three months, but longer delays are not uncommon. Local authorities, particularly their public works departments, have also been heavily criticised, and the Federation of Building Trades Employers suggested to us that their internal audit procedures inevitable cause delays in payment of accounts.

Credit management

The standard of credit management in the UK amongst small businesses is very poor (Bolton, 1971). Some of the reasons for small business failure has been the result of poor or careless financial management (Berryman, 1983; Peacock, 1985). Pike and Cheng (2001) cited the Society of Practitioners of Insolvency that said “unsecured nature of most trade credit arrangements generates significant corporate exposure to the delinquency risks of slow payment and debt default. This is compounded when many businesses operate on the principle of ‘pay when paid’ thus exacerbating the late payment problem (Howorth & Wilson, 1999).

McMahon et al (1993) report that problems with regard to payment by debtors can arise not only from the bad practices of debtors but also reflect poor credit management on the part of the business which is extending the credit. Phillips (1996), a senior manager from Ernst & Young stated that “Rather than paying attention to credit management only when confronted by a major bad debt, organisations must recognise that credit risk management warrants the attention paid to any other area of operations”.

Johns et al (1989) found that “the reduced availability of net trade credit can also have an important effect on the financial structure of small companies and that small business, rather than larger business, has tended to suffer from this problem for two reasons:

- There has been less expert control over trade debtors of small business
- Small firms have less market power than larger firms”.

Howorth and Wilson (1999) found from their case studies that some firms are more sensitive to credit management than others from two extremes; those who suffered from the late payment and those who controlled it. Howorth and Wilson (1999) found that “sensitivity to late payment was reduced in businesses with long-term financial stability and by having a good knowledge of when payments could be expected, enabling cash flow to be planned”. When good credit management procedures exist the actual late payment was less.

Wilson et al (1996) found that good credit management practices and credit terms results from 76 per cent of respondents from a Forum of Private Businesses (FPB) on their products and ranked their importance:

- 43 per cent had a formal credit policy
- 41 per cent had a credit application form
- 65 per cent checked the credit worthiness of customers before allowing credit
- 28 per cent used credit reference information (19 per cent on line)
- 39 per cent categorise customers according to solvency risk
- 58 per cent categorise customers according to late payment risk

Chittenden et al (1998) adds to the debate that 62 per cent of respondents subscribe to a credit agency to obtain information about potential customers with only 58 per cent requiring credit applications to be completed on new customers. Some of the results indicate that poor credit screening practices exist in small businesses especially when the comment was made that “We give credit to anybody who asks for it. It is as simple as that (F. Chittenden et al., 1998)”. To add to the problem Chittenden et al (1998) found that on average only 45 per cent of small businesses have a full-time credit officer.

Possible remedies to the late payment of trade credit problem

The Bolton Committee (Bolton, 1971) suggest the only recourse to law is:

“"penal clauses" - say, the charging of 1 per cent per month interest on delayed payment - to be ignored by companies secure in the knowledge that they will not be taken to court. An alternative remedy which has been suggested to us is the wider use of bills of exchange, which would fix a date for repayment and prohibit, except by negotiation, any extension o the credit period. Such bills could be discounted, thus providing the creditor with working capital more quickly than would otherwise be the case. We put this forward for consideration: it seems to us to have possibilities, but of course requires negotiation with the debtors. It is also administratively cumbersome when there are a large number of relatively small individual transactions.

The Bolton Committee suggested an alternative way of dealing with the problem in the form of bills of exchange. Whilst this particular financial instrument may not be relevant, it does the raise the question of alternative ways of avoiding direct confrontation with

customers. One way of doing this is to use factoring. However, similar problems arise with factoring, and other devices, such as with legal proceedings in that there are some fixed costs involved which impact disproportionately on small businesses. Also, alternative approaches may require a higher level of financial management skills than many small business owner-managers possess (Hutchinson & Drever, 1998).

Both the Bolton Committee in the UK and the report by the Small Business Advisory Council on Finance for Small Businesses in Australia suggest that small businesses are at a disadvantage in their dealing with large businesses and government agencies as mentioned earlier. There needs to be two important provisos to this observation. First of all both these reports attribute at least part of the blame to poor management practices on the part of small businesses and secondly, the data are based largely on anecdotal evidence (Hutchinson & Drever, 1998).

Again, the Bolton Committee provides a useful starting point in answering this question the late payment of trade credit problem. The Committee's recommendation was that government could, indeed, play a very direct role by ensuring that departments under government control followed best practice with regard to the payment of its creditors. Prompt payment by government bodies would itself remedy a significant proportion of the problem since, although the government sector is shrinking and many small businesses do not deal directly with government, government departments still account for a very high proportion of economic activity (Hutchinson & Drever, 1998). Unfortunately there is no empirical literature to support this claim expect for what Bolton as said in the past.

Government legislation

United Kingdom

Bolton Committee (1971).. believed the Government should ensure that in all contacts carried out by private industry on the Government's behalf, the main contractor is required to observe the payment terms of any contracts with sub-contractors. The United States Government achieves this by stipulating that for certain contracts the main contractor will not be paid until he can demonstrate that all sub-contractors have been paid. Hutchinson and Drever (1998) noted that the role of government could be extended further by using its contractual powers with large private contractors. The Bolton Committee points to the US government as an example of this and since then the US Prompt Payment Act of 1988 has provided small businesses with a right to interest on overdue payments by federal authorities but there is little empirical information available on this matter.

In the UK there were a number of papers that considered the late payment bill issue. The Department of Trade and Industry (1997a) had a consultation paper in the UK that introduced a statutory right to claim interest on late payment of commercial debt, exercisable, initially, by small business against all large enterprises, including public sector organisations.
The Department of Trade and Industry (1997b) response paper on the Government’s Green Paper had over 3,500 copies circulated in the UK to a wide range of public and private sector organisations, with over 490 responses on the introduced legislation to provide a statutory right to claim interest on late payment of commercial debts (Wynarczyk, 2000). The UK Government’s Bill was introduced in December 1997 and received Royal Assent in mid 1998. The rate of interest has been set at the official dealing rate of the Bank of England (the base rate) plus eight 8 per cent, which is the same rate that small businesses are able to borrow from the banks (Wynarczyk, 2000).

The legislation is called The Late Payment of Commercial Debts (Interest) Act 1998 and is phased as follows:

- for the first two years - 1 November 1998 to October 2000 – small businesses (those with fewer than 50 employees) are to be able to claim interest from large businesses and the public sector on debts incurred under contracts agreed to after that date
- the right to claim interest will be extended from I November 2000 to 31 October 2002, so that small businesses will also be able to claim from other small businesses on debts incurred under contracts agreed after that date
- from I November 2002, all businesses and the public sector will be able to claim interest from all businesses and the public sector on debts incurred under contracts agreed after that date (Wynarczyk, 2000).

One outcome from the legislation by Brun-Rovet and Meehan (2002) states that the penalties for late payment may favour big business. In the UK an estimated 10,000 businesses fail due to cash flow problems and the legislation for late payments would act as a deterrent to those contemplating to act "it's pointless taking a customer to court for late payment because of the time involved, and because you're unlikely to keep their custom (Brun-Rovet & Meehan, 2002).

Another outcome has seen that here is no excuse for the delay of payment beyond the agreed (or statutory) terms. Therefore the basics of credit management has been conducted through the Better Payment Practiced Group (BPPG) to educate a growing number of SMEs to develop credit policies that will help them overcome any problems they have with late payment of trade credit (Anonymous, 2003).

Wynarczyk (2000) states "that the legislation introduced by the UK Government to combat the problem of late payment is having very little impact on speeding up outstanding debts owed to small business .. and remains a major and acute problem in 1999, becoming as endemic as business failure itself".

Australia

In 1998 a report was prepared for the State Government of New South Wales, Australia on the issue of late payment of trade credit and whether such legislation should be introduced at State or Commonwealth level. It would be appear to be highly problematic to introduce it on a State-wide basis given that many small businesses will have customers outside the State (Hutchinson & Drever, 1998). However in 1999 the 'Building and Construction Industry Security of Payment Act' was passed at State level and from early 2000 this new law in New South Wales reformed the way that contractors, subcontractors, consultants and suppliers in the State's construction industry get paid ("Building & Construction Industry Security of Payment Act," 1999).

Furthermore in 2001 the Commonwealth introduced the late payment of trade credit known as 'Payment of Commercial Debts (Interest) Bill 2003', which has had its second reading and was adjourned on 6 March 2003. It penalises late payment of commercial debts by Commonwealth government agencies and large corporations to small business in relation to contracts for the supply of goods and services (The Parliament of the Commonwealth of Australia, 2002).

Currently in Australia debts outstanding can be recovered under the Credit Act, Trade Practices Act, Corporations Law and Petty Sessions. In addition, legal action can be taken to enforce the conditions of a contract, which could include the right to interest in the event of late payment, subject to the validity of the contract and providing that any such conditions are not themselves in contravention of any legislation (Hutchinson & Drever, 1998). Most of the references to these Acts and the impact of each piece of legislation can be located on the Australian Securities and Investment Commission website.

In addition, Hutchinson and Drever (1998) noted that the Department of Workplace Relations and Small Business reported that the Australian Competition and Consumer Commission (ACCC) has expanded its services and activities for small business. One of the key factors is making the legal system more accessible for small business by ensuring enforcement bodies are in a position to assist these firms when a dispute arises. “It is no good having stronger legal rights for small business if they can’t be adequately enforced or if access to remedies is beyond reach of small business (Federal Government Fair Trading Statement, 1997)”.

There are of course many forms of assistance provided to small businesses by government both at local, state and commonwealth level. Relevant examples in the context of the issue of dealing with customers are the Export Finance and Insurance Corporation (EFIC) and recent initiatives in terms of government purchasing with two to five years repayment period for contracts valued at $1 million to $5 million (Hutchinson & Drever, 1998). The EFIC provides services which include export credit insurance, export finance, bonding facilities, working capital guarantees and overseas investment insurance. The more recent creation of Export Access combined with EFIC greatly helps small businesses involved in exporting when dealing with issues regarding the provision of trade credit (Hutchinson & Drever, 1998).

Recent developments in term of government purchasing such as the Supplier Development Program, the Industrial Supplies Office Network and the National Procurement Reform Principles (February 2003) make it easier for small businesses to bid for government contracts. It is to be hoped that securing a government contract means that a small business will have not to worry about late payment (Hutchinson & Drever, 1998).

Therefore it can be concluded from the legislation that whilst there do not appear to be any legal or accounting barriers to small businesses charging interest on outstanding debts (provided that any such requirements are made clear to the customer at the point of entering into the contract), in practice this does not seem to be a feasible option for most small business owner-managers because of problems of enforcement (Hutchinson & Drever, 1998).

RESEARCH METHODOLOGY

Data were collected through a postal questionnaire using ‘closed’ questions. The questionnaire covered a range of questions relating to credit management of accounts receivable and accounts payable and cash management. This paper is exploratory and deals with the late payment of trade credit and the literature surrounding that issue.

A database located at Southern Cross University, Coffs Harbour known as the Business Enterprise Register was used for this study. It has more than 13,000 small businesses listed in an area known as the Mid North Coast of New South Wales, Australia. The

questionnaire was mailed out to 2,000 small businesses in 2000. There were 560 returns with 352 (25 per cent) from businesses that had moved or closed their businesses, with another 208 (10 per cent) completed responses.

The survey sample closest to the present study is that of Chittenden et al (1998), conducted in the UK. Given the distance between the two countries and the changes that have taken place over the last five years it will be informative to make some comparisons between the two studies on the late payment of trade credit.

The remainder of the paper reports the findings of the study and examines empirically the arguments made in regard to the late payment of trade credit. The results of this paper adds to the literature previously mentioned which are qualitative in nature, therefore the analysis presented in the following three tables is along the lines of credit officers, the number of days for creditors and the late payment of trade credit.

RESULTS

Table 1 relates to how many small businesses have full-time credit officers in Australian SMEs. As the table illustrates the figures are very low with less than 30 per cent of businesses across the board having the services of a full-time credit officer. The result are somewhat different to what Chittenden et al (1998) reported. For small companies with less than 50 employees 45 per cent operate with a full-time credit officer in UK SMEs (F. Chittenden et al., 1998). Yet 88 per cent of small businesses operate a finance department/function within the company (F. Chittenden et al., 1998) with 70 per cent having a finance director.

Table 1: Full-time credit officers in Australian SMEs

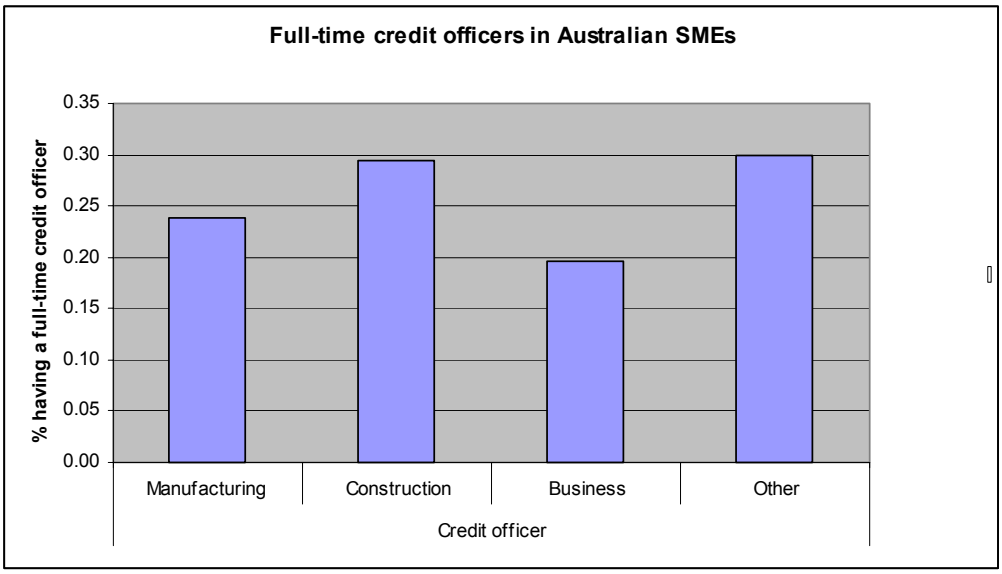
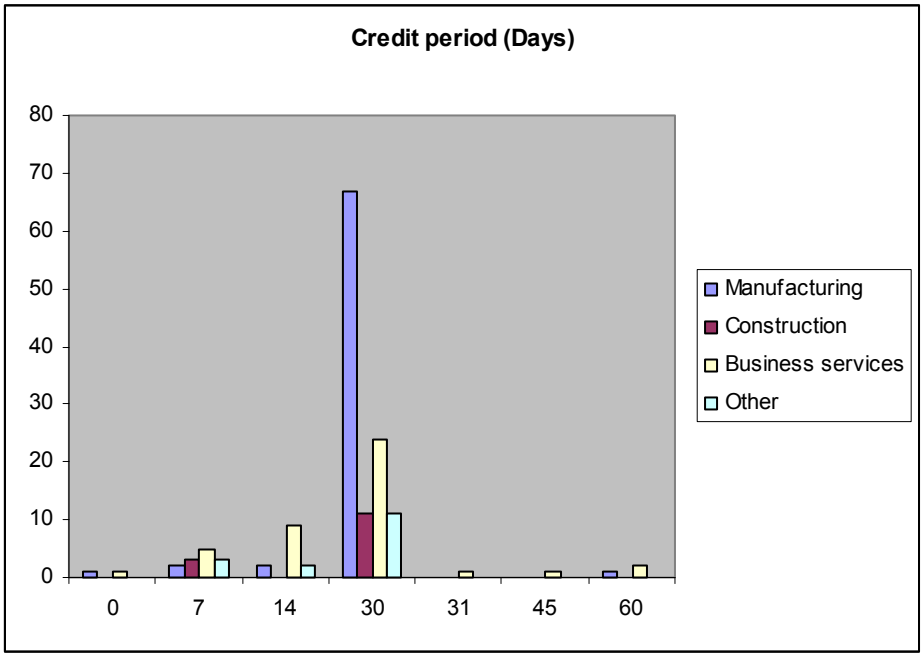


Table 2 illustrates that the credit period, in the number of days, for all industries studied is believed to be around 30 days (Pike & Cheng, 2001). The business service and manufacturing industries have credit periods going beyond the 30 days which is consistent with the literature but is inconsistent with Chittenden et al's study. Creditors days across the sectors appear to be lower in the construction industry (50 days) compared to manufacturing (61 days) and business services (59 days) sectors (F. Chittenden et al., 1998).

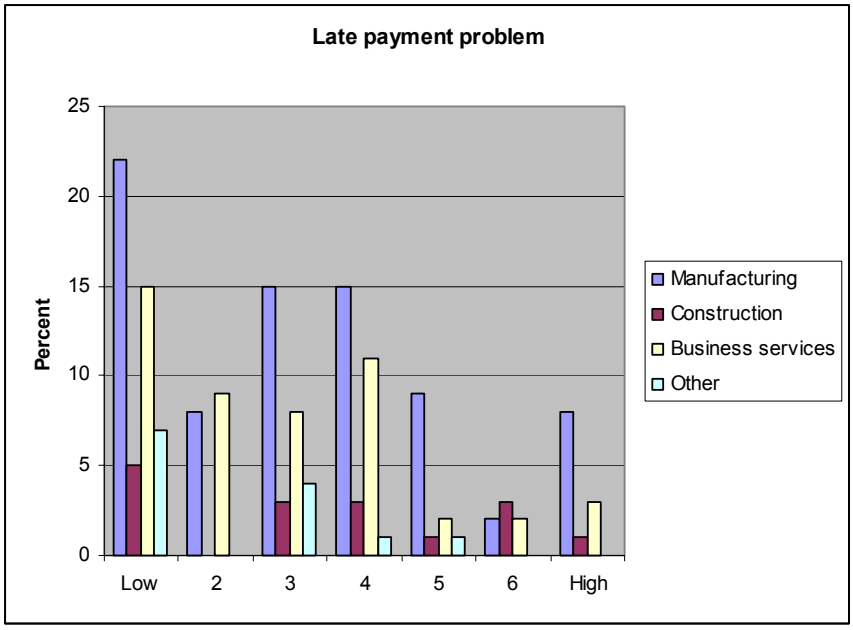
Table 2: Creditors days across sectors



A great deal of press comment and parliamentary interest in the late payment of trade credit problem has existed in Australia over the last three years as mentioned earlier. The late payment continues to be a problem for any business that uses credit facilities. In this study respondents indicated that on average 50 per cent of their customers settle their accounts on time that is without further communication or correspondence. From this study it was found that a very serious late payment of trade credit problem exists with 25 per

cent of SMEs which is consistent with Chittenden et al study. The results suggest that the late payment problem exists in the construction and business service industries and needs to be explored further.

Table 3: Late payment problems across sectors



Hutchinson and Drever (1998) list advantages and disadvantages of adopting remedies to the late payment of trade credit would appear to be:

Advantages

1. It provides an opportunity to change the culture with regard to credit management and particularly the tendency to deliberately delay payment in order to use creditors as a source of cheap finance.
2. It would undoubtedly improve the cash flow for many small businesses, either in the form of receiving payments more quickly or receiving additional money when payments are late.
3. It could be seen as "levelling the playing field" for small businesses in their dealings with large businesses and thereby reduce some of the coercive power of larger businesses.
4. It would be consistent to study and adopt legislation similar to other countries.

Disadvantages

1. It could be seen as another example of government interference in the regulation of commercial activities.
2. It may not be the best way of achieving the stated aims. There may be other, more cost-effective, ways of helping small businesses in relation to late payment. For example:

- ensuring that government departments and those who deal with governments observe better practice with regard to prompt payment of accounts.
- making more use of trade associations to act on behalf of their members in a variety of ways such as taking over the legal enforcement of late payments. This could be

funded by an industry levy and could be extended to cover bad debts as well as late payments. The government could have a role to play here in terms of allowing any such levies as a tax deductible expense.

3. The issue of late payment is much less serious now than it was during the period of high inflation. Whilst it is always possible that high inflation may return, low inflation reduces the urgency of this problem.
4. The extensive use of credit cards reduces the problem of bad debts and late payment for many small businesses.
5. Large businesses may still be able to use their market power by shopping around to find suppliers who are prepared to offer very long periods of credit or agree to bill late.
6. It may actually encourage delay in payment of debts if a customer finds that the statutory rate of interest is less than the cost of other financing.
7. Very importantly, it may "backfire" on small business in general and on rapidly growing small businesses in particular. To the extent that small businesses may be net borrowers rather than net lenders, the introduction of such legislation could increase the cost of an important source of funding to them.

CONCLUSION

It can be seen that there is a role for government and that this can take the form of:

1. Ensuring that those entities directly under government control follow best practice with regard to payment of debts.
2. Using its bargaining with private contractors to ensure that they follow best practice in dealing with small businesses.
3. Providing specialist facilities such as the EFIC
4. Introducing legislation which provides a statutory right to interest on overdue accounts

Consideration should also be given to alternative ways of achieving all, or most, of the objectives of such legislation by other means. These would include the greater use of government power to enforce best practice with regard to the payment of debtors and the encouragement of trade associations to deal with such problems.

Encourage the best practice of small businesses paying accounts by those entities over which it has direct or indirect control. This, in itself, could lead to a very significant improvement in the financial position of small businesses.

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Information Systems Assessment based on Business Excellence Models

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ABSTRACT

Much attention has focused recently on business excellence, and excellence models have been created to encourage firms to evaluate and subsequently improve their business processes. Most of these instruments pay some attention to information systems. This paper focuses on the information systems content of both the Baldrige and EFQM excellence models. The information systems content of both models is analysed with the purpose of creating an instrument that will enable a small firm to carry out an assessment of their information systems area. The analysis identified six questions from the EFQM excellence model that could help managers of small firms assess their information systems. Although the six questions are a subset of the EFQM model, they should be validated empirically for their new purpose.

Keywords

Information systems, EFQM, Baldrige, benchmarking, small firms.

INTRODUCTION

Much attention has focused recently on business excellence, and excellence models have been created to encourage firms to evaluate and subsequently improve their business processes. Numerous excellence models exist, and some have been adapted for small firms. These excellence models typically cover a range of activities, including strategic leadership, quality, performance, and other key processes.

The focus on business excellence has spawned a number of self-assessment tools that have been designed to help firms identify where they stand and/or to get firms started on the business excellence journey. For example, the EFQM believe that their self-assessment instrument provides “a useful starting point and indicator for subsequent activities” (EFQM, 1999, p. 7).

The business excellence models cover a wide range of topics, eg, leadership and strategy. However, they tend not to directly refer to the area of information systems (IS) which is an

area that has become more important to small firms, spurred by the relative cheapness and pervasiveness of information technology, including the e.business revolution. This research aimed to propose a tool that could be used by small firms to conduct a self-assessment of their IS activities. If possible, the tool would be based on an existing business excellence model rather than the creation of yet another model.

Thus the research set out to analyse the content of the most popular business excellence tools. The Baldrige and EFQM models were selected and the analysis focussed on their self-assessment tools. In terms of a research question, the research set out to determine which parts, if any, of either the Baldrige or EFQM self-assessment instruments could be used to evaluate a small firm's IS. This paper presents the results of this analysis, firstly for the Baldrige model, and then for the EFQM model. The conclusions section proposes a set of six questions that could be used to evaluate a small firm's information systems activities.

Prior Research on Information Systems and Excellence

Although there is growing literature in both the Information Systems area and the area of Business Excellence, there is very little work that has attempted to bring the two areas together. One rare example is the SIM working groups on quality who proposed an IS excellence model based on the Baldrige criteria (SIM, 1992). They proposed a total of 27 quality matrices for self-assessment by IS departments. They proposed that IS managers could use the tool to assess their position on each matrix ranging from "just starting" to "world class", by evaluating their current practice against five levels of practice identified by SIM.

Also, Cortada (1998) examined the practices of many large firms to identify 'best' practices in IT. Amongst Cortada's IT best practices are alignment with business strategy, and the careful selection and monitoring of IT projects.

Although little research has combined both IS and Excellence, there have been many attempts within the IS field to incorporate principles that are reflected in models of excellence. For example, there is much literature about TQM and IS, eg, Ravichandran & Rai (2000). This literature examines a range of topics, including: the quality of software systems, the quality of the software development process, and the quality of the service received by customers/users of IS. There have been many attempts to create metrics that could help firms monitor and improve IS within a firm (Seddon et al, 1999). Two of the most commonly used measures are of user information satisfaction (UIS) and IS service quality, using an instrument called SERVQUAL. SERVQUAL is the more recent of the two instruments and aims to measure how satisfied users are with the information systems within a firm (Pitt et al, 1997).

The closest work to the aim of this paper is the instrument by Ravarini et al (2002) who have created a way of providing an "IS check-up" for a small firm, ie, an instrument aimed at assessing the health of a small firm's IT. Their methodology focuses on IT alignment, based primarily on the IT fit for each part of a small firm, for example, the sales area, accounting, logistics, etc. Their assessment evaluates the actual IT support in each area and the potential for IT for the area. Their exploratory application of the model in small firms indicates that some units within small firms are well supported by IT but there are plenty of opportunities for IT to play a greater role within small firms.

The IS content of the 2003 Baldrige Criteria for Business Excellence

The Baldrige Criteria for Performance Excellence (Baldrige, 2004a) contains the following seven categories:

1. Leadership
2. Strategic planning
3. Customer and market focus
4. Measurement, analysis and knowledge management
5. Human resource focus
6. Process management
7. Results

The fourth category refers to Measurement, Analysis and Knowledge Management. As a category it has a weight of 90 points in the total score of 1000 for the full model. The category is broken down further into the following two topics:

4.1 Measurement and Analysis of Organizational Performance, which is split into the two topics of 'Performance Measurement' and 'Performance Analysis' (45 pts).

4.2 Information Management, which is split into two topics 'Data and Information Availability' and 'Organisational Knowledge' (45 pts).

Under category 4.1, firms are asked to "Describe HOW your organization measures, analyzes, aligns, and improves its PERFORMANCE data and information at all levels and in all parts of your organization". The first part of this category encourages firms to focus on performance measurement practices. Firms are encouraged to have information systems that:

- Track both operational and organizational performance
- Support operational and strategic decision making
- And are up to date.

The second part of this category encourages firms to focus on the analysis of performance data. Firms are encouraged to:

- Analyse data that supports both performance reviews and strategic planning
- Communicate results to others within the firm.

Under category 4.2, firms are asked to "Describe HOW your organization ensures the quality and availability of needed data and information for employees, suppliers and partners, and CUSTOMERS. Describe HOW your organization builds and manages its KNOWLEDGE ASSETS. The first part of this category encourages firms to focus on data and information availability, including the reliability, security and user-friendliness of both hardware and software systems. The second part encourages firms to manage organizational knowledge. This includes not just the knowledge of employees, but also

knowledge from customers, suppliers and other partners. In addition, this category is concerned that all data, information and knowledge is timely, reliable, secure, accurate and confidential.

As well as the guide to the seven criteria, the Baldrige website also provides a guide to self-assessment (Baldrige 2003). As part of a ten step process, firms are encouraged to use the Baldrige self-assessment instrument (Baldrige, 2004b). The instrument has been prepared as a tool that an owner of a small firm could use with all staff including employees, managers, and supervisors. The purpose is to solicit views within the firm with the view of determining areas of the business that need the most attention. The Baldrige website also allows owners access to web-based self assessment using e-Baldrige. This instrument is aimed at helping owners carry out an 'organizational profile', which is step 4 of their 10 step process. (The instrument is not an electronic form of the "Are we making progress?" self assessment instrument).

The Baldrige self-assessment instrument (Baldrige 2004b) includes a total of 40 statements and covers the seven topics of the Baldrige model. Employees and managers are asked to rate each statement using a five point scale from 'strongly disagree' through to 'strongly agree'. The instrument includes the following six statements for category 4 on Measurement, Analysis and Knowledge Management:

a. I know how to measure the quality of my work.
b. I know how to analyze (review) the quality of my work to see if changes are needed.
c. I use these analyses for making decisions about my work.
d. I know how the measures I use in my work fit into the organization's overall measures of improvement.
e. I get all the important information I need to do my work
f. I get the information I need to know about how my organization is doing.

In addition, four other categories include the following statements associated with information systems issues.

Leadership: 1d - My organization's leaders share information about the organization.
Customer and Market Focus: 3d – I ask if my customers are satisfied or dissatisfied with my work.

Process Management: 6b – I collect information (data) about the quality of my work.

Business Results: 7c – I know how well my organization is doing financially.

Furthermore, the whole of the 'business results' criteria reflects a reliance on information systems, i.e., a firm would need systems that make it easy to report and analyse results for a wide range of activities including customers, products, financial, staff and society.

Overall, the Baldrige self-assessment instrument contains a total of 40 statements, 10 of which refer to information systems. Furthermore, the Baldrige criteria recognise that information flows play a key role in firms. However, the focus of the Baldrige criteria is on data, particularly the availability of data. None of the 10 statements refer to the

management of systems that would help in the collection, analysis and storage of data. Thus the Baldrige self-assessment instrument could help a firm analyse its information needs but it could not help a firm analyse its information management practices.

The Baldrige Criteria literature (Baldrige 2004a) does indicate the need for firms to manage the resource of data, information and knowledge. Category 4.2 indicates that hardware and software systems should be reliable, secure and user-friendly, and that all data, information and knowledge should be timely, reliable, secure, accurate and confidential. Thus this part of the Baldrige literature could be useful in the evaluation of data management. However, Baldrige (2004a) does not present this in a form that could be used easily for self-assessment.

The IS content of the 2003 EFQM Excellence Model – SME

The small firms version of the EFQM Business Excellence Model (EFQM, 2001) contains the following nine criteria:

1. Leadership
2. People
3. Policy and strategy
4. Partnerships & Resources
5. Processes
6. People Results
7. Customer Results
8. Society Results
9. Key Performance Results

Five of the criteria are considered as 'enablers' and four as 'results', where 'enablers' influence 'results'. The 'enablers' are: leadership, policy and strategy, people, partnerships and resources, and processes. The 'results' are: people results, customer results, society results, and key performance results. (See Appendix 1).

The most obvious treatment of information systems within the EFQM model is within criterion 4: partnerships & resources. The five parts of this category refer to managing:

a. External partnerships
b. Finances
c. Buildings, equipment and materials
d. Technology
e. Information and knowledge

The EFQM's self-assessment questionnaire (EFQM, 1999) includes a total of 50 equally weighted questions for the nine criteria. Of these, five questions relate to criterion 4 on partnerships & resources. Managers are asked to evaluate each question based on the four possible responses of: not started; some progress; considerable progress; fully

achieved. Two of the five questions relate specifically to information systems, they are:

4.2 - Does your organisation ensure that all relevant information, including data on process performance, suppliers (including supplier performance), customers (including customer satisfaction) and benchmarks, is reliable, up to date, and quickly available and easily usable by appropriate personnel (including suppliers/distributors/customers where appropriate)?

4.5 – Is there a routine method for ensuring that alternative and new technologies are developed and implemented, and the use of intellectual property and knowledge optimised in order to gain an advantage on both products and services?

In addition, other criteria include the following statements associated with information systems issues.

Policy & Strategy – 2.1 - Does your organisation use widespread and appropriate data inputs to develop its strategy and business plans and does this data include the performance of internal processes, supplier performance, customer requirements and satisfaction, competitor and benchmark data?

Processes – 5.3 – Is there a comprehensive and reliable method for understanding customer's perceptions, needs, and expectations and the markets in which it operates?

Processes – 5.7 – Are the support ("back-room") activities (eg, accounts, IT, despatch, data processing, personnel, legal, and secretarial) documented, controlled and continuously improved to at least the same level as the main product and service activities?

Key Performance Results – 9.7 – Are the results of the support and administration activities (eg, IT, planning, legal, security, accounts) showing an improving trend and can they be shown to be comparable/better than other organisations?

In addition, the four criteria that reflect results also reflect the need for information systems. For example, criteria 6 on customer results shows a need to collect various data, eg, customer satisfaction, loyalty, warranty claims, and complaints. Firms are expected to analyse and use this data in appropriate ways. Similarly, firms are expected to collect and analyse data regarding staff satisfaction, society results, as well as financial results like profit, volumes and market share.

Overall, the EFQM fundamental concepts and criteria recognise that information flows play a key role in firms. Overall, the EFQM self-assessment instrument contains a total of 50 statements, six of which refer to information systems. Three of these six EFQM questions relate to data availability (2.1, 5.3, and 9.7). The other three EFQM questions (4.2, 4.5, and 5.7) refer to the management of IS. In these three questions, the EFQM model recognises that firms should manage IT, including controlling, improving and introducing new technologies. Thus the EFQM literature could be useful in the evaluation of data availability and could also provide feedback on data management.

Discussion and Conclusions

Both the Baldrige and EFQM models show that data, information and knowledge is important to firms. For example, the Baldrige self-assessment instrument contains ten statements that could be considered directly relevant to information systems. The EFQM self-assessment instrument contains six statements that could be considered directly relevant to information systems. Thus both excellence models reflect a significant role for information systems within firms.

With the objective of using one of the models for the self-assessment of Information Systems, the 10 questions in the Baldrige self-assessment instrument focus solely on data availability. Although the EFQM self-assessment instrument has only six statements aimed at information systems, these six are evenly split between data and management. This analysis indicates that the EFQM self-assessment instrument would be superior to the Baldrige self-assessment instrument for the purpose of a quick evaluation of a firm's information systems. We thus recommend that the six questions contained in Table 1 could help provide small firms with a speedy evaluation of their information systems.

Table 1: Six EFQM questions for the evaluation of IS (sourced from EFQM 1999)

EFQM Criteria	
Policy & Strategy 2.1	Does your organisation use widespread and appropriate data inputs to develop its strategy and business plans and does this data include the performance of internal processes, supplier performance, customer requirements and satisfaction, competitor and benchmark data?
Processes 5.3	Is there a comprehensive and reliable method for understanding customer's perceptions, needs, and expectations and the markets in which it operates?
Key Performance Results 9.7	Are the results of the support and administration activities (eg, IT, planning, legal, security, accounts) showing an improving trend and can they be shown to be comparable/better than other organisations?
Partnerships & Resources 4.2	Does your organisation ensure that all relevant information, including data on process performance, suppliers (including supplier performance), customers (including customer satisfaction) and benchmarks, is reliable, up to date, and quickly available and easily usable by appropriate personnel (including suppliers/distributors/customers where appropriate)?
Partnerships & Resources 4.5	Is there a routine method for ensuring that alternative and new technologies are developed and implemented, and the use of intellectual property and knowledge optimised in order to gain an advantage on both products and services?
Processes 5.7	Are the support ("back-room") activities (eg, accounts, IT, despatch, data processing, personnel, legal, and secretarial) documented, controlled and continuously improved to at least the same level as the main product and service activities?

Analysis based on the above six questions could be useful to a small firm. The results may be even more helpful to a firm if they had some comparative data. For example, it may help a firm if they could compare their own data with published EFQM data for similar small firms.

Although we are recommending the use of the above six statements by small firms, it is important that this instrument is proved to be valid and reliable. Business excellence

models, including the EFQM model, have a mixed record regarding validity and reliability. McAdam & Welsh (2000) claim that, although the EFQM Model has been well accepted by managers there has been little rigorous empirical research aimed at the model. For example, Eskildsen et al (2000) believe that the model should be simplified. Such results prompted Kristensen et al (2001) to develop a Danish business excellence index where they reduced the 9 topics of the EFQM to four: leadership, people, systems, and results. They used PLS analysis to argue that the EFQM's 9 criteria reflect 4 not 9 underlying constructs. Furthermore, Baxter & MacLeod (1999) focused on the leadership criteria of the European Excellence Model. They concluded that "the EFQM subcriteria seem too superficial and the measurement process imprecise". Thus the above six item instrument for IS should be tested rigorously. They may be found to be reliable and valid. Six items may prove to be too few. It seems likely that we may need a fuller instrument to reflect, for example, other aspects including IS leadership, IS strategy etc. Also, the EFQM questionnaire uses a four point scale; this may be too narrow to discriminate effectively.

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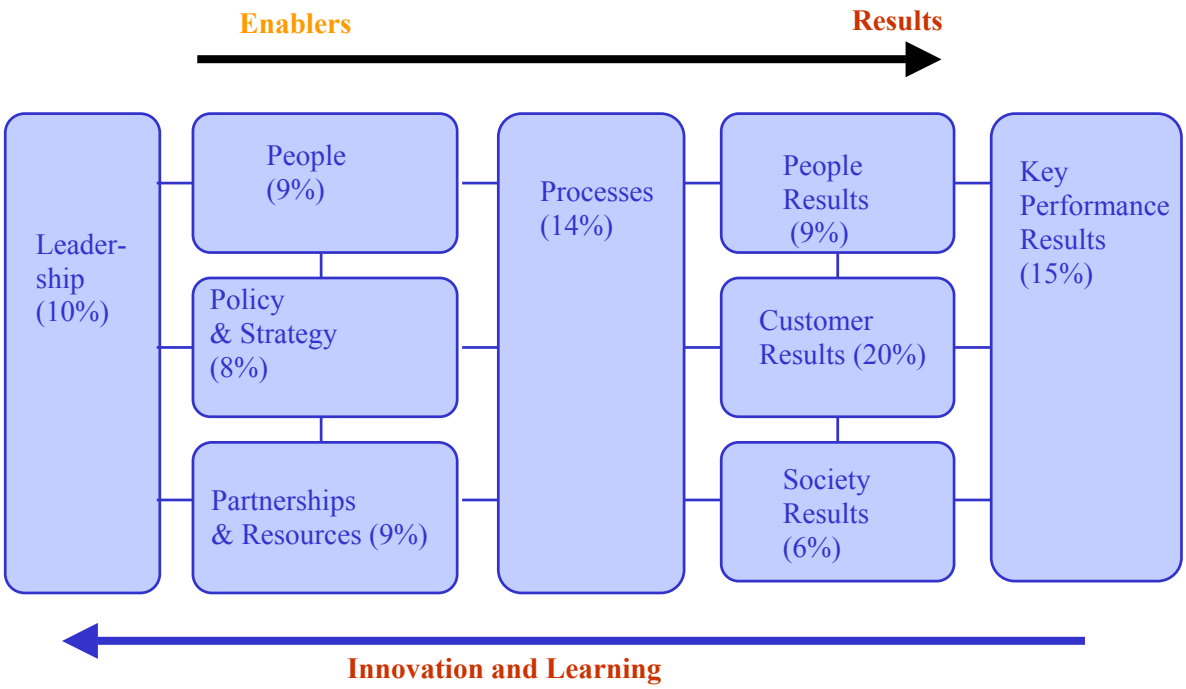
Appendix 1 The EFQM Excellence Model - SME (EFQM 2001)



SUCCESSION IN FAMILY BUSINESSES IN SOUTH AFRICA: A COMPARATIVE STUDY OF OWNER-MANAGERS AND SUCCESSORS

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ABSTRACT

Family businesses are fast becoming the dominant form of business enterprise in both developing and developed economies and play a vital economic and social role in these economies. As family businesses are a primary contributor to the economic and social wellbeing of all capitalist societies, their general lack of longevity is a cause for concern. One of the main reasons (if not the single most important reason) of the high failure rate among first- and second-generation family businesses is their inability to manage the complex process of ownership and management succession from one generation to the next. Hence, the primary objective of this study is to identify the factors that impact on successful succession. The results suggest that the willingness of the successor to take over the family business and undertaking estate planning are important to the success of succession for both owner-managers and successors.

INTRODUCTION

South Africa, as is the case with most developing countries, has to deal with a burgeoning unemployment problem. Recent figures (2002) indicate that up to 37% of households in South Africa survive on less than R1000 per month (Woolard 2002). Poverty and unemployment are closely linked, in that 53% of the South African population falling in the poorest quintile are unemployed, compared to 4% of the most affluent 20% of the population.

It is important for South Africa's future stability to find solutions to the unemployment problem in order to give poor South Africans some means of sustained income generation. Unfortunately, existing large corporations and the public sector have prove themselves unable to address the endemic problems of unemployment and poverty. Hence, the focus is increasingly shifting to the role the small business sector can play in solving the economic problems facing the country.

Approximately 80% of businesses in South Africa could be classified as family businesses (Ackerman 2001:325), which are mostly small to medium-sized (Maas 1999:2; Magretta 1998:114). In fact, family businesses are fast becoming the dominant form of business enterprise in both developing and developed economies and play a vital economic and social role in these economies. The influence and number of family businesses can be expected to increase substantially in the near future. This rapid growth could be attributed to the rationalising process taking place in many large corporations, together with the growing inability of the formal sector to create new jobs. Family businesses can therefore offer powerful opportunities for further economic growth in South Africa.

PROBLEM STATEMENT AND OBJECTIVES

As family businesses are a primary contributor to the economic and social wellbeing of all capitalist societies, their general lack of longevity is a cause for concern. It has been estimated that, internationally, only 30% of family businesses survive to the second generation, while fewer than 14% make it beyond the third generation (Bjuggren & Sund 2001:12; Fleming 1997). In South Africa, only one in four family businesses survive into the second generation, while only one in ten makes it to the third generation (Engine of growth 1994:25; Hugo 1996:8). The social cost of this high failure rate has contributed to negative social and economic growth in South Africa.

According to several authors, the main reasons (if not the single most important reason) for the high failure rate among first- and second-generation family businesses is their inability to manage the complex process of ownership and management succession from one generation to the next (Corbetta & Montemerlo 1998:8; Fleming 1997:46; Leach 1994:147). This inability is particularly true at the time of transition between the founder and the next generation.

Against this background, it is clear how important it is to identify the factors that influence succession in family businesses and to address succession proactively, to ensure the survival of more family business so that they can play there rightful economic and social roles in the South African economy. The more successful the transition, the better the chances of the survival and long-term profitability of these businesses. A well-considered and well-planned succession will maximise the chances of finding a competent successor and will ensure a smooth leadership transition between generations (Neubauer & Lank 1998:133,157,164).

Hence, the primary objective of this study is to identify the factors that impact on successful succession. The possible influence of various factors (independent variables such as family harmony, estate planning and governance structures) on the dependent variable, namely the Perceived success of the succession process are theoretically modelled and empirically tested.

This study will not only test the existence and magnitude of these relationships, but also compare and contrast which of these factors are important for two major stakeholder groups in the succession process, namely owner-managers and successors. It is important for the continued prosperity of the family business and harmony within the family that family business leaders and all stakeholders have a sound understanding of the critical success factors for succession.

THEORETICAL BACKGROUND

The independent variables

Based on exhaustive literature review and qualitative interviews with family business member the following independent variables were identified (Venter 2003):

1. Willingness of the successor to take over the family business (WILLING)
2. Family harmony (HARMONY)
3. Governance processes and planning (GOVERNANCE)
4. Owner-manager's outside interests (INTEREST)
5. Internal preparation level of the successor (INTERNAL PREP)
6. Financial security of the business and owner-manager (SECURITY)
7. Trust in the successor's abilities and intentions (TRUST)
8. Relationship between owner-manager and successor (RELATION)
9. Estate planning (ESTATE)
10. External preparation level of the successor (EXTERNAL PREP)
11. Agreement to continue the business (AGREE)

The dependent variable

Handler (1989:216), Sharma (1997:11) and Stempler (1988) suggest that the satisfaction of predecessor, successor, and other family members with the succession process can be used as an indication of the perceived success of the succession process. Others, such as Harvey and Evans (1995:12) and Hume (1999:22), recommend that not only the satisfaction of various stakeholders with the succession process defines a successful succession, but also the successor's ability to keep the family business healthy by means of sustained growth and continued profitability. It therefore appears that in order to ensure the success of the succession process, all the different stakeholders involved in the process (the predecessor, successor, family, network, suppliers, etc.) must be satisfied with its outcomes, and the successor should have the ability to ensure the sustainability and financial security of the family business after the succession process has been completed. This paper therefore focuses on the two main players in the succession process, namely the owner-manager and his/her successor.

METHODOLOGY

A theoretical model of factors that influence successful succession (the independent variables) was tested by means of a large-scale empirical study. A questionnaire with 104 items was developed making use of a 7-point Likert-type scale. These questionnaires were

mailed to a convenience sample of 2458 respondents in 1038 small and medium-sized family businesses (employing less than 200 workers) in South Africa. A total of 332 usable questionnaires were returned.

The multivariate technique of exploratory factor analysis was used to assess the discriminant validity of the measuring instrument. After 9 iterations, 52 variables from the questionnaire were grouped into 13 distinct factors explaining a total of 67% of the variance in the data. During the exploratory factor analysis, the dependent variable (in this study being the Perceived success of the succession process) split into two variables, namely Satisfaction with the succession process and Continued profitability of the business.

In order to compare whether the owner-managers and successors have different perceptions of which factors influence the success of succession (Satisfaction with succession process and the Continued profitability of the business), the dataset was divided into two sub-samples, the first consisting of responses received from the 123 owner-managers (both retired and retiring owner-managers) and the second consisting of responses received from the 209 successors (potential or current successors). Multiple linear regression analysis was performed to assess whether the identified independent variables exert a significant influence on Satisfaction with the succession process (SATISFIED) and the Continued profitability of the business (PROFIT) for the two sub-samples of respondents separately:

For this purpose, the following null hypotheses were formulated for both the owner-manager sample and the and successor sample:

H^{0a} : For owner-managers, there is no relationship between the identified factors and the satisfaction with the succession process.

H^{0b} : For owner-managers there is no relationship between the identified factors and the continued profitability of the business.

H^{0c} : For successors, there is no relationship between the identified factors and the satisfaction with the succession process.

H^{0d} : For successors there is no relationship between the identified factors and the continued profitability of the business.

EMPIRICAL RESULTS

Results for owner-manager sub-sample: Satisfaction

The independent variables included in the regression analysis explain 45.0% of the variance the dependent variable SATISFIED (satisfaction with the succession process) in the owner-manager sub-sample. Three of the independent variables namely WILLING, HARMONY and TRUST exerted a significant positive influence on the dependent variable SATISFIED at the 1% confidence level. In other words, the more the owner-manager perceives the successor to be willing to take over the business, the more harmony there is within the family and the more the owner-manager trusts in the successor's abilities and intentions, the more satisfied the owner-managers will be with the succession process.

Results for owner-manager sub-sample: Future profitability

In total, the independent variables explained 31.9% of the variance in the dependent variable PROFIT (the expected future profitability of the family business after succession) in the owner-manager sub-sample. Two of the dependent variables namely WILLING and EXTERNAL PREP exert a significant positive influence on the dependent variable PROFIT at the 1% confidence level and the independent variable TRUST exert a significant positive influence at the 5% level. This means that the more the owner-manager perceives the successor to be willing to take over the business, trusts the successor's abilities and intentions and the more preparation the successor receives external to the business, the more likely the business is to remain profitable after succession. The relationship between the variables ESTATE and PROFIT is, however, negative. This finding implies that the more estate planning is performed within the business, the less likely the business is expected to be profitable after succession, according to the owner-manager respondents.

The two null hypotheses (H^{0a} and H^{0b}) are thus rejected as relationships do exist between the identified factors and the Satisfaction with the succession process and the Continued profitability of the business (the two indicators of a successful succession).

Results for the successor sub-sample: Satisfaction

A full 52.9% of the variance in the dependent variable SATISFIED in the successors sub-sample can be explained by the identified independent variables. Only one independent variable namely AGREE exerts a significant influence on the dependent variable SATISFIED at the 5% confidence level. This implies that the more the successor perceives there to be an agreement among family members to continue the business, the more satisfied the successor will be with the succession process.

Results for the successor sub-sample: Future profitability

The independent variables included in the regression analysis explained 27.2% of the variance in the dependent variable PROFIT in the successor sub-sample. Two of the independent variables namely ESTATE (at a 1% confidence level) and WILLING (at a 5% confidence level) exert a significant influence on the dependent variable PROFIT. In other words, the more the successor is willing to take over the business the more likely the business is of remaining profitable. Similarly to the relationship identified among owner-managers, the relationship between ESTATE and PROFIT is also negative. In other words, according to successors, the more estate planning is done the less likely the family business is of continuing profitability after succession.

The two null hypotheses (H^{0c} and H^{0d}) are thus rejected as relationships do exist between the identified variables and the Satisfaction with the succession process and the Continued profitability of the business.

MANAGEMENT IMPLICATIONS

The empirical results show that there are several factors that influence the success of the succession process in small and medium-sized family businesses. Possibly the most important of these is the willingness of the successor to take over the business. This factor

is perceived to influence both the satisfaction with the succession process, as well as the continued profitability of the business for owner-managers and successors alike. Important elements of “willingness to take over” include whether the successor is looking forward to and have a strong desire to manage the family business, finds it exciting to work in the family business, is committed to continue the family business, and believes that his or her personal development goals could be satisfied in the context of the family business.

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AN INVESTIGATION INTO THE MANAGERIAL COMPETENCIES REQUIRED FOR SMALL BUSINESS SUCCESS

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"Eighty percent of all new small businesses fail in their first five years" (Allen, 2000:20, Why do small businesses fail, 2003:1) and it has "been proven, time and again, that the main cause of business failure is the incompetent management of a business" (Smith, 1999:28-29).

ABSTRACT

The failure rate of SMEs lies between 70% and 80% (Barron, 2000:1, Moodie, 2003:9, Ryan, 2003:13). Although small businesses fail due to a variety of reasons arising from the macro, market and micro environments, a problem that is often cited as a major contributor to failure is managerial incompetence and lack of business skills (Bekker and Staude, 1988:503, Marx, van Rooyen, Bosch and Reynders, 1998:732). More than 90 percent of entrepreneurial failure is attributed to lack of abilities to perform managerial functions (Glueck, 1980:65, Limited skills in management, 1998:1). The objective of this study was to identify the management competencies possessed by small business owner-managers in the Nelson Mandela Metropole. A quantitative research design based on the positivistic paradigm was used. A judgemental sample of 242 small businesses in the Nelson Mandela Metropole was utilised. The empirical results indicated that the managerial competencies evident in successful small businesses are planning and administration, strategic action and self-management (balance).

INTRODUCTION

The small and medium-sized enterprise (SME) sector has been described by the South African government as having enormous economic potential and because of this the government has become increasingly committed to the promotion and growth of this sector (Budget speech, 2001, South African Yearbook, 2000:257). SMEs in South Africa employ almost half of the people formally employed in the private sector and play a pivotal role in the economy by contributing to 42% of the country's gross domestic product (Levin, 1998:79, South African Yearbook, 2000:256). With the importance of the small business sector becoming increasingly apparent, the continued creation and survival of SMEs is vitally important to "the future of the South African economy and the creation of new employment opportunities" (Macleod, 1999). However, it has been estimated that the failure rate of SMEs lies between 70% and 80% (Barron, 2000:1, Moodie, 2003:9, Ryan, 2003:13) and that a substantial amount of money is being lost due to the occurrence of mistakes and problems that could otherwise have been avoided. The chances of survival and success are however greatly enhanced if future problems and challenges are anticipated, understood and addressed prior to establishing the small business or an obstacle arising.

Small businesses operate within an environment that is dynamic, turbulent and that offers great challenges. Some of these challenges present not only opportunities to SMEs but are also a major source of problems. Within the environment problems arise from the macro, market or micro environments. Issues that present a problem to SMEs in the macro environment relate to the state of the economy, crime and rapidly changing technology amongst others. The market environment presents problems such as limited market size, low demand for products/services and considerable competition. Problems relating to the functional and financial areas, as well as the inability to control growth and lack managerial competence can arise from the micro environment.

Although small businesses fail due to a variety of reasons, a problem that is often cited as a major contributor to failure is managerial incompetence and lack of business skills (Bekker and Staude, 1988:503, Marx et al., 1998:732). More than 90 percent of entrepreneurial failure is attributed to lack of abilities to perform managerial functions (Glueck, 1980:65, Limited skills in management, 1998:1), while Wright (1995:75) concurs that poor management ranks among the main reasons for the failure of many small businesses. It is therefore apparent that small business owner-managers require certain managerial competencies in order to succeed (Kyambalesa, 1994:174). This will allow small business owner-managers to better manage their businesses and solve problems, resulting in improved chances for success and the ability to be a better contributor to the economy.

OBJECTIVES OF THE STUDY

The primary objective of this study is to identify the management competencies possessed by small business owner-managers in the Nelson Mandela Metropole. Secondary objectives include establishing the existence of any significant relationships between:

- managerial competencies and selected demographic variables;
- managerial competencies and perceived success; and
- selected demographic variables and perceived success.

PROBLEM INVESTIGATED

Small and medium-sized enterprises (SMEs) are having a positive impact on the South African economy through job creation and provision of employment opportunities. However, despite the economic benefits and the opportunities provided by SME initiatives, small businesses continue to be inextricably linked to high failure rates and problematic challenges. Flusche, van Beveren and Kilgore (2001:1) state that although government and economic conditions contribute to SME failure, managerial action, incompetence and inexperience has a far more significant influence on SME success. Studies have further shown that 14,5% of small businesses fail due to a lack of management competence or management experience (Flusche et al. 2001:1), and unless addressed, this will be a major factor contributing to the high failure rate of small business. The problem to be investigated in this study involves identifying the management competencies possessed by small business owner-managers in the Nelson Mandela Metropole based on the model of managerial competencies proposed by Hellriegel, Jackson, Slocum, Staude and Associates (2001:6), namely communication, planning and administration, teamwork, strategic-action and self-management competencies.

RESEARCH OBJECTIVES

In order to investigate the managerial competencies prevalent in SME owner-managers in the Nelson Mandela Metropole, a research instrument in the form of a questionnaire was developed.

RESEARCH METHODOLOGY

This research study can be described as quantitative research from a positivistic approach. This paradigm is concerned with seeking the facts and causes of a phenomenon, is associated with measurement and produces data that is both specific, precise and quantitative (Hussey and Hussey, 1997:52).

RESULTS

A series of factor analyses revealed that the items measuring success loaded onto a single factor, and the 60 items pertaining to the various managerial competencies loaded onto nine different factors. These were subsequently named communication; planning and administration; financial planning; teamwork (promotion); teamwork (participation); strategic-

action; self-management (conduct); self-management (balance) and self-management (drive/adaptability).

In order to evaluate the internal reliability of the questionnaire, Cronbach Alpha coefficients were calculated. For the purpose of this study, the cut-off value of 0,70 was utilised to indicate the reliability of the measuring instruments. All Cronbach Alpha coefficients exceeded the cut-off point of 0,70 as determined by Nunally (1978). The internal reliability of the measuring instrument was thus confirmed.

Table 1: Summary of factor analyses per category

Factor	**Number of items**	**Factor loadings**		**Cronbach alpha coefficients**
		Min	**Max**	
Success	**4**	**- 0,62**	**0,83**	**0,72**
Communication	**9**	**0,17**	**0,78**	**0,79**
Planning and administration	**11**	**0,39**	**0,71**	**0,81**
Financial planning	**3**	**0,75**	**0,84**	**0,79**
Teamwork (promotion)	**5**	**0,70**	**0,73**	**0,81**
Teamwork (participation)	**4**	**0,60**	**0,83**	**0,77**
Strategic action	**7**	**-0,65**	**-0,84**	**0,87**
Self-management (conduct)	**5**	**0,52**	**0,80**	**0,78**
Self-management (balance)	**4**	**0,52**	**0,78**	**0,71**
Self-management (drive/adaptability)	**7**	**0,51**	**0,70**	**0,79**

Descriptive statistics relating to the sample are presented in Table 2. From the table it is evident that the majority of respondents were both owner and manager of their small business. It has further been identified that the majority of respondents are males and predominantly white. Most owner-managers have occupied this position for between three and five years and the majority of respondents do not posses a managerial qualification. The close corporation and sole trader are the most popular forms of enterprise. Many respondents indicated operating in more than one industry, namely in retail, wholesale, manufacture and service or a combination thereof. It was however identified that they operate in the service and retail industry respectively. The majority of respondents employ between one and five full-time employees. Most small businesses reported an annual turnover of less than R500 000.

Table 2: Sample characteristics

Ownership Status	**Frequency**	**Percent**
Owner	25	10,33
Manager	36	14,88
Both	181	74,79
Total	**242**	**100,00**
Gender	**Frequency**	**Percent**
Male	181	74,79
Female	61	25,21
Total	**242**	**100,00**
Population group	**Frequency**	**Percent**
White	151	62,40
Coloured	20	8,26
Black	30	12,40
Asian	31	12,81
Not willing to say	10	4,13
Total	**242**	**100,00**
Term of management	**Frequency**	**Percent**
1 year	14	5,79
2 years	25	10,33
3 - 5 years	70	28,93
6 - 10 years	62	25,61
11 - 20 years	49	20,25
21 years and above	22	9,09
Total	**242**	**100,00**
Management qualification	**Frequency**	**Percent**
Yes	89	36,78
No	153	63,22
Total	**242**	**100,00**
Form of enterprise	**Frequency**	**Percent**
Sole trader (proprietorship)	75	31,00
Partnership	13	5,37
Private company	44	18,18
Close corporation	92	38,01
Trust	18	7,44
Total	**242**	**100.00**
Nature of industry	**Frequency**	**Percent**
Retailer	67	27,68
Wholesaler	6	2,48
Manufacturer	12	4,96
Service industry	71	29,34
Other, please specify	86	35,54
Total	**242**	**100,00**
Number of full-time employees	**Frequency**	**Percent**
0	2	0,83
1 – 5	92	38,02
6 – 10	70	28,92

11 – 20	43	17,77
> 20	35	14,46
Total	**242**	**100,00**
Annual turnover	**Frequency**	**Percent**
< R 500 000	76	31,40
R 500 000 – R 999 999	38	15,70
R 1 000 000 – R 4 999 999	65	26,86
R 5 000 000+	34	14,05
No response	29	11,99
Total	**242**	**100.00**

Table 3 below contains a summary of the descriptive statistics for the various competencies that are considered important in managing a successful small business. It is evident from the table below that the mean scores varied for all the management competencies investigated. The self-management (conduct) competency obtained the highest mean score, whereas the planning and administration; and the communication competencies both obtained the lowest mean scores.

Table 3: Descriptive statistics on the management competencies investigated

			Quartiles			Frequency distribution %		
Factor	**Valid N**	**Mean**	**Min**	**Max**	**Std.Dev**	**Disagree**	**Neutral**	**Agree**
Communication	242	3,93	2,00	5,00	0,51	5,78	53,72	40,50
Planning and administration	242	3,93	2,10	5,00	0,50	3,31	59,50	37,19
Financial planning	242	4,03	1,00	5,00	0,80	11,57	44,63	43,80
Teamwork (promotion)	242	3,94	2,20	5,00	0,59	7,85	52,89	39,26
Teamwork (participation)	242	4,29	2,25	5,00	0,56	2,89	38,02	59,10
Strategic action	242	4,00	2,28	5,00	0,59	5,37	52,48	42,15
Self-management (conduct)	242	4,45	3,00	5,00	0,44	0,83	26,45	72,72
Self-management (drive/adaptability)	242	4,41	3,14	5,00	0,42	0	26,03	73,97
Self-management (balance)	242	4,07	1,25	5,00	0,62	6,20	50,00	43,80
Success	242	3,60	1,50	5,00	0,69	26,03	53,72	20,25

Table 4 below portrays the Pearson product moment correlations for establishing the relationship between the management competencies investigated as well as between these competencies and success. Significant relationships were established at the 99 percent and 95 percent confidence levels.

Table 4: Pearson product moment correlations for the management competencies investigated and success

	Correlations									
	Success	**Commun-ication**	**Planning and administration**	**Financial planning**	**Teamwork (promotion)**	**Teamwork (participation)**	**Strategic action**	**Self-manage-ment (conduct)**	**Self-manage-ment (balance)**	**Self-management (drive/adaptability)**
Communication	***0,17**	1,00	***0,52**	***0,37**	-0,06	***0,52**	***0,42**	***0,34**	***0,36**	***0,28**
Planning and administration	***0,27**	***0,52**	1,00	***0,47**	-0,04	***0,37**	***0,60**	***0,44**	***0,50**	***0,32**
Financial planning	***0,21**	***0,37**	***0,47**	1,00	-0,02	***0,27**	***0,43**	***0,22**	***0,24**	****0,16**
Teamwork (promotion)	- 0,02	- 0,06	- 0,04	- 0,02	1,00	****- 0,13**	- 0,10	- 0,04	- 0,02	- 0,08
Teamwork (participation)	***0,24**	***0,52**	***0,37**	***0,27**	****-0,13**	1,00	***0,28**	***0,48**	***0,49**	***0,29**
Strategic-action	***0,27**	***0,42**	***0,60**	***0,43**	-0,10	***0,28**	1,00	***0,41**	***0,51**	***0,30**
Self-management (conduct)	****0,16**	***0,34**	***0,44**	***0,22**	-0,04	***0,48**	***0,41**	1,00	***0,62**	***0,30**
Self-management (balance)	***0,30**	***0,36**	***0,50**	***0,24**	-0,02	***0,49**	***0,51**	***0,62**	1,00	***0,45**
Self-management (drive/adaptability)	****0,13**	***0,28**	***0,32**	****0,16**	-0,08	***0,29**	***0,30**	***0,30**	***0,45**	1,00
Success	1,00	***0,17**	***0,27**	***0,21**	-0,02	***0,24**	***0,27**	****0,16**	***0,30**	****0,13**

* 99% confidence level (< 0,01)

** 95% confidence level (< 0,05)

It is evident that at the 99 percent confidence level a positive correlation exists between all the following competencies, namely communication, planning and administration, financial planning, strategic action, self-management (conduct), self-management (balance), self-management (drive/adaptability) and teamwork (participation) except teamwork (promotion).

Teamwork (promotion) is negatively correlated at the 95 percent confidence level with teamwork (participation) and self-management (drive/adaptability) positively correlated with financial planning at the 95 percent confidence level. A significant relationship exists between success and the following competencies at the 95 percent confidence level, namely self-management (conduct) and self-management (drive/adaptability).

The results of the analysis of variance (ANOVA) are depicted in Table 5 below. This test was undertaken to establish whether significant differences exist between the selected demographic variables on the one hand, and the management competencies investigated and perceived success, on the other hand.

Table 5: Relationships between management competencies investigated and demographic variables

		Communication		Planning and administration		Financial planning		Teamwork (promotion)		Teamwork (participation)	
	df	**F**	**P**	**F**	**P**	**F**	**P**	**F**	**P**	**F**	**P**
Ownership status	2	5,152	***0,006514**	0,884	0,414493	0,7987	0,451239	1,613	0,201651	0,639	0,528660
Gender	1	0,810	0,369063	0,400	0,527689	5,7233	****0,017590**	0,259	0,611493	1,649	0,200434
Population group	4	1,468	0,213087	0,273	0,895422	0,4499	0,772406	1,262	0,286110	1,008	0,404343
Term of management	1	0,513	0,474548	1,095	0,296505	0,1236	0,725497	0,073	0,786741	0,078	0,780320
Management qualification	1	5,678	****0,018039**	1,583	0,209626	24,1450	***0,000002**	0,784	0,376991	0,749	0,387594
Form of enterprise	4	0,535	0,710484	0,821	0,513029	0,6153	0,652059	0,726	0,575346	0,778	0,540812
Nature of industry	4	0,788	0,533843	0,206	0,935132	2,4764	****0,045207**	2,683	****0,032464**	0,054	0,994471
Number of full-time employees	1	0,420	0,517818	0,533	0,466208	1,6834	0,195844	0,558	0,456004	0,180	0,671757
Annual turnover	4	0,052	0,994824	0,575	0,680980	4,1108	***0,003122**	1,571	0,183024	1,699	0,151280

*99% confidence level (< 0.01)
**95% confidence level (< 0.05)

Table 5 continued: Relationships between management competencies investigated and demographic variables

		Strategic action		Self-management (conduct)		Self-management (balance)		Self-management (drive/adaptability)	
	df	**F**	**P**	**F**	**P**	**F**	**P**	**F**	**P**
Ownership status	2	0,459	0,632395	0,300	0,741323	0,917	0,401411	1,066	0,346067
Gender	1	0,045	0,831494	0,729	0,394092	1,842	0,176097	0,362	0,548222
Population group	4	0,630	0,641444	0,240	0,915489	0,628	0,642821	0,376	0,825490
Term of management	1	0,222	0,638333	0,033	0,855359	0,099	0,753288	2,055	0,153152
Management qualification	1	4,867	****0,028427**	1,946	0,164489	4,902	****0,027863**	3,324	0,069644
Form of enterprise	4	0,135	0,969283	0,259	0,903822	0,212	0,931496	0,809	0,520705
Nature of industry	4	2,288	0,060908	0,465	0,761283	0,575	0,680840	2,061	0,087008
Number of full-time employees	1	0,004	0,948042	1,751	0,187122	0,238	0,626475	0,012	0,911498
Annual turnover	4	0,952	0,434577	1,793	0,131292	0,227	0,923363	0,455	0,768993

* 99% confidence level (< 0,01)

** 95% confidence level (< 0,05)

Table 6: Descriptive statistics of demographic variables, management competencies investigated and perceived success

	Success		Communication		Financial planning		Teamwork (promotion)		Strategic action		Self-management (balance)	
	X	sd	x	sd	x	sd	x	sd	x	sd	x	sd
Ownership Status												
Owner			4,11	0,54								
Manager			3,69	0,49								
Both			3,95	0,50								
Gender												
Male	3,55	0,69			4,03	0,81						
Female	3,72	0,69			4,02	0,77						
Term of management												
1 year	3,43	0,69										
2 years	3,89	0,68										
3 - 5 years	3,60	0,70										
6 - 10 years	3,68	0,64										
11 - 20 years	3,46	0,67										
21 years and above	3,41	0,83										
Management qualification												
Yes			4,05	0,48	4,30	0,71			4,30	0,71	4,18	0,58
No			3,86	0,52	3,87	0,80			3,87	0,80	4,01	0,64
Form of enterprise												
Sole trader												
Partnership												
Private company												
Close corporation												
Trust												

Table 6 continued: Descriptive statistics of demographic variables, management competencies investigated and perceived success

	Success		Communication		Financial planning		Teamwork (promotion)		Strategic action		Self-management (balance)	
Nature of industry												
Retailer					4,12	0,71	3,95	0,58				
Wholesaler					3,94	0,71	4,07	0,60				
Manufacturer					3,97	0.90	4,20	0,57				
Service industry					3,90	0,87	4,05	0,56				
Other, please specify					4,08	0,79	3,81	0,62				
Number of full-time employees												
0	3,62	1,24										
1 – 5	3,44	0,69										
6 – 10	3,53	0,66										
11 – 20	3,68	0,63										
> 20	4,04	0,66										
Annual turnover												
< R 500 000					3,74	0,84						
R 500 000 to R 999 999					4,02	0,74						
R 1 000 000 to R 4 999 999					4,08	0,85						
R 5 000 000+					4.53	0,53						
No response					4,11	0,57						

It is evident from the table above that a significant difference exists at (p<0,01) between the selected demographic variables and the management competencies investigated.

Communication competency and the demographic variables ownership status and management qualification are significantly different. It appears that respondents who are owners exhibit superior communication skills compared to those that are not. Owner-managers who possess a management qualification exhibit the communication competency more than those that do not.

A significant difference was found between financial planning competency and the demographic variables gender, management qualification, annual turnover and nature of industry. It is evident that owner-managers who posses a management qualification undertake financial planning activities to a greater extent than those that do not have a qualification. Small businesses with a turnover greater than R5 million are more likely to do financial planning than those with a turnover of less than R5 million. The results further indicate that small businesses operating in the retail sector perform financial planning activities more than small businesses operating in the service sector.

With regard to the following competencies a significant difference exists at (p<0,05). It is evident that at this level teamwork (promotion) competency indicates a significant difference with nature of the industry. It is evident that respondents in the manufacturing sector promote the effectiveness and efficiency of teamwork to a greater extent than those in either the retail sector or those operating in a combination of sectors.

There also exists a significant difference between the strategic action competency and management qualification. It appears that owner-managers who posses a management qualification are more skilled at strategic planning than those who posses no managerial qualification.

A significant difference exists between self-management (balance) competency and management qualification. It is clear that owner-managers who posses a management qualification are more capable of balancing work and other life issues than those who do not possess a managerial qualification.

It is apparent that a significant difference (p<0,01) was established between the perceived success of a small business and term of management, gender and number of full-time employees.

Table 7: Relationships between demographic variables and success

		Success	
		F	**P**
	df		
Ownership status	2	0,6052	0,546867
Gender	1	9,1363	***0,002806**
Population group	4	0,5757	0,680544
Term of management	1	6,8557	***0,009456**
Management qualification	1	3,6672	0,056801
Form of enterprise	4	0,3681	0,831213

Nature of industry	4	1,5805	0,180527
Number of full-time employees	1	15,9265	***0,000090**
Annual turnover	4	1,8912	0,113024

* 99% confidence level (< 0,01)
** 95% confidence level (< 0,05)

Owner-managers who have been in business for only two years perceive themselves to be more successful than owners who have had a longer term of management. Females perceive themselves to be more successful at running a small business than do males. Owner-managers who employ more than twenty full-time employees perceive their businesses to be more successful than those employing less.

CONCLUSIONS

This study investigated the contributions made by the SME sector to the economic growth of South Africa and the challenges faced by the SME sector. Management incompetence was revealed as a major challenge facing the small business sector. The empirical investigation conducted on small businesses in the Nelson Mandela Metropole revealed the order of importance of the managerial competencies investigated. The order of importance of the managerial competencies is thus as follows: self-management (conduct), self-management (drive/adaptability), teamwork (participation), self-management (balance), financial planning, strategic-action, teamwork (promotion), communication and planning and administration. From the above order of importance it can be deduced that the following competencies need to be improved upon: communication, planning and administration, financial planning and teamwork (participation). The empirical investigation further revealed that the managerial competencies evident in a successful small businesses are planning and administration, strategic action and self-management (balance).

From this study, it is evident that managerial competencies will, in the future, have a major impact on small business success. It is therefore crucial that the South African government and the small business sector alike take note of this challenge hindering small business success and realise that without adequate managerial competencies, the small business sector will be unable to realise its full potential. The heightened awareness of the effects of managerial incompetence could result in South Africa experiencing increased economic growth, social stability and job creation for the country as a whole.

RECOMMENDATIONS

The empirical investigation revealed that the managerial competencies communication, planning and administration, financial planning and teamwork (participation) require improvement. Owner-managers may therefore do the following to improve on the competencies.

To improve their ability to communicate the following is recommended: involve employees more in business operations, encourage openness and sharing of information with employees

through the use of weekly or monthly meetings or discussions, utilise written communication that is clear, concise, commands attention and that does not contain terms that could not be understood and meetings should be short and to the point.

The planning and administration competencies may be improved through the implementation of the following: utilise all available resources to acquire information pertaining to any risk that the business may assume, for instance consult external experts and secondary sources, weigh-up the advantages and disadvantages of assuming a risk through drawing up lists and profit projections, develop plans and schedules on a weekly or monthly basis to achieve specific ideas and goals, divide the whole problem or idea into manageable and workable parts and assign priorities to and delegate responsibility for each task, thus aiding in achieving the completion and implementation of the plan on time.

In order to improve an owner-manager's competence in financial planning it is recommended that owner-managers utilise projected cash flow statements and other financial records when considering the purchase of assets, starting of a new project or planning for an activity.

It is lastly recommended that in order to improve teamwork (participation) within their business, owner-managers should hold open discussion groups with relevant team members in order to develop specific and clear goals together that are attainable and will thus inspire commitment from each individual member. It is further recommended that owner-managers implement monitoring systems, for example conduct monthly report-back sessions or periodic deadlines for specific tasks, to ensure tasks and goals are being reached and make employees part of decision making through asking for opinions or solutions directly from employees as well as giving employees a measure of authority and responsibility by making the employees themselves responsible for the outcome.

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BUSINESS SUCCESS AND SUSTAINABILITY

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Entrepreneurial Success and Sustainability

ABSTRACT

The survival rate of small business is quite small, and the proportion of those surviving that go on to success and long term sustainability is even smaller. This paper explores the role of leadership in the sustainability of entrepreneurial enterprises and the relevance of Collin's research to the development of the appropriate skills for entrepreneurs.

It would appear that Colins's (2001) research has much to say about what it takes to build an exceptional company and sustain it over the long term. He and his team were looking for the contributing factors in long term success, not exploring leadership. They were trying to identify what it was that enabled some companies to be continuously successful through negative and positive external conditions. What her terms Level Five leadership appeared as critical.

These finding could have significant implications for the sustainability of entrepreneurial activity, as they suggest that the high profile, success driven individual, whilst able to attract attention and resources, and bring about significant change or development, may not have the attributes and behaviours necessary to grow a sustainable business. For sustainability the focus of the success is on the enterprise, not the entrepreneur, on the long-term development of the enterprise, not short terms rewards, on organisational values and standards rather than personality and charisma.

INTRODUCTION

"Why some companies make the leap…and others don't" is the sub title of Jim Collin's latest book "Good to Great". (Collins 2001) This leap is a particularly relevant concern for small and entrepreneurial businesses. Starting up is one thing – actually surviving the changes that accompany rapid growth provides different challenges and can require very different skills.

The survival rate of start-up businesses is quite small, and the proportion of those surviving that go on to success and long term sustainability is even smaller. Gasse (1990) states:

"Most authors agree that one of the principal causes of small business bankrupcy is the lack of management skills. In effect, management skills are important to the survival of the new firm." (p. 103)

This paper explores the role of leadership in the sustainability of entrepreneurial enterprises and the relevance of Collin's research to the development of the appropriate skills for entrepreneurs.

From Good to Great

Colins and his team undertook extensive research into the differences between companies that achieved sustained success over those that didn't. His companies are largely in North America, are large, and have been in existence for at least 15 years. So how are his findings relevant to start-ups and other entrepreneurial companies? All of the successful companies were at a start-up or entrepreneurial stage at one time. What they did at this stage impacted on their ability to sustain their success over a long period of time and to a much greater degree than competitors in similar situations. Really the message is, begin as you mean to continue.

Collins (2001) identified a number of conditions necessary for sustained success. These include:

- Level 5 leadership; that is leaders who have a range of characteristics that include: self-effacement, reserve, humility and strong professional will.
- Importance of having the 'right people'.
- Importance of confronting the brutal facts – without losing faith
- The Hedgehog concept which identifies three intersecting factors: passion for what you do, the ability to become the best in the world at what you do and an awareness of what drives the economic engine.
- A culture of discipline
- The use of technology to accelerate and support initiatives

- A recognition that greatness takes time

All of these are required to ensure sustainable success and 'greatness'. For the purposes of this paper the role of leadership, and its implications, will be examined in more detail. Effective leadership is critical to entrepreneurial success but as a concept leadership is little defined or dealt with in the entrepreneurial literature.

Entrepreneurial leadership

Cammarano (1993) Eggers (1999) and Moore & Buttner (1997) identify management and leadership as critical to entrepreneurial growth.

“Leadership plays a key role in the survival and success of entrepreneurial ventures. The focus in small firms is on the entrepreneur, who is called on to build an organisational culture (Schein 1983), develop a strategic vision (Chandler 1994) and discover and take advantage of opportunities and resources in the firm’s environment (Westley & Mintzberg 1989)” Moore & Buttner (1997)

Many authors have described the characteristics of entrepreneurs. Risk bearing (McClelland 1961, Liles 1974, Kao 1991, Timmons 1999, Jennings, Cox & Cooper 1994), innovations and use of initiative (Timmons 1999, Jennings, Cox & Cooper 1994, Schumpeter 1934), desire for responsibility (Timmons 1999), need for power (Hornaday & Aboud 1971), internal locus of control (Timmons 1999), personal value orientation [Brush 1992, Moore 1997) need for achievement (McClelland 1961, Horrnaday & Aboud 1971, Liles 1974, Jennings, Cox & Cooper 1994), Need for independence (Collinss, Moore & Unwalla 1964, Scheinberg & Macmillan 1988).

Timmons (1999) asserts that 6 dominant themes have emerged about what entrepreneurs do and how they perform. These include: Commitment and determination; Opportunity obsession; Tolerance of risk, ambiguity and uncertainty; Creativity, self-reliance and ability to adapt; motivation to excel; and Leadership. The nature of the leadership required is not expanded upon.

A study of a sample of small business owners/directors in South East Queensland, Australia identified a range of ‘people’ issues. (Dalglish 2001) Through in-depth interviews they were asked to identify the ‘people’ issues that had impacted on their company and its growth.

Whilst the responses were diverse and reflected the diversity of industries, stages of development of the business and personality of the interviewee, a number of issues appeared to across the sample. These included:

- Recruiting for organisational fit
- Dealing with cultural change brought about by growth
- Motivating employees
- Managing the inter-actions between the entrepreneur and the growing organization.

Each of these could be seen as critical leadership tasks.

The process of transition described by the participants in the Australian research study is well recorded in the entrepreneurial literature. (Flamholtz 1986, Roberts 1987, Griner 1972, Kao 1991). Kao(1991) identifies many of the problems of rapid growth identified by the research including: communication becomes harder, inadequate human resource practices, management skills and organisational needs.

“the entrepreneur who wishes to retain decision making and power as a ‘closely held’ function may be unwilling to delegate to key managers.” (Kao p19).

What the research suggests is that the very characteristics that make entrepreneurs successful in starting up the business, may create problems as the business grows. The need to focus on detail, to be more structured, and aware of the impact of personality and

communication style, are things that may not have been nearly as important to the successful 'start-up'.

Nagel cited in Scarborough identifies the importance of leadership in the growing enterprise:

"The new leader is…the one who sees clearly the goal, shares repeatedly and forcefully the vision, provides the tools, trains and enables co-workers to mange and improve their processes, remains persistent in the face of adversity and inspires others to take an ownership position in the completion of the mission – by example." (Scarborough p649)

Kotter (1996) provides a practical definition of leadership, of what leaders do.

" ….it (leadership) produces movement. Throughout the ages, individuals who have been seen as leaders have created change, sometimes for the better and sometimes not. They have done so in a variety of ways, though their actions often seem to boil down to establishing where a group of people should go, getting them lined up in that direction and committed to movement, and then energizing them to overcome the inevitable obstacles they will encounter along the way" Kotter (1996)

The question remains, do organisations that are particularly successful have leaders who exhibit different characteristics and behaviours than those that are less successful. Colins (2001) has identified some very clear leadership attributes that appear in successful companies but not in less successful ones.

Level 5 Leadership

Colins (2001) describes the Level 5 Leader as someone who:

"Builds enduring greatness through a paradoxical blend of personal humility and professional will." (p 20)

Despite the many differences between the different leaders researched by Collins and his team there were two characteristics that applied to each of the 'great' leaders that did not apply to those leaders who led less successful companies. Leadership scholars have been searching for ways of defining and describing effective leadership and this has led to research into personal attributes, (Deary 1996) individual behaviours,(Bass 1996) and roles and functions (Gardner 1990) without any definitive outcomes. Collins' research was not focused on leadership but on success, and approaching it from that perspective some leadership attributes/behaviours did appear in the 'great' companies and not in the less successful companies. Also, despite individual differences, all the leaders exhibited these characteristics.

The first attribute he identified was that of professional will. This professional will is demonstrated in a number of ways:

'a clear catalyst in the transition from good to great, demonstrates an unwavering resolve to do whatever must be done to produce the best long term results – no matter how difficult, sets the standard and looks in the mirror, not out of the window, to apportion responsibility for poor results.' (p36)

The second attribute he identified was that of personal humility. This humility was demonstrated in a number of ways:

‘ through a compelling modesty, shunning public adulation, acting with quiet calm determination, relying on inspired standards rather than charisma to motivate, channeling ambition into the company not self, looks out of the window, not in the mirror to apportion credit for success – to other people, external factors and luck.’ (p36)

CONCLUSIONS

The first attribute, of professional will, that Colins identifies appears to be consistent with the entrepreneurial and leadership literature. Successful entrepreneurs and leaders need determination and an ability to overcome whatever hurdles appear on the way to achieving their objectives. The entrepreneurial literature has long associated entrepreneurial personality with an internal locus of control (Timmons 1999)- that is a belief in individual ability to bring about change and a personal willingness to accept responsibility for actions taken.

The second attribute of humility is more complex. Considerable research has linked leadership with ‘charisma’ (Bass 1996, Weber 1947, Burns 1978), and contemporary literature is full of examples of successful corporate leaders who have extremely healthy egos and a taste for public celebrity. Colins makes a distinction here – he is seeking the leaders of great companies, rather than great leaders. He suggests that the charismatic, transformational, larger than life, leader may be very effective at bringing about change in an organisation, but has limited success with the building of a great organisation over time. Those leaders who court publicity are perhaps not the best examples of humility, yet humility was a characteristic of Matsushita, an entrepreneur who sustained a highly successful company throughout most of the 20th century in Japan, overcoming formidable obstacles such as the great depression and World War 2. (Kotter 1997)

Implications for sustainability

There are perhaps no surprises with regard to the importance of entrepreneurs and leaders being driven and focusing on results. Previous research into both leadership and entrepreneurship would identify determination and an ability to be adaptable (Timmons 1999). However, some of the other characteristics are not as self evident, and in fact do not appear in the entrepreneurship literature. In a business culture that expects and encourages self promotion, can modesty, self effacement and humility succeed? Will these characteristics be recognised and can entrepreneurs who have these attributes persuade others to support them?

These finding could have significant implications for the sustainability of entrepreneurial activity, as they suggest that the high profile, success driven individual, whilst able to attract attention and possible resources, and bring about significant change or development, may not have the attributes and behaviours necessary to grow a sustainable business. For sustainability the focus of the success is on the enterprise, not the entrepreneur, on the long

term development of the enterprise, not short terms rewards, on organisational values and standards rather than personality and charisma.

The challenge is how to recognise those with level five potential, and how develop these attributes in those with the drive to succeed.

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BACKGROUND OF NASCENT[1] ENTREPRENEURS

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CHAPTER MENU

[1] *nascent - beginning to exist or develop* The Penguin Macquarie Dictionary

ABSTRACT

The purpose of this paper is to discuss a range of sociological and motivational factors that influence an individual's decision to commence a new business venture. The paper is based on research data provided by university students studying an entrepreneurship degree program compared to the responses of a comparison group of non-entrepreneurial students.

In undertaking this research three characteristics have been focused on: need for achievement; risk-taking propensity; and locus of control. It appears from the responses that the entrepreneurship students exhibit these characteristics. They are more achievement oriented than the comparison group, they are much more prepared to take risks, and they are much more prepared to be in control.

It was thought that the 'entrepreneurial' students (nascent entrepreneurs) would be similar to each other in their backgrounds and views about new venture creation and that they would have been encouraged by parents, friends and teachers to start up new business ventures. And it seems that this is so.

It was not apparent that teachers had any significant impact on the desire to commence new ventures. However 'strong encouragement' or 'encouragement' to start a business from their fathers was experienced by approximately two-thirds of the entrepreneurship students compared to less than half of the comparison group experiencing this level of encouragement. Mothers of the entrepreneurial students were only slightly less encouraging. It was also apparent that the nascent entrepreneurs, as a group, strongly felt their parents were 'totally supportive' and 'provided ideas/advice and supported their ideas' whereas the predominant encouragement by parents of the comparison group was to follow the family tradition.

Of the 2003 cohort of entrepreneurial students 75% indicated that they were either strongly encouraged or encouraged by their friends to start a business venture of their own. On the other hand just over 50% of the comparison group indicated encouragement by their friends to commence a business.

In terms of parental background four out of every five entrepreneurship students have parents who have at some stage run their own business. This is compared to three out of every five students from the comparison group.

More evidence is needed to make more definite conclusions about the backgrounds and attitudes of entrepreneurial students however from this research it is possible to conclude that encouragement to commence a venture by parents and friends does has have a positive impact on a person's preparedness to 'have a go'.

BACKGROUND

The reasons why entrepreneurs are entrepreneurial have been the subject of much research, discussion and debate over much of the 20th Century. Most tension in the debate has been

between those who believe heredity is the major influence on the development of entrepreneurial characteristics vs those who believe the environment is the major influence. One of the major reasons why this debate continues is the belief that if ways can be found to develop entrepreneurial capacities in people then we have a key to creating more wealth and employment within an economy. The purpose of the research discussed in this paper is to contribute to that debate.

Over the last two years research into this area has been conducted at RMIT University with the following question posed:

What are some of the sociological and motivational reasons why people create new ventures?

In undertaking this research a number of matters had to be resolved.

Defining the entrepreneur

There is a growing number of advocates suggesting that entrepreneurship become a 'legitimate field of academic enquiry' (Bygrave and Hofer 1991) however one of the obstacles in the way of this push has been an inability to define entrepreneurship. Shaver and Scott (1991) briefly discussed the difficulties in defining entrepreneurship and in order to avoid the definitional problem opted to describe entrepreneurship as 'new venture creation'.

As with Scott and Shaver (1991) it was decided to look at the action or outcome of the entrepreneurial action rather than attempting to define the person, hence the focus on creating new ventures.

Psychological approach to understanding entrepreneurial behaviour

Shaver and Scott (1991) discussed how 'a psychological approach based on persons, process, and choice held promise for the future.' They recognized however that there was also a definitional problem surrounding a 'psychological approach' to the study of any phenomenon. In their work they chose to focus on a point of agreement between psychologists, i.e. that psychology is differentiated from other social or behavioural sciences by its focus on an analysis of the individual person. The research that is the subject of this paper also focuses on the individual person and the reasons they provide for being entrepreneurial in their behaviour.

To opt to use the word 'psychological' to describe reasons for acting in a certain way also has the potential to create the need to conduct a literature review into the whole body of psychological research, a daunting prospect indeed. Instead this research has opted to use the term 'motivational reasons' for a decision to commence a new venture rather than 'psychological reasons' for starting a new venture.

Entrepreneurial Characteristics

Another issue has been the choice of entrepreneurial characteristics or capacities to examine. Research into the characteristics of entrepreneurs tends to focus on three main factors: need for achievement; locus of control; and risk-taking propensity.

In a significant paper on the subject of the antecedents of new venture creation Shaver and Scott (1991) concluded that need for achievement offered the best and most reliable opportunity to discover why people start up new ventures. They found that most research into Risk-taking Propensity involved the use of a Choice Dilemmas Questionnaire (CDQ) and raised serious methodological problems in the application of this measure. Similarly Shaver and Scott raised doubts about the major measure used to test for Locus of Control, the Internal-External Locus of Control scale (IE). Factor analyses of the use of the IE scale revealed that there are usually a multiple of factors that influence the outcomes of the test.

For the purposes of this research therefore, whilst locus of control and risk-taking propensity are addressed, the major focus has been on the reasons why people have developed a need for achievement and its association with new venture creation.

Focus Group

The initial intention of this research was to convene a number of focus groups of existing, or 'practicing', entrepreneurs in order to have them reflect on the factors that influenced their career choice. However recent research by Carter (2002) into reasons why entrepreneurs make the career choices they do raised serious questions about relying on retrospective accounts of entrepreneurs. Golden (1992) also questioned the reliability of this approach in relation to retrospective accounts of managers.

As a result, the focus of this research is on nascent entrepreneurs (as was Carter's) and the reasons they provided for wanting to become entrepreneurial i.e. prospective reasons for behaviour. Carter concluded that entrepreneurs were not qualitatively different from other people who pursued career options. However Carter's research focused on ascertaining the reasons why entrepreneurs created new ventures not on the reasons why entrepreneurs developed this need in the first place.

In view of Carter's work, for the purposes of this research, it was decided to use undergraduate students in RMIT University's Bachelor of Business (Entrepreneurship) (BBE) program as the target group. In order to be admitted to this program potential students need to provide evidence that they are opportunity focused and are prepared to create an organisation to pursue the opportunity i.e. they self-select through providing evidence that they are either currently entrepreneurial or have the intention to be entrepreneurial. A total of 104 first, second and third year BBE students completed the survey instrument.

Students enrolled in RMIT's Bachelor of Business (Business Administration) (BBBA) provided the source of data for a comparison group and a total of 30 students completed the survey instrument. None of these students is undertaking any studies in entrepreneurship.

RESEARCH HYPOTHESES

The following hypotheses are driving this research:

1. That nascent entrepreneurs have similar backgrounds.

2. That encouragement is a key factor in developing a need for achievement and in motivating a person to commence a new business venture.
3. That parents, teachers and peers have an impact on fostering a need for achievement and in encouraging a person to start up a new business venture.

The purpose of this paper is to examine and draw out common factors in the backgrounds and views of nascent entrepreneurs as to why they are entrepreneurial.

METHOD

The Interpretivism method of research was used to establish the hypotheses and quantitative research methodology, using a questionnaire, has formed the basis of the process of testing these hypotheses. As described above it was decided, as did Carter (2002), to target 'nascent entrepreneurs'.

Students studying the BBE program were the target group with a comparison group selected from the BBBA program. These latter students had no exposure to entrepreneurship and entry to the program is based on a ranking based system (ENTER scores[2]). Entry to the Bachelor of Business (Entrepreneurship) degree program however is based on a ranking against three criteria:

1. School academic performance: as indicated through their ENTER ranking.
2. Entrepreneurial nature: as evidenced by their preparedness to start up new ventures and be involved in entrepreneurial activities.
3. Leadership and initiative: as evidenced by school, sporting and community leadership and initiative.

It is the second of these two criteria that identifies these undergraduate students as 'nascent' entrepreneurs.

The research instrument was a questionnaire that covered the following areas: Vital data (age, gender etc); Schooling; Parents; Current business activity; Work patterns, perceptions and attitudes. In all, 142 questions were posed in the questionnaire and 106 questionnaires have been completed by BBE students. Thirty students in the BBBA program, the comparison group, completed the questionnaire.

At this point no cross analysis between questions has been done. This paper reports simply on an analysis of the answers provided by the entrepreneurial students to particular questions that bear on the hypotheses being posed and a comparison of these responses to those of the comparison group.

[2] ENTER scores are the percentile rankings of students as they emerge from their final year of schooling (year112)

RESULTS

Entrepreneurial Nature of the student

Each successive intake of students into the RMIT BBE program was drawn from an increasingly larger group of applicants using criteria that, in part, focused on their entrepreneurial and leadership characteristics. It is to be expected then, if the selection process worked, that with each successive intake the BBE students would exhibit stronger entrepreneurial and leadership characteristics.

Data relating to need for achievement, risk-taking propensity and need for control, is analysed below.

Need for achievement

Each successive intake of nascent entrepreneurs exhibited a greater need to achieve their goals with close to 66% of 2003 students indicating that it was completely or mostly true that once they had set themselves a goal they 'never give up'. This compares to 56% of the non-entrepreneurship or BBBA students.

Table 1 How desperate are they to achieve their goals?

Question: Once you set yourself a goal you never give up.

	A Completely true	**B** Mostly true	**Both A + B**	**C** Depends	**D** Mostly untrue	**E** Completely Untrue
BBE 2001 intake	11	33	**44**	50	0	6
BBE 2002 Intake	16	41	**57**	35	4	4
BBE 2003 intake	16	47	**63**	29	8	0
BBBA degree students	15	41	**56**	33	11	0

Percentage data

Risk taking propensity

The nascent entrepreneurs exhibited a strong tendency to be comfortable when taking financial risks with over 66% saying it was 'completely true' or 'mostly true' whereas only 20% of the non-entrepreneurship students were comfortable.

Table 2 Are they prepared to take financial risks?

Question: You are quite comfortable taking financial risks.

	A Completely true	**B** Mostly true	**Both A+B**	**C** Depends	**D** Mostly untrue	**E** Completely Untrue
BBE 2001 intake	22	39	**61**	33	6	0
BBE 2002 Intake	20	49	**69**	24	4	2
BBE 2003 intake	22	47	**69**	28	3	0
BBBA degree students	8	12	**20**	38	35	8

Percentage data

Need for control

As evidenced in Table 3 below over 66% of the 'entrepreneurial' students indicated that it was Completely true or Mostly true that they preferred to be in control when working in a team whereas only 40% of the comparison group had the same desire.

Table 3 To what extent do the students like being in control?

Question: When working in a team you prefer to be in control

	A Completely true	**B** Mostly true	**Both A+B**	**C** Depends	**D** Mostly untrue	**E** Completely Untrue
BBE 2001 intake	33	39	**72**	22	6	0
BBE 2002 Intake	20	49	**69**	24	6	0
BBE 2003 intake	24	39	**63**	34	3	0
BBBA degree students	8	31	**39**	42	12	8

Percentage data

Summary

Clearly on the basis of the above data, and assuming that need for achievement, risk taking propensity and need for control are indicators of an entrepreneurial personality, the nascent entrepreneurs are more entrepreneurial than the comparison group. This outcome would seem to validate the selection criteria and selection process for students into the BBE program.

Encouragement

To what extent is encouragement a cause of the need by people to undertake an entrepreneurship degree program?

As a person moves from primary to secondary school and on to further study or work many people influence the way a person thinks and acts and, in particular, the choice of career. One question that needs to be explored, for the purpose of this research, is the extent to which family, relatives and friends encouraged and influenced the person to start a business venture (as a career choice). This research segmented the source of encouragement into teachers, fathers, mothers and friends.

Teacher encouragement

As evidenced in the table below the greatest level of encouragement by teachers was experienced by the first intake of BBE students. Eighty two percent of these students indicated they were either strongly encouraged or encouraged to apply for the degree program. A probable reason for this was that the students were advised of the existence of the BBE program by enthusiastic teachers in schools who had heard about the course and its commencement through direct marketing by the University. Entry into the BBE program in 2001 was direct entry not through the central agency (the Victorian Tertiary Admissions Centre – VTAC). In subsequent years the program has been promoted and notified through a more general internet based promotional campaign as well as by word of mouth and entry has been centrally administered through VTAC.

The data for teacher encouragement does not demonstrate a significant difference between the last two intakes of BBE students and the comparison group indicating that the encouragement of teachers was not a substantial reason why they undertook an entrepreneurship program as against a traditional business degree program.

Table 4 Teacher encouragement

Question: Have any of your teachers encouraged you to, or discouraged you from, starting a business venture of your own?

	A Strongly encouraged	**B Encouraged**	**A and B Both**	**C Passive**	**D Discouraged**	**E Strongly discouraged**
BBE 2001 intake	29	53	**82**	18	0	0
BBE 2002 Intake	6	27	**33**	65	2	0
BBE 2003 intake	11	19	**30**	65	5	0
BBBA degree students	0	26	**26**	67	4	4

Percentage data

Parental encouragement

It is generally acknowledged that parents have a significant influence on the career choice of their children and certainly on the choice of degree program to undertake. So it was expected that parents would also have an influence on the decision of a son or daughter to start a business. It was thought that many of them would be running businesses themselves and would like to see their son or daughter 'continue the business' or 'follow in their footsteps'.

Father's encouragement

As evidenced in the table below, 'Strong encouragement' or 'encouragement' to start a business by their fathers has been experienced by approximately two-thirds of the entrepreneurship students however less than half of the comparison group experienced this level of encouragement. This would indicate that encouragement by fathers is a significant factor in the reason why a person decides to be an entrepreneur.

Table 5 Father's encouragement

Question: Did your father encourage you to, or discourage you from, starting a business venture of your own?

	A Strongly encouragement	**B Encouragement**	**Both A + B**	**C Passive**	**D Discouraged**	**E Strongly discouraged**
BBE 2001 intake	41	24	**63**	29	6	0
BBE 2002 Intake	28	38	**66**	30	4	0
BBE 2003 intake	27	41	**68**	30	3	0
BBBA degree students	19	26	**45**	52	0	4

Percentage data

As evident in Table 6 below, it seems that mothers were not as encouraging of their children as the fathers although the proportion of students who were Strongly Encouraged by their mothers was higher for both the 2002 and 2003 intakes. However encouragement by their mothers is an influencing factor in the decision by a person to become entrepreneurial. Encouragement by mothers was still was significantly above the comparison group responses particularly for the first and third cohorts of BBE students.

Table 6 Mother's Encouragement

Question: Did your mother encourage you to, or discourage you from, starting a business venture of your own?

	A Strongly encouraged	**B Encouraged**	**Both A and B**	**C Passive**	**D Discouraged**	**E Strongly discouraged**
BBE 2001 intake	28	33	**61**	28	11	0
BBE 2002 Intake	32	22	**54**	40	6	0
BBE 2003 intake	38	24	**62**	35	3	0
BBBA degree students	19	26	**45**	48	0	7

Percentage data

How were they encouraged by their parents?

This is an important follow on question that might provide some clues as to how parents might act in encouraging a sense of entrepreneurialism amongst their children.

Nature of encouragement

Question: If either of your parents ENCOURAGED you to start a business venture can you briefly describe how your mother or father encouraged you to consider starting your own business.

	Nascent entrepreneurs	**Comparison Group**
Saw the same opportunity - that there was money to be made	3	8
Follow your passions/heart	9	8
Follow the family tradition	12	23
Will invest in the business	13	8
Provided ideas/advice and supported ideas	25	8
Saw the potential in the son/daughter	6	15
Totally supportive	44	0
Coaching and teaching	4	0
Better than working for others	5	8
Provided books and resources including capital	11	0
Provided employment in their business	1	8

Number of suggestions

As evidenced from this table it is apparent that the nascent entrepreneurs, as a group, strongly felt their parents were 'totally supportive' and 'provided ideas/advice and supported their ideas'. On the other hand the predominant encouragement by parents of the comparison group was to follow the family tradition.

Friends encouragement

It is clear from the table below that each subsequent intake of entrepreneurial students into the program indicated a stronger impact by friends on their decision to start business ventures. Of the latest cohort three out of four indicated that they were either strongly encouraged (29%) or encouraged (45%) by their friends to start a business venture of their own. On the other hand just over 50% of the comparison group indicated encouragement by their friends to commence a business.

Table 8 Encouragement by friends

Question: Have any of your friends encouraged you to, or discouraged you from, starting a business venture of your own?

	A Strongly encouraged	**B Encouraged**	**Both A and B**	**C Passive**	**D Discouraged**	**E Strongly discouraged**
BBE 2001 intake	38	13	**51**	38	13	0
BBE 2002 Intake	31	29	**60**	35	6	0
BBE 2003 intake	29	45	**74**	16	5	5
BBBA degree students	15	38	**53**	31	8	8

Percentage data

Business background of parents

It might be expected that parents who encouraged their children to become involved in establishing business ventures may in fact themselves be involved in running businesses. Table 9 below backs this up.

Table 9 Have parents ever run a business?

Question: Have your parents **ever** worked for themselves or run their own business, alone or together?

	Yes	No
BBE 2001 intake	83	17
BBE 2002 Intake	74	26
BBE 2003 intake	82	18

BBBA degree students	69	31

Percentage data

Four out of every five entrepreneurship students have parents who have at some stage run their own business. This is compared to three out of every five students from the comparison group. Clearly seeing, and perhaps experiencing, their parents running a business has had a positive impact on their decision to undertake an entrepreneurship degree program.

Student Background/Characteristics

Are there any other common characteristics of the entrepreneurial students?

Age

Do students who want to commence an entrepreneurial program have a particular age profile?

It was believed by the program developers that, eventually, the 'typical' average age of students (nascent entrepreneurs) undertaking the entrepreneurship degree would be mid-twenties. It was thought that if, as expected, the degree program became more popular there would be greater competition to meet all criteria and the emphasis on conducting entrepreneurial ventures (Criteria 2) would play a greater role in selecting students. It was thought that younger applicants would not have had the same opportunity to have started business ventures. Table 10 below indicates that there has been some ageing of the student cohort but more data will be required over the next few years to draw firm conclusions.

Table 10 Age of students in first year

	18-19	20-21	22-23	24-25	26 >
BBE 2001 intake	72	11	11	0	6
BBE 2002 Intake	54	22	6	10	8
BBE 2003 intake	61	17	6	14	3

BBBA degree students	30	30	26	7	7

Percentage data

The students undertaking the (BBBA) courses are on average older. Possible reason for this is that a large proportion of Asian and international students comprise this group and they tend to have a higher age profile.

Gender of students

Does gender influence the decision of a person to undertake an entrepreneurship program?

It has been obvious from the first intake of students into the entrepreneurship program that males made up the greatest proportion of enrolled students and over the three years the percentage of males/females have remained reasonably constant at 33% females and 66%

males. However it is the reverse in the comparison group. Over 60% of BBBA students are female almost the reverse of the BBE data.

Table 11 Gender of students

	Female	Male
BBE 2001 intake	28	72
BBE 2002 Intake	30	70
BBE 2003 intake	32	68

BBBA degree students	63	37

Percentage data

Birth Order

Does birth order influence a person's preparedness to undertake an entrepreneurship degree program?

On the basis of the data obtained (Table 12 below) it appears just over 50% of students studying business courses are latter born i.e. not first born or only children. This is more evident with the BBBA comparison group. More data will be needed here to draw valid conclusions.

Table 12 Birth Order

	Only	First	Second	Third	Other
BBE 2001 intake	0	33	44	11	11
BBE 2002 Intake	6	50	28	12	4
BBE 2003 intake	8	39	36	11	6

BBBA degree students	0	27	46	15	12

Percentage data

Where do students reside

Is the abode of students influential on the decision of a student to undertake a program that assists them become an entrepreneur?

The majority of students live at home with their parents. Partly this is because of the youth of the students. The data for the BBBA students is also influenced by the number of Asian international (onshore) students in the cohort and by the fact that they tended to be older. (see Table 10). It would be anticipated that as the age of the students studying the program increases (as expected)

a greater percentage of students will live away from the home and parents. Because most still live at home their recollections of encouragement are all the more valid.

Table 13 Abode

	Parents	Friends	On own	Other
BBE 2001 intake	56	28	11	6
BBE 2002 Intake	60	20	8	12
BBE 2003 intake	59	19	14	8

BBBA degree students	48	26	11	15

Percentage data

The fact that a majority of entrepreneurship students still live at home may well help explain the impact of encouragement by parents on the decision of students to undertake an entrepreneurship program, i.e. they are still being encouragement and/or their recollection is of recent encouragement.

Where did students go to school

Does going to a non-government school make a person more prepared to become an entrepreneur?

As evidenced in Table 14 below students overwhelmingly come from a private school background and this is particularly the case for the non-entrepreneurial business students 16% of whom are International students. More data is required to be able to look at the impact of schooling on the decision to undertake an entrepreneurial degree program.

Table 14 Schooling

	Gov	Non Gov
BBE 2001 intake	41	59
BBE 2002 Intake	40	60
BBE 2003 intake	26	74

BBBA degree students	28	72

Percentage data

Years before deciding to study

Is there any evidence that having some time off between school and tertiary study impacts on a person's ability to be selected into an entrepreneurship degree program i.e. the time out makes them more entrepreneurial?

The trend evidenced in Table 15 below indicates that an increasing proportion of students being admitted to the entrepreneurship program have spent one or more years working or traveling etc before applying for and being accepted into the program. It may also indicate that the selection criteria focusing on entrepreneurial nature (for admission to the BBE program) is having a greater impact on selection of students.

Table 15 Years out of school

	None	One	Two	Three	More
BBE 2001 intake	72	0	11	11	6
BBE 2002 Intake	38	18	12	8	24
BBE 2003 intake	37	29	13	3	18

BBBA degree students	4	26	19	30	22

Percentage data

CONCLUSION

In their paper Shaver and Scott articulate how over the years studies of the personological characteristics of entrepreneurs have resulted in them being debunked, discarded or found to be immeasurable (effectively). As a result studies of new venture creation have tended to concentrate on the external stimuli such as economic circumstances, social networks, teams, marketing, finance and public agency assistance. However none of these alone will create a new venture. 'For that we need a person in whose mind all possibilities come together, who believe that innovation is possible, and who has the motivation to persist until the job is done'. Shaver and Scott argue that to find this answer we need a truly psychological perspective on new venture creation. In this paper the focus has been on encouragement as a source of motivation on an individual to commence a business venture.

In relation to hypotheses 1 seems clear from this research that, in particular, nascent entrepreneurs do have similar backgrounds. Four out of every five entrepreneurship students have parents who have at some stage have run their own business. Males are the predominant gender of students enrolled in the BBE program and the majority still live at home with their parents. It also seems, though more data is needed to confirm this, that going to a non-government school impacts on the decision to undertake study to become entrepreneurial. In addition it seems that having some time between secondary school study and entrepreneurial study is becoming more common and influences the ability of a person to be selected into the entrepreneurship program.

It is also clear that parental encouragement (Hypotheses 2) has a clear impact on the decision of a person to undertake a degree program that results in a person becoming an entrepreneur. This is not surprising. Parents do have an impact on career choice of their children. It is also clear that friends have an influence but not so teachers.

This paper is limited to describing backgrounds and simple analysis of data arising from particular questions. Cross analysis is now required to determine and validate the preliminary findings.

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SMEs IN THE GLOBAL MARKET PLACE: THE IMPORTANCE OF SKILLS, KNOWLEDGE AND ORGANISATIONAL LEARNING

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ABSTRACT

This paper draws on the key findings and issues to emerge from an 18-month research project funded by the East of England Development Agency and carried out by Anglia Polytechnic University[1]. It involved a study of need and support for small and medium sized enterprises in the Eastern region in the internationalisation of their business operations.

The aim of the project was to identify successful aspects of international business planning, resource management, international networking, market intelligence gathering and global skills and knowledge development that can be made transferable across business sectors via training, educational, development and recruitment programmes.

A number of studies into related areas have recently been completed both within the region and nationally, and we have drawn upon these reports to help inform our findings. These studies have either been quantitative or qualitative whereas this study is rather rare in that it is both quantitative and qualitative. In this way we have been able to explore the underlying issues behind international activity to provide valuable insights into the company experience. In this paper we use these insights generated by our approach to identify a set of action programmes aimed to help better design and target the efforts of the business support agencies. In this way we seek to make policy interventions more appropriate to the company experience and thus more effective in supporting SMEs in the Eastern region in their international activities.

[1] APU would like to acknowledge the assistance of the University of Luton at the quantitative stage of the project and the assistance of the Foundation for Small and Medium Enterprise Development, University of Durham at the qualitative stage of the project.

BACKGROUND

This paper draws on the key findings and issues to emerge from an 18-month research project funded by the East of England Development Agency and carried out by Anglia Polytechnic University[2]. It involved a study of need and support for small and medium sized enterprises in the Eastern region in the internationalisation of their business operations.

The aim of the project was to identify successful aspects of international business planning, resource management, international networking, market intelligence gathering and global skills and knowledge development that can be made transferable across business sectors via training, educational, development and recruitment programmes.

There were four key stages of activity

- A large scale telephone survey of 1200 firms throughout the eastern region to provide a map of international activity within the region. The survey involved a stratified sample across sectors and geographical location to reflect the characteristics of the six counties of the eastern region.
- Face-to-face interviews with 80 firms on their premises lasting between 1 and 2 hours with either the owner-manager or the individual responsible for international action to gain insights into why and how firms become involved in international activity, and of course, why they sometimes do not, how they manage their international activity, what problems they encounter and where they go to find solutions.
- Face-to-face interviews with many of the key players within the business support community within the region.
- Analysis and review of the quantitative and qualitative data generated by these activities to identify policy implications and recommended action programmes aimed to help better design and target the efforts of the business support agencies and educational institutions in the East of England and build economic growth through international excellence

A number of studies into related areas have recently been completed both within the region and nationally, and we have drawn upon these reports to help inform our findings. (See resources section). These studies have either been quantitative or qualitative whereas this study is rather rare in that it is both quantitative and qualitative. In this way we have been able to explore the underlying issues behind international activity to provide valuable insights into the company experience. In this paper we use these insights generated by our approach to identify a set of policy implications aimed to help better design and target the efforts of the business support agencies. In this way we seek to make policy interventions more appropriate to the company experience and thus more effective in supporting SMEs in the Eastern region in their international activities.

[2] APU would like to acknowledge the assistance of the University of Luton at the quantitative stage of the project and the assistance of the Foundation for Small and Medium Enterprise Development, University of Durham at the qualitative stage of the project.

THE QUANTITATIVE STIDY: METHODOLOGY

The mapping of international activity throughout the eastern region was achieved through a large scale telephone survey undertaken between June 2002 and August 2002. During this period 560 internationalised and 554 non-internationalised SMEs in the eastern region were interviewed. A further sample of 101 larger companies in the region were also interviewed as a control group.

Telephone interviewing technique was used to collect data because of the rapidity of data gathering, accuracy, and efficiency. The questionnaire was designed to determine the extent and nature of international activity within the Region. While this activity was explored in terms of penetration of international activity, etc, this paper focuses on the barriers and obstacles reported by executives. The questionnaire was fully structured, with response categories defined prior to the study informed by literature relevant to internationalisation. The questionnaire was pilot tested on a small number of respondents to ensure understandability prior to the main survey.

The sample frame used was obtained from Business Link and listed known exporters and non-exporters stratified by county and broad business area (primary, secondary and tertiary). The listings were a random sample of organisations but in the final event nearly all organisations recorded as exporters were approached during the survey. A target was set of an achieved sample of 550 organisations in each of the two categories of internationalised and non-internationalised. Samples of this size typically yield results accurate to within four to five percentage points according to statistical theory. A further sample of 101 larger internationalised organisations was also included in the study for comparison (250+ employees). The final sample turned out to be 554 non-internationalised, 560 internationalised and 101 larger companies. (See diagram 1 overleaf for a mapping of firms interviewed)

Key findings from the quantitative study

- Almost as many internationalised firms are involved in importing (61%) as exporting (77%).

- Just under half of all internationalised firms are involved in two or more forms of international activity, e.g. exporters who also import.

- The two main reasons for not becoming involved in international activity are: i) lack of international opportunities in the particular sector and ii) ‘benign’ conditions in the domestic market.

- The most frequent mode of export was by house or agents (35%) followed by ‘own sales office (20%) and ‘direct sales’ (13%). If Internet, word of mouth and through current customers are added to the direct sales category this would then increase to 30%. This changes the interpretation considerably and challenges the traditional view that intermediaries are the most appropriate route to international markets for SMEs when considering market entry.

- The majority of experienced and inexperienced internationalised businesses self generate solutions to their problems (87%). Amongst exporters, networks of suppliers were used by 23% of firms interviewed and 31% said they used business support

organisations, mainly BusinessLink and the DTI (including TPUK). Just 5% of importers had used business support organisations.

THE QUALITATIVE STUDY: METHODOLOGY

In phase two of the project, 80 companies were interviewed face-to-face on their own premises between December 2002 and June 2003. The interviews, which were undertaken by senior academics within the Business School, were semi-scripted and were recorded. In all cases the person interviewed was the strategic decision maker for international activity (usually the owner-manager). Each interview lasted for about one hour.

Building on the findings from the telephone survey, the purpose of the interviews was to obtain deeper data about company behaviour in international markets including managerial traits, skills and knowledge needs, problem-solving and their views of support services. The interview schedule included a mix of open questions where the interviewee was encouraged to talk about their motivations and experiences in their international activities, and closed questions concerning specific problem areas, where they looked to for support and their opinion on the effectiveness of support provided.

The sample of companies to be interviewed was selected from the larger sample on the basis of experience of international trade, skills and knowledge and the application of these to their international activities. The key consideration was not the volume of international activity, but rather how effective the application of their experiential learning had been in contributing to turnover generated from international activities. In this respect, mode of activity, geographical location and sector were regarded as secondary considerations. On this basis, the companies to be interviewed were classified in five bands as follows:

A: The Curious

Have considered international activity, but have not yet taken action. Little awareness of available support.

B: The Frustrated

Have previously been, or are occasionally involved in, international activity, but are no longer actively pursuing this, often due to negative experiences. Little awareness of available support.

C: The Tentative

Have limited experience of international activity, have developed some skills but have some major problems looking for solutions. Some experience of available support.

D: The Enthusiastic

Have considerable experience of international activity and are keen to grow this side of their business but are experiencing barriers to that growth. Have developed a range of skills but suspect that these need to be developed. Largely aware of available support with some experience, often positive.

E: The Successful

Have extensive experience of international activity with some major successes. Very high skills and knowledge development, very aware of available support with a high degree of usage. Often aware of skills and knowledge gaps and very keen to improve effectiveness in international activity.

For the purposes of analysis, as indicated above, each interview was recorded and transcribed generating in excess of 2,800 pages of transcript. In addition, following the completion of each interview, a two page summary of the key points emerging from the interview was produced providing a further 150 pages of text. Finally, three closed questions providing tick box responses using the Lickert scale were used covering the international mindset of the interviewee, specific problems experienced and support providers used.

Data from 5 of the interviews was rejected as being unsuitable for our purposes and the analysis presented below is therefore based on data collected from 75 firms. Analysis of the qualitative data from the 2,800 pages of interview transcript, 150 pages of summary text and 75 tick boxes was undertaken using a dedicated software package, N6. The software uses word or phrase recognition and the text was coded down to three levels using four key categories:

Motivation: What is the motivations and drivers for international activity?
Process: What form does this activity take and how does it impact on the firm?
Problems: What are the key problems encountered?
Where do they go to find solutions to these problems?

Key findings from the qualitative study

- Planning (the way in which the firm plans its involvement in foreign markets), manning (the way the firm organises or develops its resources to service foreign markets) and scanning (the way in which the firm informs itself about those markets) are the areas of skills and knowledge required by all firms active in international markets.

- The configuration of these skills, and the support designed to improve them, varies according to experience, sector and size.

- All firms benefit from strategic planning and management development.

- All firms benefit from the development of international skills (foreign languages and/or intercultural awareness). It is the development of these skills within successful firms that facilitates the transfer of business acumen from domestic to international markets.

- Firms new to international activity (the Curious and the Frustrated) are very receptive to, and appreciative of, current support provision.

- Successful firms have specific skills and knowledge needs which are not all met by current provision.

- We identify an intermediate set of firms (the Tentative) whose international activity is static, who have lost the initial enthusiasm for international activity and who need tailored support which is not currently available

- Demand Transformation: There is a need to distinguish between what companies want and what they need. They want information, money and solutions to precise, small problems. They need to learn to plan, to broaden their management mindset and build better manning and scanning skills

- Skills and knowledge development for international trade takes place via the processes of exporting, importing, inward investment and international research arrangements.

- Best practice in firms often emanates from patterns of trading involving one or all of these elements.

SKILLS AND KNOWLEDGE

The method adopted for this study has been to observe and record the behaviour of companies from a wide range of sectors and of varying size, age and international experience. We did not seek to squeeze these companies into a pre-conceived analytical framework but have attempted, in our analysis, to identify the variables in their composition, culture and context which have played a significant part in their progress, or otherwise. It was not our aim to locate the companies or their personnel on a scale of educational achievement, though we are able to make some general estimates of the relationship between performance and educational qualification of key personnel.

This analysis will therefore focus in the first instance on the skills and knowledge required by companies, in normal circumstances, to sustain successful performance in a competitive international trading environment. Some of these skills (general management) may apply equally to the domestic trading environment. Others (foreign language skills) may be specific to the international environment. Very importantly, and this is something we need to research further, we will discuss the nature of the transition from domestic trading to international trading from a skills and knowledge perspective, as it emerged from our study. Do all companies make this transition successfully, or is there something about the make-up of some that helps them do it better? In order to simplify the complexity of the issues surrounding skills and knowledge development, we conclude our analysis with an identification of skills and knowledge needs across the five categories of firm interviewed.

Skills

According to the Cambridge Advanced Learner's Dictionary, a skill is:

an ability to do an activity or job well, especially because you have practised it.

Planning

The Planning skill-set poses serious challenges to the typical small and medium enterprise. Most companies came into existence not as a deliberated, rational response to a set of market conditions but in response to an opportunity or a passion. To ask such an organisation to adopt a strategic planning approach to foreign markets is therefore asking them to do something foreign. All of their personal and commercial history may even militate against the suggestion. They have built their persona around the value of being pragmatic, problem and sales-oriented and commercially astute. That is, at this point, strategy is driven by sales rather than the other way round. Indulging in abstract concepts and calculations about markets and competences seems to them to be the antithesis of business success. Even if they could see the case for it, it is usually not something they would see themselves as capable of. Most, when questioned, said that their reason for starting exporting was to respond to an opportunity. When these companies approach business support agencies it is not usually to ask for advice, but to ask for support or information to help them achieve something specific they have already resolved to do. In our study we found evidence of a transformation process at work. Good advice will not simply give them what they want. It will alert them to what they need and help them find a way to obtain it.

We therefore can distinguish between what companies want and what they need. They want information, money and solutions to precise, small problems. They need to learn to plan, to broaden their management mindset and build better manning and scanning skills.

Manning

Most of the companies we interviewed have limited resources with which they can develop their international trade ambitions. Some, however, often as a result of sound strategic planning, develop a clear idea of how they need to develop their material and human resources to make their international activities more profitable. This often involves investing in skills which are not critical to domestic business success, such as foreign language skills.

We found a close correlation between valuing foreign language use and sustained success in international trade. Successful companies value relationships and market intelligence and these are best cultivated and exploited by use of the language of your client and market. We also discovered a complex appreciation of foreign language use by successful companies. Good managers will see occasions on which they individually, or a member of their personnel, will profitably exhibit the ability to speak or write the foreign language.

We can say much the same about other skills needed to enact international trade well. The international company has to equip itself with the skills to dispatch the goods, satisfy customs and excise requirements and ensure customer satisfaction in a more complex transaction than most which apply in a domestic environment. It is however important to note the key role played by the owner-manager in this context. He/she has to provide the leadership and informed decision-making in this challenging environment. There is a strong body of literature that suggests that owner-managers with a strong international orientation tend to be more successful in the long term as they appreciate the need for new skills more quickly. The skills he/she possesses are therefore the critical ones and they need to be in place before any of the others can be developed or effectively deployed. In this respect, manning follows on from planning, which, as a process, needs to identify skills shortages and devise a plan to redress them.

Scanning
Much export support has traditionally leapt straight to the process of scanning, bypassing the first two stages. Information about opportunities in a foreign market can be sufficient to create an exporting opportunity which a company will seek to exploit.

In a more competitive and strategic environment where the company first needs to assess its readiness and ability to export effectively and in a sustained manner, information about the foreign markets needs to be aligned in a more structured way with the company's plans. Information is not just about one-off opportunities, it is about market conditions, national regulations and competition. The successful companies we interviewed used the internet, trade fairs and exhibitions, personal relationships and networks and visits to the foreign market regularly and effectively to improve their decision-making and adjust their business strategy. Managers we observed who were successful at international trade tended to be people able to carry out these tasks with similar confidence and ease to what they show in the domestic market. Some, but not all, of these managers may have had had previous experience of international trade. Others did not but simply felt comfortable in different environments and with foreign clients. The ability to read signals, solve problems, interpret data and understand clients in other cultures can be developed alongside or, in some case, independently of foreign language skills and some are more predisposed to it than others.

Here once again, the process of scanning needs to be seen, not just as an activity in itself, but as a part of a strategic approach towards international trade. The issue is not the obtaining of information, but the decision as to what information to look for and where to look for it. Answers to these questions should emerge from a strategic business plan. This does not preclude the possibility of a fortuitous order coming through the letterbox and proving to be the start of a successful exporting venture. The strategic plan will ask of the company and the owner-manager questions that will help him/her devise the tools and skills to take advantage of such an opportunity, to develop it and to apply it to other markets. In this way, the firm continues to behave opportunistically or entrepreneurially, but within a more strategic framework so that international activity becomes targeted rather than ad hoc.

Knowledge

Whilst the concept of skills currently carries a great deal of significance in economic and educational strategy in the UK at the moment, it is probably correct to say that the concept of knowledge has even greater import within the context of global economic and corporate competitiveness. As a concept, it is less easily grasped than is the notion of a skill. It takes many more forms, is less easy to quantify and to isolate in its manifestations in daily life. This quality has made of it something of a holy grail in contemporary management theory. As Holden[3] points out, 'It can be shared, in principle, universally. (Alternatively..) it can be forgotten and not used.' The operating assumption for many theorists and corporate leaders is that much of the knowledge that makes a critical contribution to the modern organisation is tacit, i.e. we do not necessarily know we are using it in our daily decision-making. It is therefore particularly difficult to analyse and exploit as it is sometimes conscious and sometimes unconscious. According to the Cambridge Advanced Learner's Dictionary, knowledge is

[3] Holden N. Cross-cultural Management: A Knowledge Management Perspective. Financial Times Prentice hall, 2002

understanding of or information about a subject which has been obtained by experience or study, and which is either in a person's mind or possessed by people generally.

Planning

As already acknowledged, the process of strategic planning is a rather vague, abstract concept. It involves the assembling of data from the past and observations about current trends in an attempt to prepare the company for the future. It is no surprise that these predictions often turn out to be wrong, no matter how good the data was or the intellectual ability of the planners.

Nonetheless, planning has a number of benefits. The process of planning:

- increases the familiarity of the planner with the business and the market
- it forces the planner to consider and reflect on a variety of possible scenarios
- it puts the planner into a position of informed readiness to confront emerging realities

These are all very valuable experiences for anybody who has to deal with the international environment, where political events, natural catastrophes or mergers and acquisitions can overnight change the competitive position of your company in a foreign market. Clearly, planning is a demanding process and it is no surprise that, where declared in our study, all the individuals responsible for exporting in successful companies where educated to at least A level standard, with a good number having at least a degree. Conversely, the Tentative companies, who we found generally to have stagnated in their international operations had a poor record here. The majority were educated just to GCSE level or equivalent.

Manning

Once a business strategy has been defined, the resources and skills of the company have to be aligned with it and the target markets. This process requires a sound knowledge of both the company and its markets. When these markets are overseas, the data on them is inevitably distant and complex. The owner/manager needs to ensure the quality of the data and its application to the company's operations. Our research found that whilst the Curious and the Successful companies were attentive to this issue, once again the Tentative companies lacked commitment to it. 80% of Curious companies and 72% of successful companies possessed foreign language skills but only 23% of Tentative companies did.

The flow of knowledge about clients and the market to the company that is facilitated by foreign language skills and other examples of commitment to and experience of the foreign market becomes a critical tool in the company's attempts to sustain and improve its performance there. This knowledge is present in the individuals who work in and for the company (including distributors) and a key management task is to help facilitate the flow of this information through the management process.

Scanning

Knowledge about foreign markets usually resides primarily in the owner/manager (or the sales manager) who goes there and liaises with clients. The quality of the data obtained will depend on the quality of the relationships he/she can build with the market. Here, as earlier, we can identify skills which help obtain that data. Equally important, however, is the flow of information from the owner/manager to other stakeholders. This process has to be managed if the data is to have meaning beyond the owner/manager. On a mundane level, the expense of sending personnel to overseas markets can be expensive but savings and benefits can be obtained if information about travel, customs or expectations are passed

on. On a more critical level, what might appear on the surface to be unimportant information to the owner/manager about a particular client can become invaluable information in the hands of the Finance Director or the Production Manager. Once again, obtaining data is only half the task. Knowing what to do with it is equally important.

Skills and Knowledge Needs

In the discussion above we have attempted to examine some of the key issues surrounding skills and knowledge development through an examination of the key role these play in building the ability to compete effectively in international markets. In order to summarise these complex issues, in the Tables below we identify the skills and knowledge needs of the firms interviewed across the five categories.

Table 1 Skills and Knowledge Needs: The Curious and Frustrated

The Curious and The Frustrated
Inactivity in international markets is largely due to the lack of perceived international market opportunities (no pull factor) and generally benign domestic conditions (no push factor) Key questions facing these two groups: **Planning**: Do we really want to grow the business through international activity? **Manning**: If so, do we have the skills and resources to achieve this objective? If not how do we fill the skills and resource gaps? **Scanning**: How do we find out if there is a potential international market for our products?
Skills and Knowledge needs

Planning

- How to build a business plan
- How to map course of actions and learn basic process
- How to anticipate the consequences of the decision to go international
- How to identify the actual costs associated with new market development
- How to evaluate company response to export opportunities

Manning

- How to assess strengths and weaknesses of resources
- How to obtain extra resources, where necessary
- How to approach support agencies
- How to manage doing business in a foreign language
- How to modify products to meet market needs better
- How to process orders
- How to plan market visits and trade fair strategy

Scanning

- How to find out about potential market opportunities
- How to assess competitive position in selected markets
- How to identify where and when problems with foreign languages occur
- How to identify potential partners
- How to triangulate market intelligence sources
- How to find out about market regulations that affect market development
- How to find the type of information and/or contacts to comply effectively
- How to identify and approach support agencies

Table 2: Skills and Knowledge Needs: The Tentative and Enthusiastic

The Tentative and The Enthusiastic

The Tentative: Little ability to self analyse. Have discovered that international trading is complex and challenging and have lost their initial enthusiasm. Perceive problems to be largely external to the firm and largely expect support agencies to solve them on their behalf.

The Enthusiastic: Understand complexity of international trading environment and perceive the critical challenge to be (in)ability to compete effectively. I.E. understand the key problems are internal rather than external. Much more receptive to support agencies than the Tentative.

Key questions facing these groups:

Planning: Are we committed to international activity? Do we need to revisit our business objectives? Are we being strategic enough in the way we deal with our international markets and customers? How can we develop more established guidelines and procedures?

Manning: How do we identify our skills gaps? How do we acquire/develop dedicated resources? How do we find and assess appropriate support?

Scanning: How can learn to understand the differences between markets and how to manage those differences? How do we evaluate market opportunities?

Skills and Knowledge needs
Planning ▪ How to develop more established guidelines and procedures ▪ How to identify processes by which to evaluate current international activity **Manning** ▪ How to affirm market operations and negotiate changes, if necessary ▪ How to identify the appropriate type of market presence ▪ How to undertake an audit of skills and resources ▪ How to move towards a geo-centric HR strategy ▪ How to understand the differences between markets and how to manage them **Scanning** ▪ How to service the needs of current international customers ▪ How to identify new market opportunities ▪ How to develop a framework for new market development ▪ How to find and assess the most appropriate type of support

Table 3: Skills and Knowledge Needs: The Successful

The Successful
Have a number of strengths: Internal – high level skills development; External - strong products and well established markets. Understand the key to success is their ability to manage an increasingly complex and challenging international business environment. Key questions facing this group: **Planning**: How do we control the new market development process? How do we influence key stakeholders? How do we manage/influence support? **Manning**: How do we acquire dedicated resources for key markets? How do we develop specific higher level skills? **Scanning**: How do we service customer needs at distance? How do we ensure appropriate local presence?
Skills and Knowledge needs

Planning
- How to control the new market development process
- How to influence key stakeholders
- How to develop a strategic approach to effectively establishing a local presence
- How to manage/influence support

Manning
- How to identify and develop specific skills
- How to build a tighter international team
- How to acquire dedicated resources for key markets
- How to assess support in the new market development process

.**Scanning**
- How to develop client relationship management systems, particularly the management of client relationships at distance
- How to use cultural differences to benefit the business

RECOMMENDED ACTION PROGRAMMES

Our objective in undertaking this project has been to help build a stock of firms in the Eastern region capable of competing effectively in international markets. We have aimed to do this through identifying successful aspects of international business planning, resource management, international networking, market intelligence gathering and global skills and knowledge development that can be made transferable across business sectors via training, educational, development and recruitment programmes.

The firms interviewed during the course of this research have provided us with a clear message as to their skills and learning needs with respect to their international activity as identified above. We now present a set of targeted policy initiatives aimed at both addressing the skills gaps identified by the firms interviewed and building upon current skills and learning to assist firms throughout the Eastern region become more effective in their international trading activities.

It is important to note that the majority of the actions suggested below would have the Curious, Frustrated, Tentative and Enthusiastic groups as their primary targets, and a clear aim of these actions would be to facilitate the transfer of knowledge from the Successful. Any action programme would however need to recognise that the Successful also have skills and knowledge requirements which need support and development. A number of firms from this group have expressed a particular interest in management development programmes of an advanced standard to improve their skills levels and the opportunity to take part in workshops with other successful firms to discuss problem issues.

- BEST PRACTICE GUIDES
  High quality brochures focussing on examples of best practice in the region containing diagnostic tools. These could include: ‘How to’ guides to provide simple process understanding, written/on-line case studies from successful firms within the region, problems solving techniques and a directory of support agencies.

- INTERNATIONAL SME MANAGER DEVELOPMENT

Flexible courses with optional accreditation focusing on the Planning, Manning and Scanning skills needs as identified.

- INTERNATIONAL PARTNERSHIP PROGRAMME
  A region wide scheme facilitating international network building and market development, possibly keyed in to research and innovation projects such as the 6th Framework and Teaching Company Schemes.

- INTERNATIONAL MENTORING PROGRAMME
  There are two possible models here. One would bring high-quality graduates (viz STEP) into SMEs to supply resources and knowledge advantage. The other has a business-to-business dimension which could be mediated by the International Trade Advisers. A pilot scheme, GRADEX is currently running with the support of EEDA/AUEE.

- WORKSHOP PROGRAMMES
  To bring together small groups of managers of international SMEs to share common problems and to develop solutions. These could be devised in consultation with Trade Partners UK to ensure that provision is properly targeted to complement existing programmes. Funding for these could be sought from BusinessLink or the Learning and Skills Council.

- TRACKER STUDY
  A study with a five-year time frame to track 50 firms throughout the region as they undertake their international activities. This would allow rich insights into the skills and learning needs of international firms as they manage the international process, which in turn would help in the development of targeted policy interventions.

- PASSPORT PLUS
  The Passport to Export programme has been of benefit to many firms interviewed for this study and will continue to assist the Curious and the Frustrated to become involved in international activity. The focus for this project has been to assist the Eastern region in the objective of building a stock of world class firms capable of competing effectively in international markets. In order to help achieve this objective we would recommend the development of a 'Passport Plus' programme targeted at the Tentative and the Enthusiastic to help improve their ability to compete in international markets. If one of the regional objectives is to improve the competitiveness of firms in their international activity, and hence increase GDP within the region, our research overwhelmingly suggests that it is the Tentative and Enthusiastic groups which offer the opportunity to make the biggest impact within the Eastern region.

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MAY SMALL AND MEDIUM-SIZED ENTERPRISES BE GLOBAL FIRMS? CONCEPTUALIZATION AND COMPETITIVE DETERMINANTS

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ABSTRACT

This research explores the characteristics, particularities and determinants of SMEs operating in multiple national markets. After contrasting characteristics of large multinational types with those of SMEs identified in the literature, it has been observed that there are two categories of SMEs that operate outside their home country: international and globally oriented. The globally oriented SMEs share some characteristics with both multidomestic, global as well as transnational large multinationals, while having their own particularities. The paper proposes a definition, a conceptual framework and conditions for a sustainable value-creation of globally oriented SMEs.

INTRODUCTION

In recent years, Small and Medium-Sized Enterprises (SMEs) have increased their international activities, paralleling trends in market globalization (Loveman and Sengenberger, 1990; Cecora, 2000). By 2000, SMEs contributed between 25% and 35% of world manufactured exports and accounted for a smaller share of foreign direct investment (OECD, 2002: 66) The situation of SMEs facing globalization challenges has received increasing interest from academics and professionals as attested by the number of books, conferences, and papers dedicated to the topic (Luostarinen et al., 1994; Rommel et al., 1995; Simon 1996; Zahra, Kuratko, and Jennings, 1999; McDougall and Oviatt, 2000; Audretsch, 2003; Etemad and Wright, 2003).

However, Jones (1995: 116) observed that the majority of papers and books published "describe a number of factors contributing to 'internationalization' rather than 'globalization'". Several studies have focused on the identification of the process of SMEs internationalization, rather than globalization (Oviatt and MacDougall, 1997; McDougall, Shane and Oviatt, 1994; Etemad and Wright, 2003) and the conditions that facilitate it (Etemad and Wright, 2003). However, other studies have identified an increasing number of SMEs doing business in many countries (Etemad and Wright, 1999; Julien, Joyal, and Deshaies, 1994; Julien, 2000; Simon, 1996), that is, a trend toward globalization. Despite the interest in the place of SMEs in the global marketplace, the concept of global SMEs is, with few exceptions, confused with that of international SMEs (Graham, 1999; Palich et al. 2003). This leads us to consider two categories of SMEs operating outside their home county: the international and global (Birkinshaw, Morrison, and Hulland, 1995: 638 for further discussion).

Academics and practitioners also observe that little has been done to help the managers of SMEs to move successfully from the local to the global marketplace (Agmon and Drobnick, 1994). Yet, in the new integrating global environment, Etemad and Wright (1999: 4) affirm: "entrepreneurs and emerging businesses must learn about global business to thrive alongside larger firms already in the international marketplace." SMEs need sound conceptual frameworks that may facilitate decision making for successful actions in the global marketplace.

In the last two decades, the concept of a global multinational has been examined and re-examined in the context of large firms in numerous studies (Tallman and Fladmoe-Lindquist, 2002). Topics frequently scrutinized include typologies based on the value chain, configuration and coordination issues, role of overseas assets, and the development and diffusion of knowledge (e.g., Bartlett & Ghoshal, 1989; Porter, 1986). Some typologies have even been empirically tested and determinants of their different categories have been identified.

Despite this development however, the majority of scholars of SMEs seem uncomfortable with these typologies and are either using only the concept of "international business" or other concepts such as "world class SME" (Julien 1994), "globally oriented SME" (Nkongolo-Bakenda, 2003a), "SME under globalization" (Knight, 2000), "hidden champions" (Simon, 1996), "small and medium sized transnational corporation" (Wong and Ng, 2002; Fujita, 2003) and so forth. All SMEs operating on the international market do not have the same behavior or scope of activities (Julien, 2000). This suggests a need for clarification and classification of SME's international strategies, and a need to identify the dimensions and driving forces of SMEs which are not only international, but are operating in multiple markets, sometimes in competition with large global and transnational firms.

This study contributes to closing this gap by identifying the major dimensions and driving forces of SME globalization. In addition to this introduction and the conclusion, the paper has five parts. The first presents states the methodology. The second offers the conceptualization of global multinationals. In the third part, empirical studies related to SMEs that have extended international activities are examined. Drawing on findings in these studies and referring to frameworks for large global multinationals, a conceptual framework for a globally oriented SME is presented in the fourth part along with related propositions. Finally, the fifth

part discusses the strategic actions that can facilitate wealth creation in these globally oriented SMEs.

METHODOLOGY

This conceptual research is based on an extensive literature review pertaining to large global firms and SME's with significant international or global activities. These two groups of studies identify similarities and differences of major characteristics of global firms. Their analysis allows us to identify patterns or clusters of processes/characteristics that differentiate global SMEs from large global firms and from SMEs whose international activities are not global in scope. A framework of competitive determinants of globally oriented SMEs is developed and propositions for success are presented.

To identify papers examined on SMEs globalization, the following databases are employed: PROQUEST, ASAP expanded, JSTOR, and EBSCO on October-November 2003. We used successively the following search keywords for full texts from refereed journals: "globalization and strategy", "globalisation and strategy", "globalization and small firm", "globalization and small enterprise", globalisation and small firm", "globalisation and small enterprise". After each search, the abstract of each paper was examined to determine if it dealt with the conceptualization of the concept of globalization. Papers related to large firms were retained only if they examined conceptually or empirically the definition of the global firm. Papers related to SMEs were retained if they were concerned with the impact of globalization on SMEs, even if the main focus was the internationalization process. From papers identified, we used a snowball process of identifying other papers referenced and for which it was possible to access to full text.

Identifying studies dedicated to globalization of large firms was facilitated by the existence of recent and extensive reviews. That is why only papers dealing with conceptualization of global firms have been chosen and examined. This facility did not exist for studies related to SMEs.

Conceptualization of globalization in large firms

In the two last decades, some studies have presented typologies and prescriptions for multinational firms facing market globalization. The majority of typologies were published in the 1980s. Those most frequently mentioned in literature include Perlmutter (1969), Porter (1986), Prahalad and Doz (1987), and Bartlett and Ghoshal (1987, 1989). Two extensive literature reviews have been carried out on the typologies suggested by scholars (Zou and Cavusgil, 1996; Harzing, 2000). According to Harzing (2000: 103), "all authors implicitly or explicitly refer to a continuum of integration/coordination/globalization advantages versus differentiation/ responsiveness/localization in describing their strategies". Bartlett and Ghoshal (1987, 1989) for example distinguished four types of large international companies: multinational, global, international and transnational. Harzing (2000: 103) observed that three types of multinationals were found in every study examined, even if the labels used were different: multidomestic, global, and transnational A multidomestic strategy combined low integration and high responsiveness whereas a global strategy combined high integration and

low responsiveness and a transnational strategy combined high integration with high responsiveness. Like Harzing (2000)'s study, other studies have identified the characteristics and empirically tested the determinants of these types of large multinationals (Roth and Morrison, 1990; Kobrin, 1991; Meng Leong and Tiong Tan, 1993; Johansson and Yip, 1994; Birkinshaw, Morrison and Hulland, 1995; Zou and Cavusgil, 2002; Wasilewski, 2002). The following determinants have been identified for the global typeof multinational: intensity of international activities, product standardization, marketing standardization, country comparative advantage, organizational structure, managerial practices, and strategic actions. These determinants are presented in Table 1 with a few comments related to SMEs.

Intensity of international activities: The intensity of international activities is the first determinant identified among characteristics of global firms. It has been frequently measured by the diversity of foreign countries in which is conducted business and by the quantity of foreign sales. Some studies have used qualitative indicators to measure the diversity of foreign countries. Ohmae (1985), for example, has suggested that the firm should be able to compete successfully in the triad area (North America, Europe, and Asia) where the level of competition is high. Other studies have considered only the number of foreign countries where the firm is doing business (McNaughton, 2003).

The quantity of foreign activities has been measured by the percentage of the company's foreign sales (Johansson and Yip, 1994). However, some researchers consider that a global strategy is based not only on the export, but also on the high level of foreign investment with extensive coordination among subsidiaries (Young, 1987). Kobrin (1991), for example, considered the degree of transnational integration as the relative volume of intrafirm resource flows and assumed that "the greater the proportion of intrafirm trade of all of a MNC's international sales, the greater the degree of transnational integration". This conception of international activities of the global firm leads to the determinant of structure discussed hereafter and raises some concerns for some SMEs as they concentrate manufacturing and major managerial activities in the home country and export their products in multiple countries using different types of networks (Holmlund and Kock, 1998; Chetty and Campbell-Hunt, 2003a). For example, Holmlund and Kock (1998: 54) found that agents and own salesmen were the two far most important operational modes chosen by Finnish SMEs to export to the 15 most important markets.

Standardization of product and market: The second and third determinants identified for a global firm are tied together and are related to the standardization of the product and the market. The main idea behind these determinants is that global firms take advantage of relatively homogeneous needs in different countries. Thus, these firms sell relatively the same product with minor adjustments in different countries and use relatively similar promotional and advertising campaigns across countries (Baalbaki and Malhortra, 1993; Zou and Cavusgil, 2002). With respect to SMEs, the product and marketing standardization raises the question of hypercompetion between players (Harvey, Novicevic, and Kiessling, 2001). SMEs have to compete with firms with greater resource endowments. Thus, survival of these firms will depend on the possession of a proprietary product or service that large firms are missing, or on the fact that they concentrate on small market size that are not profitable for large firms.

Country comparative advantage: The fourth determinant is related to the comparative advantage of the country such as the sophistication of home demand, the presence of factor-creating mechanisms, the abundance of resources, the image of world-class related and

supporting industries (Dunning, 1997; 1998). Birkinshaw, Morrison, and Hulland (1995) found statistically significant the impact of the differential comparative advantage on global integration. Johansson and Yip (1994) also found strong support for their hypothesis of national impact on globalization. This suggests for example that SMEs receiving support from the government will likely be more globally oriented than those that do not receive such support (Christensen, 1991).

Table 1: Determinants of global firms identified in literature

Determinant	Kobrin (1991)	Johansson and Yip (1994)	Zou and Cavusgil (1995, 2002)	Birkinshaw, Morrison, and Hulland (1995)	Comments for an SME
1 Intensity of international activities	Internationalization (control)	Market drivers (industry globalization)	Global market participation		Increasing intensity of export activities by SMEs observed in recent years.
2. Product standardization		Product/service standardization (globally integrated strategy)	Product standardization	Market standardization (-)	Standardized product and marketing well adapted for a low manufacturing cost and low requirements about information. But the likelihood for a large market attracts more competition.
3. Marketing standardization	Advertising intensity	Cost drivers (industry globalization)	Uniform market program		
4. Country comparative advantage		Nationality		Country comparative advantages	Support by the home country is a key.
5. Organizational structure	Manufacturing scale (less important)	Organizational structure	Concentration of value adding activities	Scale economies	Centralized structure with production in the home country. Less opportunities for economies of scales.
6. Managerial practices		Management processes	Co-ordination of value adding activities		Flexibility, use of new organizational forms, and innovation observed is some SMEs.

7. Strategic actions	Technology intensity		Integrated competitive moves	Global competitive actions	SMEs have to find out new ways of doing business to face new competitive challenges.

Organizational structure: The organizational structure of a global firm, the fifth determinant, is characterized by the existence of one global head office (centralized authority), a concentration of value adding activities in some countries to take advantage of scale economies, and low costs or high quality of labour (country comparative advantage discussed earlier). Kobrin (1991: 21), for example, has measured the index of global integration as the "proportion of international sales that are intrafirm" or the relative volume of intrafirm resource flows. However, Kobrin (1991)'s findings indicated that economies of scale were not a determinant of the global integration. Nevertheless, Birkinshaw, Morrison, and Hulland (1995) have observed in a more detailed study that economies of scale were a significant driver of global integration only in three industries (out of the seven observed), namely the mining machinery and equipment, the semiconductors and related devices, and aircraft engines and parts. The two studies by Kobrin (1991) and Birkinshaw, Morrison, and Hulland (1995) have found a very strong positive relationship between technological intensity and transnational integration. With respect to SMEs, the existence of centralized direction is a natural characteristic of organization, due to relative size. Also, instead of necessarily establishing subsidiaries abroad, some SMEs prefer using partnerships with other firms (Forrest, 1990; Hara and Kanai, 1994, Kaufmann, 1995). But these partnerships need to be managed with caution as they put at risk the autonomy of an SME (Olleros and Macdonald, 1988; Larson, 1992; Oakey, 1993; Nkongolo-Bakenda, 2001).

Managerial practices: The sixth determinant of the global firm is related to innovative managerial practices such as global budgeting, global group meetings, cross-country coordination devices, global performance review, and global country coordination. Small and medium-sized firms have been found to have strengths in their close relationships with consumers, their shared vision, their low bureaucratic organization, and their high level of entrepreneurial and dynamic spirit (MacMillan, 1975; Rothwell and Zegveld, 1982; Rothwell, 1986; Nooteboom, 1994). However, conflicts may sometimes rise between the teamwork management style and a one-man orchestra style frequently adopted by some SMEs' owner-managers.

Organizational processes: The seventh determinant of a global firm is related to strategic processes that firms undertake to face the challenges of the global marketplace. A firm's flexibility is considered one of the most consequential factors for worldwide success or failure in the global environment. Kogut (1989) contends that the firm's operating flexibility rests not only on exploiting differentials in factor, product, and capital markets, but also on the transfer of learning and innovations throughout the firm. Kiernan (1993) identified the following elements as being key determinants of competitive success, and therefore flexibility, in the twenty first century: organizational learning, innovation and experimentation, constructive contention, empowerment, optimized value potential, sustainability strategy, and strategic reframing. Hitt et al. (2001) and Ireland et al. (2001) have identified the following six domains as critical to a firm's effort to create wealth in the new business environment: organizational learning, innovation, external networks, internationalisation, top-management team, and growth. Although growth may be considered as an indicator of performance, the two other remaining aspects are part the other determinants, namely, the intensity of international activities and the managerial practices of the global firm.

In addition to factors already mentioned, one should also consider environmental scanning. According to Vernon-Wortzel and Wortzel (1997), in the information age, scanning the business environment has become an important component of competitive advantage. Some studies have asserted that the strategic flexibility of a firm is dependent upon its abilities in scanning, organizational learning, networking, and innovation (Porter, 1991; Hitt, Keats, and DeMarie, 1998). Scanning deals with the search for and use of information about the business environment. Organizational learning focuses on the acquisition and use of competencies by human resources. Networking addresses the way the firm establishes inter-firm ties to increase efficiency. Innovation is related to the firm's ability to introduce or adopt new technologies, new products, and new managerial practices to keep its edge over the competition.

Scanning, organizational learning, innovation, and external networks present particular challenges for an SME with respect to the worldwide area of activities and the relatively limited resources.

Empirical evidence of globalization in small and medium-sized firms

Studies on small firms facing globalization challenges are most often concerned, with few exceptions (Chetty and Campbell-Hunt, 2003a; Matlay and Fletcher, 2000), with the impact of the new environment on SMEs. As indicated by Audretsch (2002: XIII-XIV), globalization has affected SMEs by facilitating transnational activities and by increasing the firm's role related to the shift in the source of competitiveness toward knowledge-based economic activity. The main topics covered in these studies are related to SME's internationalization intensity, opportunity to decrease the time frame to export, opportunities to overcome their relatively limited resources, and their relative competitive strategies and position in the new environment. Table 2 presents concepts related to globalization in studies identified after the procedure explained above[1].

Do extended international activities lead to higher profitability of SMEs?

Two studies (Lu and Beamish, 2001; Majocchi and Zucchella, 2003) that focused on internationalization intensity observed that the SME's export intensity (ratio of export sales to total sales) has a negative and linear relationship with performance unless certain conditions are met. The relationship was found to be positive when the mode of entry has been appropriate to the nature of the SME and to its product requirements. These two studies found that initial FDI (foreign direct investment) had a negative relationship with the firm's performance, but that a higher level of FDI had a positive relationship with performance. Further, the relationship between FDI and profitability was positive when FDI followed a high level of exports (Majocchi and Zucchella, 2003) or when the level of FDI was increased to five countries or more (Lu and Beamish, 2001). A positive relationship between internationalization intensity and profitability was also found higher when the scope

[1] We have limited our review to studies, which address the concept of globalization or equivalent. For an extensive review of studies on the internationalization of SMEs, see Coviello and McAuley, 1999 and Fillis, 2001.

of country diversification was oriented to global markets rather than to neighboring countries.

Also, Chetty and Campbell-Hunt (2003a) found that globally oriented firms manufactured their products in the home country and exported through direct representation when the product was highly technical. But when the product required after sale service and site-specific customization, New Zealander SMEs preferred exporting using networks of indirect representation through local distributors. Brouthers and Nakos (2004) found that SMEs preferred equity modes of entry when assets specificity was high or when the firms had internal control mechanisms. Otherwise, the firms used non-equity modes of entry. This research has also found that the use of an appropriate mode of entry with respect to asset specificity and internal control mechanisms led to higher performance. These findings could explain why Preece, Miles, and Baetz (1998) did not find a significant relationship between alliances and export intensity or global diversity of early stage technology-based firms, as they did not take into account the technical or service requirements of the product.

The knowledge and competencies of owner managers and skills and development of human resources were mentioned by the majority of respondents as one of the internal forces in a survey designed by Matlay and Fletcher (2000) to identify the driving forces affecting the globalization tendencies of small business managers. Many other studies have also identified the manager's international skills and experience as important factors of an SME in its international activities (Reuber and Fischer, 1997; Westhead, Wright, and Ucbasaran, 2001; Manolova et al., 2002).

It should be noticed that it is not just knowledge in international business that is important, but also social and professional networks acquired in different parts of the world. Such competences can also come from the personal itinerary of the manager as in the case of Chinese immigrants observed by Wong and Ng (2002). These authors have examined transnational smaller firms created by Chinese immigrants in Canada. These firms were different from traditional ethnic enterprises. According to these authors (p. 509), these firms were:

"a mixture of types of businesses including those with Asian producion and North American distribution, retail chains and the traditional import-export. Their spatiality and interethnic organization often includes co-ethnic family partners in two to three geographic sites spanning national borders. Thus, transnationalism itself is an ethnic business strategy connecting Canada with places such as Hong Kong, China and Taiwan. While de facto there are strong Asian connections in terms of business associates for these transnational small businesses, they rely considerably less on co-ethnic Chinese as business contacts and as clientele when compared to non-transnational small Chinese businesses in Canada."

Table 2: SME's studies related to the conceptualization of a global firm

Topic	Concepts of interest	Sample of studies	Aspects examined
Internationalization intensity	1. Export intensity (ratio of export sales to total sales) 2. Export diversity (number of countries) 3. Networks and alliances 4. Foreign direct investment 5. Global niche approach 6. Proximity niche approach 7. Regional approach 8. Value creation (performance)	Preece, Miles, and Baetz (1998); Lu & Beamish (2001); Majocchi & Zucchella (2003); Chetty and Campbell-Hunt (2003a&b)	Internalization intensity and profitability. Globalization and profitability. FDI and profitability, Alliances and profitability.
Scope of the market	1. Proximity versus global niche approach 2. Regional versus global approach 3. Domestically-oriented versus globally-oriented 4. Small transnational enterprise	McDougall (1989); Roth (1992);Julien (2000); De Chiara and Minguzzi (2002); Wong and Ng (2002); Majocchi & Zucchella (2003); Chetty & Campbell-Hunt (2003a); Nkongolo-Bakenda (2001; 2003)	Identification of alternate configurations. Coordination patterns. Attributes of globally-oriented SMEs.
Time frame to export	1. Born-global 2. Global-start-up 3. Instant exporter 4. International new venture 5. Born-again global	Rennie, 1993; McDougall, Shane and Oviatt, 1994; Knight and Cavusghil, 1996; Madsen and Servais, 1997; McAuley, 1999; Harveston, Kedia, and Davis, 2000; Bell, McNaughton, and Young, 2001; Rasmussan, Madsen, and Evangelista 2001; Moen and Servais, 2002; Moen, 2002; Spence, 2003; McNaughton, 2003; Bell et al., 2003; Andersson and Wictor, 2003.	Identification of born global firms. Identification of born-again firms. Attributes of born-global firms. Drivers of born global firms. Conceptual frameworks of born global firms.
Competitive strategies and	1. Networks 2. Scanning	Simon (1992); Julien (1993); Julien, Joyal & Deshaies	Importance of networks. Appropriate practices to

relative competitive position	3. Organizational learning 4. Global focused strategy 5. Lean firm 6. Hidden champion	(1994Lindell and Karagozoglu (1997); Karlsson and Ahlstrom (1997), Julien, 2000; Nkongolo-Bakenda (2001; 2003); Chetty and Campbell-Hunt (2003a&b)	learning, networking, scanning, and manufacturing.

In short, findings in these studies suggest that the intensity of internationalization (in terms of export sales and number of foreign countries where the SMEs sells products) can lead to higher performance under some conditions. Among the conditions, these findings highlight the experience and skills in international business, the availability of tangible or intangible distinctive resources, and a judicious choice of mode of entry appropriate to the type of product or service to be exported. But globalization is not only exporting, it is also related to the scope and the level of competition in the markets where the firm is exporting (Ohmae, 1985).

How important are scope and level of competition for SMEs? A few studies have examined the scope of the market of SMEs in the global context. Knight (2000: 29) found that "SMEs that respond to globalization and prepare in advance to enter the foreign markets tend to enjoy better performance." Chetty and Campbell-Hunt (2003a) have compared New Zealanders SMEs using a global approach (active in multiple countries up to 60) to those using a regional approach (activities not extended far beyond Australia and New-Zealand). This research found that the globally oriented SMEs adopted one of three approaches or a combination. Some developed an innovative product with a global potential and some of these SMEs had abandoned other lines of products in order to focus energies on the global product. Other SMEs were focused on the needs of particular market segments in order to serve these markets wherever found in the world. Still others focused on a particular stage in the value chain where they developed distinctive advantages. The product manufacturing was concentrated in the home country and the firms used direct, indirect or mixed strategies to expand the markets. By contrast, regionally oriented firms had a broad line of products, used offshore and home country manufacturing strategy and expanded their markets through direct investment.

Roth (1992) identified five clusters of medium-sized firms competing in global industries. The first cluster included firms in which primary and support activities were maintained within a single country while the marketing and sales activities were located in multiple countries. The second, third, and fourth clusters were characterized by the dispersion of almost all of the activities in multiple countries, but coordinated, either globally (e.g., product and process innovation in cluster 3), regionally (e.g., product innovation, marketing, sales. finances, and accounting in cluster 4), or nationally (e.g., product and process innovation and finances in cluster 2). The fifth cluster included firms whose support activities were concentrated while the primary activities were dispersed and coordinated globally.

Julien (2000) has also identified five categories of SMEs facing globalization challenges. The first category included locally competitive SMEs operating in a very specific local market or protected from international competition because of its location. The second category included SMEs that imported inputs but targeted local or national markets. The third category was that of SMEs whose inputs were locally made, but the outputs were dedicated to foreign markets. The fourth category included SMEs importing inputs and exporting outputs to foreign markets. The fifth category was composed of SMEs importing inputs and exporting outputs to foreign markets using networks.

In conclusion, studies related to the scope of the market found that globally oriented SMEs had a specialized product that was generally but not necessarily

manufactured in the home country and sold in foreign countries through partnerships, representations and, sometimes, subsidiaries. As a result, dispersion of subsidiaries in different countries and the intra-firm flows of services generally observed in large firms are not necessarily required (Kobrin, 1994). Globally oriented SMEs use more focused strategies for their outstanding products or services and use less foreign direct investments than regionally oriented SMEs and large multinationals (Dunning, 1998). Therefore, what are the major characteristics of SMEs doing business in multiple countries that this paper calls "globally oriented SMEs" (GOSMEs)?

Attributes of GOSMEs can be deduced from results of some studies. Preece, Miles, and Baetz (1998) found significant relationships between the availability of resources and the export intensity and market diversity of the SME. Findings in a study by Matlay and Flecher (2000: 441) on international SMEs indicate that "the ability and willingness to be simultaneously active in a number of countries in different parts of the world (…) and a commitment to the transnational management in these markets" increased in proportion with their size (2% for firms with 10 employees or less and 48% for those with 250 employees or more). However, Matlay and Flecher (2000) had also observed that being global is not a matter of size, even if the larger firms were more likely to be global than the small ones. This observation was confirmed by studies in the arts and crafts sector where the size of exporter firms is generally small (Aucley, 1999; Fillis, 2002). Therefore, one can say that the size matters, but not always. Some industries require a more larger size than others (Calof, 1993; Mittelstaedt and Harben, 2003).

Fujita (2003)found that the majority of globally oriented SMEs gained their market power thanks to the ownership or the specific advantage related to their product or intangible assets such as an advanced technology, a brand name, marketing skills, and an efficient organizational structure providing flexibility. Julien, Joyal and Deshaies (1994) found that SMEs that were more likely to face globalization challenges, had an innovative and differentiated product and used new product technologies. Piscitello and Sgobbi (2003) found that firms presenting the strongest interest towards advanced communication tools, possessing Internet connections and already activated e-commerce projects, also displayed the highest motivation to expand abroad in search for new markets. It is interesting to note that studies have generally found that the adoption of technology facilitated networking and the globalization of SMEs (Fontes and Coombs, 1997; Fariselli et al., 1998; Lituchy and Rail, 2000; Tagliavini, Ravarini, and Antonelli, 2001). However, other studies such as that of Pisciltello and Sgobbi (2003) have found that the use of the Internet can sometimes be incompatible with the tacit knowledge sharing that dominates SMEs' social interactions.

Chetty and Campbell-Hunt (2003a) have identified the initiating role played by a proprietary innovation in the globalization of an SME. Wolff and Timothy (2000: 45) have observed that with an appropriate type of resource (quality rather than breadth or quantity), an SME "can execute competitive patterns also used by larger firms and perform as effectively." These attributes seem consistent with some characteristics of globally oriented firms identified in other studies (Fujita, 2003; Nkongolo-Bakenda, 2003). Fujita (2003) found that small and medium-sized transnational firms had a restricted range of products targeting narrow mrket

segments. They operated in competitive industry where the technology intensity was high and tended to be relatively independent from large multinationals. Nkongolo-Bakenda(2003) observed that, among Canadian SMEs exporting to two or more foreign markets, 69% faced a standardized demand, 87% had a specialized product, 80% targeted industrial customers, and 60% faced a higher level of technological intensity. However, De Chiara and Minguzzi (2002) found that service SMEs with a higher propensity to export were more interested in customized services while those with a lower propensity to export were more interested in standardized services. These results can be explained by the size of the industry service surveyed. As observed by Chetty and Campbell-Hunt (2003a), globally oriented SMEs focus on a global niche. In the service sector, niche segments will be more likely found in customized service rather than in standardized ones. In general, it has been observed that: “service firms tend to internationalise in a different way than their manufacturing counterparts”. (Lovelock and Yip, 1996; O”Farrell and Zheng, 1998; Bell et al., 2003: 339).

To sum up, the findings above suggest that globally oriented SMEs are generally technology intensive with a standardized product (except in the service sector) dedicated to a global market niche. These firms have distinctive resources or a competitive advantage such as a proprietary technology or product to satisfy the needs of the niche wherever in the world. This international expansion is facilitated, as mentioned above, by international business competences and skills that managers have accumulated in their previous careers or incrementally in the current firm.

Another stream of studies about globally oriented SMEs has focused on born-global and born-again global firms, which do not follow the traditional incremental process of internationalization through a series of evolutionary stages (for a literature review, see Madsen and Servais, 1997). Born global are firms that compete on the global marketplace from their inception or shortly thereafter (Rennie, 1993). Born-again global are firms “that have previously focused on their domestic markets, but which suddenly embrace rapid and dedicated internationalization” (Bell, McNaughton, and Young, 2001: 174). The majority of firms going global using these processes have been found to be SMEs (Knight and Cavusghil, 1996; Bell et al., 2003). Numerous studies have found them in different countries, namely, Australia (Rennie, 1993); Australia, UK, New-Zealand (Bell, McNaighton, and Young, 2001; Bell et al., 2003); Canada (Spence, 2003; McNaughton, 2003), Sweden (Andersson and Wictor, 2003); Scotland (McAuley, 1999); Danmark and Australia (Rasmussan, Madsen, and Evangelista 2001); Norway, France and Danmark (Moen and Servais, 2002; Moen, 2002), USA, UK, New Zealand, Switzerland, Germany, Czechoslavakia, France, Brazil, Singapore, and Israel (McDougall, Shane, and Oviatt, 1994).

These studies have identified factors contributing to the success of this phenomenon. Drawing upon previous studies, Madsen and Servais (1997) asserted that the propensity and further development of born global firms are determined by the founder (past experience, ambition level, and motivation), the organization (competence, routine, and corporate governance structure) and the environment (market internationalization, high/low technology, and specialization). After analyzing instant exporters in arts and crafts sectors, McAuley (1999) identified four groups of factors influencing their rapid internationalization. These

were the product (good design, quality, price, delivery and country image), personal and psychological (business attitude, family, personality, education and training), cognitive (networks, access to know how, customer-focused, business skills) and industry (sector and global market). Andersson and Wictor (2003) have outlined the following factors in a conceptual framework: globalization trends, entrepreneur's attributes, use of networks, and industry characteristics. Despite the omission of the outstanding quality of product or service in this framework, it contains the majority of factors mentioned in numerous studies. Factors identified for born-global and born-again global seem consistent with those identified in studies previously examined for any SME doing business in multiple countries. Therefore, one can wonder what is specific to global born SMEs and what they share in common with other globally oriented SMEs.

The most commonly mentioned trends for an earlier globalization are related to advances in communications and process technology, standardization of marketing demand, increasing demand for specialized products, and knowledge accessibility by all firms (Knight and Cavusghil, 1996). Prior competencies and skills of entrepreneurs in international business are also mentioned as facilitator of born-global phenomenon as they replace the necessity to pass through the traditional internationalization stages (McDougall, Shane, and Oviatt, 1994). Furthermore, entrepreneurs of this category of firms have been found with a special mindset and vision for international market (McDougall, Shane, and Oviatt, 1994; Harveston, Kedia, and Davis, 2000; Andersson and Wictor, 2003). Networks and alliances allow managers to overcome a firm's resource limitation (McDougall, Shane, and Oviatt, 1994; Andersson and Wictor, 2003). Some industries that are technology-intensive, specialized or niche oriented, have more potential for born global firms than others (Bell et al., 2003; McNaughton, 2003) . To factors retained by Andersson and Wictor (2003), it seems important to add outstanding competency related to product/service quality or to a proprietary technology that allow the SME to "have an advantage over local foreign firms" (Rennie, 1993; Knight and Cavusghil, 1996; Bell et al., 2003).

A few studies have examined this question. Moen and Servais (2002) have examined born global and gradual global SMEs in three countries. Results of their study suggest that the SMEs globalization is not influenced by the firm's year of establishment or first year of exporting activity, but rather by the presence of outstanding competitive resources, experience and skills in international business, and proactive personality of managers. Likewise, Moen (2002) found that born global SMEs in two countries possessed similar characteristics with the old global SMEs and that the newly established domestically oriented SMEs resembled SMEs that were older with a low level involvement in exports. Harveston, Kedia and Davis (2000) also found that managers of born global firms had an extensive international experience than managers of gradual globalizing firms. However, in a study of Canadian SMEs, McNaughton (2003) did not find support for the hypothesis suggesting a negative relationship between the number of geographic markets served by a firm and the length of time elapsed between its inception and the beginning of export activities. Spence (2003) identified the following initial triggers for Canadian born global and born-again global pursuing an international strategy: availability and use of networks, serendipitous encounters, and niche market existence. Entrepreneurs of these companies had global mindsets, but their internationalization process was not formalized.

In conclusion, on the attributes of global-born SMEs and other globally oriented SMEs, findings of the studies above suggest that the two categories of firms are akin in many areas such as their technology intensity basis, the intensive use of networks to export, the standardized product, the availability of proprietary technology or specific competitive advantage, and the experience of their managers in international business. The main difference between the two categories of firms lies in the fact that managers of global-born firms have acquired their experience and social ties during their career prior to the current business while managers of other globally oriented firms have acquired their experience and ties incrementally in the current firm. What strategies can lead these firms to a success in the global marketplace?

Strategies adopted by globally oriented SMEs have retained the attention of researchers as we have already seen in some studies aforementioned. In his study on SMEs enjoying a worldwide leading position in their sectors of activities, Simon (1992; 1996) found that these firms, which he called “hidden champions”, combined strategic focus with geographic diversity. They emphasized factors like customer value, blended technology and closeness to customers, relied on their own technical competences, and created mutual interdependence with their employees. Lindell and Karagozoglu (1997) found that, to meet international competition, U.S. and Scandinavian SMEs had developed external networks with customers and suppliers and internal technology strategies and quality control program. Also, they had shortened times of product development, increased the number of new products, and put more emphasis on R&D efficiency. Chetty and Campbell-Hunt (2003a) found a positive relationship between networking activities with performance. However, this relationship was stronger when networks where made with local firms in targeted foreign countries rather than with firms in the home country. These results were consistent with those found by Kaufmann (1995) and Lu and Beamish (2001). Chetty and Campbell-Hunt (2003b) asserted that business networks were the only vehicle for internationalization when the internationalization process was sudden, globally-oriented, and based on specialized product. These findings suggest that partnerships are used as means that allow globally oriented SMEs not only to supplement to their relatively limited resources, but also to focus on their core competencies and specialty (Chetty and Campbell-Hunt, 2003a).

Partnerships have also been found important for production and security purposes in globally oriented SMEs. Karlsson and Ahlstrom (1997) found that global smaller firms used leaner manufacturing systems with minor adjustments. Thus, the knowledge necessary to maintain partnerships with suppliers was located towards the top of the organization rather than at the functional level. Compared to a large firm using a lean manufacture, a global smaller firm had an advantage in the higher likelihood to involve customers in product development and in the opportunity to build unique skills thanks to the partnership with specialized and complementary organizations. Nkongolo-Bakenda (2001) has found that globally oriented SMEs used diversified networks not only to have access to required resources, but also to ensure security of their proprietary products.

Some studies have also found that globally oriented SMEs used scanning and learning practices that fit with their relatively limited resources. For example,

Nkongolo-Bakenda (2003a) observed that globally oriented SMEs preferred more frequently external but more accessible sources of information such as customer contacts, trade shows, and reviews to scan their environment.

The learning process had also received attentions of scholars interested by SMEs with extended international activities. Anderson and Boocock (2002: 5) assert, with respect to a globally oriented SME, that: "the large firm model of learning is inappropriate, the distinctive culture and communication systems of small organizations require different approaches to the acquisition, transmission and interpretation of knowledge." These authors observed that, in international SMEs, generative learning was not the primary approach to learning to learning, rather the dominance of tacit over explicit knowledge, and the challenge of explicit knowledge for a firm with relatively reduced resources. Likewise, Gray and Gonsalves (2002: 33) found that, for an international SME, "the key to improved customer focus and innovation may lie in the social constructive and institutional constitutive of learning." Nkongolo-Bakenda (2003b) observed that learning activities in globally oriented SMEs followed the Nonaka (1994)'s pollination model in order to obtain explicit and tacit knowledge. The content and the learning practices to be adopted were dependent on the position, tasks, and career needs of the beneficiary.

In short, globally oriented SMEs adopt competitive strategies that fit with their nature and do not necessarily behave as global firms to face the challenges of globalization. A better understanding of successful conditions necessary for an SME to go global can be facilitated by a sketch depicting conceptual framework where differences and similarities with large global firm could be ascertained.

Conceptual framework for a globally oriented SME and propositions

Empirical studies in the preceding part of this paper have indicated that there are some SMEs that are doing business simultaneously in different countries. However, these firms do not necessarily behave in the same way as the large global firms. These firms share some characteristics with large multinationals, but they also have their particular attributes. This paper has labeled them "globally oriented SME". A "globally oriented small and medium-sized enterprise" (GOSME) is an independent (no subsidiary) company with less than 500 employees and whose market operations extend at least to two foreign countries preferably located in two (or more) of the three primary and distinct highly competitive regional markets (North America, Europe, and Asia)[3]. This definition focuses more on the intensity of competition faced by the SME and the scope of the market where the firm is successfully operating rather than on the location of manufacturing and source of production factors (Julien, 2000). A sustainable competitive position of the firm in different markets is the ultimate objective pursued by a firm that diversifies locations of production for resource access, market increase, efficiency, and strategic asset access (Dunning, 1998).

[3] We are aware of the limits of this definition as it uses only one dimension (the number of employees) and refers to a higher limit of 500 employees that is not universal. But it is a working definition that may be easily adjusted and is based on the definition adopted by the OECD (2002: 7) while taking into account results from the study carried out by Broosbank (1991) on this topic.

To portray similarities and differences between globally oriented SMEs and large multinationals, we present in Table 3 characteristics of GOSMEs together with statistically significant characteristics of the three types of multinationals found by Harzing (2000). It may be observed from this table that generally speaking, a GOSME is very similar to the transnational firm when considering its high level of integration. It seems very similar to the global firm when one considers its low level of responsiveness.

Finally, it is very similar to the multinational when the focus is its moderate level of interdependence. It should however be observed that the integration of activities and the interdependence in GOSMEs could be observed more between the firm and its non owned affiliates (partners) rather than between the firm and its subsidiaries. These similarities of small firms with extended foreign activities with the three types of large multinationals and their particularities favor the use of concepts specific to GOSMEs rather than those suggested for large multinationals.

Like large global firms, the success of GOSMEs is dependent on the interdependence between their activities in different markets, their worldwide learning, their international trade, the intensity of competition they face in the domestic and foreign markets, and actions they undertake to create sustainable competitive advantage. However, GOSMEs put less emphasis on economies of scales and on intra-firm flows than do large global firms and take more advantage of alliances and flexibility to compensate the low level of vertical integration and more limited resources[4]. Globally oriented SMEs rely on or respond to the following as drivers of global expansion: specialization, market standardization, global niche market, competitive pressure within the industry, and strategic actions to creating value.

[4] Audretsch and Thurik (2001: 298) observe that: "In the entrepreneurial economy, the multiple dimensions of flexibility replace scale economies as the organizing principle for economic activity."

Table 3: Comparison between characteristics of large multinationals identified by Harzing (2000) and major features of GOSMEs

	Multid. (M)	Global (G)	Transn. (T)	Harzing (2000)	GOSMEs
Corporate organizational design					
Decentralized federation	High	Low	Low	M>T>T	Low
Network structure	Low	Low	High	T&±M>G	High
Inter-subsidiary flows	Low	Low	High	T>M&G	Low
HQ's pipeline	Low	High	Low/ High	G>M&T	High
Center of Excellence	Low	Low	High	T>M&G	High
Local responsiveness					
Local production	High	Low	Medium	M>T>G	Low
Local R & D	High	Low	Medium	M>G	Low
Product modification	High	Low	High	M&T>G	Low
Adaptation of marketing	High	Low/ Medium	High	T&M>G	Low
Interdependence					
Total level of interdependence	Low	High	High	G&T>M	Low
Level of HQ dependence	Low	High	Medium	G>T>M	Low
Level of subsidiary dependence	Low	Low	High	T>G	High

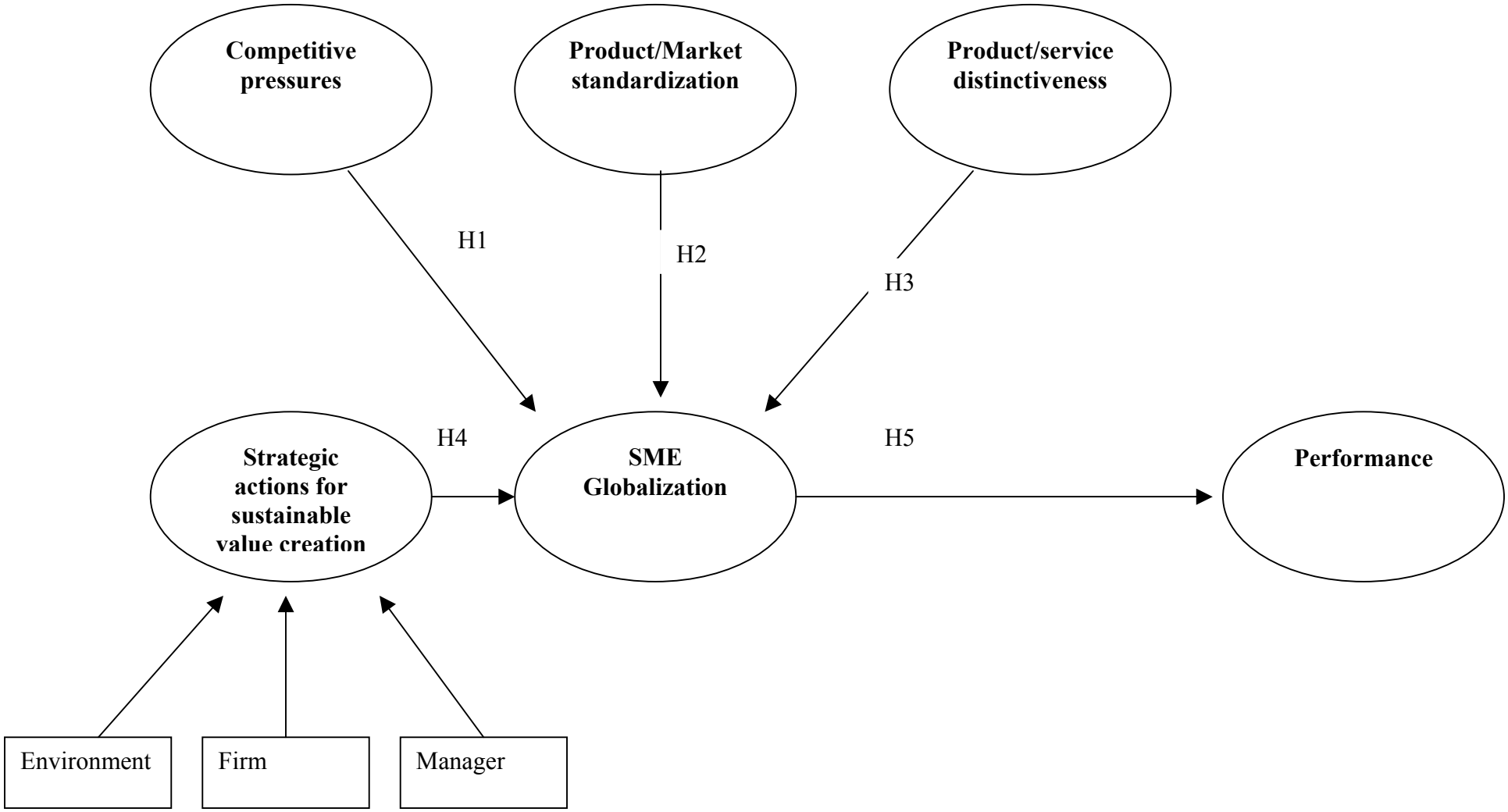
Empirical studies have also shown that, although globally oriented SMEs share some characteristics, there are also differences among them. For example, the level of technical nature of the product has led some to value the FDI mode of entry into a foreign country. Others use partnerships when they focus on customized products rather than standardized ones. But these exceptions that confirm differences should not hinder what globally oriented SMEs share.

Studies examined demonstrated that "not every small company can be or should strive to be a world market leader" (Simon, 1996: 257). Contrasting common characteristics of globally oriented SMEs with those of regionally oriented

successful SMEs can facilitate a conceptual framework building for globally oriented SMEs.

Therefore the conceptual framework for a globally oriented SME can include: product distinctiveness, market standardization, competitive action within the industry, and strategic actions to creating value (Figure 1).

Figure 1: Framework for an SME's globalization



Competitive pressures are related not only to the intensity of competition leading to higher quality of products, but also to the size of the market. Market standardization deals with the global scope of the market. Product distinctiveness refers to the uniqueness of the product or service that the SME offers to the global niche. Strategic actions are those that the SME can undertake to enjoy sustainable success in the global marketplace. From this conceptual framework, the following propositions can be drawn.

Proposition 1a: The higher the competition on the product/service of an SME in the marketplace, the more likely the firm will be globally oriented (Carter, Stearns, and Reynolds, 1994; Birkinshaw, Morisson, and Hulland, 1995).

Proposition 1b: The narrower the market, the more likely the SME will choose to operate in it. This relationship is moderated by the availability of a proprietary product/service that increase security of an SME against the invasion by large multinationals.

Proposition 2: The more the market demand for the product/service of an SME is standardized, the more likely the firm will be globally oriented. (Birkinshaw, Morisson, and Hulland, 1995; Baalbaki and Malhortra, 1993; Yip, 1996).

Proposition 3: The higher the product distinctiveness of an SME, the more likely the firm will be globally oriented. (Carter, Stearns, and Reynolds,1994; Simon, 1992; 1996).

Propositions related to strategic actions for a sustainable value creation call for further explanations before their statements.

Wealth creation in GOSMEs

Wealth creation has always been among the topics of studies in strategic management (Porter, 1991). Porter (1985)'s value chain framework for example has determined different areas of activities where wealth can be created. The resource-based view has identified resource attributes that result in wealth creation (Hoopes, Madsen, and Walker, 2003). However, what a firm must do to continually create wealth is the subject of ongoing debate (Porter, 1991). Indeed, this ongoing debate will not have an end because, as the environment in which the firm operates changes, previous winning strategies become common place and new innovative and creative ways to succeed have to be found (Schoemaker, 1990; Collis, 1994).

As already seen in this paper, some studies have identified strategic actions creating wealth in the global marketplace. Factors identified suggested to ensure flexibility and proativeness through environment scanning, organizational learning, networking, innovation, and internationalization.

The SME has already been recognized for its ability to being flexible and close to customers (Frigenbam and Karnani, 1991; Nooteboom, 1994). However, in the global environment, the SMEs will face challenges different from those faced by its traditional local market.

For example, it has to scan the global market and stay informed about changes in technology and customer needs at the global level despite its limited financial and human resources. It does continuously innovate to maintain its standing in the global marketplace even if financial resources dedicated to R&D are much lower than those in large multinationals. It should prepare its human resources to face challenges of the future despite the fact that its resources cannot allow the sort of educational investments such as corporate universities as is the case in large firms (Twomey et al., 1999; Fulner Gibbs, and Goldsmith, 2000). Finally it has to make sure that all international activities do not threaten the security of the firm and the trust of customer wherever they are located. The GOSMEs should take appropriate actions fitting with their relatively limited resources and the larger global marketplace.

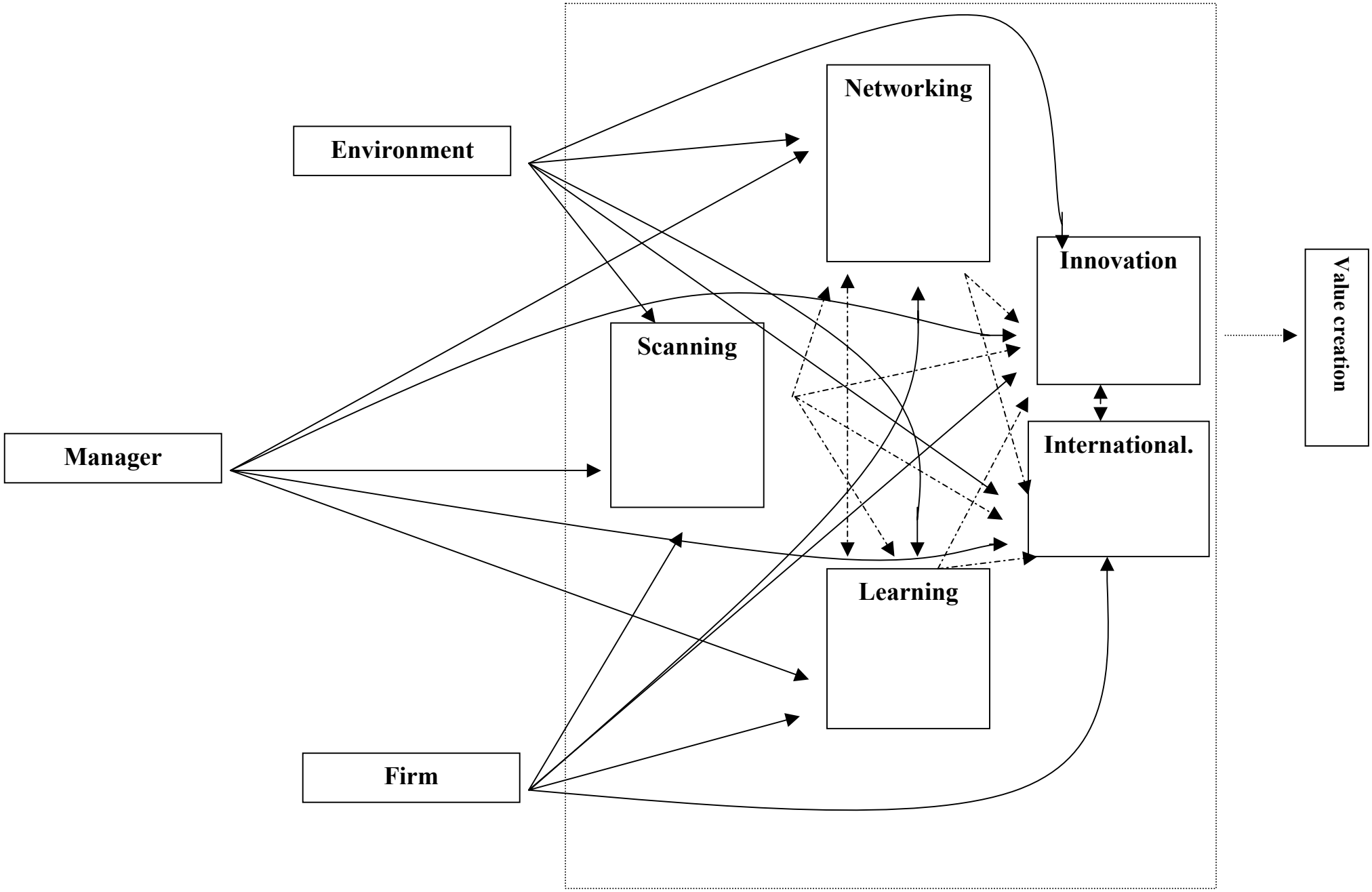
These actions will depend on the characteristics of the manager, the firm, and the environment in which it operates (Porter, 1991; Hitt and Tyler, 1991; Rajagopalan, Rasheed, and Datta, 1993; Hitt et al., 2002). Therefore, a framework to value creation in GOSMEs can be stated as follows: characteristics of the industry, the firm, and the manager's profile determine the environmental scanning, organizational learning, networking, innovation, and internationalization necessary to create successfully sustainable value in their worldwide activities (Figure 2 in annex).

Scanning, learning, networking, innovation, and internationalization are considered as mediating constructs leading to globalization and sustainable competitiveness (Wayne and Liden, 1995; Stimpert and Duhaime, 1997; Dhanaraj and Beamish, 2003). Relationships among these variables can lead to numerous propositions for wealth creation as shown in Figure 2.

Proposition 4: The higher the amount of strategic actions of an SME in scanning, learning, networking, innovation, and internationalization, the more likely the firm will be globally oriented. This hypothesis needs more comments and will be developed in the next part of this paper.

Proposition 5: GOSMEs with H1-H4 confirmed will perform better than those that did not. (Birkinshaw, Morisson, and Hulland, 1995).

Figure 2: Conceptual Framework and relationships for a sustainable value creation



CONCLUSION

This paper explores whether or not an SME can be characterized as a global firm. At first glance, the examination of frameworks elaborated for large global firms could lead to a negative answer as SMEs lack some key attributes found in global large firms. However, numerous empirical studies have identified some SMEs doing business simultaneously in numerous countries, but behaving in some ways differently than large firms. Characteristics and behaviors of these globally oriented SMEs have allowed for the development of a conceptual framework for a globally oriented SME. Globally oriented SMEs face competitive pressures from local and worldwide-located firms. These firms produce standardized products for a global niche market. Successful GOSMEs are specialized and focused on a few products for which a competitive advantage exists. These firms undertake appropriate actions to sustain this competitive advantage. These actions tend to increase flexibility and continuous improvement by focusing on scanning, learning, networking and innovation.

This framework has implications for the strategies of firms planning on increasing their level of international business. For example, firms that produce non-standard products might forego globalization in favour of an enhanced locally or regionally oriented strategy. Likewise, domestically or regionally oriented firms willing to go global reduce their line of products and focus on the product or service with a huge potential of success in a global niche. The identification of drivers and requirements of SME's globalization can help managers to avoid making inappropriate decisions and enhance the potential for success in the global marketplace. Decision makers can find principles that could guide their actions toward SMEs. Researchers have propositions they may use as hypotheses in their future research.

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WOMEN ENTREPRENEURS ON THE FOREFRONT OF CONTINUAL GROWTH: LEVERAGING CAPITAL NETWORKS FOR SUSTAINABLE BUSINESSES[1]

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ABSTRACT

The process through which women-led entrepreneurial firms plan and achieve continual growth often reflects a complex set of motivators and intentions that support this strategic path. Contemporary research has shown that women entrepreneurs recognize the precursors of growth and the importance of activities such as information seeking and planning to their strategic leadership roles. This study seeks to determine the influence of a diverse set of factors (beyond industry) that facilitate growth intentions within women-owned businesses. That is, are there influences that seem to make more of a difference, such as capital resources (economic and social), networking, and training needs in encouraging growth and expansion? In our study, we examine multiple factors including the: assembling of capital resources, use of social capital (e.g., reliance on formal and informal network for business assistance), and future training needs that influence the continual growth intentions.

This study, commissioned by a women's business center located in the Northeast section of the United States, examined 421 women-owned businesses over a three-month period. Results revealed that women entrepreneurs with high growth intentions tended to use more formal social networks and used their membership in a women's business organization to network and support their growth needs. For financing, although bank loans were more readily available to firms with higher growth intentions, private and venture capital investment still is not available. Finally, in seizing opportunities in the marketplace, the firms with higher growth intentions launched their businesses faster (in less than 6 months time) and reported they needed training in very specific areas: strategic planning and production/operations. Taken altogether, the women entrepreneurs with higher growth intentions relied on, utilized, and needed a diverse set of factors to assist them in reaching their growth objectives.

This research represents one of the few large-scale studies of established women-owned enterprises focused on continual growth and expansion. Our study offers support for the process by which formal and informal capital resources within women-owned firms can serve as critical antecedents of potential market growth and expansion. This research takes an important initial step in understanding the process of how women entrepreneurs leverage and build upon their own resources both internally and externally that may be used in the future to identify market opportunities, confront industry and environmental changes, and seek new innovations for their businesses.

INTRODUCTION

The Role of Women Entrepreneurs in the Global Economy

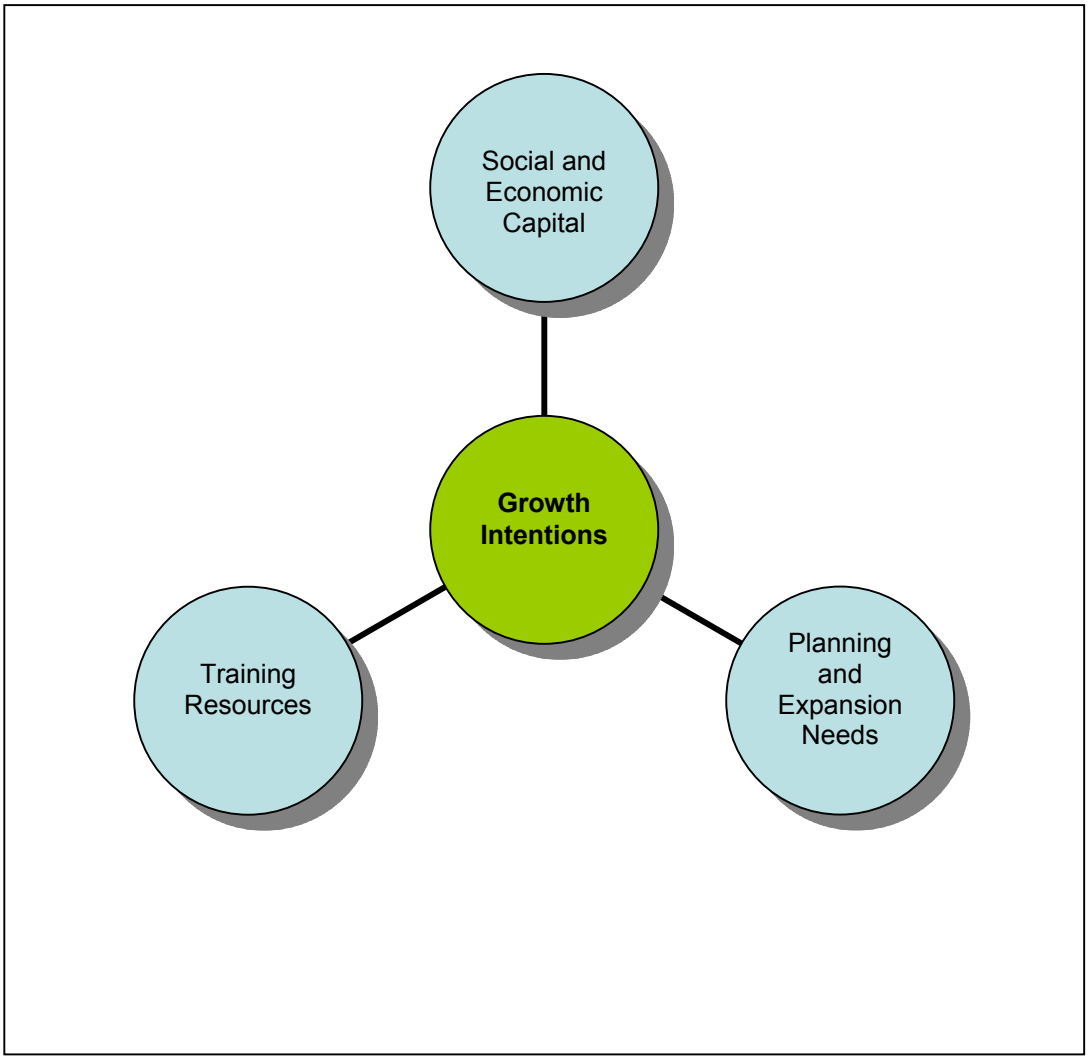
The emergence and growth of women-owned businesses have contributed to the global economy and to their surrounding communities. The presence of women around the world driving small and entrepreneurial organizations has had a tremendous impact on employment and on business environments worldwide. Women-owned firms comprise between one-quarter and one-third of all the businesses in the formal economy, and are expected to play an even larger role in informal sectors (NFWBO, 1999)

According to recent research and reports (NFWBO, 1998; OECD, 1998; United Nations, 1994; United Nations, 1995), in advanced market economies, women own 25% of all businesses and the number of women-owned businesses in Africa, Asia, Eastern Europe and Latin America are increasing rapidly. In Japan, women have established 23% of private enterprises. In Russia, women own 64% of firms employing 10 people or more. In China, women have founded 25% of the businesses since 1978. In Germany, one out of every three new businesses is founded by a woman, and these firms have created over one million new jobs. In Hungary, 40% of all new businesses since 1990 have been started by women. Similarly, in Poland, 38% of all firms are owned by women. In Mexico, 32% of women-owned businesses were formed between 1995-2000. In France, women head one out of every four firms. In Swaziland, women own 70% of micro, small and medium-sized enterprises. In Great Britain, women constitute ¼ of all self-employed individuals (Estes, 1999; Jalbert, 1999; Jalbert, 2000). In the United States, there are 3.9 million privately held women-owned businesses, employing 9 million people, and generating $1.17 trillion in sales (Center for Women's Business Research, 2003).

Investigators have examined the economic and social impact of women's business ownership, as well as the barriers or constraints that women might have in establishing and growing their enterprises, which can encompass such things as women entrepreneurs' access to credit and financing, technology, markets, and information (Finnegan, 2000). The number of research studies has grown tremendously since the 1980s, when scholars and policymakers first cast their attention toward women entrepreneurs (Gundry, Ben-Yoseph, & Posig, 2002; Starr, & Yudkin, 1996).

While contemporary research has shown that women entrepreneurs recognize the precursors of growth and the importance of activities such as information seeking and planning to their strategic leadership role, our study seeks to extend previous research by investigating the influence of a diverse set of factors, beyond industry type, that support the needs and growth intentions of women business owners. That is, are there influences that seem to make more of a difference, such as capital resources (economic and social), networking, and organizational assessment strategies in encouraging growth and expansion? In our study, we examine multiple factors including the: assembling of capital resources, use of social capital (e.g., reliance on formal and informal network for business assistance), and future training needs that may be needed for many of the women entrepreneurs in meeting their growth objectives for their businesses
(see Figure 1).

Figure 1
Diversity of Factors Examined Within Women Entrepreneurial Firms on Growth Intentions



Social Capital: The Role of Networks and Information in Women-Owned Firms

Social capital may facilitate value creation by entrepreneurial firms (Nahapiet & Ghoshal, 1997) that arises from the combination and exchange of resources (Moran & Ghoshal, 1996). Three dimensions of social capital have been identified: structural, relational, and cognitive (Nahapiet & Ghoshal, 1997). The structural dimension of social capital includes social interaction (Granovetter, 1992; Lindenberg, 1996; and Hakansson & Snehota, 1995). The location of an entrepreneur in a social structure of interactions provides certain advantages for her. According to this perspective, entrepreneurs can use their personal contacts to obtain information or to access specific resources. The relational dimension of social capital, in contrast, refers to assets that are rooted in these relationships, such as trust and trustworthiness. Trust can act as a governance mechanism for embedded relationships (Uzzi, 1996). A recent study found that investing in the creation of social capital inside a firm eventually creates value. Informal social relations and tacit social arrangements encourage

productive resource exchange and combination and thereby promote product innovations (Tsai & Ghoshal, 1998).

In a study of the effects of different types of social capital, technology-based entrepreneurs benefited more from relational embeddedness - the freer and greater exchange of non-redundant information. Non-technology-based entrepreneurs benefited more from structural embeddedness - the extensiveness of social networks. The researchers concluded that each dimension of social capital reinforces the creation of the other dimensions in technology-based new ventures, which in turn, contributes to entrepreneurial growth aspiration (Liao & Welsch, 2003).

Researchers have pointed out that one of the most critical needs for women entrepreneurs lies in a non-technical area: the development of networks and mentors (Davis & Long, 1999). However, earlier research suggested that no significant differences existed between the success of women who used network contacts to help develop their businesses and those who did not (Carsrud, Gaglio, & Olm, 1987).

A recent study examined the network activities of entrepreneurs through three phases of establishing a firm in four countries (Greve & Salaff, 2003). It was found that entrepreneurs build and use different networks for each phase of entrepreneurship. For example, entrepreneurs tended to talk with more people during the planning than other phases. This study also found that family members were part of these networks across all phases, especially for entrepreneurs who inherited existing businesses. However, women used their family members to a larger extent than men, and even more than men when inheriting a business. Experienced entrepreneurs have the same networking patterns as novices (Greve & Salaff, 2003).

The present study seeks to uncover how women entrepreneurs leverage their own network of formal and informal contracts to position their organizations for continual growth. This study examines the type of networks women entrepreneurs seek and utilize, including: a formal network (e.g., accountants, lawyers, bankers), an informal network (e.g., reliance on family and friends, other entrepreneurs), state agency resources and centers, as well as their willingness to rely on a women's business organization for additional knowledge, expertise, and information as they develop and grow their organizations.

Economic Capital: Access to Financing at Start-up and Growth

Access to capital has been a major challenge for women entrepreneurs during the last decade (NFWBO, 1999). This occurs despite the high level of start-up preparation and education of women entrepreneurs (Wanogho, 1997). In a recent study, Finnegan (2000) found that some entrepreneurs reported they had to try harder to obtain a loan or credit. Others believed that banks need to become more sensitive to the situation of new entrepreneurs, and especially women entrepreneurs, in micro and small enterprises. Other entrepreneurs in the study borrowed from family, reinvested profits, and did not draw a salary (Finnegan, 2000). Historically, the dominant source of funding has been personal savings, credit cards, home equity loans and family loans (Coleman & Carsky, 1996).

In a study of over 800 women entrepreneurs, Gundry and Welsch (2001) found that high-growth oriented firms tended to access a greater variety of sources of funding, although there

were no significant differences in the acquisition of bank loans or private investor (angel) financing. This was corroborated in a newly released NFWBO study of 1,194 women and men entrepreneurs. The study disclosed that women and men owners of fast-growing firms (defined as achieving revenue or employee growth of 30% or more over the past three years) are similar in that they have a larger appetite for capital than those who own slower-growth firms (NFWBO, 2001).

The consequences of this difficulty in accessing capital include lowered perceptions of the woman entrepreneur's credibility in business, a finding that was significant among women business owners in Eastern Europe (Ben- Yoseph & Gundry, 1994), and a difference in the viability of their businesses (Boden & Nucci, 2000). Researchers have proposed that women may have greater availability of other sources of funds, which allows them to borrow less from institutional lenders (Carter, Williams & Reynolds, 1997). Another answer may lie in the type of organizational structure selected and implemented by business owners. For example, Haynes and Helms (2000) found that bank loans tended to be more important for those owners choosing a corporate form of organizational structure. The National Foundation for Women Business owners (now called the Center for Women's Business Research) reported in 2001 that women owners of fast-growing businesses are significantly more likely to use personal credit cards to meet their capital needs than are men owners of fast-growing firms (32% compared to 21%). Also, significantly fewer women entrepreneurs of fast-growing firms had a commercial bank loan compared to men business owners (39% compared to 52%). However, the proportion of women-owned firms with bank credit increased from 46% to 52% (Bank Marketing, 1999).

An NFWBO study conducted in 1998 revealed that the single area in which women of color differed significantly from Caucasian women was access to capital. Women entrepreneurs of color were less likely to have bank credit (50% compared to 60% of Caucasian women). African-American women entrepreneurs were the least likely to borrow capital to launch their firms compared to other ethnicities (29%), compared to 37% for Asians, 45% for Native Americans, 49% for Caucasians and 51% for Hispanic women business owners. Further, African-American and Native American women business owners were more likely to have been rejected when applying for loans while starting their businesses.

In a study of 562 male and 403 female entrepreneurs in France, it was concluded that more informal sources of financing need to be used and developed. Regarding access to financing, the only overt discrimination found against women was a higher demand for collateral requirements. Most of the discrimination was the result of problems with interpersonal communication between the persons in the finance field and the women entrepreneurs (Orhan, 2001).

Since the mid-1990's, interest has turned to the venture capital arena, and a number of venture capital groups have been formed to meet the needs of women entrepreneurs. Estimates of the percentage of venture capital that goes to women-owned firms varies. VentureOne, a San Francisco research firm, estimates that women received only 12.7% of the record $17.8 billion in venture funds disbursed in the first quarter of 2000. That is an increase from the 1.7% received in 1995, but it is still a very small share. This prompted Kay Koplowitz, Chairwoman of the National Women's Business Council, to create Springboard, a venture capital forum focusing on women entrepreneurs (Gutner, 2000).

The formation of these organizations in response to the small share of venture capital that women entrepreneurs receive should contribute to increased equity financing opportunities for women entrepreneurs. However, there may be reasons that explain in part why some women do not seek venture capital. Most venture capital firms look for high-growth, high-profit businesses. This narrows the pool of candidates among all entrepreneurs, not just women. Further, to liquidate their investment, the firm may be acquired or go public, which may not be a strategy that some entrepreneurs desire.

In the present study, interest was on determining the type and variety of capital resources that are utilized by women entrepreneurs in the growth of their businesses. For example, women-owned firms with higher growth intentions tend to rely more on debt or equity resources during the start of their business. Across multiple industries, we examine a number of methods, including personal savings, family and friends, loans from banks, personal credit cards, private investors or use of venture capital in determining the capital resources strategies used by women entrepreneurs with low and high growth intentions for their businesses.

Preparation and Education for Entrepreneurship: Women Entrepreneurs' Need for Training

In a study of leading women entrepreneurs (Moore, 2000), many of the entrepreneurs profiled reported that they developed their skills, experience, and contacts while they worked for employers. Therefore, there is a growing subgroup of women business owners who are highly educated and have specific work experience related to business start-ups, and training programs need to address issues that are more sophisticated than feasibility planning and financing, and should include topics such as small business taxation and regulatory environments (Alvarez & Meyer, 1998).

In a study of the information needs of 311 women entrepreneurs (Gundry, 1997), those who were just starting their ventures requested assistance and training in implementing the business idea, identifying initial sources of financing, and advertising/promotion. The entrepreneurs who were already established had a somewhat different set of needs, including identifying financing for expansion and increasing sales. The impact of relevant business skills on the viability and success of a venture was demonstrated in a study of Israeli women entrepreneurs (Lerner, Brush, & Hisrich, 1997). The skills most closely associated with high sales revenues were obtaining financing, budgeting, and planning ahead.

Another study identified the ten most important areas for further learning needed by fast growth entrepreneurs (Sexton, et al, 1997). These were: using cash flow to make operational decisions; financing growth; increasing the value of the business; compensation for self and associates; hiring, training, and motivating for growth; succeeding in a rapidly changing world; successful selling; sales force management; management success; and problems and pitfalls of growth.

Training for entrepreneurs is provided in many contexts and formats. A recent study described a Microenterprise Training Institute (MTI), established in 1992 by a State Economic Development Agency (SEDA) in New Jersey, to train entrepreneurs in the successful running

of their businesses. In Spring 1999, the MTI curriculum went from a six-session discussion of general business concepts (old curriculum) to a seven-session curriculum focused on writing a business plan (new curriculum), and graduates had access to lenders (Cook, Belliveau, and VonSeggern, 2001).

Differences in information and assistance needs can be found across cultures as well. In an investigation of entrepreneurs in the United Kingdom (Carter & Anderson, 2001), women were concerned with getting more education in business, management and technology issues. In a study of 144 women participants in business start-up workshops in Russia, unemployed women were very motivated to start businesses if they received training in entrepreneurship (Izyumov & Razumnova, 2000). According to the researchers, the typical trainee in an entrepreneurship program is a 40-year-old woman who holds an engineering degree, and is a former employee in the state sector of the economy. Aspiring Russian women entrepreneurs were most interested in learning the fundamentals of entrepreneurship, business law, accounting and financial analysis (Izyumov & Razumnova, 2000). Alternative training models are in development in other parts of the world as well, including China where a train-the-trainer program developed by the United National Industrial Development Organization in collaboration with the All China Women's Federation was recently launched (Kao & Chiang, 2001). The International Labour Organization provides training and assistance centers in many countries around the world (Finnegan, 2000).

In the present study, we further seek to understand the future training needs of women entrepreneurs with low and high growth intentions. We investigate their training needs in terms of technology, financial management and planning, organizational management, production and operations, sales, and strategic planning. The fulfillment of many of these training needs may make a significant contribution to the overall economic health and sustainability of the business.

METHODOLOGY

This study commissioned by a women's business center and conducted by a university survey center, examined 421 women-owned businesses over a three-month period in 2002. The issues examined in this survey included preparation and start-up, access to capital, use of capital, training, and management assistance and the strategies employed by these women entrepreneurs in the launch and growth of their businesses.

The sample used in the survey was a stratified random sample drawn from a list of New Hampshire (USA) women business owners provided by Marketing Systems Group of Fort Washington, Pennsylvania (USA). A total of 320 women owners or principals of New Hampshire businesses were interviewed. Potential respondents were randomized and stratified based on 2001 revenues. Larger businesses were modestly over-represented in order to draw statistically valid conclusions on a relatively small population.

Initial interviews were conducted during May-July 2002. Each selected business owner was called by a professional University Survey Center interviewer from the centrally supervised facility. Attempts were made to contact 993 New Hampshire women business owners. Forty-

two percent of the interviews were completed, 28% of the respondents were unavailable, 19% of the respondents did not meet the study criteria, and 11% refused to participate.

Measures

Growth Intentions

To discern between high and low growth intentions of the women entrepreneurs in our sample, we used three measures to determine growth intentions: the amount of start-up funding they needed to grow their business to where it is currently, the amount of additional funding they will need in the next five years to grow, and their level of sales revenue. As shown in Table 1, firms that had greater than $500,000 in sales revenue had significantly higher amounts of start-up funding ($t=3.13$, $p<.05$) and needed a significantly higher amount of additional funding to grow their business in the next 5 years ($t=5.78$, $p<.05$). This is consistent with previous research (e.g., Hambrick and Crozier, 1985) in which high levels of financial resources are needed for rapid growth in entrepreneurial firms.

Table 1 Differences Across Firms on Low and High Growth Intentions

	Low Growth Intentions	High Growth Intentions
Annual Sales Revenues	Revenues < $500,000	Revenues > $500,000
Start-Up Funding	$29,625.71	$71,917.91
Future Funding Needs Over 5 Years	$33,015.58	$147,837.84

Social Capital Network

Social capital was operationalized in three ways: formal capital (reliance on accountants, lawyers, bankers for assistance with the business), informal capital (reliance on family, friends, and other entrepreneurs for advice) and state, agency network (reliance on state and federal programs). We also asked participants if they used a women's business organization for assistance in organizing and growing the business.

Economic Capital

Women entrepreneurs were asked about the different types of financing
they used to start the business. This included personal savings, bank loan, family/friends, personal credit card, and private/corporate investor or venture capital.

Training Resource Needs

For training resource needs, women entrepreneurs were asked in what areas or topics would training or assistance be most beneficial for their company, including access to capital, finances, computers and internet technology, financial management, management (day to day running of the business, human resources), marketing (PR, advertising), strategic planning, organization skills, production, and sales.

Planning and Expansion

Finally, women entrepreneurs were asked the type of planning before business launch (business plan, marketing plan, financial plan, etc.) as well as their plans on expansion in the future.

DATA ANALYSIS

Discriminant Function Analysis. A discriminant analysis was employed to analyze which of the key areas involving financing, social capital, and training needs predict type of firm and growth intentions. According to Tabachnick and Fidell (1989), the primary objectives of a discriminant analysis are to find the dimension or dimensions along which groups differ and to find classification functions to predict group membership. For our study, the designated groups were high and low growth intentions women-led firms. Both the high and low growth intentions firms were categorized and coded into one of the two groups. The predictors were demographics of the women entrepreneur (education, age, work experience), characteristics of the firm and industry (number of full-time and part-time employees, age of business, timing of launch, funding needed over the past 5 years, industry), financing used (business loan, private or corporate investor/venture capitalist, personal credit card, family/friends, own savings), training needs (information on access to capital, computers, financial management, management, strategic planning, organizational, production, sales), social capital (formal, state/agency, and informal), and business outcomes (expansion plans as well as overall satisfaction).

RESULTS

Demographic Statistics

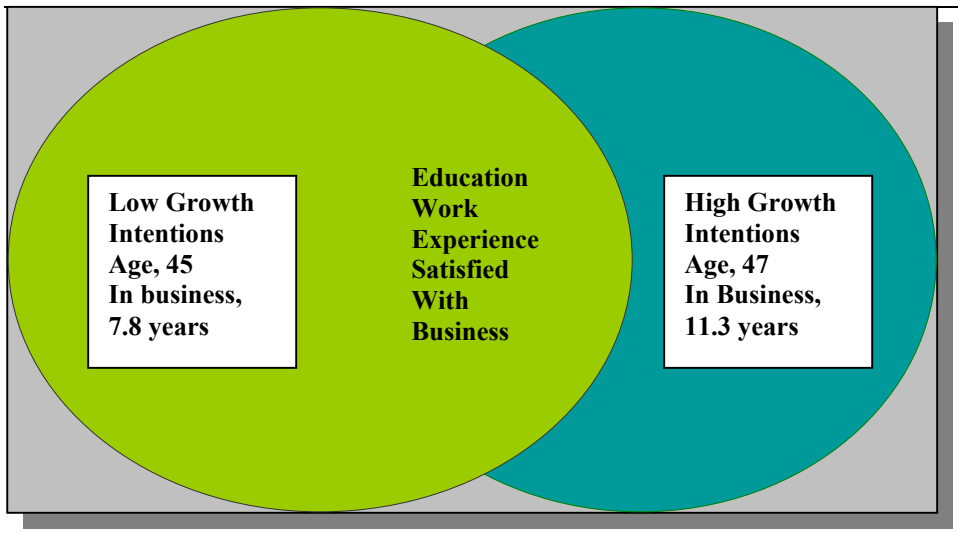
The demographic composition of these groups of women entrepreneurs is somewhat similar. Both groups are in their mid forties, with similar educational backgrounds (high school graduates) and seven years of work experience prior to starting their business (See Table 2 and Figure 2.) Both groups are equally satisfied with their businesses. The groups differ on the age of the business with the low growth intentions group in business for approximately eight years and the higher growth intentions group, eleven years. It is interesting to note that there is approximately three years difference between the age of the business and the age of the entrepreneur pointing toward definite stages of business growth.

Table 2 Means and Canonical Correlation of Demographic Factor

Variable	Low Growth Intentions	High Growth Intentions	Canonical Correlation
Age of Business	7.8133	11.3143	.108
Age of Entrepreneur	44.5867	47.1429	.344
Education	2.5200	2.5714	.075

Satisfaction	1.3733	1.4286	.280
Work Experience	7.0400	7.0800	.181

Figure 2 Conceptual Model for Demographic Factor (Overlapping Similarities and Differences)



Social Capital

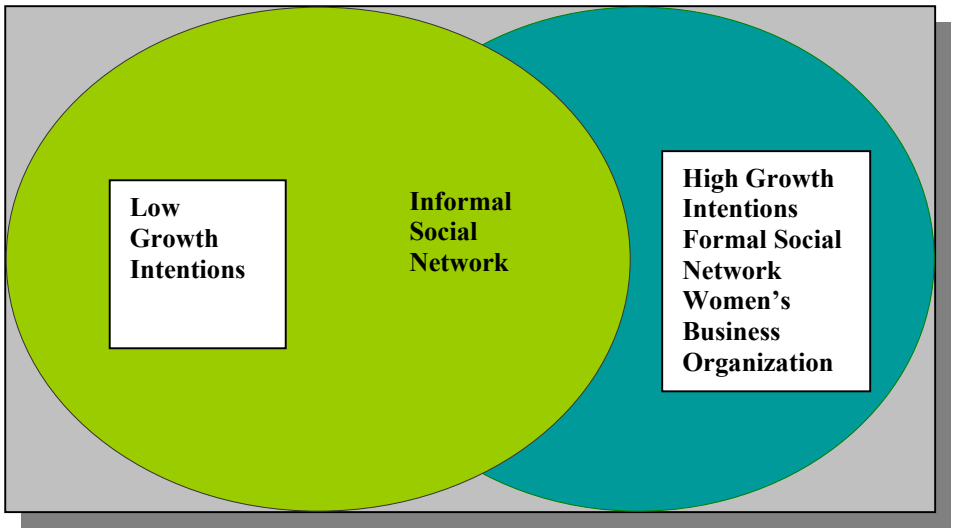
Researchers have posited that social capital may facilitate value creation by entrepreneurial firms (Nahapiet & Ghoshal, 1997). The structural dimension of social capital suggests that entrepreneurs can use their personal contacts to obtain information or to access specific resources. Researchers have pointed out that one of the most critical needs for women entrepreneurs lies in the development of networks and mentors (Davis & Long, 1999). Table 3 and Figure 3 show which types of networking were practiced by each group.

In this study, formal and informal networking and membership in business organizations was used by both groups. Higher growth intentions businesses tended to use more formal social networks and membership in a women's business organization to network. Lower growth intentions firms used the informal network more often. Neither group used the state or agency network. Since many state and agency based programs are geared toward the start-up of the business it is not surprising that neither group uses this network on an ongoing basis.

Table 3 Means and Canonical Correlation of Social Capital Factor (Overlapping Similarities and Differences)

Variable	Low Growth Intentions	High Growth Intentions	Canonical Correlation
Formal Social Network	1.3156	1.1714	-.104
Informal Social Network	1.3800	1.3000	-.246
State, Agency Network	1.533	1.6286	.054
Women's Business Organization	.3067	.0857	-.033

Figure 3 Conceptual Model of Social Capital Factor (Overlapping Similarities and Differences)



Economic Capital

While procurement of capital continues to challenge the growth of women-owned businesses, progress continues to be made in this area. Traditional sources of capital for women entrepreneurs, including the use of personal credit cards (Coleman & Carsky, 1996) were used by many firms in this study. Table 4 and Figure 4 show which factors were important to high and lower growth intentions women-owned firms.

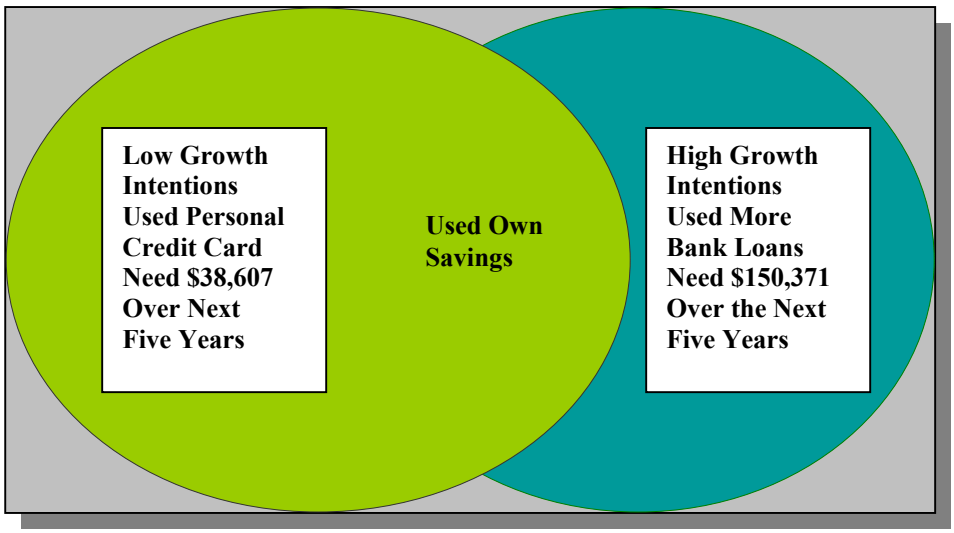
Women who had higher growth intentions were more likely to use bank loans and have a much larger appetite for capital to grow their business. As mentioned earlier, the higher growth intentions firms thought they needed about $148,000 infused into the business to grow

over the next five years while the lower growth intentions firms set their sites considerably lower at approximately $33,000. Lower growth intentions firms were much more likely to use personal credit cards to finance their business. Higher growth firms realized that personal credit cards were limiting and went after more bank loans. Both groups used their own savings to finance business growth. This study corroborates prior research that found that higher growth oriented firms tend to use a greater variety of sources of funding and have a greater appetite for capital (Gundry & Welsch, 2001; NFWBO, 2001), but also finely distinguishes among the sources of capital for higher and lower growth intentions firms.

Table 4 Means and Canonical Correlation of Economic Capital Factor

Variable	Low Growth Intentions	High Growth Intentions	Canonical Correlation
Business Loan From Bank	1.6667	1.4571	-.026
Family or Friends	1.6800	1.6857	-.112
Own Savings	1.2933	1.4286	-.092
Personal Credit Card	1.4800	1.6857	.279
Private/Corp. Investor or Venture Capital	1.9467	1.9429	.168

Figure 4 Conceptual Model for Economic Capital Factor (Overlapping Similarities and Differences)



It is interesting to note that neither group relied on family or friends, nor private or corporate investors for capital to build their businesses. It appears that while bank loans appear to be more readily available to higher growth oriented businesses, private and venture capital

investment still is not available, even though these women in the higher growth group have well established, thriving businesses. Research needs to continue on how to bring more opportunities in venture capital, bank credit and debt financing to women entrepreneurs. Establishing programs that bring bankers, private investors and women entrepreneurs together at key times in the early phases of growth would be beneficial.

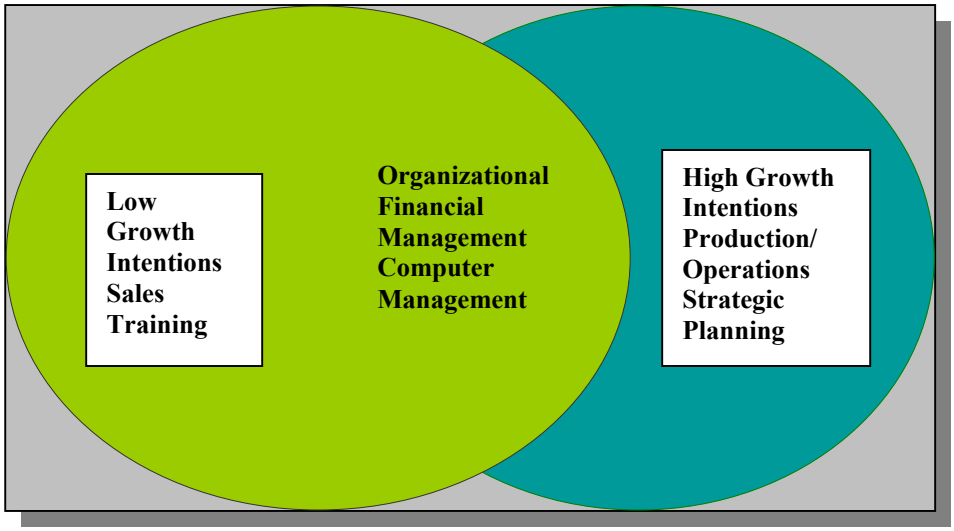
Training Factor

Women entrepreneurs in faster growth firms reported they needed training in very specific areas: strategic planning and production/operations (See Table 5 and Figure 5). While the results show that both groups would like more training in business concepts in general, it is obvious that as the business becomes larger and as the appetite for growth becomes greater a new set of managerial skills is needed. The results show that women in higher growth intentions firms have figured out the basics of running the business, like making sales, and are looking for more information and tools that will take their business to the next level. Lower growth oriented firms are still trying to figure out the basics of how to make sales, so strategic planning and operations/production training is desired less or not at all. Sexton (1997) also recommended that training for fast growing firms should have a distinctive strategic and managerial focus.

Table 5 Means and Canonical Correlation of Training Factor

Variable	Low Growth Intentions	High Growth Intentions	Canonical Correlation
Computers	.0167	.0571	.002
Financial Management	.2000	.1143	-.039
Management	.1467	.1714	.149
Organizational	.0533	.0571	.115
Production/Operations	.0000	.0857	.477
Sales	.0133	.0000	-.276
Strategic Planning	.2667	.0286	-.289

Figure 5 Conceptual Model of Training Factor (Overlapping Similarities and Differences)



The findings from this study suggest that there is the possibility of defining some very specific skill sets needed at each stage of the business. If entrepreneurs do not get the correct training at the opportune time and stage of their businesses, they will not grow as fast as intended as those that get the proper training. Further research could probably define a very specific set of managerial skill sets for each business stage along the entrepreneurial life-cycle.

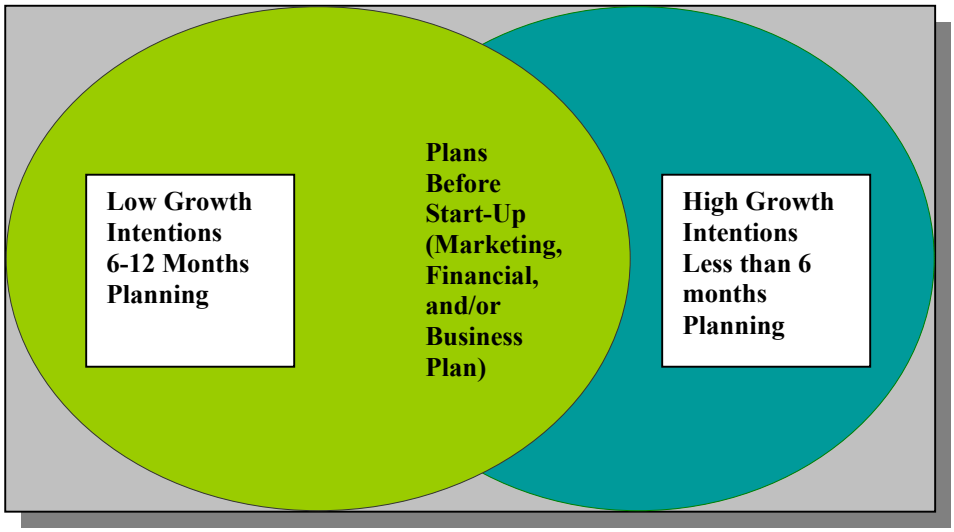
Planning and Expansion Factor

While it is interesting to note that both higher growth and lower growth intentions firms conducted some type of planning before business launch (business plan, marketing plan, financial plan) and plan on expansion in the future, they differed slightly in their time of launch (see Table 6 and Figure 6). The higher growth oriented firms were launched faster – in less than 6 months time. Seizing a hot market opportunity appears to have positioned them for faster growth. The slower growth oriented firms took a bit longer to launch - 6 months to one year.

Table 6 Means and Canonical Correlation of Planning and Expansion Factor

Variable	Low Growth Intentions	High Growth Intentions	Canonical Correlation
Expansion	.6800	.4857	-.189
Planning	.6667	.5714	.019
Time of Launch	1.4267	1.200	-.471

Figure 6 Conceptual Model for Planning and Expansion Factor (Overlapping Similarities and Differences)



Discussion and Implications for Further Research

This research represents one of the few large-scale studies of established women-owned enterprises focused on continual growth and expansion. Previous research has yet to incorporate a variety of diverse factors that influence the growth and sustainability of women's entrepreneurial firms. This study lends support to the idea that a certain mix of resources in economic capital (financing), social capital (networking) and training is needed across high and low growth oriented women-owned firms. The sections that follow discuss each of these resources and needs in the context of our findings, its policy implications, and directions for future research.

Social Capital

Researchers have posited that social capital may facilitate value creation by entrepreneurial firms (Nahapiet & Ghoshal,1997). The structural dimension of social capital suggests that entrepreneurs can use their personal contacts to obtain information or to access specific resources. Researchers have pointed out that one of the most critical needs for women entrepreneurs lies in the development of networks and mentors (Davis & Long, 1999).

In the present study, women entrepreneurs in high-growth oriented firms reported reliance on formal social networks and on a women's business organization, the structural dimension of social capital. Given these findings, there are some policy implications in the area of social capital and its role in increasing the performance and viability of women's entrepreneurship. A project entitled Promotion of Women Entrepreneurs (ProWomEn) was recently launched by the European Commission, in which representatives of twenty regions in EU member and associated countries come together to discuss and share policies and actions that promote the creation of businesses by women. It is this type of project that may further cultivate both the formal and informal social networks of women entrepreneurs. For example, objectives for

this project include enhancing the awareness of decision makers about the importance of promoting women entrepreneurs; identifying case studies and best practices for supporting women entrepreneurs; setting up regional networks and pilot projects; and changing education and training systems to build a culture of women's entrepreneurship (Clothier, 2001).

Economic Capital

While procurement of capital continues to challenge the growth of women-owned businesses, progress continues to be made in this area. Traditional sources of capital for women entrepreneurs, including the use of personal credit cards (Coleman & Carsky, 1996) were used by the high-growth firms in this study. However, our results showed that high-growth oriented firms were more likely to have received a business loan from a bank than the lower growth oriented firms, and had higher start-up capital needs. The present study not only corroborates prior research that high-growth firms tend to use a greater variety of sources of funding and have a greater appetite for capital (Gundry & Welsch, 2001; NFWBO, 2001), but it also more finely distinguishes among the sources of capital used by women entrepreneurs of high growth oriented firms. This can be seen in the finding that these high growth firms did in fact receive bank loans, a source of funding that has been historically underrepresented among women-owned businesses in general.

Future research should focus on the continuing search for venture capital and other sources of equity financing, in addition to the increase in bank credit and debt financing. Comparison studies of women entrepreneurs who used SBA programs and those that did not would be helpful (Walker & Joyner, 1999). Of particular interest are the financing patterns across stages of the business from start-up through growth and maturation.

Training

Women entrepreneurs in high-growth intentions firms reported that they needed training in specific areas: strategic planning and operations/production planning. The results showed that entrepreneurs of high growth intentions firms have a specialized set of assistance needs, compared to entrepreneurs in lower growth oriented firms. Alvarez and Meyer (1998) have suggested that there is a growing subgroup of women entrepreneurs who are highly educated, and, in the case of the present study, whose firms are older and more established, who require training programs that address issues that are more sophisticated than feasibility planning and financing. Sexton (1997) also recommended that training for fast-growing firms have a distinctive strategic and managerial focus.

This has particular relevance for public policy and the development of entrepreneurial training programs. Most such programs are directed to the start-up (if not the low growth oriented) entrepreneur, and the results of our study, building on past work in this area, demonstrate the need for the creation of entrepreneurial training programs with a more strategic, growth-oriented focus for the established business that seeks to improve and even reinvent its core competencies.

CONCLUSION

This research represents one of the few large-scale studies of established women-owned enterprises focused on continual growth and expansion. Previous research has yet to incorporate a variety of diverse factors that contribute to the ability of women entrepreneurs to fulfill their growth strategies and sustain of their businesses. This study offers support for the process by which formal and informal capital resources and organizational strategic planning within women-owned firms can serve as critical antecedents of market growth intentions, and demonstrates how the direction of these resources and strategies can serve as motivating forces in determining market expansion. Overall, this study takes an important initial step in understanding the process of how women entrepreneurs leverage and build upon their own resources both internally and externally that may be used in the future to identify market opportunities, confront industry and environmental changes, and seek new innovations for their businesses.

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COMPARATIVE ANALYSIS OF MANAGERIAL PRACTICES IN SMALL MEDIUM ENTERPRISES IN MALAYSIA

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ABSTRACT

The purpose of this paper is to examine the existing practice in managerial strategic and tools being used and problems faced by local Small Medium Enterprises (SMEs). Most SMEs operates with limited resources. With today's arduous competition, it requires the SMEs to tune its current business practice to cope with the rapid changes in the business environment. Due to the rapid changes, it requires the SMEs managers to be equipped with new knowledge and ideas to promote effective managerial practices. In other word, SMEs need to have better trained managers, knowledgeable in managerial activities. Focus should be on the knowledge on financial management, human resource management and marketing management technique. This study empirically investigates the differences in the managerial practices of SMEs in the Malaysian Manufacturing sector. The most important findings of the study on managerial practices are that the SMEs appear to have a very limited knowledge of the overall spectrum of managerial practices.

INTRODUCTION

The increasing magnitude and significance of the SMEs is a recognized feature of most nations. Malaysia is no exception. In her vision to be a fully developed and industrialised nation by the year 2020, (Hamid et al, 1993) future progress toward that end was seen to depend greatly upon the development of SMEs. The "Vision 2020" of the country recognized the importance to industrialize rapidly by capitalizing on the country's strengths and forcefully tackling the weaknesses.

In Malaysia, the majority of the manufacturing companies fall into the category of SME[1]. According to research conducted in 1988, there were 28,335 manufacturing companies in

[2] Before the new definition announcement made effective in January 1998.

Malaysia, of which 92.6% were SMEs, which created 40.2% of job opportunities for the whole industry (Mohd Asri, 1993).

Fundamental weaknesses in the manufacturing sector are recognised as impediments to growth by Malaysian government. Due to their size, inadequate capital, management, marketing, production capacity and low utilisation of modern technology, SMEs have exhibited a lack on inter-industry linkages, poor quality and delays in delivery to support the large industries (Government of Malaysia, 1995).

Amongst the prominent problems facing the SMEs development nationally are the shortage of skilled personnel, poor linkage development, lack of market access, inadequate finance, unintended impact of policy instruments, competitions from foreign SMEs and technological constraints (Salleh, 1990; Chee, 1986). Academics and practitioners also have advocated that among the main problem also involve lack of funds, no research and development (R&D) to upgrade quality, unattractive packaging and labeling, plus poor quality and distorted information on the demands of the international markets (Salleh, 1991; Sarkar et al, 1992; Chee, 1986; Aziz, 1981).

Apart from that, most SMEs are also too dependent on the local markets for sale of their products and only a small number have successfully marketed internationally (Salleh, 1991; Sarkar et al, 1992).

The role, importance and contribution of SMEs differ from one industry to industry and from country to country. Similar to other businesses, SMEs also face miscellaneous problems which in some instances may affect their profitability and growth. In order to cope with the constant rapid changes in business environment, having a well-versed business manager is vital to the organization. Given the above scenario, the relevant and the interesting issue for writers to consider at this stage would be: the style and strategy of management practices especially in marketing, human resource and finance to ensure the success of the SMEs sector.

The purpose of this study has been to provide some evidence regarding the SMEs' managerial practices and problems faced in the vicinity of Johore Bahru city. Researchers will focus the managerial practices namely in the area of financial, marketing and human resources management and strategic planning.

The two main objectives of this study include:

1. to identify the government support schemes in promoting the SMEs
2. to compare and contrast the managerial practices and problems faced by SMEs

REVIEW OF LITERATURe

The Definition of Small Medium Enterprises

A wealth of literature exists on managerial issues on SMEs. The term SMEs appears to have been defined variously by different parties such as different countries, books, authors, scholars and so on. In Malaysia, The Ministry of International Trade and Industry (MITI) redefined SMEs as:

(i) A small –scale firm is a company "with less than 50 full-time employees, and with an annual turnover of not more than RM10 million"
(ii) A medium-scale enterprise is a company "with between 51 and 150 employees, and with an annual turnover of between RM10 million and RM25 million".

In authors' opinion, there has been no universally accepted definition of what an SME is and a wide range definition is used. In research works for SME, majority of SME definition based on operational definitions (see works for example Dart, Ng and Sarkar, 1990; Mohd Khairuddin, 2000).

The SMEs Sector in Malaysia

According to Mohd Khairuddin (2000), the SMEs in Malaysia may be categorized into three broad sub-sectors; (1) general business, (2) manufacturing and (3) agriculture. The general business sector was involved in construction, wholesaling and retailing, transport and storage, business services and activities, and providing services such as hotel and restaurant. A major activities in the manufacturing sector consist of processing and production of raw materials such as food, textile, wood, chemicals, petroleum, rubber, plastic, metallic and non-metallic, transport equipment, electrical and electronics appliances and components. The agriculture sector was involved in rubber, paddy, oil palm, coconuts, cocoa, pepper, tobacco, livestock, timber, fish, fruits, and vegetables.

From the three sub-sector, manufacturing sector has emerged as the most important for SMEs in Malaysia, in terms of the number establishments, growth, and contributions to the gross domestic product and national income.

Managerial activities in SMEs

Over the past decades, environment change such as globalization, and technological developments occurred surrounding the firm. The environment change may well pose a particular challenge to the SMEs, which limits their abilities to maintain their position against larger competitors. Gupta and Cawthon (1996) suggest it is often small business managers who require the most training. In other word, SMEs need to have better trained managers, knowledgeable in managerial activities involved in SMEs, known the environment, and have entrepreneurship characteristics (Dollinger, 1999; Zimmerer and Scarborough, 1998). Snell and Lau (1994) found differences in management competencies required for growth in small firms in comparison to larger sized businesses.

According to Dart et al (1990), they must have knowledge in financial management, human resource management and marketing management technique. While SMEs have been a popular area for research, few studies appear to have specifically examined the role of managerial training within SMEs (Winch and McDonald, 1999).

Financial activities

Most SMEs need a financial resource to fund production. These resources are either in the form of debt, the cost of which is the interest paid, own saving, family saving, or in form of equity which has a cost represented by the providers required fixed or unfixed return. Study by Bates (1971) found that small firms tended to be more self-financing, had lower liquidity, rarely issued stock, had lower leverage, relied on bank financing and used more trade credit and owner's loans. Other study by Renfrew (1982) also indicated that small firms relied heavily on proprietors' equity, retained profit and trading bank finance. Recent study by Gibson (2001) suggests other five categories of small firms with regard to their dominant source of finance, namely trade credit debt, bank loan debt, related persons debt, working owner equity and other debt or equity such as venture capital, credit card or government loans. Mohd Khairuddin and Syed Azizi (2003) found that five tools of financial analysis were used for the important objectives of the firm such as sales target, market share, return on investment, net profit and growth target. However, the empirical investigations provided evidence that adequate forecast information may not be available in the most SMEs (Edwards and Turnbull, 1994).

Human Resource activities

The human resource advantages within SMEs are linked in many cases to the dynamic and entrepreneurial practice of many SME managers. There was little evidence of the adoption of human resource management (HRM) by small companies (Worsfold 1999).

The development of HRM has its origins in the large manufacturing sector and much of the literature review reflects this orientation. According to Price (1994), the majority of examples of good personnel practice were found amongst relatively large employers and that these employers were clearly "improving their personnel practices as well as recognizing the need for management training". The HRM practices in small firms were very informal and normally they see very little need for formal arrangement in their practices. Furthermore, in SMEs, shorter internal lines of communication and faster response times which allow speedy problem solving and reorganization. Snell and Lau (1994) found that differences in the management competencies required for growth in small firms in comparison to larger firms. Further, many researches suggested that there is little attempt to integrate HRM practices with business strategy or performance.

Marketing activities

Interest at the marketing/entrepreneurship interface of SME research began at late 1980s. This effort defines the role of the entrepreneur as "fundamental" in marketing and organizational activities, so that flexibility in marketing was important to suitably adapt its principles and practices to the activities of SMEs (Hill 2001a). Further more in recent year, the subject of market orientation has received a great deal of attention from marketing scholars

who have developed, tested and refined market orientation scales. In literature, many studies have found relationship between market orientation and the performance of the business, but what is not clear is this concept is used or appreciated by the small business owner (Blankson and Stokes, 2002).

However, Cannon (1991) and David and Klassen (1991) note that there is currently insufficient knowledge about marketing in small businesses. In this study, marketing knowledge describe decisions and issues relating to product, price, promotions and distribution (Kotler, 2003).

METHODOLOGY

Given the lack of empirical research in this area especially in Malaysia, an exploratory investigation was considered the most justifiable approach (Churchill 1991). With exploratory research, the research is conducted to explore a topic or when the subject of study is relatively new, in this case, the managerial practice among SMEs in Malaysia.

The research method was adopted from the combination of quantitative and qualitative approaches as suggested by Miles and Huberman (1994). This approach begins with an initial qualitative survey and is then followed up by detailed interviews using structured questionnaire. The general managers were selected to answer the questionnaire since they are people who usually involve in the making final decision on management practice in the organization. Over half of the items used in this questionnaire were therefore specifically developed for this study based on literature in research journals, newspaper and article in magazine. And some of the specific terms were specifically adjust to facilitate the respondent answering the questionnaire.

Unfortunately in Malaysia, there is no detailed and up-to-date database about SMEs in industry, so the sampling plan was designed by using judgment and snowball sampling. A snowball sample is built from the subjects suggested by previous subjects. The major advantage of these samplings is that it substantially increases the likelihood of locating the desired characteristic in the population (Malhotra 1999).

To ascertain the managerial aspects of the SMEs, a questionnaire was designed to gather information on the financial, human resource, marketing practices and problems faced by the SMEs in the three areas of management mentioned above. a mix of close and open ended questions was used in the questionnaire. A total of 102 responses were obtained.

FINDINGS AND ANALYSIS

The initial findings into the comparative study of managerial practices amongst SMEs have yielded some highly interesting results. The result of the research was summarized in a series of tables, supported by complementary evidence, quotes and examples. Table 1 shows the demographic characteristics of the respondents.

Table 1 Respondents' profile Financial Management

Details	Frequency	Percent
Registration status:	**N=102**	
Sole proprietorship	19	18.6
Private Limited	67	65.7
Partnership	16	15.7
Type of ownership:	**N= 100**	
State-owned	1	1.0
Own ownership	76	76.0
Subsidiaries	9	9.0
Joint-venture	13	13.0
Others	1	1.0
Number of employees:	**N = 103**	
Below 50	73	70.9
Between 51-100	12	11.7
More than 100	18	17.5
Type of business:	**N= 103**	
Construction	10	9.7
Property	2	1.9
Trade and service	20	19.4
Industrial goods	33	32.0
Plantation	2	1.9
Technology	18	17.5
Others	7	6.8

Most SME are aware and have utilized the income statement technique especially for personal use, cash flow and generally record their income statement (see Table 2). Report on sources and uses of funds and product costing is among the least understood financial techniques. These findings suggest that nowadays SMEs have realized the importance of income statement and cash flow in their areas of operation and help them to plan for the future.

In general, among the common financial problem facing the SMEs is high product cost, followed closely by high overhead costs and overdue account receivables (see Table 3). It seems to emerge that the seriousness for obtaining loans was not the main problem as indicated in the table; lack of capital (22.3%) and followed by difficulties in obtaining loans (17.5%). The above findings suggest that the SMEs are now facing a dramatic increase in high product cost, overhead cost and overdue account receivables that SMEs are facing now. This may be due to the aggressive government initiatives and bank support towards government SMEs scheme assistance.

Table 2 Financial Management Techniques

Techniques	Used	Not aware
Income statement for personnel use	87	16
Income statement for public use	34	69
Report on sources and uses of funds	27	76
Product costing	29	74
Cash flow	68	35
Expenditure statement	46	57
Recorded income statement	72	31

Table 3 Financial Problems

Problems	Percentage
Lack of capital	22.3
Poor financial records	16.5
High product costs	36.9
High overhead costs	26.2
Overdue account receivables	24.3
Difficulties in obtaining loans	17.5
Difficulties in credit	16.5
High tax rates	15.5
High interest rates	14.6

Human Resource Management

The respondents in the study were asked to indicate their awareness and usage of managerial tools. The responses are presented in Table 4. As expected, the SMEs studied are generally less aware and less likely to use the human resource techniques. In addition, a comparison on the level of awareness and usage of human resource management (HRM) techniques is less than that of the financial management techniques. This is perhaps due to several reasons.

First, the area of financial management is much more already embedded once they started business because financial issues are usually perceived to be more critical than the human resource management area such issues dealing with the workers. Thus is not surprising that the level of awareness in the latter is lower. Second, it has been a regulation of the country for firms to use some of the financial management techniques (for example, balance sheet and income statement) but not in human resource management techniques.

Worker recruitment processes are common among the SMEs. They are more concerned on recruiting the right employee for the right job as indicated 43% in job need analysis, however, they would prefer at a lower percentage of employing their own family, but are less concerned with employee performance appraisal which accounted only 34%. In a sense, this suggests that the SMEs have a relatively casual attitude towards their employees, in that they are not concerned to objectively identify the better employees.

Table 4 HRM Techniques

Technique	Used	Not aware
Job need analysis	43	60
Worker recruitment process	61	42
Employee performance appraisal	34	69
Job rotation/enrichment	26	77
Management by objective	32	71
Profit sharing	14	89
Flextime	24	79
Family worker recruitment	30	73
Foreign worker recruitment	27	76

Table 5 presents the human resource management problems as perceived by the SMEs. In the sample, less than 50% are facing worker dedication, followed by difficulty in finding good worker and poor employee motivation. Interestingly, the problems mentioned above are not significant, since only 49.5%, 36.9% and 34% are recoded respectively. In other word, Malaysian SMEs are facing fewer problems with their workers. Thus, it is possible to argue that Malaysia has employer-employee relationship, at least in the eyes of the employer. This may be because the Malaysian workers are indeed very good or that the Malaysian employers are easily pleased.

Table 5 HRM Problems

Problems	Percentage
Not many dedicated worker	49.5
Difficult to find good worker	36.9
Poor employee motivation	34.0
High turnover	26.2
High absenteeism	24.3
Dissatisfaction with pay	17.5
Lack of concern	16.5
Conflict	15.5
Family problems	14.6

Marketing Management

Table 6 presents the awareness and usage levels of various marketing techniques among the SMEs. The results reveal a similar pattern to the earlier two types of managerial techniques, are mot aware and are unlikely to utilize the marketing techniques, where approximately more than 64% of the SMEs are unaware of the various marketing techniques practices.

It does not appear that there is any common pattern on terms of which marketing technique is most favored among the SMEs. Approximately less than 40% SMEs has used some form of price comparisons, an informal form of marketing research and marketing plan. Among the least used technique identify has been joint-venture and sales training. There may be several possible explanations for this finding. First, most of the SMEs are family owned enterprises or own ownership as indicated in Table 1. Second, lesser utilization of sales training may be SMEs are quite satisfied with their existing sales. In addition, they may be quite confident that they can maintain their present market share without much effort. As such, these SMEs do not see any need in pursuing sales training. Accordingly, in general the SMEs are reluctance to actually adopt a formal program whereby employees are trained in various selling techniques. They also view that the skills of a salespersons can be acquired while on-the-job and learning-by-doing fashion.

Table 6 Marketing techniques

Techniques	Used	Not aware
Sales training	28	75
Marketing plan	35	68
Market research	37	66
Comparing Pricing	39	64
Planning Marketing technique	30	73
Joint-venture	19	84
Product development	31	72

With regards to marketing problems as presented (Table 7), price competition (62.1%) was the most common problem faced by the SMEs, followed by low profits and brand competition 39.8% and 38.8% respectively. As with other managerial problems, SMEs are less faced with the difficulty of exporting their product. This finding does not interpret that they have been successful in exporting; rather they are mainly focused on local markets. Under these circumstances it is not surprising to find less export problem reported. The study also suggests that the SMEs do not have much of a problem with the quality of their products. That is, the SMEs believe that their customers are satisfied with their products. This perception may have been formed because there are perhaps few returns and complaints form the customers.

Table 7 Marketing Problems

Problems	Percentage
Price competition	62.1
Low profits	39.8
Brand competition	38.8
Low sales	30.1
Poor product quality	14.6
Unable to export	9.7

Strategic Techniques Application

Table 8 present the awareness and usage level of various strategic techniques application among the SMEs. The results reveal that a pattern similar to with other types of managerial techniques. The SMEs are less aware of, and more likely not to utilize the strategic techniques stipulated. Most noticeable unaware strategic technique was backward integration, followed by forward integration, horizontal integration and diversification and joint-venture/consortium.

Table 8 Management Strategies

Techniques	Used	Not aware
Market Penetration	53	50
Market development	63	40
Product development	36	67
Forward integration	13	90
Backward integration	7	96
Horizontal integration	21	82
Concentric	45	58
Horizontal diversification	18	85
Joint-venture/consortium	20	83

Interestingly, the most common strategic applied by the SMEs has been market development and followed by market penetration that is SMEs prefer market expansion of their product to grow gradually as their business prosperous.

Interesting to note here that these SMEs do not faced major problems in strategic implementation even though they do not applied most the techniques described in Table 8. The respondents have revealed that received the highest government support followed by no disturbance in company operation due to less conflict between workers and employers are willing to accept new idea form their employees. As iterated in the human resource management section, it seems those SMEs firms are enjoying a favorable employee-employer relationship.

Table 9 Strategy Implementation Problems

Details	Agree	Don't agree
Not enough resources	38	65
Not optimistic on strategy chosen	30	73
Workers can't accept new idea	23	80
Conflict between workers	21	82
Disturb company operation	19	84
Government policies	17	86
No support from management	13	90

CONCLUSION

The purpose of this paper has been to provide some evidence regarding the SMEs' managerial practices and problems. With respect to the practices, the findings suggest that SMEs are generally not aware and most likely will not utilize the various managerial practices. Perhaps the most important findings of the study on managerial practices is that the SMEs appears to have a very limited knowledge of the overall spectrum of managerial practices.

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SEXISM IN POLISH AND FRENCH TV ADVERTISING

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ABSTRACT

the main purpose of this article is to answer the question about the existence of sexism in Polish and French TV advertising. This issue is especially important in the context of Poland's accession to the European Union, which will take place on the 1st May 2004. From this perspective, the following consideration and analysis are objectively unique among other papers concerning advertising and images of women.

The basis of the research carried out upon this subject is the assumption that France, as a European Union country, is less sexist than Poland on legal grounds. However, the range of sexism in French TV advertising also seems important. The second assumption of this research is as follows: Poland is a sexist country for the reason that it has had a communist past and is still a "young" democracy.

The comparative research on Polish and French TV advertising was carried out for three months, on two thematically similar channels (one Polish and one French). There were 200 completely different Polish advertisements in the whole period of the research; 118 (59%) of them include some image of a woman, 82 (41 %) of them refer to men, children, animals, etc. There were 217 completely different French advertisements in the whole period of the research; 150 (69,1%) of them include some image of a woman, 67 (30,9%) of them refer to men, children, animals, etc. The collected data was divided into various groups. Thus, Polish' advertisements have 10 completely different dimensions and also mixes of them, whereas French advertisements have 13 completely different categories.

The initial assumptions concerning the existence of sexism in Polish TV advertising and the assumption that Poland is a more sexist country than France turned out to be true. The comparison between France and Poland proves that there is sexism both in Polish and French TV advertising. Sexism is only slightly noticeable in French advertising and the majority of images of women show her in an equal position to men. After the comparative analysis, one may assume that the result is positive for France, due to its European Union background and longer democratic tradition. Therefore, it is likely that Polish TV advertising will evolve from today's style to the European level after its accession to the European Union.

Possible recommendations for other countries are that the opportunity to live among different nations with open borders may do something for the socialisation of societies and that equality is the answer to many social problems and it should be understood as the possibility to govern one's life and to allow other people to decide independently about their own lives.

INTRODUCTION

The main purpose of this article is to answer the question about the existence of sexism in Polish and French TV advertising. This issue is especially important in the context of Poland's accession to the European Union, which will take place on the 1st May 2004. From this perspective, the following consideration and analysis are objectively unique among other papers concerning advertising and images of women.

The basis of the research carried out upon this subject is the assumption that France, as a European Union country, is less sexist than Poland on legal grounds. However, the range of sexism in French TV advertising also seems important. Is sexism possible in a country where Treaties determine the equality of sexes? The second assumption of this research is as follows: Poland is a sexist country for the reason that it has had a communist past and is still a - "young" democracy; Moreover, even though the number of educated Poles has grown during the last few years, it still seems relatively small and it is likely that only the very simple and unsophisticated transfer of information in advertising is successful.

According to Maslow's pyramid, only the basic biological needs will be fulfilled when there is poverty in society. For the legal inadequacy, education shortages and poverty, sexism seems more likely to be found in Poland than in France.

The core content of this article is an analysis of Polish and French TV advertisements, collected and compared during three-month-long research. While analyzing data, several different images of women appear. Among them, some are chosen as a manifestation of sexism. This section also answers the title question of sexism in Polish and French TV advertising.

What is sexism?

Sexism is a relatively new term (introduced in 1985 by J.P. Faulkender2) which has many definitions. Below are those of them that seem especially useful for further consideration in this article.

1. "Sexism is the belief that one sex is not as good, clever, etc., as the other, especially when this results in unfair treatment of women by men.
2. "Sexism is the belief that women are weaker, less intelligent, and less important than men.
3. "Sexism is a prejudice based on sex. In practice, as the term is used, its meaning goes beyond this simple definition in two ways. First, a prejudice is generally treated as an attitude or belief, while the term "sexism" generally connotes differential action and behavior toward persons which discriminates between them on the basis of their sex. Second, the term is nearly always used with respect to discrimination against females, a unitary focus that derives from the objective data of society but which unfortunately delimits the meaning of the term."

Therefore, sexism means discrimination on the basis of gender, treating one of the sexes as inferior. In the majority of societies it is more often women who are regarded as the inferior sex, and sexism is an ideology justifying women's lower status in community life, politics, and in professional work, as well as in a family life (mainly in the area of domestic duties).

European advertising preferences and regulations

Consumers in different countries are accustomed to different forms of advertising. In many cases the government regulates advertising. There is also a common policy on advertising among European Union members. Advertising issues are widely defined in the European Convention on Transfrontier Television, which is the most relevant legal instrument of the Council of Europe in the broadcasting sector.

The Convention was introduced in 1989 and was the first instrument defining a number of common principles for the transfrontier circulation of television programme services at the European level. The Convention served as a basis for the preparation of the

1989 EU Directive on "Television without Frontiers", and has also been an inspiration for several countries designing their national television broadcasting legislation. As of January 1 st 2001, twenty-three European States had ratified the Convention and are therefore bound by it: Austria, Bulgaria, Cyprus, Estonia, Finland, France, Germany, Hungary, Italy, Latvia, Liechtenstein, Lithuania, Malta, Norway, Poland, San Marino, Slovakia, Slovenia, Spain, Switzerland, Turkey, United Kingdom and the Holy Sea.

Article 7 of this Convention aims to protect human dignity and fundamental rights, and lays down the general responsibilities of broadcasters as regards the programme content. The article states that programmes should not be indecent or contain pornography, should not incite racial hatred and should not give violence in an unnecessarily prominent place. This being said, the Convention does not establish a system of State intervention in the content of programming. It leaves the Parties free to decide how they are to comply with such obligations, in accordance with their constitutional/legal system, as well as traditions and cultural sensitivity. Therefore, the moral opinion on how programme content should be evaluated is left to the judgement of each State.

When it comes to advertising, the general principle is that advertising should be fair and honest, not misleading or impairing children morally or physically. It should also be clearly distinguishable as such, separated from other items by optical and/or acoustic means.

As regards time-limits, the revised Convention establishes that advertising and Teleshopping spots should not exceed 20% of a given clock hour, and that all forms of advertising together should not exceed 20% of daily transmission time. Self-promotional announcements are assimilated to advertising but are not counted for the purpose of calculating the percentage of advertising time.

Tele-shopping spots are subject to the same rules as advertising spots. As regards Tele-shopping windows on general-interest channels, it is mentioned that such windows should last at least 15 minutes, there should be no more than 8 of such windows per day, and their overall duration should not exceed three hours per day.

The insertion of advertising and Tele-shopping is stipulated that it should be between programs, or during programs, under a number of conditions (so that the integrity and value of the program is not prejudiced). For instance, feature films can be interrupted once for each

complete period of 45 minutes. News, documentaries and religious or children's programs should not be interrupted if they last less than 30 minutes.

There is also a number of rules concerning advertising of particular products. For instance, the Convention forbids advertising tobacco products. Advertisements for alcohol are permitted under a number of conditions: that it does not particularly address minors, does not link consumption to physical performance, does not claim that alcohol has therapeutic qualities, nor that it presents abstinence in a negative light. Furthermore, the Convention offers Parties the possibility of restricting retransmission of programs on their territory which contain advertising for alcohol, provided they have made use of the reservations clause in Article 32 (which represents an exception to the principle of freedom of reception and retransmission contained in the Convention). Advertising for medicines and medical treatment that are only available by prescription is also prohibited.

But the differences among European countries are not limited to the legal area. There are also differences concerning which type of television advertising works best in each country. A comparative study of European countries' TV advertising revealed, for example, that French TV advertising has less product information, and also a less direct way of communication about socially-sensitive topics. Moreover, French ads rely on non-verbal and implicit communication, and present women in a more sexually alluring manner. Whereas the British tend to think of 'advertising as a humorous and entertaining part of daily life, Germans prefer a factual and sober style in advertising8. Finally, there are also differences between - countries concerning the way TV advertising shows women, which will be analyzed further.

Sexism in TV advertising

Equal opportunity policies cannot overlook the media. It is a valuable tool for supporting the equality of opportunities between women and men. However, its power is often used against women: the media exploits the image of women as sex objects at every turn, thereby helping to reinforce damaging stereotypes. They agree unanimously that this partial, sexualized and often degraded image merely reflects what has become accepted by European societies. It is an important element in maintaining discrimination against women.

Television, magazines, and billboards no longer show products, but show gimmicks in order to sell their product. In general, these gimmicks seem to enforce racial stereotypes and view women in a negative way. Women are often portrayed as stupid, submissive, temperamental or else as sexual objects, which exist solely for the pleasure of men. They are as likely as men to be central characters in television commercials. However, women are still more likely than men to be seen in domestic roles.

The role of women in society has been changing throughout centuries. This evolution has resulted in the creation of a modern woman who knows her rights and duties, and who realizes that a man is her partner, not her master. A "modern" woman, also called "feminist", imagines all women with equal chances at work, in public life, in education, and in the family. Because of that, this new type of woman finds sexism intolerable and fights against it.

Who are the women portrayed in Polish TV advertising right now, just before accession to the European Union? What differences may be noticed while comparing Polish TV advertising to

French (a European Union country's)? What thesis may be assumed about the future of Polish TV advertising? And finally: is there sexism on the Polish and French TV advertising market?

RESEARCH

The comparative research on Polish and French TV advertising was carried out for three months, on two thematically similar channels (one Polish and one French). The advertisements on Polish TVP1 were recorded every day between 7:30 p.m. and 8:15 p.m. (before and after the News). Consistently, the advertisements on France2 were recorded between 8:50 p.m. and 9:50 p.m. (before and after the News). The results of the research follow.

First of all, there are 200 completely different Polish advertisements in the whole period of the research; 118 (59%) of them include some image of a woman, 82 (41%) of them refer to men, children, animals, etc. Secondly, there are 217 completely different French advertisements in the whole period of the research; 150 (69,1%) of them include some image of a woman, 67 (30,9%) of them refer to men, children, animals, etc.

The collected data may be divided into various groups. Thus, Polish advertisements have 10 completely different dimensions and also mixes of them, whereas French advertisements have 13 completely different categories. In the tables below, all of them are listed.

Table 1.
Dimensions of a woman's image in Polish TV advertising

Women's images	Advertising examples	Total	%
Stupid	Dosia, Lays, Creme Bonjours, Frugo, Mirinda, Ibuprom, Etopiryna, Dr Oetker - Slodka Chwila, Shamtu, Polar.	10	7,9
Cleaner	Vanish, Lotto, Viva, Ajax, Calgonit, Air Wick Electric, Bryza, Clin, Rex Blue Power.	9	7,1
Independent	Veet, Danone Vitalinea, Xcite, Nalwianka, 3 Bit, Colgate Whitening, Nestle Crunch, La Festa Cappuccino, Perla black.	9	7,1
Independent bot witb a man	CHit, Fa, Orbit White, Gamier Fructis, Coca-Cola, Fanta, Winter Fresh, Gatta, Ristorante, Bisc&, Pantene Pro-V, Toyota Yaris, Carte D'or, Valban, Nivea shower gel.	16	12,6

Body	Nivea Sun, Dove, Actimel, Elseve L'Oreal Nutrileum, Niveji1 Visage, Perla, L'Oreal Lash Architect, Palmolive, Water Shine Maybeline, Capivit A + E, Wella Decore. ScbwarzkopfScbauma, L'Oreal Feria Colour Booster, Gamier gel-cream.	14	11
Family women	Arctic, Morliny, Mamba, Lift, Idea, Nivea Baby, Raid, Plus GSM, Danio, Xenna, Wella Palette, Biedronka, Bryza, Jacobs Kronung, Idea Optimum, Radio Zet, Almette, Clio, Tymbark, Seicento, Delecta, Frosta, Fervex, TPSA, Lenor, Nivea Visage, Nestle Gold, Ranigast, Opel Corsa, Turek, Scorbolamid, Opel Astra, Amol, Prince Polo, Milka, Nestle Cornflakes.	36	28,3
Professional.*	Citibank, Bonaqua, BrefDuo Active, Era, Apap, Biedronka, Domestos, Orbit White, Herbal Essences.	10	7,9
Cook	Jarzynka, Majonez Wmiary, TPSA.	3	2,3
Sexual object	Gillette, Cortina, Coca -Cola Light, Era mms, Princessa, Dr Oetker - Slodka Chwila, Raiffeisen Bank, Shamtu, Citroen C3, Sonda, Orbit White.	11	8,7
Sick	Fervex. Etoran Max. Vegantalgin H, Cholinex, Codipar.	9	7.1
	Scorbolamid. Sebidin Plus, Nurofen Menstrual.		
Total		127	100

- A professional woman is professional only in stereotypical ftames. e.g. a nurse. a teacher

Table 2.
Dimensions of a woman's image in French TV advertising

Women's images	Advertising examples	Total	%
Pursuing pleasure	Magnum. Lu Pim's, Le sucrevous eveille, KeUogs Extra. Pages-Jeunes.	5	3,2

Independent	Frontline, Skip. Duo Soleil Atol Opticiens, Florette, Maxwell House. Ferrero Roeber. Peugeot 607, Alfa Romeo. Nouvelle Polo. Nicorette, Moo Cheri II. Fruit D'or.	12	7.7
Family women	Securire, Gaz de France, Vizir. Actimel. Bridel. CA, Sofinco. Groupamo Auto Presto. Yves Roeber. Center Pares, Picard, Grand' Mere, Monique Renou, Lapeyre, Polo II, Century 21. Frial, L'assurance medical, Pliz, Fruix Veloure, Cit: MIR, Supradyn, Kinder Country, Narta transparent, CA, Weight watches.	27	17,3
On a diet	Danooe Taillefine Cremosso. Special KeUogs. Fitness Nestle, Petit Eneas de Jockey, Bridelight, Danone Taillefine l'eau, Contrex, Maggi Sveltesse, Nestle Sveltesse, Bridelice, Lu Taille-Fine. Creme Caramel.	11	7,1
Stupid	K2r. Panier de Yoplait Ii boice, Vegas. Daunat.	4	2.6
Body / Background	Renault Avanttime, Samsung telephone, ROC. Vichy, Keys, Mousse de Douche Uskua'ia, INO Direct, Blancheur. Garnier Ultra-Doux, Le meble de Gautier, Mixa Gel-Cri:me, L'Oreal excellence creme, L'Oreal Nouveau invincible, Recital L'Oreal. Mercedes Classe C, ROC - soya unifY. L'Oreal Revitalift Yeux, Roge Cavailles, Optic 2000. Well. Jean Louis David colour guard, Jacques Dessange, Timotei, Signal Interact, Garnier Belle Colour. Les iles de Gaudeloup, Freedent, Dove Shampoong, L'Ephemere, Saupiquet, Rouge HydraCreme, Garnier Creme Synergie.	31	19,9
Lover /Partner	Jambon de Bayonne, Special KeUogs, Orange, CuisineUa, Garbit Couscous, Carte Noire, Mazda 6. Ford Fusion, Linux, De Titres Restaurant, Saint Agur. Camembert de Campagne,	27	17.3

	Credit Lyonnais, Mon Cheri, Maggi. Lapeyre, Renault Megane, Leiseur, Heudebert, Europe 1. BMW, Frial, Maggi. Club Internet, Wiliam Saurln, Essentiel, Samsung Digital.		
Professional	Microsoft. Daunat, Cote d'Or, APEC, FiniMetal, Linux, CIC Banques, La PostelVivango, Visa Egg, L' ARTISANA T, Carolin, Mon Cheri II.	12	7,7
Sexual object	Salakis, Citroen C3, Millionaire en euros, Renie Detlatine, Well, Sensi Giorgio Armani.	6	3,8
Sexy cook	Panzani, Camembert de Campagne, Maggi.	3	1,9
Cleaner	Harpic, Turbofonte, Brandt, Siemens, Canard, Febreze, WC Net Canalisation, Carotin.	8	5,1
Old but still active	Boursin mini, La Banette 1900, Nivea Vital QI0 plus, Maif, YMEA, Rondele, Societe General.	7	4,5
Independent But with a man	Cote d'Or, Rexona, Opel Corsa.	3	1,9
Total		156	100

While carrying out a comparative analysis, it is crucial to highlight that most dimensions are repeated in both countries' advertising. Therefore, main categories for further consideration will be: "Stupid", "Cleaner", "Independent", "Independent but with a man", "Body", "Family women", "Professional", "Sexual object". There are also some dimensions which are visible only in French TV advertising: "Pursuing pleasure", "On a diet", "Lover/Partner", "Sexy cook", "Old but still active". In addition there are two categories that are present only in Polish TV advertising: "Cook" and "Sick". The category "Sick" is certainly present somehow in French TV advertising, but the image of a sick woman is not clear. What is more, there are no really sick women in French advertising. There are only women who occasionally suffers from pain.

The "Stupid" category is common in Polish TV advertising (7,9%) and is rather rare in French TV (2,6%). Moreover, in Polish advertising it seems stronger, and the image of women is more negative, whereas in French advertisements the "Stupid" category refers to the inattentive or irregular woman, e.g. Panier de Yoplait (A woman is cleaning strawberries in the river. Suddenly the current takes the basket with fruits. The woman is chasing it and finally catches it). The only negative image in this category is present in Vegas (A rich woman is talking to a rich man about her finger, which is the only ringless one on her hands, which she needs some ring for). But it is negative when it comes to both a woman and a man. The Polish "Stupid" category shows a woman who is mentally impaired or deeply naive e.g. Dosia (Women are discussing the smell of newly washed clothes; an arrogant man is asking them about the name of a washing powder. They are not aware that this is the newest Dosia. He

knows!). The particular feature of this image is the difference between a stupid woman and a wise man, e.g. Mirinda (A man is drinking Mirinda and cannot notice that his woman is fighting against wild animals. Finally he rescues her accidentally). The "Stupid" category may be perceived as a manifestation of sexism in Polish TV advertising.

The "Cleaner" category in Polish (7 ~ 1 %) and French (5,1 %) TV advertising both refer to a similar image. However, in French advertisements this category is more often connected with the independence of the portrayed woman, e.g. Harpic (A woman is robbing a house and cleaning the toilette with Harpic. After that she has spare time to take a sunbath for a month). In Polish advertising this category contains an image of a woman whose main problem is cleaning, e.g. Lotto (A husband and a wife are discussing their needs. She wants a washing machine. She says with a dreamy voice: "If I had a washing machine, I would wash". He wants a flat. The solution of their problems is playing Lotto). What is more, in Polish TV advertising the "Cleaner" category is a part of the image of a housewife who pursues cleaning and takes care of children. This category may be associated with sexism in both Polish and French advertising, but it seems important that there are a few advertisements in which a man cleans, e.g. Cilit (A woman cannot manage to clean her bath. Instead she goes to throw out garbage and her husband cleans the bath and the kitchen with new Cilit. She comes back and asks him to bake a cake). It is still in the minority of advertisements, though.

The "Independent" category is only slightly more common in France (7,7%) than in Poland (7,1%). They are rather similar. In both countries the "Independent" category refers to a woman who does something on her own without a man's help. In Polish advertising this category contains an image of a woman on a diet, e.g. Danone Vitalinea (A woman is in a hurry and drinks Danone Vitalinea, water that cleans her body), whereas in France this type of advertising has its own category. In both countries, there are advertisements in this category involved with cleaning, but in which a woman is not shown as a cleaner, e.g. Skip (A woman is driving and men and boys are pointing at her and screaming something. It is about her skirt, which is in the car door. She leaves the car and does not care because she has washed the skirt in Skip). In Polish advertising this category is represented by younger single women, while in the French there are also independent older mothers, e.g. Polo (A woman has problems with her teenaged daughter. She has no problem while driving the new Polo). In France this category also shows a trace of sexual independence, e.g. Alfa Romeo (A woman gets excited while thinking of driving an Alfa Romeo).

The "Independent but with a man" category is the second most common dimension in Polish advertising (12,6%). In France this category practically does not exist (1,9%). The popularity of this type of image may be understood as the strong influence of Polish sexism on advertising. It is also a reflection of social stereotypes, according to which a woman may be independent only when somebody (a man) controls her. In this category a woman is portrayed as a person who wants to be attractive to men, e.g. Garnier Fructis (A woman is dancing in the disco and meets a man. The man covers the screen with his palm while having sex with the woman who washed her hair in Fructis), and whose being depends on men, e.g. Fa (A woman escapes. Fa helps her to stay cool. But a man helps her to get on board). This category always portrays women as partners (wives, lovers) of men, e.g. Ristorante (A couple eats a romantic supper on the bridge. Pizza Ristorante is so delicious that the woman cannot help that she wants the last piece for herself). In France the connection and dependence on a man is not so clear. A portrayed woman meets a former boyfriend (Rexona) or is quarrelling

with a man who kicked her beloved car (Opel Corsa). Certainly the "Independent but with a man" category is a manifestation of sexism in Polish TV advertising.

Advertisements in the "Body" category are the most numerous in French TV advertising (19,9%). It is quite difficult to interpret because there is not any clear image of a woman in it. This category contains women used as elements to advertise a product. They are usually beautiful but they do not act any particular role. Mainly the advertisements are addressed to women and for this reason they show women as using some products (cosmetics). This category is also rather common in Poland (11%). It seems certain that it should not be interpreted as sexist, for the usage of a woman's image could easily be replaced by a man's image, if only the product advertised was a man's product.

The "Family women" category is the most numerous in Polish TV advertising (28,3%). However, it is also strongly represented in France (17,3%). The "Family women" category is the most traditional woman's image. It associates a woman with looking after children, e.g. Monique Renou (A woman is bringing a basket of food from a shop. Her children and husband take it to taste), cleaning a house, e.g. Bryza (A mother is singing while washing her children's dirty clothes. Than she realises that there is Bryza and she does not have to hand wash any more. She is singing while having fun with her children), and cooking, e.g. Biedronka (A nurse is talking to her husband on the phone. It turns out that he invited friends to have dinner. Another nurse advises her to go shopping at Biedronka, where it is cheap.).

Despite the frequency of the "Family women" image, cooking can also be correlated with sex in French advertising (the "Sexy cook" category). What is more, cleaning is more often a woman's duty in Polish advertising. In France, the "Family women" category relates first of all to being a mother, e.g. Grand Mere (A woman and her adult daughter are sitting by the table. They do not talk. They decide to drink coffee Grand' Mere, which enables them to chat), whereas in Poland it is more often associated with being a housewife. However, this difference is not great and one may assume that this is just because of the three-month duration of the research. This category, while being stereotypical, does not seem to be sexist. The image of a family woman is presented positively and objectively in both countries.

The "Professional" category is present in Polish TV advertising (7,9%) as well as in French (7,7%). There is a remarkable difference between the images presented. Polish advertisements seem rather stereotypical. Women portrayed are usually nurses (Biedronka), doctors (Apap, Bref Duo Active), or teachers (Domestos, Herbal Essences), whereas in French advertising women are the part of a management board (Linux, Visa Egg, L' ARTISANAT), work in stereotypically men' positions (Microsoft) or are chefs (CIC Banques). As well in French advertising women are actresses (Mon Cheri) or nuns (Carolin). In this category sexism is visible only in Polish advertising.

The "Sexual object" category is more often present in Polish TV advertising (8,7%) than in French (3,8%). The association between a woman's image and sex is clearly visible in Coca-Cola Light (A barwoman serves her clients. She climbs the steps to take Coca-Cola. Finally she drinks it on her own. Men admire her figure), Era mms (A woman is ting a bow on her naked body. She is taking a picture and sends it as a gift to her boyfriend), and Reiffeisen

Bank (A man leaves a bank after having settle a three-month-long investment. It turns out that he could have wonderful women if he had money now) - Polish advertising. It is also noticeable in Salakis (A woman in a Miss Salakis bathingsuit is serving a man who is playing a game. She is offering him Salakis), Well (The picture of woman's lips and her bust in an underwear), Sensi Giorgio Armani (A woman is lying and moving her body with sensuality) - French advertising. The particular characteristic is that sex is more overt in French advertising (the "Independent" category, the "Sexy cook" category, the "Lover/Partner" category). This fact could be explained as a cultural difference between the Poles and the French. What is more, sex is something common in French advertising and is usually not offensive toward women, e.g. Credit Lyonnais (A couple is making love under the blankets. Suddenly a woman stops to ask about their financial situation) or Club Internet (A couple is having sex. After that a woman's stomach is getting bigger. Everything goes faster with Club Internet). Notwithstanding this opinion, the "Sexual object" category may be perceived as a manifestation of sexism in both Polish and French TV advertising.

As mentioned above, there are some categories which are not common for France and Poland. In Polish TV advertising there is the "Cook" category and the "Sick" category. The "Cook" category is not numerous (2,3%) and it relates to the traditional woman's image, portraying a woman as a "house hen". This category may somehow correspond with the French "Sexy cook" category. However, the difference involves the sexual character of French advertisements. Consistently, the "Sick" category is quite numerous (7,1%) and, as already mentioned, it exists somehow in French TV advertising. This category does not show any particular picture of a woman and is similar to the "Body" category, presenting products for women used by women.

From the psychological point of view, an interesting category is the "Lover/Partner" category which is numerous in French TV advertising (17,3%). This category refers to the "Family women" category but it consists of different images of a woman. A woman is presented as independent but in a relationship with a man (often sexual). She does not act in stereotypical wives' roles (watching stars in BMW, feeding a man in Jambon de Bayonne, a man is preparing a dinner for her in Garbit Couscous) and she behaves more like a young girlfriend than a wife, no matter how old she really is. This category says a lot about the French social situation, in which there are relationships (but not marriages) that exist legally and last (Pacs). The image of a woman in such a relationship is shown as positively as one in the "Family woman" category. However, it is more connected with a woman's independence.

One more numerous group (7,1 %) in French advertising is the "On a diet" category, which refers to the newest image of a woman. All the advertisements in this category present women as slender and sporty people, who take care of their own health. Additionally, sometimes a woman lives with a man who learns from her how to live healthily, e.g. Special Kelloggs (A woman is eating Special Kelloggs and looking at herself in the mirror with pleasure. In the mean time, her man is peeping at her with horror.). Certainly, this type of advertising is not sexist. It is similar with the "Old but still active" category and the "Pursuing pleasure" category. The first one shows a woman who lives actively and is happy. This group may be perceived as a sign of democracy and equality in advertising (because advertising is the reflection of societies, it means that an elder consumer is important for producers).

Finally, the "Pursuing pleasure" category portrays a woman who likes sweets and pleasure. This picture is the opposite of the "On a diet" category where a woman chooses a health regime. What is important here is the fact that a woman, as an independent human being, has a choice to do what she wants and to live how she wants. Thus, these images do not contain sexism.

CONCLUSIONS

While summing up, it is television that forms peoples' opinions the most (among other media) because oft he various channels it uses to transmit information (hearing, sight)ll. What is more, television influences people by involving them in watching, and for this reason it has a great impact on building stereotypes. On the other hand, television (here: advertising) may be used to fight against stereotypical thinking and may improve women's image by removing sexism (discrimination on the basis of gender) from commercials.

In this context, the initial assumptions concerning the existence of sexism in Polish TV advertising and the assumption that Poland is a more sexist country than France turned out to be true. The comparison between France and Poland proves that there is sexism both in Polish and French TV advertising. Sexism is only slightly noticeable in French advertising and the majority of images of women show her in an equal position to men. There are only a few advertisements in the "Stupid" category and in the "Independent but with a man" category, which means that a woman is not perceived as weaker or worse than a man. Moreover, the "Sexual object" category also seems less common and the "Professional" category shows a woman in many non-stereotypical roles. The same applies to the "Old but still active", "Pursuing pleasure" and "Independent" categories.

Polish TV advertising looks quite sexist. The "Stupid" category, in which there are many offensive advertisements, is numerous. Furthermore, the "Independent but with a man" category is also rather numerous and presents women as unreasonable and dependent on men. Consistently, the "Professional" category portrays only traditional women's occupations and the "Sexual object" category is strongly represented. Therefore, in comparison with French advertising, Polish advertising seems sexist. This results in a bad image of Poland as a sexist country, which seems even worse when comparing it to France, which has traditionally had a more open society regarding sex and shows it in advertising. For a discerning eye, this overt sexuality seems less sexist than Polish non-sexual advertisements.

After the comparative analysis, one may assume that the result is positive for France, due to its European Union background and longer democratic tradition. Therefore, it is likely that Polish TV advertising will evolve from today's style to the European level after its accession to the European Union. Despite this hope, the question as to why Poland (whose law is very similar to the European Union's) is still far from European standards, seems acute.

The problem of equality is going to be solved in the years ahead, but is it only a case of the legal system? It seems not, because of cultural differences which are present and visible in all of Europe, even between the European Union members. Still, there are countries where the tradition of patriarchy is strong (Spain, Portugal) and has lasted despite the legal system. The

change in people's mentality is a lengthy process, but legal changes can help it along, if they are good, complex and observed. People ought to want to live in equality, but this equality does not necessarily mean that every single woman is going to become a manager. Equality should be the possibility to govern one's life and to allow other people to decide independently about their own lives. This simple truth still seems strange in Poland, and because of that, accession to the European Union can change a lot. The opportunity to live among different nations with open borders may do something for the socialisation of Polish society. This famously stubborn group of people might *choose* to treat each other equally, and not only because they are forced to by law.

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INTERORGANIZATIONAL AND INTERPERSONAL NETWORKS AND THE DEVELOPMENT OF A BOAT BUILDING DISTRICT IN NEW ZEALAND

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Organizations and people are important components of an industrial district. This paper explores the concurrent processes of interpersonal (relationships between individuals) and interorganizational (relationships between organizations) network development within the Auckland boat-building district. It also looks at how such networks play an integral part in developing the district. The embedded case method is used for this qualitative study.

The findings provide several examples of how interpersonal networks can be transformed into interorganizational networks and vice versa. Despite their initial reluctance to collaborate organizations learnt to maintain a balance between 'competition' and 'co-operation'. The formalization of interorganizational relations through bodies such as the Marine Industry Association and the Marine Exporters Group provided firms in the district with infrastructure and support. The latter was essential since many of the business owners were sailing enthusiasts and professional sailors rather than professional business managers.

Keywords:
Industrial district boat-building interpersonal networks
interorganizational networks collaboration internationalization

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INTRODUCTION

Industrial districts, or specialized industries that are concentrated in geographically delimited areas (Marshall, 1950), have received substantial attention from scholars in several fields. Traditionally, the district was employed as the unit of analysis. In the 1990s, though, greater focus was placed on the firm, and earlier assumptions concerning the homogeneous nature of district firms, were increasingly questioned. Industrial districts were increasingly recognized as consisting of firms fulfilling very different roles (Alberti, 2003). Becattini (1990) provides a definition that regards the industrial district as a "socio-territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area". With the recognition of the roles of organizations, as well as individuals, in industrial district research the development of interpersonal and interorganizational relations also became an integral part in the understanding of the development of an industrial district.

One industrial district that has emerged in recent years is the boat-building district in Auckland, New Zealand. The boat building industry in Auckland displays all the characteristics of an industrial district (see Figure 1). It has (1) highly specialized firms within the same industry, the core of the district being composed of boat builders and specialist supplier firms, such as mast makers, designers, sail makers, and winch and electronic navigational equipment manufacturers at the supplementary level; and (2) a supporting infrastructure in the form of trade associations, export promotion organization, economic development agencies, city councils, educational institutes, consultants, and government agencies.

The presence of a variety of actors, all relying on interaction and collaboration in daily activities, implies that an industrial district can be regarded as a network of interconnected relationships. The concept of the "network" is a multifaceted one. There are several ways of defining what a network entails. Two such dimensions concern (1) who the actors of the network are, and (2) the degree of formalization of the relationships between network actors. Different research streams regard network members as being either organizations or individual human beings. The former may be referred to as business networks or interorganizational networks, and can be defined as "two or more connected business relationships" (Blankenburg Holm, Eriksson and Johanson, 1999:473). Another less explored research stream concerns the networks of individual human beings, often referred to as personal, social, or interpersonal networks.

Many scholars also recognize the simultaneous existence of interorganizational and interpersonal networks (Dubini and Aldrich, 1991). Some regard interpersonal networks as a sub category of interorganizational networks (e.g. Holmlund and Kock, 1998), while others consider the interorganizational network as providing an infrastructure for the creation of interpersonal networks (e.g. Hallén, 1992). Rarely, however, are interpersonal and interorganizational networks addressed in the same studies. Consequently, the influence of interpersonal networks on interorganizational networks and vice-versa remains largely unexplored (Agndal and Nilsson, 2002).

A formal network is created for a specific purpose and its members have to grant others access to the network before they can become network members. This type of network may also be referred to as an alliance (Agndal and Axelsson, 2002) or strategic network (Jarillo, 1988), as its boundaries can be defined by its constituent members. An informal network, on the other hand, emerges and expands as relationships between its members

arise and develop through interaction. Typically, it is difficult, or even impossible, to clearly define the “spatial” and temporal boundaries of such a network. This type of network may also be referred to as a naturally emerging network (Agndal and Axelsson, 2002).

The purpose of this paper is to explore the concurrent processes of interpersonal and interorganizational network development within the development of the Auckland boat-building district. More specifically, the focus is on finding how one type of network influences the creation of another, and to take this further the development of the district as a whole. In regard to the latter three research questions can be formulated: (1) How does one type of network influence the creation of another? (2) How, and why, do firms form such networks? (3) How do these networks influence the development of the industrial district as a whole? The Auckland boat-building district is used to answer these questions and to test existing theories on networks of interconnected relationships as illustrated in Figure 1.

The remainder of this paper is divided into five sections. The following section presents a review of the literature on types of networks and networking processes. Next is a discussion on the method of research. A presentation of findings concerning networks in the Auckland boat-building district follows. The paper ends with conclusions, and finally implications.

Types of Networks and Networks within Industrial Districts

By differentiating between the organization, the individual, and the degree of formality of the network we are able to identify four different types of networks including formal interorganizational networks, informal interorganizational networks, formal interpersonal networks and informal interpersonal networks.

Formal interorganizational networks

A formal interorganizational network permits access only to select organizations. Such a network may be created for a specific purpose, or based on previously informal relationships, which have been transformed into formalized relationships. Formalized interorganizational networks include industry associations, special interest groups, and export groups. Other examples of formal interorganizational networks are what Jarillo (1988:32) refers to as strategic networks, or “long-term purposeful arrangements among distinct but related for-profit organizations that allow those firms in them to gain or sustain competitive advantage vis-à-vis their competitors outside the network”. Such networks are often arranged around or by a leading firm. Neergaard (1999) discusses one type of formalized or strategic network - a government-funded network for export promotion. Her study showed this type of cooperation could easily be discontinued if participants had little prior knowledge of each other.

Policy aspects of formalized interorganizational networks have raised interest amongst scholars. In several countries there are government supported networking projects with a variety of aims, for example competence development (Kraft in Sweden, see Axelsson and Larsson, 2002), export promotion (Welch et al., 1998; Chetty, 1994), setting industry standards, and organizing training programs (undisclosed to maintain anonymity).

Informal interorganizational networks

Informal interorganizational networks have received significant attention by researchers in the past; in particular, research based on Industrial Marketing and Purchasing (IMP) Group frameworks of the 1980s and 1990's is prevalent. Most prominently, the A-R-A framework focuses around three dimensions of interorganizational relationships: Actors, Resources and Activities (Hakansson and Snehota, 1995). Actors are seen as embedded in contexts where they rely on the resources controlled and activities carried out by other actors. The network is seen as consisting of a focal firm's bonds to other actors such as buyers, suppliers, and competitors; ties between the resources controlled by the actors in the network; and links between the activities they carry out. Within this framework, networks are seen as evolving organically. The network itself consists of collaborative and competitive patterns that emerge as a result of business activities being conducted. The most fundamental assumption of this approach is that as trust is developed firms begin to coordinate their activities - create activity links - in such a way that lasting relationships evolve - relationships that both benefit and constrain firms. In industrial district research, a number of scholars have focused on interorganizational relations (Best, 1990; Saxenian, 1994), primarily being concerned with informal interorganizational networks, although the network term is not always employed.

Formal interpersonal networks

While interorganizational networks consider the firm as the actor, in interpersonal networks the individual is the actor. The distinction between formal and informal networks also remains relevant at this actor level. Formal personal networks thus typically include sports clubs and social clubs, but also organizations tend to provide individuals with support in various issues, such as networks of female entrepreneurs, breakfast clubs or similar. In the past, guilds of skilled craftsmen or merchants were important examples of formalized interpersonal networks. These have been replaced by modern versions such as Rotary or Free Masons. To gain access to such networks, individuals have to be accepted by the other members of the network, and must subscribe to its code of conduct. To our knowledge the only piece of research on this type of network within industrial districts is by Wigren (2003). She discusses the role of the local theatre association, the church, political parties, Rotary, and a "network of young entrepreneurs" in the development of the Gnosjo industrial district in Sweden.

Informal interpersonal networks

Informal interpersonal networks have been subjected to greater research efforts than have their formalized counterparts. Such studies have been conducted in sociology since the 1950s and 1960s. One of the most cited writings on networks, Granovetter's (1973) seminal article on the strength of weak ties, focused specifically on individual's friendship networks, although it is also cited as a source in much of the research on interorganizational networks. Granovetter's argument is that individuals have a variety of relationships, some of which are strong and some of which are weak. Through the relationships individuals have with others they are indirectly connected to these individuals' other relationships. According to Granovetter (1973:1361) "The strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie". He also asserts that (1973:1376), "Weak ties are more likely to link members of different small groups than are strong ones, which tend to be concentrated within particular groups".

An important distinction to make is whether the relationships are connected to the individual or connected to the individual only in their capacity as a representative of a firm (Hallén, 1992). Halinen and Törnroos (1998) refer to this as the representational role of the individual. Hallén (1992) also discusses task-orientation as an important dimension of networks. Agndal and Axelsson (2002a) discuss the importance of relationship sediments, that is, more or less dormant relationships that may be activated for business purposes, arguing that, among other factors, the origin of the relationship, its availability, and the contexts to which it grants access, are crucial factors to consider.

The interconnectedness of networks

Table 1 is a matrix, which shows the distinction between these various types of networks.

Although the relationship between interorganizational and interpersonal relationships is important it remains largely unexplored in research. According to Hallén (1992:77) "[interpersonal networks] are an integral part of the industrial networks, which link business firms to each other, and can be seen as infrastructure to the business networks in about the same sense as telecommunications, railways and road transport systems, that is, they provide underlying preconditions and support for industrial and business activities". Interpersonal networks, both formal and informal, are thus important for the creation of interorganizational networks. Similarly, interorganizational networks evolve from interpersonal networks.

Table 1: A summary of interorganizational and interpersonal networks as used in this paper

		Degree of formalization	
		Formal	Informal
Actor level	Inter-organizational	Network or organizations, which is limited in size and scope. Members, who jointly create the network grant access. It is thus planned in nature with an identifiable starting point, serving a specific purpose. Examples are: Export groups.	Network of organizational relationships, transactional and non-transactional in nature, emerging as a result of interaction between firms. It is difficult to identify network boundaries, within which any or all types of business activities are conducted. Any firm may become a member of the network through exchange with other members.
	Interpersonal	A network of individuals, which is limited in size and scope. The network is created with an identifiable starting point. It may serve business or other purposes. Examples are: breakfast clubs, sports clubs, alumni associations	Network of individuals, formed through social interaction throughout an individual's life span. Its boundaries are difficult to identify, since secondary, tertiary etc. contacts also are part of the network. Any individual may become a member of the network through social interaction. It may serve business or other purposes.

Networking Processes within Industrial Districts

An important feature of industrial districts is the balance between competition and co-operation (Alberti, 2002; Staber, 1998). Firms might cooperate to achieve economies of scale in terms of marketing, production, and internationalization. Firms working on the same product or activity however will be competing with each other. Competitors within an industrial district are likely to form informal interpersonal relationships as they work through

common platforms such as an industry association. Indeed, Wigren (2003) notes that business matters are often discussed when managers meet in social contexts.

The disintegration of certain industrial districts has been blamed on the closed nature of business and social relationships within such districts. Grabher (1993) attributes the decline of the German Ruhr to strong inner ties (cf. Granovetter, 1973) within that district. According to Grabher (1993) the initial strengths of the district, such as good infrastructure, close inter firm relationships, and strong support from regional institutions, stifled innovation. The region became insular and closed to new ideas, and thus fell into a trap of specialization and a consensus culture caused by a shortage of constructive conflict and creative chaos. In fact, Grabher (1993) cautions researchers to consider the negative impact of this consensus culture in their analysis of superior adaptation and coherence within successful industrial districts. In addition, Uzzi (1997:59) notes: “Over embedded networks can sometimes release intense negative emotions of spite and revenge that trap firms in self defeating cycles of behavior.”

METHOD OF RESEARCH

The single, embedded case study approach was used for this study. In designing such a study, Yin (1989) and Eisenhardt (1989) were used extensively. The embedded case method is defined as “multiple levels of analysis within a single study” (Eisenhardt, 1989:534). A historiographic or retrospectively longitudinal approach is used to examine the development of the district over time. The embedded case method uses several levels of analysis, with a range of data gathered at each level (Yin, 1989). Figure 1 shows the different levels that these companies belong to within the boat building district. The boat building district is the primary unit of analysis; the companies making up the group are the intermediate units; the CEO’s, managers and other leaders are the individual units. It is the perceptions of the latter which are of primary importance in the data analysis stage.

Figure 1: The interconnectedness of networks

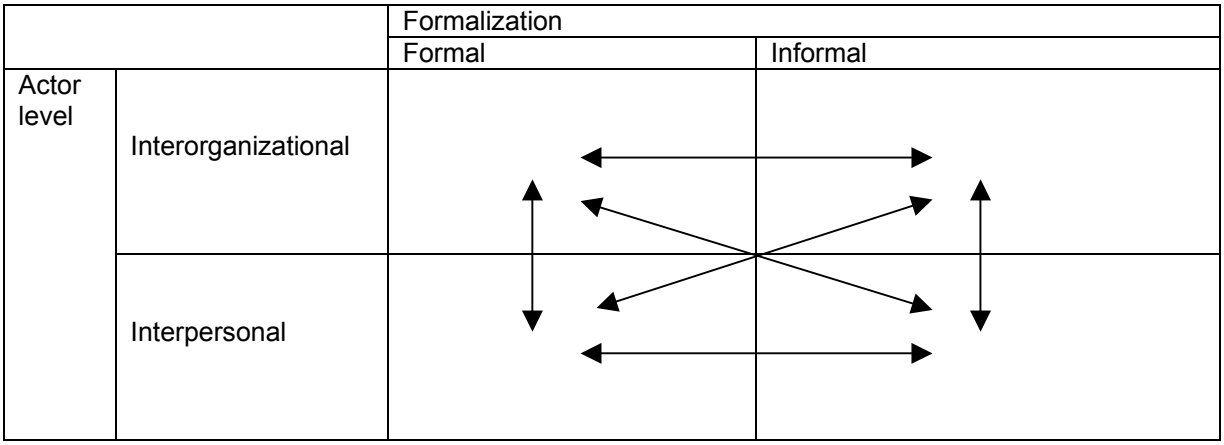
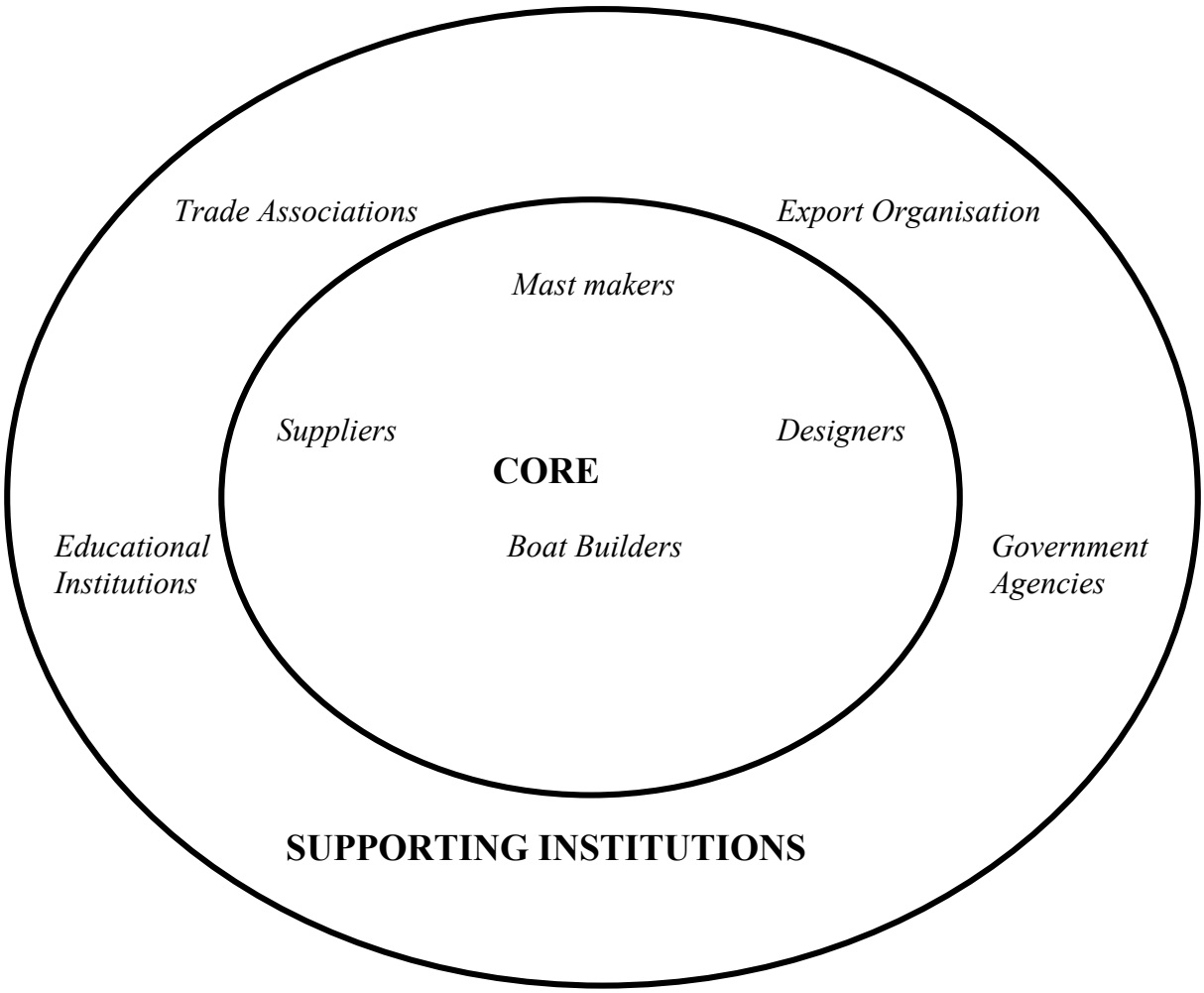


Figure 2: The different levels within the boat building district



It is common in case studies to select cases that represent the extreme rather than the average. In these cases the phenomena should be "transparently observable" (Eisenhardt, 1989:537) so that the process of interest is highlighted. The boat building district is an extreme case as it is considered to be a successful industrial district in New Zealand. It won the 1999 Trade New Zealand Export Award in the 'Co-operating to Compete' section.

For the purpose of this study, 21 respondents[1] from two different levels of the district (see Figure 1) were interviewed. Ten respondents were from the core of the district, and eleven from supporting institutions of the district. The ten core firms were small to medium sized companies with five to 215 employees (see Table 2 for profile of these 10 firms). All these firms sell their products or services to international markets and have export sales ranging from 18% to 100% of total sales. All ten firms interviewed are owner-managed businesses with the founding members still actively involved in the day-to-day running of the business. Respondents were chosen largely because of their membership in the Marine Industry Association and willingness to participate in the study. For core firms the CEO's were interviewed because they are the key decision-makers regarding the company's

[1] To maintain anonymity the names of some of these organizations and respondents will not be disclosed.

involvement in the district. Before each interview the respondents were sent an email outlining the research objectives. Interviews were semi-structured using a topics list to guide discussion. All interviews, on average lasting two hours, were tape recorded and later transcribed. Data was also collected from a variety of archival sources such as company reports, brochures, promotional videos, television documentaries, existing reports on the marine industry, and magazine and newspaper articles. Information from respondents about their companies and about the district and archival resources allowed for triangulation.

Table 2: Profile of the ten firms within the core of the district

Firm	**CB**	**SE**	**CD**	**SI**	**SH**	**SJ**	**SD**	**SF**
Year of Inception	1975	1988	1986	1990	1981	1981	1981	1976
Year Started Exporting	1979	1996-97	1987	Early 1990's	1985-87	Indirect exports since 1976	Late 1980's	1993
No. of Full-time Employees	70	5	215	100	20	15	35	85
Total Sales NZ$	$77 million	$1 million	$70 million	$21 million	$4 million	$8 million	$15 million	$15 mi
% of Total Sales Exported	100%	90%	40%	95%	80%	18 – 20%	60 – 80%	100%

Discussion of Networks in the Boat Building District

This section provides examples of all four classes of networks, which can be found in the boat building industrial district.

Formal Interorganizational Networks

Various supporting institutions play a key role in fostering the district. These institutions are: the Marine Industry Association (MIA); export promotion organization (MAREX); the government agency for exports (New Zealand Trade and Enterprise); economic development agencies; city councils; and educational institutions such as technical colleges and universities. Each of these institutions has a specific role to play. For instance, MIA focuses on training; MAREX on marketing and exports; economic development agencies on marketing and facilitation, city councils on infrastructure, and, educational institutes on different types of training and academic courses relating to the boat building industry. MIA and MAREX are key drivers in organizing the district. By taking the role of catalyst and facilitator respectively they have given the district some structure and educated members on the benefits of belonging to a district.

An example of formal interorganizational networks is that within the industry district there are sub-groups who collaborate on certain projects such as the Boat Brokers District. Each sub-group has an independent chairperson from outside the group who has equal allegiance to all members of the group. When these sub-groups form it takes time to build trust and commitment, as Peter Busfield of the MIA reports:

Initially meetings may be 'cold and crusty', but after a while members respect and trust each other enough to solve problems and share opportunities. In the late 1980's before the MIA convinced them to form a district, boat brokers within New Zealand were 'enemies'. Now about three-quarters of New Zealand's 50 independent boat brokers are MIA and district members. Each company in the district has worked together to design particular rules relating to ethics; the way they do their business; run their banking systems, and handle clients. Working together provides economies of scale for costs like legal fees.

The supporting institutions specifically involved in promoting exports from the boat building industry are the Marine Export Institute (MAREX) and New Zealand Trade and Enterprise, a government agency. MAREX is an industry organization that was formed as an offshoot of the Marine Industry Association (MIA) to foster marine industry exports. Although MIA, MAREX and New Zealand Trade and Enterprise play important supportive roles in developing the district, the initiatives taken by some entrepreneurial industry leaders in sowing the seeds to establish the industrial district, and to attract resources to it, should not be underestimated. Kim McDell was one of the founding members and the first chairman of MAREX. About six companies who were successfully exporting their products set up the Marine Export body. The group decided to set up MAREX for two reasons: firstly, to give the marine industry, which had been very fragmented, a united front; and secondly, to try and help other companies within the industry export their products.

According to Kim McDell while MAREX provides structure and organization for the industry it is still up to the individual companies to create their own success. In addition, he states that MAREX has achieved a good balance where it doesn't try to influence individual businesses, but helps the industry as a whole. These industry leaders continue to serve on the MIA and MAREX boards. This finding supports Feldman and Francis (2002) and

Appold (2000) that although entrepreneurs play an important role in shaping the district they have been neglected in the literature on districts.

In addition, having a common goal such as the drive to internationalize has played an important role in strengthening this district. MAREX plays a key role in disseminating information amongst its members. It organizes seminars and informal gatherings where members share information and experiences. Such frequent interaction helps relationships to form and facilitates trust and commitment which Morgan and Hunt (1994) suggest engenders cooperative behavior. In addition, it enables the parties to acquire 'mutual orientation', -knowledge about one another that they can use when communicating or trying to solve problems (cf. Johanson and Mattsson, 1987). This mutual orientation leads to the formation of rules that they conform to in future interactions. These relationships are what Grabher (1993) would call 'loosely coupled relationships', as they are not rigid, and the partners do not become locked into them. Moreover, these joint marketing efforts enable firms to identify where the real competition is because it is only when working together internationally that they realize their real competitors are offshore. By participating in international boat shows firms develop and maintain relationships with other members in the district and also share information. In addition, MIA and MAREX have a code of conduct on how business should be done - if members do not comply they are removed from the organization. This code of conduct creates peer pressure for conformity and prevents opportunistic behavior. Indeed, through membership of organizations such as MIA and MAREX opportunistic behavior as purported by Williamson (1985) is kept in check.

Informal interorganizational networks

One reason for the success of the Auckland boat-building district is that members have differentiated products so they complement each other rather than face "head on competition". In addition, boat builders share suppliers and interior designers, which leads to knowledge sharing within the industry that benefits all. Some of the organizations also have customers within the district. They get to know these customers through MAREX and MIA breakfast meetings and seminars and then start to interact with each other at an informal level. They learn about the needs of their customers through interpersonal networks and use this information to improve their products. If members in the district are not capable of doing a particular type of work, or if they have too much work and cannot take on a new project, then they make referrals to each other. There are, however, times when firms will be competing for the same customer. Another benefit of being part of a district is that small businesses can collaborate on large projects that would have been impossible for them to accomplish on their own.

Formal interpersonal networks

Members of the district belong to sailing clubs, various sports clubs, and social clubs. In fact, it was difficult to screen out the effects of such networks on their organizational and interpersonal networks. It is possible, however, that their informal interpersonal networks, may have emerged from these formal clubs. One such club that was mentioned frequently was the sailing club. It could also be argued that because of their sailing and business activities they have limited time to spend on other formal interpersonal networks.

Informal interpersonal networks

The members of the boat-building district have built long-term relationships as many attended the same schools and/or have sailed together, in some instances from the age of ten. These long-term relationships mean they are a closely-knit group. This governs how they interact when doing business within the district. Lane Finlay of MAREX had this to say about this close network:

[…] currently there are a lot of our business owners who had sailed together in their youth. They still recognize each other and say 'hey remember the race against you guys in the world half ton finals' or whatever it might have been. There is that background network because New Zealand is small and people know each other, or they know the brother of, or they know the family of, so you do have that type of thing.

The owner managers in all the core firms in this study were avid sailors with some competing at a professional level in international yacht races. They emphasized that their success in boat building stems from their passion for sailing. Sailing allows them to critically test the products they build. Through sailing competitions they also get to know their customers, distributors and competitors, who sail in these competitions. Such informal interactions allow them to learn about the latest technology, test the latest products, and keep well informed about customer needs. The CEO of SH has this to say:

I can't stress enough the importance of not only working in formal channels, as I guess the government and professionals can provide, but also using networking channels. One way the company does this is through BJ [a director of the firm] spending time sailing. This allows the company to keep in touch with a wide range of people in the industry and develop informal relationships.

Networking Processes within the Boat Building District

Respondents in this study use their interorganizational and interpersonal networks to work together within the boat-building district. This networking not only benefits themselves, but also the district as a whole. The boat builders work together on some projects, share information, share technology, learn about different aspects of business from each other, and about overseas markets. As the earlier examples illustrate boat shows are a good way to create interpersonal networks and to transform them into interorganizational networks and vice versa. Despite the initial reluctance of members to co-operate they eventually saw the benefits of working together. They chose network partners carefully so they could leverage off their success. Interpersonal relationships are also valued. Even though skilled employees leave the district to work for overseas boat builders the Auckland firms turn this into a positive by using these former employees to enter and learn about new foreign markets.

As confirmed by Ellis (2000) and McDougall Shane and Oviatt (1994), such interpersonal networks permit the firm to learn about new markets, to identify new opportunities, and to enter new networks in foreign markets.

The boat-building district has not yet reached the stage of insularity as Porter (1990) reports in his study of districts. One explanation for this is the involvement of the boat builders in sailing. Through international sailing events they become aware of how other

boats are being built, and the technology used, thus they keep up with new developments in the international arena. Indeed, unlike the industrial district in the Ruhr area which became locked into a regional homogenous culture (Grabher, 1993) the link with sailing helps to 'bridge relations' by bringing in information from outside sources, often from the international environment. Using Granovetter's (1973) concept of "weak ties" it could be argued that sailing links the boat builders into other interpersonal networks that exposes them to new ideas and opportunities.

CONCLUSION

This paper shows how interorganizational networks, interpersonal networks, and the boat-building district co-evolved. Although the boat-building district provides several examples of formal and informal interorganizational and informal interpersonal networks, we find relatively little evidence of the existence of formal interpersonal networks. Apparently, managers of firms in the district prefer to keep personal contacts informal, while they are willing to formalize organizational relationships. One explanation for this can be found in the characteristics of business founders. Many were originally sailing enthusiasts and had little formal business training. While they are used to informality in interpersonal interaction, they may prefer to rely to a greater extent on formalization when conducting business activities.

The crucial factor in the development of the Auckland boat-building district was not the social networks of the entrepreneurs, but the process by which informal interpersonal networks were transformed into informal and formal interorganizational networks. One of the reasons for the success of the district is the ability of many of the sailing enthusiasts to use their personal contacts – people who share their interests – for various business purposes. Similarly, the formalization of interorganizational relations into formal networks, in particular MIA and MAREX, provided the firms in the district with the infrastructure and support needed in light of the owners' lack of business experience. By acting as facilitators and caretakers these formal networks provided the avenue for firms to turn their interpersonal networks into interorganizational networks and vice and versa. Each type of network reinforces the other.

In addition, entrepreneurial firms in the boat-building district took a leading role in initiating and shaping the district during its early stages by encouraging the creation of informal organizational and informal interpersonal networks. An implication of this study for researchers of industrial districts is the need to explore the role entrepreneurial leaders play in developing a district. Implications for managers are that interpersonal networks should be nurtured and transformed into interorganizational networks - this being too important an issue to leave to chance. Finally, it is important for members of a district to maintain links with other networks so they can obtain new ideas and resources. This will prevent the district becoming too close knit and insular. As Grabher (1993:24) demonstrated locking out new entrants and new ideas can lead to self-destruction as – "ties that bind" become "ties that blind"

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THE FINANCIAL ASPECT OF GROWING ORGANIC WINE GRAPES IN THE VREDENDAL DISTRICT

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ABSTRACT

Confusion still exists regarding the meaning of the organic production system. It can be defined as a holistic production system which enhances the agricultural eco-system by prohibiting the use of synthetic production mediums. It focuses on the improvement of soil fertility and the protection of the environment.

The environmental advantages by themselves are not reason enough for farmers to adopt organic practices. The financial implication of organic agriculture in comparison with conventional practices is very important. It does not matter how ecologically advantegeous organic farming is, if a farming system does not show sufficient profit for the farmer to stay in business in a free market, an organic system will not be adopted. Ecological agriculture tends to have slightly lower yields, but production costs also tend to be lower during full production, due to the reduced use of purchased inputs. The net income (gross margin) from organic and conventional practices is thought to be comparable, although either can be advantageous under specific conditions.

Many South African producers are interested in the organic production practices of wine grapes. Some of the producers are already busy converting their vineyards to organic practices. An important question relating to the organic production of wine grapes, is the cost associated with the practice.

Research had been undertaken by Coetzee, of the farm Vaalpan, in the Vanrhynsdorp district, near Vredendal, South Africa. The farm is 12 hectares in extent of which 3 hectares are under the production of organic wine grapes. The purpose of the research was to compare the financial issues relating to conventional and organic practices. The results had shown that the price of the wine grapes and specially the price premium of organic wine, would determine whether the organic production of wine grapes was financially viable, as the production was lower and the production costs were higher.

INTRODUCTION

The organic cultivation of food has increased significantly worldwide and South Africa is not behind in this process. The cultivation practices implemented, provide peace of mind to consumers that they are not being exposed to the residues of chemical substances. The Chill Chamber (2002) was of the opinion that sound organic practices respected the environment and promoted biodiversity and sustainability.

The focus of the research was on organic wine grape production in the Olifants River Valley. The research was compiled in co-operation with Coetzee, a viticulturist. Coetzee's farm in the vicinity of Vanrhynsdorp consists of some three hectares of vineyards that have been planted using organic methods. The farm had already been certified by the "Société Générale de Surveillance" (SGS) and during 2002 Coetzee was in his third year of producing wine grapes organically. The cultivars already established, are a 1999 planting of Shiraz (2 hectares) and a 2001 planting of Cabernet Sauvignon (1 hectare). During 2002 Coetzee also made wine from organic wine grapes and samples of the wine had been sent abroad to be tested. As Coetzee is the wine master at the Klawer wine cellar at Vanrhynsdorp, his knowledge of the wine making process will be a valuable asset. The farm's wine will be marketed abroad under the logo of the Matzikama wine cellar.

The farm's vision for the 2002/3 season is directed towards quality rather than quantity. Quality is assured by selecting small, compact and healthy bunches of grapes. The field production records are also an indication of the farmer's attitude towards quality control.

METHODOLOGY

The case study research method was used in the research regarding the financial aspect of growing organic wine grapes. The ultimate aim of the study was to draw a comparison between the financial aspects applicable respectively to conventional and to organic wine grape production. A risk sensitivity analysis was done in terms of price and yield for the two production methods. The break-even production to cover the operating cost and the break-even production to cover total costs were determined.

The Computerised Budget (COMBUD) program (COMBUD, 2001/2) was used to compile enterprise budgets for both conventional and organic wine grape cultivation practices. The program was also used to perform a parametric analysis to test the sensitivity of the gross margin regarding change in price obtained per ton and yield per hectare.

An Excel spreadsheet was used for calculating the risk, and also for the calculation of the break-even production to recover the operational and total costs.

RESEARCH RESULTS AND DISCUSSION

The cultivation practices follow will be discussed first. During January the farmer starts to make his own compost with garden waste and sheep manure from sheep grazing on natural pastures. It is important not to use manure from feedlots, as traces of chemicals and antibiotics can be found in such manure. In January a disc plough is also used

between the rows for green mulching. Hoes are used to remove weeds in the vine rows. No pest and disease control are used (Coetzee, 2002).

During February the farmer applies micro-organisms in the form of liquid seaweed at 50 litres per hectare. Harvesting is also done during February by using permanent and casual labourers. Compost is applied during May, at 10 cubic metres per hectare. A cover crop at 100 kilograms per hectare is also sown during May. During pruning in August only strong canes are left on the vine. Disc ploughing is again done during September and weed in the vine rows removed with a hoe. The control of downy mildew can take place during September and poorly spaced shoots are removed during October. Botrytis could also then be controlled if necessary. During December the weeds in the vine rows must again be removed with hoes. Poor developed bunches are removed in December as the farm focuses on quality rather than quantity. Mealy bug could be controlled any time during the season, with a minimum of two days before harvesting (Coetzee, 2002).

The main farming practices of conventional and organic wine grapes are presented in Table1.

Table 1: Conventional and organic farming practices for wine grapes

CULTIVATION PRACTICES	CONVENTIONAL	ORGANIC
IRRIGATION	Drip Irrigation	Drip Irrigation
MACHINERY NEEDED	48 kW 2 wheel tractor Trailer 12 disc mouldboard plough Mist blowers (800 – 1000 litre)	48 kW 2 wheel tractor Trailer 12 disc mouldboard plough Mist blowers (800-1000 litre)
PRUNING OF VINEYARD	Same technique for conventional and organic practices	Same technique for conventional and organic practices
COVER CROP	No cover crop was sow	Wild rye*, canola* and Russian tumble-weed are used as cover crop
FERTILISER	Easogro Starter 6.1.3 (15) 6.1.0 (19)	Make own compost
PESTS	1. Downy mildew 2. Mealy bug 3. Botrytis	1. Downy mildew 2. Mealy bug 3. Botrytis
PEST CONTROL	1. Dithane/milraz/ demildex 2. Tokuthion 3. Toreador	1. Bio-Cop 2. Shield AZ 3. Bio-Tricho (Certified: Agro-Organics)
WEED CONTROL	Round-up	Hoes are used to control weed on the vine row. Bales of wheat straw can also be placed in the vine

		rows.
ROW SPACING	2.5 m between rows 2 m in rows	2.5 m between rows 2 m in rows
METHOD OF HARVESTING	Use labourers	Use labourers
QUALITY OR QUANTITY	Focus on quantity	Focus more on quality
PRODUCT	Supplier to co-operative wine cellar	Supplier to Cederberg cellar for the making of wine from organic grapes
MARKET	Local market	International market

***The choice of the cover crop will be influenced by the ultimate object that you want to achieve by the use of a cover crop. For example there is a shortage of nitrogen in the soil or will a cover crop with a deep root-system be chosen to prevent the compaction of the soil.**
Source: Hough (2002)

The most significant differences between the farming practices indicated in Table 1, are that for conventional practices fertiliser was purchased and for organic practices Coetzee made his own compost. Conventional practices focussed more on quantity and organic practices focussed more on quality. The conventionally produced grapes were sold to the local market and the organic produced grapes were sold to the international market, in the form of organic wine.

During the first year of production (2000/1) one ton per hectare was harvested and six tons per hectare during the second year (2001/2), while it was estimated than once the vineyards were in full production (2002/3), the yield would be 10 tons per hectare.
The establishment costs and gross margin for conventional and organic wine grapes are presented in Table 2.

Table 2: Establishment costs and gross margin analysis for conventional and organic wine grapes (R/ha)

Item	Conventional	Organic
Production per ha	12	10
Price per ton	4 500,00	6 000,00
Grape skins (R/t)[1]	0,00	0,00
Marketing costs (20 % of gross income)	10 800,00	12 000,00
Gross income minus marketing costs	**43 200,00**	**48 000,00**
Direct Allocated Variable Costs	**17 460,49**	**25 840,79**
Pre-harvest costs	14 624,29	22 704,59
Harvest costs	2 836,20	3 136,20
In Direct Allocated Variable Costs	**1 059,12**	**550,00**
Pre harvest costs	1 044,13	535,00
Harvest costs	15,00	15,00
Total allocated variable costs	**18 519,62**	**26 390,79**
Establishment costs (total)	39 658,05	39 687,05
Establishment costs /year[2]	1 586,32	1 587,48
Gross margin (GM)	**24 680,38**	**21 609,21**

Break even production to pay total costs (ton/ha)	4,53	4,79
Break even price to pay total costs (R/ton)	1 697,13	2 875,77
Wine[3]:		
Additional income (bulk sales)[4]	-945,00	10 740,00
Additional income (sales per bottle)[5] litre bottles (R/bottle x total bottles x production/ha)	282 960,00	430 335,00
Direct Allocated Variable Costs	102 573,12	85 477,60
Wine GM/ha (sales per bottle) (GM of grapes <u>plus</u> additional income <u>minus</u> direct allocated variable costs)	**205 067,26**	**366 466,61**
Break even (litres/ha) (to cover total costs and wine making costs)[3]	722,83	511,03
Break even (price per litre) (to cover total costs and wine making costs)[3]	49,05	63,28
Organic wine grapes break even with the gross margin of conventional wine grapes (price per ton)	**	6 307,12
Organic wine grapes break even with the gross margin of conventional wine grapes (ton per hectare)	**	10,51

1) **The producer does not get any compensation for the grape skins and it is available to the producers free of charge. The acceptance can be made that the skins will be sold at R5 per ton in the near future to producers for the making of compost.**
2) **The estimate productive life is 25 years.**
3) **Wine making costs per ton: (conventional and organic)**

Bottles & labels	**litre**	**589,50**	**10,15**	**5 983,43**
Corkage	**litre**	**589,50**	**3,55**	**2 092,73**
Bottling-works	**bottle**	**589,50**	**0,80**	**471,60**
TOTAL WINE MAKING COSTS				**8 547,76**

Total costs per hectare:

		Conventional	**Organic**
Total farming costs	**per hectare**	**12 434,27**	**23 848,22**
Provision for replacement	**per hectare**	**6 345,00**	**3 322,00**
Establishment costs/ha/year	**per hectare**	**1 586,32**	**1 587,48**
TOTAL COSTS	**per hectare**	**20 365,59**	**28 757,70**

4) **Bulk sales: R7,50/litre for conventional - and R12/litre for organic wine.**
Cash shortage – conventional wine lower price than conventional wine grapes.

5) **Sales per bottle: R40/bottle for conventional - and R73/bottle for organic wine**
1 572 bottles wine from 2 ton grapes (conventional / organic)
786 bottles wine from 1 ton grapes (750 ml bottle) (conventional / organic)
589,50 litre wine from 1 ton grapes (conventional / organic)

Source: Hough (2002)

Organic wine grapes would break even (gross margin after total allocated variable costs) with conventional wine grapes at a production of 10,51 ton/ha and a price of R6 307,12 per ton (Hough, 2002).

The gross income before marketing costs from the conventional grapes was R6 000,00 per hectare less than in the case of organic grapes. The gross income after marketing costs of conventional wine grapes (R43 200,00/ha) as a percentage of organic wine grapes (R48 000,00/ha) was 90 % or R4 800,00 per hectare less than that of organic grapes. If organic wine grapes were sold at a price premium of more than 30 %, the gross income of organic wine grapes would be R4 800,00 per hectare more than conventional wine grapes (Hough, 2002).

The difference between the pre-harvest cost of the conventionally produced grapes (R14 624,29/ha) and organic grapes (R22 704,59/ha) was R8 080,30 per hectare or 64,41 % more. The main reason for the difference can be found in the components of compost (R2 700,00/ha), guano (R1 100,00/ha) and wheat straw (R7 000,00/ha). If the use of wheat straw could be substituted by naturally growing plants that were not cultivated, then the pre-harvest cost could be reduced by R7 000,00 per hectare in terms of the next set of budgets (Hough, 2002).

The harvesting cost component between the two types of production compared favourably (R2 836,20/ha for conventional grapes versus R3 136,20/ha for organic grapes) and the main reason was that the harvesting methods were identical. It was only the cost relating to cooling down the wine grape crates (R300,00/ha) that needed to be taken into account with organic grapes, since the cooling of organic grapes was important after harvesting. The cost of permanent and casual labourers employed in the pre-harvest and during the harvesting periods was R1 800,00 per hectare or 29,30% less with conventional grapes (R6 150,00/ha) than organically produced grapes (R7 950,00/ha). The reason for the latter increase was because more labourers were needed for the organic production methods. The control of weeds as well as the spreading of wheat straw between the vines were done manually. The selection of the best bunches was an ongoing process. The final goal was that the crop of the organically produced wine grapes should be sold at a premium price.

It could be deduced from the above analysis that the organic production of wine grapes would have financial benefits for the case study farmer should the price premium paid for the organic wine grapes exceeded the price of the conventional wine grapes by 30 %. Should value be added by means of making wine from the organically produced wine grapes, the organic wine margin is R161 399,35 per hectare more than the conventional wine (the difference between R205 067,26/ha for the conventional and R366 466,61/ha for organic wine grapes).

For the risk calculation of the two practices, the expected gross farm income was calculated with acceptances regarding price and yield. The production of conventional wine grapes was 12 tons per hectare and for organic wine grapes 10 tons per hectare.

According to Truter (2002) the probability was 60 % to produce 12 tons per hectare conventionally produced wine grapes and 10 tons per hectare organically produced wine grapes. The pessimistic scenario with a probability of 25 %, was eight tons per hectare for conventional and seven tons per hectare for organic practices. The optimistic scenario with a probability of 15 %, was 16 tons per hectare for conventional wine grapes and 13 tons per hectare for organic wine grapes.

The scenarios for the probability of price, notwithstanding the production, were as follows: R4 650 per ton with a probability of 15 %, R4 500 per ton with a probability of 80 % and R4 200 per ton with a probability of 5 % (conventional); R6 500 per ton with a probability of 15 %, R6 000 per ton with a probability of 80 % and R5 700 per ton with a probability of 5 % (organic) (Truter, 2002).

The risk analysis showed that the **expected gross farm income** for conventional wine grapes was R52 287,00 and for organic wine grapes R58 782,00. The **standard deviation** for conventional practices was R11 234,54 and for organic practices R11 517,28. The **risk per rand** projected income for conventional was R0,21 against R0,20 for organic practices. The difference between risk per rand between the two farming practices had the following meaning in the case of conventional practices R52 287,00 x 0,21 per hectare, that was an amount of R10 980,27 per hectare. In the case of organic wine grapes it was R58 782,00 x 0,20 per hectare, that was an amount of R11 756,40 per hectare. For a vineyard of 10 hectare the risk existed that the gross farm income for conventional practices could be R109 802,70 higher or lower than the expected value and in the case of organic practices it could be R117 564,00 higher or lower than the expected value (Hough, 2002).

The financial analysis for the conventional and organic production of wine grapes was undertaken over a short period (one year), as the case study farmer only started planting organic vineyards in 1999. The importance of studying the financial position of organic grape producers was emphasised because a cycle of one year did not provide sufficient information to register the underlying trends regarding the profitability of the business concern.

CONCLUSIONS

The production of organic wine grapes was financially profitable, as the gross margin was positive and the operational and total costs could be recovered by means of the existing production levels. In both of the above-mentioned practices the break-even production in ton per hectare was less than the budgeted production. It could be deduced that if the case study farmer maintained his production levels above the break-even point, the variable and total costs of the two practices under discussion - in other words conventional and organic - could be recovered. Should only risk per rand gross farm income be used as a yardstick for calculating the risk, then conventional wine grapes were subject to a higher risk at R0,21 as opposed to R0,20 for organic wine grapes.

A recommendation for further studies will be closely associated with the marketing aspect of especially organic wines, as South African producers will face strong international competitors in order to sell their products abroad. It was also recommended that the technique of risk management be studied, as there will be no guarantee that the market for organic wine grapes will remain stable in the long run. If the producers do not dispose of

the necessary management techniques to hedge their risks, this may entail serious economic consequences for such producers.

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Experience:	January 1998 up to July 1998: Graduate Trainee (First National Bank) August 1998 up to June 2001: Agricultural Banker (Standard Bank) July 2001 up to May 2002: Agricultural Economist (Department of Agriculture) From June 2002: Lecturer – Agricultural Economist (Department of Agriculture)
Tuition specialisation:	Financial management.
Interests:	Organic farming practices Farm land valuations Farming systems Technology transfer and adoption

RISK MANAGEMENT OF HUMAN ASSETS IN SMALL AND MEDIUM SIZE ENTERPRISES IN SINGAPORE

By:
Edwin Choo
Grace Kong
Tenzin Quek
Teo Yong Song

An MBA Group Dissertation* related outcome- this paper is a summarized/abstracted version

Joint Supervisors: Professor BC Ghosh, Dean, Vancouver University's Singapore Operations
And Assoc Professor Tan Wee Liang of
Singapore Management University.

- In partial fulfillment of MBA-Financial Services of Vancouver University, Canada conducted by its Singapore Campus at Insurance and Financial Practitioners' Association of Singapore- IFPAS- based at 7, Hong Kong Street, Singapore, 059650- the address for communication . email: bcghosh@singnet.com.sg
- Final revised paper

History has shown that more than 80% of all business failed within the first 5 years of establishment(Singapore government's own Statistics Department surveys during 1984 and 1994 confirm along this line too). There are many factors that lead to such a high failure rate but in this research; we will rather be looking at the failure of a business due to the death, disability or major medical crisis of the owners, partners, and shareholders, risks related to human assets management. We will also be looking, in particular, at how such risks can be managed by using established risk management tools which share risks, eg insurance plans. They are available widely in the West and also in Singapore and the nearby countries like Malaysia. They are established risk reduction tools, designed mainly for SMEs, though not exclusively so, and can be used to minimize risks in these situations.

Usually, when these unfortunate events occur, there are questions that the family members and the remaining business partners need to address:

1. Shall the business be dissolved or continued?
2. Will the business be sold or liquidated at a lower value?
3. Will the deceased's family members be interested and capable of running the business?

4. If the surviving partners would wish to buy over the shares of the deceased shareholder, where then the fund for such an acquisition be found?
5. similar related matters, where established risk management tools are available but often remain unused due to a lack of awareness, or more importantly, just a lack of planning for it.

The group investigated the relevant literature, only some were relevant at all, especially none available in Singapore/regional context, and it is to be noted this research is rather drawn in our regional context. It is here in this region, we felt, as financial planning professionals, that succession planning among SMEs is rather very poor, due to cultural and other reasons, including a level of awareness or rather the lack of it. We therefore planned to undertake a part randomly selected survey among business owners and also financial planning professionals, and partly conducting the same survey through a convenience based sampling. 80 business owners were administered a questionnaire and survey inputs were obtained through face-to-face interviews, and similarly with 55 financial planning professionals, but necessarily the questionnaires were different. These questionnaires were arrived at after due pre-testing and when agreed with our supervisor of the project.

The contents of those surveys and the abstracts analysis of the results are as follows:

BUSINESS OWNERS SURVEY

We had decided to use a unidirectional scaling method, Likert approach so to speak, for our purposes.

After several brain storming sessions, we created a set of potential scale items that can be rated on a 0-4 scale. These items consisted of the various insurance concepts applicable in business succession planning with special to risk management instruments available in the marketplace. We narrowed down to 10 items. The 10 items are as shown below(more explanations later, all human-assets related financial risk management tools in an SME context):

1. Executive Bonus Plan (Selective Employee Benefits plan)
2. Group Life Insurance
3. Key Employee Life Valuation protection
4. Disability Income for Key Employee
5. Split Dollar
6. Business Continuation (Buy/Sell Agreement)
7. Deferred Compensation
8. Medical Expense and/or Major Medical
9. Disability Buy out
10. Stock Redemption

The rating we assigned to each of the item is as follow:

Rating	Selection by Owner about the type of business insurance or other risk management protection
0	Never heard before
1	Heard Before But Not Sure
2	Have knowledge but no action taken
3	Action taken but uncertain if it is appropriate or adequate
4	Fully understood and action taken with periodical review

The final score for the respondent on the scale is the sum of their ratings for all of the items (this is why this is sometimes called a "summated" scale).

For each individual respondent, the minimum score is 0 and the maximum score is 40 (4 X10). Average mean score should be 20, per respondent. If it is less than that, then the conclusion would be the level awareness is less than optimal.

We define the awareness level as follow:

0 to 8	Very Low
9 to 16	Low
17 to 24	Medium
25 to 32	High
33 to 40	Very High

We define the level of awareness to be low if a respondent score a rating of 16 or below, as per our interpretation of the table above- this number is critical for our analysis purposes below:

Business Owners' Survey- Continued:
Sampling of Business Owners

A sampling size of 80 business owners is selected using the random sampling/convenience sampling method(in our case this was considered most suitable), out of which, 56 are limited companies, 12 partnerships and 12 sole-proprietorships. We did not think there was any bias in this sample, and they represented our situation well in regard to SMEs in Singapore and the region.

The samples(where applied) were selected at random without prejudices of their legal forms or industrial types as long as they fulfill the definition of Small and Medium Enterprises, by Productivity and Standards Board of Singapore(now renamed as Spring, Singapore).

Firstly, we state our main hypothesis as follow(we agreed on this basis, there was little in literature to suggest otherwise):

Null hypothesis, H_o: $\mu \leq 16$, The awareness level of business risk management insurance among business owners of SMEs in Singapore is below or equal to16 on a scale of 40 points

(below 40%of 40 max per respondent-- see earlier discussion). Hence significantly lower than the number (mean >20) that would normally be expected from rational business owners.

Alternate hypothesis, H_1: $\mu > 16$, "The awareness level of business risk management insurance among business owners of SMEs in Singapore is above 16 on a scale of 40 points (above 40%), indicating a generally acceptable level of awareness. This cut-off point admittedly, is a bit arbitrary, but based on conservative reasons that our market would probably show less than expected level of 50% awareness anyway, in respect of the awareness among our SMEs of these rather sophisticated financial risk management tools. No literature on this available according to our knowledge, but inside information within insurance companies locally supports this view.

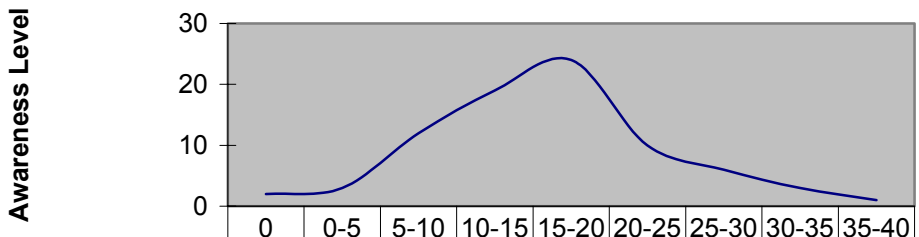
We set the level of Significance to be 0.10

SYNOPSIS OF RESULTS

The number of business owners involves in this survey is 80.

With a total score of 40 points, the overall average score of all business owners involved in the survey is **16.65 (41.63%),** much less than 20. The mode and median are **15** and **16.34** respectively.

Figure 1. Overall Awareness Level of Business Owners On the Basis of 16 or Below being the minimum expected level



	0	0-5	5-10	10-15	15-20	20-25	25-30	30-35	35-40
No. of Owners	2	3	12	19	24	10	6	3	1

Sample size = 80 Mode = 15.0 Mean = 16.65 Median = 16.34
Standard Deviation = 7.8%
Hypothesized value = 16 Significance level = 0.10

Critical value will be 16.00+1.2825(7.8/√80) = 17.78. The sample mean value, 16.65 falls within this range, and therefore, we do not reject the null hypothesis
Alternatively, using test statistic = (Sample mean – hypothesized value, 16? (Sample standard deviation/squared root of sample size) = (16.65-16)/(7.8/√80) = 0.74. Critical value of distribution is 1.2825(one-tailed 10%). Since the test statistic is less than the critical value, we do not reject the null hypothesis.

Next, we will calculate the p-value, which is the probability of observing a value of the test statistic at least as extreme as the value actually observed, assuming that the null hypothesis is true.

We have found that:

Test statistic = 0.74,

Significance level =0.10,

Critical value = 1.2825,

p-value = 1 - 0.8864 = 0.1136

Since the p-value obtained is greater than 0.1, H_o is not rejected.

This result is consistent with our hypothesis that In general, business owners in our context(Singapore and the adjacent region) have an insufficient level of awareness with regards to the importance of managing the risk of losing the services of the owners and/or key employees due to their death, disabilities and retirement, and suffer from an insufficient awareness of due risk management tools available.

FINANCIAL PLANNING ADVISORS SURVEY

Unlike in the survey for business owners where we use a ratio measurement to determine their awareness level of business insurance using a scale from 0 to 40, the survey conducted for financial planning advisors are measured using Nominal and Ordinal measurements methods. First of all, we separate insurance advisors into two categories: those who had sold business insurance and those who had not. This is the Nominal measurement where we can find out the percentage of advisors who sold business insurance. Then for the group that sold business insurance before, we further separate the novices from the experts by categorizing them into four groups namely those who had sold to:

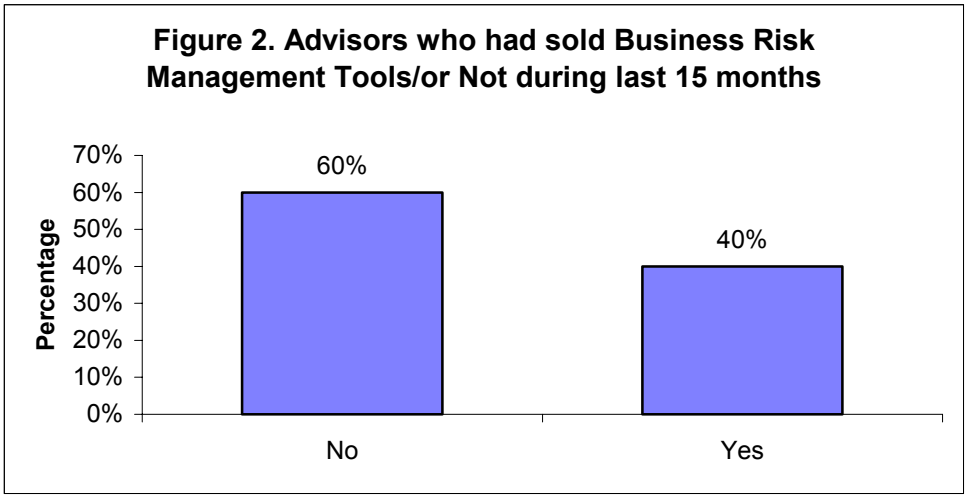
1. less than 6,
2. 6 to 10,
3. 11 to 15 or
4. more than 15

business owners and those who sold less than that, during last 15 months. After doing so, we ranked the four groups accordingly. This is the ordinal measurement method where we are interested in finding out which grouping can we find the highest number of advisor in it.
From the result, we will be able to see the participation level of financial advisors in the business insurance /similar market with regard to use of available financial risk management tools.

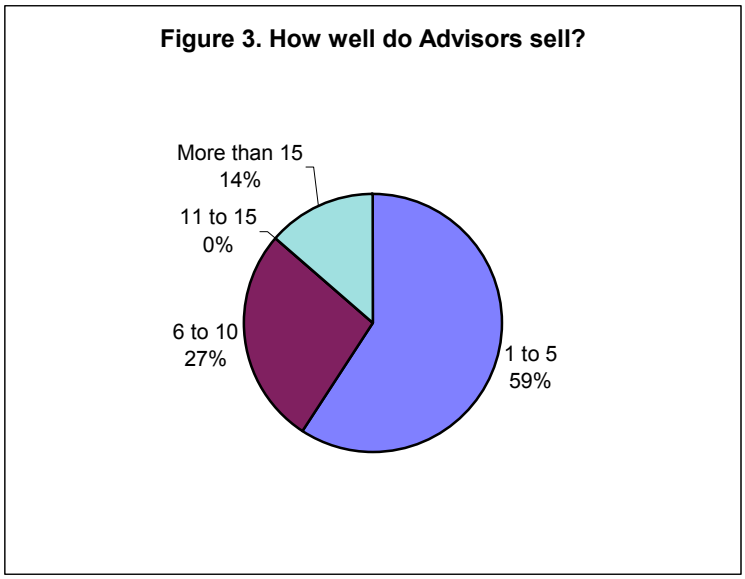
We had also designed questions using ordinal measurement method to find out the reasons why insurance advisors are not selling to the business insurance market and the types of training they needed most if they were to enter this market.

RESULTS OF THIS SURVEY

As earlier mentioned, we selected 55 face-to-face respondents from among insurance/financial planning/ bank employed planners, again part random, but mainly introduction through our personal contact. There was no other useful way, but we believe otherwise the sample was unbiased. Face to face interview also the only effective way, but obviously consumed a lot of time on both sides, hence the number of 55 was agreed as sufficient with our supervisor.
Firstly, we shall look at the percentage of advisors who had sold at least one business insurance before(or none!).



And the level of their achievement? The pictorial below is a better way of presenting the information, we would like to believe!



In other words, the advisors who are actively involved in promoting business risk management/insurance tools available are only a handful. In our sample, only 3 out of a sample size of 55 had sold business insurance to more than 15 businesses. This works out to be only 5.45%. The rest of the advisors who have sold business risk management tools seem to have done it by coincidence rather than through their deliberate effort, as our interviews revealed.

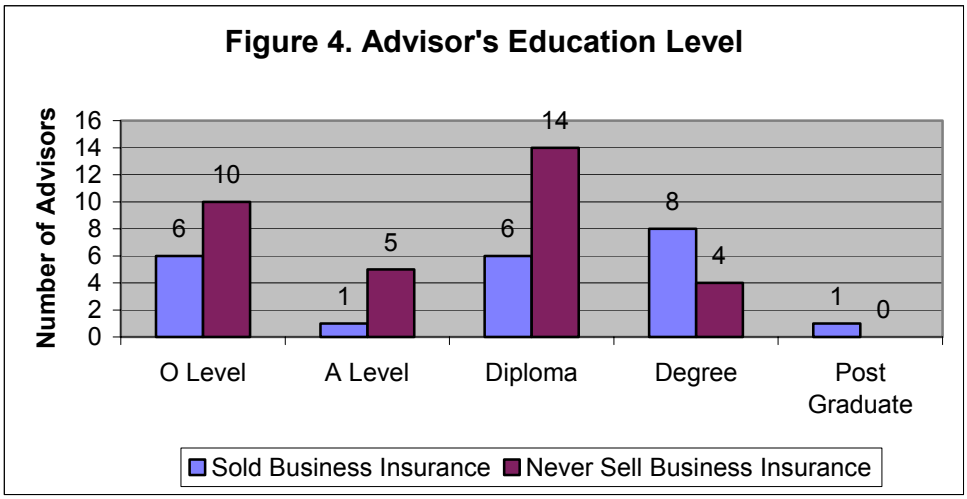
Other interesting findings from these interviewed revealed that:

The reasons quoted by insurance advisors in the order of importance are:

1. Prospecting the business risk/ insurance market is tough; owners seemed too cost conscious in the current very tough business situation. Present more than the future is the main thinking platform for SME business owners
2. Lack of mentorship and guidance from experienced advisors/corporations and
3. Inadequate and insufficient training by providers of these products eg insurance companies or banks.
4. Technical issues on tax and law not well understood by business owners.
5. Little incentive provided by providers of these products. Simpler to sell eg. personal insurance is simpler and pays the same.

What type of training these business planners generally received and how they lacked sufficient awareness training in these products:

1. On the job training with experienced advisors- mainly neglected in their opinion.
2. In-house training, some but quite insufficient
3. LUTC and other related vocational courses- some.
4. ChFC, CLU, CFP and other professional designations- some theoretical training included.
5. Others- very little mentioned.



SUMMARY

The data and our face to face interviews revealed the following picture(s):

1. The results from the survey of business owners confirm our hypothesis that the awareness level of business owners is generally low in regard to business succession/other risk management tools relating to human assets available widely in the market place.
2. Organizations with high profit have a higher awareness level than others.
3. Organizations with more than 8 owners have a higher awareness level than others.
4. The main reason why planning advisors do not promote business risk management/insurance tools(provided generally by banks or insurance companies) is because of the difficulties faced with “prospecting the business insurance market”.
5. The most needed training by advisors who are interested to participate in promoting business insurance is “On the job training with experienced advisors”.

CONCLUSIONS

Our findings support the following conclusions including recommendations:

SME owners and even among insurance professionals there is widespread absence of knowledge as how to use available financial techniques to control/manage financial risks inherent among key persons in whom the depends the fortunes of SMEs. Some of them cannot be eliminated, but yet can be minimized.

Related government bodies and trade associations should organize periodic workshops and seminars regarding business insurance to update and inform the business owners their knowledge about business risk management tools including relevant insurance products. Ignorance cannot be good for anyone, business owners or providers or financial planning professionals.

Insurance/banks and other companies should take the initiatives to organize their own pools of existing practitioners in the business insurance market to provide proper guidance to help those insurance advisors who are interested to participate in providing services to the business owners.

Financial planning advisors can upgrade their skills and knowledge by actively participating in related training so as to equip themselves with the proper tools to service the business insurance market competently.
Training providers, eg Insurance and Financial Practitioners' Association of Singapore, should take due note of these findings.

We daresay that this article is less related to the theory of SMEs, but based on facts gleaned from the operators of SMEs, about matters that concern them materially, yet they often seem unaware that those too could be managed. We also daresay that what we found to be true in Singapore could well be true in many other places, including today here in Jo'burg.

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Terms Explained- An Appendix Only (Well established Human Assets Related Financial Risk Management Tools available to SMEs in our market as in the West):

0/1/2/3/4	Plan	Objective	Key Benefits
	Executive Bonus Plan (Selective Employee Benefits plan)	Retention of key selected employee by providing life insurance and retirement benefits	**1.** The employer pays deductible premiums for the employee. **2.** The selected employee has an added incentive to stay with the company.
	Group Life Insurance	Provide life insurance death benefit for employee's family	**1.** The employer provides low cost insurance coverage to employees with deductible premiums. **2.** It improves overall employees' morale.
	Key Employee Life Insurance	Provide protection to offset financial losses to a business due to death of a valuable employee	**1.** It stabilizes the business and assures creditors. **2.** Instant cash available to line and train a new person. **3.** The accumulating cash value will serve as extra funds for expansion, enhance the credit standing of the business, supplement the key person's retirement plan, etc.
	Disability Income for Key Employee	Provide salary continuation plan for selected employee during period of disability	**1.** Improves the morale of the key person. **2.** It continues paying salaries and retires pressing obligations.
	Split Dollar	Retention of key selected employee by helping him or her purchase life insurance at relatively low cost.	**1.** It enables the insured employee to carry permanent life insurance at less than term cost **2.** No cost or risk to the employer who contributes to the premium payment i.e. he gets his money back guaranteed. **3.** The employer can single out promising young employees and tie them to the business by offering them low cost insurance coverage.

0/1/2/3/4	Plan	Objective	Key Benefits
	Business Continuation (Buy/Sell Agreement)	**Cross Purchase** Disposal of business interest upon death of an owner, by transferring ownership to surviving co-owners who continue business **Share Purchase Insurance Trust**	**1.** No need to do business with the widow, children or executor of deceased shareholder. **2.** Avoids the risk of unwelcome outsiders obtaining a control in the business. **3.** It prevents a weakening of the business that would result from draining off cash or selling non-liquid assets. **4.** It creates extra borrowing power for business emergencies or expansion.

		Disposal of business interest upon death of an owner, by setting up a Trust for purchase of deceased's interest	
	Deferred Compensation	Retention of key executive by deferring taxable income and providing salary continuation	**1.** Help the employer to attract and retain a much-needed executive. **2.** Enable the employer to offer a deferred salary increase PLUS a substantial death benefit. **3.** Provides the employee with a sizeable retirement income
	Medical Expense and/or Major Medical	Provide basic and/or more extensive coverage for hospital, surgical, and other medical expenses incurred due to sickness or accident	**1.** It takes care of a situation very often worst than death should a prolonged disability occur.
	Disability Buy out	To handle the disability business-continuation risk	**1.**Lump sum benefit **2.**continue salary payments to the owner **3.**begin installment purchase payments to owner **4.**provide an accumulated fund to enable the purchasers to provide a portion of the purchase price.
	Stock Redemption	Solve financial and estate planning for shareholders through redemptions of some or all of their stock.	**1.**Shifting of control **2.**Termination of Interest

ACCESS TO FINANCE – A SMALL BUSINESS CONSTRAINT

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ABSTRACT

Access to finance has been cited as one of the most prominent constraints facing SMMEs in South Africa. This study seeks to establish whether this indeed is the case and to identify the factors hindering this process.

Judgmental sampling was used in a survey conducted among small business owners/managers operating in a metropolitan area in South Africa. Data analysis relating to reported results was conducted in three stages. Firstly, an item analysis was conducted to determine which items should be used in summated scales to calculate the scores for the various factors hindering access to finance. Secondly, descriptive statistics were calculated to summarise the sample data distribution. Finally, inferential statistics were used to determine significant relationships between the factors hindering access to finance and selected demographic variables.

Results show that accessing finance is indeed a problem for many SMMEs and factors hindering this process include lack of security, poor quality business plans and lack of business knowledge. Aspects relating to the financial services sector and government support structures were also cited as constraints in accessing finance. All stakeholders need to recognize that without addressing these constraints small businesses in South Africa cannot realise their full potential.

Keywords: Small business, finance, problems encountered, South Africa, business environment.

INTRODUCTION

The importance of developing the small business sector as a vehicle for job creation and equitable economic growth remains indisputable. The South African government has recognised this and SMMEs are drawing increasing attention in the economic sector. International experience has also demonstrated that SMMEs play a valuable role in enhancing productivity, driving technical change, and above all, fostering entrepreneurship (Van Eeden & Viviers 2001:3).

However, an alarmingly high percentage of SMMEs fail in South Africa. There also exists a number of structural constraints in the economy that inhibit the potential of this sector. Worldwide experience shows that small businesses in general constantly deal with a myriad of constraints. Such constraints range from the legal and regulatory environment, problems with access to markets, finance, technology and business premises, as well as a lack of technical skills, managerial expertise and business infrastructure (The state of small business in South Africa 1997:26).

The inability to obtain sufficient funds is often cited as a major obstacle experienced by many small businesses (Ryan 2003; Demirg-Kunt & Love 2001). Access to capital, which is key to economic growth and the development of the SMME sector, has been identified as being difficult for the majority of South African small businesses (Access to capital is vital 2001:13). Research conducted by Sanlam (a South African insurance company) also showed a real need for financial assistance in the small business sector (Corporate mindshift towards SME market 2002).

The problems associated with financing SMMEs have significantly hindered the role they play in the overall performance of the South African economy. Research by The World Bank on finance, found that without access to external finance firms cannot realize their full growth potential, which will eventually result in slower economic growth for the country as a whole (Beck & Demirg-Kunt 2001). If SMMEs are to develop, it is critical for them to access adequate funds and it is thus important to assist them in obtaining funds. In 2001 President Thabo Mbeki spelled out exactly how serious the government was on the issue of financing small business start-ups and said that the government remained concerned that access to capital, which is key to economic growth and the development of the small and medium enterprise sector in the economy, remains difficult for the majority. Mbeki said that there was a need to develop the capacity to make such access easier while retaining a well-managed financial sector. Accordingly the micro-finance sector would be mobilised in support of entrepreneurship and productive activities (Access to capital is vital 2001). Despite the government's attempts over the past few years to remedy the problem, access to funding continues to plague the small and medium-sized business sector (Sukuzi 2003) and conflicting views exist as to why this is (Driver, Wood, Segal and Herrington 2001:44).

RESEARCH OBJECTIVES

The primary objective of this study was to establish whether small businesses experience problems when attempting to access finance and to identify the factors hindering this process. A secondary objective was to investigate whether relationships exist between the factors identified and selected demographic variables.

Literature review

The failure rate among SMMEs is unacceptably high in South Africa. It is estimated that between 70% and 80% of South African start-up businesses fail within five years (Moodie 2003) and millions of rands are lost (Barron (b) 2000:1). A number of structural constraints have been cited as major reasons for the underdevelopment and the failure of the SMME sector. This includes amongst others lack of access to finance, markets, information and mentoring, business premises, business skills and poor infrastructure. Access to finance, in particular, has been identified as the key constraint in the development of SMMEs. Not being able to access finance is seen by some as the single greatest impediment to their growth and success (Banks fail to feed the SMME pipeline 2003). Literature also proposes that inadequate capital or a lack of financing is one of the main reasons for small business failure (Sukazi 2003; Marx, Van Rooyen, Bosch & Reynders 1998:732; Van Aardt, Van Aardt & Bezuidenhout 2000:191; Olivier 1998:12). This problem is seen as the most serious constraint during the formation of a new venture and also manifests itself at later stages when businesses require additional inflows of capital to support expansion and growth (Van Eeden et al 2001:4).

It thus becomes vital to identify and examine the factors that impede the provision of finance to SMMEs in South Africa. A significant contribution to the development of SMMEs can be achieved through the understanding of these factors. The most prominent of these are government support structures, the financial services sector, stringent lending criteria of banks, poor quality of business plans, lack of business skills, lack of own contribution, lack of collateral, inability to meet loan obligation, high costs to banks, nature of the business activity, discrimination and lack of mentoring.

Based on existing literature sources, the various reasons as to why access to finance is denied and the various obstacles in obtaining finance are presented in Table 1.

Table 1: Factors hindering access to finance

Factors	Literature sources
Government support structure	Access to capital is vital 2001; Erwin admits SMME sector failure 2000:11; Streek 2001; Sukazi 2003; Walker 2000:11; SMME sector in SA stuck in a quandary 2001.
Financial services sector	Banks face renewed attack 2001:17; Banks fail to feed the SMME pipeline 2003; Barron (b) 2000:1; Erwin admits SMME sector failure 2000:75; Held back by lack of finance 2000:13; Schoombee 2000:751; Streek 2001; Taylor 1997:32; Theobald 2000:50.
Stringent lending criteria of banks	Access to capital is vital 2001; Horton, Honderich & Modise 2000:48; Khula get R100 million from trade department 2000; Mahadea 1996:77; Ryan (c) 2001: 12; Taylor 1997:32; Webb 2000:17.
Poor quality of business plans	Finding capital not the only problem 2000:12; Gaurente 2001:39; Held back by lack of finance 2000:13; Khula get R100 million from trade department 2000; Ryan (d) 2003; Wadula (a) 2000; Walker 2000:11; Webb 2000:17.
Lack of business skills/ability	Finding capital not the only problem 2000:12; Gaurente 2001:39; Held back by lack of finance 2000:13; Mahadea 1996:80; Penrose 1995:39; Ryan (c) 2001: 12; Ryan (d) 2003; Wadula (a) 2000; Walker 2000:11; Webb 2000:17.
Lack of own contribution (capital)	Access to capital is vital 2001; Khula get R100 million from trade department 2000; Loxton 2000:7; Wadula (a) 2000.
Lack of collateral/security	Banks reluctant to assist smaller concerns 2001; Held back by lack of finance 2000:13; Loxton 2000:7; Mahadea 1996:77; Ryan (c) 2001:12; State moves on SMME loans 2001:13; Taylor 1997:32; Webb 2000:17.
Inability to meet loan obligation	Access to capital is vital 2001; Held back by lack of finance 2000:13; Khula get R100 million from trade department 2000; Theobald 2000:50.
High costs to banks (time and money)	Access to capital is vital 2001; Ensor 2000: Hartley 2000; Horton et al 2000:48; Khula get R100 million from trade department 2000; Loxton 2000:7; Mahadea 1996: 77; Theobald 2000:50.
Nature of the business activity	Mahadea 1996:80.
Discrimination/hostile attitudes	Ensor 2000; Hartley 2000; Horton et al 2000:50; Loxton 2000:7; Moloi 2001; Streek 2001; Schoombee 2000:751.
Lack of assistance/mentoring	Finding capital not the only problem 2000:13; Ryan 2003.

METHODOLOGY

Research design and measuring instrument

Judgmental sampling was used in a survey conducted among small business owners/managers operating in a metropolitan area in South Africa. Judgmental sampling involves that researchers use their own judgement in selecting the small businesses to act as respondents. Selection to participate in the study was however based on the firm qualifying as a small business. “Small business” is a relative concept and for the purpose of this study, firms were considered as “small businesses” if they employed fewer than 50 full-time employees. This is consistent with the criteria laid down by the National Small Business Act (National Small Business Act No. 102. 27 November 1996). The original sample size was 214, and of the questionnaires returned, 188 were usable. This resulted in a response rate of 88%.

In an effort to investigate the problem of access to finance among small businesses, a research instrument in the form of a questionnaire was developed. The questionnaire consisted of two sections. Demographical information was requested in Section A and section B consisted of 26 items relating to various factors hindering access to finance. These statements were phrased with a possible response continuum of 1 to 5, where 1 = *strongly disagree*, 2 = *disagree*, 3 = *neutral*, 4 = *agree*, 5 = *strongly agree*.

DATA ANALYSIS

Data analysis relating to reported results was conducted in three stages:

- An item analysis, consisting of a series of factor analyses, was undertaken to determine which of the items loaded together. This was done to determine which items should be used in summated scales to calculate the scores for the various factors hindering access to finance.
- Descriptive statistics such as the mean, standard deviation and frequency distributions were calculated to summarise the sample data distribution. This was done for each individual item and subsequent summated scores relating to the factors hindering access to finance.
- Finally, inferential statistics were used to determine significant relationships between the factors hindering access to finance and selected demographic variables.

EMPIRICAL RESULTS

Item analyses

A series of factor analyses revealed that the 26 items relating to the factors hindering access to finance, loaded onto seven different categories. These categories were named *loan criteria (security); loan criteria (knowledge); mentoring (assistance); mentoring (reducing risk); the financial services sector; government support structures;* and *personal issues.*
To evaluate the internal reliability of the measuring instrument, Cronbach Alpha coefficients were calculated. A summary of the results is given in Table 2. The Cronbach Alphas for *loan criteria (security)*, *mentoring (reducing risk), mentoring (assistance)* and *personal issues* could not be obtained. This was because too few items loaded onto these factors. Of the remaining factors all obtained Cronbach Alpha coefficients of greater than the cut-off point of 0.70 as determined by Nunally (1978:226). The internal reliability of these factors was thus confirmed. Interpretation and conclusions made with regard to the other factors should however be treated with caution.

Table 2: Summary of factor analyses per category

Factor	**Number of items**	**Factor loadings**		**Cronbach Alpha**
		Min	**Max**	
Loan criteria (security)	2	0.69	0.79	na
Loan criteria (knowledge)	5	0.73	0.78	0.83752
Mentoring (assistance)	3	0.55	0.82	na
Mentoring (reducing risk)	2	0.65	0.84	na
Financial services sector	7	0.56	0.68	0.701856
Government support structures	5	0.58	0.87	0.803433
Personal issues	2	0.90	0.90	na

Demographic and sample characteristics

The majority of respondents (75,53%) were both the owners and the managers of their small businesses. The results show that 77,66% of the respondents were male whereas only 22,34% were female. Most owners/managers (61,70%) were white, whereas 14,36% were black, 13,83% were Asian and 7,45% were coloured. The majority of respondents (72,87%) have been in this position for more than three years and most (65,96%) of the respondents do not possess a managerial qualification. The sole trader (36,17%) and close corporation (43,09%) are the most popular forms of enterprise and many of the small businesses operate in either the retail and/or wholesale (40,96%), or service (29,79%) sectors. The majority of respondents (71,27%) employed between one and ten full-time employees, and 51,59% reported an annual turnover of between R500 000 and R1 million.

Findings on the ability to access finance and the factors hindering access to finance

Respondents were asked if they had experienced any difficulties when attempting to obtain start-up and/or growth capital from financial institutions. The results show that 37,23% of the owners/managers had experienced difficulties in obtaining start-up capital from financial institutions, whereas nearly the same number (37,77%) had not. Many respondents (45,74%)

reported, however, that they had not recently (in the last year) experienced difficulties when attempting to obtain capital, for either expansion or normal operations purposes, from financial institutions. Others indicated that this was not applicable to them (27,66%).
The factors hindering access to finance were identified and categorized as *loan criteria (security); loan criteria (knowledge); mentoring (assistance); mentoring (reducing risk); the financial services sector; government support structures* and *personal issues*. Table 3 below contains a summary of the descriptive statistics of these factors. Scores on the five-point scale were recalculated into disagree (less than or equal to 2.6), neutral (between 2.6 and 3.4) and agree (above 3.4).

Table 3: Descriptive statistics of factors influencing access to finance

				Frequency distribution %		
Factor	**Valid N**	**Mean**	**Std.Dev.**	**Disagree**	**Neutral**	**Agree**
Loan criteria (security)	188	4.01	0.93	10.11	10.11	79.79
Loan criteria (knowledge)	188	3.73	0.85	7.45	17.55	75.00
Mentoring (assistance)	188	3.69	0.79	6.38	32.45	61.17
Mentoring (reducing risk)	188	3.53	0.87	15.96	24.47	59.57
Financial services sector	188	3.72	0.68	6.38	22.34	71.28
Government support structures	188	3.79	0.82	4.79	14.89	80.32
Personal issues	188	2.64	1.14	48.94	23.94	27.13

As indicated in Table 3, it is apparent that the mean scores varied for all the factors hindering access to finance that were investigated. The highest mean score was allocated to the factor *loan criteria (security)* (mean = 4.01). Statements were put to the respondents to establish whether the lack of own capital and security were factors that hindered them from accessing funds. The vast majority of the respondents (79,79%) agreed with these statements. Lack of own capital/money obtained a mean score of 3.91 and the lack of security obtained 4.11. The Khula Credit Guarantee Scheme was created by the Department of Trade and Industry to help SMMEs that do not have adequate security to access finance from commercial banks. Questions were put to the respondents to establish whether they had heard of Khula and if they had ever made use of this scheme. Most respondents (58,51%) indicated that they had never heard of the Khula Guarantee Scheme, whilst only 2,13% of the respondents indicated that they had made use of the scheme.

The factor *loan criteria (knowledge)* obtained a mean score of 3.73. This factor included statements about the small business owners' lack of well-written business plans, realistic financial forecast, thorough market research, business experience and skills/knowledge as factors that hinder the small business owners/managers from accessing finance. Three quarters (75%) of the respondents agreed with these statements. The respondents generally agreed that the lack of a well-written business plan was a factor hindering access to finance (mean = 3.81), as well as the lack of realistic financial forecasts (3.79), thorough market research (3.67), business experience (3.62) and business skills/knowledge (3.78).

Mentoring (assistance) obtained a mean of 3.69. This factor considered statements about whether the entrepreneurs had received assistance from banks/financiers or NGOs when applying for start-up financing. Most (61,17%) respondents agreed with the statements that they had not been assisted in drawing up business plans when applying for start-up capital (mean = 3.92). Respondents were generally aware of NGOs providing assistance when seeking funds, but most agreed that they had not obtained assistance from these bodies (mean = 4.29).

Mentoring (reducing risk) obtained a mean score of 3.53. Statements were put to the respondents to establish whether small business owners thought that mentoring would have increased their chances of obtaining finance. Many (59,57%) small business owners/managers agreed with these statements. The research shows that small business owners/managers thought that their chances of obtaining funds for start-up capital would have been enhanced if they had received more assistance from the banker or financiers (mean = 3,21) and that risks associated with business lending would be reduced by banks offering pre and post funding assistance (3.86).

The financial services sector obtained a mean score of 3.72. Respondents were requested to identify whether aspects relating to the financial services sector hindered access to finance. The majority (71,28%) of respondents agreed with these statements. The results show that banks are perceived as not willing to take risks (mean = 3.99). Respondents were however neutral with regard to viewing banks as not willing to provide entrepreneurs with assistance (3.21) and viewing small clients as unprofitable (3.34). The respondents further indicated that more competition among banks will improve an entrepreneur's chances of obtaining funds (3.82), improve products or services offered to small businesses (3.99), reduce bank charges for small business clients (3.93) and reduce interest rates charged on bank loans and overdrafts (3.78).

Government support structures as a factor hindering access to finance obtained a mean score of 3.79. This factor considered the perception of the government support structures and how the government could offer more support to small businesses. The vast majority of respondents (80,32%) agreed with these statements. The results show that respondents felt that government could offer more support by making more funds available for small business development (mean = 4.12), by providing more non-financial support to entrepreneurs seeking finance (3.92), by subsidising more small business loans (3.88) and by implementing a more effective loan guarantee scheme (3.95). Respondents were however neutral with regard to forcing banks through legislation to grant more loans to small businesses (3.07).

Personal issues as a factor hindering access to finance obtained a mean score of 2.64 and this score was the lowest of the five categories. Statements were put to the respondents to establish whether they had experienced hostile attitudes from banks or financiers, or had been discriminated against when applying for finance. Many respondents (48,94%) had not experienced hostile attitudes and/or discrimination when applying for finance. As a whole, the *personal issues* experienced when applying for finance got a low mean, but when considering the individual items, one could see that some small business owners were neutral (23,94%) or agreed (27,13%) with regard to experiencing hostile attitudes and discrimination when applying for finance.

Relationships between factors hindering access to finance and selected demographic variables

The analysis of variance (ANOVA) was undertaken to determine whether significant relationships exist between selected demographical variables and three of the factors hindering access to finance. Inferential statistics were not obtained for the other factors, as the internal reliability of these factors was not confirmed. The ANOVA results are shown in Table 4.

Table 4: Relationships between factors hindering finance and demographic variables

Demographic variables		Loan criteria (knowledge)		The financial services sector		Government support structures	
	df	F	p	F	p	F	p
Ownership status	2	2.9698	**** 0.054131**	2.7076	****0.069734**	2.4495	****0.089548**
Gender	1	0.2236	0.636973	0.0039	0.950265	0.8692	0.352579
Population group	4	0.4013	0.807514	0.7195	0.579752	5.4893	***0.000362**
Term of management	3	0.1019	0.958856	04259	0.734701	1.5866	0.194698
Management qualification	1	10.6029	***0.001377**	0.367	0.848328	1.6016	0.207506
Form of enterprise	4	0.4280	0788238	2.33771	****0.054132**	0.5586	0.693048
Nature of industry	4	4.0604	***0.003656**	3.7621	***0.005925**	1.6121	0.173709
Number of employees	3	1.4505	0.230176	2.2937	****0.079996**	0.8015	0.494710
Annual turnover	4	1.1217	0.348181	2.2590	****0.065074**	1.0011	0.408762

*** p<0.05**
****p<0.10**

From Table 4 above, it is clear that there is a significant relationship between *loan criteria (knowledge)* and the following namely, *ownership status* (p<0.10) and *management qualification* (p<0.05). Respondents who were both owners and managers agreed to a greater extent (mean = 3.76), that loan criteria (knowledge) was a factor that hindered them when accessing finance than respondents who were owners but not managers (mean = 3.42). It appears that owners/managers with a management qualification (mean = 4.04) also regard *loan criteria (knowledge)* as a hindrance more than owners/managers without a management qualification (mean = 3.57). A significant relationship (p<0.05) is evident between *loan criteria (knowledge)* and the *nature of industry*. It appears that small businesses in the service (mean = 3.88) and retail and/or wholesale industries (mean = 3.86) agreed to a greater extent that *loan criteria (knowledge)* is a factor hindering access to finance than small businesses in the manufacturing industry (mean = 3.31).

There is a significant relationship (p<0.10) between the *financial services sector* and *ownership status*. Respondents who were owners (mean = 3.86) and those who were both owners and managers (mean = 3.76) regard the financial services sector as a factor hindering access to finance more than respondents who were only managers (mean = 3.44). The *financial services sector* also shows a significant relationship with the following namely, *form of enterprise* (p<0.10), *the nature of industry* (p<0.05), *number of employees* (p<0.10) and *annual turnover* (p<0.10). It appears that close corporations perceive the financial services sector as a factor hindering access to finance (mean = 3.81); however partnerships do so to a lesser extent (mean = 3.38). Small businesses in the retail and/or wholesale industry (mean

= 3.85) also perceive the financial services sector as a factor hindering access to finance to a greater extent than small businesses in the manufacturing industry (3.43). It was found that small businesses that employ between 6 and 10 employees (mean = 3.91) regard the financial services sector as a factor that hinders them from accessing funds more so than small businesses that employ between 11 and 20 employees. Small businesses with an annual turnover of more than R5 million (mean = 3.85) regarded this factor to be hindrance when accessing funds more than small businesses earning an annual turnover of less than R500 000 (mean = 3.56). This finding corresponds with literature where it is indicated that larger firms find it easier to obtain capital from financial institutions than smaller firms.

There is also a significant relationship between *government support structures* and the following namely, *ownership status* ($p<0.10$) and *population group* ($p<0.05$). It was found that respondents who were managers (mean = 4.11) and those who are both owners and managers (mean = 3.79) agreed to a greater extent that government support structures hindered their ability to access funds, than the respondents who are only managers (mean = 3.61). It also appears that black (mean = 4.13) and Asian (mean = 4.31) small business owners regard government support structures as a factor that hinders them from accessing funds to a greater extent than whites (mean = 3.62) and coloureds (mean = 3.96). This relationship is somewhat surprising given the government's push for Black Economic Empowerment.

CONCLUSIONS, RECOMMENDATIONS AND MANAGERIAL IMPLICATIONS

Based on existing secondary sources, it was found that access to finance is a constraint facing small businesses. It was also identified that government support structures, the financial services sector, stringent lending criteria of banks, poor quality of business plans, lack of collateral and lack of own contribution, inability to meet loan obligation, discrimination and lack of mentoring and assistance were factors hindering access to finance. The theoretical study provided the base on which to undertake the empirical investigation. More specifically, the following aspects were investigated, namely to establish whether small businesses experience problems when attempting to access finance and to identify the factors hindering this process.

The study revealed that many of the respondents had experienced difficulties in obtaining start-up capital from financial institutions and that there were numerous factors hindering this process.

Small businesses in South Africa are generally considered as notoriously risky, and thus banks and financiers need to demand the level of collateral that will compensate them for the risk assumed. A high percentage of the owners/managers stated that lack of security (collateral) and own contribution was a factor that hindered them from accessing finance. Furthermore, it appears that the Khula credit guarantee scheme designed to assist small businesses that do not meet the necessary collateral requirements, has been ineffective. Most of the respondents indicated that they had never heard of Khula, whilst only a few had

made use of the scheme. With regard to security (collateral) and own contribution requirements, the following recommendation could be made:

- Banks and financiers should place less emphasis on collateral and security and rather focus on the merit and viability of the business.
- The government must create more awareness of the Khula guarantee scheme and thus encourage more small businesses to make use of the scheme. Banks should also inform loan applicants of this scheme.
- Banks and financiers should evaluate the risk profile of the small businesses requiring finance, and offer mentoring and assistance to those considered high risk.

Literature showed that lack of business skills/knowledge and inability to prepare satisfactory business plans by many small businesses, had influenced their ability to access funds. Respondents stated that the lack of well-written business plans, as well as a lack of realistic financial forecasts, thorough market research, business experience and skills/knowledge were factors that hindered small businesses from accessing funds. This clearly indicates that the problem in accessing finance arises not only as a result of the lack of collateral on the part of the small businesses, but also as a result of poor quality of business plans and lack of business skills/knowledge by small business owner/managers. The empirical results further showed that most of the owners/managers had not received any assistance when applying for finance and were not aware of the NGOs that provided assistance to entrepreneurs when seeking finance. Furthermore, the many respondents felt that their chances of obtaining funds would have been enhanced if they had had more assistance from banks and financiers, and thus believe that banks and financiers can reduce the risks associated with small business lending by offering pre and post funding advice. The following recommendations with regard to providing assistance can thus be made:

- More assistance and mentoring should be provided to small business owners/managers, particularly to those who lack business experience, skills and knowledge. A fee could be charged for the mentoring and assistance.
- Small business owners/managers need to be informed on what to do, in terms of how to set up and manage a business.
- Banks and financiers should provide checklists, procedures, brochures, websites etcetera, which could assist small businesses to prepare the necessary information such as business plans, financial forecasts and market research.
- Awareness of NGOs and other institutions providing assistance should be increased.
- It is important that the mentoring and assistance programmes are consistent and sustainable.

Although the financial services sector in South Africa is well developed, it has been unable to make sufficient amounts of funds available to the majority of SMMEs. From the literature it was seen that the financial sector is inadequate in meeting the challenges posed by the demand for capital by the developing SMME sector. The results of the research also showed that the majority of the respondents regard the financial services sector as hindering them from accessing finance and regard banks as not willing to take risks. A considerable contribution could be made to the development of the SMME sector if the financial services industry changed their attitudes towards small businesses. In this regard the following recommendations are made:

- Banks and financiers must change their attitudes and be more risk accepting.
- Products and services offered to small businesses can be improved and tailored to their needs.
- More competitive bank charges and interest rates should be negotiated for small businesses.

A general view is that the South African government's stated desire to promote small businesses has not been matched by its deeds. The government's support programmes aimed at promoting small businesses in particular, the two development agencies Khula and Ntsika, have been ineffective. The majority of the respondents indicated that government support structures were indeed a factor that hindered them from accessing finance. The following recommendations are made with regard to government support structures:

- More funds should be made available for small business development.
- Non-financial support such as mentoring for entrepreneurs seeking funds should be provided.
- The government should consider subsidising more small business loans.
- A more effective loan guarantee scheme should be established.

One other factor that has been reported to be hampering the development of the South African SMME sector is personal issues such as hostile attitudes from banks and financiers, and discrimination on the basis of race and/or gender. However the results of this study show that most of the respondents did not experience the above-mentioned personal issues or were neutral about them. This is an encouraging sign but does however not suggest that personal issues are not a problem. The following are recommended with regard to personal issues:

- Banks and financiers must try to understand the sociology of previously disadvantaged entrepreneurs, mainly those who lack business experience and skills/knowledge.
- Banks and financiers must employ more friendly and competent staff that will understand the needs of small businesses.
- Banks and financiers must try to understand the socio-economic, cultural and language barriers faced by many entrepreneurs.

An analysis of variance (ANOVA) was conducted to determine the relationships between factors hindering access to finance and selected demographic variables. It was found that respondents who were both owners and managers agreed to a greater extent that *loan criteria (knowledge)* was a factor that hindered them when accessing finance than respondents who were owners but not managers. Owners are more likely to be the ones approaching the financiers and are thus more likely to experience this as a problem. It appears that owners/managers with a management qualification also regard *loan criteria (knowledge)* as a hindrance more so than owners/managers without a management qualification. This finding is somewhat surprising as one would expect owners/managers with a management qualification to experience fewer problems with regard to well-written business plans, realistic financial forecasts, market research, business experience and skills/knowledge. A significant relationship was also found between loan criteria (knowledge) and the nature of industry. It appears that small businesses in the service and retail and/or wholesale industries agreed to a greater extent that the *loan criteria* (knowledge) is a factor hindering access to finance than small businesses in the manufacturing industry.

It was found that respondents who were owners and those who were both owners and managers regard the financial services sector as a factor hindering access to finance more than respondents who were only managers.

The *financial services sector* also showed a significant relationship with the following namely, form of enterprise, the nature of industry, number of employees and annual turnover. It appears that close corporations perceive the financial services sector as a factor hindering access to finance more so than partnerships do. Small businesses in the retail and/or wholesale industry also perceive the financial services sector as a factor hindering access to finance to a greater extent than small businesses in the manufacturing industry. It was found that small businesses, which employ between 6 and 10 employees regard the financial services sector as a factor that hinders them from accessing funds more so than small businesses which employed between 11 and 20 employees. Surprisingly, small businesses with an annual turnover of more than R5 million regarded this factor to be hindrance when accessing funds more so than small businesses earning an annual turnover of less than R500 000.

There is also a significant relationship between *government support structures* and the following namely, ownership status and population group. It was found that respondents who were managers and those who are both owners and managers agreed to a greater extent that this factor hindered their ability to access funds, than the respondents who were only managers. Owners are more likely to apply for financing than managers and are thus more likely to be exposed to government support structures. It also appears that black and Asian small business owners regard this factor as hindering them from accessing funds to a greater extent than whites and coloureds. A possible explanation for this is that with the government's drive for the upliftment of previously disadvantaged persons, these persons are targeted by government support structures. Black small business owner/managers are thus possibly more likely to approach government for support and in this way more likely to experience the shortcomings of these structures.

From this study, it is evident that access to finance is indeed a problem for small businesses in South Africa. The South African government and financial services sector need to recognize that without adequate financing, small businesses cannot realise their full growth potential, and this will eventually result in slower economic growth for the country as a whole. Finally, if the South African SMME sector is to develop, it is critical that the issue of access to finance is addressed effectively by all stakeholders in the country.

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E-MENTORING: IS IT GOOD FOR ENTREPRENEURIAL LEARNING?

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ABSTRACT

Electronic Mentoring or E-Mentoring, although becoming established in some fields, is still relatively new in the area of supporting entrepreneurs; the Small Business Service[1] (SBS) and South East England Development Agency[2] (SEEDA) were the first to test this innovative approach with entrepreneurs. Combining the core principles of mentoring with today's technology will enable E-Mentoring to offer a more cost effective approach for funded business support and increasing the availability of mentoring. This paper aims to stimulate the debate amongst academics, policy makers and entrepreneurs; it will review some of the literature on E-Mentoring and the approach to learning that entrepreneurs have hitherto traditionally taken.

Key Words: Entrepreneur, E-Mentoring, Electronic Mentoring, Learning Styles

[1] Small Business Service, an agency of the UK Government, Department of Trade & Industry, see www.sbs.gov.uk
[2] SEEDA is the development agency responsible for the SE of England, see www.seeda.co.uk

INTRODUCTION

This paper explores the question, “Can entrepreneurs learn through E-Mentoring?”

To address the question posed the paper will review the literature around preferred learning styles; E-Mentoring in a business environment and the results from the evidence offered from two pilot programmes. It will then endeavour to link the outcomes from the literature with the results derived from the evaluations. The first business E-Mentoring program referred to in this paper is MentorsByNet piloted in the South East of England, and a subsequent program that was trailed in the London region of the UK using a common approach. Both were independently evaluated utilising the same methodology for comparative purposes.

When using the term “entrepreneurs” in the context of this paper it refers to both mentors (entrepreneurs who have volunteered their time to assist other entrepreneurs) and mentees who have applied to take part in the programmes.

This paper argues that E-Mentoring supports the learning styles of this group of entrepreneurs, because of its immediate nature as well as the variety and flexibility of the subject matter making it timely and ‘entrepreneur-centric’.[3]

The Case for Mentoring

Mentoring relationships are not new: many of us can think of examples of where an individual has influenced us in a positive way at some point in our lives. Bennis (2004), while discussing his view of the seven stages of leadership, reiterates the importance of having a mentor at various stages of a leader’s personal development, from the very first stage through to the mature stage when perhaps, the mentee becomes the mentor!

Mentors may play a number of roles such as coach, friend, and counsellor. Since the late 70’s there has been considerable debate around the value of individuals in mentoring relationships where the focus of attention is placed on the quality of the mentoring relationship (Higgins & Kram: 2001). This is emphasised by Eby (1997) who often refers to mentoring as “an intense developmental relationship”.

Stokes (2003) discusses the strongly interpersonal relationship between mentee and mentor in which a safe place exists for the mentee to explore and grow. This is further supported by Alred & Garvey (2000:146):

“A mentor is sensitive to the emotional and intellectual aspects of the mentee’s world. Offering empathy is a basis for establishing trust in the mentoring relationship, a condition for learning that goes beyond the routine and the instrumental.”

The mentor acts as a confidante and, as Clutterbuck & Megginson (1998) put it; will offer ‘help…in making significant transitions in knowledge, work or thinking’. Mentoring relationships can be highly structured or fluid in design allowing the relationship to move in any direction the mentor and mentee agree, but always in support of the mentee’s goals. In recent times mentoring has been identified as an important learning activity in a variety

[3] The authors recognise that the evidence used to support the analysis and conclusions rests on entrepreneurs who have voluntarily participated in E-mentoring programmes piloted in the United Kingdom (UK) and thus were self selecting.

of contexts (Hansford, Tennet & Ehrich: 2002), such as businesses and the more traditional learning environments.

As in all aspects of mentoring, more critical questions are now being asked about the quality and effectiveness of mentoring relationships Stokes, Garrett & Hunt (2003). Ragins, Cotton & Miller (2000) draw our attention to the dangers of so-called 'marginal mentors' and McAuley (2003) explores what he refers to as the 'ambivalence' of mentoring, employing psychoanalytic constructs such as transferences and counter transference between mentor and mentee.

Stokes et.al. (2003), raise a number of questions, specifically about e-mentoring. Firstly, can e-mentoring - as an alternative mode of mentoring – enable mentoring relationships of sufficient depth and quality so that benefits can be gained? Related to that question, we can also ask whether e-mentoring can overcome some of the difficulties experienced in traditional didactic mentoring relationships. If the answer to both questions is 'yes' then e-mentoring has a great deal to offer to the field of mentoring and coaching.

Although there appears to be no common definition assigned to this relatively new term, there is little known on the subject, as demonstrated from the literature review that follows, E-mentoring is a term rapidly gaining in popularity..

In many traditional didactic cases where mentoring programs were reported to have negative outcomes, success appeared to have been jeopardised by lack of time, lack of training; the negative attitudes of others or poor matching of mentors and mentees (Hansford et. al.:2002). We will explore how some of these problem areas can be alleviated through E-Mentoring.

What is E-Mentoring?

A Review of E-Mentoring Literature

While there has been a veritable explosion of online mentoring websites and opportunities within a wide variety of professions, very few academic articles to date have addressed this phenomenon Ensher, Heun & Blanchard (2003). Stokes et.al, (2003) also identified that as yet, there is relatively little empirical evidence to constitute a thorough exploration of what e-mentoring is and whether it works or not.

Perren (2002), in a piece of research commissioned by the authors during the development phase of MentorsByNet programme, identified a limited number published articles, supporting the view that few academics have sought to address this area of research to date. This looked primarily at the research of e-mentoring and its relevance to entrepreneurs.

To date any research on E-Mentoring immediately runs into a barrier over the definition: Kasprisin, Single, Single & Muller (2003) point out that, e-mentoring "…has also been popularly termed telementoring, cyber mentoring and on-line mentoring…". Perren's (2002) review identifies use of the internet, using email and list servers and non face to face methods of interaction as being key aspects of e-mentoring. Although the literature in this area is relatively sparse, some definitions are offered for e-mentoring. For example, Single & Muller (2001) define e-mentoring as:

“a relationship that is established between a more senior individual (mentor) and a lesser skilled or experienced individual (protégé), primarily using electronic communications , that is intended to develop and grow the skills, knowledge, confidence, and cultural understanding of the protégé to help him or her succeed, whilst also assisting in the development of the mentor”.

This is useful as a starting point but is, arguably, not hugely differentiated from many definitions of traditional mentoring: the same could be said of others offered in Perren’s (2002) review. Gibb (1994) argued that mentoring cannot be explained through a single universal definition, an argument that can equally be applied to E-Mentoring.

After an extensive literature search Perren (2002) identified 20 papers that initially looked to be relevant to both E-Mentoring and Entrepreneurs, however further analyses reduced this to three core papers, a brief summary of each follows:

- Evans and Volery (2001) - this article looks at providing "business development services, such as training... and networking" through the internet by asking 'experts' "from around the world." Three success factors are found: 1. Internet communication is perceived as "second-best" to face-to-face; 2. So face-to-face contact is needed as a primary form of communication, internet provision is not a substitute; 3. The management of the internet site and program is a key factor".
- Stokes (2001) - this article is one of the most focused on the topic of the review as it looked at the feasibility of introducing a UK on-line tele-mentoring advisory scheme based on the Distance Learning Advisory Service in the Netherlands. Focus Groups were used to ask owner-managers what they thought about the idea. Owner – managers saw computers as a vital part of their businesses, but there was a wide range of application of computers and levels of confidence varied. Issues of trust, flexibility of delivery of support and time were repeating themes. Owner-managers also thought that face-to-face tutorship and networking with peers was important and they liked the idea of directed tutorship/mentoring rather than just brainstorming.
- Sullivan and Duffy (2000) - this article builds on Sullivan (2000) and reports some of the same issues. This summary will concentrate on the additional features of the article that look specifically at e-mentoring. A range of e-tools are suggested that could support entrepreneurs and facilitate e-mentoring including: email, email with attachments, as-synchronous electronic discussion forums (not in real time) and synchronous teleconferencing (in real time). Discussion forums could allow entrepreneurs to share and discuss concerns and mentors could make contributions. Teleconferences are normally arranged at a pre-arranged time, it is suggested that the "role of the mentor is to assist focusing the group on a topic of discussion and ensuring that all participants have the opportunity to contribute". A teleconference could also be used for a "problem clinic” where mentees bring forward their live problems for consultation either with their mentor alone or with other mentees.

Stokes et. al. (2003) are critical of Perren’s review and the contributions that existing research makes to e-mentoring. The emerging view is that current research falls short of a robust evaluation of the area, largely due to the lack of data. Those who have published on the subject have tended to balance low cost and flexibility of e-mentoring schemes against the limitations that e-mentoring has when dealing with more complex interpersonal issues. As a result, there have been calls for e-mentoring to be seen as a supplement to, but not a substitute for face to face mentoring. However, the paucity of research limits the extent to which this can be claimed with confidence.

Beech & Brockbank (1999) offer another perspective when considering the issue of power and how the imbalance of power may be overcome through e-mentoring. They consider how face-to-face interactions may be distracted by visual clues, and issues related to setting, context, and atmosphere may hamper communication. They conclude that as e-mail and text based messaging are leaner communication channels that allow for more direct information transfer, it could remove contextual issues.

Stokes et. al. (2003) conclude that e-mentoring, due to the 'leanness' of text based communication, might compel the participants to focus more on the substance of the message than on the style, status etc of the person delivering it. This therefore adds an additional research question to those already contributed: can e-mentoring offer additional benefits which go beyond those offered by traditional mentoring? Stokes et. al. (cites Hawkridge's, 2003) article, which is based on his eighteen years experience with the Open University, offers some additional ways in which text based communication might hold sway over face-to-face interaction. These advantages seem to stem from the recordable nature of the text which, unless special effort is made to record face to face sessions, is not usually used in those sorts of interactions. As the text is available, this enables all parties to make sense of the contributions by "synthesising and summarising, drawing threads together, watching for and correcting conversational drift, spotting good ideas" and so on.

It has become apparent from the literature that many authors believe E-Mentoring is a suitable means of support for the traditional physical mentoring relationships, rather than a relationship that exists solely through the use of technology. The definitions offered earlier also appear to be inappropriate to the authors, who offer the following definition:

"E-Mentoring uses technology to facilitate the development
of a supportive relationship for experimentation & personal
development in a safe, convenient & timely environment;
helping both mentee & mentor to grow"

An Overview of the Practice

Electronic mentoring has been developed based on the possibilities unique to information and communications technology. The common feature of electronic mentoring programmes is the independence from geography and time constraints for connecting mentoring participants which we will see later.

The approach for E-Mentoring in a business to business environment was originally conceived by Kevin Hunt, (one of the authors) whilst in post as Regional Director, SBS with the belief that mentoring could be made available to a greater number of entrepreneurs through an approach adapted for technology. The concept was tested against published research (see Perren: 2002). A full market analysis was also commissioned using similar approaches through the web from which two principal schemes were identified (www.mentornet.net and www.apesma.asn.au/mentorsonline) from where learning was taken to aid development, . From this approach MentorsByNet[4] (www.mentorsbynet.org.uk) was developed and the learning was shared with Business Link for London and a second, smaller pilot, was established.

[4] MentorsByNet a programme operated by Business Link Surrey and funded by SEEDA & SBS

The market analysis from both public and private organisations as well as educational institutes, throughout Europe and North America showed that the concept and value of mentoring is becoming a widely accepted practice. It was also apparent that E-mentoring is also slowly making an appearance on a variety of scenes, such as areas of social needs, but little in business.

It was therefore perceived that a more flexible and over time a relatively inexpensive approach to delivery, could open up the benefits of mentoring to a much wider audience. Many face-to-face schemes exist, but these can normally only handle relatively few in number. Thus many entrepreneurs have otherwise been excluded from face-to-face mentoring schemes due to the time, distance, social and financial constraints impinging upon them through running a small business. As already mentioned E-mentoring is in its infancy, but could, some believe, lead to a worthwhile addition to the services provided to entrepreneurs through the public funded business support organisations.

It is widely recognised that entrepreneurs such as business leaders are often in a very isolated position (among others Bennis: 2004) and the Sunday Times: 2003:19), and not all feel they can turn to their board of directors (assuming they have them) for advice or guidance while sole traders are in the same position frequently having few options as to where they can seek help.

One of the key aspects of the programme's success has been its ability to attract mentors on a voluntary basis, from the pool of existing entrepreneurs. It was recognised by many of the mentors that they benefited from the relationship, as referred to earlier by McAuley (2003). The uniqueness of the programme from the mentor's perspective was the convenience factor and that it required just small amounts of time.

The following are the core elements of the MentorsByNet program:

- The pilot supported programmes offered by intermediary business support organisations rather than going direct to market, in this instance through the Business Link Network of the SBS
- Entrepreneurs at various stages of their life were recruited as volunteer mentors and support was offered free to mentees
- All forms of technology could be used to support the process, such as web based email, instant relay chat, web cam, discussion forum, phone & texts, etc.
- Geographical location WAS NOT used as a determining factor when matching candidates to mentors.
- The pilot would support a three month mentoring relationship, (a minimum of six months was preferred but was limited to three due to funding timescales)
- As face-to-face meetings were not considered part of the process, a process of facilitating the relationship was developed
- Online training was provided to both mentee and mentor to ensure standards were maintained
- Ongoing evaluation and feedback was sought
- Usage volumes would be captured

A follow up programme is currently underway with 6 month relationships and enhancements to the processes and technology applications, resulting from feedback and progress in take up of broadband internet connectivity in the UK.

How do Entrepreneurs Learn?

Since the early 90's it has been thought that the capability of organisations, thus the people within from sole trader to many, that to learn is necessary for success in today's complex, challenging and constantly changing environment, Senge, (1990), Argyris (1999) and Handy (1996). With this focus on learning, much has been written about the entrepreneur or entrepreneurship, here we will take a look at a limited selection of the literature.

Much effort has gone into trying to understand the learning styles of entrepreneurs but Deakin (1999:22) feels "we do not understand how entrepreneurs learn, yet it is accepted that there is a learning experience from merely establishing a new enterprise". He goes on to conclude that being an entrepreneur is in itself a learning experience and thus the ability to learn from experience involves the concept of double loop learning: a process of examining why the problem occurred and to learn from that process (Senge:1999).

Kirby (2003) re-enforces the concept of learning by doing and reminds us of Kolb's learning cycle: concrete experience → observations and reflections →formation of abstract concepts and generalizations → testing implications of concepts in new situations, back to concrete experience. For the entrepreneur most of this learning takes place in one individual who addresses all the stages: this is referred to as experiential, Marsick & Watkins (1990) coming from an "implicit" perspective. Kirby (2003) also discusses the entrepreneurship types and considers the impact of different learning styles that may be attributed to them, for instance the 'innovator' will be more creative and will require stimulus, as opposed to the 'change agent' who may require more practical support.

The subject of "adaptive" and "generative" learning is discussed by Sullivan (2000) and introduces the notion of 'bring forward' experience rather than waiting for and learning from it. Sullivan (2000:2) also cites Williams's model of organisational learning that incorporates four common individual characteristics of learning:

1. goal directed
2. experience based
3. learning that impacts on behaviour
4. learning that impacts upon the culture of the organisation

When the characteristics are viewed with Rae's (2000:6) findings of five broad career stages we can begin to see how the needs for learning change through the life cycle and appear to be dependent upon the individual entrepreneur's stage at any given time, thus the learning is circular with previous stages being revisited when entrepreneur moves into new ventures. This is further supported with Boyatzis's theory of self directed learning, Goleman, Boyatzis & McKee (2002:110), based on the principles of open loop learning, which implies that to understand the learning styles and needs of entrepreneurs it is necessary to attune to their immediate and long term goals.

Thus learning can be viewed as a continuum, but one that shifts with events for entrepreneurs and thus has to be flexible. Based on the evaluations we can see that E-Mentoring does support this type of approach for learning and would therefore appear to be effective at coping with the changing requirements.

RESULTS FROM 2 PILOTS

The SBS SE Team (the authors) commissioned an independent evaluation of the two pilot programmes that were being operated in the SE of England through Business Link for Surrey and London through Business Link for London. The independent evaluation was carried out by a team led by Professor David Megginson of Sheffield Hallam University. The following section contains the relevant findings.

MentorsByNet Programme (MBN) South East England

Evaluation methodology

The research was carried out in two phases - in the form of pre- and post-programme e-mailed questionnaires. The questionnaires were based on the one sent out by APESMA (Australia), for comparative purposes, as well as covering additional aspects that were of interest to the sponsors of MBN and the researchers.
On both occasions questionnaires were sent out to mentees and to mentors at the same time, but differently worded.

The decision to send out both a pre- and post-questionnaire instead of just a post-programme one was founded on the desire to evaluate and compare pre-programme expectations with post-programme views grounded on experience.

A preliminary analysis of the pre-programme questionnaires was undertaken using the industry standard computer package for analysing data called SPSS. A preliminary report was produced. The data was analysed looking at both frequency of response as well as any significant correlations using the Spearman rho method.

Percentage of respondents - pre- and post-programme

	Pre	**% of population**	**Post**	**% of population**
Mentee (out of a possible 46)	19	41%	23	50%
Mentor (out of a possible 41)	19	46%	24	59%

All percentages cited in the final report were of the total number of respondents in each category (pre and post; mentee and mentor) in the survey.

Questionnaire response rates are often an issue in this type of evaluation research. Estimates of what is a 'reasonable' response rate vary but many studies cite 30% as being typical. This study had a response rate of over 50% which was gratifying. The size of the pilot means that the number of responses was modest; nonetheless conclusions can be drawn about the success of the programme.

Significant correlation between responses to different questions in the mentee and the mentor post-questionnaires

In sifting through the colossal number of inter-correlations between responses to questions we have:

1. Focussed only on correlations significant at the .01 level of probability (i.e. there is a 99% of probability that the link is more than pure chance).

2. In selecting from the still large number of significant correlations, we have started from key output variables (satisfaction, development, recommend to others) and studied which input variables (scheme features) they are linked with.

Emerging themes

Email-based mentoring

- In the pre-programme questionnaire 84% of mentees and 70% of mentors affirmed that the fact that MBN was an email-based programme encouraged them to participate. Post-programme mentee response had slightly increased to 90% while mentor response had slightly decreased to 63%.
- 65% of mentees and 71% of mentors cited issues of location and timing as reasons why the e-mentoring programme was preferred over traditional face-to-face mentoring meetings.
- Pre-programme 74% of mentee and mentors expected to supplement their email contact with other forms of communication while 48% of mentees and 79% of mentors said that they did this. This largely was in the form of telephone conversation.
- In line with the APESMA study a number of participants indicated that, while e-mentoring was convenient and flexible, it was not completely ideal. Many commented that their partnership either did or would have benefited from being supplemented by other forms of communication such as telephone (mentees 48% and mentors 67%) and face-to-face (especially in the early stages) to develop a sense of rapport and trust.
- 13% of mentee respondents and 17% of mentor respondents found no issue with this mode of conducting a mentoring relationship. Some other issues raised around email-based mentoring were its impersonal nature, time taken and continued commitment to the relationship. This, once again, is in line with the findings of the APESMA study.

SUMMARY OF KEY SUCCESS FACTORS

One of the purposes of the evaluation was to identify key success factors in running e-mentoring programmes for SMEs. In reviewing the finding of this study together with the APESMA results we identified the following:

1. The importance of appropriate matching

2. The degree of desire that participants have to be involved in such a scheme in the first place

3. Establishing programme goals at the outset - mentee lead

4. Programme duration of at least 6 months
5. Pre-programme training which helps participants to manage their expectations
6. Setting a communication plan at the outset of the programme and regular contact between mentoring partners
7. Supplementing email-based communication with other modes of communication
8. Assisting mentees to sustain motivation - e.g. frequent facilitators messages of prompts and encouragement
9. Participant commitment to programmes and making the effort to give some priority to the relationship
10. Establishing a good mentoring relationship (e.g. rapport and trust)

Case Study Two: Business Link for London Programme

One of the key objectives of the Business Link for London (BL4L) E-Mentoring pilot programme was to assess whether e-mentoring will add value as part of the BL4L Start-up core offering and, if appropriate, can then be established across London for BL4L and/or their partners. Other objectives of the pilot were to assess how e-mentoring provides a resource-efficient way of delivering customer satisfaction and whether it might enhance traditional business support services.

The programme was conducted over three months, involving 18 mentoring partnerships. It concluded at the end of July 2003 and a independent comprehensive evaluation was undertaken which measured areas such as perceived experience of the programme, programme outcome, satisfaction with contact frequency, and satisfaction with programme guideline notes. These are areas that the Business Link Surrey and Australian APESMA programme measured so we were able to use these schemes as benchmarks. In line with the BLS scheme but filling a gap in the APESMA survey this evaluation measured perceptions of benefits from the scheme; concern for the practical relevance of the programme; responses about focusing on the realisation of specific goals and plans; and perceptions of the benefits of the e-mentoring programme.

In the first instance, it is prudent to once again, discuss some issues that may have impacted on the Business Link for London scheme in comparison the BLS programme.

- The first issue is that of resource allocation. Whilst the BLS scheme has been used as comparative data for the Business Link for London analysis, it must be acknowledged that, due to the differences in the financial resourcing of the projects, that comparison can only ever be approximate in nature. With financial backing of a modest £22K, the Business Link for London scheme, by necessity, is small in scope and only modest scale can realistically be expected from this.
- The second issue to raise is that of the initial implementation of an Instant Messenger System (IMS) as a way for the mentees and mentors to communicate. Due to time and monetary constraints this booking system proved to be too complicated for the majority of users. This process of was therefore mothballed four weeks into the programme and may have impacted on participant's making initial contact with their mentoring partners.

Whilst there was a 'reasonable' return rate (approximately 47%) of evaluation questionnaires, compared with a typical response rate of 30%, it should nevertheless be pointed out that a significant number of scheme participants have not returned their evaluation forms. It is difficult to tell what that means in terms of the views of the scheme as this set of participants have not articulated their views, but this must temper any general conclusions that can be drawn about Business Link for London as a scheme.

One of the strengths of using survey/questionnaire research is that it enables trends to be identified in participants' responses and exposes any weak points/areas requiring change by the scheme. On the other hand, it does place some constraints on understanding 'why' certain individuals have given certain answers. An additional feature of this evaluation was that the BLS and APESMA schemes were being used as a benchmark. Therefore, there needed to be sufficient compatibility between the evaluation instruments, which limited the degree to which certain questions could be tailored to fit the Business Link for London scheme. We therefore used data from a focus group in addition.

The overall effectiveness of the Business Link for London programme can be judged by the positive responses to the post-programme questionnaire. Some of those findings were as follows:

- 75% of mentees and 57% of mentors described their e-mentoring experience as a positive one. Although this is less than the experience in the BLS programme (mentee 95% and mentor 79%) and the APESMA scheme (mentee 82% and mentor 80%) it is an indication that participants felt more than less positive about their experience.
- 89% of the mentors in the scheme and 50% of the mentees indicated that they would participate in a similar programme at some time in the future. This compares to 84% of mentors and 91% of mentees in the BLS programme.
- In line with the findings of the BLS programme over 60% of mentees and over 55% of mentors cited convenience, flexibility and ease as the major benefits of email-based mentoring while as many as 75% of mentees (and over 20% of mentors) indicated there was an element of impersonality about this type of communication. This compared with 30% of mentee and mentor responses from the BLS scheme.

Overall feedback from participants has been both broadly positive as well as explicit about the benefits as illustrated by the following:

Are There Policy Implications?

It is evident from the learning from the two pilots that there are likely to be implications and great opportunities for Governments with publicly funded business support programmes to consider.

Enterprise is central to the success of any economy. The dynamism of individual entrepreneurs drives the innovation, competitiveness and growth of an economy (A Government Action Plan for Small Business: Making the UK the best place in the world to start and grow a business: 2004; Action Plan: The European Agenda for Entrepreneurship, 2004). Increasingly Governments are recognising e-channels as one of the key routes to market in a wider approach to cost effective business solutions. Assuming connectivity is in place the e-channels accessibility makes it an increasingly attractive option available to Governments.

Learning styles need to fit the needs of entrepreneurs and therefore there are implications for publicly funded business support. E-Mentoring should be considered as one of many options in a wider e-enable offer – more so in countries eager to develop cost effective means of engaging a wide audience at relatively low cost.

CONCLUSIONS

From the reviews of both programmes and the literature, it can be seen that mentoring is generally felt to be a good approach to learning. The pilot programmes have demonstrated that entrepreneurs found this of significant benefit, the same might be said for the traditional didactic relationships, but mentoring delivered using technology was seen to provide the benefits in a more timely and convenient way.

E-mentoring for the development of entrepreneurs is still in its infancy, but the work undertaken in the UK has demonstrated that there is a huge potential for Government Bodies to effectively support and engage entrepreneurs through this medium. For evolving economies this ought to represent a cost effective and efficient approach for the provision of mentoring, which is seen as high quality business support, and one that is not dependent upon geographical boundaries.

Governments need to consider realigning their policies, which hitherto have been focused around physical delivery of programmes with a narrow focus and little flexibility. E-Mentoring could offer the opportunity for policies to become more responsive to the individuals needs within a cost effective and timely manner for entrepreneurs, who are seen as the new wealth drivers in today's economies.

So can entrepreneurs learn, effectively, through E-Mentoring? On the basis of the evidence from the evaluations of both Mentors by Net and Business Link for London pilots, we believe that E-mentoring is both an efficient and effective means of learning for entrepreneurs. It has been shown that entrepreneurs will often shift their requirements for knowledge as events change within their own business environment, thus the mentor can also shift ensuring that the learning areas remain applicable to their needs.

Furthermore, as the mentors are entrepreneurs in their own right, they also recorded positive learning outcomes from this approach, both from the relationship and the mentor training that supported them.

This can be seen from the following quotes from participants:

'I found the project rewarding in that it gave me an opportunity to improve my communication skills in imparting my knowledge and experience.'

'I think it is a worthwhile thing to do, as both parties can benefit.....'

'This has been a valuable learning experience for me.'

'Great idea, great service, helped with my isolation.'

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Post Script

The second phase of MentorsByNet began in October 2003 and by March 2004 has circa 300 entrepreneurs registered on the programme with circa 100 active relationships underway. The programme has seen mentors register from New Zealand, Hungary, USA, and Ireland with many UK based mentors registering from outside of the SE Region. A programme has also been started aimed specifically at the rural and farming communities.

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See also www.e-mentoringeurope.com

MICRO AND SMALL-SCALE ENTERPRISES DEVELOPMENT AND THE BUSINESS ENVIRONMENT IN TANZANIA

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ABSTRACT

This paper reports findings on a study of the environment surrounding micro and small-scale enterprises (MSEs) in Tanzania. Results from this study reveal an existence of regulations, bureaucratic licensing structures, and a tax regime that hinder the growth of Tanzania's business starters. This environment also seems to push MSEs into illegal trading thus undermining government revenue. Based on these findings the paper develops a policy framework, suggesting several reforms to the country's tax and regulatory regime. This framework also provides relevant clues to other developing countries in addressing similar business environments.

Key words: Small Business, Business Environment, Enterprise Development, Tanzania, Developing Countries, Economic Development

INTRODUCTION

The performance of enterprises is partly affected by the environment in which they operate. Various studies highlight the importance of a conducive environment to enterprise development. Hallberg (2000:9) for example, argues that a well-developed physical infrastructure that includes reliable transportation, warehousing and port facilities, and communications networks has an influence on MSEs development[1]. Similarly Tolentino (1995) notes that macroeconomic framework and policies directed at providing support to MSEs development are likely to determine and influence the demand for their products and service. A biased policy framework against MSEs according to Mead and Liedholm (1998) can among others, restrict access to essential inputs such as start up and working capital, machinery and equipment, and raw materials.

Tolentino (1995) and Hallberg (2000) also argue that a legal and regulatory framework which results into excessively complex registration and licensing requirements and demands tedious and costly reporting practices is likely to impose constraints on the business activities in addition to placing heavy burden on entrepreneurs and their businesses. In addition to stimulating the creation of new enterprises and fostering their viability and growth, an environment that is supportive to MSEs is likely to contribute to the effectiveness and sustainability of support programmes. A conducive and enabling policy and regulatory environment are therefore crucial to the development of MSEs.

Following the implementation of liberalisation policies in Tanzania during the last two decades, the country's business environment has witnessed various changes. Such changes among others, involve the opening of business opportunities within the private sector. Despite the implementation of these policies, there is a growing shade of opinion indicating that, in pursuit of such business opportunities, formal procedures and bureaucracy hinder enterprise development particularly at the small-scale level (Kristiansen, 2002b). While various studies (Levy, 1991; Parker *et al,* 1995; Kristiansen, 2002b) have been conducted in the past in relation to small business environment in Tanzania, most of them focused on identifying the various factors that affect the environment for small businesses. This paper however, goes beyond this level and conducts an analysis that gives careful attention to the impact of these factors to enterprise development in the country. Based on this analysis the study develops a model that suggests corrective measures to the identified constraints.

One basic premise to this study is that there are a significant number of smaller enterprises, which do not fit into the conventional enterprise recognition in Tanzania. According to the informal sector survey of 1991, small enterprises operating at that time in the informal sector alone numbered to more than 1.7 million businesses, engaging about three million persons, accounting to about 20 percent of the country's labour force (URT, 2003). Similarly unemployment at present is a significant problem the country has to deal with. Estimates indicate that there are about 700,000 new entrants into labour force every year. About 500,000 of these are school leavers with few marketable skills. The public sector currently is able to employ only about 40,000 of the new entrants into the labour

[1] So far there is no universally accepted definition of MSEs (Allal, 1999). The current practice is that individual countries are expected to come up with their respective definitions. At the time of this study no definition had been produced in Tanzania. As a result this study adopts an ILO (Allal, 1999) definition that microenterprises are characterised by 1 to 10 employees and small-scale enterprise by between 11 and 50 employees. It should however, be noted that at the time of this study authorities in Tanzania were in the process of coming up with country definitions.

market, leaving 660,000 to join the unemployed or the underemployed reserve[2]. Most of them end up in the MSE sector, and especially in the informal sector. In addition to jobs creation, it is also estimated that about a third of the country's GDP originates from this sector. Despite the current data on the small business sector in Tanzania being sketchy and unreliable, still the above statistics give a reflection of the role this sector plays in the country's economy

This paper is organised in seven sections. A review of the theoretical review of the study is presented in the next section followed by a description of the methodological approach to the study. Section four discusses the study findings, followed by a presentation of the likely consequences of the country's existing regulatory and tax regime. Section six presents the developed policy framework on reforming the country's regulatory and tax regime. The paper concludes with policy implications in section seven.

A Review of the Theory on Business Environment Analysis

The basis for business environment analysis by this study is established by considering various theoretical contributions. One of such contributions relates to the ability to find new business opportunities in a society or the capability to innovate (Schumpeter, 1934; Leibenstein, 1966). North (1993), in search of sources of economic growth emphasises the role of institutions in societal change. Formal rules and guidelines by these institutions for example, have an effect in shaping the business environment. Furthermore, North argues that formal rules that are created and conducted by principals, agents and state bureaucracy hinder innovations and economic growth. Formal institutional rules and constraints arguably vary with contextual settings. In developing countries Kristiansen (2002b) for example, argues that interests of the elite normally have a strong dominance over the wishes of ordinary people. In Kristiansen's view the principals use their agents at different levels of state bureaucracy to enforce their rules, to limit opposing interest, and to hinder differing economic actions by non-elite groups.

North (1981) similarly notes that one of the primary objectives of institutions is to maximise the utility of the rulers by specifying a pattern of wealth and income distribution. Tax regulations and formal rules are but some of the examples to this assertion. Several recent studies underline the need to study economic theories of entrepreneurship and emphasise the wider societal setting within which the entrepreneurial endeavour emerges and evolves (Zafirovski, 1999; Kupferberg, 1998). In Tanzania a common argument maintains that heavy government involvement in the economy after independence caused major market distortions, resulting in sub-optimal allocation of economic resources and the development of an environment that was not conducive to private business development (Kristiansen, 2002b). On the other hand, while macroeconomic intervention in the economic environment through various structural adjustment programmes have been praised for creating a level playing field for MSEs, many observers believe that small businesses are still at a severe disadvantage. Despite private business entrepreneurship becoming legitimate in the eyes of the Tanzanian government, several practices that affect the business environment are still in existence. Existing evidence for example, indicates that laws and regulations have been highly restrictive to small businesses and private entrepreneurs (Toroka and Wenga, 1997; Parker *et al*, 1995; Bagachwa, 1993; Levy, 1991). This restriction can be traced back to the dominance of government institutions and parastatals between the late 1960s to late 1980s. These institutions according to

[2] Ibid.

Kristiansen (2002b) were given the power and priority in the distribution of credits and all kinds of licenses.

In a theoretical context this study takes a closer look at the elements of an enabling environment for MSEs in Tanzania. The study attempts to go beyond the neo-classical micro-foundation of structural adjustment policies by examining the thinking and acting of real entrepreneurs. The analysis by this study is partly based on the argument that business contexts are perceived differently and affect commerce variously at different stages of the entrepreneurial process.

METHODOLOGICAL APPROACH TO THE STUDY

This study uses survey as its main methodology for data collection. The survey technique is used to allow an examination of a sample of selected MSEs and generalisation of the results to a larger population from which the smaller group was chosen (Neuman, 2000). In addition to the survey, we also review the new policy document on the development of micro, small and medium enterprises in the country. The survey was undertaken by conducting face-to-face interviews to 136 entrepreneurs in 9 sampled regions out of 25 regions, using a pre-designed questionnaire. These regions are Dar-es-Salaam, Morogoro, Mwanza, Arusha, Mbeya, Kilimanjaro, Tabora, Zanzibar urban and Zanzibar south.

The questionnaire was designed as a series of questions split into two parts. The first part focused on obtaining data relevant to MSEs characteristics. These were entrepreneur personal data (entrepreneurs' gender, age and educational level), business premises, and commercial registration. The second part of the questionnaire examined the business environment surrounding MSEs. In line with the focus of the study, entrepreneurs were specifically asked if they viewed licensing procedures, information availability and tax regulations to be a hindrance to their operations. Follow up questions were similarly asked during the interview to obtain an insight into how these factors affected their operations. Enterprises covered by the survey were classified into manufacturing, trade and services sub-sectors. They include 110 microenterprises and 26 small enterprises, of which 91 were urban based and the remaining 45 were peri-urban based[3].

Table 1: The survey sample

ISSUES	Microenterprises (ME)				Small enterprises (SE)				
	M/f[Ψ]	Services	Trading	All ME	M/f	Services	Trading	All SE	Total enterprises
Number	15	37	58	110	6	9	11	26	136
Urban	6	25	40	71	4	6	10	20	91(67%)
Peri-urban	9	12	18	39	2	3	1	6	45(33%)

Source: Survey data
[Ψ] M/f stands for manufacturing

[3] Peri-urban area for the purpose of this study is a radius of 50 kilometres around the sampled regional towns.

Given the qualitative predominance of the questionnaire the study basically uses cross tabulation to analyse and present enterprise characteristics and the factors affecting entrepreneurship environment. The survey findings therefore, are mainly drawn from qualitative information and impression gathered from the interviews as well as the analysis of the cross-tabulated data.

STUDY FINDINGS

The analysed data is presented in two parts. Initially general information that characterises MSEs in the country is presented. This is followed in the second part by a discussion of the identified factors thought to affect the enterprise environment. This part is also integrated with a review of the new policy document on micro, small, and medium enterprises development[4].

Enterprise Characteristics

General information on enterprise characteristics specifically focuses on entrepreneurs' gender, average age, educational background, business premises ownership, and business registration status. This information is summarised in Table 2. Results indicate that most MSEs are owned and operated by men (about 77 percent). This finding is consistent with other findings across the globe where women owned businesses were found to account for 25 to 33 percent of all businesses (Employment NOW Community Initiative, 1998). Entrepreneurs' average age is about 35 years. Most of the studied entrepreneurs do not achieve beyond the primary, secondary and vocational levels of education (88 percent). These findings are in line with a common perception that most micro and small entrepreneurs achieve an education level of no more than secondary school.

Table 2: General characteristics of the surveyed MSEs

ENT[a].	ENT. AV. AGE[b]	EDU. LEVE[c]		PREM. O'SHIP[d]		COMM. REG[e].		GENDER	
		Uni. Level	Primary/Secondary/Vocational level	Own	Rented	Reg.	Unreg.	F	M
Micro	37	12	98	39	71	95	15	27	83
Small	32	4	22	6	20	26	-	4	22
Total[*]		16(12)	120(88)	45(33)	91(67)	121(89)	15(11)	31(23)	105(77)

Source: Survey data

[a] Enterprise Category; [b] Entrepreneurs Average Age; [c] Education Level achieved by Entrepreneurs; [d] Enterprise Premises Ownership; [e] Enterprise Commercial Registration; [*]Figures in parentheses represent percentages

The categories of business undertaken by enterprises as presented in Table 1 supports a common perception that MSEs in developing countries are primarily vendors and small traders (Mead and Liedholm, 1998). Most enterprises (67 percent) operate from rented premises (Table 2). An assessment of enterprise commercial registration status reveals that most MSEs are registered (89 percent). All of the commercially unregistered

[4] At the time of this study this document was in its final draft form.

enterprises are micro and operate in regions (Tabora, Mwanza, Arusha, and Kilimanjaro regions) where they are considered as street vendors and therefore not required to register commercially. In these regions local government officials collect a fixed monthly levy and allow microenterprises to operate their businesses.

The Enterprise Environment

Although the environment in which MSEs start up and operate is shaped by a number of influences, the assessment of the enterprise environment by this study focuses on policies, legislations and regulatory procedures.

The Policy Framework

While it is not clear to what extent administrative and legislative burdens hinder business growth, Bridge *et al* (1998) find it reasonable to assume that anything that absorbs time and resources that would otherwise be devoted to business development is likely to have a deleterious effect. Bridge *et al* also argue that it is indisputable that government policies have a major impact on the trading performance of small businesses. Policies therefore seem to be important in underpinning the development of entrepreneurship as they influence the performance of MSEs in the broader economy. Furthermore, policies underpin the formation of legislation and regulations, which in turn determine governments' activities (White, 1999: 21). Existing literature also provides an overview of a variety of instruments through which government policy can influence MSE activity (Tolentino, 1995). They include monetary and credit policies, taxation, regulatory and control policies such as registration requirements and procedures, permits and licensing laws, trade and export policies, and education policy particularly promoting the development of a skilled and educated work force.

The creation of an enabling environment is therefore partly dependent upon a favourable overall policy framework, which allows the development, and promotion of enterprise and entrepreneurship respectively. The success of a policy framework in turn is dependent on the use of stable, well-designed policy instruments and mechanisms, and policy areas that combine to create an overall policy environment for MSEs. So far the Tanzanian Government has taken a number of initiatives to encourage the establishment and growth of MSEs. First, market enlargements in Tanzania as a result of the liberalisation process since the late 1980s are regarded to be the main reason for growth of small businesses during the last decade (Trulsson, 1997; Bagachwa, 1993). Secondly, the government has attempted to create a level playing field through macroeconomic intervention using various economic reform programmes and reduction of discriminatory practices against MSEs. A recent and probably significant effort by the Government is the formulation of the micro, small and medium enterprise policy document. Despite these efforts many observers find that small businesses are still at a severe disadvantage competitively (Kristiansen, 2002b). Laws, regulations, multiple taxes and bureaucracy in addition to problems in generating business ideas and picking business opportunities are still mentioned as problematic in the country (Satta, 2003).

The new policy document for small businesses development although attempts to address a significant number of key issues, lacks any policy or programme link between microenterprises development programmes such as support for self-employment and Small and Medium Enterprises (SMEs) development programmes, particularly one which promotes the graduation or growth of an enterprise from micro to small and eventually medium. In addition, though this document covers micro, small, and medium enterprises,

more emphasis appears to be on SMEs than on microenterprises. Despite being the majority (see Table 1) less weight seems to be attached to the role of the smaller MSEs in terms of job creation, service provision and productivity.

Table 3: Main Factors Affecting Small Enterprise Environment in Tanzania

FACTOR	(%)
Bureaucratic Licensing Procedures	94
Unfriendly Taxation Structure	93
Lack of Relevant Information to MSE Sector	91

Source: Survey data

The enterprise environment in Tanzania also exhibits significant gaps in information about the MSE sector and its potential for development. Most of the interviewed entrepreneurs (91 percent) indicated that relevant information to MSE sector development is not readily available (Table 3). Several studies point to the important role information plays in small businesses' growth. Stiglitz (1989) and Kristiansen (2002a) for example, consider information to be one of the areas where market failures are most apparent and that these failures are easily regressive, continuously marginalizing micro and small entrepreneurs. Several recent studies also identify access to information as one of the important factors behind entrepreneurial success (Kristiansen, 2002b). Among the wide-ranging demands for information in Tanzania are a broad profile of this sector, including its characteristics, problems, products and services produced; profile of owners, including aspects such as gender and age; communities involved in enterprise development; and markets in which MSEs operate. Information availability is also necessary for an appropriate identification and description of the providers of MSE development services, as well as evaluation of the performance and impact of business development services.

The gap in information seems to result from the absence in the past of any comprehensive and systematic assessment of the MSE sector dynamics. This has resulted into limited and unreliable availability of information with regard to the needs, problems, potential and opportunities to this sector. Parallel to information gaps, few recognised national or regional business associations that can represent the MSE sector exist (URT, 2003). Among other problems, the absence of these organisations makes it difficult to obtain a collective general opinion from the MSE sector on the policy environment and what should eventually be done to facilitate enterprise growth.

A number of studies in developing countries also place the acquisition of professional business skills among the necessary conditions for entrepreneurial success (Nafukho, 1998). In Tanzania however, it appears that no deliberate measures have so far been taken to promote entrepreneurial skills and competencies in training institutions. Currently only few institutions offer a few short-term programs[5]. Despite their wide recognition in terms of economic development contribution, small businesses also continue to be under the broader portfolio of the Ministry of Industry and Trade, which for a number of years had its main focus on industrial development.

[5] So far institutions involved in short term entrepreneurial skills promotion include the Small Industries Development Organisation (SIDO), College of Business Education and The University of Dar-es-Salaam

The Framework and State of Regulations and Procedures in Tanzania

Regulations and procedures in the context of this study are taken to be tools that are used to enact legislation and pursue policy outcomes. The systems for regulatory and procedural activities in Tanzania are partly centralised and partly decentralised. Currently there are four major tiers of government operations in Tanzania, the highest being the central government in Dar-es-salaam. Below this level there are 25 regions (provinces) manned by Regional Commissioners. All central government ministries and departments are represented at the regional level. Below regions there are Districts under District Commissioners. At the lower end are wards and villages for urban and rural areas respectively.

The central government provides the overall direction of policy and the legislative basis on which development occurs. In most cases both policy and legislation are implemented through a variety of government agencies operating at central, regional and local levels. Two forms of mechanisms are used in policy implementation. At the top level there are government ministries, departments and executive agencies. These are responsible for designing and introducing policy as well as undertaking regulatory functions such as business registration, taxation, and issuing of licenses. At the lower end is the local/regional government structure which directly impacts upon the legal and regulatory framework that MSEs find themselves in. The local and regional government for example, are involved in land use and planning, provision of sites and premises for business operation such as market stalls and industrial estate, health and safety compliance, and local government taxation.

Several studies on entrepreneurship in developing countries emphasise on the bureaucratic hindrances to the establishment and growth of MSEs (Saabbarwal, 1994; Rondinelli and Karsada, 1993). A recent comparative study of ethnic entrepreneurship covering three ethnic groups in South Africa by Mitchell (2003) found that regulations and higher taxes were perceived as most problematic policy areas. In Tanzania, Kristiansen (2002b); Toroka and Wenga (1997); and Bagachwa (1993) observe that laws and regulations have been highly restrictive for MSEs. Findings from these studies note that long after the process of liberalisation started in Tanzania, many micro and small entrepreneurs find government regulations and the bureaucratic maze to be a severe hindrance for their progress. Laws and regulations feature high in the list of constraints by businesses according to the above mentioned studies. An earlier study by Levy (1991) covering Tanzania and Srilanka found that tax and regulatory burdens in Tanzania were the next heaviest constraint (after lack of access to finance) on small business expansion.

A study by Parker *et al*, (1995) that covered five African countries[6] concluded that between 61 and 96 percent of MSEs in Ghana, Mali and Tanzania rated taxes as one of the problems hindering the business environment. A study by Kristiansen *et al*, (1999) covering tailors and furniture makers in Tanga Region/Province note that paying (corruption) to get out of tax and license duties is common in the Tanzanian system thus undermining government revenues. Taxes are considered to be very prohibitive and the general feeling among small entrepreneurs is that they see no benefits from their payment according to this study. A fairly recent study in Tanzania also reveals that the majority of companies studied complained about the multiplicity of taxes, duties and fees (Nkya, 2002). According to this study, no less than 19 different compulsory contributions are paid to government institutions by firms. Overall, small-scale entrepreneurs saw no significant

[6] Countries covered by this study were Tanzania, Senegal, Mali, Malawi, and Ghana.

changes in the current tax policies and bureaucratic maze, as compared with the pre-reform period.

Survey results from this study reveal that bureaucratic procedures that affect the business environment for MSEs revolve around the relations between these business starters and a wide range of regulatory authorities in the country. These authorities include (a) Tanzania Revenue Authority (through VAT and Income Tax Departments, (b) licensing authority, (c) Health authorities (covering food related enterprises), (d) providers of public utilities (power, water, telephone), (e) National Social Security Fund which require all private businesses in the country with 5 or more employees to make pension contributions on behalf of their employees, and (f) Labour ministry officials (in relation to labour laws). Bureaucratic difficulties seem to be substantial with Tax and Licensing Authorities according to the survey findings.

An assessment of the tax system reveals that despite various reforms within the tax regime in the country, there are no significant changes in the current tax policies. The study found Tanzania's formal tax and regulatory requirements to be demanding. A significant number of entrepreneurs (93 percent – Table 3) raised various taxation issues that affect the growth of their businesses. One of the issues cited for example, is the current practice of estimating tax to be paid rather than basing on actual results.

Another problem with tax authorities is the practice of demanding a payment of an estimated tax amount upfront on all small businesses before setting up. In addition to having tax rates that do not distinguish between smaller and larger businesses, the tax structure itself has several different taxes to be paid by enterprises. An interview with one entrepreneur who owns a bar and guesthouse business in Dar-es-Salaam for example, reveals that he annually pays a total of 13 different types of fees and taxes. Fees according to this entrepreneur cover license fees for drinks, bar, and snacks activities separately. Other fees paid by the business include health fees for staff, inspection fees by health inspectors, and refuse collection fees. Taxes include income tax, stamp duty, hotel levy, and development levy. Income tax, stamp duty and development levy are charged separately for Guesthouse and bar activities. Related to the tax system problem is the existence of official and unofficial levies. According to most entrepreneurs the unofficial levies problems is exacerbated by too many inspection visits that are made to MSEs. These include visits by inspectors for value added tax, income tax, health, refuse collection, sign boards and business registration authorities.

The business licensing process is another area most entrepreneurs (94 percent) consider to be bureaucratic (Table 3). Generally centralisation of licensing is considered to play a major part in bureaucratising the whole process[7]. The practice of renewing the business license according to interviewed entrepreneurs, also increases the cost of MSEs remaining formal as it involves obtaining clearance from the same list of authorities that are involved in the initial process of granting the license. Apart from consuming entrepreneurs' time, this procedure encourages corrupt practices. Though difficult to quantify, Kristiansen *et al* (1999) consider bureaucracy to be a major contributory factor towards corruption practices in Tanzania.

The net effect of all the above discussed business environment hindrances seems to impose entry and expansion deterring costs on MSEs. They include financial costs and the opportunity cost associated with the diversion of scarce entrepreneurial time and effort.

[7] Recently the Government in recognition of the existence of complicated and bureaucratic licensing procedures established a new body (an Executive agency) to be responsible for business registration

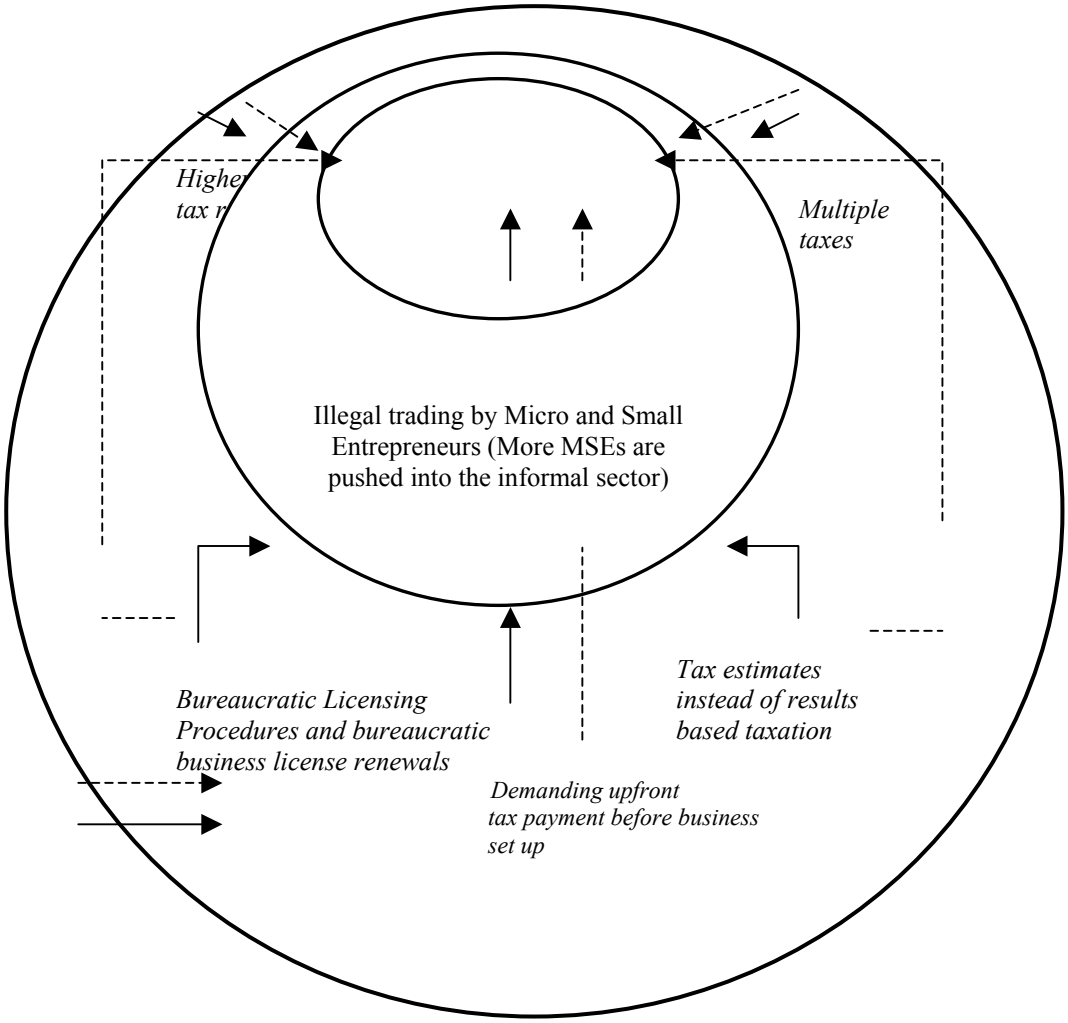
While this study does not uncover findings that are distinctly different from previous studies in the country, an attempt is made to go beyond the assessment of the MSEs business environment, by examining the likely impact of bureaucratic regulations and unfriendly tax regime. Furthermore, the paper develops a model for mitigating these hindrances.

Likely Consequences of the Current Regulatory and Tax Regime

Illegal business activity is viewed as the darker side of entrepreneurship (McClennahen, 1998; Baucus, 1994). A common illegal business activity related to findings from this study is the trading of legal goods and services by avoiding the payment of duties or taxes. Another one involves trading without proper licensing by authorities. Sardar (1996:51) argues that illegal business practices are deeply interwoven within political, social and economic fabric of many developing countries and consequently leads to the 'parallel economy'. De Soto (1989) similarly argues that when legality is a privilege available only to those with political and economic power, those excluded have no alternative but illegality. Given the strong apparent links between illegal business activities and entrepreneurship, and the paucity of studies in this area, there is a need to examine this relationship and explore its potential effects on government revenue (Fadahunsi and Rosa 2002). Despite the lack of a systematic entrepreneurial theoretical model of illegality in general and illegal trading in particular, illegal trade opens up increased opportunities, and potentially very profitable opportunities for opportunity seeking entrepreneurs through non payment of duties and taxes amongst others[8]. However, it should be noted that although most MSEs may be generating profits when operating illegally, they would still prefer to operate in a less stressful and impartial legal system. In Fadahunsi and Rosa's view, entrepreneurial advantage lies in the business itself and making it work, not its illegality. Informals according to De Soto (1989), run the risk of being penalised for not having obtained permits, paid taxes, or applied for the authorisation required by law.

[8] Ibid.

Figure 1: Likely Consequences of the Country's Regulatory and Tax Regime



Source: Developed by author

The combination of cumbersome and punitive formal tax and licensing requirements and ubiquitous enforcement as voiced by interviewed entrepreneurs in Tanzania are thought to create substantial opportunities for government revenue losses through corrupt practices and illegal trading. Specifically, multiplicity of taxes and higher tax rates are likely to contribute significantly to the creation of an unconducive business environment for MSEs leading to illegal trading. Bureaucratic licensing and renewals of licenses (which are dependent on prior lengthy clearance processes from various authorities) are likewise likely to impose a significant burden on entrepreneurs' scarce time. Illegality on balance is seen to be more harmful than beneficial for economic development. Specifically it makes it difficult for small businesses to be productive when government regulations hamper the pooling of resources. This is also the case when taxes and tariffs distort the price of materials and products.

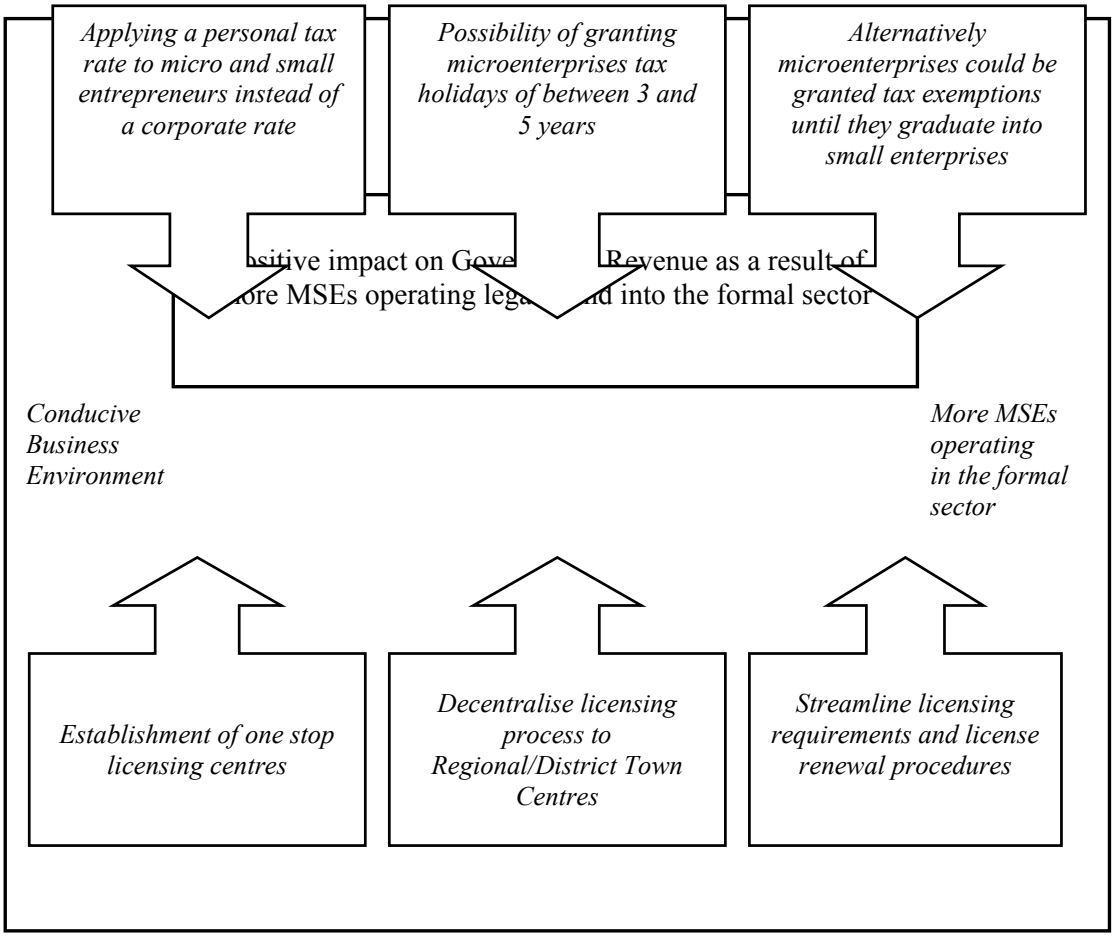
Given these findings, the paper explores the likely effects of the costs of multiplicity of taxes, higher tax rates, unfriendly tax estimation practices and bureaucratic licensing

procedures to MSEs in the country (Fig. 1). The central argument emanating form this exploration is that the current small businesses licensing procedures and tax regime is pushing micro and small entrepreneurs into illegal trading. Specifically, multiple taxes, higher tax rates, estimated tax demand instead of tax payments based on results and the practice of demanding upfront payment of taxes before business set up on the one hand and bureaucratic licensing procedures on the other, seem to push micro and small entrepreneurs into the informal sector. This in turn undermines government revenues as well as affects the development of the MSE sector due to increased uncertainty on small businesses operations.

Policy Framework for Reforming the Regulatory and Tax Regime

Based on study findings the paper developed a policy framework for mitigating the identified hindrances to MSEs business environment (Fig. 2). The ultimate objective of the framework is to have more MSEs shifting into the formal sector and in the process boosting government revenue.

Figure 2: Policy Framework for Reforming the Tax and Regulatory Regime in Tanzania



Source: Developed by author

Among other things, harmonisation of various taxes charged to small businesses (to reduce multiplicity of taxes), application of separate tax rates to small enterprises from large ones, and considering charging micro and small entrepreneurs personal income tax rather than corporate tax are some of the policy issues advocated by the framework. Similarly, tax authorities in the country should consider reviewing their unfriendly approach to taxation by abolishing for example, the practice of charging a new business an estimated tax amount upfront before setting up. This is likely to provide an incentive for the establishment of more MSEs. Another relevant policy input is on [extending the current practice of granting tax holidays of between 3 and 5 years to foreign investors, to MSEs. Alternatively, microenterprises could be exempted from paying taxes until when they graduate into small enterprises. Parallel to this should be a consideration of tax rates in terms of the size of the enterprise in a progressive way.

A reduction in bureaucracy in registering businesses is likely not to be achieved by simply replacing the body that used to be responsible in the past with another one. Among others, the new body should consider decentralising the business licensing process so that it becomes less costly to businesses outside its base (Dar-es-salaam). The decentralisation process should involve the establishment of one stop licensing centres in Regional/Provinces. These centres should bring together all relevant authorities under one roof. A review of the whole process including current registration requirements in order to do away with all the outdated ones could also make a significant difference in promoting the establishment and development of MSEs in the country. Parallel to streamlining licensing procedures, the framework suggests more transparency by all relevant regulatory authorities to discourage corrupt practices.

CONCLUSION

The current business environment according to findings by this study (and several previous studies) appears to constrain MSEs' potential for growth. Specifically the business environment for MSEs seems to be affected by a presence of multiple taxes, higher tax rates, unfriendly taxation practices, and bureaucratic licensing procedures. The presence of these hindrances is believed to be playing a significant role in pushing MSEs into illegal trading through unlicensed trading and avoiding paying taxes and duties. Although illegal business by MSEs might be providing livelihoods for thousands if not millions who would have no jobs without (that is it makes opportunities accessible to a much range of entrepreneurs), it undermines government revenue in addition to increasing uncertainty in MSEs operations through increased business operating hassles.

Given these findings, policy initiatives are therefore, required to improve micro and small entrepreneurs' ability to utilise their business contexts since the current policy framework seems to constrain the entrepreneurship process. Initially the paper develops a working model [Fig. 1] that explores the likely effects of the costs of an unfriendly tax regime and bureaucratic licensing procedures to the government and small businesses. The paper then builds on that working model and develops a policy framework for mitigating the identified hindrances to MSEs business environment [Fig. 2]. Clearly reforms seem to be necessary on the current tax regime and licensing procedures reforms are necessary if MSEs are to expand and contribute to economic development in the country. The ideal solution would be therefore, to remove the obstacles and convert any political incentives into legal facilities in order to free and increase the vendors' entrepreneurial energies and allow them, within the competitive process, in which they are immersed, to use their talents

to the full and serve the community more effectively. In terms of policy implications, recommendations from this model are likely to: (i) push more MSEs into the formal sector through proper licensing and payment of relevant fees and taxes; and (ii) have a positive impact on government revenue through receipt of various taxes and fees payments from MSEs.

In line with social sciences research practices of attempting to extrapolate general trends from specific data in a particular study and relate this to a broader theoretical framework, the key question for this study therefore was on how far these results can be generalised to gain wider insights into business environment and MSEs growth. Although the surveyed entrepreneurs are possibly not representative of the several thousands of business starters in the country, the policy framework developed by this study mitigates problems that were also identified by several previous studies. This to some extent makes the case for generalisation of the results in the country much stronger. This framework also provides a basis for further consideration by several developing countries that experience similar business environments.

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THE PHENOMENON OF THE SOUTH AFRICAN NECESSITY ENTREPRENEUR

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ABSTRACT

Economic growth and necessity entrepreneurship are closely and positively linked (Frederick, 2004); and this study explores the phenomenon of the South African necessity entrepreneur. The necessity entrepreneur is someone who never considers starting or owning a business until there is no other option (Kroll, 2003).

This paper examines South African necessity entrepreneurs (NE) in light of propositions cited in the literature that NE is associated with three factors: positively with economic growth (real GDP growth rate), positively with unemployment (unemployment rate), and negative with a generous welfare system (expenditures on social security).
The study of these factors are cited in three propositions:

- P1: There is a positive association between unemployment and NE.
- P2: There is a negative association between expenditures on social security necessity entrepreneurship.
- P3: There is a positive association between NE and economic growth.

South Africa's moderately high levels of NE (albeit low relative to other developed countries) coupled with high unemployment rates and low social security expenditure are complimentary to assumptions in proposals 1 and 2. There is also a distinct positive relationship between NE and economic growth. Research findings accept Proposals 1, 2 and 3 (in the South African context only).

As a *prior* it is also proposed that many of these entrepreneurs have unique psychological needs, such as lack of self-esteem and fear of family's survival, due to never being prepared for entrepreneurship. The relationship between NE and education is also highlighted. Policy implications are recommended towards increasing entrepreneurial behaviour, particularly amongst young adults.

INTRODUCTION

The literature on necessity entrepreneurship is scarce and most of the work on NE is being done within the context of the GEM project. Forbes Magazine defines the Necessity

Entrepreneur (NE) is someone who never considers starting or owning a business until there is no other option (Kroll, 2003; Forbes 2003). The Global Entrepreneurship Monitor (GEM) defines the NE as a person who has started a business because he or she "has no better choices for work". GEM distinguishes the NE from an opportunity entrepreneur (OE) who has started a business to take advantage of a business opportunity (Frederick et al, 2002). The distinction is important because it determines the primary motive for participating in the start-up, whether they are willing volunteers (OE) or feel they are forced into creating a new business (NE).

Cowling and Bygrave (2003) predict that *when unemployment rates are high, necessity entrepreneurship will be high.* They observe that their model is statistically significant, with unemployment rates exhibiting minor temporal variation between countries. Additional predictions by Cowling and Bygrave (2003) include:

The more generous the welfare system the lower the rate of necessity entrepreneurship. In a developed nation such as Australia or New Zealand, generous welfare benefits may result in an unemployed person choosing to enjoy 24 hours of leisure rather than work, commonly referred to as the labour-leisure trade off. This however is not apparent in the case of South Africa, where welfare systems are characteristic of developing nations, compounded by low quality of living standards.

The higher the proportion of the adult population with pension provisions, the lower the rate of necessity entrepreneurs. The aging population relate to the pension system when individuals become inactive in the labour market due to old age. The incentive to work is enhanced by the non-provision of state funded pensions (South Africa specific), by raising total lifetime income from work related sources.

Where barriers to market entry by new businesses are high, the rate of necessity entrepreneurship will be low. Entry barriers in the economic sense refer to potential obstacles that operate to discourage entry. There is little empirical evidence to support entry barriers in South Africa, however, GEM2002 identifies that South Africa ranks high in the world in market openness for new and growing firms.

This paper examines South African NEs in light of propositions cited in the literature that NE is associated with three factors: positively with economic growth (real GDP growth rate), positively with unemployment (unemployment rate), and negatively with a generous welfare system (expenditures on social security). We begin with a survey of demographic and attitudinal characteristics of South Africa's necessity entrepreneurs compared to NEs around the "GEM world". We then examine the correlational associations of necessity entrepreneurship with these three factors. Finally, the author makes statements about the possible outlines of a policy that directly addresses South African necessity entrepreneurs.

METHODOLOGY

GEM carried out a population survey of over 12000 adult South Africans in 2003 to measure the entrepreneurial behaviour and the attitudes of the working-age population. A filter question ("Are you involved in this start-up to take advantage of a business opportunity, or because you have no better choices for work?") allows GEM to distinguish between necessity entrepreneurs and opportunity entrepreneurs. We are thus able to compare and contrast NEs around the world based upon demographic variables such as gender, age,

ethnicity, and rural/urban location. It must however be highlighted that 'don't know' responses were most frequent amongst those without matric, black adults and living in metropolitan areas. This is further skewed by small scale NE regarding themselves as unemployed, together with those engaged in some form of self-employment as not 'starting a business'.

GEM also chose South African experts as key informants in order to probe more deeply into these dynamics. Experts included entrepreneurs, politicians, educators, government officials, investors, and other professionals in the field of entrepreneurship.

Data collected in South Africa and other GEM countries are first presented. Literature and interviews are interpreted. Finally, the author examines whether evidence exists for three propositions that arise from the literature:

- P1: When unemployment rates are high, necessity entrepreneurship will be high (Cowling and Bygrave, 2003)
- P2: The more generous the welfare system the lower the rate of necessity entrepreneurship (Cowling and Bygrave, 2003).
- P3: Necessity entrepreneurship contributes to economic growth (Frederick, 2004).

CHARACTERISTICS OF SOUTH AFRICAN NECESSITY ENTREPRENEURS

GEM 2003 shows that of the 23,12 million adult South African's aged 18-64; 4,3% are entrepreneurs (2,87% opportunity entrepreneurs and 1,43% necessity entrepreneurs). That means that in 2003, South Africa had 990,784 entrepreneurs, of which 667,620 are OEs and 323,164 are NEs. Figure 1 as well shows comparable NE figures for 2001 (4,6%) and 2002 (2,3%). In other words, the NE rate has dropped threefold from 2001 to 2003. Still, there are currently more than 300 000 South Africans who never planned on being start-up entrepreneurs.

Approximately 63% of entrepreneurs in South Africa are Opportunity Entrepreneurs, with the remaining 37% being necessity entrepreneurs. Figure 2 shows the cross-regional pattern for opportunity and necessity entrepreneurship. The most striking differences between opportunity and necessity entrepreneurship within regions are in Gauteng and the Western Cape, where opportunity exceeds necessity entrepreneurship by approximately 2.5 and 2.2 times respectively. Not only are opportunity rates in Gauteng and the Western Cape much higher than necessity rates in these two regions, they are also much higher than opportunity rates in the other regions. Kwazulu-Natal is the only region in which opportunity does not exceed necessity entrepreneurship (GEM 2003).

Cognisance must be taken of South Africa's socio-economic turmoil, represented by high rates of HIV/AIDS (6th highest in the world), low level literacy rate, low GDP per capita, high level income disparity, back empowerment (reverse discrimination), crime and murder rate (2nd highest in the world), notwithstanding high unemployment rate. Khoza (2004) concluded that the reality is that it is worthless to invest in a dying work-force population (HIV/AIDS). These threats aside, South Africa experience a GDP in the top twenty nations of the world, 30% above that of Australia and New Zealand combined.

Figure 1. TEA, NE and OE (2001, 2002, 2003)

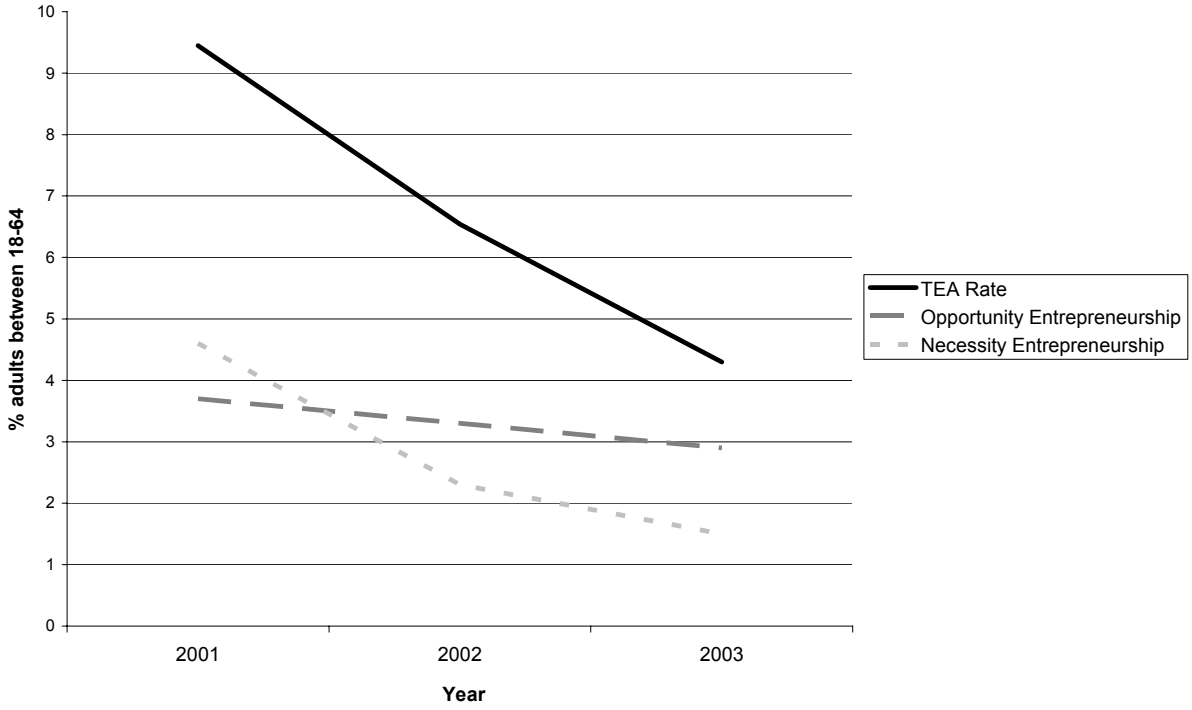
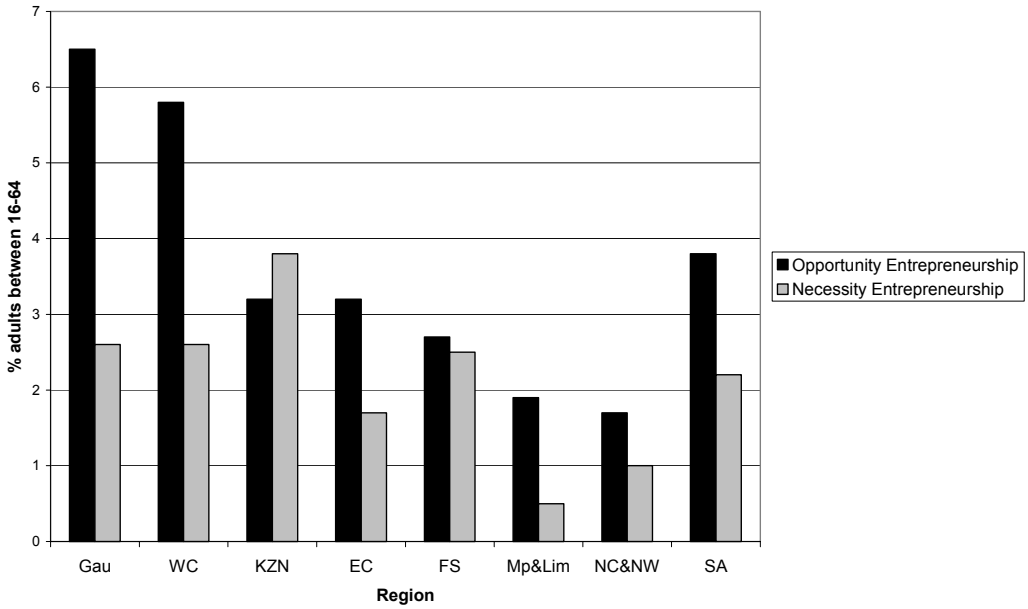


Figure 2: OE and NE by Region



Since inception, GEM data reveals that women's participation in entrepreneurship is only about two-thirds that of men. In 2003 men had significantly higher total entrepreneurial prevalence rates than women in each of the 28 countries included in GEM. On average in all GEM countries men were 1,6 times more likely to be involved in entrepreneurial activity than women were. The overall difference between entrepreneurial activity rates of men and women in South Africa is largely due to much higher opportunity rates activity rates amongst men. Men are almost twice as likely to be involved in opportunity entrepreneurship than women.

The male/female ratio differs somewhat between the countries, despite TEA male dominance throughout. Most distinguishingly though, the male dominance is not portrayed in South African Necessity Entrepreneurs, with no statistically significant difference between male and female prevalence. There is however a statistically significant difference between male and female participation in Opportunity Entrepreneurs, in that males are twice as prone to this form of entrepreneurship.

The gender proportion of South African NEs is 45,9% male and 54,1% female, significantly different for opportunity entrepreneurs. South Africa experience TEA male participation well below the GEM median. South Africa has identified the difference in TEA rates between the country and other developing countries due to much lower entrepreneurial activity rates amongst South African men between 18-44 years of age. Reynolds, Bygrave and Autio (2004) propose that a higher level of participation by women in the economic arena is associated with higher standards of living. This is however outside the ambit of this research paper, but would make interesting reading in the developing nations context.

Race and Entrepreneurial activity are strongly associated. Figure 3 shows entrepreneurial activity rates for Black Africans, Coloureds, Indians and Whites in South Africa. Although necessity-based entrepreneurial activity rates for Black Africans are higher than for Coloureds and Whites, Black Africans have much lower opportunity-based entrepreneurial activity rates than Coloureds, Indians and Whites. Consequently total entrepreneurial activity rates for Black Africans are much lower than for Coloureds, Indians or Whites (GEM 2003). Indians are however far dominant in the NE rankings, resulting on dominance of TEA.

In South Africa, individuals who believe they have the skills to start a new business differ significantly between ethnic groups. Black Africans are less likely to believe they have the skills to start a new business than are Coloureds, Indians or whites (GEM 2003). Figure 4 shows self-perception of entrepreneurial skill; with individuals who believe they have the skills to start a business being seven times more likely to be involved in entrepreneurial activity than those who believe they do not have the skills.
Entrepreneurs in the informal sector (those with unregistered businesses) account for 88% of all businesses in disadvantaged communities (GEM 2002). Informal business employ an average of 0,8 people, formal business 7,2 people. Over two thirds of entrepreneurs have no matric.

Figure 3: TEA by Race in South Africa

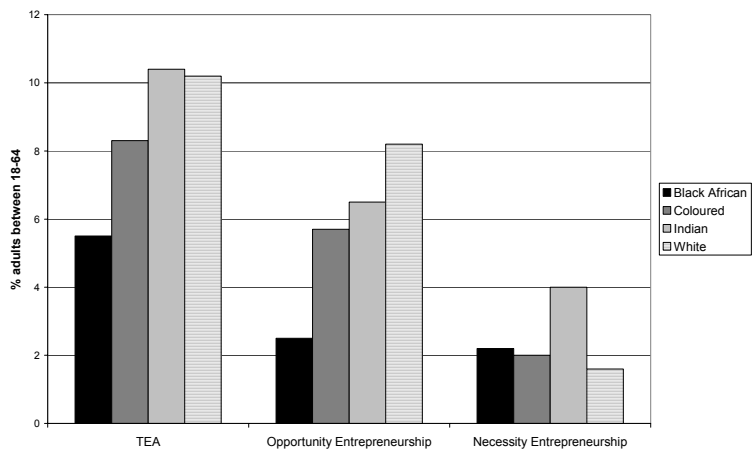


Figure 4: Entrepreneurial Activity rates by Self Perception of Entrepreneurial Skills

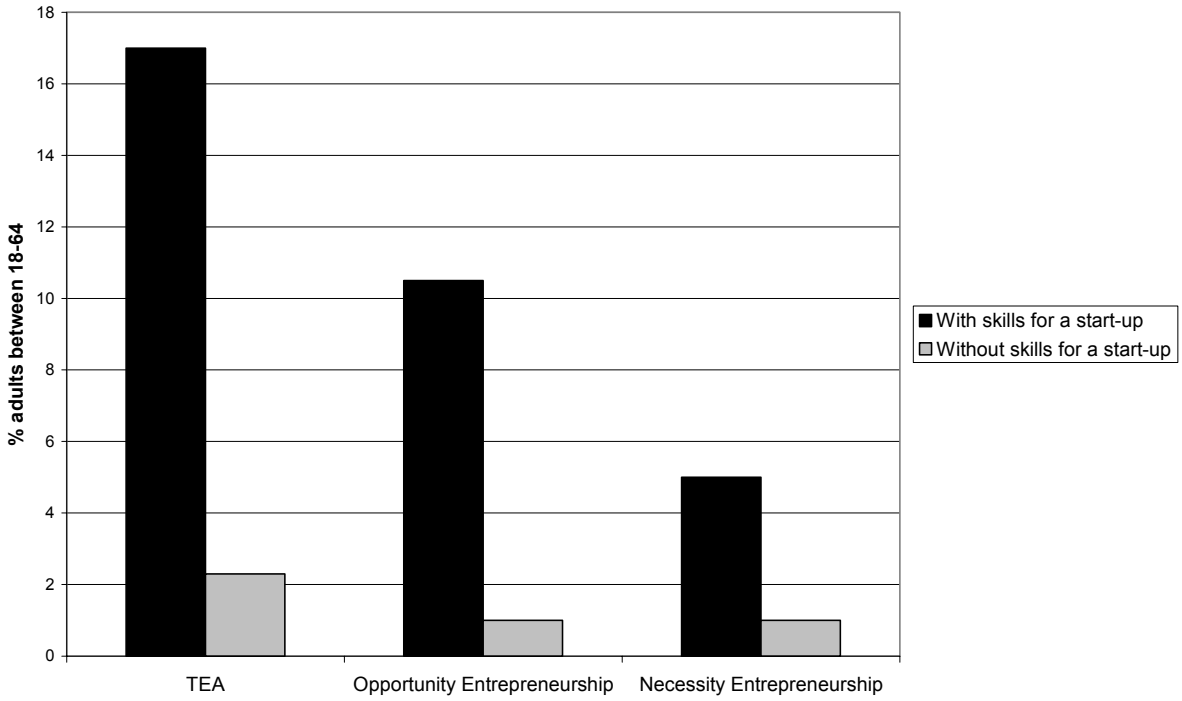
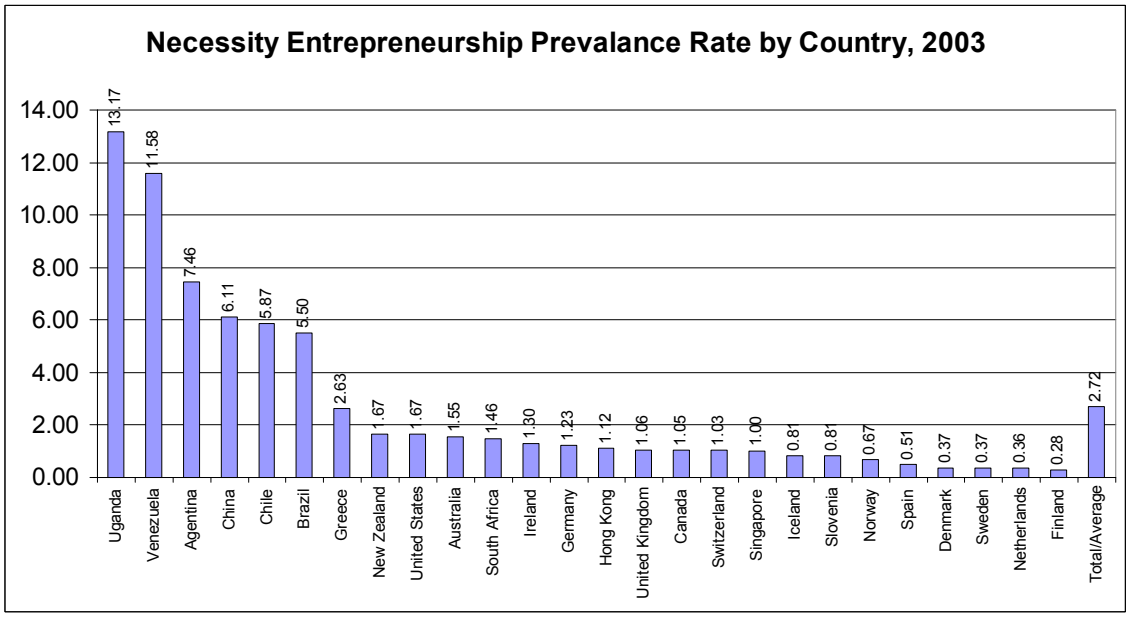


Figure 5: NE Prevalance Rate by Country.



In the "GEM world", necessity entrepreneurs are on average 2.72% of the population. Figure 5 (above) shows that special case countries Uganda and Venezuela have "extreme" rates of NE. Both are churning economies in turmoil with high rates of un- and under-employment. "High" rates occur in Argentina, China, Chile and Brazil. We categorise South Africa, together with Greece, the United States, Australia, New Zealand and six other countries as having "moderate" rates of NE. Seven other GEM countries (largely social-

democratic countries of Northern Europe--Slovenia, Iceland, Norway, Spain, Sweden, Denmark, Netherlands, and Finland) had “low” rates of NE. Cognisance must however be taken that this initial grouping excludes differentiating between developing and developed nations. Countries with low per capita income have high rates of NE (GEM 2002).

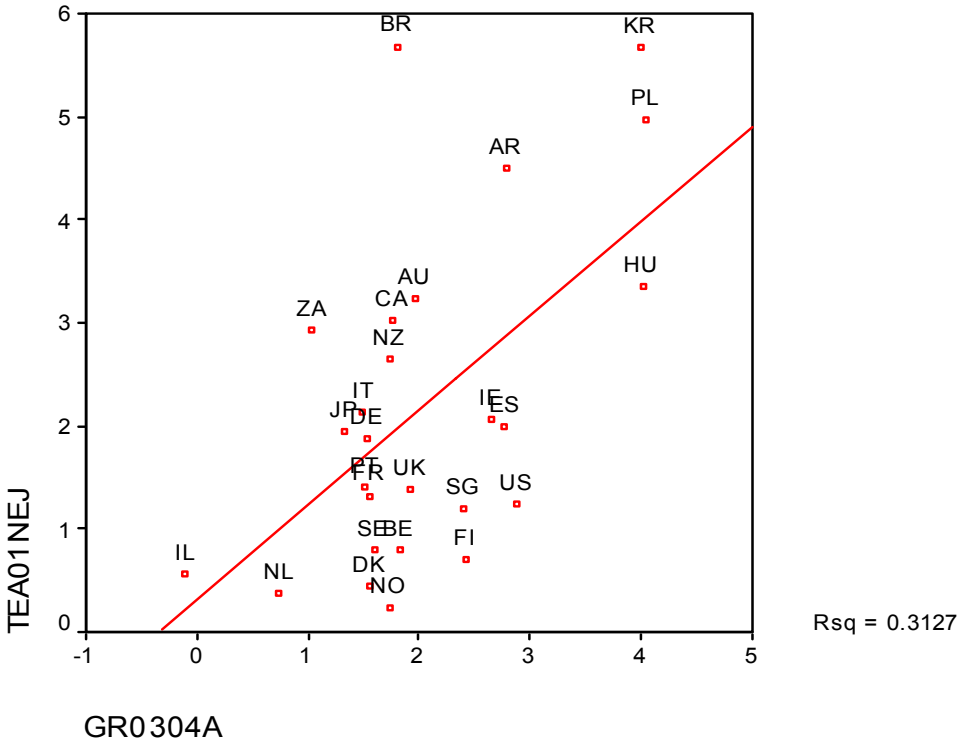
GEM provides evidence that Total Entrepreneurial Activity (TEA) is higher in developing countries compared to other countries. Lower entrepreneurial activity levels are seen in South Africa compared to other developing nations. When looking at the three tri-nations countries of South Africa, New Zealand and Australia, interesting contrasts arise.

Australia and New Zealand have significantly high NE rates, despite developed countries characteristically experiencing lower rates of NE. This is also despite low rates of unemployment, together with high social benefits. South Africa, on the other hand, experience a similar rate of NE, however, well below that of other developing nations. The South African rate is further a point of concern, taking cognisance of the high rates of unemployment, and poor levels of social benefits. The distinct difference between these is that NE is characteristically higher in developing GEM countries, not at all represented in these three tri-nations countries. Only Australia experienced a marginal increase in NE over the previous year. Whilst all three countries have NE rates well above the GEM median (1,10%), none correlate to GEM NE characteristics. Developing and struggling countries are characterised with high NE, yet developed countries such as New Zealand and Australia rate amongst the top 10 of all GEM countries with regard to NE. South Africa’s very low rate of NE is surprising and does not reflect a lower prevalence of poverty in South Africa relative to other developing countries. Amongst developing nations, South Africa has the second lowest income per capita and the second highest level of income inequality (GEM 2003).

A major differentiation between the percent of NE to TEA is however evident, with a 12% rate amongst New Zealand and Australian entrepreneurs; in contrast to 34% of South African entrepreneurs. The GEM universe *proportion* of NEs amongst all entrepreneurs is on average 14,6%; substantially lower than the South African NE rate of 34,0%. Countries with high NE rates have “churning” economies, have suffered dislocation and economic turmoil, and may indicate lack of social funding, particularly in developing countries such as Brazil, China, Chile, Venezuela, Argentina, and Uganda. These countries are also high-growth developing economies (South Africa included). We believe that NE will increase significantly in nations with little or no social benefits for the unemployed, but will increase very little, if at all, in nations with strong benefits for the unemployed, such as the social-democratic welfare states of Northern Europe. Nonetheless, New Zealand has (after Greece) the highest NE activity in the developed countries, despite having a good social and welfare system. Developed countries, such as Spain, Netherlands, Germany, Finland, Denmark and UK have relatively low rates of NE activity, and are characterised by high-welfare. This corresponds to the oft-heard maxims that the more generous the welfare system, the
lower the rate of NE and that when unemployment is low, NE rates will be low (Bygrave, 2003).

Necessity entrepreneurship link to economic growth

Figure 6: Graphical Representation of NE relationship to Economic Growth.



Frederick (2004) shows that there is a strong and direct correlation between necessity entrepreneurship and economic growth. For example, the association between TEA Necessity in 2001 and the GDP Growth amongst all GEM countries three years later is a Pearson's correlation of 0.56, significant at <0.01. Frederick's study in particular examined the link in OECD countries, measuring TEA 2001-2003 with growth, by 0-5 Lag Years. The result showed a higher association between real GDP growth and NE than OE. This positive association is experienced in the South African context, together with a time lag association between TEA and economic growth. TEA Necessity in 2003 (R-square) accounts for 24% of the variance in real GDP growth for 2003, with a statistical significance of less than 0.006.

The positive relationship between entrepreneurial activity and economic growth was reinforced in the South African context. The TEA rate was found to be positively correlated with the GDP growth rate (observed or projected) for the following three years. The relationship was stronger for NE activity and increased with time lag (Hindle, 2004).

GEM 2002 identified that new firm activity has a stronger association with projected GDP growth than start-up activity. Start-ups created an estimated 185,000 jobs and new firms are estimated to have created one million jobs in South Africa between January 1999 and July 2003. Furthermore, South Africa needs a higher proportion of NE to progress beyond the start-up phase, facilitating economic growth.

Necessity entrepreneurship link to unemployment

The South African unemployment rate has risen to a high of 46,7% in 2003, increasing the rate of a further increase in interest rates by the Reserve Bank (prime at 12,5%). Employment grew 0.8% in the June 2003 quarter, compared with an average quarterly

increase of 0.6% over the past four years and market expectations of 0.3% rise. The unemployment rate may now be as high as 48%, putting South Africa at the 15th highest unemployment rate in developing countries. (The rate across OECD countries is 7.1%.). Even this low rate of unemployment may be skewed higher than it should be because new migrants are not able to find employment. GEM2003 indices however reflect that South Africa has one of the highest rates of NE in the OECD, which amplifies the notion that unemployment and NE are associated. South Africa has a NE rate similar to that of New Zealand, despite South Africa having a 47% unemployment rate (New Zealand unemployment at 4,2%).

Analysing the above predictions, one can only but assume that the resultant South Africa NE rate will be high. Unemployment is at an all time high, welfare systems are sparce, pension provisions are inadequate, and market openness is neutral; all resulting in a predicted high NE rate. However, South Africa has a NE rate in the top quartile of the 27 countries participating in GEM2003, despite one of the *lowest* NE rates in developing countries. Interestingly enough, South African NE represent 34,04% of all entrepreneurs, way above the all GEM median of 14,6%.

FINDINGS

P1: When unemployment rates are high, necessity entrepreneurship will be high (Cowling and Bygrave, 2003)

P2: The more generous the welfare system the lower the rate of necessity entrepreneurship (Cowling and Bygrave, 2003).

P3: Necessity entrepreneurship contributes to economic growth (Frederick, 2004).

The *ex-post-facto* formal research from GEM (2003) indicates that South Africa Necessity Entrepreneurship is amongst the top 10 in the participating countries, with high levels of unemployment. In addition, South Africans inadequate social welfare benefits entice many unemployed persons to seeking work, apposing the labour-leisure trade-off. As such, the above propositions 1 and 2 are accepted within the South African context.

The high level of NE's however correlates positively with economic growth (Frederick, 2004), thus accepting proposal 3.

Whilst outside the ambit of this research project, the contribution of NE relative to TEA (34,04%) is of concern. This is particularly the case regarding the OE contribution of 66,28%; being close to 20% below the all GEM median. In other words, those entrepreneurs having no other choice than to commence in start-up businesses (NE) account for a contribution 20% greater than the all GEM median.

Khoza (2004) also highlights that unemployment of a South African individual does not necessarily trigger an entrepreneurial urge. Many are called to be entrepreneurs, but extremely few do succeed as entrepreneurs.

CONCLUSION AND RECOMMENDATIONS

South Africa has a moderate level of necessity entrepreneurship in all GEM countries (GEM 2003), however dismal ratings when compared to other developing nations. In fact, South Africa has TEA levels (and corresponding NE levels) significantly lower than other GEM developing nations.

In terms of global comparison, South Africa ranks 9th in NE and 18th in OE. South Africa's entrepreneurial pool is made up of 66% OE and 34% NE, similar to developing country average, but significantly variable to global comparison.

The prediction that high unemployment levels, coupled with lack of welfare systems (Cowling and Bygrave) lead to increased entrepreneurial activity are distinct in the South African context. South Africa's high necessity entrepreneurial level is characterised by high unemployment levels, and low welfare benefits.

Since there is a direct correlation between Necessity Entrepreneurship and economic growth (Frederick, 2004), and that high growth is achieved by raising the necessity rate (GEM2002), it is imperative to develop the escalation of NE in South Africa. Secondly, within the broader dialogue around black economic empowerment, attention is shifting increasingly toward entrepreneurship. The emergence of large numbers of successful privately-owned businesses, launched and nurtured by black entrepreneurs at all levels, is being recognised as the key to pervasive and sustainable black empowerment (GEM 2002). Recommendations include Government Intervention towards assisting Necessity Entrepreneurs, with particular reference to the informal sector (unregistered businesses) necessity entrepreneurs. Such initiatives may include:

- Identifying industries and regions experiencing labour and skills shortages, and facilitating training and development in this regard.
- Accessibility to government and venture capital, within formal developed start-up networks. Possibility of reviewing the incentive structure for informal investments of this nature.
- Introduction of Business Information programmes, particularly directed at entrepreneurship networking, local business knowledge, and taxation, administrative and legislative issues.

Creating ease of information flow to start-ups, highlighting issues such as entrepreneurial capacity (skills, motivation), entrepreneurial opportunity, business churning, market replication, market creation, financial support, access to physical infrastructure and commercial infrastructure.

GEM 2003 further identify three key segments with regard to policy implications:

- The promotion of entrepreneurial activity amongst young people, especially male.
- Policy priorities include *education* and role models to develop entrepreneurial potential.
- Skills development interventions, particular reference to entrepreneurs' financial management capacity.

As opposed to business skills development, informal entrepreneurs to be supported primarily through life skills, personal management skills and technical training. Khoza (2004)

placed emphasis on retailing being a predominant form of business in the townships. He further informed that to create sustainable job opportunities in the retail sector, parallel entrepreneurs would have to play a significant role. This is in agreement with the development of applicable role models.

As a concluding remark, the importance of *education* cannot be overemphasised in an entrepreneurial context. Experts in South Africa isolate education and training as the countries main weakness with regard to the enabling environment for entrepreneurship. GEM 2003 finds that the education system could play a powerful role in increasing entrepreneurial activity amongst young adults, not only through formal teaching but also through the introduction of positive role models with an entrepreneurial background.

Further research will include the study of the relationship between education and entrepreneurial behaviour amongst all GEM participants in 2003.

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IN QUEST OF SME-CONDUCIVE POLICY FORMULATION

FROM A GLOBAL AND SYSTEMIC VIEW

by

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V i e n n a

The very topic raises an ever challenging question: that is, of the role and significance, if not to say "survival" of small and medium-sized enterprises (SMEs) and related structures within an environment of forces which - particularly in the sphere of industry - an first sight tend to favour the "big" rather than the "small". This at the same time points at underlying aspects and challenges of broader socio-economic and structural dimensions with a concomitant need for appropriate formulation of more differentiated and specifically designed business policies generally.

Such challenges and related problems today are to be seen from an inseparably intertwined and multipronged point of view:

- From a more and more internationally, not the least as a strategic ingredient of development to be recognized perception of the role and exposure of SMEs in their sector-related structural significance nationally, regionally and nowadays, in fact, globally.

Then, from a closer to the skin view of developments related to on-going restructuring in our European and - when speaking of SMEs - in many ways regionally unique business environment.

I.

Globally, evidence of a new and growing recognition of the role of SMEs is provided by a profound reorientation in development policy over the last decades with a distinct change in strategies toward fostering sector-related diversification for more balanced long term growth and economic welfare under sustainable conditions generally.

In speaking of strategies, there is today an ever growing awareness worldwide of the role of SMEs both as a factor of sustaining economic stability and as simply indispensable a catalyst for fostering economic dynamics and welfare. Experience and recognition thereof

* Finally, under overriding **socio-economic** and systems-related aspects of a more comprehensive SME-specific policy formulation.

has triggered a more broadly based rethinking and change in outlook quite in contrast still to postwar decades, when sustained economic buoyancy, business dynamics and growth in considerable measure tended to blur the need for any more subtle structural considerations. Yet, underlying economic realities and the very characteristics of any SME structured business environment, in the end, were not to be neglected with impunity indefinitely.

Altogether - and not the least from an European angle - this largely has disproved more orthodox and seemingly ill conceived notions of any inherent superiority of the "big" vis-a-vis the "small", thus recognizing the specific role of SMEs in the context of a more subtle and diversified approach toward "structural development".

II.

In geographically narrowing our focus and taking a closer look now at the specifity of the **European business environment:** a unique, richly structured and indeed highly diversified SME "landscape" emerges. A landscape with manifold facets as vividly being illustrated again and again by the "European Observatory for SMEs". Thus, in its current (sixth) issue it is being shown that SMEs (defined as up to 250 employees) within the " European Space " in a broader sense number

somewhere close to 20 mill. units, against only about 40.000, or just 0.2%, larger firms (with more than 250 employees); this makes for an average of some 50 (non-primary) business establishments per 1000 inhabitants! Furthermore, these millions of smaller - in considerable part craft dominated micro-enterprises - over the past years continuously have tended to outperform larger enterprises in terms of job creation. This at the same time demonstrates that without such relatively high employment growth and intensity on part of SMEs, the European unemployment syndrom would have been even more pronounced!

While illustrating thereby the economic and social importance of SMEs in a European context, this further implies - as stated in the 1996 "Observatory" - that over the years an estimated 1.5 million Europeans annually decide to start a business of their own; and this way, over half a decade or so, the number of (mostly small to very small) enterprises increased by about 9%, while the EU population grew by only some 2 %.

In country-specific terms it is quite typical too when, e.g., in Austria - and similarly in Germany, in Switzerland and elsewhere - nearly 99% of all non-agricultural business establishments have less than one hundred employees; and of those again close to 90% have less than 10, and just about 2% 100 or above. Moreover, in terms of sustaining employment the SME sector on the whole - due to its flexibility and adaptability - over the eighties and well into the nineties, in a period of profound industrial restructuring, was able to by and large absorb, and thereby compensate for, on-going layoffs in the larger public sector dominated industries to the tune of some 80,000 employees (or nearly 3% per cent of Austria's total work force).

While recognizing such proven strength not only structurally but also as providing a certain measure of resilience against business cycle volatilities one might take note of the fact that it is exactly in the sphere of SMEs as well where - due to their more immediate socio-economic exposure - conflicts of interest (not free at times from certain partisanship) do arise and are being fought out; conflicts implying both positive and negative repercussions as to sector-related policy formulation with concomitant institutional implications. Frequently, this indeed resembles the arena where in essentially market based systems "the

very action" is; where policy challenges and demands are being articulated in ever so manyfold nuances and facets.

Sheer existence and sustained survival of SME structures with their complexities as mirroring the very reality of economic life itself, also contradicts once widely spread "prophecies" of the ultimate demise of small businesses as a predicament under both "classical" and, of course, Marxian doctrines. Historical evidence and today's systemic transformation processes at our doorsteps in Central and Eastern Europe clearly point to the opposite; the very essence of restructuring going on there more then ever calls for speedy creation or revival of sound and diversified SME structures as simply indispensable an ingredient for any sustained recovery as one of the strategically most challenging issues.

All too easy at times, as it seems, the inherent wealth of diversity as so typical for the European business scenario mereley is being taken for granted; this perhaps too, because we somehow are used to the fact that SMEs always have been or simply ought to be there anyway. Yet, for any more conscious policy considerations this, in fact, is not really so selfunderstood; it rather does call for continued awareness to assure that underlying resilience and adjustment capabilities constantly are being safeguarded..

Such adjustment capabilities to changing business conditions and, at times, volatile cyclical movements quite typically are characterized also by structural permeability both upward and downward: that is to say, by way of adjusting - and in today's scenario all the more relevant - to forces of regional (or even global) integration with implicit restructuring of business sizes. Such restructuring, by its very nature, is not one-sidedly to be interpreted as simply a tendency toward "concentration" only; rather, and more objectively so, it is equally to be seen as a process of opening up opportunities also "downstream" in terms of structural deepening as markets and, in particular, size of markets change.

Insights of modern industrial economics give credence to such complexities in the course of structural adjustment with, in part, new evidence as to criteria of "optimal" business sizes being induced, e.g., by technological developments. Thereby placing emphasis not so much on economies of "scale"; rather more on elements such as SME-specific diversification or differentiation rendering classical returns to "scale" no longer so valid an argument as against economies of "scope". More pointedly still, it implies conscious recognition of such complexities as, e.g., regional specifics and market differentiation, locational spread including relative density of businesses relating to given demand and supply patterns, with implications again for product/market orientation and diversification of size structures as relevant for both forward and backward linkages of respective business activities.

Any SME policy addressing such complexities finally has to do with what one might subsume under contributing to "quality of life" and to conditions of welfare in a broader sense. Endowment with diversified business structures and, thereby, with enhanced economic opportunities, productive capacities and increased potential for catering to differentiated, individualized patterns of demand finally needs to be judged with a view to such qualitative aspects. (A study to this effect conducted in Austria, e.g., depicts regional differences in relative SME density between 40 and 80 per 1000 inhabitants as clearly correlating with respectively higher or lower levels of economic welfare, incomes and purchasing power.)

III.

Over and above mere economic considerations, relevance of SMEs, finally, is to be viewed also from a more broadly based **socio-economic** point of view; that is, SMEs be-

ing seen as a driving force of structural change on the one hand, and as a stabilizing factor for safeguarding a given economic setting with its institutional framework in the dynamics of change on the other.

For any freedom - and as such market - oriented socio-economic order as a form of life, this unequivocally implies a commitment to entrepreneurial initiative, to guaranteeing both free and autonomous pursuit of business opportunities; implies furthermore a commitment to market criteria of performance with quite legitimate a claim for adequate return under due consideration of social (including environmental) responsibility in the conduct of business as such. It also means that any such policy inescapably becomes part and parcel of shaping socio-economic conditions as conducive a framework wherein SMEs, with their diversified structures and patterns of performance, can thrive as indispensable for guaranteeing and sustaining welfare conditions for society as a whole (as no doubt constituting a policy challenge at any time anywhere).

Such policy ought not to shy away from the very "nitty gritty" either: such as, e. g., avoiding to burden SMEs in a discriminatory manner with unremunerated administrative tasks by public authorities. A more recent study to that effect in Germany demonstrates that the relative impact in terms of cost and manpower to be allocated proves up to 22 times (!) and, thus, quite disproportionately higher for SMEs as compared to larger enterprises. In a somewhat more sarcastic vain, but pointing essentially in the same direction, the US Small Business Administration some time ago pointed out that the then roughly 10 million businesses under its constituency got inundated yearly by well over 300 million forms with up to one billion pages containing more than 7 billion questions; altogether entailing unremunerated costs averaging some $ 3,000.- or more per firm. Gracefully perhaps, a similar EU related assessment has not, as yet, been carried out!

If on the other hand - as often quite "liberally" being claimed - it is to be recognized that SMEs indeed represent the mainstay or very "trade mark" of any market oriented economy; and if it is true further, as variously being claimed, that - due to the sheer existence of more diversified SME structures - economies over and over again could prove their adaptive capabilities for both overcoming even severe policy mistakes and at the same time taking on new challenges, then it would be only consequential for any related policy to attain a certain measure of "natural" legitimacy of its own.

IV.

Upon closer scrutiny of such pronouncements and arguments though, one might be left wondering whether this kind of demands or recommendations not remain pretty much on the surface and, thus, tend to fall way short of recognizing more profound issues involved; whether indeed - if argued from a systems-related point of view - not more deeply probing questions as to the really crucial "building stones" of any SME-specific policy were to be addressed, as e.g.:

- **Questioning**, with a view not the least to prevailing structures, whether "classically" defined strategies of blatant "marketeering" indeed make for adequate and sensitive enough a policy taking proper cognizance of underlying diversities and complexities?

- **Questioning** further, whether sheer prevalence of SME diversification with related institutional structures rather not might call for an equally differentiated policy; a policy which - within an essentially market based framework - just as well allows for appropriate multiplicity of cooperative (corporatist) or in various ways subsidiary forms of

business organization and relationships as a kind of "natural" ingredient, if not enrichment of any economic system pointing beyond simple supply and demand mechanisms at the very micro level?

- **Considering** finally, and without wanting to seem "heretical", whether not - and possibly quite legitimately so - to foster and thereby acknowledge also intermediate forms of business association at the meso level as a reflection or simply inescapable a feature of institutionalization for any sound SME policy recognizing, in principle:

- for one, that competition as a coordinating "mechanism" via markets constitutes only one - but not the only - criterion or instrument governing business conduct and, depending on given sectoral or structural conditions, not necessarily is to take center stage; or in putting it more bluntly: that acceptance of an essentially competitive, market oriented economic order for SMEs equally requires an appropriate framework of institutions going along with;

- furthermore, that cognizance of such specifics with implicit forms of institutionalization may prove more conducive to SME related business conduct than any undifferentiated plea for cut-throat competition at micro level, by emphasizing and bringing to bear economies of "scope" rather than of "scale"; or in short: considering SMEs not merely as "beautiful", but also as being "efficient" in a more comprehensive sector-specific understanding;

- and finally, that necessary autonomy of SMEs within a spectre of larger entities is to be constantly safeguarded, not the least by way of sector-related forms of institutionalization in duly recognizing role and relevance of the SME sector as a whole from an overriding socio-economic perspective.

Any self-conscious, not to be confused with self-righteous, SME policy conceived under such auspices should - in view of the legitimate claims and issues involved - ultimately be articulated more aggressively still, as quite essential an element within the realm of economic policy formulation generally.

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CRITICAL SUCCESS FACTORS FOR SMALL BUSINESSES IN THE OUTDOOR LEISURE/RECREATION INDUSTRY IN NEW ZEALAND

"Globalization and the Impact on Entrepreneurship and Small Business Development in the Developing World"

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ABSTRACT

Four case studies have been used to identify the factors critical for success within small businesses operating in the leisure/recreation industry in New Zealand. This paper focuses on what success means for these businesses and the underlying themes of how to ensure this. From this, a check list of factors was developed and refined which may prove useful to those wishing to set up a small business in this industry. This study shows the importance of performing across a wide number of areas rather than focusing on a few and performing to a high standard in them in order to compensate for the others. However, having this list is not a guarantee of success as the entrepreneur needs to be able to understand how to use it.

Keywords: Critical success factors, outdoor leisure/recreation industry, small business, measure of success.

INTRODUCTION

The interest in examining the area of small businesses operating within the outdoor leisure/recreation industry is two-fold: Firstly, there appears to be an increasing number of tertiary institutions within New Zealand offering a wide range of outdoor leisure/recreation courses. These are aimed at equipping the successful student(s) with the skills to either set up a business themselves or to work in a small business for others in this area. However, the outdoor leisure/recreation industry is often poorly remunerated, the margins are minimal, the

hours are long and there is no career path or structure. These are issues which raise the following questions:

- What are the guidelines for being successful for the small business entrepreneur in this industry?
- What should these would be entrepreneurs be mindful of?

Secondly, there would appear to be a gap in the literature in this area. Relatively little has been published in the area of small business within this industry sector and even less has been researched in the area of what the measurement for success is for these businesses (Byers & Slack, 2001). This paper aims to fill that gap by addressing the following research questions:

1) Understand why and how small business entrepreneurs in the outdoor leisure/recreation industry started their businesses.
2) Understand how success is measured within these small businesses.
3) Understand whether these perceptions of success for a small business in the outdoor leisure/recreation industry differ from those for other small businesses in other industries.
4) Identify the critical success factors (CSFs) necessary to succeed for a small business in this industry.

This paper is divided into six sections including this one. The following section reviews the literature on critical success factors; it includes a definition used in this study for small business and the outdoor leisure/recreation industry. Also included is a rationale for CSFs. This is followed by the context for the study, method of research and results. The paper ends with conclusions and implications.

A REVIEW OF THE LITERATURE

In this paper the definition for small business is a business employing less than five people and the term entrepreneur and small business operator will be used interchangeably to mean the same (Cameron & Massey, 1999)[1]. When comparing small businesses in New Zealand with small businesses in other countries, care must be taken as definitions based on size must be taken into account. A small business in the United Kingdom typically employees under 250 people (Barrow, 1993). A small business in the United States employs fewer than 200 people (Ryan, Eckert, & Ray, 1996). The challenges that face a business operating with 200 staff will be different to those that employ less than 10 staff.

[1] Overall, there appears to be no universally accepted definition of what a small business is. The reasons behind this are that small businesses can be found in all sectors of industry and commerce within New Zealand, they cannot be differentiated by legal structure, nor can they be differentiated by number of employees, assets or turnover as there is no break in the continuum between small enterprise and large corporations. The definition's of the business owners as making the majority of the decisions and funding the enterprise are also difficult to quantify, as these are qualitative judgments. Small business owners do not have all the skills necessary to run a small enterprise and so by necessity need to buy in skills (Cameron & Massey, 1999).

The definition adopted for the outdoor leisure/recreation industry is any business that provides an activity or activities conducted in an adventurous environment in an outdoor setting (Uhlendorf, 1992) which is away from the home environment (Devlin, Corbett, & Peebles, 1995). These activities may create a real or perceived risk to individuals (Holyfield, 1999), or provide sociability as well as solitude (Outdoor Recreation in America, 2002).

Understanding the rationale for critical success factors

Although research has focused on the CSFs for small businesses (Ashton, 1992; Chen, 1999; Higham & Williams, 1993; Scales & Meredith, 1991; Yusuf, 1995), very little research has been undertaken in examining what success is for a small business, other than by financial measures such as return on investment (Gadenne, 1998). By having an understanding of success a better appreciation of how small business entrepreneurs measure their performance can be demonstrated.

There are a number of approaches to defining success. It can be defined by the small business entrepreneur's personal values of whether a goal to be achieved is important and thereby likely to be a measure of success (Eccles & Wigfield, 2002). Alternatively, there needs to be an element of passion which drives the small business entrepreneur to overcome obstacles and adversity toward this goal is also necessary (Smith, 1997; Stoltz, 1997). In addition, there is also a concern that success should not be measured by position and prestige (Neumann, 1975). Success can also be defined by how the small business entrepreneur has programmed themself (Lipper, 1988). Hitchin & Hitchin (1999) note the ‘careerist’ approach and as an alternative the ‘midlaner’ approach to success which seeks a more balanced approach to life.

Within the context of the ‘small business entrepreneur’, success can be viewed as an internal measure based on their personal values and goals (Bailey, 1988; Hitchin & Hitchin, 1999; Lipper, 1988) that may or may not be measured externally.

In 1991, record numbers of New Zealand businesses failed (Ashton, 1992). In his study he noted that more than 2000 went into liquidation or receivership and over 2500 people were declared bankrupt. Yet despite this he comments that figures for starting a small business had increased over previous years and reflect an upward trend. Hamilton & English (1997) note that 51% of businesses started in 1988 did not survive through to 1992, however, many of these did so through a positive choice of the owner. This is in contrast to the myth that only 20% of small businesses are expected to survive their early years.

The survival rates for small business depend upon the sector that the business enters and that usually the easier it is to enter a sector the lower the survival rate (Hamilton & English, 1997). The myth of small business failure is also noted by Ryan et al. (1996) who cite statistics from the United States Small Business Administration which show a 55% failure rate within the first five years. This figure is calculated on the address of the business, if the business moves before the next census it is recorded as a failure, like-wise with a name change or merger. There is also no account of those setting up to take advantage of a fad and then closing when the fad ends. Cameron & Massey (1999) point out that a major difficulty in calculating small business failure is defining what is meant as failure and how does this failure rate compare with large organizations. They note that most studies use the ‘discontinuance’ definition (i.e. a firm stops trading) as this is the easiest definition to apply.

Given that the survival rates for small business are low, it is important to understand the underlying factors for this failure rate. The major contributors to this failure in small business identified in the literature are; poor management skills (a lack of or no planning with no control mechanisms), poor financial management and under capitalization (lack of initial capital, working capital and a failure to understand financial reports as well as mis-use of financial resources), a lack of business ability and poor business judgment skills (limited experience and education, failure to seek and act on advice), external factors (economic conditions such as interest rates and inflation, changes in government policy) (Cameron & Massey, 1999; Scales & Meredith, 1991). Davey (1983) notes that in the small business sector of the outdoor recreation industry in New Zealand, inadequate management skills are the major cause of failure. He also notes under capitalization, lack of knowledge and resources to obtain cheaper financing and funding sources; poor loan application processes are also causes of failure for the small business in this sector.

A business that is failing can be identified through one of four most common symptoms, these are noted by (Cameron & Massey, 1999; Hamilton & English, 1997) as:

1. Poor cash flow due to poor credit management practices.
2. A lack of working capital once fixed assets have been paid for.
3. An over-estimation of the potential market size by the owner who gears up for a higher demand which is then not realized.
4. An unexpected rapid sales growth which is managed badly by borrowing to keep up with demand so eventually the business is unable to pay suppliers.

Starting up a small business is hectic and time consuming, often those involved are having to learn new skills and end up working 18 hour days, making it difficult to know whether they are making the right decisions at the time, which can only compound the difficulties faced by the entrepreneur (Hamilton & English, 1997). Williams (1990) also notes time pressures in which the demands of the present urgent issue takes time away from future planning. This combined with an uncertainty in how to go about this planning act as a deterrent to starting the planning process, whereby the future is perceived as unpredictable and not worth the time and effort required. He comments there is also a lack in specialized knowledge of some aspects of the business. Concerning this Davey (1983) comments small businesses lack the access to specialized skills that would be present in a much larger organization such as financing and marketing. Williams (1990) builds on this by commenting that the small business operator often has distrust and hesitation in more formal and open planning methods as this entails sharing of the business idea with employees. He goes on to note the task of conceptual thinking for the busy person is often a difficult activity and there are no immediate results or feedback from this process, which also acts as a deterrent.

The most frequently cited cause for small business failure is an inability to pay debts (Hodgetts & Kuratko, 1998). The authors also cite incompetence as another major reason why small businesses fail, as owners do not understand how to run their enterprise. Other reasons cited by the authors include: Unbalanced experience contributes to failure for those owners who do not posses a well-rounded experience in the major business activities. Lack of management experience, where the owner does not know how to manage people contributes to failure. Entering a field that the owner has little or no knowledge of is another factor contributing to failure.

Higham & Williams (1993) go on to note that setting up a venture is very hard work and to keep it going is a constant battle. Cash flow emergencies are normal and so too is undertaking too much business for the cash available. They comment it takes a steady mind to make it all work.

Defining critical success factors

CSFs are those management activities that will ensure a competent performance providing that the activities are performed satisfactorily (Rockart, 1979 cited in Dobbins, 2001). The CSFs are not necessary for achieving the organization's objectives and goals; rather they are a list of activities necessary for the successful delivery of those goals and objectives. The pursuance of these factors creates an environment conducive to success (Dobbins, 2001). It should also be noted that these factors are based on perceptions and may differ from one person to another (Jenster, 1986).

Chen (1999) comments in determining the CSFs for business success, no simple formula can be used to predict the successful and the not successful. Instead of guessing the winners and the losers, a number of principal critical success factors are identified that determine success. Chen (1999) suggests that these CSFs help to establish the competitive advantage of the business and ensure that this is sustainable; they are a useful approach as they focus attention on where things must go right.

The literature contains numerous factors critical to success, these are listed below:

- Establish a competitive advantage to ensure business sustainability based on special capabilities and competencies either based on organizational structure or service (Chen, 1999; Coyne, 1993; Gadenne, 1998; Hamilton & English, 1997; Ruthven, 1990; Scales & Meredith, 1991).
- Good management (ability to plan, organize, lead and control, and the suitability and personal qualities of the entrepreneur), access to adequate funding and good financial management (record keeping for tax purposes) ("Do as I do, not as I say," 1995; Gadenne, 1998; Hamilton & English, 1997; Ruthven, 1990; Scales & Meredith, 1991; Yusuf, 1995).
- Maintaining and developing employee relations with an innovative leadership approach (Gadenne, 1998).
- Having the right idea, marketing and the use of outside help (Connell et al., 2001; Cooper & Edgett, 1996; Gadenne, 1998; Hamilton & English, 1997; Ruthven, 1990; Scales & Meredith, 1991).
- Getting the right people involved with the right skills (Abetti, 2000; Connell et al., 2001; Cooper & Edgett, 1996; Hamilton & English, 1997).
- Trade and industry knowledge ("Do as I do, not as I say," 1995).
- A good business planning process which covers operational, strategic and visionary elements of the business (Abetti, 2000; Byers & Slack, 2001; Connell et al., 2001; Dervitsiottis, 1999; Gadenne, 1998; Hamilton & English, 1997; Stephenson, 1990; Williams, 1990).
- The building in of go/kill decision making processes (to identify whether a project should continue or discontinue) with a quality customer focus as the end point (Cooper & Edgett, 1996).
- The retention of organizational knowledge (Lim, Ahmed, & Zairi, 1999).

- Technical abilities (Ruthven, 1990; Scales & Meredith, 1991).
- Monitoring of critical success factors, and the management of information and information systems (Jenster, 1986).
- An ability to perform at a satisfactory level across all identified critical success factors (Connell et al., 2001).
- A focus on the few key critical success factors identified for success (Jenster, 1986).
- Having a customer focus (Cooper & Edgett, 1996; Dourado, 2001; Schultz & Kitchen, 2000).

In particular, the findings of Gadenne (1998) have implications for small business owners in that different management practices are associated with small firm performance in different industries. For service industries there is a higher importance placed on good management skills and innovative practices, whereby employees are motivated and rewarded accordingly.

In addition there has been much research by psychologists into the personality traits unique to the entrepreneur with the outcome of providing a 'checklist' critical for success (Cameron & Massey, 1999). These are:

- Motivation (Cameron & Massey, 1999; "Do as I do, not as I say," 1995; Hamilton & English, 1997; Handy, 1999; Wagoner & Harold, 1993).
- The need for independence and be in charge of one's destiny (Cameron & Massey, 1999; Hamilton & English, 1997; Handy, 1999; Wagoner & Harold, 1993).
- Commitment (Cameron & Massey, 1999; Hamilton & English, 1997; Handy, 1999; Wagoner & Harold, 1993).
- Tolerance for risk and ambiguity (Cameron & Massey, 1999; Hamilton & English, 1997; Handy, 1999; Wagoner & Harold, 1993).
- Self-confidence (Cameron & Massey, 1999; Hamilton & English, 1997; Handy, 1999; Wagoner & Harold, 1993).
- Innovativeness, flexibility and leadership (Cameron & Massey, 1999; Hamilton & English, 1997; Handy, 1999; Wagoner & Harold, 1993).
- An ability to set and achieve goals (Hamilton & English, 1997).
- An ability to recognize commercial opportunities (Hamilton & English, 1997).

Dobbin's (2001) study suggests merely having a list is not a prelude to success as managers need to be able to learn to use the CSFs and that these need to have some contextual relevance to that person. This entails some learning and instruction in the use and understanding of CSFs. He states CSFs will change depending upon the stage a project is in and also as the result of changes in technology. What is important is the process engaged in which identifies CSFs appropriate at that time for the success of the project or venture and enables the measurement of its success.

To ensure organizational learning continues, CSFs need to be documented and managed, so that there is a formal process rather than one that relies on intuition (Connell et al., 2001; Dobbins, 2001; Lim et al., 1999). CSFs are a good way to focus on what is important and necessary for success (Dobbins, 2001). There is no simple formula for success, only a number of things that you must get right (Chen, 1999).

Measures of business success are financial and dependent on the 'bottom line' (Gadenne, 1998; Goett, 1999; Jahnke, 2001; Newton, 2001). This success can also be equated with the ability of an organization to grow new business opportunities as profit centers, whilst managing all other aspects of the business profitably (Baghai, Bradshaw, Coley & White, 1999). By introducing performance measures to measure all aspects of the business, this success can be measured and evaluated. This evaluation is ultimately tied to profit (Gregory & Myers, 2002; Hart, 1993). However, Goett (1999) notes that this form of measure is not necessarily a 'healthy one'. Whereas Besser (1999) comments that a more holistic approach be taken and that this involves the community and staff satisfaction as well as the values of the entrepreneur. This alternative approach is noted by Besser (1999) and Hart (1993) who comment on the subjectiveness of non-financial measures for success and that these may be rather vague. Success in terms of these non-financial measures at the expense of long-term financial goals however is not a viable business proposition (Hart, 1993).

CONTEXT FOR THE STUDY

Byers & Slack (2001) mention 54 of the world's top 500 companies are leisure organizations. They also note one of the important contributors to the rapid growth of the leisure industry for the economy in the United Kingdom is the small business sector. The leisure industry forms an important part of many of the world's industrialized nations.

Small business enterprises have an important role to play both economically and socially, as they provide a legitimate way for many to realize their aspirations (Cameron & Massey, 1999). They are also a major source of change and innovation creating new ways of earning an income and provide new tax revenues (Miner, 1997). Small businesses are essential to the existence of towns and cities and make a significant contribution to the economy (Cameron & Massey, 1999; Hamilton & English, 1997; Scales & Meredith, 1991). Not only this but more people are becoming self-employed as a means of seeking a more satisfying way of living (Cameron & Massey, 1999; Higham & Williams, 1993).

Small businesses are unique in that they behave differently within their environments and face unique size related issues (Coviello & McAuley, 1999). They operate within an uncertain environment, have little resources and are unable to influence market demand, and their size is a constraining factor (Byers & Slack, 2001). Small businesses are not mini-versions of larger business (Coviello & McAuley, 1999).

In reviewing the literature there is little doubt of the importance of the small business sector and the role that it plays in the economy (Byers & Slack, 2001; Cameron & Massey, 1999; Miner, 1997). The outdoor leisure and recreation industry is a component of the wider leisure industry and plays a significant role in New Zealand. It has become a major focus for the multi million dollar tourism industry and a significant earner of overseas currencies. It also provides a means of personal development and growth for many (Devlin et al., 1995).

Despite the recognized importance of this small business sector for the economy there is a gap in the literature (Byers & Slack, 2001; Devlin et al., 1995; Hamilton & English, 1997; Miner, 1997), as relatively little has been published in this area and even less is understood

concerning the measurement for success (Byers & Slack, 2001). Only financial measures such as return on investment have been used to quantify what success means to a small business (Gadenne, 1998). By understanding what success means, an understanding of how these businesses measure their performance can be made.

Whilst there has been much research concerning CSFs for small businesses in other industries (Ashton, 1992; Chen, 1999; Higham & Williams, 1993; Scales & Meredith, 1991; Yusuf, 1995) relatively little is known about the leisure industry and even less concerning the outdoor leisure/recreation industry.

METHOD OF RESEARCH

This paper uses a multiple case study approach particularly appropriate at the beginning stages of research into a new area in order to generate ideas for further research (Graziano & Raulin, 1997). Case studies are useful to uncover unique viewpoints held by the participants (Tellis, 1997) and to discover key aspects of broader themes and patterns (Schloss & Smith, 1999). Yin (1986) and Eisenhardt's (1989) prescriptions for case research were followed in developing this study. Case selection, limit of analysis and data gathering, crafting the questions, conducting the interviews, coding of data and analysis of cases will be discussed next.

Case selection

Selection of the cases was both specific and deliberate; Eisenhardt (1989) argues that this is preferable in case study research. Four cases were selected via a theoretical sampling. As such the cases for this research have been chosen for theoretical rather than statistical reasons. Participants were selected in order to uncover the characteristics of events and processes involved in running a small business in the outdoor leisure/recreation industry in New Zealand. The cases were approached in an holistic rather than embedded manner. Inferences were based on convergent evidence from a number of sources; in particular the case study interview, brochures and web pages from the case study business, and from the literature. This is to ensure that information is interpreted correctly and to provide a triangulation of multiple data sources to provide a more powerful substantiation of the findings (Yin, 1986). Confidence in the findings was further enhanced by the selection of one case to provide divergent findings (Eisenhardt, 1989), in this instance a 'not so successful case'. This approach was taken in order to test the limits of the conclusions drawn from the other cases and forced the researcher to clarify concepts (Miles & Hubermann, 1994). The 'not so successful' case was identified by a financial measure of whether the business could support the business owner. All cases were selected from the same geographic area in New Zealand.

The unit of analysis was a business employing less than five people that provided activities in adventurous environments away from the home base. The following criterion was used to determine this:

- A business that provides an activity or activities that is conducted in an adventurous environment in an outdoor setting (Uhlendorf, 1992), which is away from the home environment (Devlin et al., 1995). The activities provided may create a real or perceived risk to individuals (Holyfield, 1999), or provide sociability as well as solitude (Outdoor Recreation in America, 2002).
- The business will employ less than five people and the term entrepreneur will be used interchangeably with small business operator (Cameron & Massey, 1999).

LIMIT OF ANALYSIS AND DATA GATHERING

Analysis and data gathering was determined by the research question, which was to identify the CSFs for small business in the outdoor leisure/recreation industry in New Zealand. This was achieved by researching the following areas:

1) Understand why and how small business entrepreneurs in the outdoor leisure/recreation industry started their businesses.
2) Understand how success is measured within these small businesses in the outdoor recreation/leisure industry.
3) Understand whether these perceptions of success for a small business in the outdoor leisure/recreation industry differ from those for other small businesses in other industries.
4) Identify the CSFs necessary to succeed in this industry for a small business.

A conceptual framework (see figure 1 below) was developed for the purpose of this study. The conceptual framework was based on the findings from the literature review and helped to define the boundaries and focus the research on to a specific area of the participant's (owner) business (Miles & Hubermann, 1994; Yin, 1986). This approach ensured that the researcher was not overwhelmed by data that are meaningless for the purposes of this study (Miles & Hubermann, 1994). Only the participant (owner) was interviewed and this occurred once only, thereby defining the boundary further by time. The participant (owner) chose the setting for the interview.

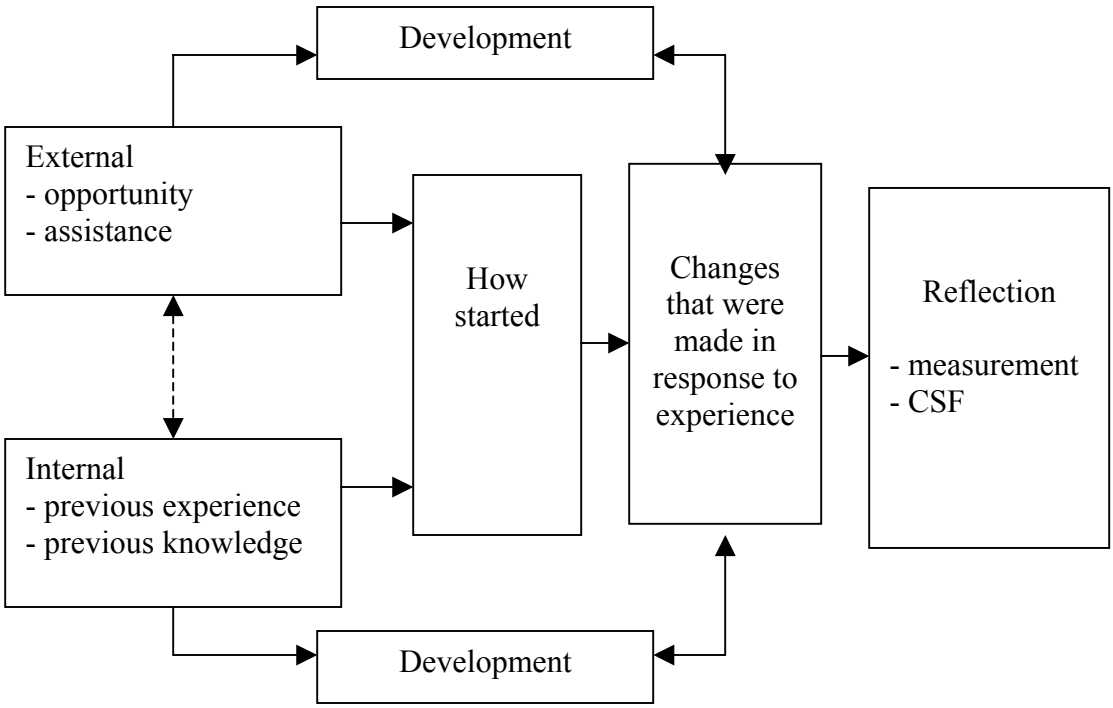

Figure 1: Conceptual framework for case study interviews.

The conceptual framework consists of a number of 'bins', which identify the areas to be investigated (Miles & Hubermann, 1994). The arrows indicate a relationship between one 'bin' and the next. Where a two-way arrow is indicated, a relationship exists which goes both ways. In the conceptual framework shown above, an ongoing two-way relationship is indicated between 'development' and 'changes that were made in response to experience'. It was anticipated that ongoing learning occurred for the businesses as a result of their experiences which then affected their development.

CRAFTING THE QUESTIONS AND CONDUCTING THE INTERVIEWS

The construct of the framework and questions reflected the background of the researcher, in that this exercise was approached mainly from a business/marketing orientation. A standardised approach was necessary, as this facilitated cross comparisons between cases (Miles & Hubermann, 1994).

The interviews were of a focussed nature, with a semi-structured approach, these followed a pre-set list of questions (Coolican, 1999; Yin, 1986). The questions were phrased in an open-ended fashion and in a logical sequence (Morse & Field, 1995). The data were captured using audio recording. A multi-method approach was used where some data were quantified and some questions that were asked were quantitative.

A list of CSFs identified from the literature review were presented to the interviewees for rating of importance. To ensure the relevance of this, interviewees were asked to firstly identify and then to rate their own list of CSFs. The interviewee's list of CSFs was used to refine the researcher's list as well as provide insights into identifying emerging themes. The list was then tabulated for comparison and to identify emerging patterns.

CODING OF DATA AND ANALYSIS OF CASES

To avoid data overload, the case interview transcripts were coded. This allowed the tagging of data that was meaningful so that it could be easily identified and retrieved. Coding in this way helps in the identification of themes. A start list of codes was prepared prior to the case study interviews. The data gathered from this process was 'compressed' by reducing the main points that emerged. Each case was approached individually in the way that it was analyzed. This information was then presented in a matrix format so that comparisons in each of the areas of investigation could be compared across all four cases (Miles & Hubermann, 1994).

CASE SUMMARIES

A brief description of each case is provided below. The names of each of the cases have been changed to protect their identity.

Case study A – Wild Adventure

Wild Adventure was set up to empower people through outdoor experiences. In particular kayaking which makes up most of the business activity. This involves kayak guided tours and instructional courses. The business also provides abseiling, caving and tramping experiences and other similar type activities. The business is a provider of sea kayaking, team building for corporate clients, caving, easy introductory abseiling to adventure abseiling, and overseas sea kayaking adventures as well as running sea kayaking competitive two day events. Sea kayaking trips are conducted in the local area and include half day to overnight excursions. Training and coaching courses in sea kayaking are also offered, ranging from beginner type courses to the more experienced and kayak surfing.

The groups catered for are mainly the 30, 40 and 50 year olds. The business rarely caters for younger age groups as they are perceived by Wild Adventure to lack the disposable income of the older ages and are not able to take the time off work to participate while struggling to make in-roads into their chosen careers.

The business was initially started with their partner (girl friend). The partner is no longer involved but the business continues to employ one other person as a manager. The business has been in existence now for seven years, it was formed in 1995. Since then the business has gone through a number of name changes.

Decisions in the business are made jointly with the manager. At times extra instructors are employed on a contractual basis when the need arises.

Case study B – Outdoor Experiences

Outdoor Experiences is aimed at providing safe and exciting outdoor experiences; it primarily focuses on servicing school groups with activities mainly consisting of kayaking, rock climbing, team building as well as some other outdoor type activities. Activities are operated at the school grounds or at the school's outdoor camps that the schools organise. Other client groups for the business include 'adventure seekers' from the tourist market who are offered day or weekend activity trips, and the corporate market for team building type activities and social events. In addition the business is involved in assisting a tertiary provider of outdoor courses in running their six-month outdoor recreation course. Other activities offered include; sea or white water kayaking, mountain biking, rock climbing and abseiling, tramping, and caving.

The business was originally started with three partners, after six months one of the partners exited the business. The business in its current format in 2003 had been trading for nearly two years and is still run in partnership by two of the original partners. The business functioned from the home of one of the business partners.

One business partner looks after the books and bookings as well as the administration and business planning, and also holds a full time job. The other partner delivers and arranges the programmes of activity, and is employed full time by the business. Additional staff are contracted in when required to meet demand at busy times of the year.

Case study C – Adventures Unlimited

Adventures Unlimited was formed with a business partner, as a part time venture. The purpose of the business was to take people away (mainly women) for the weekend for low-level adventure type activities. Activities included; horse riding, tramping, and rafting. From this the business grew to offering ten-week courses in bush craft, the purpose being to empower participants to undertake this activity for themselves. To meet emerging demand, further courses were developed and offered. The business will organise anything that participants are willing to do. This part of the business operation takes three days each week of Adventures Unlimited's time, the remaining days of the week are taken up by a secondary business.

The secondary business grew out of the original business to offer safety training and risk management for primary and intermediate level school teachers, and outdoor first aid training mainly for teachers at colleges. Outdoor first aid courses are also provided for other clients on an on-going contractual base with set annual dates for the courses. The business also offers other instructional courses and is also involved in teaching skills to young people for the Duke of Edinburgh Award Scheme.

In 2003 the initial business venture has been running for 13 years, the secondary business has been operating for five years. Both businesses operate from home. Adventures

Unlimited employ a number of contractual workers as and when the need arises to meet demand.

Case study D – Outdoor Fun

Outdoor Fun is aimed at introducing participants to rock climbing in a fun way that inspires them to continue with this activity. The market aimed for is wide and diverse, young to old and includes youth at risk. The business is run from home, it employs no other people, and no assistance or mentoring was sought when setting up or in running the business.

Outdoor Fun was initially set up to provide the owner with full time paid employment. After six months of trading the business could not support the owner. As a consequence of this the business now operates on a part time basis only. The business has been operating for four years.

IDENTIFICATION AND DISCUSSION OF THEMES

A number of key themes emerged from the cross-case analysis, which are discussed below:

Opportunity and why started

Cases A, B and C all had similarities in that they had specific 'micro' knowledge of the opportunities available to them for the setting up and running of a business. Case A refined this further to a more specific target audience different from the first market that they originally entered. Case B had purchased an existing business with an existing client base so understood at the outset who the client was, and case C had grown their business gradually from external pressures of interested clients who wanted similar experiences. In contrast case D had identified a broad 'macro' opportunity and then a perceived gap in the market, which they targeted. Case study D commented,

"Originally I was looking at the tourist industry as a whole because I saw this as a growth industry for New Zealand and Australasia as a whole, so there was always going to be employment…being an active person I wanted to get more into the adventure side of the tourist industry. "

Case D had this to say regarding the tourism industry in Auckland,

"…at the time rock climbing was very new so the potential for growth was there and still is there. It is also a different sport which I had never done so it was a challenge for me personally as well as you know head space and the skills and all that sort of thing and also there weren't many people qualified in their fields so that steered me towards getting a qualification."

The findings from case D reflect a lack of work on the market potential. Scales & Meridith (1991) and Ruthven (1990) note the critical factors for success include a feasibility study of the demand for the product and size of market. Cooper & Edgett (1996) comment on the

quality of the work undertaken between the successful and not so successful into market studies. Hamilton & English (1997) comment on having knowledge of the market place and customers as essential.

All of the cases started their businesses as a means of creating a more fulfilling way of living, which is the same for the majority of small business entrepreneurs in other industries (Cameron & Massey, 1999; Higham & Williams, 1993). Cases A, B and C started from a 'hobby motive' and a desire to make a living from this, which is similar to other entrepreneurs starting up a business in the leisure industry (Byers & Slack, 2001). All of the cases had not intended their businesses to be a major job creator for others, which reflects findings in studies of small businesses in other industries (Hamilton & English, 1997).

Business set up

Cases A, B and C provide more than one activity to a narrow specified target audience. Each of these cases also provides a service or innovation that is difficult to copy; the importance of this is noted by Coyne (1993). Case A offers an overseas adventure experience, case B operates a broad range of services to meet the requirements of schools' adventure camps, and case C is the only operator in the industry to offer outdoor first aid and other relevant courses on risk management and safety management to this market. This is in contrast to case D who focuses on the provision of one activity to a rather broad and undefined audience. Case D's business activity is also offered by each of the other case studies. Case D commented that they could not categorize their customers and that the service provided was for:

"Everyone and anyone. Young and old. Professionals to youth at risk."

Case A, B and C have repeat business from large clients or a means of 'back up' income which they can rely upon to provide a 'bread and butter' income. Case A noted the importance of this and commented, "Have a good capital base and have another source of income to fall back on." This was not evident with case D.

Working with others

Case A, B and C work with others in the running and development of their business including receiving advice. This is in contrast to case study D who is a sole owner/operator, employs no others, and had set up their business with no support or help from others, choosing instead to operate in isolation. Scales & Meridith (1991) and Ruthven (1990) note the use of outside help as essential.

Previous knowledge and experience

Cases A, B and C started with a similar type of background. All of the cases had attended formal courses for the purpose of improving and developing their instructional and leadership abilities. Outdoor skills in their chosen fields of operation were also developed and refined.

They all had an interest in the outdoors in one form or another, several comments from the cases reflect this.

Case B, "…getting into the outdoors stemmed from going through cub scouts and venturers…I definitely realized that the outdoors was something I was really keen on…that's why I decided to apply for the (tertiary outdoor course)."

Case C, "I absolutely fell in love with the New Zealand outdoors…I started doing courses with the Mountain Safety Council and realized that you didn't have to be gung-ho to be in the outdoors."

Cases A, B and C have finance and marketing experience and or work with a business partner that has these skills. Case D did not state whether they had these skills or experiences only an indication that they had been self-employed previously. It is interesting to note that case D attributed their position after their first six months of trading to a lack of finance and marketing. Case study D stated, "Unfortunately I had run out of funds…I was living hand to mouth and a marketing budget just wasn't in existence." Hodgetts & Kuratko (1998) state not possessing a well-rounded experience in major business activities is a contributor to failure. Other major noted causes of small business failure can also be seen to apply to case D in that poor financial management and under capitalization with poor business judgment skills were present (Cameron & Massey, 1999; Davey, 1983; Scales & Meredith, 1991). Case D commented that the, "…summer period was quite busy but then the winter period of course things dropped off and…that was pretty tough trying to survive through to the next summer." This is noted by Hamilton & English (1997) and Cameron & Massey (1999) who comment that over estimation of the potential market size that is then not realized is also a common symptom of failure.

Success

Cases A, B and C differed from case D in the way that they spoke about their business. They were animated, expressive and passionate in their telling. Cases A, B and C stated that they had set out to do something that they 'really enjoyed', whilst case D had identified a 'gap in the market'. Comments from cases A,B, and C included, "Enjoying what you are doing and having the ability to do it to the best of your potential. Having participants on courses say that was the best course they have ever been on…being able to produce the best service possible and having clients recognize this".

It is interesting to note that from the interviewee's list of critical success factors, cases A, B and C had identified 'passion', whereas case D did not.

In defining success cases A, B and C all spoke about 'striving for', 'recognition' and 'reaching potential'. These are all achievement driven comments. In contrast to this case D spoke about, "Being happy with who you are".

Outcomes related to achievement behaviors are reliant upon that person's strength of will and diligence. This determines whether an act is successful and not way laid by distraction en-route. Having a 'passion' for something is critical for this focus. By internally valuing what is being done as an expression of this 'passion' can be used to indicate how high in their personal hierarchies of goals their businesses are. This could be seen to have influenced the successful case studies' behavior toward achieving their goals (Eccles & Wigfield, 2002). Success is about 'passion', this passion is used to identify dreams and pursue them through any obstacle (Stoltz, 1997; Ungerleider, 1995). Stoltz (1997) and Smith (1997) also note

success is about how a person responds to adversity, whether they give up and stop short of their goal or whether they continue. Success then can be viewed as a deep pairing of passion with motivation to achieve a goal, and this is what the successful case studies expressed (Stoltz, 1997).

Case A attributed their success to,

"A degree of hard work, perseverance. That's one side, the other side…what we are bringing to it to make it happen because if you go into anything with anything less than a 100% attitude or a great attitude like this is going to be awesome, then that's what it is going to be. Whatever you put into it."

In terms of success, cases A and C thought they were successful but case studies B and D felt they had some way to go but were not unsuccessful. Consistent with the findings of Neumann (1975) none of the cases expressed success as a measure of position, prestige or money. Lipper (1988) notes success can be achieved by the way a person's life is programmed. Success for each of the cases was based on a personal measure; this is the same for other small business operators in other industries (Bailey, 1988; Hitchin & Hitchin, 1999; Lipper, 1988). Case B commented, "What's the point in going through life doing a job for the sake of earning money".

Cases A and C could be viewed as having moved further toward achieving a life style which is more in tune with their own personal values and priorities and hence their definition of themselves as 'successful' (Hitchin & Hitchin, 1999).

Words of wisdom

Comments from cases A,B and C appear to be a reflection of what they have experienced and learnt in setting up and running their businesses. This is in contrast to case D who stated,

"You've got to have a go otherwise you will always say to yourself well should I have had a go."

Comments from Cases A, B and C were;

Case A: "Have a capital base and have another source of income to fall back on. Putting all your eggs in one basket is a sure recipe for stress. Choose who you want to go into business with pretty carefully."

Case B: "If you get an existing business then really looking into it quite in-depth before you go and make that decision. Learn to say no to people as well. You have to be hard nosed about things."

And case D: "Make sure your business partner is someone you get on with and you work that out before you go into any financial arrangements. Make sure you test it out, the product in some way. Realize that being your own boss has a lot of plusses but it has a lot of minuses in that you do a lot more hours for free. When you are beginning a business so there is a lot

of time needed and probably to actually get involved with a mentor earlier to do your business plan and get some outside help earlier …you probably get there quicker."

These 'words of wisdom' reflect critical success factors identified in the literature; Cooper & Edgett (1996) comment on doing your 'homework' before launching a product. Stephenson (1990) and Williams (1990) state business planning as a key to success. Hamilton & English (1997) note having the right people involved with the necessary skills. Byers & Slack (2001) and Williams (1990) comment on the lack of time resulting in adaptive decision-making when setting up in business.

Critical success factors: List of critical success factors

Finally the interviewees were asked to rate the researcher's list of CSFs developed from a review of the literature. Each individual was asked to comment on the rating scale. The results from each of the cases were tabulated to allow comparison (see figure 2). The CSFs were split into three sections; these were technical, human and conceptual skills. Categorizing and ordering the CSFs into these three sections made it easier to identify emerging patterns. The CSFs were not ranked in any order and are listed in full in figure 3. This list was further refined by the interviewees. The revised list is contained in figure 4.

Additional CSFs identified by interviewees were; knowledge of the industry, passion for what you are doing, willingness to work all hours, and good customer skills.

From figure 2 a higher rating is given to human skills over conceptual and that technical ability is also ranked highly. This probably reflects the reasons why each of the cases entered into business in the first place. Byers & Slack (2001) state the reason unique to the leisure industry for starting a small business is one of turning a hobby into paid employment.

The CSFs rated consistently highly by all case studies were technical ability, motivation, commitment and self-confidence. These CSFs were the most valued.

All CSFs were scored reasonably high by most of the cases, this indicates the relevance of the CSFs listed to the cases in running a small business.

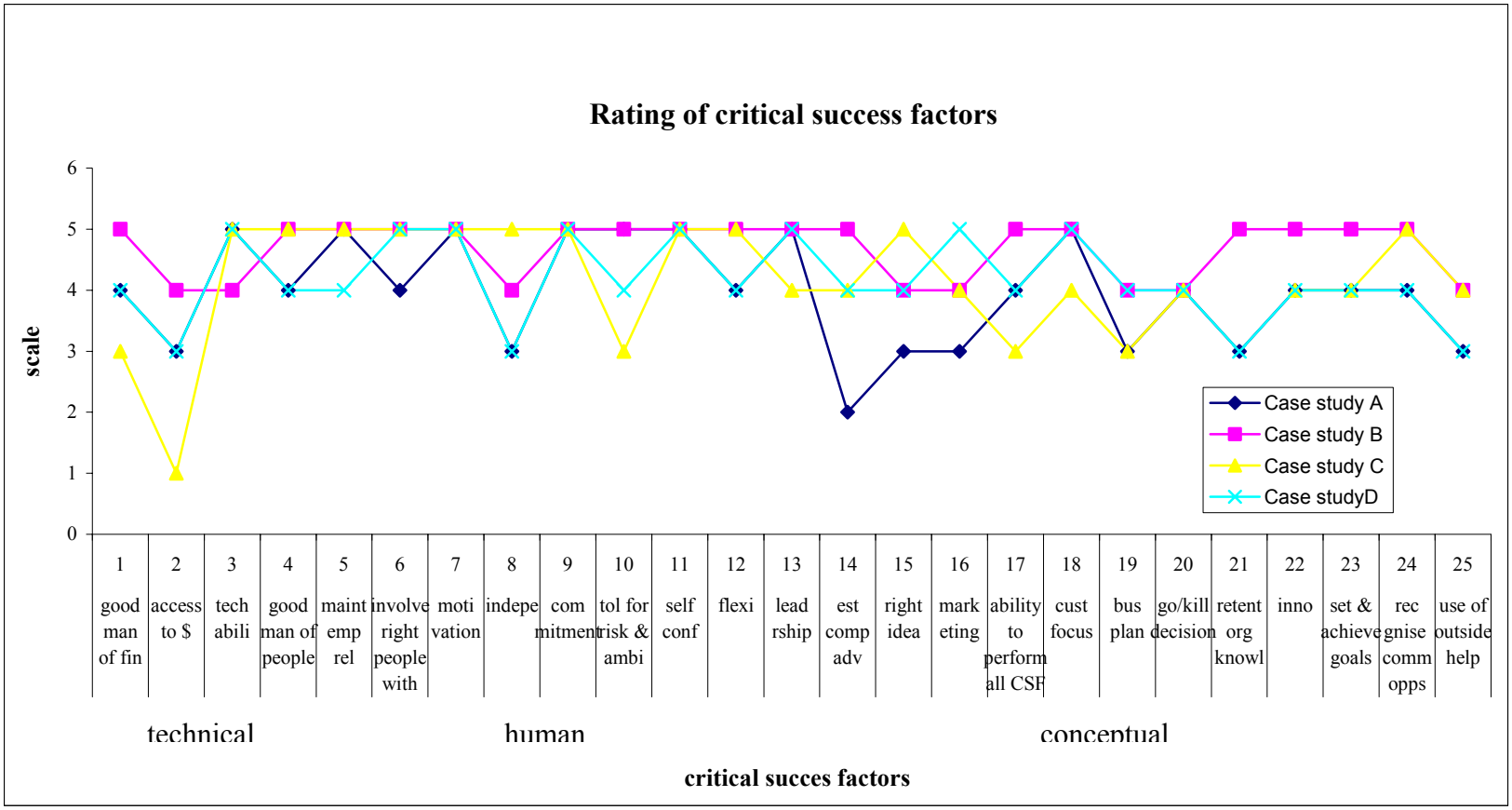

Figure 2: Case study rating of critical success factors

Type of skill	Critical success factor
Technical skills	Good management of finance
	Access to funding
	Technical abilities
Human skills	Good management of people
	Maintaining good employee relations
	Involving the right people with the right skills
	Motivation
	The need for independence and to be in charge of own destiny
	Commitment
	Tolerance for risk and ambiguity
	Self confidence
	Flexibility
	Leadership
Conceptual skills	Establish a competitive advantage
	Having the right idea
	Marketing
	Ability to perform across all critical success factors
	Customer focus
	Business planning
	The building of go/kill decision-making processes
	The retention of organizational knowledge
	Innovativeness
	An ability to set and achieve goals
	An ability to recognize commercial opportunities
	The use of outside help

Figure 3: Type of skill relating to critical success factors

Type of skill	Critical success factor
Technical skills	Good management of finance
	Access to funding
	Technical abilities
	Knowledge of the industry
Human skills	Good management of people
	Passion for what you are doing
	Maintaining good employee relations
	Good customer skills
	Involving the right people with the right skills
	Motivation
	Willingness to work all hours
	The need for independence and to be in charge of own destiny
	Commitment
	Tolerance for risk and ambiguity
	Self confidence
	Flexibility
	Leadership
Conceptual skills	Establish a competitive advantage
	Having the right idea
	Marketing
	Ability to perform across all critical success factors
	Customer focus
	Business planning
	The building of go/kill decision-making processes
	The retention of organizational knowledge
	Innovativeness
	An ability to set and achieve goals
	An ability to recognize commercial opportunities
	The use of outside help

Figure 4: Revised list of critical success factors

CONCLUSIONS AND IMPLICATIONS

The research presented in this paper is from a New Zealand perspective. The research addresses identified gaps in the literature (Byers & Slack, 2001). Although there has been much research into CSFs for small businesses, this has not been researched from a leisure perspective. Nor has an understanding been developed into quantifying what success is for a small business, other than financial measures (Gadenne, 1998). This is of importance as the outdoor leisure/recreation industry has a major role to play as a primary focus for earning overseas currencies (Devlin et al., 1995).

A list of CSFs was developed from the literature and refined with the help of the case studies, this is contained in figure 4. This list may prove useful as a checklist for ensuring success. However, Chen (1999) notes no simple formula for determining the successful and the not so successful can be used. Instead the list of CSFs helps to focus attention on what should be covered in order to achieve success. Connell et al (2001) comments it is not enough to perform heroically in one or two areas to compensate for others, a satisfactory level must be performed across all. Dobbins (2001) also notes merely having a list is not a prelude to success, the list must have some relevance to the business and the entrepreneur must be able to understand how to use it.

Results from the study indicate:

1) All cases had started their business as a means of having a more satisfying way of living. The successful cases were passionate about what they did and had turned their 'hobby' into a business. This was not the case for the 'not so successful' case who had approached this venture from an employment perspective rather than from something they really believed in. The implications of this are that in order to succeed 'passion' is an essential ingredient for success.

All cases had approached their business from a similar background, in that they had all gone and sought training and development in their chosen outdoor skill. To ensure success, a well-rounded background that encompassed business skills including finance and marketing was viewed as essential.

2) Success itself was viewed by all the cases as an internal measure rather than an external financial measure. Having stated this, the successful cases also viewed success as something to be strived for and was aspirational in nature.

3) The literature indicates that the measure of success determined for a small business by the owner is no different from small businesses in other industries. Cameron & Massey (1999) comment more people are becoming self-employed as a means of seeking a more satisfying way of living.

Other themes emerging from the data include:

- The successful cases all had specific knowledge relating to the market place that they had entered and all understood exactly who their clients were. This is in contrast to the 'not so successful' case that had used broader and as such less meaningful data and also had a broader less defined target audience that they promoted to. The implications of this are that market information needs to be specific and as detailed as possible so that the target audience can be easily identified, understood and reached.
- The successful cases found having a client that could be relied upon for a regular income or having a supporting income from another source was essential for survival.
- Seeking advice from others such as mentors or business partners was viewed by the successful cases as important as it provided motivation, additional skills and ensured that the business kept on track. This is in contrast to the 'not so successful' case who had worked in isolation from others.
- All cases viewed the 'human component' and 'technical abilities' of their businesses as more important than 'conceptual skills'.
- The 'words of wisdom' passed on by the cases should be noted by those wishing to set up a small business in the outdoor leisure/recreation industry.

The implications for those wishing to set up a small business in outdoor leisure/recreation industry are:

- Know your market, exactly who is your customer and what do they require.
- Be passionate about what you do.
- Have a 'well rounded' background that includes business skills as well as technical abilities in the various outdoor pursuits that form the business.
- Ensure that you have a regular source of income that can be relied upon.
- Seek advice from others in running your business venture.
- Pay heed to the 'words of wisdom', and ensure that you have competencies that cover all the CSFs. Do not rely on performing in one or two areas really well to the detriment of other areas (see figure 4).

It should be noted that due to the small number of cases these themes will need to be investigated further by selecting many more cases and replicating this study, or by using a larger sample size and conducting a quantitative survey. Having stated this, it must be remembered that this research was intended as a pilot investigation only. Even so, the themes emerging from these data may prove to be of benefit for those wishing to start up a small business in the outdoor leisure/recreation industry in New Zealand.

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HOMOGENOUS OR HETEROGENEOUS FRANCHISING: AN INVESTIGATION INTO AUSTRALIAN FRANCHISING PROFILE

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ABSTRACT

There have been increasing attempts to examine whether the franchise industry is homogenous or heterogeneous. This paper describes a study in which the characteristics of ninety-three Australian franchise firms were examined using hierarchical cluster analysis. Distinct characteristics were found to exist within four groups which reflected the progressive stages of franchise development, namely: the beginners, the developers, the growers and the matures. The findings provide strong empirical evidence concerning franchise heterogeneity theory. Further research on franchising should note the heterogeneous nature of franchises, as they differ greatly according to their stages of development. The study confirms that franchise firms do employ different strategies, in accordance with their profiles. This needs to be recognised and further tested in the field across other samples.

ARTICLE TEXT

Studies of franchises have often been conducted with an underlying assumption that they operate similarly, and are relatively homogenous in their structures and characteristics (e.g., Doherty & Quinn 1999; Frazer, McCosker & Paynter 2000). However, there is increasing recognition that franchises progress through various stages of development, and that these stages influence the way they operate and perform. Despite this growing understanding of the diversity of franchises, research on franchising often fails to

recognise the heterogeneous nature of franchises. Franchises differ greatly in the ways they do business. For example, franchises vary greatly in terms of the number of franchises generated, the length of experience of the franchisors, the price of purchasing a franchise, the ratio of franchise versus managed stores, and the degree of expansion within both local and more widespread localities. Despite the complexity of franchise composition, the data set in franchising research is largely treated as homogenous (e.g. Agrawal & Lal, 1995, Alon & McKee, 1999, Falbe & Welsh, 1998, Frazer, McCosker, & Paynter, 2000). In addition, there has been little research on the underlying characteristics of the franchise profile. This paper reports the results of a study of Australian franchising firms, which tested the heterogenous profile of franchising.

Exploring Franchise Heterogeneity

A few studies on the heterogeneous nature of franchising argued that franchise firms may be classed according to their typical features such as their structure and strategies (Callum & Graham, 1999, Carney & Gedajlovic, 1991, Castrogiovanni, Justis, & Julian, 1993, Floyd & Fenwick, 1999, Lillis, Narayana, & Gilman, 1976, Oxenfelt & Kelly, 1968-1969). These studies based the heterogeneous profile of franchising primarily on the franchising theories: the resource scarcity theory and the administrative efficiency theory. Resource scarcity theory predicts that firms of small and medium size are franchised to obtain capital and human resources and also to transfer the business risks to the franchisees (Oxenfelt & Kelly, 1968-1969). However, once the firms are established, the requirement for capital or human resources is reduced, thereby decreasing the strategic value of franchising (Caves & Murphy, 1976). As a result, firms in the initial penetration stage were found to engage heavily in franchising activity to raise capital resources as a means of achieving organisational growth. Subsequently, as the systems increasingly mature, firms would franchise fewer outlets or use a buy back policy (Hunt, 1974). The resource scarcity theory explores the use of management priorities and the strategic value of franchising at each stage of franchise development.

Alternatively, the administrative efficiency theory views franchising as a response to agency problems in business relationships. The administrative efficiency theory predicts that firms emphasise franchisee motivation and risk sharing for all stages of franchise development (Lillis, Narayana, & Gilman, 1976). A range of explanations has been tendered to support this perspective. For example, it is suggested that the managers (the agents) tend to shirk their duty to the firm (the principal) because their compensation is fixed, resulting in high monitoring costs to the firms (Rubin, 1978). Thus, firms engaged in franchising reduce the monitoring costs because the contract between the franchisor (principal) and the franchisees (the agents) is designed to keep their incentive closely aligned (Brickley & Dark, 1987, Mathewson & Winter, 1985, Rubin, 1978). On this basis, the franchisees will act in the firms' best interest because their earnings are linked to those of the franchise outlets (Lafontaine, 1992). It has also been argued that firms are likely to franchise an outlet in geographically dispersed area to reduce the costs of administrative monitoring (Brickley & Dark, 1987, Norton, 1988b, Norton, 1988a). These perspectives suggest that the motivation of the franchise firms and their expansion strategy should therefore differ at each stage of franchise development. As with the resource scarcity theory, the administrative efficiency theory acknowledged that franchise firms go through different stages of development and strategies according to changes and evolution within the environment.

Franchise firms with similar strategies and patterns may be grouped together so that their inputs, outcomes and methods are easily identified and evaluated. Carney & Gedajlovic (1991) used a configuration procedure on thirteen parameters relating to franchise ownership and derived with the five complex franchise categories: the rapid grower, the expensive conservative, the conservative, converters, the matures and the unsuccessful (see Table 1). Their findings identified heterogeneous effects of the franchising industry in which they argued that the homogenous approach on the franchise firms' data set was inappropriate. It is evident that Carney & Gedajlovic, (1991) provide an insight into heterogeneous profile of franchising, nevertheless their configuration procedure has been in question.

Table 1 Heterogeneous Profiles in the Franchising Study

Study	Groups	Stages of Development	Dimensions	Note
Oxenfelt and Kelly (1968-1969)	4	New Rapidly growing Established & Prosperous Mature & declining	Firm age Firm size	Conceptually constructed
(Lillis, Narayana, & Gilman, 1976)	4	Penetration Growth Maturity Late maturity	Firm age Firm size	Empirically tested
(Carney & Gedajlovic, 1991)	5	Rapid grower Expensive conservative Converters Matures Unsuccessful	Size Dispersion Growth Pricing Contractual provision Vertical integration Timing	Empirically tested
Castrogiovanni, Bennett and Combs (1995)	5	Rapid grower Expensive conservative Converters Matures Unsuccessful	Size Dispersion Growth Pricing Contractual provision Vertical integration Timing	Validate the heterogeneity profiles suggested by (Carney & Gedajlovic, 1991)
Floyd and Fenwick (1999)	3	Hatching Nesting Fledgling	Year franchising Size Years before franchising	Exploratory study with 10 franchisors

Castrogiovanni, Bennett and Combs (1995) replicated the Carney & Gedajlovic, (1991)'s study, using similar parameters, but found only partial support for the theory, clearly matching only two of the five groups: the rapid grower and the converter. Other studies of franchise heterogeneity have ranged widely in their incorporation of identifying factors. In earlier investigations researchers grouped franchise firms into four stages, based on the age and size of the franchise firms (Lillis, Narayana, & Gilman, 1976, Oxenfelt & Kelly, 1968-1969). More recently, the configuration approach identified more groups based on more parameters of franchise ownership (Carney & Gedajlovic, 1991, Combs & Ketchen, 1999). As yet, there is insufficient consolidation of the key characteristics which should be considered in categorising franchises into their developmental phase (see Table 1).

The lack of categorisation consensus may be due to weaknesses of the study methodologies. For example, Lillis, Narayana, & Gilman (1976) and Oxenfelt & Kelly (1968-1969) constructed a franchise life cycle profile based on their company age and size. Given that franchise organisations generally operate in complex environments, this simple classification approach may not be sufficient to explain franchise groups, particularly as the relationship between firm age and size may not be linear. Similarly, the configuration procedure conducted by Carney & Gedajlovic, (1991) was based on an inductive configuration using exploratory factor analysis. This statistic technique may only be appropriate for factoring parameters in to groups but not classifying cases in the data set into clusters (Hair, Anderson, Tatham, & Black, 1998). The issue of methodological weaknesses in franchise development studies highlights the need for further empirical research to validate previous findings, and to enable better understanding of the key characteristics which may impact on franchise categorisation.

Thus, existing franchising research indicates that franchise organisations can be profiled in terms of their stages of evolution (Lillis, Narayana, & Gilman, 1976, Oxenfelt & Kelly, 1968-1969). Using a more complex configuration, it is also evident that franchise organisations evolve over time and tend to adjust their business strategy accordingly (Carney & Gedajlovic, 1991). However, the features of the different stages of development, and the particular characteristics which are most distinguishable across those categories remain ill-defined and ill-proven. This study therefore seeks to further test the complex configuration generated by Carney and Gedajlovic (1991), using an Australian franchising sample.

H: Franchisors are heterogeneous and can be classified into grouped.

METHODOLOGY

Participants

Three hundred and fifty-one Australian franchisors were invited to participate in the study. Participants were drawn from various franchise systems ranging from large retail enterprises to small educational providers. The wide variation in size and structure was actively sought to provide the sampling variety necessary to check for heterogeneity. Multinational franchise firms were omitted from the survey to reduce any possible cultural effects caused by international practices and influences. The franchisor sample was drawn from the Franchise Yearbook and Directory (Commonwealth Bank 2001), with a randomised selection process used to identify possible participants. A response rate of 27 percent was obtained (n = 93), after two follow-ups to non-respondents. 83 percent of the respondents were male and 17 percent were female. The majority of the franchisors had been in the franchise business for 3-15 years (74 percent) and were between 41-60 years of age (68 percent). One third of the respondents had obtained higher qualifications (MBA, graduate and postgraduate qualifications). The proportion of those with no formal education was relatively small (3 percent).

Participants who were invited to participate but declined, were asked to provide feedback on their reason for non-participation. The predominant factors contributing to an unwillingness to participate in the survey related to time constraints (42 percent) and the company policy prohibiting them from being involved in any survey (11 percent). A number of participants were no longer involved in franchising (15 percent). Personal issues such as having insufficient knowledge to answer the survey questions, particularly

disliking survey participation, concern about privacy issues and lack of incentive to participate accounted for approximately 12 percent of non-responses. Overall, the contribution was obtained from franchise respondents Australia-wide. The proportion of the franchise systems and their locations appeared to adequately represent Australian franchise organisations (Frazer & McCosker, 1999).

Procedure

A survey, along with a letter of invitation to participate, was administered to each participant. Three follow-up steps were used to solicit responses. The first follow-up was performed after the closing date for the return of questionnaires. The second follow-up was sent two weeks after the first reminder letter. The remaining non-responding participants were contacted by telephone two weeks after the second reminder letter. The participants were politely asked whether they had received the prior mailing. Efforts were then made to persuade them to complete the questionnaire. Respondents who refused to participate were asked to indicate their reasons for refusal. Respondents were also invited to request feedback on the study on the first page of the questionnaire.

Survey Instrument

A survey was constructed for use in the study after initial pilot testing of the instrument with local Western Australian participants. The survey requested information relating to participant backgrounds and the franchise characteristics. Data on six dimensions relating to size, degree of dispersion, growth orientation, pricing, vertical integration, and timing were collected (Carney and Gedajlovic, 1991). Other information was also collected in the survey, but is not reported in this paper. Table 2 reports the various dimensions and the measures used, and provides an example of the questions asked.

Table 2 Franchise Development Measures

Dimensions measures	Items measures	Examples
Size	Total number of total outlets	Company outlets + Franchise outlets
	Number of franchise outlets	How many franchise outlets do you now operate?
Dispersion	Percentage of outlets located in home state	How many franchise outlets are located in the state where you first started?
Growth	Outlets established per year since inception	Total outlets/ Year since inception
	Franchised outlets established per year since first franchise	Franchise outlets/ years since first franchise
Vertical integration	Percentage of outlets franchised	(Franchise outlets x 100)/ Total outlets
Pricing	Average capital requirements per franchise	What is your average capital requirement per franchise?
Timing	Year since inception	When was your company founded?
	Year since establishment of first franchise	When did your company first franchise?

	Time since first inception and first franchise	Year since inception – Year since first franchise

Note: Adapted from Carney, M. and Gedajlovic, E. (1991: 629)

RESULTS

Prior to the analysis, univariate outliers were investigated through an initial data screening and multivariate outliers were examined through the use of a p <0.001 criterion for Mahalanobis Distance (D^2). Two cases of univariate outliers detected on the company size (›250 outlets) from the sample were eliminated. The elimination of the outliers reduced the sample sizes to 91. The six franchise dimensions were used to map a likely distinctive profile of franchise organisations.

Agglomerative hierarchical cluster analysis was used to test the first research hypothesis (Everitt, 1993). Cluster analysis was performed to determine if the franchisors could be effectively segmented into unique groups according to their organisational characteristics. Ward's (1963) method[1] with the squared Euclidean distance was preferred as a clustering technique because it is an effective tool for identifying distinct groupings for a relatively small sample size (n < 200) (Everitt, 1993). Results of the hierarchical clustering procedure suggested a four-cluster solution best fitted the data. The optimum number of clusters was determined by an examination of the agglomeration schedule[2] and the dendrogram results[3] as recommended by Aldenderfer & Blashfield (1984). The agglomeration schedule revealed a large increase in the agglomeration coefficient at the 87th stage, indicating a four-cluster solution was the most appropriate. Accordingly, the dendogram clearly displayed four partitions of the graphic illustration. The confirmed results, then, suggested that there were four distinct groups among the franchisors examined in this study. Multivariate Analysis of Variance (MANOVA) was used to further test the clustering solution (Aldenderfer & Blashfield, 1984). Results of the analysis confirmed a significant effect, demonstrating that the four clusters differed in their profiles ($F_{3,\ 87}$ = 18.21, p < 0 .001). Follow up Analyses of Variances (ANOVA) with post hoc procedure (Dunnett T3 [4] multiple comparison tests) were also used to test the significance of each of these clusters. Table 3 displays the cluster structure on means, standard deviations and statistical tests of four cluster groups.

Table 3 Characteristics of Four Franchise Groups Derived from Cluster Analysis (n= 91)

Variables (Unit of measurement)	**Franchise Groups Cluster 1**	**Cluster 2**	**Cluster 3**	**Cluster 4**	**Mean**	**Anova**	**Dunnett**
	Beginners (n= 39)	Developers (n= 35)	Growers (n = 14)	Matures (n = 3)	(s.d.)	F-tests	P < 0.05
Number of retail outlets (Outlets)	22.69 (20.51)	73.09 (94.36)	133.86 (61.65)	97.00 (105.16)	61.63 (76.79)	10.44***	3>1; 2>1
Percentage of franchised outlets located in the place of inception (percent)	63.77 (32.98)	60.89 (31.57)	37.43 (29.79)	52.95 (41.42)	58.25 (32.96)	2.60*	1>3
Time since first inception and first franchise							
Year since inception – Year since first franchise							

Number of outlets established per year since inception (Outlets)	1.70 (1.66)	3.92 (5.26)	7.01 (3.78)	3.28 (2.95)	3.42 (4.15)	7.07***	3>1
Franchise outlets established per year since inception (Outlets)	2.05 (1.80)	5.74 (10.28)	6.55 (3.95)	2.34 (2.82)	4.17 (6.90)	2.59*	3>1
Average capital requirement (A$000K)	41.06 (22.31)	163.58 (59.28)	306.43 (63.20)	1000.00 (0.00)	160.62 (187.36)	452.46***	4> All others
Percentage of total outlets franchised (percent)	87.56 (19.99)	82.77 (22.11)	81.22 (24.46)	73.10 (42.54)	84.27 (22.14)	0.67	n.s.
Year since inception (years)	17.38 (14.06)	21.51 (16.59)	22.36 (13.18)	30.67 (9.24)	20.18 (14.93)	1.15	n.s.
Year since first franchise (Years)	11.54 (7.85)	12.40 (7.87)	19.36 (12.66)	19.67 (14.84)	13.34 (9.28)	3.26*	n.s.
Year between inception and first franchise (Years)	5.85 (8.14)	9.20 (15.84)	3.00 (3.01)	11.00 (15.70)	6.87 (11.62)	1.22	n.s.
Multivariate test of significance (Wilks): F(4, 86) = 18.72***							

Note: *p < 0.05; **p < 0.01; ***p < 0.001. Means are reported. Standard deviation is in parentheses

The results from Ward's (1963) clustering procedure provided support for the hypothesis. Franchise organisations were found to be heterogeneous and could be grouped on the basis of their characteristic profiles. The four distinct groups identified from the analysis were labelled as Beginners, Developers, Growers, and Matures. Analyses of the cluster characteristics enabled the identification of the particular features inherent in each group. Significant correlations within the identified groups are also reported (see Table 4).

Table 4 Intercorrelations, means and standard deviations for franchisor profiles (n = 91)

Variables	Dimensions	1	2	3	4	5	6	7	8	9
1. Number of retail outlets (Units)	*Size*	-								
2. Percent outlets located in the place of inception (%)	*Dispersion*	-.48**	-							
3. Number of outlets established per year since inception (Units)	*Growth orientation*	.83**	-.39**	-						
4. Franchise outlets established per year since inception (Units)		.80**	-.32**	.56**	-					
5. Average capital requirement (A$000)	*Pricing*	.25*	-.12	.15	.03	-				
6. Percent of total outlets franchise (%)	*Vertical integration*	.04	-.14	-.02	.22*	-.16	-			
7. Years since inception (Years)	*Timing*	-.23*	-.36**	-.12	.20	.15	.05	-		
8. Years since first franchise (Years)		-.29**	-.38**	.06	-.06	.21*	.07	.63**	-	
9. Years between inception and first franchise (years)		.07	-.15	-.21*	.30**	.02	.01	.78**	.01	-

Note: $^{*}p < 0.05$; $^{**}p < 0.01$

Cluster 1: The Beginners

The beginners had been in franchising for a relatively short period and were the youngest franchises compared to the developers and the growers. The beginners had the highest numbers of franchised outlets located in the place of inception (64 percent), this being significantly higher when compared to the growers. The average capital requirement (A$41K) and number of franchise outlets established (mean = 1.70 outlets) were the lowest compared to other groups. Negative associations were found between size and dispersion ($r = -0.34$, $p < 0.05$). The beginners increased their size by expanding outside their home province. However, growth in the franchising section is a challenging strategy for the beginners. Between the period of first inception and first franchised (6 years), the beginners were mostly focused on the growth of their own branches.

Cluster 2: The Developers

The developers had the second lowest mean scores for the year since inception (22 years) and year since first franchise (12 years) among the franchise groups. On average, the developers operated 73 retail outlets and charged moderately high fees ($A164K). Even though the period between inception and first franchise of the developers was slightly shorter than the matures (Δyear = 1.80), their price was significantly lower (Δ$A866K, $p < 0.001$). In addition, the developers possessed the second highest mean scores on degree of dispersion and growth strategy. Still in the developing stage, the policy of a nation-wide expansion by the developers was not quite successful, with only 39 percent of their franchise outlets located out of the home province. Within the developer cohort, firm size was negatively related to dispersion ($r = -0.52$, $p < 0.01$) and average capital requirement ($r = -0.36$, $p < 0.05$) and dispersion was negatively related to firm age ($r = -0.39$, $p < 0.05$) reflecting their policy of early expansion on a competitive pricing out of their home province ($r = -0.50$, $p < 0.05$).

Cluster 3: The Growers

On average the growers had opened 7 outlets per year since their inception, and 6.55 outlets per year since they began to franchise. The increased rate of the new outlets (7 outlets) and the number of franchised outlets (6.55 outlets) was significantly higher than the beginners' new outlets (1.70 outlets) and the beginners' franchised outlets (2.05 outlets). The growers were also the largest in size and the most geographically dispersed with only 37 percent of franchised outlets located in the place of their inception. In addition, the average capital requirement of the growers was significantly lower than the matures (Δ$A694, $p < 0.001$). The growers were also the most geographically dispersed, with only 37 percent of franchised outlets located in the place of their inception; the lowest among the franchise groups. Similar to the beginners and the developers, average capital requirement of the growers was strongly and negatively associated with franchise size ($r = -0.50$, $p < 0.05$), company outlet growth ($r = -0.54$, $p < 0.05$) and franchise unit expansion ($r = -0.55$, $p < 0.05$). Mostly, the growers emphasised rapid growth via the strategy of franchising, with growth strategy positively related to an increment of franchise outlets ($r = 0.64$, $p < 0.05$).

Cluster 4: The Matures

The matures comprised the second largest retail systems (97 outlets) in the franchise groups. The average price of the matures was the highest of the four groups. The average capital requirement by the matures was $A1million, 6.2 times higher than the study mean ($A 160K). The matures also had the highest percentage of company-owned outlets (57 percent) compared to other groups (26 percent).

DISCUSSION

It can be argued that the identified franchise groups may be adequately explained through both resource scarcity theory and agency theory. These theories contribute to a better understanding of how franchise firms strategically build their potential franchise organisational behaviour (Combs & Ketchen, 1999, Lafontaine & Kaufmann, 1994). The resource scarcity theory argues that firms franchise as a means of obtaining capital and easing managerial constraints upon their network growth, thereby transferring risk from the firm to franchisees (Oxenfelt & Kelly, 1968-1969). This is evident: the age of franchises was found to determine the franchise entry fee (Baucus, Baucus, & Human, 1993), with young, small firms significantly increasing the number of franchise outlets (Caves & Murphy, 1976, Oxenfelt & Kelly, 1968-1969). On the other hand, the results do not confirm some aspects of the resource scarcity theory. Contradicting the past literature, the type of franchise system did not determine the franchise entrant fee (Baucus, Baucus, & Human, 1993), and the relationship between firms' size and number of franchise outlets was not linearly related (Combs & Ketchen, 1999). The results suggest that while franchising may be used as a strategic tool for organisations to increase their capital or intellectual resources, the strategic evolution of franchising firms may be caused by both capital gain goals and efforts to improve performance outcomes.

Agency theory argues that as a response to the problems within the employer-employee relationship, franchising is used to minimise the monitoring cost of the firms (Rubin, 1978). The configurations profile can be partially explained from this perspective. Consistent with (Julian & Castrogiovanni, 1995), the larger franchisors sought expansion in more geographic areas than the smaller franchisors. The results also highlighted a relationship between the franchise age and the degree of geographical dispersion: older franchise firms sought expansion in more geographic areas than younger franchise firms. The findings may imply that larger and younger firms engaged in franchise businesses in the hope of reducing their agency deficiency and also to ease the administrative costs of monitoring.

Clearly, the configurations of the franchise organisational profiles seem appropriate in predicting the heterogeneous characteristics of the franchise industry. It is likely that the contradictory findings between the resource scarcity theory (for example, Oxenfelt and Kelly 1968-1969; Caves and Murphy 1976; Shane 1998) and the administrative efficiency theory explanation (for example, Brickley and Dark 1987; Lafontaine and Kaufmann 1994; Rubin 1978) are a result of sample heterogeneity. The classification of franchise firms into four groups may offer a valid explanation of the heterogeneous profile of franchising: beginners, developers, growers, and matures.

LIMITATIONS

Some caution should be taken in generalising the results of this study. First, the limited Australian franchisors sample resulted in small group sizes for each developmental stage, particularly, as for the matures (n = 3). Although, the franchise stages were justified as to their differences on the profiles, the small number of franchisors in the derived group may still reduce the statistical power in explaining the heterogeneous nature of the franchising industry. The generalisability of the results relating to developmental strategies may remain tentative. However, the cross investigation on the group profiles using clustering procedure does confirm and validate the franchise groups.

CONCLUSIONS

The study provides strong empirical evidence concerning franchise heterogeneity theory. Further research on franchising should note the heterogeneous nature of franchises' data sets, as they differ greatly according to their stages of development and profiles. It is found that franchise firms do employ different strategies, in accordance with their profiles. Perhaps, the profile characteristics of the franchise firms should be controlled in a procedure analysis. This area needs to be recognised and further tested in the field across other samples.

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Endnote

[1] Ward's (1963) method calculates the means of all variables within each cluster, then calculates the squared Euclidean distances to the cluster mean of each case, and finally sums across all cases (Everitt, 1979). This method with the squared Euclidean distance has been claimed to be the most reliable method of the hierarchical cluster routine for uncovering group structures in the data set (Lassar & Kerr, 1996; Punji, & David, 1983). As a result, the Ward's (1963) technique has been increasingly employed in the area of marketing and organisational research (e.g., Lassar & Kerr, 1996; Lassar & Kerr, 1996;. Miles, Snow & Sharfman, 1993; Miles & Covin, 2000; Miller & Besser, 2000).

[2] The agglomeration schedule specifies the change in the agglomeration coefficient based on the sum of the within-group variance of the two clusters combined at each successive stage (Aldenderfer & Blashfield, 1984).

[3] A dandrogram is a graphical representation of a hierarchical procedure in which each case is arrayed on one axis, and the other axis portrays the steps in the hierarchical procedure. Starting with each case represented as a separate cluster, the dendrogram shows graphically how the clusters are combined at each step of the procedure until all are contained in a single cluster (Hair, et.al, 1998).

[4] The Dunnett T3 multiple comparison test was the preferred pos-hoc strategy because population variances on five out of nine variables were not assumed.

INFORMATION SERVICE FOR ADVANCING WORLD SEVER NETWORK TV : IN A CASE STUDY OF WSN FOUNDATIONS FTTH INITIATIVE

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ABSTRACT

World Server Network TV (WSNTV) is a global education, entertainment and media organization. WSNTV100 goals are to bring low-cost higher education and entertainment to the worldwide population, and to promote the spread of broadband internet access that will make it possible to achieve those goals.

Fiber based broadband Internet is creating a new international content and communications economy. This new initiative is creating new business and creative opportunities, and generating wealth.

Fiber-To-The-Home (FTTH) is the state-of-the-art broadband transmission. FTTH is capable of transmitting data, video, and voice at 100-1,000 Mbps

In comparison, phone modems are only capable of 0.05 Mbps, DSL only 1.5 Mbps and digital cable modem only 1.5 Mbps. All of these technologies use a shared pipe characteristic. This translates to slower speeds when more people are connected using the same pipe. With FTTH, people can easily consume and create a wide variety of multimedia content

WSN Foundation's goal is to offer free fiber with 10 billion web pages containing volumes of information, home and food to a billion families, and 7 billion in population around the world by 2025 by allocating 70% of 10 million WSN business profit and directing $10 trillion annually from local and national governments, electing politicians and officials who promote peace and FTTH throughout the democratic political process.

CONTENTS

THE FUNCTIONS OF WORLD SERVER NETWORK TV AND OVERVIEW OF FTTH

The WSN business plan is larger in scope than usual business plans that are only written for a single product or a single technology or a single industry or a single country. The WSN business plan covers multiple industries such as entertainment, education, and research in multiple countries via fiber and broadband technology.

WSN is a 50-year lifetime project of founder Victor June who has published more than 100,000 pages along with many of the WSN executives/managers. These 1,000 online books focus on Solutions for the Broadband Era. They cover Information Age global economics and international finance in 100 industries including the education, entertainment, and media businesses.

The WSN knowledge base of 100,000 pages of information and education about development of Internet business was based on 10 WSN broadband business trials over the past 10 years. The most recent trial involved using 100 Mbps Korean FTTH in a WSN model home. This Korean FTTH was deployed by Hanaro Telecom and funded by the Korean government, Sam Sung, LG, SK Telecom, AIG-American Insurance Group, and Newbridge Capital.

These 100,000 page proprietary business manuals form the basis of this business plan. It will eventually be condensed into a 1,000 page corporate standardization manuals and financial documentation for the billion dollar projects. Professionals who have experience and contacts for multi-billion aggregated deals will prepare documentation

WSN TV is a global entertainment and media organization engaged in the development, production, and distribution of television programs and movies. Business World News (http://www.businessworldnews.com) as Emmy award winner produced a 30-minute video about WSN TV's corporations and foundations for national and international television marketing. The objective is to educate the consumer and businesses as to why they need to demand fiber.

WSNTV took on the mission in this video to encourage the deployment of high speed fiber that is a minimum of 10 x faster than DSL/Cable and 50 x faster than 56k modem dialup to allow Information Age business to develop and thrive. Slow implementation causes a long, slow decline in traditional business that is painful. Fast implementation will allow business to be competitive on a global basis by saving time and money to deliver their digital content and information directly online.

Fiber to the home (FTTH) is the ideal fiber-optics architecture. In this architecture, fiber deployment is carried all the way to the customer home (premises).

Today it seems that everyone wants high-speed data, dependable voice service, and high-quality video. Whether these services are delivered by digital subscriber line (DSL), cable modems, or wireless architectures is insignificant as long as the service is fast and dependable.

Providing these services, however, presents a number of challenges, including how to get lines out to each customer and how to future-proof the architecture put into the ground today. This tutorial will address one possible solution, which is a fiber optics architecture called FTTH.

A technology that uses glass (or plastic) threads (fibers) to transmit data. A fiber optic cable consists of a bundle of glass threads, each of which is capable of transmitting messages modulated onto light waves.

Fiber based broadband Internet is creating a new international content and communications economy. This new initiative is creating new business and creative opportunities, and generating wealth.

Fiber-To-The-Home (FTTH) is the state-of-the-art broadband transmission. FTTH is capable of transmitting data, video, and voice at 100-1,000 Mbps. While this speed is not required for all forms of Internet business, it is certainly required for uploading and multiple party accesses of large data files including multimedia entertainment and education programs.

In comparison, phone modems are only capable of 0.05 Mbps, DSL only 1.5 Mbps and digital cable modem only 1.5 Mbps. All of these technologies use a shared pipe characteristic. This translates to slower speeds when more people are connected using the same pipe. With FTTH, people can easily consume and create a wide variety of multimedia content.

Fiber was laid on the main arteries of the larger developed countries roads. However, it was not brought to the consumers home, but simply left on it's own. When it is not used, it is considered not "lit". Therefore, the term "Dark Fiber" was invented. The dark fiber backbone has been contributing to the telecom' massive bankruptcy, allowing the FTTH era to broaden through cheap auctioning by international and domestic fiber assets. This resulted in $ 4 trillion scale loss for investors/bond holders.

These new or old corporations tried to implement a dot.com, and either went out of business or closed the dot.com because they tried to produce content without the speed of broadband. They lost over 20 trillion dollars in equity/loans in the past 7 years and will lose everything in next 20 years. These businesses have a high overhead, and are not willing to give joint ownership to the content originators. This will be their downfall.

The Main reason for the $ 6 trillion loss, mostly comprised of retirement funds for tens of millions of small and professional investors, was due to phone and cable companies delaying broadband expansion. They were concerned about the cannibalization of their $ 1 trillion annual phone and cable TV revenue.

This delay ruined telecom, dot.com, cable TV industry and overall economy, all of which have suffered a slow death for old business and premature death of new business. Only when the pipe-bandwidth is cheap can water-content be sold at a profit.

Current economic growth is dependent on broadband access. There are approximately 55 municipalities in the US deploying FTTH. Unfortunately, the US is not leading this economic revolution, and is falling behind other countries like Korea, Japan, Sweden, and Italy, each of which are targeting 100% FTTH deployment by 2006.

Korea achieved 100% 1.5 Mbps DSL/cable/Ethernet based broadband society in 3 years when US only penetrated 15% in the past 8 years. Korea upgraded 1.5 Mbps speed broadband to 100 Mbps FTTH with government budget allocation of $ 500 per home. 100 Mbps FTTH deployment cost was actually lower than the 1.5 Mbps cable/DSL deployment due to removing the middlemen of cable/DSL modems and heavy cost plants.

A WSN Foundations opened FTTH Initiative model projects in Korea in Oct. 2002. Korean individuals, businesses, communities, and governments (both local and central) each made a consensus that fiber to the home is the solution to increase economic size by 10 fold in next 30 years, during the first half of 21st Century.

FTTH will cut paper/oil consumption by using online communication and encourage working, learning, playing, and shopping from the home, rather than driving cars to office buildings, schools, theaters and shops.

This will benefit our air/water quality by reducing automobile pollution, resulting in a dramatic reduction of oil consumption worldwide, and will reduce political tension in Middle East. Wars and Terrors occur in the world because of the struggle to control the earth's natural resources, such as oil and gas.

GGDP-Global Gloss Domestic Product is 40 trillion dollars annually now, and will expand to 400 trillion dollars in next 30 years by FTTH. 12 trillion dollars is required for basic needs of home, food and cloth, averaging 2,000 dollars annually. Of course, OECD people spend $15,000 per a person, but most population of Africa, South East/West Asia, China and South/Central America spend less than $1,000 annually; $80 monthly, barely surviving. No wonder this inequality is the root of wars, tension, and terrors.

THE NEED FOR FTTH INFRASTRUCTURE

Investing in economic infrastructure creates economic booms. In the 1950's, President Dwight Eisenhower’s' administration invested in the building of the Interstate Highway System. This increased commerce by facilitating the transportation of goods across the country. In the 1960's, President John Kennedy administration invested in the building of rocket ships. The technology developed that sent men to the moon created a whole new economy based on space technology and computers. In the 1990's, the US and advanced

countries invested in the building of the Internet to wire fibers to towns as part of NII-National Information Infrastructure.

The channels for communication and delivering information fostered a new economic age. But the last mile bottleneck by lack of fiber to the home reduced a $10 trillion fiber to the town invested asset to only $10 billion value, opening up a big opportunity for fiber to the home deplorers.

There are four great economic ages: The Hunting and Gathering Age, The Agriculture Age, The Industrial Age, and The Information Age. The latter three ages were born in technological revolutions and each increased global economic wealth more than ten times. It is forward thinking investors who reap significant benefits by recognizing major technology driven economic trends. The people who recognize the birth of opportunity that only comes every few hundred years establish the next generation of wealth.

In the Industrial Age, companies moved physical products, which contain information from factories to stores via ship, railroad, trucks, and cars. In the Information Age, companies move virtual products, which contain information from computer to computer, via the Internet without a physical medium.

The foundation of the Internet economy is the ability to send information around the world easily and quickly. The delivery of virtual products such as education and entertainment videos, graphics, and music requires high-speed Broadband Internet connections. These Broadband connections are based on fiber-optic technology.

In the early 1990's, when the Internet was first made available to the public, Internet connections were slow. Dial up modems based on copper wire technology running at speeds of up to 56 kbps allowed the transmission of only text and graphics.

When ISDN, digital cable modem, DSL, and wireless Wi-Fi came along, people were able to send small music and video files at speeds of up to 10 Mbps. Today, Fiber-to-the-Home and Ethernet transmit full-frame, feature length video and holographic virtual reality content at speeds of up to 1,000 Mbps. Wavelength division fiber cables achieve speeds on the order of Terabits per second speeds (1,000,000 Mbps).

When all people have access to FTTH and Ethernet, they will have no difficulty creating and selling virtual products from their homes and transmitting them to consumers all over the world. But areas where residents deploy gigabits per a second fiber to the home earlier than other areas will accumulate complex broadband business knowledge and lead the next economy.

In the Information Age, economic evolution favors knowledgeable people who are quick to adapt to change. First movers seize the advantage and reap the greatest rewards. These technology driven changes will create more wealth than the world has ever seen, at the same time destroying wealth based old technology.

WSN FOUNDATION'S GOAL AND 100 INDUSTRIES BY FTTH

WSN Foundation's goal is to offer free fiber with 10 billion web pages containing volumes of information, home and food to a billion families, and 7 billion in population around the world by 2025 by allocating 70% of 10 million WSN business profit and directing $10 trillion annually from local and national governments, electing politicians and officials who promote peace and FTTH throughout the democratic political process.

FTTH - Fiber-To-The-Home is practical broadband of 100~1,000 Mbps. 1~5 Mbps DSL/Cable/Wireless were the interim mid-band solution.

FTTH can offer bi-directional symmetrical bandwidth for both uploading for information sellers, and downloading for the information consumer. Current media, such as TV, radio, newspaper, books, and CD's are only a means of a one way consumption.

FTTH will allow average people to not only consume information, but also supply and/or sell information at the same time. They will be able to run web, email and video servers from homes. 90% of corporate, business, government and academic activities are processing information individually and collaboratively.

Communities who learned the importance of this around the world are deploying FTTH as fast as possible. A similar urgency occurred when they laid railroad, electricity, water, waste, telephone and freeways in the past.

Sweden, Korea, Japan and Italy plan to have 100% FTTH in 2006, during the next 4 years. They have all been piloting example cases of FTTH and expanding with government budgets and commercial enterprise investment.

In USA, already 55 towns/counties are piloted with FTTH with increasing penetration and signup ratio. Certain communities had a 100% signup in the case of new housing projects, with some communities having an 85% signup.

The rest of the communities who had a DSL/Cable mid-band solution had a 25% signup ratio, with an expected increase to 50% in the next year. FTTH, being 100 times faster and priced less, will erode the slow and expensive DSL/cable modem market in future.

There are currently 100 million homes in USA. This is expected to rise to 110 million homes by 2010. These homes are broken down as follows:

Urban: 40%
Small towns: 30%
Rural: 15%
New housing projects: 15%

Since Small towns, rural, and new housing project constitute a relatively small amount of homes per area, they are often overlooked by the telephone and cable companies. This amounts to 60% of homes in America.

Instead of waiting for broadband or mid-band service for the past 10 years, these communities have solved information pipe problem themselves by deploying FTTH, making DSL/cable/phone modem obsolete.

Virginia state, Bristol city municipal utility company brought fiber to home by using PON-Passive Optical Network technology which can speed the network up to 100 Mbps.

UDWDM-Ultra Density Wavelength Division Multiplexing technology can supply 1,000 Mbps speed to each home by using 1,280 channels of single fiber.

Most bankrupted international, national and regional fiber assets were auctioned off at less than 10% of the original investment in cost of investors and lenders.

These trends have made the wholesale bandwidth price affordable for retail bandwidth sellers to homes.

Advanced fiber technology will drop the bandwidth price in the future to almost zero cost. There are huge economic development differences between communities who have FTTH and those that don't.

Highly educated and experienced office or home based businesses are abandoning the slow speeds and are migrating to 100~1,000 Mbps FTTH, not only increasing income and decreasing expenses, but are also providing a better learning environment for their children. This fact will force all communities to adopt FTTH faster in order to survive and prosper in the broadband era of the Information age.

Many urban residents and businesses will re-migrate to FTTH rural, small towns and new housing development. This is a reversal trend of which 80% of rural agricultural population migrated to industrialized cities. People will be able to work and learn in these areas with the same or higher quality level as those in urban areas. This will ease concentration of the population centers, and will reduce stress, pollution, and crime, and will promote peace worldwide.

200 million people have died in the wars of the past, over 10,000 years Hunting, Agricultural, and Industrial Ages. This is enough of a lesson for both this and the next generation.

This is a few of the many reasons why WSN will proceed with the FTTH initiative, working with leading technology companies, service providers, governments, and, mostly, with community residents.

WSN's thousands of non-profit foundations will promote local FTTH initiatives, especially economic and educational disadvantaged communities and countries.

WSN participants will endorse and assist the election campaign efforts of FTTH friendly politicians and elected officials, who will, as a matter or priority, allocate $ 10 trillion annually to aggregated budgets and assist with FTTH projects.

WSN will develop a new business with strategic alliance and outsourcing once there are 1,000 Ph.D. level educated or experienced executives, each with managers and producers for the following industries, and will have 10 billion accumulated global customers:

1. Airplane
2. Space - satellite and space travel
3. Defence

4. Automobile
5. Auto-part
6. Auto service and sale
7. Private Bank
8. Trust bank
9. Commercial bank
10. Retail bank
11. Investment bank
12. Chemical
13. Fragrance
14. Soft-drink
15. Fashion cloth
16. Home appliance
17. Shoes
18. Bags
19. Cosmetic
20. Beer
21. Underwear
22. Casual cloth
23. Detergent
24. Electronics
25. Containers
26. Packaging
27. Home maintenance material
28. Discount merchandizing
29. Department stores
30. Toys
31. Electricals
32. Silicon chips
33. Fiber Optic manufacturing
34. Grocery
35. Food processing
36. Candy manufacturing
37. Food growing
38. Oil Refinery
39. Oil exploration
40. Alternative energy
41. Pharmaceutical
42. Bio-industry
43. Health Care
44. Senior Care
45. Hospitals
46. Medical equipment
47. Drug wholesale and retail
48. Home building
49. Real Estate brokering
50. Real Estate management
51. Motorcycle
52. Bicycle
53. Fast food chain
54. Restaurant chain
55. Hotel

56. Casino
57. Film and cards
58. Tool
59. Machine
60. Engine
61. Generator
62. Metals
63. Mining
64. Mortgage financing
65. Casualty Insurance
66. Life Insurance
67. Mutual fund
68. Hedge Fund
69. Bond fund
70. Money market fund
71. Credit Card
72. Venture Capital
73. Education financing
74. Stock brokerage
75. Computers
76. Office equipment
77. Software
78. Game
79. Paper
80. Forest
81. Publishing
82. Broadcasting
83. Cable TV
84. Tax service
85. Office service
86. Phone
87. Data backbone
88. Data retail
89. Wireless
90. Ground Shipping
91. Ocean shipping
92. Air shipping
93. Airline
94. Power
95. Gas
96. Movie
97. Music
98. College education
99. High school education
100. Elementary education

FIBER TECHNOLOGY AND ECONOMICS

1 Gbps (1,000 Mbps) is the needed speed to take full economic advantage of the virtual world. The top speed for Passive Optic Network (PON) technology is only about 100 Mbps.

It can be deployed for about $1,000 per home.

Active Fiber Networks(AFN) run at about 1 Gbps. AFN's are only 20% more expensive than PON's and the speed is 10 times faster. With regular deployment of AON's, the price will soon be the same.

Cable and phone companies are caught between a rock and a hard place. They have no future if they don't deploy FTTH and no future for keeping the monopoly of voice, video and data market if they even do. If they do not deploy FTTH, they will face competition from local governments, utilities, and WSN.

Cable and phone companies restricted the deployment of FTTH because they knew their businesses would be cannibalized. This is why there is so much "dark fiber" in the US. They installed the fiber to the curb, but did not connect it to the house where people could use it.

Why are the phone and cable companies going to lose their business? Fiber based broadband allows people to distribute voice and video content through their Internet connections. There will no longer be demand for phone and cable services through slow connections.

There are approximately 1 billion households in the world. $1 trillion is enough to wire every household with FTTH. That is only 0.16% of the world's $600 trillion wealth. The wealth and income resulting from this information-based economy will be 10 times larger than the physical based economy.

For example, 3 billion Chinese, Indians and Africans who never consumed will be able to produce and consume education, entertainment, virtual travel and health at the same level of OECD nation citizens.

The wholesale cost per Gbps of fiber decreased from $10 trillion to less than $10 billion. It is now 1,000 times cheaper because ultra-high density fiber splits a single fiber into 1,280 fibers that each provides a bandwidth of 1 Gbps each. This provides a total bandwidth of 1.28 Tbps per fiber line!

WSN forecasted these trends 7 years ago and prepared to take advantage of them by selling multimedia content through high-speed fiber.

A New breed of PC has 1,000 MB memory/100 GB hard drive, costing $1,000. The next PC will have 5,000 MB memory/1,000 GB hard drive, costing $2,000, and will be maintainable by us using cheap and easy home based web hosting software. These home based servers PCs are appliances just like any other in the home, such as a TV or refrigerator. It can be located under kitchen sinks or in a closet. Most NOC/ web hosting companies will go out of business by FTTH. WSN will be able to buy them a cent on the dollar. WSN has found cheap and easy home based hosting software that suits. WSN will install it on PCs that connect to Internet at speed of 100 Mbps.

Members will enjoy profit sharing as either producers or marketers, because they want to make money on 100 Mbps FTTH. WSN Foundations will expand these economically viable projects to 7 billion people.

Many WSN executives/managers are creating their own multimedia financing, marketing

and producing organizations on their WSN domains. Thousands will expand their WSN domains in future. The WSN financing and marketing structure has proven well, and is now progressing to a multimedia content producing structure.

The costs of content development projects are broken down in to 10% Advertisement, 30% Marketing between producers and consumers. 40% of these costs belong to middlemen. This is why we pay such high prices for products. Costs of manufacturing are usually considerably less than the end retail cost. The money given to middlemen could easily get rid of starvation in a third world country. Broadband will lower these costs substantially by giving developed content to consumers directly.

WSN FTTH initiative can use this income to offer free fiber (free fiber is about $1,000 per home investment, $20 dollars monthly), free housing ($1,000 monthly can cover decent housing and utilities around the world) and food/etc ($970).

Free fiber can supply 20 billion web pages containing free education, entertainment, health and services. 180 billion web pages will be offered for transaction and subscription use.

FTTH based content business case study and FTTH industry in Korea

WSN TV 75 Inc. opened FTTH content center in Gunpo city, Korea where first 100 Mbps FTTH project in the world was deployed in 2002. Because of bi-directional 100 Mbps speed, WSN member residents successfully installed fiber home based servers to host/market digital content without hiring/paying expensive web servers in data centers.

7,000 homes in MDU, multi-dwelling-units of Kunpo City, Korea have a 2,500 Mbps backbone, 155 Mbps fiber and 100 Mbps Ethernet connections. This speed can be upgraded to FTTG 1,000 Mbps-Gigabits Ethernet to homes.

Testimonials from Kunpo City, Korea where 100 Mbps FTTH has been available. These participants pay $25 monthly with free local phone to greatly improve their lifestyles.

A terabytes digital content hosting based on Linux dual CPUs PC(1,000 hours of digital movies/videos) in fiber home costed $ 100 monthly rather than $10,000 monthly for storage and bandwidth in data center.

WSN TV 75 Inc. is testing FTTH deployment and content business in Gwangju City, Korea where 1,000 Mbps FTTH was deployed for triple play of phone, TV, Internet data service including 3D virtual reality application first in the world in 2003. This project will increase speed to homes to 10 Gbps-10,000 Mbps for teleprocesses application by 2008.

Gwangju City Photonics R&D and industry complex target to produce $10 billion fiber optic equipments/parts-10% of $ 100 billion FTTH market to wire 100 million homes globally by 2010. Their current investment size is $1 billion.

CONCLUSION

Many people around the world are unable to attend an College/Master/PhD program due to the impossible costs. These people are located all around the world, such as Africa,

South America, Chinese, and Indian. These countries make up 67% of the world population. Lack of education has made it impossible to make an adequate living or provide a better life for the next generation. These people are barely surviving.

There is a strong and reasonable anticipation of increasing technological advances in computer internet innovation, applications, and general accessibility. These factors, in conjunction with the use of proven value added network building techniques and methodologies that encourages proactive participation and self-motivation through revenue generation and sharing opportunities, WSN TV will be far more effective and profitable than other internet businesses. This is due to the lack of expenses in a traditional business sense

Keeping American/European and few advanced Asians wealthy by keeping nation state boundary will not solve the global problem. FTTH, free homes, and free food will. This is WSN's eventual goal.

Government officials and politicians, who are public servants, not rulers, around the world must co-operate WSN foundations' FTTH initiative, charitable and humanitarian global projects.

When all people have access to FTTH and Ethernet, they will have no difficulty creating and selling virtual products from their homes and transmitting them to consumers all over the world. But areas where residents deploy gigabits per a second fiber to the home earlier than other areas will accumulate complex broadband business knowledge and lead the next economy.

In the Information Age, economic evolution favors knowledgeable people who are quick to adapt to change. First movers seize the advantage and reap the greatest rewards. These technology driven changes will create more wealth than the world has ever seen, at the same time destroying wealth based old technology.

Fiber technology is reshaping the world economy and politics. Unlike the agriculture and industrial economies, the means of production and access to the marketplace in the information economy cannot be controlled by a small number of people because the means of production is the human mind and access to the marketplace is an Internet connection.

Success in the information economy depends on 2 ways communication and cooperation, not one way control and domination.

WSN TV knows the consequences of these irreversible economic macro-trends and planned accordingly. When these 10,000 dinosaur multi-national corporations try to dominate the world economy and politics the way they used to, they will discover that the rule of game has changed.

WSN TV is an open, peaceful, and voluntary world society, economy, and government. We will allocate our trillion-dollar grants from 10 million WSN foundations to support a new breed of Information Age politician who support our global mission of charity, education, and economic equality.

The politicians that we endorse will budget for free fiber homes and food for 7 billion people.

REFERENCE

www.wsntv100.com
www.wsntv75.com

LEVEL OF ENTREPRENEURSHIP IN THE INFORMAL RETAIL SECTOR OF SOUTH AFRICA

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INTRODUCTION

The informal sector constitutes an important part of the South African economy. Its emergence is largely attributed to the divergence between the growth in especially the urban population and employment growth in the formal economy. Job creation in the formal sector frequently trails growth in the labour force. The shortage of productive employment opportunities in the formal sector, therefore, compels people to fend for themselves.

In most countries, including South Africa, the majority of informal businesses are located in the trade sector. A business census conducted in selected township areas of South Africa confirmed that almost 70 % of all informal businesses were located in the trade and commerce sector (World Bank, 1993). This article focuses specifically on informal businesses in this sector.

OBJECTIVE AND OUTLINE

The objective of the paper is to construct a profile of informal retail outlets in township areas in order to establish their functioning and dynamics within the informal sector. Aspects such as the informal retail entrepreneur, the interaction of informal retailers with their customers and suppliers as well as aspects such as capital needs and sources, employment, turnover and assortment of merchandise as well as constraints encountered will be addressed. Their particular role within the broader retail environment will also become evident from the study.

The paper is organised into the following sections. Section 3 sets a definition of the informal sector as well as the different types of businesses included in the survey. Section 4 puts the informal retail trade in a macroeconomic perspective. Sections 5 and 6 contain a brief exposition of the survey methodology and main findings of the research respectively. Section

7 summarises the discussion and draws a few conclusions especially with reference to the level of entrepreneurship in the informal retail sector.

DEFINITIONS

This paper focuses on the informal sector and particularly on a subset of the sector consisting of hawker tables, spaza shops and township general dealers. The following provides concise definitions on these concepts.

THE INFORMAL SECTOR

It is widely acknowledged that no single definition of the informal sector exists, nor is one anticipated (Naidoo, 2002). In economic literature, the term informal sector did not refer to a homogeneous group of businesses but was meant to identify a subset of economic activity in order to describe a domain similar with, say, rural or urban sector, merely to focus and demarcate research activities in order to facilitate policy development. Just as in the case of urban or rural sector, one needs to disaggregate the informal sector in order to draw meaningful conclusions (Sethuraman, 1997).

The International Labour Organisation's (ILO) International Conference of Labour Statisticians (ICLS) describes the informal sector for purposes of collecting statistics on the sector (ILO, 1993). The resolution states that the informal sector may be broadly characterised as consisting of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist – are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees (ILO, 1993). Charmes (2000: 62) defines the informal sector as consisting of enterprises of informal employers employing employees on a continuous basis, whose employment is below (in terms of number of jobs) thresholds set by statistical practices of legislation in the country (thresholds of 5 or 10 jobs being the most frequently used), or have not registered these employees or are not registered (eg as companies or for tax purposes). Where countries opt for an employment size criterion, cognisance should be taken of the possible overlapping between formal and informal enterprises.

On the basis of the above, informal enterprises portray, inter alia, the following characteristics:

- As far as legal identity is concerned, informal enterprises do not have corporate status.
- They do not maintain a complete set of accounting books.
- From a production destination point of view, at least some portion of production output is destined for the market.
- Enterprises are nonregistered units in terms of taxes, labour or any other regulatory frameworks.

Generally, the majority of people in developing countries (and to some extent, those in transition countries) resort to the informal sector as the only means of survival (Tansel, 2000: 10).

Although the above description can be regarded as very general, it provides some perspective on the nature of enterprises considered to be part of the informal sector.

RETAIL BUSINESSES

This paper embraces the retail activities of hawkers, spazas and township general dealers. These entities may be depicted as follows:

(a) Hawker tables or street vendors operate from a temporary or permanent structure on a street or at a taxi rank or train station.
(b) Spazas or tuck shops are defined as businesses operating in a section of an occupied residential home or in any other structure on a stand zoned or used for residential purposes and where people permanently live.
(c) Township general dealers are stand-alone businesses with a brick and mortar superstructure often located in a business area but may also be located in residential sections of townships. They carry a wider product range than spazas and have more fixtures and fittings allowing self-service to clients.

The businesses practice of all the above entities entails ordinary retailing, ie the buying of consumer goods from manufacturers, wholesalers, producers or even super-/hypermarkets and the selling of goods at a profit margin to clients.

THE RETAIL SECTOR IN SOUTH AFRICA

A perspective on retail sales in South Africa would create a clear picture of the status of retail sales channelled through the informal retail sector.

Table 1 shows the relationship of retail sales to consumption expenditure in 2003. Total consumption expenditure (ie expenditure of households on goods and services) amounted to R761,9 billion in 2003, of which 60,6 % (R461,6 billion) was spent on goods and 39,4 % (R300,3 billion) on services. Potential retail sales (ie expenditure on goods minus expenditure on personal transport equipment such as cars, tyres, petrol, paraffin and household fuel and power that are not classified as retail items by Stats SA) amounted to R377,7 billion. Of this R235,2 billion or 62,3 % was channelled through formal retail outlets such as Pick ’n Pay, Checkers, Spar and other retail outlets. More than a third 37,7 % or R142,5 billion) was channelled through the following outlets:

- informal retail outlets such as spazas, hawkers and township general dealers
- nonstore retailers such as mail order services and vending machines
- nonretail establishments such as wholesalers and agricultural and manufacturing outlets
- e-commerce/e-tailing services

It is estimated that approximately 10 % of potential retail trade, amounting to approximately R38 billion, was channelled through informal outlets in 2003 (Martins, 2001; Martins, 2002 & Martins, 2003). A substantial portion of these sales can be attributed to spazas, hawkers and township general dealers.

Table 1 Relationship between retail sales and private consumption expenditure, 2003

	2003 BMR estimate
	Rbillion
1. Total private consumption expenditure (2+3)	761,9
2. Expenditure on services	300,3
3. Private consumption expenditure on goods	461,6
4. Private consumption expenditure on personal transport equipment and fuel and power[1)]	83,9
5. Potential retail sales (3-4)	377,7
6. Retail sales by formal sector	235,2
7. Retail sales other than by formal retail outlets (5-6)	142,5
	%
8. Services as % of consumption expenditure	39,4
9. Potential retail sales as % of private consumption expenditure	49,6
10. Formal retail sales as % of potential retail sales	62,3
11. Other than formal retail sales as % of potential retail sales	37,7

1) Not regarded by Statistics South Africa as retail expenditure items.
Source: Tustin, 2003: 16

SURVEY METHODOLOGY

A national survey was conducted among a sample of 481 informal retailers during July to September 2003. The sample was selected from a list of 14 200 informal businesses. The database consists of a street-by-street business census of all points of purchase in township areas as well as at train and taxi ranks in and outside township areas. The following areas were, inter alia, included in the survey: Soweto, Mamelodi, Daveyton, Mdantsane, Umlazi, Kayelitsha, Michells Plain and KaNyamazane

RESULTS

This section reports on the most important findings of the informal business survey. The results are portrayed by type of business distinguishing between hawker tables, spazas and township general dealers.

THE INFORMAL RETAIL OWNER

Most people in the economic and political world agree on one point: promoting entrepreneurial spirit is the key to creating jobs and improving competitiveness and economic growth (Antipolis, 2000: 17). Entrepreneurship combines innovation (ie risktaking and the provision of 'new' goods and services) and individual initiative, resulting in organisational renewal (ie the improvement of existing and/or the establishment of new businesses) (Cross, 1995: 4 & RCE, 2002: 2).

Some characteristics of owners are depicted below to establish a profile of the entrepreneur in the informal retail sector of South Africa by type of business.

Educational level

Table 2 shows the educational level of business owners by type of business. Educational level is positively correlated with the level of business sophistication where hawker tables are regarded as the less sophisticated and general dealers the more advanced business type. More than half (53,7 %) the hawkers had a primary school qualification or no formal schooling. This corresponding percentage is 30,5 % for spazas and only 10,1 % for general dealers. At the higher end of the qualification spectrum, 56,5 % of general dealer owners reported a matric or a tertiary qualification while only 19,0 % of hawkers had attained this relatively higher level of qualification.

Table 2 Educational level of business owners

Educational level	**Hawker/ street vendor**	**Spaza/ tuck shop**	**General dealer in township**
	%	**%**	**%**
No formal schooling	13,7	2,2	0,0
Primary (Grade 1-7)	40,0	28,3	10,1
Secondary (Grade 8-11)	27,4	33,3	33,3
Matric (Grade 12)	15,8	27,9	36,2
Tertiary (Postmatric)	3,2	8,3	20,3
Total	**100,0**	**100,0**	**100,0**

Engagement in business

More than eight in every ten business owners (83,8 %) were engaged in their businesses on a full-time basis. Almost all the hawkers (95,7 %) were involved on a full-time basis compared to only 70,1 % of the owners of general dealers. The percentage of spaza owners (83,1 %) correlates closely with the 84,4 % of a national spaza survey in 2000 (Ligthelm, 2002:15).

Business training

Nine in every ten respondents confirmed that they have no formal business training. No less than 96,8 % of hawkers do not have any formal business training. This percentage declines

to 91,1 % for spazas. Two in every ten owners/managers of general dealers (18,8 %) confirmed formal business training.
As was expected in the light of the above, the majority (68,7 %) of respondents answered in the affirmative when asked whether they need formal business training. The type of training needs expressed by respondents is shown in table 3. The majority of respondents expressed a need for training in business management (73,8 %), bookkeeping (58,5 %) and marketing (57,1 %). Sales were highlighted by hawkers as of particular importance (64,9 %).

Table 3 Business training needs as expressed by respondents by type of business

Training need	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Management	70,2	73,4	83,3
Bookkeeping	61,4	58,5	53,3
Marketing	61,4	54,8	63,3
Sales	64,9	43,6	36,7
Computer skills	15,8	31,4	40,0
Credit control	21,1	17,6	16,7
Customer/human relations	3,5	7,4	10,0
Labour relations	1,8	6,9	10,0
Literacy/numeracy training	0,0	0,0	6,7

Engagement prior to starting the business

Table 4 confirms limited appropriate exposure to business management experience among respondents prior to them starting their businesses. Unemployment occupied the most important status immediately before the business was started (38,6 % of respondents) particularly among hawkers and to a lesser extent among spazas. Engagement as a shop assistant/sales person was the most important position held by owners of general dealers prior to starting their businesses (30,9 %). This limited and/or inappropriate exposure of respondents to business management experience make it imperative that training and education in business management should be regarded as an urgent requirement to improve the sustainability of informal retailers.

Table 4 Engagement of respondents immediately prior to starting business

Employment	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Unemployed	55,3	36,8	23,5
Shop assistant/sales person	11,7	13,2	30,9
Housewife	12,8	9,7	7,4
Office worker	1,1	8,4	5,9

Retired	2,1	5,8	5,9
Other	17,0	26,1	26,5
Total	**100,0**	**100,0**	**100,0**

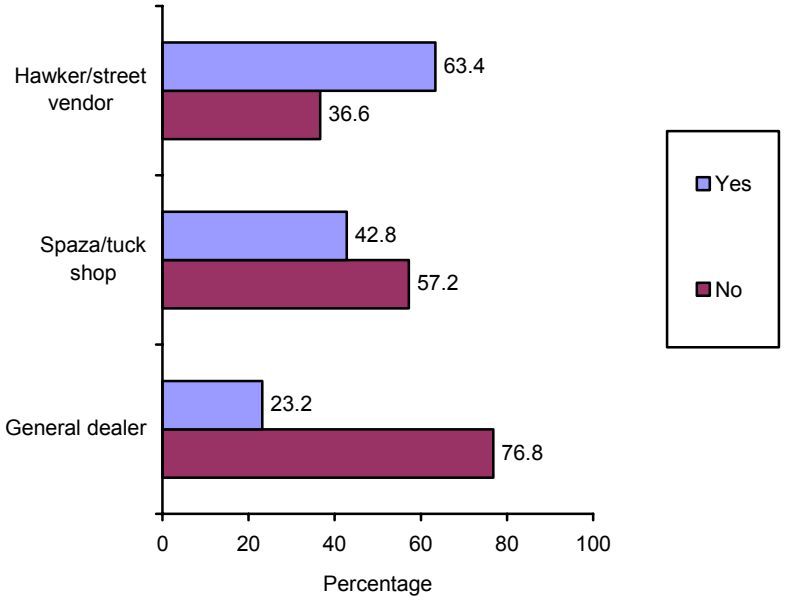
Business as career path

The reply to the question 'Will you accept a job in the formal sector if offered today?' can be regarded as indicative of the extent to which informal business owners/managers regard their businesses as a career path or only as a stop-gap to counter unemployment and poverty temporarily.

Figure 1 confirms a considerably higher level of stability and permanency among owners of general dealer shops compared to hawkers. Only two in every ten (23,2 %) owners of general dealers indicated that they would accept a job in the formal sector if offered today. In contrast, just more than six in every ten hawkers (63,4 %) would leave their businesses if alternative employment opportunities materialised in the formal economy. The corresponding figure for spaza owners amounted to 42,8 %, which correlates closely with the 41,1 % of spaza owners in a national survey in 2000 (Ligthelm, 2002: 53).

The above clearly shows that hawking is regarded by the majority of hawkers purely as a survival strategy while the owners of the more sophisticated businesses regard themselves as permanently in the market place.

Figure 1 Attractiveness of employment in the formal sector



Summary

Although informal retailers are often depicted in literature as survivalist enterprises operating at bare survival level (Rogerson, 1996 & Ruiters et al 1994), the above evidence shows clear signs of small retailers becoming a permanent phenomenon on the South African economic

scene. It is interesting to note that several respondents indicated that they owned more than one informal retail business. This points to some entrepreneurial spirit amongst owners to establish more than one business to augment their income.

RETAIL BUSINESS OWNERS AND THEIR HOUSEHOLDS

Informal retail businesses are strongly integrated with the households of the owners and are often described as a subset of household activities. The well-being of households often depends on the success and profitability of the businesses, particularly in the case of hawkers. Nine in every ten (87,4 %) workers in hawker businesses and 79,2 % of workers in spazas emanate from the owners' families or household. The percentage for general dealers dropped to 54,7 %.

The household size of respondents (including him-/herself) amounted to an average of 4,8. This finding is indicative of the number of South Africans dependent on income from small retail businesses. The household size of respondents by type of business varied from 4,7 in the case of spaza owners to 5,1 for the owners of spazas and general dealers. Based on an estimate of approximately 250 000 informal outlets (Woodward, 1999: 38) a total of 1,25 million people owned their existence from informal retail business activities.

A further indication of the dependence of informal business owners and their households on their business income is conferred by the fact that no less than three in every four (73,1 %) hawkers confirmed that no household member (including the owner) earned an income outside the business. This figure is just more than half in the case of both spaza retailers (57,4 %) and owners of general dealers (53,6 %).

GENERAL BUSINESS CHARACTERISTICS

Reasons for starting business

Table 5 shows the reasons for starting a business. These reasons differ substantially by type of business and can be related to the potential long-term sustainability of the different types of businesses.

The survey results show that more than eight in every ten hawkers (82,6 %) started their businesses as a result of unemployment. This percentage amounted to 48,7 % for spazas and only 32,8 % for general dealers. Unemployment as motivational factor for starting a business often suggests that a business is established without the identification of a lucrative business opportunity, and therefore presupposes a high potential for business failure. The above points to substantially greater stability among general dealers and spazas compared to hawkers with regard to sustainability.

The finding that almost half (48,7 %) the spazas were established as a result of owners being unemployed, closely correlates with the survey results of a national spaza survey in 2000. This survey found that 52,1 % of spaza owners were unemployed when they started their own businesses (Ligthelm, 2002:13).

It is encouraging that just more than a third (35,8 %) of general dealer owners joined a family business, which is evidence of some form of business culture present in the African communities. The figure for spazas is 15,7 %, confirming a degree of continuity in spaza activities. As could be expected, family business succession is almost nonexistent in hawker trade (2,2 %).

The emergence of entrepreneurship in the informal retail trade can be inferred largely from the extent to which informal retailers seized a business opportunity. Only one in every seven (14,9 %) general dealers were established by owners identifying a lucrative business opportunity while one in ten (9,9 %) spaza owners and almost no (2,2 %) hawkers saw a good opportunity for business. It seems therefore that the minority of informal retailers are motivated to enter the retail trade through their entrepreneurial spirit rather than a mere need for survival.

Table 5 Reasons for starting a business by business type

Reasons	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Unemployed	82,6	48,7	32,8
To increase income	7,6	23,1	13,4
Joined family business	2,2	15,7	35,8
Seize business opportunity	2,2	9,9	14,9
To work from home	3,3	2,2	1,5
Other	2,2	0,3	1,5

Age of business

The period that the various types of businesses had been in operation largely supports the findings discussed above. The age of a business reflects its market experience and affects its ability to grow and trade up to the next size class. Market experience and size are also important variables that determine business access to financial resources.

Table 6 confirms a far higher level of business maturity among general dealers than among spazas and especially hawkers. Almost two in every three general dealers (63,7 %) had been in operation longer than five years. The corresponding percentages for spazas and hawkers are 36,0 % and 19,0 % respectively. At the other end of the scale, almost one in every three hawker tables (31,5 %) had been operating for less than one year compared to 5,7 % of township general dealers and 13,6 % of spazas. Once again, these findings are an indication of the fact that hawking seems to be a survival activity while other retailers portray a higher degree of career path development as business people.

Table 6 Period that institution had been in operation by type of business

Age	Hawker/ street vendor	Spaza/ tuck shop	General dealer in township
	%	%	%
Less than 6 months	14,7	2,5	1,4
6 months and longer but less than 1 year	16,8	11,1	4,3
1 year and longer but less than 2 years	21,1	12,7	1,4
2 years and longer but less than 3 years	16,8	17,5	13,0
3 years and longer but less than 5 years	11,6	20,1	15,9
5 years and longer but less than 7 years	3,2	11,5	7,2
7 years and longer	15,8	24,5	56,5
Total	**100,0**	**100,0**	**100,0**

Assortment of merchandise

The information below shows the response to the question: 'Indicate the five most important products for your business in terms of monthly turnover (sales)'. Respondents were also requested to rank them in order of importance. The indices show the relative importance of the products. The most important product is expressed as an index of 100. A product with an index of say 50 would therefore contribute only half that was contributed by the most important product.

The following five products were reported as the most important contributors to business turnover:

		Index
(a)	Hawkers	
-	Sweets	100
-	Fruit and vegetables	82
-	Cigarettes and tobacco	59
-	Soft drinks	18
-	Bread	14

Sweets were reported as the most important product sold by hawkers followed by fruit and vegetables. This was followed by cigarettes and tobacco that was about 60 % as important as sweets with regard to total turnover.

		Index
(b)	Spazas	
-	Soft drinks	100
-	Bread	97
-	Cigarettes and tobacco	67
-	Milk	46
-	Sweets and chocolates	46

Soft drinks and bread contributed almost the same amount to spaza turnover followed by cigarettes and tobacco, which contributed two thirds that of the first mentioned two products. Milk and sweets were both only half as important as soft drinks and bread with regard to business turnover. It is, however, important to note that some seasonal variation is experienced in the sales patterns of informal retailers. Sales of confectionary peak around school days but decline in summer to the expense of fruit and vegetables.

	Index	
(c)	General dealers	
-	Soft drinks	100
-	Bread	76
-	Sugar	61
-	Maize meal	56
-	Cigarettes and tobacco	47

The most important products identified by general dealers confirmed a more diversified merchandise for general dealers than for the other two types of retailers. As was the case with spazas, soft drinks and bread occupied first and second position with regard to business turnover.

PHYSICAL CHARACTERISTICS AND INFRASTRUCTURE

Efficient service delivery, good infrastructure and safety and security are some of the leading factors that contribute to a productive business climate and influence an entrepreneur's decision to establish a business in a certain area. This section highlights some of these locational factors.

Location of business

As indicated in section 2 the sample frame was representative of all types of areas. Informal retailers are highly concentrated in areas convenient to their clients. Spazas, by definition, are concentrated in residential areas (93,9 %) and hawkers in areas of high pedestrian volumes (21,1 % at taxi ranks/train stations and 53,7 % on the street) while the majority of general dealers are also established close to the residences of customers, often in demarcated business areas.

Shop accommodation

The type of shop accommodation differs substantially by type of business – from more permanent in the case of general dealers to temporary in the case of hawkers (table 7). Spazas are overwhelmingly located on residential properties, either inside or outside the dwellings (82,6 %). Hawkers occupied a substantial variety of structures but primarily do business on the street (71,3 %) while general dealers tend to conduct business from buildings other than their homes (66,2 %). General dealers operating their businesses from an outside building on the same property (17,6 %) represented businesses graduated from small spaza shops to larger businesses portraying the characteristics of general dealers (see definition in section 3). Relocation to a demarcated business area may jeopardise the profitability of the business due to a potential loss of customers and hence the continuation of business on the same residential property often in a larger superstructure. The majority of the small retail businesses are aimed at the convenience level.

Table 7 Type of accommodation by type of business

Type of accommodation	**Hawker/ street vendor**	**Spaza/ tuck shop**	**General dealer in township**
	%	**%**	**%**
Inside main house	0,0	51,1	0,0
Outside building on same property	0,0	31,5	17,6
Building other than home	0,0	7,3	66,2
Metal container	4,3	5,4	0,0
Shack	7,4	4,1	0,0
Fixed stall in market	5,3	0,0	0,0
On street	71,3	0,0	0,0
Other	11,7	0,6	16,2
Total	**100,0**	**100,0**	**100,0**

Hawkers were also requested to express their locational preference in terms of the following two alternatives:

- freedom of choice of location; or
- centralised location/facilities provided by government

Just more than seven in every ten (71,6 %) expressed the view that they prefer freedom of locational choice for their businesses. A mere 28,4 % would prefer government-provided facilities. This is an extremely important finding in view of government's express intention to supply more permanent facilities to hawkers.

A follow-up question to hawkers enquired on their willingness to pay rent. Just more than eight in every ten respondents who preferred government facilities indicated that they are prepared to pay rent. Those that confirmed their willingness to pay were requested to indicate what the maximum amount is that they were prepared to pay for rent per month. Two in every three hawkers (64,9 %) indicated that the maximum rent they are prepared to pay amounted to less than R20 per month. This amount would never be sufficient to compensate

for the investment to provide even limited facilities such as water and sanitation. A R20 per month rent would, in economic terms, justify only an investment of a few hundred rand per hawker stand. Any attempts to supply hawker facilities would therefore imply a huge subsidy.

Water and electricity

With the exception of hawkers, a substantial percentage of the other businesses confirmed the availability of water and electricity on the stand on which the business is operated. All the general dealers have access to water and electricity. Almost nine in every ten spaza owners/managers confirmed the availability of tap water (85,9 %) and electricity (97,5 %) on their stands. The availability of tap water (7,7 %) and electricity (15,2 %) is extremely low among hawker businesses. However, the majority indicated that these services are not applicable to their businesses due to their mobility and type of business accommodation often on streets.

EMPLOYMENT

Recent policy stances of government highlight the notion that small business development can become an important source of employment and income generation. However, average employment of informal retailers is very limited and often eroded due to a high degree of business mortality.

The average employment of informal retailers stood at 2,5 employees per business. Average employment by type of business reveals the following averages:

- hawkers 1,6 employees
- spazas 2,4 employees
- general dealers 3,8 employees

The gender composition is fairly evenly distributed between males (47,8 %) and females (52,2 %). However, spazas and general dealers employed slightly more females while males predominate in the case of hawkers (58,2 % male). Almost three in every four informal retail employees were involved in the business on a full-time basis.

FINANCIAL ISSUES

Start-up capital

As indicated in section 6.3.1, unemployment was advanced as one of the principal reasons for starting informal retail businesses. As a result, available start-up capital is limited. The average start-up investment on businesses amounted to R3 607 ranging from R1 593 for hawkers to R9 554 for general dealers. Spaza/tuck shops were launched with an initial amount of R3 232. This is 25 % less than the start-up investment of R4 058 for spazas found in a national spaza survey in 2000 (Ligthelm, 2002: 21).

Sources of capital

Survey findings indicate that the majority of retailers source their start-up capital requirements from their own private savings or savings of other household members. Private savings dominate in all categories (spazas 79,5 %, hawkers 84,8 % and general dealers 82,5 %). Other important sources of capital were stokvels (11,9 % on average) and loans from relatives (of particular importance with general dealers (12,3 %)). Retrenchment payments also formed an important source, especially with regard to spazas (13,3 %). Loans from banks represented a relatively important source for general dealers (8,8 %). Only one general dealer reported financial assistance from a government institution. It was also reported that social grants paid by government play a role in financing small businesses, especially hawkers.

The question that arises from the above response is whether the limited use of external capital arises from a lack of access to external financial resources or whether it is purely a matter of not needing debt capital for starting a business. In a survey among small and medium enterprises (SMEs) in Johannesburg in 1999, the World Bank (Chandra, 2000: 37) concluded as follows regarding access to capital markets: 'The majority of firms that do not use bank finances are not necessarily limited by lack of access to capital. On average, poor business conditions that preempt the need for capital investment seem to be a far more critical explanation than limited access to capital markets'. A GEM (3003:5) survey among businesses in South Africa also reported that a lack of financial support is widely viewed as the main problem facing entrepreneurs in South Africa. A thorough cross-country analysis, however, reveals that:

- Compared to other countries, South Africa does not stand out as having a financial system reluctant to support entrepreneurs.
- Internationally, formal financial institutions appear to provide findings to a small minority of entrepreneurs. Entrepreneur's savings and their ability to access informal investment from friends, family and colleagues appear to be far more important sources of start-up finance.

TURNOVER AND EXPENDITURE

The average monthly turnover of businesses ranged from a high of R15 168 for general dealers to R3 459 for hawkers and R10 593 for spaza retailers.

Respondents were requested to estimate the running costs of their businesses for the preceding month by expenditure item. A word of caution is relevant here. Although respondents were requested to estimate the operational costs of the business such as telephone, transport and water and electricity, it was not always possible to distinguish between household costs and business costs. In the case of spazas, where the business is located on the same premises, it was not possible to divide the cost of electricity between residential and business use. Operating costs therefore also include an element of household expenditure. 'Purchase of merchandise' constitutes the most important expenditure item, accounting for the following percentages of total turnover:

- hawkers : 69,9 %
- spazas :72,6 %
- general dealers : 77,8 %

'Purchase of merchandise' is followed by salary and benefits of owners and employees. Salary and benefits of owners together with remuneration of employees amounted to the following:

- hawkers : 7,4 % of turnover
- spazas : 7,5 % of turnover
- general dealers: 10,5 % of turnover

Considering an employment size of 1,6 for hawkers, 2,4 for spazas and 3,8 for general dealers (full-time and part-time), the labour remuneration constituted a meagre portion of total cost.

A comparison of running costs with turnover shows the following surplus of income over running costs:

- hawkers : 16,7 % of turnover
- spazas : 12,2 % of turnover
- general dealers: 3,0 % of turnover

General dealers confirmed in the survey that they were more severely affected by competition than spazas and hawkers. One could reasonably assume that this could result in a smaller mark-up and hence a lower surplus.

CONSTRAINTS ENCOUNTERED BY INFORMAL RETAILERS

Respondents were requested to indicate the three most serious problems that they experience. The types of problems do not differ substantially by business type. Shortage of merchandise and finance emerged as the primary problem of all three business types, mentioned by just more than half the respondents. This was followed by the high crime rate mentioned by 44,7 % of general dealers and by almost a third of the other two categories. Unavailable and expensive transport was singled out by spazas (39,9 %) and especially hawkers (45,2 %). General dealers (31,9 %) perceived the level of competition as a serious problem.

Some additional questions were posed to respondents regarding the level of crime in their areas. Approximately one in every four respondents were victims of crime during the twelve months preceding the interview. The type of crime to which respondents were exposed differs somewhat by business type. Eight in every ten spaza and general dealer owners were victims of break-ins and property theft. Just more than half the hawkers experienced this type of crime. Physical attacks were the second most important category of crime experienced by general dealers (31,3 %) and spazas (21,2 %). The different nature of hawker businesses exposed them not only to physical attacks (37,5 %) but also to vandalism (37,5%). Theft by employees was mentioned as the fourth most important crime category experienced by all three business types.

The above clearly confirms that lawlessness and disrespect for the property and person of fellow inhabitants seriously jeopardise business profitability and the sustainability of the informal retailer. Surveys in Johannesburg and Pretoria among SMMEs confirmed that business owners regarded the establishment of a crime-free environment as one of the most important functions to be performed by government institutions (Tustin, 2001 & Ligthelm, 2001).

SUMMARY

The picture emerging from the foregoing analysis depicts a continuum of informal retailers ranging from fairly developed businesses to enterprises purely established for household survival purposes. The majority of businesses were established in a nonlucrative business environment and are therefore operating at a bare survival level.

This continuum of fairly established to survivalist businesses largely correlates with business types identified in this study. Township general dealers seem to be far more established than hawkers. Spaza shops occupy more or less a middle position. Far more owners of general dealers than hawkers perceived their businesses as long-term endeavours

The relative stability by type of business is also confirmed by the survival rate of various types of businesses. The percentages of retailers in operation for longer than five years ranged from 19,0 % for hawkers to 63,7 % for general dealers. The fact that limited alternative career opportunities exist in the economy compels the survivalists to stay in the market, often with limited levels of profits for quite a number of years.

The reality of the informal retailer as an important delivery channel of goods and services to consumers, creates important linkages between manufacturers/wholesalers and informal retailers. Manufacturers and wholesalers have also realised that the informal retail market holds an important share of the retail market in South Africa. This share is estimated at approximately R38 billion in 2003). The linkage between formal and informal sectors contributes considerably to the survival potential of small informal retailers due to the availability of merchandise at more affordable prices, which, in essence, allows them to continue with their trading businesses. This linkage is manifested in various ways through, inter alia, increased product delivery to informal retailers, promotion sales available to them and even the availability of manufacturing/wholesale credit to especially township general dealers.

In operating their businesses, informal retailers encounter serious problems that impact negatively on their profitability. These problems range from market realities such as severe competition among informal retailers to a hostile external environment. Paramount in this regard is the high level of crime. Break-ins, property theft, vandalism and physical attacks on owners and employees can be devastating to a small informal retailer. Crime not only impacts negatively on profitability but can even jeopardise the existence of such businesses that are dependent on small turnovers and profit margins.

The question still remains: To what extent can small retailers be regarded as entrepreneurs or only as microbusiness owners. Timmons (1999: 27) maintains that entrepreneurship has evolved beyond the classic startup notion to include companies and organisations of all types, in all stages. Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach and leadership balanced. Entrepreneurship often result in the dynamic growth of a business. Entrepreneurs generate business growth through skills such as creativity, innovation, risktaking and the identification of opportunities. In addition, business management skills such as financial marketing, operational and human resource management are imperative for business success.

Survey results show, inter alia, relatively low educational skills, almost no formal business training prior to starting the business, unemployment as a major factor for starting business rather than the seizure of lucrative opportunities, and small average employment and investment. It seems, therefore, that the informal retail sector contributes considerably towards the generation of income to thousands of business owners but, in the majority of cases, lacks the growth dynamics characterised by successful entrepreneurship.

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CASE STUDY - SUBMISSION ON THE TRADE & INVESTMENT DEVELOPMENT PROGRAMME FOR SMALL, MEDIUM AND MICRO ENTERPRISE

ABSTRACT

As part of the 1996 European Programme for Reconstruction and Development in the Republic of South Africa, the Delegation signed a Financing Agreement in July 1997 establishing the Trade and Investment Development Programme (TIDP) for Small, Medium and Micro Enterprises (SMMEs). The programme subsequently commenced implementation in October 1998 and this pilot phase has been successfully completed in line with the Financing Agreement which ended on the 19th February 2004.

Overall Objective

To contribute to the creation of a dynamic and successful Small, Medium and Micro Enterprise sector by facilitating an improvement in its national and international competitiveness, specifically for emerging entrepreneurs.

Programme Purpose

The programme purpose is to contribute to the creation of a dynamic and successful Small, Medium and Micro enterprise sector in South Africa by facilitating and its improvement in the national and international competitiveness. This is to be achieved through the provision of institutional and functional assistance in the development of relevant oriented human resource skills, production/marketing skills and the transfer of appropriate technology.

Beneficiaries and Parties involved

The entire SMME sector will benefit as a consequence of the overall improvement in the national and international competitiveness resulting from the links between the three components chosen and the institutional support given to the provision of services to the sector.

The expected beneficiaries being:-

Previously disadvantaged small and micro enterprises (mainly craft sector) who during the lifetime of the project have received training in the basic principles of international competitiveness for export.

Product specific groups of small to medium sized enterprises who during the lifetime of the project received hands on integrated technical assistance in all aspects of export development (mainly Auto-component suppliers).

Small and medium sized enterprises within specific product sectors who during the lifetime of the project received opportunities for upgrading technology through a programme of international partnerships instrument (mainly Auto-components Suppliers, Textiles and Clothing, Information Communication Technology (ICT), Chemicals and Plastics, Footware and Leather).

Through this case study we would like to review the TIDP, focusing mainly on the following sub-headings:

- Relevance and quality of design;
- Efficiency of implementation;
- Effectiveness;
- Impact;
- Potential sustainability.

GLOBALISATION AND ITS IMPACT ON ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT IN SOUTH AFRICA – A SUCCESS CASE STUDY- THE NTSIKA'S TRADE AND INVESTMENT DEVELOPMENT PROGRAMME FOR SMMES' COMPETITIVENESS

by Lefa Mallane - Chief Executive Officer

As part of the 1996 European Programme for Reconstruction and Development in the Republic of South Africa" the Delegation signed a Financing Agreement in July 1997 establishing the Trade and Investment Development Programme (TIDP) for Small, Medium and Micro Enterprises (SMME's). The programme subsequently commenced implementation in October 1998 and this pilot phase has been successfully completed inline with the Financing Agreement which ended on the 19th February 2004.

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international partnerships instrument (mainly Auto-component Suppliers, Textiles and Clothing, Information Communication Technology ICT, Chemicals and Plastics, Footware and Leather).

Through this article we would like to continue the review of the TIDP forecasting mainly on the following sub-headings:

Relevance and quality of design; Efficiency of implementation to date; Efficiency of implementation to date; Effectiveness to date and Potential sustainability.

Relevance and quality of design.

The overall objective of the Trade and Investment Development Programme (TIDP) is to facilitate an increase in small, medium and micro enterprises (SMME) output, employment and exports. It seeks to achieve this by improving the international competitiveness of SMMEs by providing export orientated human resource, production and marketing skills. The objectives of the TIDP are relevant to the SMME development strategy presented in the 'National Strategy for the Development and

DRAFT

Promotion of Small Business' (DTI, 1995). The concept was also consistent with the Declaration of Intent' (1995) between South Africa (SA) and the EC which identified SMMEs as a priority area.

Efficiency of implementation to date.

The Oct'02 monitoring mission reported that implementation had been delayed. By Oct'02 project activities were running behind schedule and only €3.8m had been spent, 44% of the €8.9m total. Causes of delay include the time taken to appoint the Project Management Unit (PMU), unfamiliarity with the complex and lengthy EU procedures, inadequate integration of the project into Ntsika, and the time taken to identify and establish the capacity of intermediary organisations (IOs) and service providers.

The speed of delivery of project activities has increased under the third and fourth annual work plan (AWP) and in many cases the original activity targets have been exceeded. As at Oct'3 the following results were achieved, in what is referred to as three tracks,

Track 1: 21 international competitiveness seminars; 1,784 entrepreneurs attended seminars; 34 export orientation courses delivered to 311 entrepreneurs; and intermediary organizations contracted to deliver training.

Track 2: 150 company audit completed; 123 SMME integrated technical assistance contracts completed and 27 intermediary organizations contracted to deliver the audits and integrated technical assistance.

Track 3: 38 overseas and domestic trade shows and fairs attended with groups on entrepreneurs. The delivery of project activities appears to be now well managed and

interviews with IO's and entrepreneurs indicate that the quality the service provided under the project are of good quality.

Effectiveness to date.

The October 2003 EU Monitoring Mission reported that with the completion of AWP3 and part of AWP4 the effectiveness of the programme has improved since the Oct'02 report. A total of 150 enterprises (78 in Oct'02) have received company audits and a further 123 (52 in Oct'02) have benefited from specific technical support contracts. A total of 12 SMMEs have been visited during the two monitoring missions and most had clearly benefited from the TIDP and were either directly or indirectly exporting. These entrepreneurs had a positive view of the nature and quality of support provided by the TIDP. A positive side effect of the TIDP is awareness that increasingly SMMEs need to be internationally competitive on the domestic market, even if they don't export, due to trade liberalisation.

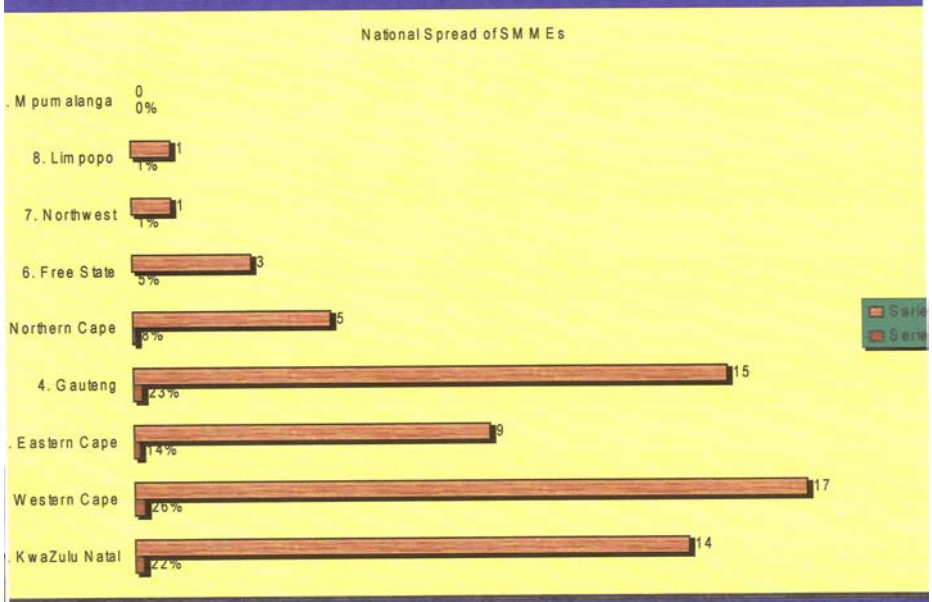
Impact to date

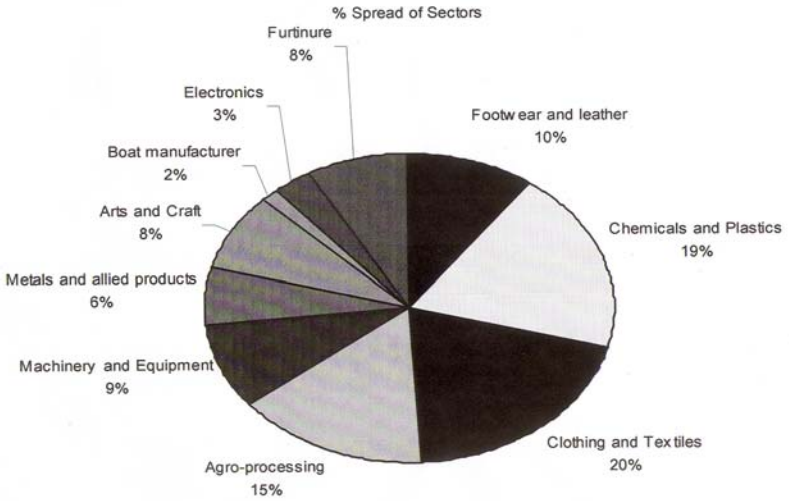
Ntsika is currently in the process of developing an integrated database of SMME performance. Evaluation studies to assess the impact of each track have also been programmed under AWP4. An evaluation of Track 2: Product and Market Development has been completed. The study was of 65 enterprises from Track 2 found that 77% had recorded good business growth, 60% of these were not exporting and those that were, experienced small export growth. 15% experienced high export growth and 60% of these did not attribute growth to the TIDP.

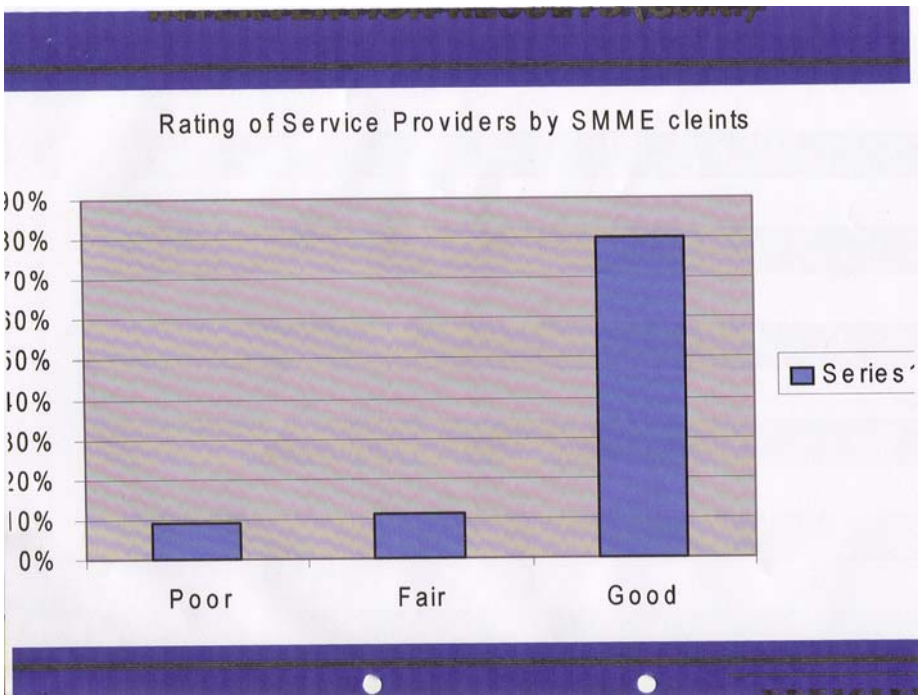
A comparable magnitude of impact was reported by Trade Point Pretoria (a TIDP 10) who estimate that 10-15% of Track 1 enterprises go on to export their outputs. The impact has been reduced by external factors recently due to the appreciation of the Rand which has made it increasingly difficult for SMMEs to export.

In Conclusion

Ntsika receives R50m per year from the DTI and other sources, R28m for operating costs and R22m for project expenditure. TIDP expenditure under AWP4 is R25m, 33% of Ntsika's R75m turnover. In terms of sustainability, the important question is whether Ntsika will be able to secure the additional funding required to maintain the current level of activities and expenditure when the TIDP ends in Feb'04. However, in Ntsika has embedded the project into its existing management and institutional structure and has successfully strengthened its quality management procedures and established the TIDP as an integral part of Ntsika's core mandate and management structure. The dti has taken cognizance of the importance of the programme for the contribution to the creation of a dynamic and successful Small, Medium and Micro Enterprise sector by facilitating and improvement in its national and international competitiveness, specifically for emerging entrepreneurs.

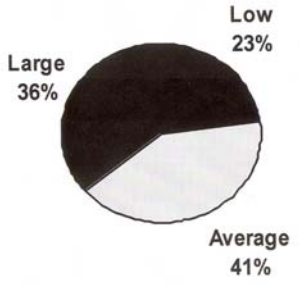

National Spread of SMMEs
. Mpumalanga
0
0%
8. Limpopo
1
1%
7. Northwest
1
1%
6. Free State
3
5%
Northern Cape
5
8%
4. Gauteng
15
23%
. Eastern Cape
9
14%
Western Cape
17
26%
. KwaZulu Natal
14
22%


% Spread of Sectors
Furtinure
8%
Electronics
3%
Footwear and leather
10%
Boat manufacturer
2%
Arts and Craft
8%
Chemicals and Plastics
19%
Metals and allied products
6%
Machinery and Equipment
9%
Clothing and Textiles
20%
Agro-processing
15%

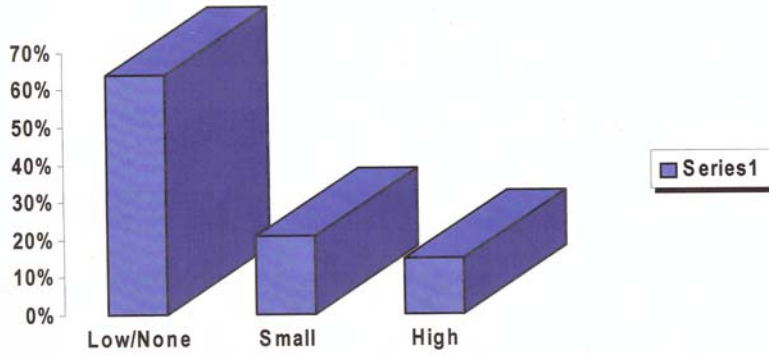

Rating of Service Providers by SMME cleints
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Poor
Fair
Good
Series1

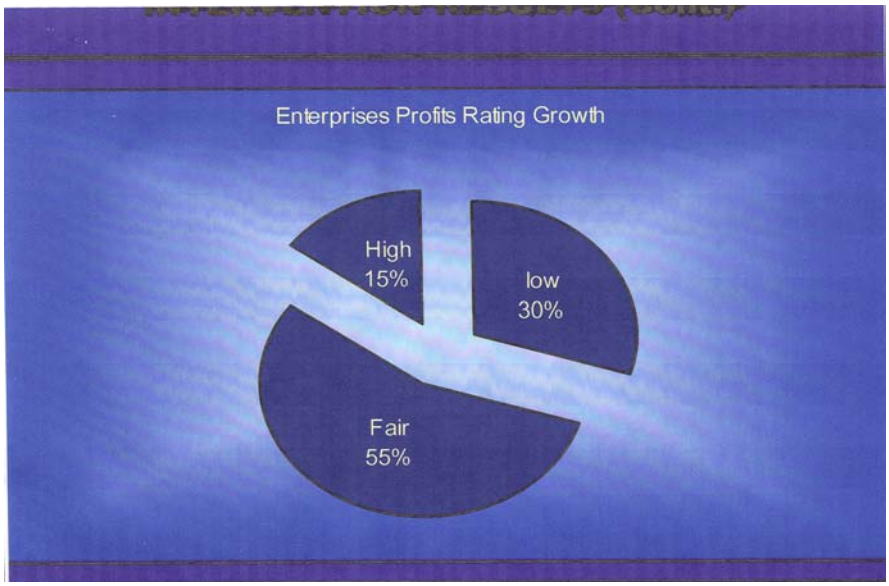

Implemented Projects Rating
Poor
15%
Fair
8%
Good
77%

Enterprises Business Growth Rating



Enterprises Export Growth Ratings




Enterprises Profits Rating Growth
High
15%
low
30%
Fair
55%

SUSTAINABLE TOURISM: PRACTICES, RISKS AND CHALLENGES FACED BY CARIBBEAN FIRMS[1]

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ABSTRACT

Sustainable Tourism Development has increasingly been the subject of study for over a decade. Even though governments and NGOs in developed and less developed countries are devising policies to stimulate sustained tourism activities as an income-generating sector, actions are still slow, mostly unknown and not well enforced. Traditionally establishing and promoting sustainable tourism has surged from initiatives from the private sector and interested citizens groups. Entrepreneurs, on the other hand, have mostly shown interests in building hotels, promoting activities involved in tourism development and reaping short-term benefits. There is a need for systematic planning and for establishing sustainable strategies across countries that provide long-term benefits to communities, countries, and the population as a whole.

This paper focuses on the impact sustainable tourism has on the economy, the level of awareness of the concept, the problems related to this lack of understanding, and the evaluation of the potential long-term benefits of adhering to the concept. Success stories across countries are analyzed and existent programs within the Caribbean perspective are examined. Anecdotal evidence is revised as well as historical, social and economical contexts within which sustainable tourism exists in any economy with its pros and cons. Empirical analysis focuses on a survey sent to hotel owners in Puerto Rico, on interviews and reports from tourism groups and hotel owners in the Dominican Republic, and in-depth interviews to tourism experts. Findings indicate that small firms face the challenges of a tourism economy roughly; they do not implement their businesses considering sustainability concerns. Most hotel owners and agents do not understand the concept of sustainability even though many pronounce adherence to eco-tourism. The paper concludes with directions for future policymaking and this study can contribute to research in entrepreneurship.

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[1] The author thanks and recognizes the initial input of MBA student **Vanessa Marty-Altiery**. e-mail: **vanessa_marty@yahoo.com)** of the Graduate school of Business Administration who implemented the initial survey and provided early literature on the subject. Likewise, recognition is given to graduate assistant, **Shirley Rodríguez Mari** for varied activities, including updating literature. The author profoundly thanks and recognizes the contribution of **Ryan A. Mann**, email: rasmann6@yahoo.com, Master student in Environmental Engineering at Humboldt State University who provided technical opinions on the subject.

Key words: Sustainability, environmental conservation and protection, community-based tourism, Ecotourism, ecological footprints

INTRODUCTION

Tourism activities have become one of the worlds most rapidly growing and competitive industry. Statistics provided by the World Tourism Organization (WTO), the UNESCO, as well as those of particular governments and organizations reinforce opinions on tourism being a major income generating activity, a contributor to economic growth, in terms of the employment provided, and a source of foreign exchange both for developing (Centro America and the Caribbean) and developed countries (Spain, China and the United States). Even though the activity has proved to be relevant, the lack of control and laws enforcing resource usage, and the unwillingness of entrepreneurs to pass on opportunities, have often brought on problems that have gone beyond the control of the interested sectors, i.e. the countries, communities and the society and culture where the activities take place. Eagles, Haynes and McCool (2003) effectively indicate that the link between tourism and protecting the environment is as old as history, even though relatively complex and antagonist. Nonetheless, with education the juxtaposition as well as the multi sector support and long-term benefits will out weight short-term gains and anxieties.

From the standpoint of small, medium size (SMEs) as well as large organizations, tourism related activities have become a source of opportunities that have gone from local to global investment (the case of international firms investing in the Caribbean and multinational managing locally constructed infrastructure, i.e., the Hilton Hotels). Involvements in ST have provided local businesses and people mean to become self-sustainable. Yet, this same entrepreneurial activity has often been exploited so much that degradation of the environment has emerged, cultures have become degraded, negative social problems and cultural transformations have materialized. Problems with energy scarcity, among others, have intensified. Not least, other problems including deterioration of infrastructure including roads damaged from overuse, lower quality of life that often has profoundly affected locals, including rise in construction costs and diminished basic services. Ignoring sustainable tourism (ST)[2] as well as the opportunities that lie ahead due to applying its concepts could be costly (take the case of depleted mines, quick extraction of oil reserves without naming countries).

Within this framework, an examination of the laws, education, and environmental protection programs created in some countries demonstrate that adherence to sustenance programs. Concerted actions from all sectors will benefit the economy, quality of life, and even political stability on the region, and effect measured by investors and community interests have found in tourism, environmental conservation and its related activities (cultural, entertainment tours, mountain climbing, rafting, sales of arts and crafts, native cuisine, among others) their self-employment and sustenance. Studies have shown that sustainable programs cannot exist either without the support of communities[3] (Laitakari 2003, Torres 2004, Canada Jamaica

[2] ST is synonymous to sustainable tourism.

[3] Most studies and agreements of sustainability, including the Sustainable Model for Artic Tourism (SMART) includes this principle. Proceedings from the Artic Ecotourism Conference, 2002.

2004, Barnaby & McDonald, 2003) nor without studies that analyze the effect of human consumption of goods and services. It is proved that the environment has limited capacity to supply these inputs, thus it is the community's responsibility to do it. On an entrepreneurial angle, studies by Perez (2001), as well as numerous publications illustrate that because of financial constraints, credit availability and risks factor, tourism is seen as a major investment activity for local entrepreneurs and the young adults.

This paper focuses first on analyzing the economic impact of responsible sustainable tourism, conservation and eco tourism practices have in countries and communities. Likewise, emphasis is placed on evaluating the benefits the linkages between tourism and bio-cultural diversity, emphasizing the roll that a well planned and sustained tourism industry with its inherent activities provide to, firms, countries and communities. Second, the paper revises studies on the pros and cons of sustainable or responsible tourism, and evaluates the tourism practices, including problems, in different countries[4]. Third, the study analyzes results of the survey and interviews implemented in Puerto Rico and Dominican Republic. Fourth, based on the results of the study, the revision of successful cases, and the position of the author, sustainable tourism strategies are recommended with emphasis in the Caribbean context. Lastly, policy recommendations will be delineated based on the constraints and environment within which business operate. The grounds under which these papers are based are:

A) Countries that adhere to sound practices of sustainability have shown tremendous improvement in economic terms, in quality of life, and the effect appears to be sustained through longer periods in comparison to countries that opt for the opposite actions.

B) If responsible sectors, including government, community groups and environmental experts can enact and implement protective laws and disseminate their contents, local communities, investors, and visitors will embrace them.

C) Tourism activities should involve community support, the establishment of support loans, supervised licenses, taxation and entrance fees that encourage locals to invest at lower risks levels. In the long-term, local participation and the income generated by these activities will assist in the replacement of investments in infrastructure as well as the maintenance of sites that will be depleted because of usage.

D) If local communities and entrepreneurs are educated and laws clearly specified, the margins of errors accepted in the protection of country resources will diminish. Thus, potential erosion of source of income will be avoided.

E) Likewise, if private foundations are established aside the control of governmental politics, long-term directives from established and proven organizations can be delineated, grants could be sought and alliances conducive to reinforce sustenance can be created.

F) If studies on environmental impact and assessment are correctly implemented before constructing sites, and ecological footprints studies are done, environmental protection and responsible practices will emerge. With the presentation of these queries, I will proceed to defend my position.

[4] Success stories are extracted from http://www.sidsnet.org/successstories/12html, a publication from UNESCO.

SCOPE

Definitions are presented initially to establish a common ground. This section is followed by arguments and analysis seeking to defend the authors' position. The paper contains three major sections: Section one presents the introduction, including objectives and the premises underlying the study. Section two and main body of the report, embraces background, definitions of the terms used, related literature review, economic impact of tourism and the search for sustainability, impact of poorly implementing laws and education, existent supporting programs, laws and organizations protecting the environment, and a description of the supporting programs protecting the environment and organizations to which Caribbean hotels and inns belong to. Section three illustrates the sustainability benefits, and countries' best practices including the entrepreneurial and firm perspective. Most importantly, results from local and regional study findings are presented as well as the methodology underlying this study, its results, analysis, conclusions and recommendations.

BODY OF THE REPORT

Part two.

What is sustainable tourism and how it contrasts with ecotourism or plain tourism?

Sustainable tourism consists and depends on the existence and efficient management and conservation of quality natural environments which themselves (Koeman, 2003, Neto 2003, Henna & Wells 2004**)** depend on human environments, resources and cultures**.** The World Tourism Organization (WTO, 2002)[5] defines it as the development that meets the needs of present tourists and host regions while protecting and enhancing opportunity for the future. In addition, WTO, experts generally recognize that sustainable tourism leads the management of resources towards economic, social and aesthetic needs that necessitate to be fulfilled while preserving cultural integrity, essential ecological processes, biological diversity, and life support systems. Thus, sustainability aims to improve standards and quality of life, safeguard culture and resources while satisfying the ever-increasing demand for tourism services. Even though the concept is often equated to eco-tourism, it means more. It involves thoughtfulness of and to host people, to communities, cultures, customs, lifestyles, and social and economic systems.

For clarification purposes, the public perceives a common interchangeability between the terms; often what is known is ecotourism and tourism. Thus, tourism is understood as the practice of travel for pleasure (American Heritage Dictionary of the English Language, 2000)[6] while eco-tourism (Srinivas, 2003) is a nature-based type of tourism that involves responsible travel to natural areas where flora, fauna and cultural heritage are the main attraction, while sustaining the well being of local persons (Srinivas, 1999, 2003). Moreover, the sustainability

[5] The definitions provided are now under revision according to the 2004 accord publication.
[6] Definition was extracted from www.yourdictionary.com.

concept is based on optimization and non-degradation of resources and embraces all segments of the industry as well as on implementing directives and criterion that aims at reducing negative environmental impacts, particularly the use of non-renewable resources.

Summing up, sustainable tourism (ST) is not plain tourism nor eco tourism; it embraces numerous facets and studies: McElroy & Albuquerque, 1998) saw results in terms of economic impact (contribution to GDP and employment), social impact (visitors per host population), or on environmental pressure and impacts of any decision (hotel rooms per unit of land area). Ultimately, any sustainable philosophy has to include analyzing how to improve local economic and sustainable development, use the lowest possible consumption of non-renewable resources, while sustaining the well being of local people, and stimulating local ownership**.** Thus, ST should enhance the material life of local communities, without causing a loss of traditional employment systems, acculturation (Koeman, 2003) or social disruption (Eagles, 2003). For the benefit of sustainability, countries and entrepreneurs, as well as policy makers should understand the difference between eco-tourism and sustainable tourism and pursue it. In theory, governments seek growth and prosperity for their countries including employment creation and entrepreneurs aim at achieving personal goals of wealth or self-sustenance. Taking advantages of opportunities created in the tourism industry, understanding and implementing sustainable tourism strategies will be the means to their ends. Sustainability in essence calls for economic and development opportunities as well as the impact of tourism growth on sustainable development, transportation, cultural and environmental, social and economic aspects.

Sustainable tourism embraces all segments of the industry, establishes guidelines and criteria while reducing environmental impacts, specially the use of non-renewable resources, establishing benchmarks. Studies by the WTO (2002:17) reported on of good practices in sustainable development of ecotourism based on 55 case studies from 39 countries. Other guidelines are offered in the 1995 agenda 21 for sustainable practices in tourism (WT forum on economic development, 1999; United Nations, 1992). These practices published by WTO, CAST, UN can be used as guidelines for creating equilibrium between nature and long-term gains and as theoretical and practical guide (Frangialli, 1998) for manage developers and governments**.** Likewise, an ethic code on tourism was also published in 1999, an excellent guide for all. Among the most relevant agreements, practices and publications, the most common suggestions are:

- Tourism offers considerable employment opportunities for unskilled labor, rural to urban migrants and lower-income women.
- There are considerable linkages with the informal sector, which could generate positive multiplier effects to poorer groups that rely on that sector for their livelihoods.
- Tourism tends to be heavily based upon the preservation of natural capital such as, wildlife and scenery and cultural heritage, which are often assets that some of the poor have, even if they have no financial resources.

- Economic footprint[7] studies have to be implemented if the world's people want to continue with quality living conditions (Wackernagel, Mathis & Rees, 2003). Ensure that nature's productivity isn't used more quickly than it can be renewed, and that waste isn't discharged more quickly than nature can absorb it.
- For any sustainable program to work the local community should be involved (Quebec,2002) to diminish the risks of any investment, to promote and preserve local cultures, lifestyles and values while ensuring quality and safety in all business operations.

Economic impact of tourism and the search for sustainability

Studies published by the Convention on Biological Diversity (2003); inform that in terms of economic benefits, tourism constitutes an opportunity for economic development, diversification and growth. In developing countries, according to the same study, the industry constitutes 1.5% of the world GNP while worldwide ST signifies a 6% contribution to GDP, and 11.4% of consumer spending (Info-sheets Ecotourism, 2003). In Puerto Rico, tourism has contributed respectively to 4% of the Gross National Product (Planning Board 2001, 2002 and the Tourism Company 1999-2002) and the sector occupied the 4th position in income generation within the service sector in 2002. The numbers have not grown as expected since the island offers expensive tourism, if compared to other islands. Other countries inform of higher growth. Studies by Henna and Wells (2003) showed and increase in the marine tourism is enormous. Around 100 million tourists visit the Caribbean annually, contributing between 40 to 70 per cent of the GNP of some countries in the region. To understand the impact, take the following example. It is estimated that only divers from the US spend an estimated $286 million a year in the Caribbean and Hawaii. Statistics show that tourism visitor's expenditures worldwide reached more than US $400 billions in 2002 and will increase to near US$2 trillions in 2020 (Cateora et al, 1999). The same source specifies that tourism industry generate close to 212 million jobs either directly or indirectly. Furthermore, the former reports World Trade Forum (WTF) which projects that for 2005 the employment generation will increase to 338 million jobs and will generate US $7 trillions. United Nations (April, 2003) based on the significance of tourism and the potentiality that local firms desire credit has declared 2005 the year of the micro credit. The Organization of American States (OAS, 1997) indicates that the future of tourism depends on the development of a harmonious way with the environment and culture.

The sector presents a significant potential for obtaining funds and realizing benefits while conserving agro-industry, cultural heritage, biological diversity and sustainable use of its components (Srinivas, 2004), particularly when local communities are directly involved with operators and in many projects. Reports by the World Tourism Organization, illustrate that the tourism industry generates substantial economic benefits to both host countries and tourists' home countries. Tourism represents 31.1 per cent of the Gross Domestic Product of the Caribbean region and provides three million jobs approximately (Caribbean Alliance for Sustainable Tourism, CAST, 2003). Ostensibly, tourism is a source of income, employment and wealth in many countries beyond the Caribbean (Denmark, China, Spain, France, the

[7] The ecological footprint is an accounting tool for ecological resources. Categories of human consumption are translated into areas of productive land required to provide resources and assimilate waste products. The ecological footprint is a measure of how sustainable our life-styles are. "Ecological Footprints" are a tool for measuring and communicating the environmental impacts of human activity on the environment, and the sustainability of that activity.

United Kingdom, Australia and Africa. As the economy becomes more global, airlines form larger alliances, the trend to increased tourism and ecotourism will prolong with foremost impact on developed, and less developed countries. From the standpoint of investment and entrepreneurship, this is very important. Entrepreneurs need to ensure the balance between the tourism developments and the ecosystem.

Impact of poorly implementing laws on sustainable development and education programs on sustainability: pros and cons: general and entrepreneurial perspective.

Increased travel, will no doubt convey negative impacts to the environment in spite despite the economic significance tourism represents. Developing countries high levels of unemployment, lower income levels, as well as the need to survive, have impelled locals to enter quick tourism programs including building unplanned inns, hotels and "paradores". Often this implies expanding owners' home to obtain some income. Similarly, small stores are located anywhere; investors establish souvenirs shops sell effects, including seashells, arts and crafts built from protected species. These actions propelled by a need for self-support, lack of education and access to financing, instills taking advantage of what is available. This imminent situation purports unplanned projects that often abuse the environment.

On the ecological side, contractors remove sand from beaches ludicrously. Licenses are granted to build apartments and hotels too close to the beaches or on the sand, corals are damaged (Weil and Ramirez, 2004)[8] and, boats and divers extract forbidden materials while animals fall prey of hunters. The deterioration that boats, divers, and catchers do to the reefs is intense. A multiplicity of factors including eutrophication, bleaching, anchoring, and increasing coastal construction increase the need to establish counteracting stress sources. Examples of these problems exist in all the Caribbean islands. Moreover, the population is often inhibited from accessing or visiting their beaches thus making them feel more rejection towards tourism (public access closure, an event that is happening in Dominican Republic and Puerto Rico, with hotels and apartments constructed by individuals in political or economic favor).

Dilapidated facilities. In search for richness, large numbers of facilities are built, but when the economy downturns, the same sites are left to disintegrate uncared thus provoking unwanted and damaging effects to the ambiance. Even worse, often because of greed, lack of national pride or plain stupidity actions are taken that damage the environment, like predating protected species, or burying toxics in the land or oceans. A report written by a columnist (Torres, 2004) quoting the supervisor of the Caribbean National Forest precisely attests to the environmental damage caused by garbage and the potential cost of cleaning it.[9] Specialists have reported ample abuse to protected areas, mangles, corals, protected turtles, including incoming from waste diverted and thrown into waters.

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[8] The author's conclusions were presented at a conference held in Mayagüez, PR April 13, 2004 and published on the University website and the "El Nuevo Día" newspaper April w4, 2004.

[9] An article written by Rolando Hugo Pabón, "el Nuevo Día" a reputable newspaper in Puerto Rico. April 21, 2004.

In the socioeconomic side, most countries tax incentives are designed to attract foreign investors with little space for locals, creating an unbalance in investment. Mostly what tend to exist are tax credits and low costs loans for buyers settling in protected areas; this is positive for firms and localism since it encourages turning old and often dilapidated historical homes into bed and breakfast, with unparalleled results. Examples exist in France, United States, Spain, Puerto Rico, and in some other islands in the Caribbean.

From an entrepreneurial angle, while small inns require smaller investment and risks than most enterprises, locals can only finance their businesses either via banks or by privately enabling their participation in the economy. This investment style provides only self-employment and inhibits the capability of growing. On the negative side, structures with or without permits often discharge wastes into the ocean, do not use natural energy system allows tenants to use more energy and water than necessary in detriment of locals needs. Moreover, offer of low salaries to local workers at slave hours with the ensuing negative social effects, including social ills with its ominous consequences. This goes on because of non-existent labor laws and government insufficient sources of employment that force laborers to accept what they can. Not least, outsourcing services often do not embrace locals over foreign under equal circumstances.

Even though investments in tourism provide large profits and attract foreign investors, income is mostly repatriated rather than being reinvested in the community. In the Eastern Caribbean, for instance, it has been estimated that only 18 cents of every tourist dollar remains in the islands. In Dominican Republic, the average monthly salary was RD 3000 pesos per month in 2003 (equivalent to less than $100.00 dollars down from about $150 in 2002. In Puerto Rico, minimum salaries are guaranteed yet in other islands; often employers pay low salaries, no retirement benefits nor insurance.

Damage to the ecosystem. On the negative side, the rapid growth of the tourism in the Caribbean substantiates a destructive (Heilprin, 2004) impact to the ecosystem (ex. sandy beaches and blue water), a tremendous threat. Some areas have shown already environmental and socio-cultural impact in many regions. Coral reefs, which are particularly vulnerable to human and machine impact, are damaged or extracted; reefs in more than 50 countries have suffered some form of tourist damage (McElroy, 1999). A counterbalance will be requiring technical feasibility studies. WTO (2003) reports a problem case that turned into an exemplary solution case, the implemented in the island of Barbados. Damages to their ecosystem were so profound that they had to reattach physically damaged corals to their original location with adhesives, a system proven technically and biologically feasible[10]. Definitely, although an individual diver or snorkeled may have minimum impact compared to other forms of reef damage, the cumulative effect of divers on a reef could be considerable. McElroy (1999) in his studies defending coral protection found that large-scale beach resorts and marinas could disturb wetland habitats; destabilize beach vegetation and cause coastal erosion. Moreover, he stated, “When reef and sand mining are added, low-lying communities become more vulnerable to storm surges from the sea and to salt water intrusion”.

[10] Information is extracted on report from the Ministry of the Environment Energy and Natural Resources of Barbados. University of the West Indies, Cave Hill Campus.

Neto (2003) reported that there are two main areas of environmental impact of tourism: first, pressure on natural resources and second damage to ecosystem. In coastal areas, such as the Caribbean, tourism development includes hotel, airport, and road construction; however, with the development of these activities their people need to be concern about beach erosion, water pollution, land and social degradation. In the particular case of the Caribbean, studies by the UNESCO have shown that in spite of the economic downturns, the exchange value of the euro and dollar has benefited the region amply. Tourism reached its peak in 2004. Reports and statistics by government and private entities estimate major growth. The negative social impact of increased tourism increases the need to institute more strict laws, disseminate, and educate and alert the population on its implementation of sustainnable programs.

Tourism provides Third World and cash-starved developing countries a market for their sandy beaches and coral reefs to sun-seeking visitors, the enormous growth in the volume of tourists have changed people's activities and influenced their culture. Actions like windsurfing, snorkeling, sport fishing, whale-watching, sailing and scuba diving provide locals with potential incomes when building and renting premises, and providing basic services to visiting groups in a small scale. Ultimately, these activities cause strong damage to the environment. Even boats driven on diesel should be substituted by bio-diesel. Erosion and deterioration of infrastructure is intense and irreplaceable. Entrance fees, taxes, and high fees to enter renowned places are inexistent in most emerging countries. Besides, developing countries do not have sufficient fees nor possess the income to restore their historical sites. Emerging nations should following examples from China and Vietnam Tourism Bureau, which have established high cost for their visas as an income alternative.

Commonly no assessment and impact analysis including the benefits of long-term sustainability versus short-term profitability of any project exist. When and uncontrolled industry like tourism growth rapidly occur some kind of damage to ecosystem like pollution by untreated sewage, solid waste, contamination of marine waters and coastal areas, high energy consumption (hotels and transportation), air and noise pollution, damage of the wildlife habitats. One clear state example of it is the tour boat operators in the Caribbean that feed sharks to ensure that they remain in tourist areas. Another example is the whale watching boat crews around the world that pursues whales and dolphins and even encourages petting, which tends to alter the animal's feeding and behavior (Mastny 2001). The ecosystem impact is considerable.

Supporting programs, laws and organizations protecting the environment

On the matter of laws, it is not relevant just to enact laws, but to make sure interested sectors and the population knows and respects them. In the particular case of Puerto Rico, laws exist but not too many. In particular, Law 340 was created in 1998[11] to protect and stimulate eco tourism, though it is quite unknown. This law seeks to promote sustainable tourism activities including environmental protection. Power to implement laws is starting now. Similarly, in Dominican Republic laws on the matter exist since 1942[12]. Even though law 67 enacted in 1974 is more self-explanatory and complete.

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[11] In Lex-Juris, Puerto Rico, Law 340 from 1998. See at http://www.lexjuris,com/LEXLEX/lLEY1998/lex98340.htm

[12] Translated from "la historia y la biodiversidad bajo amenaza" protecting Del Este Park. At ellistindiario.com, a major Dominican Republic Newspaper.

In general, most Caribbean Islands follow UN (2003) and UNESCO's guidelines in ecotourism principles. The problem lies with governmental implementation and lack of hired trained technicians. There is a broad lack of knowledge of the law, its breath and less how to implement it. Abuses to the environment are common and often from those who are supposed to protect natural resources and its citizenship. The same happens in most islands in the Caribbean. Fortunately, a new wave of young have started to study environmental sciences, have opened their eyes to the damaging effects that old habits have on the environment and even better are returning home to invest cautiously considering culture and resources. If the trend continues, the future looks promising. Organizations like the Environmental Division of the Caribbean Hotel Association (CAST) and other groups exist for the same purpose. Yet, their actions are mostly geared at certification, not much more. No propensity is seen into building environmentally friendly hotels that use less energy, use solar systems, opens up into the environment, recycles water, installs tourist controlled water systems and electricity.

In the Caribbean, laws are not enacted adequately and policies are not delineated towards conservation, regardless of the government in power. Since no development foundation tends to exist, laws should be created and provide for their formation; once this is established proceeds should be invested in the communities whereas the actions take place. As such, deterioration to infrastructure and social ills can be prevented through planned systems and education. The Tourism Foundation of the city of New York provides a significant example. The organization commission for tourism has created guidelines for a turnaround that in spite of economical downturns and crisis of Sept 11th, has reestablished the city as the tourism Mecca of the USA. Criminality, citizen's interest, business participations and private and governmental actions brought the city back to life and even increased its attractiveness. Utilization of limited resources in an unsound manner kills the hen that lays the eggs.

Studies by Neto (2003) found that sustainable tourism aims to go beyond the increased community participation goal of ecotourism. Sustainability should include: Improving access to the economic benefits of tourism by expanding employment and business opportunities for the poor and providing adequate training. They should also introducing measures to deal with the social and environmental impact of tourism development, and establish policy reform by enhancing the participation of the poor and locals in planning, development and management of tourism activities pertinent to them.

In the continental USA, this situation was seen with laws oriented at protecting Indian rights. Indians rights were recognized and control of resources was passed on to them. Whichever opinion one might have of the effect of these actions an economic control in their society, their economy and quality of life improved. This appears to be the case of local tribes in Alaska and Canada.

As world resources become scarcer and peoples of diverse cultures and customs scavenge the world, groups and people will become more interested in the environment and with it, many organizations will be created. This natural process will stimulate private citizens to entice governments and countries to establish laws about environmental protection and education programs (Elides, 2003). Organizations have surged around the islands and worldwide with this intent. Caribbean Hotel Association Environmental Committee, The Caribbean Alliance for Sustainable Tourism (CAST), Green Globe 21, International Hotel Environment Initiative (IHEI), United Nations, Caribbean Epidemiology Center, Governing

Council, World Tourism Organization, and United States Agency for International Development and United Nations Environment Program and INSULA, are some of them.

According to studies published by the Caribbean Alliance for Sustainable Tourism (CAST, January 22, 2003), “The Caribbean is the region that holds the highest number of Green Globe certified hotels worldwide”. The countries that are certified by Green Globe are Jamaica, Barbados, Aruba, St. Lucia, Dominican Republic, Antigua, Bahamas and Riviera Maya. Locally, even though (CAST) main office of CAST is in Puerto Rico, this city is not certified by any organization. Recently, though, the local government started talking about the issue of sustainability.

In the case of Dominican Republic, Jamaica, Barbados, and Cuba the situation differs. Cuba has created laws and within it, the Tourism Bureau has developed communities whereas well-sustained development exists. In the center of Dominican Republic, environmental laws and credits have promoted building hotels in the area of Jarabacoa , Constanza, Jarabacoa near the Duarte Peak, and in the Samaná Península a few environmentally friendly hotels exist without TV, with controlled water systems and solar light. Jamaica, and Cuba efforts in this direction are starting to show fruit.

Benefits of sustainable tourism.

Sustainability teaching necessarily has to be community based to obtain the respect and participation of the community and the preservation of values and culture, including paying local taxes and buying local goods and services. Quality tourism and eco tourism programs benefits residents since travel business requires employing and training local peoples, buying local supplies, and use local services. In addition, if networks are created among stakeholders & include planning, good host safety issues, and policies, residents will learn how to deal with foreign expectations even if they differ from their own. Moreover, it is important to notice that communities measure tourism success not by sheer numbers of visitors, but by length of stay, money spent, and quality of experience.

Summarizing. From an economic perspective, there are many benefits for sustained tourism. Tourism revenues raise local perceived value of assets because travelers seek out businesses that emphasize the character of the locale in terms of architecture, cuisine, heritage, aesthetics, and ecology. Stakeholders anticipate development pressures and businesses cooperate to sustain natural habitats, heritage sites, scenic appeal, and local culture. In the environmentally sustainable concept, travelers are aware of and favor businesses that minimize pollution, waste, energy consumption, water usage, landscaping chemicals, and unnecessary nighttime lighting (as is the case of Tikal’s eco-tourist hotels in Central America). Travelers and foreign visitors learn how to help sustain local character while deepening their own travel experiences. Also, visitors learn about and observe local etiquette, including using at least a few courtesy words in the local language. Satisfied, excited visitors bring new knowledge home and send friends off to experience the same thing - which provides continuing business for the destination.

Section three. Example of good sustainable practices

Costa Rica is an excellent example where sustainable tourism has been implemented for over 15 years. People are very proud of their resources and care for them, government has legislated to protect the environment and has commonly established competitive and approved costs of services. The ambiance and security offered by the country has positioned them in an envious competitive setting when compared to others in the region. Likewise, is the case of Galapagos Islands, in Ecuador, of Machu-Pichu in Peru, Belize, and Cartagena de Indias in Colombia[13]. Since laws were enacted and recognition was provided by worldwide-recognized organizations like the UNESCO, locals, including tour agencies, guides (mostly) and police, have been continuously educated into how to protect their resources and tender optimum service. Additionally, there are programs and instructions for visits to sites, schedules for opening and closing the sites, how to dispose of garbage, etc, with few exceptions, thus control of all aspects is predetermined. Moreover, advertising has been centralized and control of activities has been relegated to associations authorized to implement laws and policies.

In Cuba, considering the internal and external economic constraints, sustainable tourism practices have been promoted effectively attracting large number of visitors and income. Places like Old Havana, Sierra del Rosario, Las terrazas, Viñales Valley and Varadero, have been developed and are sustained with strong consideration to the environment. In Puerto Rico and the Dominican Republic as well as in Barbados, even though limited efforts exist, certain areas are promoted and established under sustainable criteria**.** In the particular case of Puerto Rico, the island is initiating the implementation of running the Blue Flag pilot phase (CAST, 2003), implying that the Caribbean beach criteria are being tested and implemented at selected pilot beaches in the region. Hence, the National park "El Yunque" has built a hotel on sustainability. A community in the center of the island is also developed within sustainable guidelines. Likewise, certain groups including "manatees" protection programs have been in existence for over 10 years with excellent results.

Several other countries are running excellent sustainable programs including Jamaica, Dominican Republic, Barbados, and the Bahamas[14]. In Barbados coral reefs (Miller, 2003) protection is a main goal. In the Dominican Republic, hotels in the center of the island already follow WTO directives in a limited manner. Tree planting, reefs and whale protection as well as hotels construction are strictly supervised. The problem of enforcing laws lies with the governments in power and vested interests. In Jamaica, programs have been implemented with limited results (Canada/Jamaica, 2004). However, an effort is underway to integrate all sectors in the aim to sustainability and to seek collaboration between ministries.

In Puerto Rico, successful strategies are seen around the El Yunque Rain Forest there is also a reputable hotel based in sustainability. Likewise, in the center of the island, a few solar homes are operating efficiently. There is hope that these examples can replicate exponentially. Yet, precisely this is what is sought after, sustainability that includes information on history, activities involving cultural programs as well as visits to natural sites.

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[13] The experiences presented are based on the author's observation and travels as well as on material read in general publications.

[14] Caribbean Blue Flag beach cover 4 major aspects: Water Quality, Environmental Education and Information, Environmental Management, Safety and Services

Examples are not common but some excellent ones exist. In other islands, per example the center of the Dominican Republic

A growing demand exists for sound environmental management from tourist, locals, and even some governments. A leading US diving magazine for example found that the most important criterion for choosing a diving holiday was the quality of the diving which far out- weighed other factors including price. Henna and Wells (2003) reported of a 1991 survey at Bonaire Marine Park in the Netherlands Antilles, one of the top Caribbean reef diving sites, and found that over 90 per cent of visiting divers were willing to pay a park management fee. As a result, a fee of $10 per visitor was introduced a year later. Calculate the income with about 18,000 divers visiting per year. Results from these strategies have been extraordinary and the demonstrated concern for the area, its image, and reputation has grown tremendously as well as the influx of tourists. These concerted strategies and actions encourage foreign and local investment, to take advantage of opportunities, diminish risks, and increases the probability of funding via ventures, international agencies and banks, while increasing the potentiality of larger and more secure income sources of income.

Section three. Local study findings: methodology, results and analysis

The study was designed first based on a revision of secondary data including renowned organizations reports, existent laws, newspapers articles and peer reviewed publications, among others. Second, a primary search for information was designed focusing on a survey, phone and direct interviews to hotel owners, experts on sustainability and tourism. The study was based on the pre-emptive premise that though hotel activities are implemented in an excellent manner in the Caribbean region, hotels and developers do not understand nor implement the concept of sustainability.

Initial sample selection was at random. Later a judgmental sample was used while the population was selected conveniently. Respondent's owners were chosen based on the premises location and nearness to natural habitats. Results of the study was based mostly on his survey designed and faxed to 25 well-established hotels in Puerto Rico, and in 8 phone interviews in Dominican Republic. Hotels were selected at random based on location and nearness to natural resources. Thirteen firms among hotels and "Paradores" or Inns responded. Questions were clarified by phone while urging hotels to provide prompt and accurate replies. Hotels were located island wide providing a representative sample of the population. Responses were verified and counterchecked by phone.

A) Responses regarding the meaning of sustainable tourism were negative.

Neither of the respondents could explain what the concept meant nor how this could be implemented. However, all owners and administrators responded that they ensured that their customer's wishes were satisfied and, that, in addition, they did practice limited ecotourism. Probe of their achievement is repeated visits from the same clients throughout many years and extensive word of mouth advertising. In addition, knowledge of sustainability was found to be weak at government levels as well; this could be due to government directors being changed frequently with little impact and no follow up activities. This lack of knowledge hamper the dissemination and potential creation of activities oriented towards this aim. Why this lack of interest on such a common subject? Potentially, a reply could rest on the fact that

hotel developer's aim mostly at providing basic services; small investors finance operations privately and that investment in advertising is low. Lately websites are used extensively.

Interviews and visits to hotels in the Dominican Republic showed a general knowledge of the subject but limited implementation. Maybe awareness exists because of the urgent need the population has to generate income and because most hotels owners interviewed are located outside metro areas. As a result and due to limited size of businesses and the investment factor, safe sustainable activities have been formed. To reverse the trend, it is recommended though that educational programs be established to increase the knowledge of sustainability, to motivate locals to care more for its resources.

B) Overall, results show that most "paradores" owners have small premises. On the average 15% had less than 10 employees, 23% between 10-25, 39% between 25-50 employees and 23% more than 50 employees. It appears that other small Inns owners encompass the same demographics. In terms of the profile, most owners tend to be around 36-45 years of age (30%) with 23% being 56 years old and older. Apparently, older entrepreneurs have entered the hotel industry as a second career or to provide employment for their children and relatives. Very few owners (15%) tend to be between the 18-34 ranges. A potential explanation is the lack of capital and proven experience. Investments by a younger age group could be positive. Potentially this sector is prone to acquire more education and to take risks.

In terms of education, the majority of interviewed (39%) had university degree followed by 23% possessing associate degrees. This is consonant to any studies done in the Island (Hamilton, 2003) whereas a generally well-educated entrepreneurial population exists. Contrary to these findings, in other islands in the Caribbean, at "Paradores" and Inns levels education is lower. Higher levels are found at higher investments sectors and in manufacturing. Results indicating high levels of education, could mean that a well develop sustainable program with precise guidelines could be understood.

C) Regarding motivation to initiate their ventures, first (61.5%) started their hotels because of a need for personal accomplishments, and second to be their own boss (38.5%). Economic situation (8%) as well as freedom and independence (23%) brought lower responses. Apparently, there is a different trend elsewhere. Informal studies in DR and other islands in the Caribbean have shown that businesses are formed mostly for economic reasons and independence jointly to personal accomplishments.

D) Findings also show that average initial investment in "Paradores" and Inns were smaller than US$100,000 (31%) and between US$100-150,000 (31%). In addition, the average annual billing of the ventures was over US$1 million. Of course, none of these businesses could not be built today with that amount, it would cost much more. In comparison to other islands, local costs of investment in facilities are terribly high and the income exorbitant in terms of the services provided. Most Inns in the Caribbean are made of a combination of would and cement, the owner typically resides in-house and income is not stable thus, increasing investment risks. To counterbalance the non-sustainability concepts, in general, local and foreign tourists prefer major hotels with air conditioning and all services. As such, natural ventilation, water controls and hourly controlled energy provisions are difficult to implement.

E) Opinions on entrepreneurs and SMEs perception of risks as well as the problems confronted were also requested. Owners confront mostly environmental risks like hurricanes and floods; though these are preventable, commonly owners report losses to Federal Emergency Agencies (including FEMA) since they obviate insurance because of its high costs. Other problems often confronted include problems with enforced government laws and directives, health issues, personnel costs, licenses and permits and accessing funds (Hamilton, 2002, 2003). A lesser though rather important problem is infrastructure development, finding reliable employees and advertising and promotion costs. Most owners rely on word of mouth and on references for customers to attract clients. Lately, with the advent of the web technology, a large number is using this media. In addition, during the last few years the government initiated advertising campaigns to support the sector.

CONCLUSIONS

Summarizing. The profile of entrepreneurs tied to the tourism industry in Puerto Rico does not differ significantly with those of other Caribbean islands in terms of their profile, knowledge, interests and aims. Differences are minor and could easily be diminished with efforts from local leaders and the entrepreneurs. The business practices, risks and challenges faced by local firms as well as others in the Caribbean do not differ significantly from the existent for SMEs in other islands, except on the size of investment and access to capital. Problems are related to difficulties in hiring reliable personnel and infrastructure costs. The level of awareness of sustainability is low thus requiring varied actions. Examining the Caribbean perspective place Puerto Rico at a disadvantage in terms of adoption and implementation of sustenance. The case of Dominican Republic is less profound. In response to the queries posited in the study, literature on the subject and good practices from other countries, endow answers. Furthermore, government directives, understanding of sustainability and conservation, in the other hand differ substantially across island countries; in Puerto Rico less involvement in the issues is seen. Furthermore, countries involved in sustainable practices have shown improvement in all aspects, a fact that needs to be illustrated even more in the Caribbean context. Data examined suggests that rather than reinvent the wheel, examination of current practices, guidelines, as well as technology delineated by renown organizations should be examined, transferred and adopted by countries as they se fit. Already there are ample recognized practices to be followed. If good practices guidelines are provided and adopted, including Green Code 21, WTO, UNESCO, NGOs, UN, and sustainable practices could be accomplished in the long-term.

Not having well enacted laws (lexjuris, 1998) indicate the need to revise and delineate laws following international and global standards. Moreover, the problems of sustainability existent in Puerto Rico are not profoundly different to those occurring elsewhere in the Caribbean. Recycling policies, coral protection, replanting, and solar applications, are at a low level of implementation; enforcing this directives and requiring studies in environmental impact are initial steps (Lowry, 1998). Even though the aforementioned studies are required in Puerto Rico, they are not well implemented. What to this researcher does not exist is footprint analysis, nor consistent follow up of directives to protect land, air and environment nor credits for firms that enter sustainable programs. Alliances based on competitive honesty should be established to benefit all islands. All around, there is a general agreement that education on

the subject will increase dissemination of culture and augment local pride. Increased desire to inform more about their culture, heritage and environment preservation will protect more their own resources. More information will also allow small owners to recognize how to exercise their rights, access credit and demand the protection due under their constitution.

LIMITATIONS AND RECOMMENDATIONS

1) Limitations for this study mainly rest on the size of the sample, however, the author strongly beliefs that an increase in sample size would not bring different results. A constraint of economical nature did have an impact in the study; if economical means and time would exist; travel to other destinations would have increased direct observation and an increase on the number of good practice cases presented. Nevertheless, the abundance of secondary sources in the manner of reports provide practical input to the study and shies away theory from practice[15]. On sustainability, we recommend that Caribbean islands governments and pro-environment groups follow directives and sustainability guidelines from prominent organizations like UNESCO, World Tourism Organization, Caribbean Tourism organizations, CAST, The World Charter on Sustained Tourism 1995 of Lanzarote in developing sustainable guidelines, global code of ethics and education programs.

2) The profile and high educational background of the island's entrepreneurs/owners suggest implementing some education programs on the subject of sustainability, environmental conservation, as well as guidance on practices of sustainable tourism is not unattainable. Educational programs, should consider directives of the WTO, which suggest that SMEs education should include studies on benefits of good practices on sustainability. In the particular case of other islands, knowledge of nature, compromise, and willpower exist and the educational levels instill capacity for increasing educational programs emphasis long-term benefits versus costs. The same recommendations provided above stand.

3) Since there is a strong perception that the conceptual difference across islands can be due to the type of tourism orientation, then, since some Caribbean islands tourism is oriented to Europeans, (Puerto Rico, is oriented to continentals USA tourists (80%), evidence from countries where sustainable tourism activities are practiced could be implemented because of their potential transferability. Illustrative countries in the Caribbean and elsewhere where good practices exist and have implemented the philosophy of sustainability have shown remarkable success and an increase in quality of life. These include Barbados, Costa Rica, Belize, Peru, Australia, New Zealand, Canada and Nordic countries in the EU. Other islands still exhibit limited success.

4) Since there is unawareness of existing laws in general, a revision of the value of existing laws as well as dissemination programs have to be established. Likewise, these laws should include incentive programs oriented not only to attract foreign investments, but also to provide tax credit for local entrepreneurs. Per example, following these directives and to

[15] The author wishes to clarify that most of the example provided of good practices, except for the cases in Cuba surge from direct personal observation acquired through her travels and reinforced with reports

stimulate entrepreneurship, the UN has established 2005 as the year of the Micro credit. Due to the flagrant deterioration of infrastructure and damages that tourism and its related activities create, taxes and dues will need to be levied and transferred to the communities and affected areas. This will encourage locals to evaluate cost versus benefits provided by the sector.

5) Directives should require studies in the form of ecological footprint studies, tourism Penetration Index, and assessment and impact studies, for any project, including highways. This will inhibit granting construction permits and damage to ecosystem. The studies will increase awareness of the economical costs to the environment, of not enforcing laws, or of doing studies[16]. Likewise, certifications should be reviewed yearly and implementations required. Not least, clearly delineated policies regarding waste disposal, responsibility for damages caused have to be implemented.

6) Foundations and organizations should be founded outside government directives and implemented with inclusion of community members, environmental leaders, groups and citizens, should be established to delineate long term strategies. These entities could prepare proposals and gather funds, which in turn could be used to provide conferences, seminars, educational programs, and small loans to assist sectors in need. An exemplary example is the one published on Namibia by the UN dept of Economic and Social Affairs NACOBTA (1999), a group to which 40 enterprises directly belong to.

7) Contractual clauses should be included in loans granted to investment groups, including hotels. These clauses should be included in their contracts including requiring collateral for taking care of any damage they might cause to the environment, for the disposal of abandoned premises, and for fund to care of employees, who in accordance to local laws are employed long terms without the benefits due. Likewise, studies on tourism destinations should be adequately used to correct mistakes and provide more differentiated and sought after services.

8) The main source of income in most Caribbean islands come from the ocean, its corals, and fauna, thus guidelines protecting its corals has to be regulated and people educated on how to implement them. Likewise, whale watching and hunting needs specific rules should be regulated so that income needs of most investors can cause a postponement of country to personal needs. In the same direction, responsible labor directives should enforce the provision of lawful salaries and benefits to those locally employed. Following the same guidelines, outsourcing and contracting cannot, under any circumstance, inhibit local participation. Programs should include educating all sectors against the deteriorating state of reefs and the environment, as well as many other factors including, i.e., corals protection, fishery, whale watching, care of caves, closure of public beaches, mangles, using boats in endangered areas, unwanted garbage disposal, et al.

9) To ensure local advantage over other islands, owners should be aware of the need to become more competitive, improve and personalize services and offer competitive prices. Eventually these actions will attract repeat customers and provide success. Increased education and awareness that natural resources are of nonrenewable nature that once taken

[16] Ecological footprints measures studies are recommended strongly since these analyze inputs in terms of land required to sustain and produce these inputs and compared this to the land available within a region or across the world.

care of will provide sustenance in the long run has to be instilled. Moreover, as foreign or locals perceive a larger pride in the provision of services and care for their resources, they will involve themselves more in the culture, will appreciate what they see and respect those they interact with.
Decisively, the trend is to initiate directives from local community groups that are environmentally prone. However, since the health of any responsible tourists is significantly dependent on the health of ecosystems. Thus, locals including dive guides are beginning to see that their prosperity is linked to the careful management of reefs. As studies by Henna and Wells (2003) found, there are organizations[17] oriented at tourism awareness; her studies found that the major difficulty in attaining sustainability consists in waking up national governments to the fact that tourism is a major source of income and employment that cannot be allowed to speed out of control. This author is of the opinion that a balance has to exist between income and impact on nature. Of course, political and vested interests often enlarge the gap between theory and practice.

The existent lack of concerted actions and unawareness of the importance of protecting resources will eventually cause a downward trend in tourism. Thus, Caribbean islands as well as many countries urgently need to examine directives provided by international organizations and certifying agencies. It is common knowledge that as communications across the glove improves, safety in travel is stressed, and competition among industries and countries grow, the world consumers will be more selective in their choices. As such, most will seek more value for their money and, and demand more "natural" destinations. In terms of policy recommendations, this author believes that it is the role of government to incorporate environmental code of ethics and conduct, as well as guidelines on how to preserve their environment based on long-term strategies continuously revised. In view of the fact that SMEs and small venture entrepreneurs typically lack start up capital, alliances should be established and networks systems implemented with local and worldwide universities to which businesses could access for information and training when in doubt, for technical assistance, impact studies, advertising and general support.

Given the economic significance of SMEs, and the self-employment and cultural transmission the sector provides, care should be given to reinforce the sector. In the case of local entrepreneurs, they, like foreign firms, need to become proactive, seek information, demand on receiving services, they can and have a right to obtain. Moreover, worldwide, organizations and researchers on sustainability and entrepreneurial roles have recommended that countries in the process of development and developed countries adhere to sustainable agreements. This accords should emphasize that sustainable tourism development should move beyond environmental protection to protect the countries values, mores, culture, and heritage. Since sustainable tourism should be initiated with the help of broad-based community-inputs, local groups should maintain inner participation an indirect control of tourism development. Borrowing from the United Nations 2003 report, tourism should provide quality employment to its community residents and a linkage between the local businesses.

If a code of practice is established for tourism at all levels, either national, regional, or local, based on internationally accepted standards then all environmental problems including waste

[17] Groups such as *Tourismus mit Einsicht* (Tourism with Insight) in Germany, and Tourism Concern in the UK protect nature.

in waters, damaged ecosystems and menace to endangered species will occur. Even though the responsibility to introduce measures to deal with the social and environmental impact of tourism development rests in all, specially the educated and young, this author believes and strongly recommends that since the increasing growth of tourism is a reality, ceteris paribus, then government, private investor groups, entrepreneurs of any size and citizens need to plan ahead to protect resources and their future. Tourists themselves should not only enjoy growth in world tourism but, more importantly, the activities of ST should maximize economic benefits of the local population and increase the living standards of host communities. Tourism is definitely as a steadfast path to opulence, particularly in small island nations in the Caribbean.

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COMPETING IN AN UNSTABLE ENVIRONMENT: IS THE USE OF APPLIED TECHNOLOGY OR INNOVATIVE SERVICES KEY TO SMES SUCCESS?

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ABSTRACT

Small and medium size firms (SMEs) compete in an unstable environment shaped by multiple constraints including large multinationals with economies of scale, consumers diminishing income and changing tastes, a volatile economy and the inherent habits of owners and entrepreneurs. Firms established in countries in process of development, face not only heavy competition but also a profound variety of issues.

This study explores and examines the manner in which local businesses have chosen to compete, their investment in and attitudes toward the use of applied technology. This exploratory study is developed to identify the demographic traits of owners utilizing technology, how this usage determines their success or if, on the contrary, differences are due to other factors. Specifically, the study centers in firms established in the Western side of the island; hypothesis are proved based on information provided in reports, successful cases, and on results from a survey administered to 82 small business owners. Findings suggest that a relevant number of firm owners, in spite of capital and resource limitations, use technological applications of some nature, though usage varies according to their area of service. Overall, results support the proposition that owners who use more applied technology and offer differentiated innovative services reach a larger number of customers, diminish costs, and attain higher sales and overall performance than others. The study also indicates that the success achieved by firms resides in creative applications and innovative services rather than investment in technology. Finally, the paper concludes with a discussion of outcomes generated by the findings and guidelines for future research.

Key words: Information technology, innovation, productivity, E-commerce, value added, and effectiveness

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[1] The author acknowledges the significant input provided by former student, **Viviana Rivera**. Her initiative working with the subject while taking my course in Small Business provided initial input for this paper. The first survey is entirely her work, even though training and supervision was provided. Her original work was written in Spanish. Email: vivi_pr@hotmail.com. Special thanks are extended to **Shirley Rodriguez,** Graduate Assistant and MBA student at the College of Business, who provided invaluable help in processing the second survey and gathering information.

INTRODUCTION

Small and medium sized enterprises (SMEs) compete in a worldwide sphere against large multinational companies that possess large advantages including access to capital, economies of scale, higher R &D investment in products, services, human capital and technology. The manner in which business is conducted worldwide, including communications, quick transactions and lower costs of production have been changed totally. Nowadays, most business activities are oriented at reducing to zero the time taken to acquire, learn, use information, make decisions and innovate (Mackenna, 1997). Developing innovative and competitive strategies to compete is a challenge for SMEs as well as a priority for local governments, considering the economic significance the sector provides. Even though SMEs are often thought as laggards in developing, acquiring or offering innovative products and services, many studies provide opposite results. Precisely because of the downsizing, phenomena in which large firms have become involved, small venture capitalists and SMEs are the source of services required by major enterprises through outsourcing.

In spite of contrary opinions affirming that SMEs lack a technological mind frame, A significant number of firms have penetrated the technological market and placed themselves at an advantage via web advertising, and alliances with larger organizations. Acquiring this technology have allowed owners to communicate and inform their clients, advertise their products and services and buy products or distribute them. Example of the success obtained in these ventures is booksellers in the web, including Amazon. Even though most research on innovation is tied to major firms, not SMEs, actually most of the known large firms today started relatively small, i.e. Microsoft, Eli-Lilly, Walmart, JC Penney, McDonalds. Publications, also, demonstrate the increase of young nascent firms offering services only via websites. Research completed by Chandy, Prabhu and Antia (2003) confirmed that as firms become dominant and stronger in their market position, they become wedded to the status quo and become reluctant to embrace radically new products because of risks (Schumpeter 1942, Henderson 1993). To compete with larger firms small and medium sized firms need to device and review their strategies often and to innovate in the offer of product and offer differentiated services.

Studies specify that there are not specific measures of the impact investments in investment in technology (IT) have neither on productivity nor on sales. The contradicting results that ensue has created indecision for SMEs who yet have not understood the benefits TI investments could offer them. Pronouncements about the lack of knowledge in productivity, or benefits of TI, or on the pros and cons of adopting technology by SMEs, induced the formulation of the premises underlying this paper. The following research questions are the basis for the formulated premises: Why are large companies investing so heavily in IT if it doesn't add to productivity? Why SMEs do not follow examples from larger firms and invest in TA in spite of not knowing the cost benefit impact? Why some firms that initiated small have grown potentially due to investment in R&D and technology? Why observation of emerging firms and their success has not inspired traditional SMes owners? Would it be that entrepreneur traits and risks determine investment and penetrating new markets and enter new ways of doing business?

Even though new small and medium size enterprises (SMEs) are adopting different technologies and technology-oriented processes, including the Internet and e-commerce, the growth in adoption is not proportional to the number of businesses registered. Systematic research into how companies are adopting the "new technology" as well as the

benefits of it is non existent within the island context. In other countries, including USA, research on the effect TI has on productivity is not conclusive. The structure of SMEs, wherever they are located, provides advantages in terms of innovation, flexibility, decision making and access to resources; this flexibility is not often utilized nor recognized by owners. This extends to and includes easy flow of communication and the potentiality of a quicker decision-making process, and differentiation in terms of the products sold or services offered. Moreover, it appears that the cost and size of investment in technology will depend on the type of business and expected benefits. In the particular case of Puerto Rico, statistics provided by the Small Business Administration (2004) confirm that the growth in technological applications (TA) is still lower than expected. Apparently only between 30-40% of local SMEs have invested or adopted some king of technology. The non-existence of studies evaluating the impact neither of technology nor of the number of firms using technology and TA applications within the Island context, has stirred this incipient researcher to implement this study.

Within this framework, this study focuses and seeks to explore first, how SMEs invest in technology and innovative processes; second, to investigate the benefits SMEs feel originate from technological investments, innovations and third, to evaluate how local firms have chosen to compete and invest in technology and related services as well as the creativity, in order to excel in their industry. The fourth goal is to examine cases of firms who's TI have probed to be the cause of success and relate findings to local firms. Fifth goal, to examine and evaluate the results of a survey administered to local firms while comparing how results from this study resemble empirical studies and literature. Sixth, the study aims to analyze if the demographic traits of local firms relates somewhat to the use of technology either in pure or applied form and if it is related to firm's growth and productivity. Ultimately, limitations and recommendations will be presented oriented at inducing local SMEs to adopt at least some type of technological applications consonant with world trends.

The premises underlying this study are:

1) SMEs or Pymes that utilize technology or technological applications obtain higher productivity than those not utilizing technology.
2) SMEs technological applications relate to the type of industry in which they operate and
3) Most SMEs do not utilize technological applications for lack of education on the subject, apprehension on adopting new tools, and because of lack of financial capital.

Literature review:

Trends. There is an escalating demand for organizations to become more efficient and effective. Reaching this efficiency goal is seen mostly in the adoption of technological innovation in products and services. Most technology offered today focuses on reducing to zero the time it takes to obtain and use information, to learn in new ways, to initiate actions deploy resources, innovate and take action (Jones & Kochtanek, 2002). SMEs are known to suffer from size constraints, shortages of resources including human capabilities, it appears that this problem makes it difficult for them to compete in industries characterized by intense competition and frequent technological obsolescence. However, these difficulties are superseded by the flexibility, ease on decision-making, and innovativeness they can offer. In addition, the line of products or services offer will be determinant into the type of technology required. Knowledge has become the most important production and service factor in the global economy (CERFE, 1999). Thus, the same document indicates, nature of a typical small business with many hats to cover inhibits learning and R&D, in

this instance, the importance of employee skills and human capital selection as intellectual investment is key to success. Moreover, innovation, taking advantage of downsizing to grasp new opportunities and networking are the skills most sought after in creative entrepreneurs or business owners.

Regardless, it is known that a new breed of small companies are establishing innovative systems to reach their customers while offering differentiated products in niche markets through the adoption of web technologies. Others have improved access to markets and new clients by creating or acquiring specific databases (SBA sponsored web programs and federal contracts), creating alliances, adapting new products, and producing for markets not served by others, especially in emerging countries. In the case of Puerto Rico, a significant number of the new niche marketers have designed effective web pages and made the Internet their way of business. Firms in this category include[2] food, booksellers, writers, tour productions, small hotels, artisans and painters. While some firms are technology prone most are not. SMEs receive a large quantity of brochures, seminar invitations, and consultancy report often not understandable to them. Moreover, SMEs are often counseled to invest in a variety of standardized programs (Bitran, Bitran, 1998), including management of daily accounting transactions, inventory management, data bases and payment programs which often are not efficiently utilized. Is this waste and ill investment the cause for shying away from further investment?

Challenges for SMEs adopting technologies.

To tackle the challenges that technological adoptions posit for SMEs, makes it forceful for owners, consultants, as well as loan grantors if proper considerations is given to evaluate business needs and counsel on how to make critical decisions on TA, based on cost benefit analysis. Traditional SMEs tend to be ill informed on most issues specially technology, devote their time to day to day operations, and tend to be satisfied with what they have achieved. However, nascent entrepreneurs and owners that are proactive and willing to learn seek new opportunities. The rise of Silicon Valley in the US, of Science Parks in Taiwan and other countries and the enormous growth in Chinese economy contradict the affirmation somewhat. Could it be potentially that there are different types of entrepreneurs and their traits determine how they decide on growth?

Currently, efforts should be directed at offering grants, conferences, workshops and overall net support toward emergent businessperson. It appears that traditional SMES are apprehensive to adopting technology, and have not recognized the immense potential that technological adoption of technologies could have to better their lives, those of their people and communities. Initiatives appear to be underway from private groups including Retailing Associations, Chambers of Commerce and the public or government sector, among them the Small Business Administration (SBA), Minority Business Enterprises (MBDC) to create, back-up and offer loans programs for SMEs who wish to operate with a technological development component (Israel, Honda, Grucci, 2002)[3]. These initiatives comprise launching popular web- based technologies in both developed and less developed countries and any other product or services created within the defined parameters. Program of this nature, if approved, could be an excellent avenue and an illustrative case

[2] Web addresses like go2pueertorico.com and, puertoricowow.com and Caribbean islands.com show some of these direct sellers.

[3] The authors were hired to delineate the parameters for a pilot program oriented at financing SMEs investment in TA. This program is a joint effort between SBA and regional technology consultants. Direct loans will be oriented to technology based small business concerns.

to be followed. Apparently the main problem for not acquiring any TA is the lack of R&D; thus, (Cobham, 1999,QEHWPS025) and owners perception that it involves high cost in terms of value perceived. In an individual base investment in technology is perceived as costly.

Studies by World Information Technology and Services Alliances (WITSA) financed by the International Data Corporation in Romania, explain that "global IT is valued at almost $2 trillion and is growing at a rate substantially higher than the world's GDP" (Avram, 2001:1). The same study shows that even in a deteriorating economy the effect of spending in technology is muffled if these investments are responsibly evaluated. On the opposite side, the US National Bureau of Economic Research (9a) has demonstrated that small firms are less likely to use advanced technologies such as computer controlled tools and also, because the sector accounts for a disproportionate share of job losses and job gains (Albagli, 11997). Nevertheless, though in essence this loss in job is partly true, it is not so entirely. The challenges for SMEs trying to compete in the global economy rest in many areas; they claim lack of time to devote to tasks of implementing TI, lack of use of consultants (too expensive), short range management and planning perspectives, lack of understanding the benefits IT provide, no formal or planning or control procedures, and lack of financial resources to finance technology, R&D or environmental scanning. How SMEs respond to challenges, including investment will depend on their willingness to realize that unless actions are taken now, their smallness and lack of vision might be their demise. Reaction to these challenges will depend on how owners confront risks, changes and their creativity. In spite of any ostensible feeling of risk or insecurity, what is real is that access to and investment in applications in new technological transformations is becoming critical for (Albagli, 1997, Avram, 2001) businesses, i.e. accessing new sources of resources, buying products more competitively, obtaining standardized programs to run their accounting and personnel data, selling directly on the internet, and automated loan programs provide a few examples.

It is this author's opinion that observing the growth of some countries' firms and how they compete indicates that survival to existent firms will be increasingly dependent on how firms' adopt technologies, especially in our global economy; also, SMEs non-adoption of technologies is mostly due to apprehension of new knowledge. Common knowledge exists about how SMEs are reticent to invest. In the island, this reticence permeates in small firms. Medium sized are changing slowly similar to firms in some countries in the EU. Local firms adopting TA include books and art dealers, real state brokers, hotels and Inns (Lituchy, 2000)[4] ethnic food producers, juice makers based on native products and arts and crafts have profited the most from technology utilization. Worldwide, firms in agricultural transformation, service providers, outsourcers and suppliers of products to multinationals as well as travel discounters and retailers like those in clothes and cosmetics have grown and become effective because of technological development and adoptions. Take the case of Japan's clothing industry; laser technology has made it competitive.

Technological highway, consumer trends and SMEs

Many reasons demonstrate SMEs need to enter the technological highway: from the consumer angle, there are more educated consumers who use the web and internet as a communicating tool, lack of spare time to shop thus increasing direct acquisitions via web

[4] This author is professor of Management at Concordia University; his study is based on the used and benefits of web technology for Inns and small hotels in Canada.

or catalogs, the increasing desire to operate under anonymity. From firm owner's angle, the cost of hiring humans to serve the needs of consumers is increasing, changes in profitability and competitiveness are more profound, well selected technology and applications packages can increase substantially the effectiveness of communication, record keeping while reducing costs. Examples include how large multinationals and franchise chains can keep track of their business units in any transaction through satellites and databases. Moreover, as consumers become global so should firms. Technological investments, allows firms to reach consumers anywhere in the globe and satisfy them. Furthermore, the way in which individuals live and work has undergone significant change due to innovations with information and communication technologies (Lefebvre, E. & Lefebvre L, 1992; Figueira, 2000, and Kip, 2004).

Contrary to studies signaling non-investment in technology, Guerra (2204), Mercadal[5] (2003) and Guederiaga Mendiola[6], 2004) indicate that, in the future most SMEs seeking to compete will have to invest in technological innovations to become members of the global society. Mercadal (2003) relates to the role of Pymes in Spanish society, a sector that has become 99.9% of the entrepreneurial nets. On the other hand, Guederiaga expresses, "the new economy is forcing firms to undergo a radical transformation that is eased by access to information provided by the Internet". The impact as he sees it is in cost reduction of bank transactions whereas a typical transaction is $1.25 if done at a traditional bank, 0.54 if done via an ATM yet only o.02 by Internet.

Recognition of the growing magnitude of SMEs and the role they play in job creation, technological development, governments in economies where competitiveness and other characteristics do not exist need to find avenues to develop or reinforce them. The apparent growth of some businesses even in time of political and economic instability indicates the need to search for some explanations on why this growth occurs. Investigating the type of investment, perceived value, and decision-making pattern businesses enter regarding technology investment and applications could be an avenue. In spite of the value tied to investing in different technology either for production, communicating, keeping record of transactions or gathering R&D research, still the numbers of SMES adopting technology is relatively small and significant differences are found in least develop countries. The low adoption levels could be due to not obtaining enough information on the benefits and measurement of TI or it could simply be that most literature focuses on larger production companies whose definition and production requires large R&D and computer investments. Distancing from larger firms studies and directing analysis to smaller firms could help focus on benefits that the right investment in technology or in applied technology (IT) will generate.

Definitions and success cases.

Before proceeding with further review of literature, this author perceives that a few definitions should be introduced to present arguments based on a common ground. E-commerce is defined as the buying and selling of information, products and services via computer networks (Kalakota & Whinston, 1997:3) while the Internet is the means via which most businesses are run. As a tool, the Internet instills growth; it allows firms provide information about their products, reach and establish new markets, improve their image, establish frequent interactions with consumers (Lituchy, 2000), and belong to networks of suppliers. Information technology (IT) on the other hand consists in evaluating

[5] Mr. Mercadal is counsel delegate to the Penteo group and publishes in " Ideas Empresariales".

[6] Mr. Guederiaga Mendiola is Director General to Bank Bilbao Vizcaya (BBVA), Spain. "Ideas Empresariales".

technology with the client and business in mind (Ghassan, Zahir, Baldwin, and Jones, 2002)[7]. Investing in IT is also recognized to contribute to the success of the organization only if the appropriate method is applied to the organizational context.

Examples of the success achieved by either individuals or countries that have invested in technology abound. In India, awareness and adoption of IT technologies are on the increase, to the point that 35% of NASA workers in 2003 were coming from there. Another example is Hotmail, the site created by an Indian, Sabeer Bhatia who later sold it Microsoft (El Panal.com news, 2003) with an enormous gain. The growth in exports by many countries including New Zealand (kiwis) and Chile's (Chilean Foundation) are evident examples of access to information, diffusion of innovation that started in small companies. Others have gone from rags to riches with technology. Take the case of cosmetics guru Estee Lauder, who invented creams at home and later perfected them technologically to create an empire valued at over 5 billion dollars.

Significance of SMEs, attitude toward investing or adopting technological innovations

Statistically and in real terms, SMEs are decisively recognized to be the main force of economic growth & job creation in the United States (Birch 1987[8] & US President Report to the Nation, 2003), the European Union, the rest of the world, and Puerto Rico. The sectors importance has been acknowledged in many developed countries, but also in developing and emerging economies like those comprising Latin American other Caribbean islands. Per example, in the European Union, their policy making statutes provides a platform for the assessment of actual innovation performance as well as for development of policies to stimulate and support innovation (CORDIS, 2002). They see the small business sector as a key source of future competitiveness, employment and economic source of growth for their regions.

The small business sector represents 99% of the 23.3 million registered businesses in the United States (Small Business Administration (SBA, 2003). In the continental USA, statistics in which Puerto Rico's SMEs are included (OR Small Business Development Center data presented in a Conference April, 2004 by its chief) minority owned SMEs or Pymes (based on the Small Business Administration 2003 report) in 1997 comprised 3.25 million, generated $495 billion in revenues and employed over 4 million workers, an increase of 168% over 1987 data. Extracting from the same statistical sources, Hispanics investments, and the group to which Puerto Rico belongs to, increase 232% Asians 180% and blacks 108%. Most relevant this business orientation require used of technology for two reasons: a large percentage of businesses are in export and one of five was home based (HBB). A further significance is that this aforementioned sector comprises employment to more than 25 million people, includes all professions and areas of services, and more importantly, 34% of the businesses established belong to women. All around, women's founded businesses appear to be on the increase locally, in the rest of the Caribbean and worldwide, as previous studies from this author have shown (Hamilton, L, 2002, 2003). Women-owned investments in USA generated 3.1 trillion in revenues, an

[7] The authors are members of the Department of Information Systems and Computing, Brunel University, Uxbridge, UK.

[8] Dr. Birch's book on Job Creation in America revolutionized the main frame and instilled deeper studies into SMEs contribution to the economy. Previous thoughts dismissed the sector as job creators; the role belongs to large firms.

increase of 209% since 1997[9]. Women-owned firms, in addition, employed over 23.8 million employees, an increase of 262% since 1987; this numbers are expected to augment further as societal ills, including divorce increases. More significantly, as the educational level of women versus men keeps going on the trend shows more home-based firms, to create a balance between child rearing, sustenance and professional growth. Ceteris paribus, technology will be the means to achieve this expected growth.

In Asia, notwithstanding of most business being government owned, in the latest years, private sector investments have been allowed with the sector providing employment to more than 50% of the working force and contributes to 50% of the GDP (Turpin, 2000, Men Ming, 2004). In Spain, the sector is said to generate over 70% of job and contributes to 65% of GDP (Faces, 1999 as reported in a study by Dans, 2001). Moreover, in Puerto Rico, there are over 100,000 Pymes, and they are believed to generate over 63% of local jobs; the sector contributes about 48% of GDP (Hamilton, 2003 quoting government statistics). In addition, OECD (1995) statistics reports SMEs significance as a sector creating more than 95 % of the total employment. In most countries, the sector is the main source of newly created jobs, especially in advanced technology sectors, and functions are tied to SMEs. This challenges the idea that in any economic situation, but especially in a downward economy whereas downsizing prevails, SMEs continue being the engine of economic growth and performance (Birch, 1987)[10].

In spite of the significance in job formation and contribution to the economy, some analysts agree that the majority of SMEs, still tend to be less informed about the potential of IT to improve competitiveness (OECD 1995), especially in traditional sectors. The sector tends to usually have low IT utilization, due to factors such as lack of resources, of information concerning these investments, of the level of skilled workforce, managerial abilities, as well as difficulties to adapt technologies to their organizational needs (Correa 1994, OECD 1995). Thus, investment in technology or in applied technology infrastructure is important for SMEs to enable them to acquire scientific and technological information faster.

Typically entrepreneurs or business owners are too busy with their day-to-day operations, accessing information about their markets online will keep them updated and indirectly facilitate decision-making and take advantage of opportunities. Studies by the National Bureau of Economics Research (paper 9a)[11] has demonstrated that small firms are less likely to use advanced technologies such as computer controlled tools and also the sector account for a large share of job losses and gains (Albagli, 1997:21). Moreover, (Avram, 2001) in a study commissioned by World Information Technology and Services Alliance (WITSA) via International Data Corp found that global IT is valued at more than 2 trillion; also that the amount is growing faster than worldwide GDP. The study also indicates that when spending in technology increases, even in the face of deteriorating economic conditions, the effect remains the same.

Pros and cons of adopting technologies:

The benefits and challenges for firms involved in investment in technology are many. L Rovere Lebre (1996) informs that information diffusion in Latin American need to be

[9] Marti, C (April, 2004) provided the statistical data quoted, in a conference in April 29. She is the chief of the MBDC in Puerto Rico; results are based on SBA statistics for 2003.

[10] This statement is borrowed and attributed to Dr. David' Birch (1987) and his studies published in his renowned book: Job Creation in America.

[11] In Science and Technology Insights in SMEs, a study in Small Business and Job Creation: Dissecting the myth and reassessing the facts, (1994). National Bureau of Economic Research, Working paper 4492.

increased due to the precarious telecommunications infrastructure of Latin American countries. She found that the smaller the average size of firms, the higher relative cost of equipment and the lack of sound user-supplier relationships. On her empirical study on SMEs in Latin America, she established also that usually firms do not have the means to assess costs and benefits linked to IT. Correa (1994) contributed to the idea by adding that in developed countries, awareness about possibilities of applications in production increases with the intensity of investment in technology.

Studies by (Cabbar, 2002) state that, since 1995, information and communication technologies (ICTs) have started to drive the economy while producing profound and effective impact in our social life, as well. The study recognizes the vast potential of technologies in improving the lives of all people. As a result, some new initiatives concerning the development of Internet based economy have being launched especially in developed countries, like; USA, Japan and Canada. Moreover, E-Commerce statistics, up to 2000s have shown that the percentage of "Business to Consumer in terms of turnover capacity is about 80 % of the total E-Commerce, in the world. Growth of information and communication technologies has accelerated the Internet based economy on global scale. On the other hand, the reported growth has led the digital divide, measured on the basis of usage statistics of ICTs and Internet.

Overall, productivity has slowed significantly since the early 1970s and measured productivity growth has fallen, especially in the service sectors, which account for 80% of IT investment**.** Lebre (1996) in her examination of studies by OECD found that, technological diffusion makes easier to build relationships between SMEs and their users and suppliers. The Small Business Survival guide (2000) goes as far as to recommend establishing LAN systems which because of relatively low costs can enable staff to share communication and resources; client services network operating systems can be effectively created too. Moreover, belonging and connecting to networks like universities and libraries have benefited SMES; likewise, belonging to technology transfer centers, banks, clients, suppliers and consulting firms that stimulate the innovation process (OECD 1993) could be rather productive. SMEs adoption of technology though still low, has progressed tremendously in comparison to previous years. Meanwhile, in the UK, studies by Oftel (2000) have reported that 49% of SMEs are connected to some system. The penetration is expected to increase in the near future.

In a study done in Spain in 1999, it was found that about 5.4% medium sized firms used the Internet, 30% used Internet, web 13.6% local nets 24% modem 34.8% and mobile 56%. In a study on the benefits of e-commerce (Daniels, Wilson & Myers**,** 2002) referring to their previous studies, established that Internet is a cluster of innovations, and companies choose which of these to use and in whichever manner pleases them. Empirical studies implemented by Brynjolfsson, Eric, Yang, Shinkyu (1996) on a sample of 38 service sector firms established that there was no correlation between IT and return on investment and that some top performers invest heavily in IT, while others do not. Moreover, Daniels,Wilson and Myers (2000) in their study in the UK on the adoption of e-commerce found that small and medium sized firms investments are reshaping customer and supplier relationships, streamlining processes and often restructuring whole industries. In addition, some reports from IDC (2000) shows that the total value of e-commerce around the world will exceed $400 billion dollars by 2002. Even though it is believed that large companies are the regular users of technology, a large number of small and medium sized companies are finding specific niches in the Internet. A reason might be that as income level increases, people demand more services; investment in IT is a response to the overall transformation of the economy.

Studies published by Brynjolfsson and Hitt (1995) reports that the contribution of IT to output is as high in the service sector as in the manufacturing sector. However, given that their study used firm-level data, results suggest that the productivity "slowdown" in the service sector may be due to ill measurement of output in aggregate datasets. Moreover, as computer prices fall, more internet and service centers appear, many firms and customers that could not afford computers become able to access services and also to purchase computers.

On the benefits of Internet and web technology, Jones and Kochtanek (2002) inform that these technologies are becoming an integral part of most firms. Even though some entrepreneurs believe that expenditure in any technology is regarded as costly and risky, studies by Jones, Beynon and Muir (2002) & Jones N. & Kochtanek T. (2002), report that investment in new technology should be examined for its business value and benefit to the organization the same way any other investment would be. The problem rests on the amount of the investment. In general, firms can now find packages that well serve their businesses for a mere fraction of what it cost just five years ago. Virtually any investment initiative has an associated cost, be it in terms of hardware, software, staff and services. Ward (1996) highlighted results of a study of twenty organizations based on random sampling; respondents were asked how they ensured that benefits claimed in the use of technology were realized; only one firm could demonstrate a clear, documented process. Observing the growth of Walmart worldwide indicates the value of commitment to well defined strategies; but, above all, well selected state of the art technology suiting the needs of the organization. Wal-Mart started small and has become the world's largest retailer. The issue here is not to for SMES to invest in technology or its applications, but to seek counseling towards the investment that better suits their entrepreneur and firm's needs.

METHODOLOGY, SAMPLE, INSTRUMENT AND SAMPLE PROCEDURE

Information on which this study is based is extracted from a thorough review of literature and secondary information from newspapers, journals, and articles about local as well as foreign entities. Primary data for this paper originate from a information obtained in two stages: first from a survey administered to 40 small business owners located in the Western Side of Puerto Rico. The sample selection for this section was randomly selected, even though we ensured all firms selected were within Small Business Administration (SBA) guidelines[12]. Only owners could fill the questionnaire; 31 questionnaires were delivered and administered person-to-person and 9 via fax. The first survey was extracted from a population of 266 firms registered in the Chamber of Commerce at Mayaguez.

The second survey was obtained in a convenience manner and administered by students. A number of 42 businesses located across the island, participated. In addition, 11 of the 42 firms taking part in this second survey were from outside municipalities, including 5 from large metropolitan areas. The only requirement for participation in both sections was that the firm's owners be native, was in business for 3 years, and the owners willingly participated. No firm had more than 500 employees, following SBA guidelines of the size of a small business. Results were clarified and confirmed by phone in both instances.

[12] This study uses SMEs as firms with less than 500 employees, according to the definition by the Small Business Administration,.

Statistical methods most utilized were simple descriptive statistics and percentages. An attempt was made to provide correlation analysis; however, the size of the sample and the number of incomplete answers made the analysis insignificant. Excel and Minitab programs were used. Both questionnaires were structured and contained 20 similar questions (17 closed questions and 3 open), including demographics. In the first survey, 82.5% of the firms responded; in the second, there was 100% response rate. This high response rate occurred because of the administration manner used and training provided to avoid non-responses.

RESULTS AND ANALYSIS OF THE SURVEYS

The objective of this study was established early based on the premise of finding out how SMEs adopted, profited and experienced the use of technology and its applications. The study aimed at using descriptive statistics regarding traits of owners and their businesses, seeking to relate adoption and profile and how they influence technological adoptions. With this intention, statistics were examined in both surveys. To clear up any doubts, the two surveys were implemented to determine if in a six months span attitudes towards technology acquisition or implementation could have changed. Sampled firms were different in each survey.

First survey results

Traits of owners and firms

The majority of respondents came from firms selling products (58%) while 42% of the participants are from the service sector. The average firms employed 22 persons. Extreme values of the sample went from 1-275 employees. The mode was 20 and the standard deviation was 47. Regarding the years of operation, the average Pymes has been in operation for 25 years. Following the defined parameter for participation, the firm with lowest years of operating had 3 years. Regarding the sex of firm owners, 85% of those owners interviewed were men versus 15% women-owned. This pattern follows previous studies on differences in ownership and risks across gender published by this author previously (Hamilton, 2003).

Age of firm's owners extended from 30 to over 60 years old. Thus, 43% of owners were 20-29 years of age. This is a deviation from previous studies where most owners were older. Twenty 21% of owners were within similar age categories, 30-39 and 50-59. The rest of owners fell in the over 60 category. Relating to educational levels, more than 49% of the respondents had finished their Bachelor while 27% did not finished their university studies (see the appendage page for details and comparative tables). These high levels of education could potentially indicate a propensity for technology adoption.

Second survey

Traits of owners and firms

A majority of firms in this second section are in services (52%), 17% in small manufacturing of products, while 29% in retail and 2% in the non-profit sector. Regarding education, 57% obtained university degree, 17% post-graduate degree, and 17% took

some college courses. The remaining 9% had high school and technical courses. Regarding sex, 85% of the owners are male-owned versus 15% women-owned businesses. In terms of the years operating the firm, 52% of the firms have been in business over 20 years, 14% were between 16-20 years and the others are between 4-10 years. Forty three percent (43%) had 6-10 employees, 31% more than 20, 12% had 11 to 15 employees while the others 16-20. Most firms have over 6 employees; this is a relatively good size to implement some technology. Regarding age, 59% was beyond 50 years of age, rather mature to change ways. Twenty-eight percent (28%) of owners were between 41-49 years of age, and the rest was under 40. It is perceived that younger owners tend to be better prospects for adopting changes including technological applications.

Overall, usage of applications acquired by the firms indicates that 42% of firm's owners used technology for payroll, 24% for inventory, 17% for accounting, 9% in production, and only 8% used Internet. Furthermore, to the question how they implemented technology, 58% used it mostly to control inventory. What is significant is that even though this study was implemented 6 months later, Internet usage rather than increase diminished. This occurs in spite of ample reports describing the level of technology usage by multinational firms in the island and the impact they have found in productivity of employees and in sales.

Usage of technological applications

While in the first survey most firms using TA sold products (58) in the second the majority offered services (52%). Regarding usage of TA, firms in either services or products have adopted similar levels of technological applications or investments with the exception of the category of inventory and operational tools. Results from the first survey and second survey are presented in sequence and compares firms selling goods versus those in services. Fifty eight percent (58%) of firms selling goods use technological applications for inventory, 53% for employee's payroll, 63% for accounting records, only 5% as working tools and 63% use the internet. In the case of service firms, 7% use technological applications for inventory, 50% for employees payroll, 64% for accounting records, only 50% as working tools and 79% use the internet. Percentage differences can be interpreted in inventory, as working tool and a less significant in the usage of Internet. The second survey showed a similar pattern.

To the question what were their plans in terms of increasing technological adoptions, only 37% of firm's owners offering goods responded affirmatively. They reported plans to increase inventory systems by 37% and Internet by 32%. Regarding service firms only 24% expressed plans to increase computer technology specifically, billing and better record keeping. Responding to which technological application they used more frequently, internet was the application used most often by both sectors; 64% of Pymes use it. Splitting usage, 51% use internet to reach clients and suppliers as well as to interact with contacts. Interestingly, only 9% use the Internet to make a sale. Decidedly, success to SMEs depends on sales, trend is to at least create awareness via internet and the response is meager. Of hope is that in the second survey firms appear to have plans to increase to a larger dimension their use of the internet.

Contrasting both studies shows

(see inserted results below) shows that while in the first study (Fig.1) 64% of firms used technology (this study was administered in June 03) in the second survey (administered Dec 03) the amount increased significantly to 71% (Fig.2).

Regarding the type of technology used by firms affirming usage of technology, in the first study (Fig. 3) 41% used email, 24% for web pages, 7% for sales and 24% for customer service provision. In the second study, the use of technology in the form of email and sales applications increased to 48% and 11%, respectively (Fig.4). Particularly, the 4% difference aimed at technology in managing sales is significant since it goes direct to customers' service improvements.

Usage of external resource as hire hand for technological applications stayed about the same. Forty two percent (42%) responded yes to outsourcing technological in the first study (Fig 5) versus 43% in the second study (Fig 6). This could imply that most applications are implemented in-house or that no outsourcing occurs. It is, however, significant that over 50% of SMES does not use any technological applications, not even emails. This contrasts trends of increased usage of technology, as well as the increase of home-based firms, most of which will need some technology to operate. In the particular case of Puerto Rico, reports from banks and other lending institutions, including SBA and the MBDC, report low levels of technology adoption.

The reasons provided for not using technological applications vary. The first study respondents indicated that (52%) did not perceive technology to be necessary and 16% responded that they (Fig.7) did not have the experience with technology, educated personnel, nor the financial resources to acquire technology. Meanwhile, the second survey (Fig 8) the number of respondents not considering technological applications increased to 60%. Twenty (20%) did not adopt technology because of lack of experience, 7% did not have financial means, and 13% thought their employees were not educated enough. What is worrisome is that in a technological oriented world where the usage of technological applications (TA) appears to be on the increase, the perceived lack of need to use it has increased. A consolation is that financial conditions are not cited as a reason for not using TA.

Technological applications and productivity

In terms of the effect that technological applications have on business productivity and sales, responses from the first survey indicate that (Fig.9) 39% and 42% respectively were not able to identify any positive effect in productivity (Fig. 10). Owners reported an increase in sales in the first study was 32% versus 31% in the second study. This is significant since almost 1/3 of those interviewed appear to have measure effectiveness of TA. Potentially these firms could be used as good practice cases provided owners are willing to do so. Furthermore, 16% of the respondents could not measure any impact since investment in technology was done at the beginning of their business. In the second study, only 14% indicated the same response. While in the first study 13% did not ever measure any effect, a response almost equal to the second study (14%). Summarizing, we could take positively that over 30% in both studies were able to measure some impact in sales and thus effectiveness. This contradicts some studies purporting to not being able to measure the effects of technology.

Trying to evaluate future plans regarding technological applications, demonstrate that, in general, in both surveys 60% of firms provided positive responses regarding plans to increase some type of adoption. This is definitively a positive step toward increased competitiveness.

Lastly, opinions on owner's convictions on the benefits of technological applications were requested. In general, responses leaned on the positive values of technology and its importance to firm's growth. 76% believed totally that technology increased productivity and is important to business for its growth. Interestingly, cost is not tightly related to the adoption of technology since only 18% responded to in total agreement.

Opinion of the use of technology applications

Criteria	Totally agree	Disagree	No opinion or neutral	Agree
Do you believe that technological applications increase productivity?	76%	7%	0%	17%
Do you believe that technology is important for any business?	43%	6%	14%	37%
Do you believe that technology is important for some kind of business?	47%	6%	12%	35%
Do you believe that technology has a high cost for business?	18%	42%	25%	15%
Do you believe that technology help in the business growth?	34%	9%	26%	31%

Prepared by author from both survey results.

SUMMARIZING

General results from this study brought better responses than expected. In general, firms selling products used more technology or applications than firms offering services. Firms do use some technological applications though each uses them differently. Applications and their adoption process appear to differ according to the areas of business firms are in. While some firms believe applications increased sales, a significant number of firms did not belief applications made any significant difference in sales or efficiency. In addition, about 2/5 of firms did use external resources. In spite of the growing trends in technological applications and computer usage around the world, technology adoption is still low in Puerto Rico. Owners tied not using technological applications to lack of experience and not having instructed personnel. This suggests the need to hire computer able personnel.

Results coincide with studies done elsewhere, including the one implemented by Renate Lebre (1999) in the European Union. From her study commissioned by STAR (Special Telecommunications Action for Regional Development) she reported that evaluating programs existing in different countries, revealed that the demand for new investment in technology (IT) services was lower than expected, especially in the case of SMEs. In the United States, (Correa 1994) found a growing concern to incorporate more persons into the 'Information Society'.

Likewise, the increasing growth of large companies many of which, like Walmart, Sam and others are associated to technology acquisition or applications should instill in small business owners the need for more education or diffusion policies for SMEs. In the case of Puerto Rico, an island of over 8 million people, with a significant high level of education, the low propensity to adopt technology calls for a combination of policies like those indicated for SMEs in developed countries in the EU. The OECD (1995) called for actions oriented at improving the infrastructure and policies to stimulate technology usage. Findings from this study addresses the idea that organizations need to create specific measures to increase awareness of the benefits of using some TA to increase effectiveness, reduce costs of transactions, better record keeping and above all, to reach consumers everywhere.

CONCLUSIONS

Based on the findings of this exploratory study, some relevant observations can be made. Also, implications as to why a majority of local owners do not use invest in technology or use technological applications are provided. Results from both surveys, review of literature and empirical study significantly declare that most SMEs tend not to invest in technology though they should. Results from this studies as well as the interview held are similar. Having identified the traits of firms and owners as well as how some local owners feel about technological applications and adoption of some technology, evidence that some SMEs owners are not interested in directing efforts at seeking new information, with its pros and cons. The distribution of responses across firms indicates a larger propensity for younger owners to adopt technology while older owners are separating themselves from incorporating new ways. Responses specify owner's perceived lack of need or interest to invest in technology, as well as lack of financial means to acquire any. This aforementioned response signals a potentiality to establish education policies and stimulus loans for owners to acquire proper technology.

Even though the number of firms that use TA is not large, it is within the expected premises of the study and resembles findings from other countries. Responses of why TA are not used, brought typical answers specially those of financial nature and non-skilled personnel; this point out the constant problem faced by SMEs hiring either family or employees to be paid minimum wages. Overall, results from this study do not defer significantly to other studies in either of the queries answered. Nevertheless, since local SMEs operate in a competitive world, limited skills of technologies that could help to increase creativity and differentiated services is almost unprecedented. Competitiveness is increasing everywhere and only entrepreneurs ready to face challenges will survive.

A justification for not using technology of some nature could be due to the non existence of abundant evidence affirming that technological applications contribute to SMEs profits (Dans, 2001), a phenomena well known by Pymes owners. A significant number of firms pointed out to a very low percentage of their investments used to reach new customers or for marketing. This is worrisome. Howard (2001) suggests referring to the theory of capital structure that small firms do not possess equity nor the capital required to invest in TA. Potentially, an explanation rests on their definition of success, and the stability obtained with their business.

The study is based on the premise that SMEs or Pymes that utilize technology or technological applications obtain higher productivity than those not utilizing technology, it

is proved. Direct responses from owners who acquire TA after being established some time confirm that using applications improved sales and productivity. In the case of firms studied, larger firms also obtained more sales, and reached a larger size. This is exemplified by firms like HP and Walmart. Local firms including Pitusa, Amal pharmacy, Campo Fresco, and niche firms have performed successfully adopting technological applications. The second premise states that technological applications relate to the type of industry in which they operate; this was also confirmed by this study and in literature while the the third premise was not confirmed. This premise specified that owners who do not utilize technological applications due to lack of education, apprehension on adopting new tools, and because of lack of financial capital. In this study some firm's owners exhibited higher levels of education and still did not use TA. Partly, adoption of new technology could due to apprehension on adopting new tools, but not for lack of capital.

Moreover, research shows little evidence proving that adoption of technology significantly increased productivity in the 1970s and 1980s; today, though it is recognized that technology has improved the position of many firms, there are no specific reports on productivity and the investment. Results aptly characterized by Robert Solow's quip that "you can see the computer age everywhere but in the productivity statistics," Other studies have fueled a controversial debate, primarily because they have failed to document substantial productivity improvements attributable to information technology investments. If we want SMEs to increase adopting technology and due to owners limited time and traditional decision making and planning practices, somewhere along the lines statistics across industries should be published referring to benchmarks that measure the impact of technology on organizational performance.

RECOMMENDATIONS

Results from this study support the main proposition establishing that firms that utilize technology or technological applications obtain higher productivity than those not utilizing technology. Since there is little convincing research to dissuade undecided business owners to adopt technology, examples from established firms well grounded in technology should be used to instill positivism on owners negative beliefs while aiming at increasing competitiveness of their firms.

Consonant with the aim of this study, seeking to explore how businesses have chosen to compete, their investment in attitudes toward the use of applied technology, this study proved that, in the context of business owners and entrepreneurs in Puerto Rico, traditional owners do not seek to change their ways. On the contrary, they are satisfied the way things are. Efforts, thus, should be directed at reinforcing and facilitating nascent entrepreneurs, venture investors, and minority groups, including women who are willing to immerse themselves in new ways of doing business. To these sectors the recommendations provided here are aimed at. In addition, since this exploratory study was also developed seeking to identify the demographic traits of owners utilizing technology, how technology usage determines their success, findings suggests that more educated owners and younger ones are more technology prone. Moreover, owners who used some technology were able to identify a positive effect on sales and productivity. Even though this study in general complies with its aims there are some limitations. This come from owners desire to not expose the lack of and obsolescence of their equipment on the subject of TA. In addition, readers could interpret that having only 82 responses cannot provide for positive conclusions on such a delicate matter. On the contrary, the response

rate was high and government officials in charge of lending policies have confirmed similar results on technology acquisitions. Even tough the sample is small; increasing the sample would not have provided better results.

Consistent with research findings, some recommendations are presented and aimed at business owners, policy makers and researchers. Since technological applications and investment in technology was found to be low in this study, a similar finding in SMEs in other countries, it is necessary to establish an integrated commission from different sectors, including owners, agencies, private and public sector to elucidate priorities in the services wanted. A study should be prepared to identify and classify SMEs according to their interest in adopting or not technologies or whatever services.

Organizations should be established and orient its efforts at increasing awareness on the adoption of technology by creating SMEs support networks and knowledge transfer groups, education courses, alliances, to establish science parks, internet sites, and offer peer support. In addition, specific activities should be designed and aimed at showing direct benefit of TA usage, including how to access clients, search for new markets, or suppliers or just to be informed on new trends interrelated to the market SMEs owners belong to. Furthermore, well-funded internet shops located near business centers including ECommerce or EBusiness services should be established. Not least, development of technically well develop infrastructure to provide the well needed services including orientations on new databases should be provided.

Private and public sector should establish set aside funds and incentives programs for Pymes to implement R&D and TA adoption. This can be done via government programs or through associations and aim at different activities: fund research, invest in TA or TI, initiate workforce training programs and policies in TA applications among others. These programs need to be promoted and include the offer of extension courses provided by universities on the usage and acquisition of the right technology. Since SMEs seek short term value on their investments, owners should be educated on the values of technology adoption versus creation. Education should include a potential change in the mental framework of traditional entrepreneurs from passive to more proactive.

On the government side, policies aiming at granting tax credits to firms using technology or transforming technology should be established. These actions could ensure that firm's owners make the transition from adoption to effective usage. Since informal conversations and opinions of well-bred networks tie the low adoption to apprehension of machines, lack of skilled personnel, and to avoiding new knowledge, different tactics should be instilled. Peer teaching could be used to generate interest, success cases can be presented and skilled R&D prone personnel can be recruited. Not least, incubator center can be established to provide support not only to currently established SMEs, but also for emergent firms and incoming investors. Decidedly, specific actions have to be delineated and support offered if all sectors aim to integrate management techniques and interactive programs that provide positive results and ensures an avenue to enhance SMEs competitiveness.

To conclude, future studies should be more realistic in assessing the real needs SMEs have, and orient them accordingly. Studies should aim at determining in which direction empirical studies should go in order to provide realistic counseling according to the real needs of SMES. Not least, consonant with gripes often heard from SMEs, including not receiving attention timely to solve problems, studies should include an inventory of real SMEs needs across countries and proceed to disseminate this information timely. This

could facilitate the provision of funds to solve present not future needs of those we aim to assist.

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A comparison of results across surveys

First Survey

Figure 1

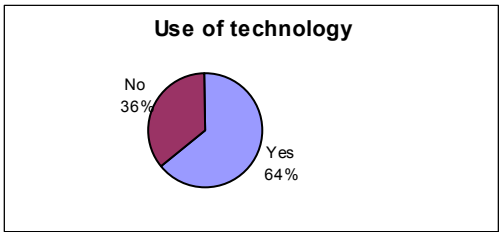

Figure 3

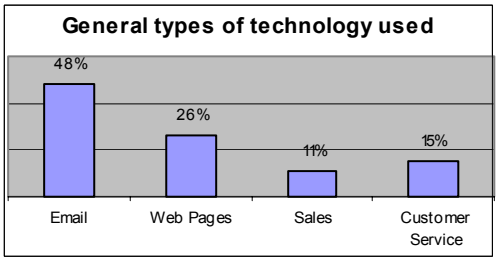

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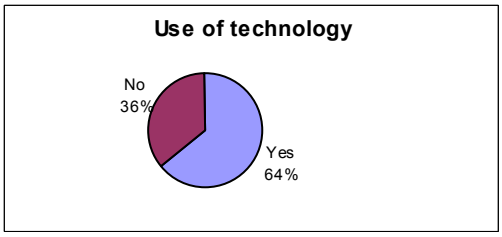
Figure 5



Second Survey

Figure. 2

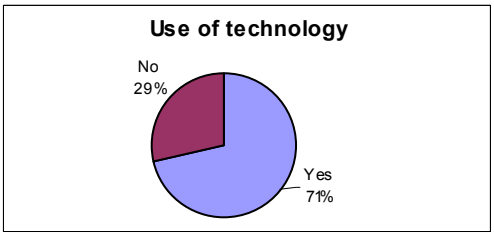
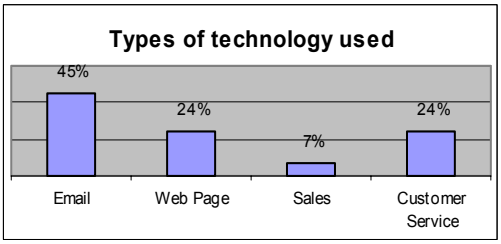


Figure.4



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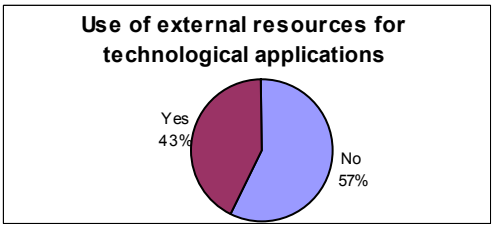


Figure 7

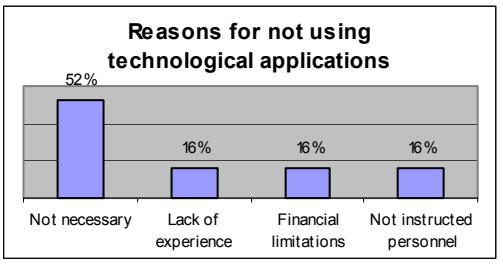


Figure 8

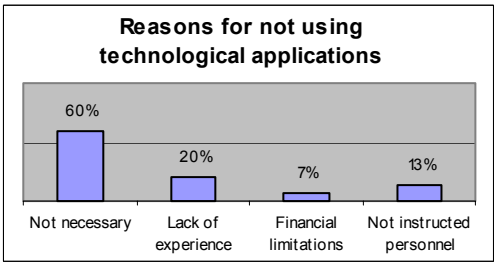


Figure 9

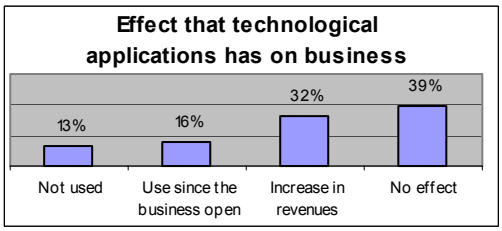


Figure 10

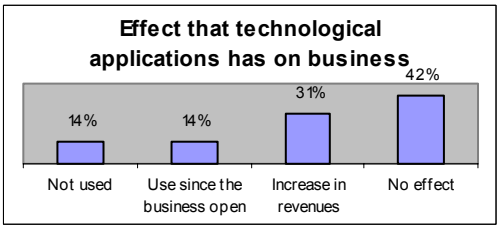


Figure 11

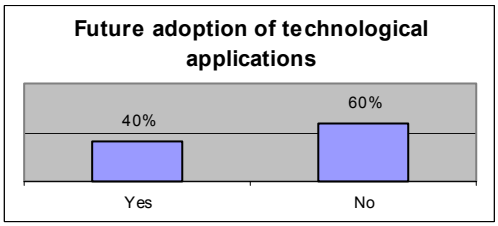
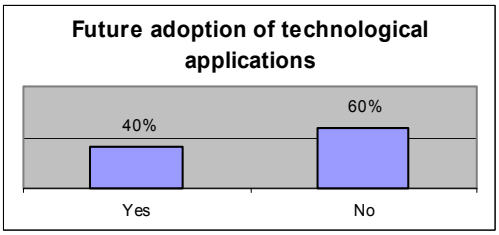


Figure 12



DOMESTIC SAVING MOBILISATION AND SMALL BUSINESS CREATION: THE CASE OF CAMEROON

By

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ABSTRACT

The positive result of a network between financial institutional development and economic growth is an acceptable issue. Such a network is necessary for developing economies as it encourages the sharing of information and the channelling of finances from savers to investors. Given the insufficient number of well established financial institutions in Cameroon and perhaps in other developing countries, borrowers such as small businesspersons are to a large extent forced to rely on group generated savings existing in the country popularly known as "Njangi/Tontine" (N/T) which is culturally based and has existed in the culture for hundreds of years. Such small financial houses lend money only to group members – thus excess demand and excess supply exist within the saving mobilising groups. However, empirical studies on N/T suggest that it relaxes the financial constraints of willing investors by making finances easily available thereby facilitating small business creation (Ardener *et al*). More so, complete reliance on foreign micro financial capital for economic development is unrealistic because such institutions can withdraw at any time their economy is precarious. The ability to generate your own money *"is an independent way of life. It stands for something essential to our freedoms"* (Theodore O. Enema in Kaplan 1979: pp vii). Also, as Fokam (1998) claims "donation does not take into consideration contingent existing processes that can help (or be develop) to assure perpetuity." Each country has the primary responsibility for its own development in general. Other nations can only stretch a helping hand. The views emphasize the link between the resource allocation function of the financial sector and long term economic growth. The result of this research suggests that improvement in the function of such voluntary savings will promote the activities of small businesspersons.

Cameroon has a culture of savings mobilisation where people form small groups of 10 and above usually based on ethnicity, profession, neighbourhood and friendship and encourage members to save weekly or monthly, and the accumulated sum is made available as loans to members. This practice is common throughout the country. It is common for a Cameroonian to belong to at least one or two N/T groups. Some N/T groups can generate between 1,000,000–100,000,000 francs CFA (£1000-£100,000) fortnightly or monthly in their various groups on average.

The paper reveals the reasons for not lending these monies to non-group members, and concludes that it is due to lack of entrepreneurial knowledge, and the high level of insecurity that exist in the country. It is therefore suggested that group members should

be given basic education on business knowledge to empower them to take the risk that entrepreneurship requires. It further suggests that since government controls almost all institutions in the country, it should put in place a mechanism for fighting corruption, and a functional justice system to ensure security.

INTRODUCTION

The positive result of a network between financial institutional development and economic growth is an acceptable issue. Such a network is necessary for developing economies as it encourages the sharing of information and the channelling of finances from savers to investors. Given the insufficient number of well established financial institutions in Cameroon and perhaps in other developing countries, borrowers such as small businesspersons are to a large extent forced to rely on group generated savings existing in the country popularly known as "Njangi/Tontine" (N/T) which is culturally based and has existed in the culture for hundreds of years. Such small financial houses lend money only to group members – thus excess demand and excess supply exist within the saving mobilising groups. However, empirical studies on N/T suggest that it relaxes the financial constraints of willing investors by making finances easily available thereby facilitating small business creation (Ardener *et al*). The view emphasizes the link between the resource allocation function of the financial sector and long term economic growth. The result of this research suggests that improvement in the function of such voluntary savings will promote the activities of small businesspersons.

Cameroon has a culture of savings mobilisation where people form small groups of 10 and above usually based on ethnicity, profession, neighbourhood and friendship and encourage members to save weekly or monthly, and the accumulated sum is made available as loans to members. This practice is common throughout the country. It is common for a Cameroonian to belong to at least one or two N/T groups. Some N/T groups can generate between 1,000,000–100,000,000 francs CFA (£1000-£100,000) fortnightly or monthly in their various groups on average.

The paper reveals the reasons for not lending these monies to non-group members, and concludes that it is due to lack of entrepreneurial knowledge, and the high level of insecurity that exists in the country. It is therefore suggested that group members should be given basic education on business knowledge to empower them to take the risk that entrepreneurship requires. It further suggests that since government controls almost all institutions in the country, it should put in place a mechanism for fighting corruption, and a functional justice system to ensure security.

Informal voluntary saving mobilization and credit facilities dominate the financial market. Research revealed that an estimated 70% of the total money supply in the country is held outside the banks. Njangi/Tontine is of crucial importance to both men and women in the country as it provides them with finances to meet both consumption and investment. Research revealed that all big entrepreneurs in the country belong to one or more Njangi/Tontine groups. Belonging to a Njangi/Tontine group encourages people to engage in income generating activity in order to generate money to meet their N/T obligation and not be seen as an outcast in the society. It also acts as a social group, and in fact forms the contour of many social groups in the country. The high level of poverty in Africa in general and Cameroon in particular, is a cause for concern. There is a

need to use all available knowledge for the fight against this deep rooted and perennial poverty.

Cameroonians formed groups based on family relation and contributed money to group members on a rotating basis to help sort out their financial needs. The contributions were primarily used for payments of dowries and petty trading. The system was an extension of the communal labour, which existed and still exists, in the society today. As time went on, they started putting aside which did not rotate and called it “Nsundab”. This stock pile was to remain in the groups for people to borrow and multiply. This was the birth of the saving and lending concept in Cameroon. This practice dates back hundreds of years, and it is what is now popularly called N/T. Thus the concept of saving for economic development is not new to many Cameroonians. Voluntary saving as against forced saving has always existed in the society. People realised that cooperation was the only way to overcome the individual problems they were facing in all areas of life. The Njangi/Tontine financial groups, which generated money for dowries, have now been extended to generate money for use as capital for entrepreneurial activities. There is a great need to encourage such savings in order to facilitate small businesses, provide jobs and improve the living standard of Cameroonians.

Following the World Bank Report (1988-92), Cameroon is classified amongst the most poverty-ridden countries in the world. Cameroon had a negative growth rate in GDP and the situation has since worsened. The Structural Adjustment Programme (SAP) led to massive lay off of civil servants by the Cameroon Public Service followed by a salary cut of 70% in 1993 and two months of unpaid salaries, (July-August 1993). There also was a 100 percent devaluation of the CFA francs in 1994 with the serious consequences of rising prices and higher cost of living which further aggravated the situation. The people are hampered by lack of finance to create sustainable income generating activities to ameliorate their state of poverty. To combat this, the people have to save, no matter how small an amount in order to make investment possible. Mobilising domestic savings will empower the people with finances to start sustainable small businesses and face the challenges of poverty.

The Role of Domestic Savings in a poverty ridden nation:

Savings are foundations of capital formation, and economic growth. Investment that ensures economic growth needs capital. Sustainable capital accumulation can only take place within a nation if people are sensitised, and encouraged to save for future consumption and development through investments. Such investments cannot be carried out using foreign donations alone. Citizens must be the key participants, and if possible initiators. Malcolin *et.al.* (1983) suggest “foreigners can be, and are inevitably involved as well, but they cannot be the whole story".

In 1985, out of 12 million Cameroonians, only 4 million were actively involved in economic income generating activities, and of these 70% and 22% were involved in the primary and secondary sectors respectively. Only 8% were involved in the tertiary sector, and out of the 8%, 73% of the investors were foreigners (Moroney ed. 1996). This implies that 73% of profit, which could have been ploughed back in form of new investments, was repatriated to foreign countries. Under such conditions, the host country cannot talk of economic development, without the requisite capital outlay.

Local social conditions could be seen to play an important role in the formation of what can be defined as "innovation prone' and 'innovation adverse societies' (Andres

Rodreguez 1999). More than 70% of the Cameroon population live in the rural areas with income below the government minimum wage. Thus the management costs of the classical financial structures are too high for the rural population to pay. Travelling to areas where these structures are located is costly. Thus the people's endeavour to mobilise savings voluntarily using the culturally existing system is an embracing endeavour. For the people to be conscious of the fact that their destiny is in their own hands and that the best and most durable solutions to their poverty problem can only come from them is important. What is required is for policy makers to draw the peoples' attention to the immense business opportunities and resources imbedded in their culture.

It was revealed that some abandoned resources are again finding their way into use through innovation and investments using money borrowed from Njangi/Tontine houses by some members. Domestic Savings would encourage the people to invest and discover the business opportunities which are imbedded in the culture of the society and have remain hidden.

A research project by Fokam (the President of CCEI bank), concluded that "the classical economic which holds that the poor are unable to carry out any investments does not seem to be just". The poor do invest but on a very low scale due to lack of funds. Their meagre savings, which are their primary, and only source of finance, is very low (Forje 1998). Low savings in Africa is not due to lack of knowledge about savings, because the concept of savings has existed in Cameroon and other African countries for a long time. Many forms of savings exist within the African culture, but these are mainly habitual (eg, Njangis/Tontine.) Policies have not been oriented toward encouraging increased savings and investments in income generating activities. The macro-saving, borrowing and lending institutions existing in the society have constantly been failing, thus creating the feeling of insecurity. For this reason, the classical financial structures meant to instigate and promote economic development have proved to be inappropriate due to costs and insecurity.

PROBLEM

Although great strides have been made towards savings mobilisation in Cameroon by Njangi/Tontine houses, many small business investors lack finances to carry out sustainable income generating activities capable of fighting poverty. The problem is that since not everybody has as entrepreneurial spirit, some N/T houses experience excess demand for loans whereas other houses have excess supply of money. This is as a result of loans only being available to group members. Although almost every Cameroonian belongs to at least one Njangi/Tontine house, the level of savings is not the same in all groups. Groups having excess supply are not willing to lend to non group members. The result is that the money accumulates and stagnates. Since the money is expected to be available at any time a member needs a loan, it is very often held in current bank accounts, which of course do not generate interest but instead suffer from constant bank charges since they cannot be used by the bank as loans to potential investors. It is widely agreed that open economies generally grow faster than closed economies, (Development co-operation with the least developed countries: Fighting Poverty, European Community 2001). Although the Njangi/Tontine members do encourage group members to invest, and even sometimes levy fines on the interest earned by those who do not make an effort to borrow, people are still not willing to

borrow if they lack entrepreneurial spirit and skills. The main problem therefore is how to encourage the Njangi/Tontine members to lend their capital to non-group members.

OBJECTIVE

The all-embracing objective of sustainable development is to provide a sound economic, social and environmental base for both present and future generations. The Brundtland Commission describes sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”, (OECD Policy Brief nr. 8. 1998). Sustainable development could be seen to have four dimensions: economic, cultural, social and environmental. Sustainability in natural science characterises the management of natural resources in a way consistent with the preservation of its productive capacity. In social science, sustainability implies a focus on much more than economic growth and material welfare alone. In this paper, the concept embraces equity concerns, cultural and social cohesion, as well as the need to address threats to global “commons”.

The objective of this study is therefore to investigate the reasons for N/T members not being willing to lend money to non-members, and make suggestion the possibilities available to ensure loan repayment so that the accumulated savings can be put into circulation, or income generating activities.

METHODOLOGY

The paper is based on observation and interviews carried out in Cameroon. Some 150 Njangi/Tontine groups made up of 10-15 members were interviewed all over the country. The groups interviewed generate between 1,000,000–100,000,000 francs CFA (£1000-£100,000) every fortnight or monthly as contributed by individual members. In view of such a huge amount of money generated fortnightly or monthly, two problems are vital here:

Analysis is based on the contingency and system theories, which suggest that appropriate managerial behaviour in a given situation is contingent to a wide variety of claimants, (creativeness, innovation, good accounting systems etc). Fremont and Rosenzweig (1973) state that, 'appropriate behaviour cannot always be generalized or extrapolated from other situations". By adapting to the society’s cultural system of financial institutional development, the resource base could be improved upon and expanded.

- Money piles up in some NJangi/Tontine houses and there is a lack of finance for small business start-ups;
- How to get Njangi/Tontine groups with excess money supply to lend to willing investors who are non-members and are in need of money for investment.

A careful analysis of the N/T composition and guiding principles would highlight key points that policy needs to consider to make it possible for N/T members to be encouraged to lend their accumulated savings to non members.

GROUP COMPOSITION AND GUIDING PRINCIPLES

Composition of members ranges from ethnic groups, same profession, neighbourhood etc. New members are introduced and if there is no objection from other members, he/she is admitted. It could be either sex or both; it all depends on those concerned. The level of contribution is determined by the resources of members. The organisational pattern is very informal with few executives responsible for record keeping. In times of financial difficulties, members can suspend their Njangi/Tontine and share out the monies and restart when their situations improve. Ardener and Burman 1995 also observed this aspect of suspension and restart.

The Njangi/Tontine is highly based on trust. The fear of becoming an outcast from your group means more to group members than going to prison. Thus, members face "emotional incentives as well as material ones" (Casson 1997 Dis.: pp7). The engine of trust is popularly known as "Fumlah" (a secret cult) system. Members trust each other and together they face the outsiders as a team. Group Members do not trust the outsiders, and therefore do not interact with them financially. Instead, they try to motivate members to create small businesses, so as to use the money generated. The only criteria for a loan are to be a member and pay your contribution when on time. Once a member fulfils all these criteria, the loan is immediately disbursed to him/her.

Table 1 illustrates the disciplinary system.

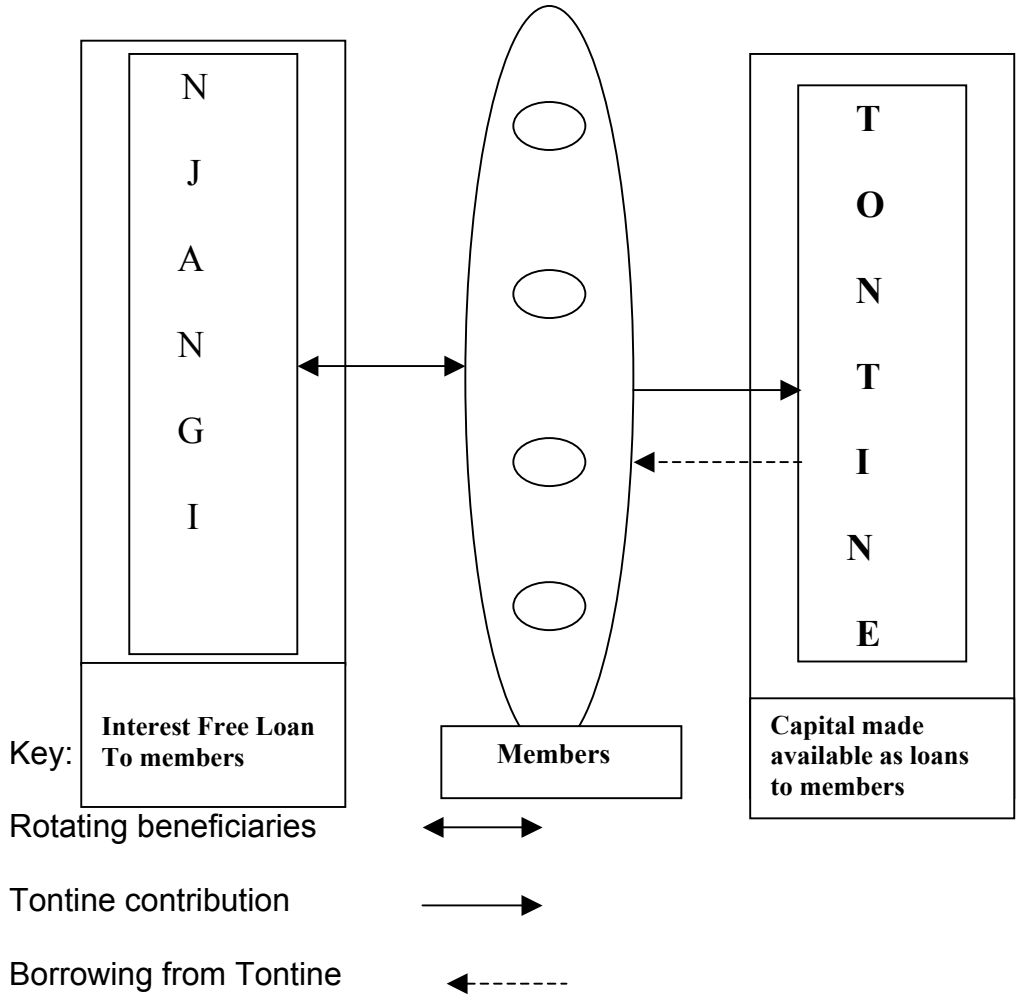
Table 1 Guiding Principle and Disciplinary Mechanism

Trust	**Sanctions**	**Moral based** - Rhetoric and Social bonding
Default	**Defective** Property right	**Naivety** Outcast in society
High Trust	Legality	Sense of belonging
High Default	Jungle law	High trust

Source: Idea from Casson 1997 Dis: with modifications

According to the interview result: "It is strictly governed by emotion and of course some jungle law." The nature of jungle law was not disclosed. As often the case, in a society where injustice is prevalent, there is the temptation for people to take the law into their own hands, and apply whatever defensive mechanism as self-defence. However, the sense of belonging enables group members to build up confidence in each other and acquire reputation which they are anxious not to lose. Thus, the flexibility of the system depends highly on compliance with an unwritten understanding. The composition of the sustainable N/T group is in most cases highly ethnocratic. Diagram 1 illustrates the functioning of N/T.

Diagram.1 The functioning of Njangi/Tontine



The Njangi is the rotating accumulated sum given to an individual member at each sitting. The Tontine is the accumulative savings at every sitting available for lending.

DATA ANALYSIS

Examining diagram 1 from the point of a small business, we find a flaw; a situation where the small businesspersons are themselves consumers of their own products as the bulk of savings is only restricted to members' borrowing. This creates problem because their market is very small. Their restrictive borrowing principles hinder money circulation as well as deprive knowledgeable investors of capital for investment. The push on group members to borrow by penalising them in the form of a reduction in interest earned creates a distinct bias toward saving and leads to a high propensity to consume, an act which eventually slows down the economic development of a country.

The question, why do you not lend out these monies to non-members who have good investment opportunities, but choose to bank it in current accounts or keep them in homes brought the following answer:

“We do regret the fact that the savings generated is very often not put into more profitable use. The system makes it impossible for us to do otherwise. We do not get the support we expect from the government in terms of security and encouragement. It should also be pointed out that we do not save these monies because we have too much of it. We are interested in doing business, and that is why we restrict our own level of consumption in order to save. We do not save because we have excess money. It is a sacrifice. But the system seems not to appreciate and encourage us. The government itself is unable to provide potential small businesspersons and entrepreneurs with the money they need as start up capital. Many families are suffering as a result of the Structural Adjustment Programme (SAP) which rendered many people jobless, and the drastic salary cut of 70% in 1993-94. We know that many people need capital to start small businesses. As long as we find government policies unfavourable to us, we cannot lend our monies to non-group members. We do encourage our members to go into small businesses and some are responding positively, we hope many will follow.

We can only trust our own members because we can discipline them in our own ways. A non member will borrow the money, and may never repay. Sometimes he/she can give collateral turn around and report you for theft or stigmatise you as ‘opposition’, and you, the lender, would be intimidated or even thrown into prison. in cases where the outside entrepreneur has a relative or friend high up in the political hierarchy and that will be the end of the money.”

Interview results indicated that from approximately 2250 people interviewed, 1800 (80%) had never been to a formal bank to transact money in any form. This stresses the importance of N/T in the country and calls for sound assurance and safety policies from the government.

It was disclosed that the amount generated varies between groups, and the demand for loans in some Njangi/Tontine groups is lower than the savings accumulated due to low propensity to invest in sustainable small business activities by group members. As in many developing societies, “borrowing for productive activities is of short term, whereas longer term borrowing takes place to meet social obligations” (Timilsina P.P. 1992). Very often, borrowing is for weddings and other ceremonies and not investments. However, the groups are not concerned about what the loans area for. All that is important is the repayment of the loan, plus interest. The problem is the accumulated savings piling up, which sometimes exposes members to burglary attacks. Data from the Njangi/Tontine groups indicated that the contribution rate can be extremely high for the urban groups and low for the rural groups. Given that people in the rural area depend only on the sales of agricultural products, the level of group savings, of between £100 - £150 per month in such areas was seen to be very impressive. This amount is capable of creating small income generating activities.

Examining this view from the concept of rationality, the money generating groups are constrained by forces in their environment. Rationality concept suggests that an entrepreneur chooses the alternative action that maximises his wealth. We see that if we are to predict the Njangi/Tontine member’s behaviour, the knowledge that they are rational, is only a small part of the information that we require. Their intention to be rational leads to particular behaviour only in the context of conditions in which their behaviour takes place, (see Simon 1982). Conditions of their environment are to be seen as given. On the basis of this reasoning, we see that the problem of a group of

small business entrepreneurs is lack of ability to generate business ideas when there are following the many opportunities available.

Entrepreneurs by definition are people who coordinate resources, and make things happen based on judgemental decisions. As resource mobilisers for investment, they should think strategically and not emotionally. By taking strategic decision to generate business alternatives, they can change some of the obstacles that constrain business undertaking in the society. Entrepreneurs cannot expect to function in a problem free society. Such a society will never be, despite their assumed important role in society in terms of economic development. Entrepreneurship is getting the bull by the horn. Research revealed that the degree of corruption in the country is high (see report international).

Again, examining the views presented and analysing them from the perspective of risk aversion and a rational decision point, one would say it is rational for money not to be lent to non members. They are bound by the forces in their environment. Rationality concept suggests that an entrepreneur chooses an alternative action that maximises his wealth. The problem is that to be rational, they must make decisions that lead to particular behaviour which is only prevalent in the context of the conditions in which their behaviour takes place (see Simon 1982). Their decision base seldom considers other economic variables.

It is certain that the members have to adopt precautionary measures to safeguard their generated resources because, "initiatives in commerce or in manufacturing at first (represents) essentially a defensive strategy" (Bull A. and Corner 1993 P: pp86). The rationality concept also suggests objectivity. The problem here is that of risk of non repayment which is more of a policy matter, therefore motivating the thought of uncertainty. Although by definition, entrepreneurs are risk takers, risks are of different categories: risks that require government policy action and those that require the entrepreneurs' action. Lack of good policies leave the saving generators with three choices: (i) keep the money in a safe at home (ii) put the accumulated savings in a bank current account since the money must be available when needed by members (iii) lend to non members using collateral and (iv) lend to non members through private well established money institution.

The saving mobilisers as small businesspersons are constrained by risk and uncertainty, and as such their level of rationality is bounded. They have very little information on how their potential debtors will behave, given that the justice system is corrupt. According to the theory of the firm, the given objective is to maximise profit (Simon 1982), and this can be done in a variety of ways, it is only a matter of decision. The depositors in N/T houses "expect the deposits to maintain their value (to be redeemable at par" (White 1991 p 208) as such mediators who are likely to eventually not repay the loan or repay with reduced valued money are likely to be rejected.

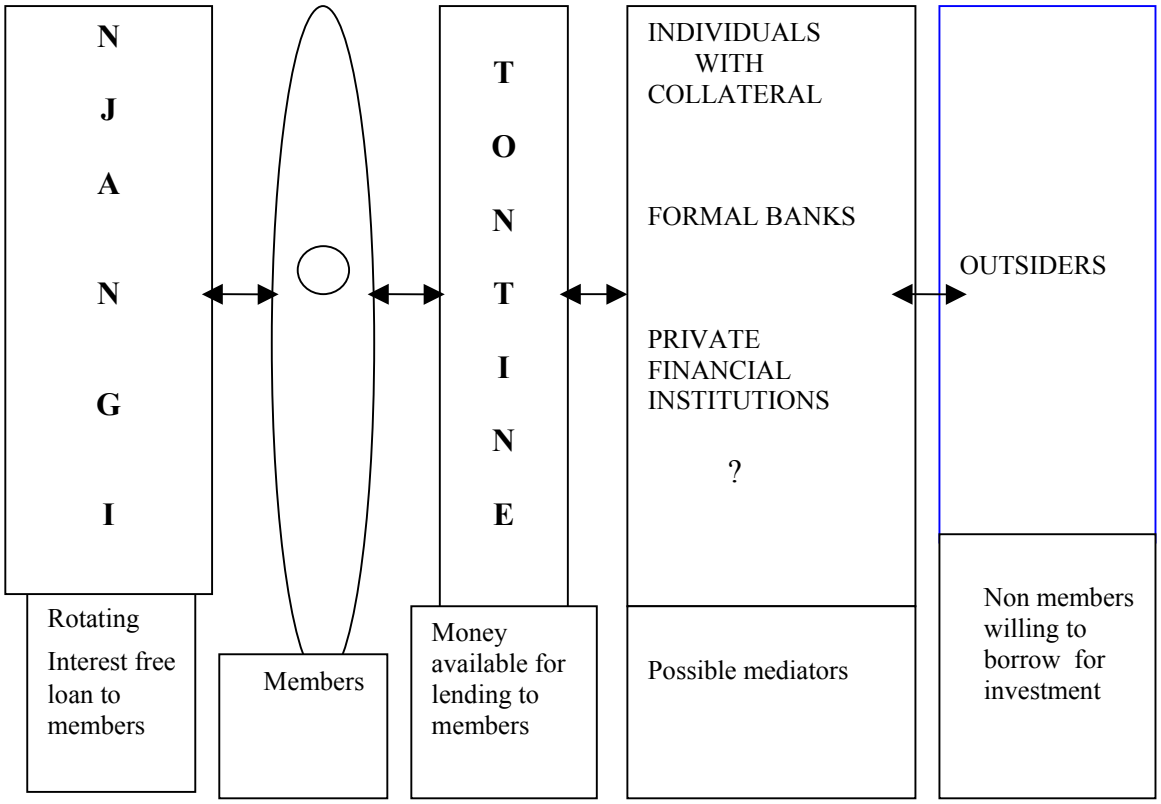
Savings mobilisers need safety regulation "Depositories engage primarily in two activities: taking in deposits and extending credit" (White (1991). This applies to all money mobilising institutions, banks, Credit Unions as well as N/T. Thus sound, safety and assurance policies for N/T groups are imperative because following the interview result, more than 70% of small businesses operating in Cameroon get finances from such groups. N/T houses are special; their voluntary saving ability along with their ubiquity in use and importance as household assets provides an argument for safety

regulation. White (1991) argues that depositories are special; their liabilities make them different, and are treated by the public differently.

Looking at the savings mobilises' decision of not lending monies to non members from the point of bounded rationality, the possible three mediators available to them are: Individuals with collateral; Formal banks and private institutions, which have to be closely examined and their consequences analysed.

The key question here is: how can the Njangi/Tontine members be motivated to grant loans to outsiders? Diagram. 2 suggests a model with possible mediators.

Diagram 2 The possibility of using conduits



The problem is: which of the conduits can be selected as trustworthy to ensure the repayment of loan disbursed? Examining the credibility of each mediator, the result is as follows:

Individuals having collateral were found to be unacceptable by the group members for the reason that they found them to be very deceitful. Members revealed that there have been instances where collateral is accepted, and the owner turned around and reported theft or blackmail; the system being corrupt, justice was given in favour of the claimant and the Njangi/Tontine members lost their monies. Members are therefore very sceptical in accepting collateral.

Formal banks were rejected on the grounds that, banks operating in the country seem to have lost their credibility in terms of trust and services. It was revealed that between 1989 and 1998, 4 major banks went bankrupt. Many customers lost their monies and some were paid their principal savings with no interest after two years. Although there has

never been a bank run, there were times when the banks were instructed by the government to serve a customer with not more than £25 at a time. It was also mentioned that ever since the restriction, the government did not come out with any statement explaining the reasons for that restriction. N/T members were therefore sceptical about using the banks as a mediator. In their opinion, although they are sometimes forced to put monies in current bank accounts, they do so at a very high risk. According to the members:

"It is the banks' behaviour that has helped to strengthen the functioning of Njangi/Tontines in the country. We try to encourage members to borrow by penalising those who do not borrow by levying a 10% fine on their interest earned."

Penalising members is immediately seen as a poor strategy because it is likely to create a distinct bias against saving and motivate a high propensity to consume money. Not everybody can operate a business. Saving is already a business in its own right.

However, concerning private financial institutions, two institutions were suggested, Credit Union and Mutuelles Communautaire de Croissance micro banks (MC2). The choice of Credit Unions was immediately rejected by 130 groups (87%) on the basis that they function just like N/T but are better organised and on a larger scale. MC2 as a conduit was widely accepted, thus its brief history is required here. In the mid 1990s, a new micro banking system was innovated by CCEI bank (now called First Afrilands Banks) which is also the parent bank of MC2. Its operation is strictly based in the rural areas of the country. It is a micro-bank with a focus on development in the rural areas.

Its objective is to mobilize a community's financial resources and use it for the development of the community in question. It is a self-help bank, created by members of a community. The MC2 bank is not established in a manner, which the initiators would tend, to bring their private interests to bear on operation and management. The people of the community control operation and management because the micro-bank is their collective effort. The micro bank capital is generated by the people of the community where the bank is to operate. The annual interest generated is divided into two, 50% is kept aside for community development projects and 50% goes to the individual benefactor and of this, 25% is retained as savings. The MC2 symbol conjures up Einstein's formula of a joint action of rural population, coupled with the integration of sociocultural ancestral values into modern management, (Fokam 1998). According to the President of the CCEI Bank, founder of MC2, Fokam (1998) the organization of the micro-bank is based on the principles that: "the survival of a community lies in its cultural values; and its ability to generate self-help activities."

MC2 can be seen as a complement to the saving culture, which exists in the society in a scientific and technologically oriented age. The MC2 builds on the principles of N/T culture, but is linked to foreign banks through its parent bank. The micro-banks also give loans only to their customers. It is also restricted to the members of the community in which the micro-bank operates. To qualify for a loan, members of the community have to buy shares and operate an account with the bank.

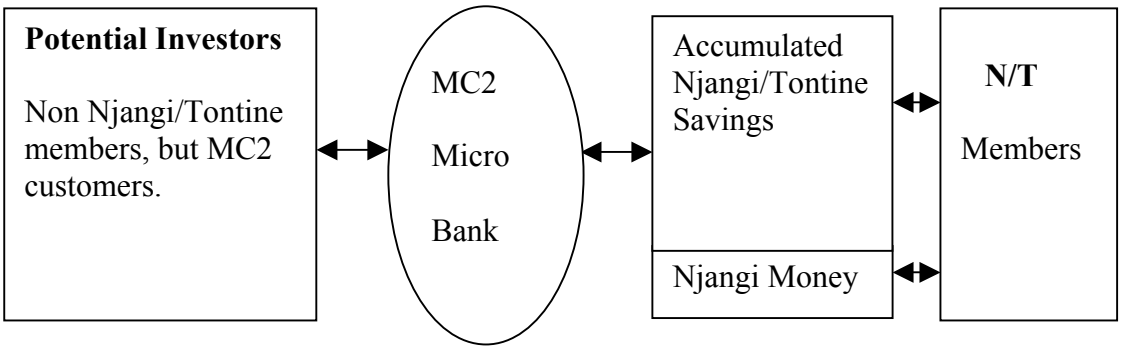
The advantages of using the MC2 bank, is that it has a larger customer base, it is local and encourages people of the same community to mobilise capital for larger long-term business undertakings. Rich members of a community living in Diasporas can indirectly contribute to the development of their communities by saving through their relatives. Using this channel large amount of money can be made available to potential investors

who are non-Njangi/Tontine members, but are members of the MC2 micro bank. The MC2 amalgamates small Njangi/Tontines group monies and make them available to potential small/medium size business investors. Cooperation is the only sustainable way to overcome individual limitation, (Bernard 1979ed.; Yunusa 1998). The acceptance and creation of an MC2 bank is an indication of a community's determination to fight their state of penury and to move forward in creating sustainable income generating activities aimed at improving the quality of life of the people.

The MC2 micro-bank was accepted as a mediator by 110 Njangi/Tontine groups, out of 150 groups interviewed, an acceptance rate of 73%. To many groups, it is a form of collective investment, and it was seen to pose very little problem compared to the other mediators examined, and partly because most group formations are based on ethnicity. The few groups left out were those from areas were the MC2 is not yet in operation.

Assuming that policies which ensure fair justice and good governance are made, the Njangi/Tone system will gradually take on the dimension as illustrated in diagram 3. This second dimension, "Nwahkain and Nyo", implies that the MC2 is going to pull the money from the Tontine group and give it to potential investors in need of capital for investment and not to swallow, as the Nwahkain and Nyo game originally suggests.

Diagram 3 "Nwahkain and Nyo" System



In this model, Njangi/Tontine members who need capital for investment can still borrow, and then the rest can be saved in MC2 banks where it can still be accessed as well as being available for other potential investors.

The Njangi/Tontine groups also make a difference by having other positive effects on the functioning of the developing economies. They do not only mobilise capital from a pool, which extends beyond the resources of a single family or individuals, but they encourage savings, as well as expose t potential investors who can be earmarked for training courses on small business management. By so doing, the Njangi/Tontine groups and the MC2 bank perform the Leibenstein entrepreneurial function of overcoming individual limitations in important factor and production markets, (see Leff 1978: Hirschman 1958). At the start of a nation's economic development, small businesses play a vital role, due to there being less capital and a high skill demand. For this role to be sustainable, it is important that people are sensitised to generate finances which can then be used to initiate small businesses locally. Complete reliance on foreign capital for economic development is unrealistic because foreign donors can at any time withdraw their finance, making the economy precarious. The ability to generate your own money *"is an independent way of life. It stands for something essential to our freedoms"* (Theodore O. Enema in Kaplan 1979:ppvii). It is worth mentioning a Cameroon maxim, which says,

“Begged water cannot prepare a meal. To prepare a good and sufficient meal, you have to fetch your own water.” The Njangi/Tontine groups and the MC2 could possibly fetch water for Cameroonians to prepare decent meals. More so, as Fokam (1998) claims, “donation does not take into consideration existing process that can help (or develop) to assure perpetuity." Generally each country has the primary responsibility for its own development. Other nations can only offer a helping hand. In (1701) Donaldson J. argued that begging should be banned and beggars housed in workhouses.

However, before concluding, it is worth summarising the key players, and the negative and positive consequences of their behaviour. Table 2 presents the summary.

Table 2: Negative behaviour and its consequences.

Key players	Action	Consequences
Saving Mobilisers.	Protect their money. (put in safes at home)	Money tied up in homes, unsatisfied demand for loar to potential small business people; high unemploymen rate, intense poverty.
Government	Poor policies and Governance.	Low economic growth; high unemployment rate; insecure environment; high crime level;
Judiciary	Unjust.	Insecurity; savings piled up in houses with no lending going on; lack of capital to create small businesses; hi rate of unemployment; and high crime rate.
Potential investors	No capital for investments	No investments, state of poverty worsens.
Banks	Handicapped	Empty coffers; stagnated economy.

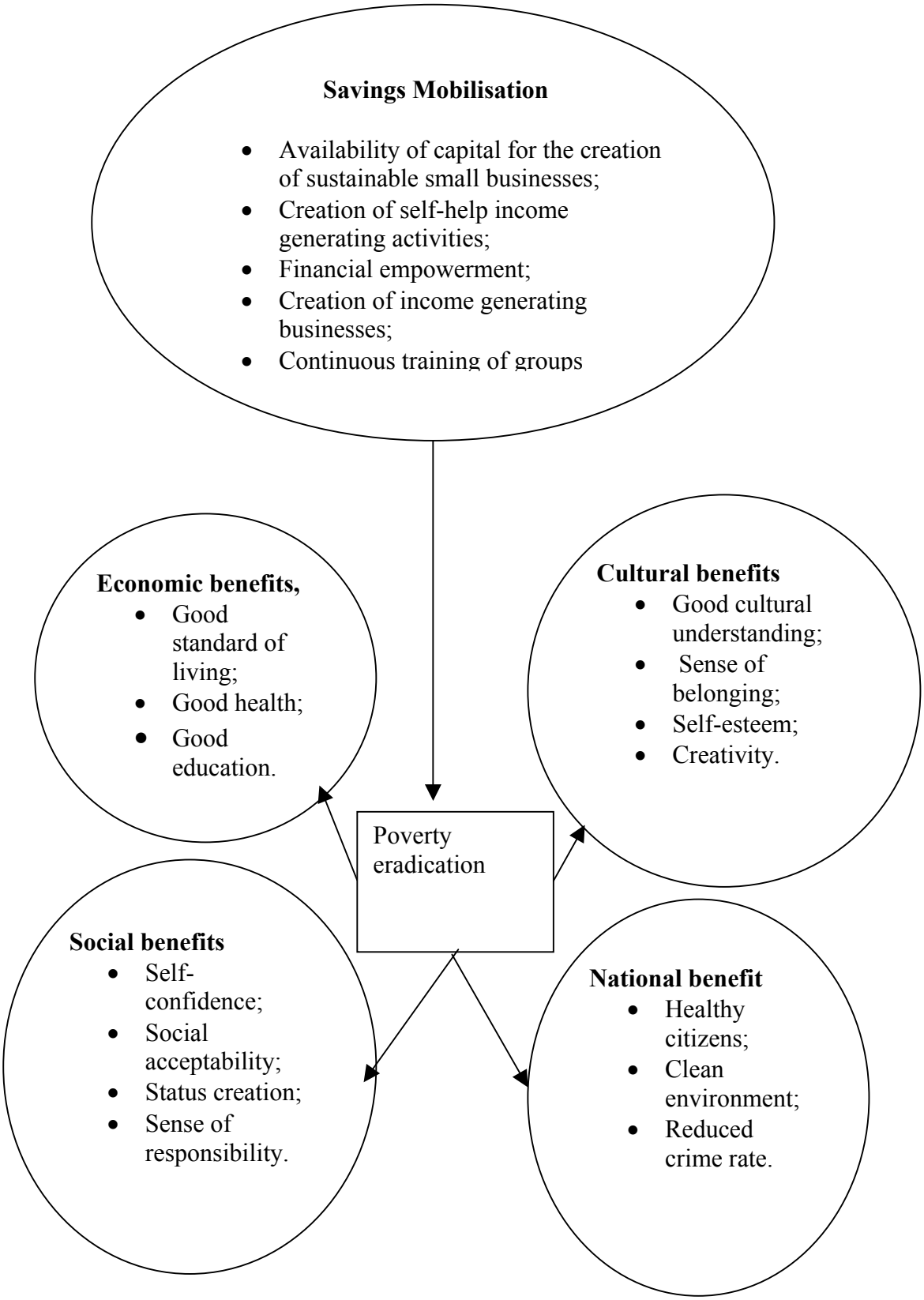
Table 3 Positive Reactions that can emerge from good policies in the country.

Key Players	Action	Consequences
Government	Good regulations and policies that insure security. Saving mobilisers motivated to lend money to outside investors.	Creation of income generating activities, economic growth, attraction of foreign investors.
Judiciary	Good Justice	Security and credibility enforced and economic growth picks up.
Saving mobilisers	Lend monies to willing investors	Earn good return on their money, more savings mobilisation
Potential investors	Encourage more investments	Savings will increase, and more money available for more investments.
Banks	High saving rate.	Money available for lending Creativity and investment in job creating activities; economic growth.
Society at large	People engage in many income generating activities.	Financially viable, low rate of poverty.
Researchers	Conducive environment for fruitful researches.	Technological and scientific learning, trying to understand what is going on, innovation and economic growth.

Presently, 85% of the small businesses operating in the country are financed by Njangi/Tontine money, despite its high interest rate (30-60%) compared to 18% bank interest. Entrepreneurs and small businesspersons still prefer it to formal banks because there is no administrative red tape or other charges. This is an indication that there is a problem which calls for policy adjustment. Considering the function of savings in terms of economic growth, it is imperative for good policies to be put in place to motivate savings, and putting them into circulation.

Table 2 suggests motivating policies which are likely to encourage: (i) free circulation of money; (ii) joint venture businesses and (iii) networking among entrepreneurs, small or big. Insecurity and lack of trust is devastating to economic development in the country. With a fair justice system, “the network becomes like a family dynasty-it unites different generations both the living and the dead” (Casson 19997, Dis.: pp 11). Saving mobilisers are likely to contribute to society by providing finances to revitalise business people and encourage potential businesspersons to start businesses. Diagram 4 illustrates the role of the Njangi/Tontine role in Cameroon society.

Diagram 4 The role of N/T in Cameroon Society.



Most African countries have depended on external help for too long. Help can only be meaningful if it is in addition to self-help. One cannot keep planning a budget based on other nations' pockets. Amartyr Sen (1981) notes: "by analysing poverty from income distribution, our concern becomes one of narrowing the differences between those at the bottom and better off in each stratification dimension" Poverty in all its realistic definition has to be fought, not from a few charity donors visions, but aimed at eliminating the escalating class of the poor. Poverty is a relative term that reflects the system of accumulation, distribution and management of a nations' wealth.

The rural labour force in Cameroon is growing rapidly, while employment opportunities are dwindling. Land, as the only resource available to the rural masses, is fast becoming inadequate. This calls for the creation of non-farm employment opportunities if deepening rural poverty and massive immigration to the urban areas is to be avoided. A short research carried out on women in micro-enterprises revealed the need to provide people with finances and the necessary knowledge to enable them engage in nonfarm employment opportunities, (Lema Forje 1998).

Without capital to finance the discovery of natural resources, they remain hidden and go to waste. Value has to be added to natural resources or else they have no meaning to a society. This value added comes about through investments. People at the grassroots are financially incapacitated, and this prevents them from exploring the huge wealth of material that exists in nature, and their environment for their common good, and to reduce their level of poverty. The President of the Cameroon Chamber of Commence elaborated on this issue during a conference on the Islamic Development Bank and Cameroon businesspeople (Cameroon Tribune 11th February 1999). By encouraging Njangi/Tontine groups to lend monies to non group member investors, such savings are employed in income generating activities. Thus, the idea of "making things happen" which is a pure Schumpeterian entrepreneurship idea becomes effective. N/T is seen to make available capital which is necessary to transform innovativeness and alertness into opportunities for actual investment and production decisions, (Leff 1978: Kirzner 1973)

N/T also offers a cheaper, more efficient and sustainable financial resource to people in rural areas than formal banks. N/T takes the relatively small savings of large numbers of individuals, aggregate them and makes funds available for small and larger – scale enterprises, (see Stiglitz, 1989). This is socially desirable, because it will enable the creation of employment opportunities.

CONCLUSION

The research has revealed and discussed the system of saving mobilisation in Cameroon. Their operating systems have also been examined and analysed. The role of the newly innovated micro bank, MC2 'Nwahkaine-Nyo' which is likely to create a new dimension in the Njangi/Tontine system, model has been discussed. It is hoped that the government will develop policies that encourage more savings in the country to enable a speed up of income generating activities.

The Njangi/Tontine groups remain a powerful source of saving mobilisation in Cameroon. The people's ability to save voluntarily is a strength within the Cameroon economy and should not go unnoticed by policy makers. It is important to assess the groups' behaviour from the point of a *"gradual change…from that of an economic unit whose principal aim*

was that of survival to that of a unit able to some extent to assess economic alternatives and make decisions on the basis of that assessment" (Bull 1993:pp5). Voluntary savings are a mark of self-determined entrepreneurial spirit in all its senses. A government cannot develop a nation alone; development in all forms needs to be participatory. Voluntary savings are an indication that the people are willing to participate in their country's development, considering the hard time they face. Such voluntary saving practices are rare. Many government sponsored businesses have failed. Thillairajahs, S. (1994) describes state-financed African DFIs as having a 100% failure rate. There is the invariable assertion that the rich, or a chain of bureaucracy rather than the poor, very often captures any subsidy that is offered.

It is therefore imperative for the government to put in place policies that encourage more savings, and enable money circulation in the society. functional disciplinary machinery to fight the corruption so endemic in the society.

RECOMMENDATIONS

The government has to ensure good governance in the country in order to encourage more savings.

The creation of more MC2 banks in the country should be encouraged, since it is likely to serve people in the rural areas better than formal banks. Its existence should also be given good publicity through the use of TV and radio.

The judiciary has to be functionally unbiased and incorrupt.

Policies to educate society on the importance of savings and investments are imperative.

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RICH NETWORKING, COMPANY CHARACTERISTICS AND INNOVATION: SOME CONVINCING RESULTS

Pierre-André Julien, Richard Lachance and Martin Morin[1]

ABSTRACT

Contrary to neo-classical theory, under which the sole objective of all firms in an economy is to maximize profits, we now know that not only does development depend on networking, but network quality is also a major element in regional dynamism. Network quality is a function of the strengths and weaknesses, markets and strategies of member firms. Among other things, the firms that are most effective in terms of innovation and complex production tend to have connections with more "remote" or weak signal sources that change rapidly according to their needs and competencies.

As yet, very little empirical research has been done to measure the true scope of this approach. This paper reports the results of a complex study of networking involving 110 small and medium-sized enterprises (SMEs) in a region that has been in decline for the past forty years, but has recently experienced an upturn in job creation and the presence of high-growth SMEs. The study shows that the largest manufacturing SMEs, those that export the most, work in the most technology-oriented sectors or produce the most highly-processed goods – i.e. those that are the most innovative – maintain networks that are "remote" from traditional business behaviour, rather like weak signal networks.

INTRODUCTION

Networks have always existed, even if most researchers did not discover them, or did not begin to ascribe importance to their role in business development, until a few decades ago. The ignorance of the research community is due largely to the impact of the old economic theory stating that companies work in isolation and compete on markets with varying levels of ferocity. However, more modern theories of industrial economy, such as that which regards firms as contractual cores (Jensen and Meckling, 1976), or that of Richardson (1972) and especially Powell (1990), according to which most firms function in conjunction with other firms upstream, downstream or transversally, have shown that a firm's development is by no means independent of its links with other firms and other players that provide resources and information, and hence ideas and opportunities for development. In short, entrepreneurship is a collective phenomenon far removed from the image projected by the classical and neo-classical economists.

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Since these early observations, a great deal of work has been done on business networking by geographers, economists an sociologists alike, showing that the long-term development of organizations is fostered if not explained to a large extent by the quality of their contacts with sources of new ideas and additional resources. Some researchers have identified different types of networks, while others have measured their impacts. Their findings, interesting though they may be, are nevertheless limited. Although we are able to identify various information networks and their impacts on territorial development (Maillat, Quévit and L. Senn, 1993; Johannisson, 2000), we still know very little about their microeconomic importance – for example, by type of firm, type of market and survival strategy. Indeed, researchers' findings on networks are comparable in many respects to their findings on technology watch, which have established different levels of watch but have not managed to link them to business performance (Raymond, and al., 2001).

The purpose of this paper is to establish links between the various sources of information and the markets and behaviours of SMEs in a region that has declined over time, based on source dynamics, source quality and the needs of the firms. The study also had an operational objective, namely to play a role in restoring the dynamism of La Mauricie, a core region of industrial Québec (Canada) whose economy had long been dependent on natural resource processing and cheap energy, due to the presence of a large river and extensive forests. These resources attracted significant foreign investments, especially in the pulp and paper industry, where seven large mills were created in the 1920s/1930s, and in the aluminium processing (one mill) and heavy chemicals (several plants) sectors, all of which required large quantities of cheap energy. In addition to this, the region also had a number of textile and garment factories dating back to the first industrial revolution. Towards the end of the 1960s, heavy chemicals were gradually replaced by oil-based chemicals, which required a deep-water harbour that the region was unable to provide because of the rapids and dams on its river. The traditional factories also began to close down, unable to survive competition from low-wage countries. Lastly, three pulp and paper mills were closed down and the number of jobs available in the remaining mills declined significantly as a result of new and more efficient machinery, growing competition from abroad and the longer distances to be travelled to obtain timber resources. The aluminium sector was similarly affected, and ultimately a region that, until then, had offered some of the best conditions of employment in Québec suddenly went into a steep decline. Not only that, but the large firms, by taking the best human and other resources (potential entrepreneurs hired as foremen, skilled workers, low-risk financing, consulting firms, etc.), had considerably hindered the development of small businesses.

In the last decade, approximately 4,618 of the region's 22,942 jobs (24%) were lost between 1990 and 1999 as a result of 214 business closures, including one very large firm. The job losses were primarily in the garment and textile (-50%), pulp and paper (-31%) and medical/measurement instrument (- 29%) sectors. The food and drink and furniture sectors also lost out significantly (- 40% and - 47% respectively) through closures, but gained some new firms too (+ 42% and + 67%), suggesting that the economy was beginning to turn around. The most effective sectors in terms of job creation were the machinery (+ 28%), metal products (+ 26%), wood (+ 25%) and mineral products, metal products, primary metals and transportation equipment (roughly + 15% each) sectors. Small and medium-sized enterprises (SMEs) – new ventures and growth firms – were the principal source of the new jobs (Julien, Lachance and Morin, 2002).

In short, local entrepreneurship began to emerge, especially in smaller areas such as Grand-Mère and Louiseville. The number of high-growth manufacturing SMEs (gazelles) also began to rise. For example, data show that the share of manufacturing SMEs having between 10 and 200 employees in 1990 and at least doubling their workforce between 1990 and 1996 and 1996-2001 increased from 4.9% to 13.2% in the Shawinigan-Grand-Mère region and from 5.1% to 8.9% in the Trois-Rivières, although it declined somewhat in the Louiseville-Maskinongé region, from 16.5% to 11.1% (Julien, 2004).

However, the upward trend is still very fragile, and these newly created firms must now turn to networking if they are to consolidate their gains. It was for this reason that we decided to investigate the region's current networking practices. This paper will begin by reviewing the variables explaining the benefits of networking, and will then go on to discuss the research methodologies used, present the findings and discuss a typology showing the links between network choices and business characteristics. Because the research also had an operational goal – that of helping to develop networks in the region – the conclusion examines some of its impacts in this respect.

THE PROBLEM SITUATION

Basically, networks are links between individuals who may work alone but are more usually members of enterprises, associations or private, semi-private or public agencies. The links constitute sources of different information (OECD, 1993). The individuals in the network are linked to other sources, thus forming complex chains able to provide a wide range of information that is completed by formal, informal or impersonal auxiliary sources.

We know that entrepreneurs and their staff mostly tend to use informal sources and networks based on inter-personal contacts, and to complete them with other, more formal sources (Johnson and Kuen, 1987; Brush, 1992; Julien, 1995), naturally applying the theory of the philosopher Habermas (1981), who explained that inter-personal exchanges trigger action during the communication process, thus facilitating change.

Businesses have varying numbers of networks, which may or may not be interlinked, depending on the experience of management, executives and key employees. For example, many SMEs use their employees' networks to find new staff (Fabi and Garand, 2003) and their executives' networks to support government grant applications (Johannisson, 1995; Julien and Lachance, 1999). All these networks are composed primarily of players from the region, including some with connections to other interlocutors at the national or even international level, although some entrepreneurs may also have their own direct contacts outside their regions or abroad. The networks overlap to varying degrees, and they also evolve and are reconfigured as new members are added and new goals established.

Within the region, networks are basically inter-player communication structures composed of a series of physical and virtual information exchange mechanisms. They represent an expression of the shared conventions and collective mindset in a given society (Billaudot, 1999). They are also an expression of the regional community, and form the basis of social capital development (Bourdieu, 1980; Lin, 1999). Varied, dynamic, good quality networks will

be conducive to entrepreneurship and innovation. On the other hand, those that are limited to the region and founded on habit and aversion to risk will generate conformism.

When networks are dynamic, they offer an excellent means of systematically promoting the circulation of explicit and tacit information on a given area. Among other things, they enable information to be identified and then adjusted to the needs of entrepreneurs, thus accelerating their learning, helping them face up to change and generating enthusiasm. Networks fulfil a vital role for businesses by reducing the uncertainty and ambiguity of information used in decisions. This is especially true in that information provided by networks has already been sorted to some extent, since the members know one another, and has also been partially analyzed and measured in different ways by reasonably attentive and reasonably expert observers before being adjusted to suit the interlocutor's needs (Julien, 1996). People tend to retain information relevant to their fields, interests and past or future intentions, while remaining open to the needs of their friends or partners, who are often selected on the basis of the same criteria. .

Network membership generates two types of information, namely information that is effective immediately or in the near future[2], and supplementary "potential" information that facilitates decisions by providing additional resources or escape routes where necessary. Birley (1985) accurately describes this latter type as "reassurance". When adjusted to suit the entrepreneur's needs, effective information and potential information is easier to understand and more likely to lead to action - unless, of course, the network is conservative, and hinders rather than encourages dynamism.

Businesses have access to several different kinds of information sharing networks. Some firms keep networking to a strict minimum, while others are members of voluntary and strategic networks that extend far beyond so-called "natural" connections. Also available are "power" (or political) networks that help firms acquire monopolies, obtain special State assistance or, to use Adam Smith's 1776 expression, "deceive the public". Even socio-economic networks are not immune to this kind of misuse.

Natural networks, such as networks of friends and relatives, workplace networks, social club networks and so on, are known as social networks or embedded networks, and help their members to understand conventions, measure reputations and forge links with economic networks (Proulx, 1989; Johannisson, 2000). They may be ad-hoc or more specific, for example based on geographical proximity, as in the case of a technopark network. They may be created for short-term purposes, such as for an industrial fair or scientific conference, or they may be built voluntarily or gradually to meet more complex information needs. These latter networks are described as "strategic", and are developed to support dynamism, for example in an industrial district or science park, where the firms are dependent on one another to some extent, or to support training and complex information.

From an economic standpoint, there are distinctions between personal and business networks and between transaction and information networks. Personal networks are usually composed of staff members, executives or key employees, close or more distant family members, friends or former schoolmates, specific customers, specific members of

[2] I.e. information for decision-making purposes; this information is rarely completed due to lack of time and resources, giving competitors time to act first.

entrepreneurship associations, and so on – in other words, people with whom there is a strong emotional connection and hence a high level of trust when discussing the firm's development. Generally, such networks have nine members, at least in northern countries, with the number rising to fourteen in more southerly countries (Birley, and al., 1991; Julien, 1995; Drakopoulos Dodd and Patra, 2002), illustrating the varying impact of culture on entrepreneurship, especially with regard to developing countries and informal enterprises (Sverrison, 1997; Davies, 2001). A personal network may be partly organized as a board or quasi-board of directors, or be called into play as needed, for example to test new ideas or obtain opinions or feelings about changes in the firm's environment.

Business networks are composed of stakeholders in the firm's various transactions, either upstream or downstream. Upstream are suppliers of raw materials, parts or finished products, equipment suppliers, financial institutions and so on. If well connected, they are able to provide prospective information as well as structural short-term information. Raw material and equipment suppliers, for example, can give advice on stock levels to help the firm take advantage of lower prices or avoid anticipated price hikes, or could suggest keeping a given piece of equipment for longer than planned because a new and better technology is due to be released in the near future. Downstream are customers and intermediaries such as transportation contractors and distribution sector firms (wholesalers, advertisers, etc.). These latter can be extremely valuable, not only in helping market products, but also by providing information to trigger changes in products or distribution methods, or to help develop markets. For example, if truckers are on the lookout for changes in the firms to which they deliver goods, they can help their employers to broaden their markets, prevent incursions by competitors or make changes to distribution systems in order to be more competitive. Their advice is beneficial to both the producer and the transporter.

Another kind of network is the information network, which usually comprises consulting firms, training organizations, the advisory branches of financial institutions, research centres, various government assistance agencies and exhibition contacts. Networks such as these may simply provide general information, such as audit and accounting services or quality system certification, or they may be much more active, actually stimulating change by providing firms with new information that enables them to innovate and stand out from their competitors.

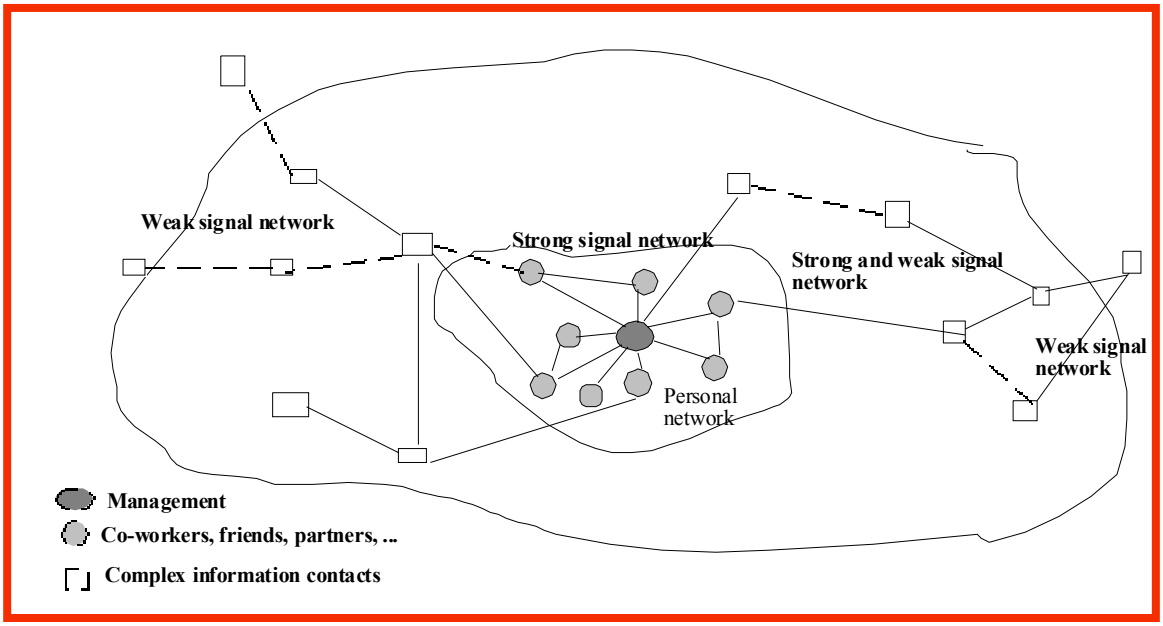
Obviously, members of business or information networks may also become members of personal networks and hence be consulted more frequently, depending on the quality of their information and the level of trust developed. Discussions with information network members may be regular or sporadic, again depending on the quality and extent of the information offered and shared.

Sociologists (Langlois, Granovetter, 1973; Krackhard, 1992) have drawn a distinction between strong tie networks and weak tie networks. The former are the result of frequent contacts with close collaborators, generating a high level of knowledge and mutual trust. The latter tend to be more "distant" from the firm's natural environment or sector, involving people who are encountered sporadically or only once. For Granovetter (1982; 1995), strong ties usually produce a more intense relationship between the interlocutors, promoting closeness and transitivity between sources, thus leading to more repetition and hence less new information. Strong ties tend to create closed zones, reproduce the same mental representations and provide overlapping information, while weak ties act as bridges to other

networks for specific, one-off, new (and usually partial) information (Sundbo, 1998). These studies assert that innovation is derived principally from weak ties; strong ties tend to promote conformity within the group, unless it accepts deviance. In other words, friends and close acquaintances tend to resemble one another and their contacts rarely lead to innovation, whereas contacts with new people lead to rejection or questions that, in turn, generate development.

From the economic standpoint, and in light of the information bias discussed earlier, we believe it is preferable to use the terms “strong signal” and “weak signal” networks. Generally speaking, strong tie networks provide information that is easy to understand – in other words, based on strong signals - whereas weak tie networks usually provide weaker, more sporadic signals that require more effort to be understood (Julien, Andriambeloson and Ramangalahy, 2003). Weak signals must be interpreted. They often need to be repeated due to inattention and lack of trust; either that, or confirmation must be obtained from other sources. For Caron-Fasan (2001), the notion of weak signal is closely linked to limited duration and retention difficulties, especially as weak signals tend to be buried and scattered in a host of other information and “background noise” (Leska, 2001). Weak signals come from organizations that are “removed” from traditional business fields, such as research centres and universities (Friedkin, 1980; Woodward, 1988), but also from chance meetings. They may also be found in tacit internal information – for example, information from machine operators or sales agents. To penetrate a weak signal network, entrepreneurs must usually act through intermediaries who are members of strong signal networks, as shown in Figure 1, which illustrates the relationship between different types of network links.

Figure 1. Diagram of Entrepreneurs’ Principal Networks



Source: Adapted from Johannisson (1995)

However, the richest networks combine strong signals (because their members are used to working together) and weak signals (because of differences in the members' knowledge and know-how). Such networks include alliances with other dynamic firms to support research and development, for example (Gulati, 1991). Another highly effective form of networking is membership of a network enterprise, usually comprising one major order-giver and different levels of sub-contractors (Aliouat, 1996). Their purpose is to create shared synergy or a group learning system that enables the network to stand out from its competitors. An example would be the Bombardier Chair network (Julien, and al., 2003).

Network structures differ in terms of types of contacts, the positions of members, the level of proximity, and their size, density, diversity or quality. Contacts may be primary, i.e. direct contacts between members, or secondary, i.e. indirect, through intermediaries who are members of the network. These indirect contacts lend credence to secondary information, even though its source is unknown to the recipient, because of the recipient's trust in the intermediary. The intermediary can also recommend ways of approaching the information source to derive maximum benefit from the desired information. In many networks, contacts are established along a chain of people who know each other well, so that the information obtained is as precise as possible and answers the question asked. It is these secondary contacts that are the principal benefit of a network structure, since they reduce the time required to remove obstacles to innovation by providing firms with mechanisms for action.

Shan, Walker and Kogut (1994) found a positive link between the number of relations in a network, their position within the network, and innovation. However, there are still many fuzzy areas and many questions to be answered, among other things because of the way networks tend to complement one another and the fact that information gathering is a cumulative process that depends to a large extent on the firm's ability to absorb the data obtained.

A good primary network therefore need not necessarily be large, since one of its roles is to provide contacts with other networks. Based on the principle of least difficulty (Bok and Toulouse, …), a network that is too big generates too much "noise", or misunderstanding, due to the members' lack of reciprocal knowledge. Valency[3], i.e. the ability to contribute, obtain and absorb subtle, appropriate information in a network, is determined by the number of members and the level of attraction or repulsion. If there are too many members, contacts will be tenuous and the information available will be of poor quality because the members do not know one another well and are therefore unable to adjust the data to one another's needs. Conversely, if there are too few members, the information will be insufficiently varied and synergy will be lacking. Friedman (1978) calculated that the optimal number of members (along a bell curve) is approximately 15, and that larger groups will tend to break down into subgroups of roughly that number, to limit noise and allow for the creation of effective partnerships.

The number of members is not the only defining factor, however; there is also the question of diversity and multiplexity. A network composed of people who share similar ideas is not particularly rich, since it will not usually generate many new or complex ideas, or may simply provide the same information over and over again. Repetition is not necessarily a bad thing, especially for entrepreneurs who may be distracted. However, Burt (1995), with his theory of

[3] In chemistry, valency is the number of atoms able to interconnect. In psychology, it is the subject's attraction to (positive valency) or repulsion from (negative valency) others.

structural holes, i.e. missing links between potential interlocutors, stated that the more holes there are, the less the information will tend to repeat, and the newer and richer it will be as a result.

Either way, a good network should be composed of different types of members contributing different ideas - although diversity without depth, i.e. without frequent discussion, prevents the members from getting to know one another properly, with the result that they are unable to adjust their answers to their interlocutors' needs (Degenne and Fossé, 1994; Human and Provan, 1997). Network quality is measured by the members' ability to provide rich information, i.e. information that is timely, new, decoded and adjusted (Darf and Lengel, 1984; Weick, 1993). The more diverse a network (Aldrich and Zimmer, 1986), the more its information comes from experts as opposed to peers (Rueff, 2001), the greater the number of information channels (Nonaka, 1994) and the more capable the entrepreneurial team of absorbing the information (Cohen and Levinthal, 1990), then the higher the quality of the network.

Like the information itself, which differs according to needs and absorption capacity, quality differs according to the strengths and weaknesses of the firms, the type of market and the firm's strategy. A very small firm operating in a niche such as customized furniture or antique reproductions does not need as complex an information network as a biotechnology firm, and a capacity subcontracting SME can, to some extent, use its order-giver's information networks, whereas a haute couture firm needs worldwide connections to forecast future colours, fabrics and fashion trends.

METHODOLOGY

The population of regional firms used for the research was obtained from the 1999 directory of a financial assessment firm (i.e. the Scott directory, published every year, in which manufacturing firms register voluntarily). For the Mauricie region of Québec, Canada, the directory contained 532 manufacturing firms for the year in question. Ninety-two firms that were not members of regional networks were eliminated; these included the large paper mills, metal product and chemical product manufacturers, along with some small and medium-sized companies whose decision-making authorities were located outside the Mauricie region. This left 440 firms, plus a further 100 firms identified by the Francheville local development centre (LDC) within the Francheville regional county municipality (RCM)[4] that were not in the original Scott database (mostly recently created small firms). We therefore mailed a total of 540 questionnaires, 34 of which were returned unopened because the firms no longer existed. The total survey population therefore comprised 506 firms.

The questionnaire was composed of 21 questions divided into three sections. The first section examined the entrepreneur's management experience and membership of associations, while the second addressed the firm's development (sales, profits, exports, strengths and problems), and the last was concerned with the entrepreneur's networking

[4] A regional county municipality is a grouping of villages and cities within a fairly small area, with a total population that is usually under 100,000 inhabitants. The RCMs were created by the Québec government to oversee shared services and plan local development. Québec has 95 RCMs, excluding the large cities.

activities (number and type of people, time devoted to networking, satisfaction level, etc.). The questionnaire was addressed to the firms' owner-managers.

We sent out reminders, along with additional copies of the questionnaire, to 167 firms that did not respond to the first mailing. In all, 110 firms submitted responses, for a total of 22% of the original population of 506 firms. Table 1 shows the distribution of respondents by size and geographical location.

There was one notable difference in response rates by size of the firm, in that we received responses from only 12% of firms having fewer than five employees, compared with 26% to 28% for the larger firms. Thus, if the under-five-employee group is excluded from the population, the overall response rate is over one-quarter (27%). The low response rate for the smaller size group is somewhat surprising; it seems reasonable to think they would be more interested in joining regional networks and hence more interested in answering the questionnaire. Perhaps, in reality, they are indifferent to the issue of networks, or do not feel involved. In any case, although their reluctance to respond did not compromise overall representativeness, it is clear that the sample is more representative of the population of firms having five or more employees. The results presented here therefore apply this population only.

Table 1. Representation of Respondents: Size and Geographical Location

	All Sizes			5 Employees and Over Only		
	Population	Respondents	%	Population	Respondents	%
By size:						
1 to 4 employees	175	21	12%	-	-	-
5 to 9	103	27	26%	103	27	26%
10 to 19	92	26	28%	92	26	28%
20 to 59	80	21	26%	80	21	26%
60 to 600	46	13	28%	46	13	28%
Total	496	108	22%	321	87	27%
By RCM:						
Haute-Mauricie	8	2	25%	4	1	25%
Mékinac	47	13	28%	29	11	38%
Centre-Mauricie	78	17	22%	49	14	29%
Maskinongé	81	16	20%	64	13	20%
Francheville	292	62	21%	175	48	27%
Total	506	110	22%	321	87	27%

With regard to geographical location, the Mékinac RCM provided the highest response rate, with 28% of respondents if the very small firms are included and 38% if they are excluded. The Maskinongé RCM contributed only 13 respondents (20%), instead of the 17 it should have provided (27%). Response rates in the other RCMs were close to the mean. The Francheville RCM, which contains the region's largest city (Trois-Rivières), accounted for 292 of the 506 firms in the sample, i.e. slightly over half, and also provided slightly over half the respondents.

The principal results from the survey are presented in three sections. The first section describes the principal networking practices of the respondent firms, i.e. the main people contacted, the time devoted to networking, creation of new contacts and overall satisfaction with networking activities. The second section presents an "orientation indicator" for owner-managers' contacts based on distance from or proximity to the firm. The purpose of this is to operationalize the notion of weak and strong ties discussed earlier. We will explain in detail how the indicator is calculated in the "General Results" section. Also in the second section are the results of comparing the indicator against the size, industrial sector, type of product, strengths and difficulties of respondent firms.

The third and last section contains a typological analysis of the information sources used by the sample firms. As a result, we were able to classify each firm into a specific behavioural group (or type). Our hope was to identify some qualitative, as opposed to quantitative, differences between the groups (i.e. different behaviours or associations); it was this that made the analysis more interesting than a unidimensional scale would have been. The groups presented were classified according to the types of contacts the owner-managers said they maintained for discussion of their firms' development.

We also present the group profiles, differentiating between behaviours according to certain general characteristics, including membership of associations, types of people contacted, and the level of expertise and difficulties declared by respondents.

GENERAL RESULTS

The general results concerning networking practices show that two-thirds of respondents had discussed various aspects of their firms' development with at least five different people in the six months preceding the survey. Some 20% talked to between six and ten people, 9% with between 11 and 20 people, and 5% with more than 21 people. Three-quarters (72%) also said they spent less than five hours a week on this activity, with 23% spending between six and ten hours, and 5% spending more than 11 hours.

The principal people involved in the discussions were more or less the same as those mentioned in the scientific literature (Johnson and Kuen, 1987; Fann and Smeltzer, 1989; Brusch, 1992; Julien, 1995), namely personal friends (75%), customers (72%), suppliers (71%), other entrepreneurs (69%) and consultants or professionals (65%). Other, less commonly used interlocutors included financial institutions (49%), government agencies (35%), industrial associations (24%) and competitors (21%). If we look at the total number of people consulted by the 110 respondents on issues relating to business development, other entrepreneurs rank first (113 people, or an average of one per entrepreneur), followed by friends (107 or nearly one per entrepreneur), customers (105 or an average of 0.95 per entrepreneur), suppliers (101 or 0.91) and consultants or professionals (99 or 0.90).

Most of the contacts were with people the entrepreneurs already knew, and can be described as strong ties providing strong signals. Some 30% of respondents said they had not talked to any new people, 46% estimated the number of new people at only 10%, 10% estimated the number of new people at 25%, and only 13% said more than half their contacts were new

people. The new contacts were not always sustained over time; 75% of respondents said they kept in contact with only a few people, and only 29% kept in contact with most of their new acquaintances. It is therefore reasonable to state that single meetings resulted from weak ties and provided weak signals, whereas recurrent meetings gradually evolved into stronger ties providing stronger signals.

Overall, the respondents said the time and energy spent on maintaining and developing networks was "fairly" (60%) or "very" (22%) advantageous to their firms. Only 19% thought it was "not very" advantageous, suggesting that, in these cases, the networks were slow to develop.

One of the aspects of networking of particular interest to us was the notion of strong and weak ties, or the contact's proximity to or distance from the firm. To establish proximity and distance of contacts, which we refer to as the orientation indicator, we weighted the different types of ties mentioned by respondents. Taking the theoretical elements shown in Figure 1, we ascribed a weighting of 1 to the entrepreneur's personal contacts (co-workers from prior employment, personal friends, key employees, etc.), a weighting of 2 to the firm's business contacts (customers, suppliers, financial institutions, etc.), a weighting of 3 to other indirect contacts close to the firm or the entrepreneur (other entrepreneurs, industrial associations), and a weighting of 4 to indirect contacts further removed from the entrepreneur (competitors, consultants or professionals, government or public agencies, universities, research centres, etc.). The weighted total of all declared contacts became the orientation indicator. The higher the indicator, the further *removed* the contacts from the entrepreneur or the firm (e.g. government agencies), the more likely they are to be weak ties providing weak signals. Conversely, the lower the indicator, the *closer* the contacts to the entrepreneur or the firm, the more likely they are to be strong ties providing generally strong signals.

We compared the firms' level of networking satisfaction with the orientation indicator and other survey variables. For example, we asked the firms if they had made profits or increased their sales in the last year, and if they expected to do so in the coming year. The results of these comparisons were significant.

The most significant finding to emerge from our assessment of networking activities was the fact that the more satisfied respondents were with their networking efforts, the more likely they were to have increased or anticipate an increase in their sales, the more their firms' profits had increased, and the higher their orientation indicator. In other words, the people they had consulted were further "removed" from the firm, and constituted weaker ties than the firm's regular business contacts. Our findings in this respect are shown in Table 2 below.

Table 2. Some Findings Relating to Networking Satisfaction

Satisfaction with networking activities	n	Increased sales	Increased profits	Anticipated increase in sales	Contact orientation indicator
Not very	19	3.0	4.0	3.5	4.0
Fairly	61	3.1	3.9	3.5	5.3
Very	22	3.8	4.5	4.1	6.7
Overall	102	3.3	4.0	3.6	5.3
Linearity* (sign.)		.000	.031	.000	.001

* Significant according to the Mantel-Haenszel linearity test.

These results suggest that a network of contacts directed towards weaker links will help the firm achieve positive operating results. As we said earlier, the idea of "remoteness" is easier for business people to understand than the notion of "weak signals", and yet the two are highly consistent, because in both cases the sources are less familiar with the entrepreneur, the firm and probably the industry itself. Table 3 also shows that the more employees the firm has, the more it is likely to turn to remote (weaker signal) sources.

Table 3. Contact Orientations by Size, Industrial Sector, Type of Products and Exporting

Size (Number of Employees)	**n**	**Mean Orientation Indicator**
1 to 4	18	4.25
5 to 9	23	4.50
10 to 19	25	5.41
20 to 59	18	5.79
60 and +	12	6.62
Industrial Sectors		
Chemistry	2	3.17
Rubber/plastic	3	3.62
Mineral products	7	3.82
Medical instruments	3	6.93
Electric/Electronic	5	9.22
Type of Product and Exporting		
Lightly processed materials	24	4.04
Technology products	10	8.33
Exporters	35	6.44

As well as size, industrial sector was also a factor in determining the orientation indicator. For example, the electric/electronics sector obtained by far the highest score, at 9.22. Generally speaking, firms producing lightly processed goods had lower orientation indicators, meaning their information sources were closer to the entrepreneur or firm, than those producing technology items (4.04 as opposed to 8.33). Exporting firms had higher than average orientation indicators (6.44).

We also compared the strengths and difficulties mentioned by respondents against the types of people contacted[5]. We found that contacts and sources varied according to the firm's strengths or perceived difficulties, suggesting that technology watch or networking is tied in with the firm's prior or current needs. For example, if a firm's strengths lie in certain practices or areas, this may be explained by its contacts with certain sources, or on the contrary, if its strengths are sufficient, sources may actually be abandoned as they lose their utility. However, if a firm experiences certain difficulties, this may be due to the fact that it is unaware

[5] Table 6 presents a full list of the strengths and difficulties proposed in the questionnaire.

of information sources that could help it, or it could explain why the firm uses certain sources rather than others, in the hope that they will help it solve its problems.

The analysis shows that firms with strengths or difficulties related to partnerships or strategic alliances are more likely than others to consult competitors, consultants, professionals or public and government agencies. Similarly, firms that have introduced or are finding it difficult to introduce advanced production methods are more likely to be in contact with consultants and professionals. On the other hand, those with good R&D skills are more likely to have strong ties with customers, other entrepreneurs and consultants, while those with R&D problems tend not to have sufficient contact with their customers, but have more contact than average with financial institutions, other entrepreneurs and (especially) public agencies. Firms that have solved the problem of obtaining skilled labour tend to work more with consultants and professionals, while those that have not tend to work less with their customers and more than average with government agencies. In the case of workforce training, firms that feel they are strong in this area make more use of sources such as other entrepreneurs and consultants, while those that have problems tend to have less contact with their competitors and more with government agencies. Lastly, firms that feel they have good total quality skills tend to consult other entrepreneurs, competitors, consultants and (especially) industrial associations, while those that are weaker in this area have no particular sources of information, except perhaps other entrepreneurs.

A TYPOLOGICAL ANALYSIS

A typological analysis is a method that seeks to identify types of behaviour within a population. It involves first establishing a classification and then counting the number of matching firms. Or, as we did, the classification variables can be used in a statistical process. We performed a hierarchical typological analysis using SPSS software (Wald's method), based on the contacts respondents said they maintained to discuss their firms' development. Each contact was ascribed a value of nil (0), a few (1) or several (2). We retained a four-group classification.

Table 4 shows that the 57 group 1 firms discussed their development only with their customers, suppliers or competitors (although no more so than the other firms), and rarely with other types of contacts. In other words, slightly over half the sample (60%) discussed development with a very limited circle of people.

Table 4. Typological Analysis of Four Groups of People by Importance of Different Information Sources

		Groups (Number of firms per group)			
People Contacted	**Number**	**1** (57)	**2** (18)	**3** (11)	**4** (12)
Customers	None	13	3	3	9
	A few	43	13	7	2
	Several	1	2	1	1
Suppliers	None	19	0	2	9
	A few	36	15	9	3
	Several	2	3	0	0
Competitors	None	47	16	2	12
	A few	10	2	9	0
	Several	0	0	0	0
Consultants Professionals	None	32	0	0	3
	A few	24	18	10	7
	Several	1	0	1	2
Industrial Associations	None	51	15	0	9
	A few	6	3	9	3
	Several	0	0	2	0
Financial Institutions	None	49	0	0	1
	A few	8	18	11	10
	Several	0	0	0	1
Public and Government Agencies	None	49	15	0	0
	A few	7	3	11	11
	Several	1	0	0	1

The 12 group 4 owner-managers only rarely discussed development with their closer contacts, preferring consultants, professionals and (especially) financial institutions and government or public agencies. Group 2 comprised 18 firms and was characterized by the use of consultants, financial institutions and suppliers, but not competitors or government agencies.

Group 3 comprised 11 firms that consulted customers, suppliers, consultants and financial institutions to the same extent as the other sample firms, but tended to concentrate more on competitors, industrial associations and government agencies. Groups 2 and 3 therefore have somewhat different profiles, while groups 1 and 4 have opposite profiles.

Table 5 shows some other characteristics of the four groups, based on other variables.

Table 5 Some Characteristics of the Four Groups

Characteristics of Groups	Groups (Number of firms per group)			
	1 (57)	**2** (18)	**3** (11)	**4** (12)
Number of people contacted	5.3	8.3	17.7	9.5
Respondent's origin				Outside Mauricie
Satisfaction with contact network	Not very	Fairly	Very	Fairly
Product features	Lightly processed materials		Complex technologies	Complex technologies
Exporting situation	Non-exporter		Exporter	Exporter
Membership of different types of associations	Development, management development	Business	Business, development, management development, professional	

The first group (group 1) contacts fewer people, is less satisfied with its network of contacts, produces lightly processed goods and does not export. Group 2 discusses development with the average number of people identified in the survey (8.3) and is fairly satisfied with its networking activities. The other two groups, especially group 3, with 18 interlocutors, consult more people, thus exhibiting a greater desire to discuss business development than the other groups. They are either fairly satisfied or very satisfied with their contacts. They produce goods with a high technology content and all of them export their production.

A further distinguishing feature is the owner-manager's membership of various associations. Respondents were asked to identify up to four associations of which they were members; 28% did not identify any associations, 24% identified one, a further 24% identified two, 10% identified three and 15% identified four. Thus, only one-quarter of the sample owner-managers were members of more than two associations or groups. The owner-managers of the larger firms tended to be members of more associations. Of the 79 respondents who were members of at least one association, one-third (33%) were also on the councils or boards of the associations concerned. This percentage increased proportionally to the number of associations; only 9% of the respondents who were members of one association were also on its board, compared with 35%, 46% and 56% respectively for those who were members of two, three or four associations.

The most popular associations were sector-based (35% of respondents mentioned at least one of these), followed by associations directly related to the firm's specific business (34%). Business development associations were less popular (15%), as were those of a more personal nature, such as professional associations (10%), clubs (8%), social clubs (8%) and leisure associations (4%). Table 5 below shows that the group 1 firms are less likely to be members of development associations (e.g. technopoles) and management development associations (e.g. business managers' groups), while group 3 firms are more likely to be members of these types of associations, and of professional (e.g. engineers' order) and business associations (e.g. chambers of commerce). Group 3 contains the 26 firms that said

they did not belong to any associations. Group 2 members are more likely to belong to business associations, while group 4 has no distinguishing features in this respect (i.e. it is situated within the mean for all types of associations).

Table 6. Differences Between the Groups by Skills and Difficulties.

	Groups (Number of firms in the group)				**Groups** (Number of firms in the group)			
	Stated Skills				**Stated difficulties**			
	1 (57)	**2** (18)	**3** (11)	**4** (12)	**1** (57)	**2** (18)	**3** (11)	**4** (12)
Proposed Fields								
Managerial staff	34	15	10	6	5	1	0	2
Technical staff	27	12	9	5	5	1	0	2
Search for skilled labour	6	5	1	1	32	11	8	9
Training of skilled labour	14	11	2	4	16	6	5	4
Human resource management	17	10	6	5	7	2	2	2
Financing and capital sources	19	15	7	4	9	2	3	5
Quality certification	14	8	5	4	7	2	3	2
Advanced production methods	12	11	6	4	7	0	1	2
Research and development	13	8	4	4	10	1	2	2
Research centres, universities	4	2	5	2	14	4	2	5
Management strategies and methods	18	13	8	6	9	1	0	2
Partnerships, strategic alliances	12	8	8	3	9	4	3	4
E-commerce, Internet	12	7	4	1	11	4	5	6
Product marketing	11	8	3	1	10	2	1	7
Exporting	17	7	4	4	10	5	5	5
Distribution and transportation	7	6	2	3	8	4	5	4
Government aid programs	17	12	4	6	7	2	2	2
Government stakeholders	5	3	4	3	15	6	3	6
Contact network	3	4	3	0	8	2	3	5
Consultants and professionals	15	7	3	6	10	4	1	1

As we said earlier, contacts and information sources vary according to the strengths and perceived difficulties of the firms. These differences are clearly visible in the results of our typographical analysis. For example, Table 6 shows that the 57 firms in group 1 declared fewer than average skills in the “management strategies and methods” and “partnership and strategic alliance” categories.

The 18 group 2 firms declared more strengths or skills than all the other firms, including skills in the managerial staff, skilled labour search, skilled labour training, financing, production methods, e-commerce and government aid program categories. The group 3 firms, for their part, declared more skills in the technical staff, managerial staff, research centres and universities and partnership/strategic alliance categories, while the group 4 firms did not stand

out in any particular category, but did report difficulties in the e-commerce, marketing and network categories.

If we look at the characteristics of the four groups of firms, we see that the group 1 firms differ significantly from the other three groups. According to their profile, they could be described as “local” or “traditional” (Julien and Chicha, 1982; Rizzoni, 1988; Marchini, 1988), while the firms in the other groups, better described as “emerging” (Marchini, 1988) and probably more involved in international competition (Huppert 1981), exhibit somewhat more dynamic profiles.

Firms in group 1 produce slightly processed goods, do not export, are in contact with fewer people, are less likely to be members of associations and tend to turn primarily to traditional business sources. They make less use of consultants and public or government agencies. They also admit to having very little expertise in terms of management strategies and methods, partnerships and strategic alliances. However, they are also less satisfied with their contact network, suggesting a desire or a need to improve and a certain awareness of the benefits and gains to be obtained from networking, even though they may not have had the time or know-how to proceed.

The profiles of the other three groups are less clear. However, group 2 firms appear to differ from group 4 firms, and especially from group 3 firms. Although group 2 contains only a handful of technology-oriented and export-oriented firms, they can hardly be described as “craft” firms in the sense given to the term by Filey and Aldag (1978) or Stanworth and Curran (1976). In fact, their profile suggests that these firms are the ones that believe they have the largest number of strengths or skills, although the number of reported difficulties the same as for the other groups. Like the other groups, they maintain contacts with their suppliers, consultants and financial institutions, but their owner-managers are more likely to belong to professional and business associations. They appear to be well established – more so than the firms in the other groups.

The group 3 firms, as we saw earlier, consult more people than firms in the other groups (twice as many as group 4 and three times as many as group 1). They produce complex technological goods and all of them export. They are also more likely to belong to professional and business associations. They exhibit the highest level of networking satisfaction of all the groups, and also declare greater than average expertise with regard to technical staff, managerial staff, relations with research centres and universities, partnerships and strategic alliances. Their profile is therefore dynamic and technology-oriented.

The profile of group 4 firms is atypical compared to the other three groups. They are less likely to consult traditional business contacts such as customers and suppliers, and tend to concentrate more on remoter contacts such as government agencies and services. They have no special areas of expertise, but tend to experience difficulties with e-commerce, marketing and contact networks. With regard to this latter problem, group 4 is the group that, proportionally speaking, contains the highest number of owner-managers not originally from the Mauricie region. This suggests they may be more inclined to use government and public services because their personal networks are less well developed.

CONCLUSION

These results throw additional light on the “black box” and on the use made by firms of networks and other information sources, showing that their networking needs differ according to the business sector, size and strategy of the firm, and its strengths and difficulties. However, a firm’s networks are not static; they evolve through chance meetings and to meet new needs generated by problems. They also evolve over time, as the firms make choices from among chance meetings, either to strengthen their existing networks or to prevent the occurrence of anticipated problems.

Relatives, friends and close acquaintances become network elements known as *strong ties* or *strong signals*. Many authors have shown that strong ties are extremely important in supporting business development. However, if a firm is to develop more quickly, it must also work with “remote” or *weak tie* networks that provide *weak signals*, at least in the early days. Weak signals are difficult to decode, because they are unusual and often incomplete. However, they are the most important signals for discovering new opportunities and supporting innovation. It is for this reason that the more dynamic regions are characterized by a significant number of *weak ties*.

Overall, our findings show that *weak tie* networks are practically non-existent in the Mauricie region, or are used by only a small percentage of the firms surveyed. However, our study also had an operational focus. Accordingly, the findings were used to convince stakeholders that better networking was needed, since the firms with the best networks were the most effective in many respects. In other words, they served to open the door for further action.

We are currently engaged in an experimental intervention in the furniture industry. We began by telephoning the 110 firms that responded to the survey questionnaire, to see if they were willing and available to participate in a new network tailored to their specific skills and difficulties. As our findings showed, the sample firms, especially those in the furniture sector (which has been particularly dynamic in the last ten years), were especially concerned about the problem of labour (recruitment and training). We put the seven interested firms into contact with some regional economic stakeholders and an agency specialized in labour training in the furniture sector. The purpose of this new network was to review the various training programs currently available and to tailor them as far as possible to the specific needs of the individual firms, while reviewing certain qualification criteria (subsidies, target clientele, in-firm training, etc.). Following half-a-dozen meetings held over a six-month period, a number of parameters were established, reflecting the firms’ needs, and the network is continuing its activities.

If practices such as this can be developed, the resulting new networks will not only help solve the problems of many of the region’s firms, thus supporting their development, but will also help institute cooperative practices by giving firms new reasons to work with other economic players or extend their networks for new projects. They should also help increase innovation and extend markets in the Mauricie region, thus allowing it to face up to the new knowledge economy.

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EVALUATION OF AUDITS PERFORMED BY CONSULTANTS IN A CONTINUOUS IMPROVEMENT PROJECT FOR SMES IN QUÉBEC'S PLASTICS SECTOR

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ABSTRACT

In the present globalization context, above-all in regions and in those industrial sectors especially exposed, increased productivity and the need to innovate are prerequisites to the survival and competitiveness of SMEs. It is no longer possible for the various intervening parties (governmental and industrial) to remain isolated. The efforts of all concerned must be combined and coordinated. This paper briefly presents a project in which different partners were regrouped. The ultimate purpose of this project is to bring 60 plastic sector SMEs to a world-class level. This paper focuses specifically on the role and contribution of researchers of the Small Business Research Institute.

The Canadian Association of Plastic Industries (Quebec section) brought together a group of partners (government agencies, regional economic organizations, scientific institutions, expert firms and SMEs) for the purpose of evaluating 60 plastic sector SMEs from 5 regions on their productivity as well as their capacity to use innovation as an economic growth vehicle. The purpose of this evaluation is a series of recommendations leading to a two-year ongoing improvement plan. The researchers' role is to supply the expert firms with complementary tools enhancing the expertise they already possess in order that a complete audit be made. The firms must analyze 9 dimensions (ex: management, R&D, innovation) made up of a total of 75 variables. Moreover the researchers' role is to evaluate the diagnosis made by the expert firms. This paper presents the methodology used as well as the comparative results of 11 SMEs' evaluations performed by 8 expert firms. These results show that performance varies considerably from one firm to another. Finally, the measures taken to reduce the inconsistencies between firms are presented.

The CPIA Project

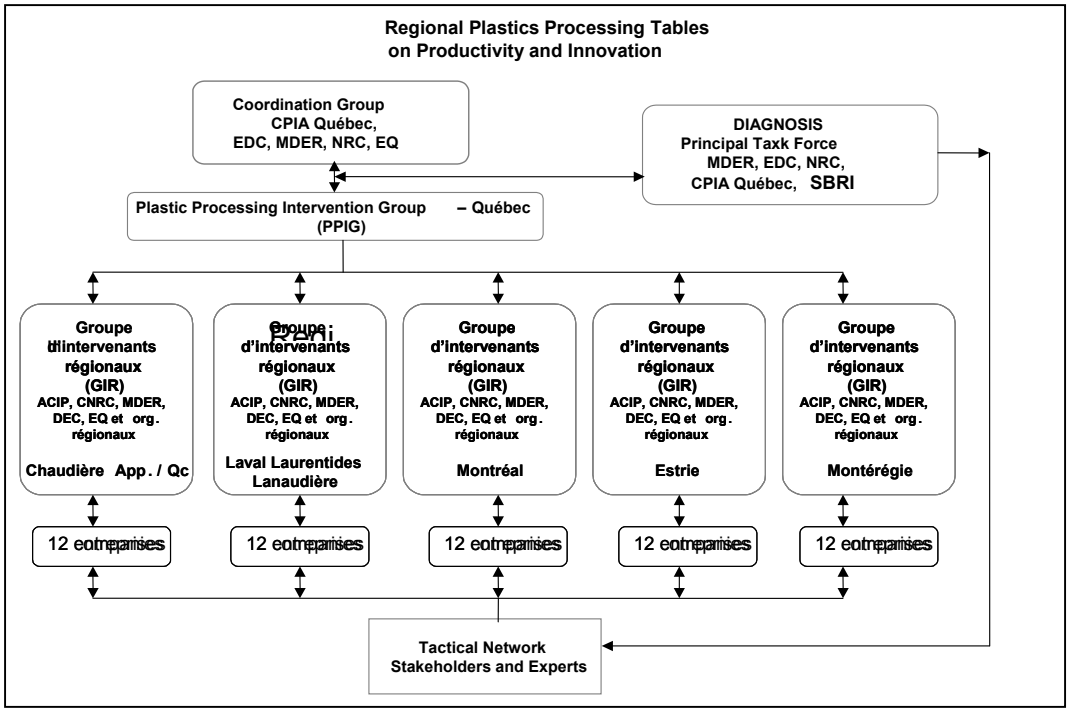
Québec has a total of 300 firms in its plastics sector. The Québec section of the Canadian Plastics Industry Association (CPIA) serves as their umbrella association. Its mission is to promote the prosperity and international competitiveness of the Canadian plastics industry in an environmentally and socially responsible way. The Association is highly dynamic, and was named Association of the Year in Québec in 2003 by the Canadian Society of Association Executives (CSAE). To achieve its mission, it has attracted, assembled and mobilized a range of stakeholders who have helped ensure the success of its projects.

The CPIA'S principal financial partner is Economic Development Canada, in collaboration with certain government departments and agencies, including Québec's Ministère des Finances and Ministère de l'Économie et de la Recherche (MFER), Emploi Québec, the Agence d'efficacité énergétique du Québec, the Business Development Bank of Canada (BDC), the Industrial Research Assistance Program (NRC/IRAP) and Exports and Development Canada. It also works with various scientific research institutes such as the Centre de recherche industrielle du Québec (CRIQ), the Institut de développement de produits du Québec, the Centre francophone de recherche sur l'informatisation des organisations (CEFRIO) and the Institut de commerce électronique, as well as regional economic development agencies such as Action PME Beauce and Chaudière-Appalaches Exportation, and other corporations and organizations including Hydro-Québec and the World Trade Centre (WTC).

CPIA also works in partnership with seven private consulting firms in the productivity sector and with researchers from the Small Business Research Institute (SBRI) and its Business Performance Research Laboratory at the Université du Québec à Trois-Rivières (UQTR).

The purpose of this long list of agencies and organizations is to illustrate the quantity, variety and diversity of CPIA's project partners, which have contributed funding, expertise and commitment to its undertakings over the years. Among its numerous activities, CPIA has developed a project aimed at increasing the productivity of 60 of its member companies by 20%, and enhancing their ability to use innovation as a motor of economic growth, thus reducing the gap with other industrialized countries. The project known as the "Regional Productivity and Innovation Tables", is the subject of the research described in this paper, and its structure is shown in diagram form in Figure 1 below.

Figure 1: Structure of the Regional Productivity and Innovation Tables



Research and excellence are the motors of growth for firms hoping to achieve world class. To support their growth, plastics industry firms must therefore engage in a process that will help them incorporate value systematically into every level of their organization. The CPIA approach helps steer this ongoing process towards its ultimate objective.

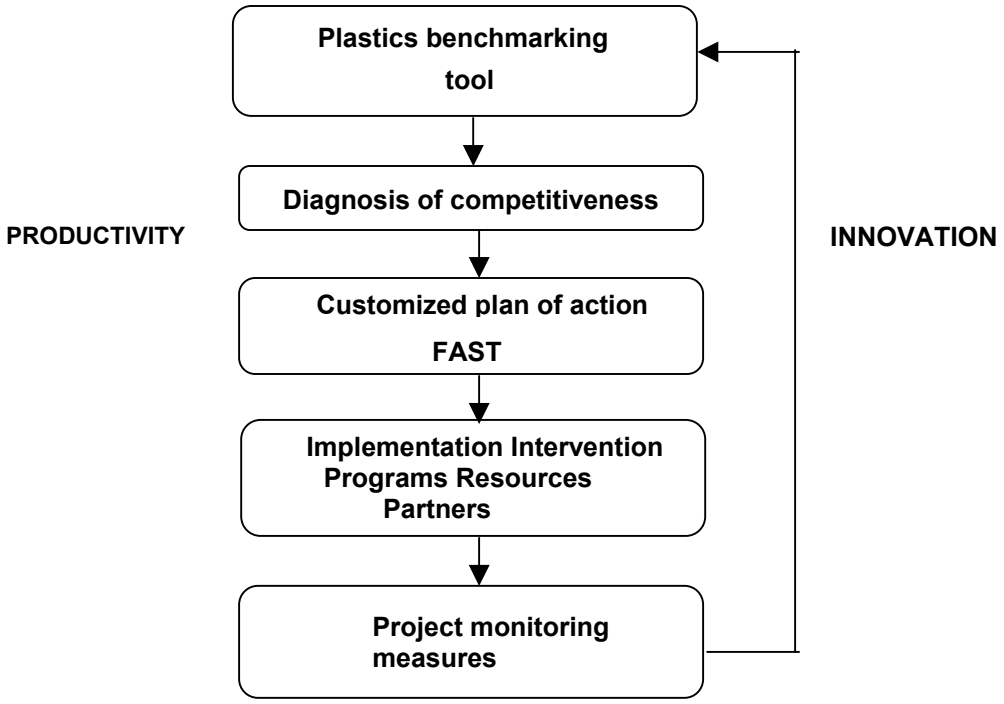
The specific goals of the CPIA's project are:

- To prepare and implement a customized plan of action for each firm over two years, involving the maximum number of available resources to achieve the best possible results;
- To provide industrial decision-makers in the plastics sector with a structured, integrated approach;
- To speed up the acquisition of best practices in productivity and industrial innovation;
- To foster discussion and develop a culture based on shared experience and knowledge;

- To establish industrial business models tailored to the culture in Québec.

Figure 2 shows the intervention approach used to achieve these goals.

Figure 2: Intervention Approach – Regional Productivity and Innovation Tables in the Plastics Sector



The Role of the Small Business Research Institute Researchers

The Canadian Plastics Industry Association (CPIA) asked the Small Business Research Institute (SBRI) to develop a productivity-innovation audit, lay down guidelines for its content and identify the conditions of application. The audit would then be performed by seven consulting firms identified in advance by the CPIA.

To derive maximum benefit from a world class integrated value-added approach, firms must be able to understand, structure and plan their activities. The first step in this process is a productivity-innovation audit performed by consultants, culminating in a series of organizational and operational recommendations. The recommendations are then structured to form an intervention plan that serves to support ongoing improvements in the firm. Specific actions are proposed to support the firm's growth, as part of a joint plan of action.

The audit must be presented in such a way that the subject firms can clearly identify their strengths and weaknesses, and then draw up a plan of action aimed at improving their competitive capacity and achieving their strategic objectives. It must also include as accurate an assessment as possible of the firm's current business processes and highlight any elements to be improved. Lastly, it needs to identify possible solutions and opportunities for improvement.

The final goal established by CPIA was to improve the productivity of its member firms by 20%, and enhance their ability to use innovation as a motor of economic growth.

Productivity and Innovation

CPIA contacted the SBRI partly because of the expertise of its researchers in the field of added value production and innovation audits, and partly because of its experience with similar business audits (Julien, Lachance, Drolet and de Ciurarra 2003; Lagacé, Trépanier and Lachance, 2003; Lagacé, 2003).

In a chapter of a book detailing the ten years of existence of the Bombardier Recreational Products Chair[1] (Julien, Lachance, Drolet and de Ciurarra 2003), Pierre-André Julien, the Chair's director, described the audit method developed by the Chair's researchers as a multidisciplinary analysis that:

"… goes further by allowing for a systematic process of change leading to continuous improvements (Kasul and Motwany, 1995; Gunaserakan, Okko, Martikainen and Yli-Olli, 1996). This was the goal we set ourselves for the audit technique developed by the Bombardier Chair. We called the audit a "characterization study". It is used to characterize firms on the basis of certain organizational and operational factors, and then to set up a strategic ongoing improvement plan. The short-term goal is to help firms apply the just-in-time principles sometimes required by order-givers, while the longer-term goal is to bring them gradually to a so-called world class level of production."

An analysis grid was developed from the audit methodology, to be used by CPIA's consulting firms for their audits. The grid was adjusted and enriched, with special attention to analysis tools in the innovation component. Current research into innovation did not appear to fully explain the factors that drove SMEs to innovate. Accordingly, the SBRI developed an *innovation audit* that can be used to identify a firm's innovative potential (Lagacé, 2003; Lagacé, Trépanier and Lachance, 2003), and also to help firms support their innovation activities. In short, the goal was to build a tool that could be used to review innovation and accurately identify the aspects and elements with potential for improvement, establish how far innovation is present in the firm's everyday activities, and characterize the internal and external resources used by the firm, its contacts and the extent to which innovation forms part of the firm's various functions. A further goal was to see whether innovation had led to synergy between the functions and how far the firms were able to monitor and maintain their innovative activities, and to identify the critical conditions that encouraged or discouraged innovation (e.g. an order-giver's support for its suppliers).

[1] The Chair was a network organization composed of 31 firms, all of which were subcontractors of the core firm. They each had an annual turnover of between $10 and $90 million (CAN), and between 125 and 500 employees. Many of the firms were direct competitors. The network was supported by an academic chair comprising 11 researchers from a range of disciplines (economics of technological change in SMEs, human resource management, new technology management, SME information systems, total quality systems, maintenance and just-in-time, financial management, corporate financing, economics of transportation, logistics, theory of organizations and international management, implementation of just-in-time and value-added systems, management of manufacturing technology implementation) whose role was to help the subcontracting SMEs develop and extend their collaborative activities both among themselves and with the core firm.

THE PROPOSED METHODOLOGY

The seven consulting firms selected by CPIA to perform the productivity/innovation audits in its member firms were recognized for their expertise and experience in SME improvement projects. However, they were of different sizes and did not necessarily have the same level of expertise in every field (e.g. production, finance, human resources management). As Raymond showed (Raymond, Blili and El Alami, 2004) there still is a gap between consulting firms and SME's). So, the proposed intervention framework was in the form of a book of specifications detailing a number of elements, including the intervention methodology and an analysis grid showing the factors to be examined.

The analysis grid was composed of nine major components, all of them basically enterprise functions, describing a series of 20 dimensions broken down into 75 elements. Appendix 1 gives a list of the components, dimensions and elements covered by the audit. The nine components were:

- Organization
- Management
- Sales, marketing and exports
- Finances
- Electronics
- Human resources
- Manufacturing and production
- Research & development and engineering
- Innovation

Evaluation of the Consultants' Audits

We developed a number of criteria that we then used to assess the consultants' audits. Clearly, the consultants' reports differed widely in terms of their form, since each firm had its own way of presenting its findings to client firms. In some ways this was their "competitive advantage", the factor that distinguished them from their competitors. We examined the way each consultant had carried out its principal mandate, as described in the book of specifications. To do this, we retained three principal aspects of the report content, namely (1) the presence and quality of descriptions of each of the 75 elements in the proposed grid; (2) the presence and quality of analyses of these elements; and (3) the presence and quality of recommendations for a given element.

The evaluation was performed independently by two assessors, whose results were then compared. First, the assessors read and reviewed the report, indicating on the grid of nine components, 20 dimensions and 75 elements the extent to which a given element was relevant to the subject firm, and if so, whether the consultant had described the situation of that element in the subject firm. They then judged the quality of the relevant element descriptions.

The process was repeated for the element analysis. Even if an element was considered relevant to the subject firm and had been properly described in the report, it did not necessarily need to be analyzed in detail if the description itself was sufficient. The assessors therefore judged whether or not each element had been analyzed (according to relevance), and if so, the quality of that analysis. They then decided whether or not a recommendation was required in respect of the element, and if so, they judged the quality of the consultant's recommendation. By proceeding in this way, the evaluation was certain to be objective, since it was basically a judgment of the description, analysis and recommendations relevant to a given firm. The results of the evaluations for each criterion were compiled as follows:

1. The number of elements described as a ratio of the number of elements considered relevant: (nÉD / nÉP) = **(% D)** as shown in the following tables

2. The quality of the descriptions:
Each element was ascribed a score of 0 to 10 = **(% QD)** as shown in the following tables

3. The number of elements analyzed as a ratio of the number of elements described:
(nÉD / nÉA) = **(% A)** as shown in the following tables

4. The quality of the analysis for each element analyzed:
Each analysis was ascribed a score of 0 to 10 = **(% QA)** as shown in the following tables

5. The number of recommendations made as a ratio of the number of recommendations required: (nRF / nRR) = **(% RF)** as shown in the following tables

6. The quality of the recommendations made:
Each recommendation was ascribed a score of 0 to10 = **(% QR)** as shown in the following tables

Table 1 shows the results of the audit evaluation for firm no. 4, produced by one of the consultants. It presents the results for each of the nine components from the analysis grid, based on the six criteria described earlier. For example, for the Management component, the assessors concluded that the consultant had described only 83% of the elements considered relevant (%D) for firm no. 4, and the quality of their description was judged to be 76% (%QD). The assessors felt the consultant had analyzed all the elements requiring analysis (%A = 100%), but judged the quality of the analyses to be only 73% (%QA). Again, the assessors felt recommendations were required for all the analyses performed (%RR) and the expert had in fact done this (%RF = 100%). However, the quality of the recommendations was only 74% (%QR). The average quality of the Management component assessment was therefore 84.3%, i.e. (% D) + (% QD) + (% A) + (% QA) + (% RF) + (% QR) divided by 600[2].

[2] The required recommendation column (%RR) is not used to calculate the quality factor for the component. The results presented in the various columns of the table do not include decimals, although decimals were taken into account when calculating the mean.

Table 1. Evaluation Results: Firm No. 4

Firm No.: **4**
Audit Evaluation

Component	%D	%QD	%A	%QA	%RR	%RF	%QR	Mean	Utility
Organization	100	80	100	68	25	100	80	**88.0%**	
Management	83	76	100	73	100	100	74	**84.3%**	
Sales / Marketing	100	70	100	72	100	100	85	**87.8%**	
Finances								**0.0%**	
Electronics								**0.0%**	
HRM	94	70	100	70	31	33	70	**72.8%**	
Manufacture/prod	97	74	100	74	66	100	76	**86.8%**	
R-D / Engineering	100	72	100	72	25	100	80	**87.3%**	
Innovation	50	75	100	70				**49.2%**	
Mean [1]	**90.0%**	**68.0%**	**100.0%**	**72.0%**	**48.0%**	**80.0%**	**74.0%**	**69.1%**	**61.8%**
Consultant's method							**76.3%**		

[1]: The mean is based on overall results for the components, not for the elements

The table also shows that the consultant did not describe or analyze any of the elements for the Finances and Electronics components (0% in each case), and its audit of the Innovation component was incomplete (mean of 49.2%).

Utility for the Firm and Value of the Consultant's Methodology

The audit evaluation method focused on two aspects of the results, namely the utility of the audit for the subject firm and the quality of the methodology used by the consultant. In the case of firm no. 4, in Table 1, the utility result is shown in the **Utility** column (61.8%), while the methodology quality result is shown in the **Consultant's method** row (76.3%). The mean for these two results (69.1) is also shown in the **Mean** row. Although the same data were used to calculate both means, the results are different because, in calculating the methodology quality mean, only the results of the work actually performed by the consultant were taken into account. For example, the consultant that audited firm no. 4 was not penalized for its failure to consider the Finances and Electronics components, or for its incomplete diagnosis of the Innovation component. Our goal was to produce an overall evaluation of the consultant based on the areas or components it examined. However, the missing elements were taken into account when calculating the utility result, because the assessors felt the firm would have benefited from a complete analysis of all the components.

Overall, in the audits assessed, some consultants that had examined all the relevant components obtained fairly average results, whereas in others – for example, in the case of firm no. 4 shown in Table 1 – the consultant's methodology results were very good even though it had not examined certain components. Thanks to this distinction, we were able to recommend improvements for all seven of the consultants involved in the study.

Comparative Assessment

We were aware before the project began that the consulting firms had widely differing skills, and that not all of them were experienced in every field. What was less clear was how important these disparities were and how they would affect the quality and utility of the audits.

Table 2 presents the evaluation results for all nine components in the ten audits (means from Table 1). A given consulting firm may be responsible for several audits with widely different results. Table 2 also presents the overall mean for each firm, along with the standard deviation.

Table 2. Summary of Audit Evaluation Results

	Firm Numbers									
Components	**1**	**5**	**6**	**8**	**9**	**10**	**11**	**3**	**4**	**7**
Organization	90.0%	88.0%	41.2%	95.0%	53.3%	73.2%	60.0%	79.3%	88.0%	34.2%
Management	83.5%	87.2%	52.5%	73.0%	50.2%	68.3%	28.5%	85.8%	84.3%	31.1%
Sales/Marketing	86.3%	87.8%	18.3%	90.2%	75.3%	87.7%		78.3%	87.8%	35.3%
Finances	53.3%	60.0%	41.7%	95.0%	40.0%	92.5%		88.3%	0.0%	33.3%
Elect. Affairs.	48.5%	88.7%	53.5%	81.0%	61.2%	83.5%	0.0%	85.3%	0.0%	89.2%
HRM	56.2%	79.0%	32.8%	89.7%	41.3%	73.8%	30.2%	93.3%	72.8%	30.5%
Manufact/prod	76.3%	81.3%	36.7%	86.8%	58.0%	78.5%	50.2%	84.8%	86.8%	84.2%
R-D Engineering	85.0%	57.3%	36.8%	89.8%	38.3%	86.0%	16.7%	81.7%	87.3%	0.0%
Innovation	90.8%	75.0%	41.7%	82.8%	58.3%	67.7%	0.0%	79.9%	49.2%	0.0%
Mean	74.4%	78.3%	39.5%	87.0%	52.9%	79.0%	26.5%	84.1%	61.8%	37.5%
Std. deviation	17.0%	12.1%	10.5%	7.1%	12.0%	8.9%	23.1%	4.8%	37.2%	31.2%

In the Firm 11 audit, there are no results for the Sales/Marketing and Finance components, and the scores for both Electronics and Innovation are zero. In this particular case, the firm in question was a production plant run by a parent company located elsewhere. The Sales/Marketing and Finance components were therefore not taken into account because the firm had no control over them. However, Electronics and Innovation were both retained, but received zero scores because the consultants chose not to examine them even though, in the assessors' view, they should have done so.

The results vary significantly between audits and between components, thus allowing us to assess the strengths and weaknesses of the consultants. Two consultants stood out for the excellence of their overall audit results (8: 87.0% and 3: 84.1%). They both achieved low standard deviations (8: 7.1% and 3: 4.8%), suggesting constancy of expertise for in the component areas. This proves that it was possible for the consultants to satisfy the evaluation criteria. Three other consultants obtained good results, with overall means in excess of 70% (1, 5 and 10). Audit 10 exhibits no clear weaknesses, with a standard deviation of 8.9%, but the consultant responsible for audit 1 (74.4%) appeared to be weaker in the *Finance* (53.3%) and *HRM* (56.2) components. The consultant responsible for audit 5 (78.3%) was weaker in the *R-D / Engineering* (57.3%) component. The audits of firms 9 and 4 were somewhat less impressive (52.9% and 61.8%). The consultant responsible for audit 4 was the weaker of the two, with a standard deviation of 37.2%. Lastly, three of the results

were much weaker than the rest (6: 39.5%, 11: 26.5% and 7: 37.5%). Numbers 6 and 11 were weak in every area, with standard deviations of 10.5% and 23.1% respectively, while the consultant responsible for audit 7 achieved excellent results in the Electronics (89.2%) and Manufacturing/Production (84.2%) components. In short, the results presented in Table 2 clearly illustrate the disparities between the consulting firms and the areas in which improvements are needed.

Perceptions of Subject Firms

We gave the subject firms an opportunity to complete an evaluation questionnaire expressing their level of satisfaction with the consultants' reports. The three aspects used as basic criteria by the assessors, namely (1) description quality, (2) analysis quality, and (3) quality of recommendations for each of the nine components, were included in the questionnaires. A fourth question concerning overall satisfaction was added. Nine of the ten subject firms responded, and the results are presented in Table 3. The assessors' scores are not the same as those shown in the preceding tables, since we retained only the three elements on which the subject firms expressed an opinion, i.e. (% QD) + (% QA) + (% QR) when calculating the mean. We therefore did not consider the (% D), (% A) and (% RF) evaluations.

Table 3: Comparison of Assessors' Results and Subject Satisfaction.

Firm Number:	**1**	**3**	**4**	**5**	**6**	**8**	**9**	**10**	**11**
Assessors' scores	54.8	58.5	41.7	49.6	68.9	76.3	48.9	56.0	54.4
Subject satisfaction	58.1	75.8	54.6	72.0	46.0	74.9	47.0	71.7	55.0
Deviation	3.3	17.3	12.9	22.4	-23	-1.4	-1.9	15.7	0.6
Overall satisfaction	42.8	71.4	14.2	42.8	71.4	71.4	42.8	71.4	57.1

We concentrated on the deviations between the assessors' scores and the subject firms' scores. In four cases, the two scores were fairly similar (1, 8, 9 and 11). In four other cases the subjects' scores were higher than the assessors' scores (3, 4, 5 and 10), with a significant deviation of 22.4% in the case of firm no. 5. The assessors' score (68.9%) was higher than the subject's score (46.0%) in only one case – firm number 6 – and the deviation was a substantial 23 points. When we expressed our surprise at this result, the subject firm told us it had given the consultant a series of past reports from previous consulting interventions. The consultant had then used these reports in its audit. The assessors had based their score on the evaluation criteria, which produced an average result, while the firm felt the consultant had not contributed much "new" material in addition to that found in the reports provided, and hence gave a much lower score.

The results for overall satisfaction differed from the evaluations based on description, analysis and recommendation quality. This was probably because the subject firms, in their overall evaluation, considered other elements not suggested by us, such as the way in which the intervention was conducted, the consultant's approach, the relevance and quality of the action plan, and so on. For example, firm no. 4, which assigned a score of 14.2% for overall satisfaction, made the following comment in the Remarks section: "Apart from the TRG, we

did not learn anything new. The recommendations were the same as in our business plan and are already described in our budgets for the next three years." Firm no. 9, which assigned an overall satisfaction score of 42.8%, said "more time should have been spent on the diagnosis of the firm and its problems".

Improvement Measures for Consultants

The results of the evaluations were presented in individual meetings to the team and to CPIA's sponsors, to the subject firms and, lastly, to the consultants themselves. CPIA management met individually with the consultants whose evaluations were especially unsatisfactory, asking for parts of the mandate to be repeated. Generally speaking, the sponsors, mostly government agencies managing business assistance programs, were not at all surprised by the disparity in the results. They had already suspected that this was the case, and were satisfied by our demonstration. The subject firms, too, were not overly surprised. However, like the CPIA management, they were somewhat concerned by the highly divergent quality/price ratios. The consultants, for their part, could only acknowledge the validity of the results. They had understood and agreed to the evaluation methodology, and accepted the results as part of an ongoing improvement process, with a view to obtaining CPIA accreditation in the future.

The purpose of the pilot project described above, involving ten firms, was to make the necessary adjustments before proceeding with audits of the other 50 participating SMEs. After discussions and exchanges with the players, it was therefore agreed that certain adjustments would be made. First, the SBRI researchers involved in the project undertook to provide the consultants with more tools, to facilitate their work and standardize the audit procedure. The three principal tools were (1) a pre-audit carried out by the SBRI laboratory, to help the consultants establish their intervention strategy before beginning work with the subject firm; (2) a series of pre-determined performance indicators for each of the nine components in the analysis grid; and (3) a detailed evaluation scale for each of the 75 elements in the grid.

Pre-Audit

Every participating firm will be asked to complete a questionnaire specific to the plastics industry, providing information on most of the components in the grid. There are three principal reasons for this. First, we feel it is a good way of involving the firm in its own audit. Second, it gives the consultant a significant amount of information before going into the field, allowing it to form a general picture of the firm and establish its intervention strategy. And third, the information obtained from the questionnaire will be incorporated into the SBRI's database and used to compare the subject firms with other plastics sector firms in Québec not involved in the sector-based tables, and with firms from other sectors. The questionnaire also includes a section developed specifically for the plastics sector (machinery, equipment, processes, etc.).

Performance Indicators

A summary sheet will be prepared for each component (see the model in Appendix 2), including a series of performance indicators. For example, the following indicators, among others, could be used to assess the working climate element of the human resources component: number of voluntary separations at managerial level, number of voluntary separations at shop floor level, first-year retention rate, absence rate, number of grievances and conflicts. The summary sheet will enable the consultants to collect the same information on all the firms. In addition, they will be asked to summarize the strengths and weaknesses of the firms for each component, using the summary sheets, and then to make recommendations and devise a continuous improvement plan.

Evaluation Scale

The evaluation scale will be a diagnostic tool used by all the consultants in their audits of all 48 participating firms. It will include explicit scales describing the elements in the proposed analysis grid. It will also be extremely precise, so that the consultants can produce analysis reports, an overall profile of all the participating firms and inter-firm comparisons.

A five-point scale will be used for each element, with each point in the scale representing a level of practice (0, 1, 2, 3, 4) that reflects the firm's position with regard to a given element. For example, a scale such as that shown below, adapted from a typology developed by researchers from the SBRI (Julien, Joyal, Deshaies, and Ramangalahy, 1997), could be used to assess the firm's exporting activities.

Component: Sales and Marketing
Dimension: Exports
Element: Management's Commitment to Exporting

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0 : Firm does not intend to export in the short term.

1 : Firm intends to export, is currently gathering information.

2 : Firm is an opportunistic exporter: exporting responsibility is centralized, usually under the authority of the owner-manager, there is no distribution network (firm deals directly with clients), no export advertising, no specific goals. Firm relies on differentiation (e.g. technically superior products).

3 : Firm is a transitional exporter: markets are being developed gradually, targeting wholesalers and retailers. Advertisements are placed in catalogues and leaflets, participation in trade fairs.

4 : Firm is a professional exporter: its growth depends on exporting. Internal and external delegation of exporting responsibility. Diversified network of intermediaries (agents, representatives, wholesalers, etc.) playing a major role in advertising.

Using the scales, the consultants will be able to score or grade the firms for each element. The element scores will then be transferred to a grid that will be processed to identify the best business practices along with the strengths and weaknesses of all the subject firms. At the

end of the exercise, the 60 or so participating firms will be able to use the grid to compare their performance with that of other participants (the firms will be ranked for each element).

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APPENDIX 1

Diagnostic Components (9), Dimensions (20) and Elements (75)

Components	Dimensions	Elements
Organization	Objectives and development	Firm's mission
		Ownership and succession
		Dependency rate
		Strategic plan
Management	Management's commitment	Professionalism of managerial team
		Cohesiveness of managerial team
		Cohesiveness of operations management team
	Participatory management	In terms of information
		In terms of decision-making
		In terms of equity

Sales and Marketing	Marketing	Goals and growth potential
		Marketing structure
		Marketing intelligence structure
	Exportation	Management's commitment to exporting
		Quantity and competency of resources
Finances	Profitability	Financial performance
		Financing structure
Electronics	Organizational management of electronics	Sophistication of electronic and IT management
		Strategic alignment
		Strategic and tactical benefits
	Operational management of electronics	Hardware and software infrastructures, networks
		Applications portfolio
		Support for intra- and inter-organizational processes
		Operational benefits
Human Resources	Labour relations	Working climate
		Formalization of HR management
	Formation	Training plan
		Training budget
		Training leading to qualifications
		Continuous training
	Remuneration	Internal equity
		External equity
	Labour	Ability to adapt to change
		Flexibility
Manufacturing /Production	Supplies	Cooperation with suppliers
		Evaluation of suppliers
		Long-term contracts and partnerships with suppliers
		Communication of production program
		Preparation of a purchasing strategy
		Effectiveness and efficiency of purchasing service
		Effectiveness of communications network
	Stocks	Minimization of outstandings and safety stock
		Continuous, computerized inventory
		Control of shipments and transportation
	Production	Minimization of transfer batches
		Reduction of operation and set-up time
		Work methods and measures
		Standardization of production
		Process effectiveness and efficiency
		Control and management of production capacity
		Manufacturing program
		Planning of material requirements
		Preventive maintenance and equipment reliability
		Flexible, adjustable, adequate computer system
	Layout	Organizational autonomy of cells
		Plant layout
		Workstation layout
		Elimination of handling
		Industrial health, safety and hygiene
	Quality	Certification

		Quality performance Organizational structure Improvements Assurance and control
R-D Engineering	Product development	Strategic planning and R&D Multidisciplinary teams Product development process Design assistance tools Technologies used
Innovation	Strategy	Managerial vision Sector-based leadership
	Support	Intelligence structure Organizational structure Management structure Management of innovation projects

APPENDIX 2

Model Summary Sheet (Currently Under Development)

Component: Electronics

Dimensions and Elements	0	1	2	3	4	Firm	CPIA
Strategic alignment							
Hardware and software infrastructures							
Infrastructure: responsibility and resources							
Strategic, tactical and operational benefits							
TOTAL	/12						

Performance Indicators

Strategic Alignment

Mentioned in the strategic plan	**E**	**O/N**
Comparison of objectives and means with achievements	**E**	**1to5**

Hardware and Software Infrastructures

Level of computerization	**R 8**	**List**
Information technologies used	**Q16***	**List**
Computer hardware investments	**Q11***	**List**
System integration	**Q13***	**List**

Infrastructures: Responsibilities and Resources

Evaluation: Organization chart and satisfaction of needs	**E**	**1to5**

Strategic, Tactical and Operational Benefits

Overall assessment	**E**	**1to5**
Implementation and mastery of technology	**Q12***	**List**
Use of e-mail and Internet	**P7***	**List**

THE RELATIONSHIPS OF KNOWLEDGE ACQUISITION, KNOWLEDGE ABSORPTIVE CAPACITY, AND PRODUCT INNOVATION PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES: A CASE OF TAIWAN'S BICYCLE INDUSTRY

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ABSTRACT

Corporations invest in R&D to derive new knowledge for product and process innovations. However, SMEs are often limited in resources. They may rely on sources other than R&D investment to acquire the knowledge needed in product and process innovations. But SMEs' knowledge absorptive capacity determines how much they can assimilate and utilize the knowledge from the outside sources. The purpose of this study was to examine the relationship between knowledge acquisition, knowledge absorptive capacity, and product innovation performance in SMES. In addition, we postulated that the depth and breadth of an SME owner's and its R&D staff's technical experiences constitute the firm's knowledge absorptive capacity. The small and medium sized companies in Taiwan's bicycle industry were used as the target of our empirical investigation because product innovation is a constant practice in the bicycle industry. The methods of in-depth interview and questionnaire survey were used to collect data. The results from 49 companies (a return rate of 39.8%) show that the absorptive capacity of the companies is best explained by the depth and the breadth of their owners' technical and industrial experiences. In turn, the absorptive capacity and the level of knowledge acquisition activities of the companies affect their product innovation performance. Theoretical implications and suggestions for future research were discussed at the end of this paper.

INTRODUCTION

R&D activities can generate new knowledge needed for product and process innovations. However, with limited funding and resources, small and medium enterprises (SMEs) rely less on RD investment to generate new knowledge for their innovations (Nootboom, 1993; George, Zahra, Wheatley & Khan, 2001). They instead acquire knowledge from external sources for ideas of improvement. After acquiring new knowledge, an organization's knowledge absorptive capacity sets a boundary condition for what it can understand, assimilate, and eventually apply from the knowledge onto its product or process innovations. Knowledge and information acquired externally may be tacit or complicated (Cohen & Levinthal, 1990). A company with a higher level of knowledge absorptive capacity can recognize the value of the knowledge and then exploit the uses of that knowledge to a fuller extent (Stock, Greis & Fischer, 2001). Rather than relying on their R&D activities to develop its absorptive capacity for new knowledge, SMEs' knowledge absorptive capacity may reside more on their owners and critical R&D staff. Thus, rather than investment in R&D, the personal experiences of the owner and of the R&D staff may be a better indicator of knowledge absorptive capacity of an SME. In this study, we argue that the knowledge absorptive capacity influences the level of learning achieved by an organization, and then affects the level of innovation performance attained by the organization. In addition to knowledge absorptive capacity, we suggest that the amount of knowledge acquisition activity and the diversity of the knowledge sources will jointly have an impact on an SME's product innovation.

Knowledge absorptive capacity and SME owner's prior technical experiences

Knowledge absorptive capacity of an organization was treated as an unknown black box in the past. They are often measured by indirect indicators. For example, Tsai (2001) used the number of patents as the indicator of an organization's knowledge absorptive capacity. Cohen & Levinthal (1990) used R&D spending as an indicator of knowledge absorptive capacity. However, psychologists have been examining human learning process for a century and found that experiences can stimulate learning. For example, Hebb (1949) and Berry and Diene (1993) argued that animals, including humans, develop their cognitive capabilities through their experiences. From Cohen and Levinthal (1990)'s definition, "knowledge absorptive capacity" of an organization is its ability to understand and assimilate new knowledge and apply it onto new product development. Prior knowledge of an organization's personnel is the basis as well as a limit on the assimilation, transformation, and incorporation of new knowledge into the knowledge structure already exist in their mind. Therefore, the prior knowledge and experiences are critical in the

development of an organization's knowledge absorptive capacity. In addition to prior knowledge, Cohen and Levinthal argued that the diversity in knowledge background and experiences of organizational personnel facilitates organizational learning for the diversity leads to better deciphering and understanding of the new knowledge or information. The diversity broadens the novel association of new knowledge and aid in creating linkages between old and new knowledge and enhances interpretation and understanding of new knowledge (Daft & Weick, 1984). Because the owners and the R&D staff in an SME are the main actors performing information collecting and transmitting activities (e.g., Chen, 1994), we hypothesize that SMEs rely less on R&D investment but more on their personnel for gaining their knowledge absorptive capacity. Our first two research hypotheses are:

H1: The depth of the technical experiences of the owner and the R&D staff contributes positively to the knowledge absorptive capacity of an SME.

H2: The breadth of the technical experiences of the owner and the R&D staff contributes positively to the knowledge absorptive capacity of an SME.

Knowledge acquisition activities and product innovation performance

Organizations often face many environmental uncertainties and must adapt to these uncertainties by acquiring knowledge and information from the environment (Galbraith, 1973). As a result, the ability to acquire and process information effectively increases the performance of a company. Studies have shown that the top managers of high performance organizations tend to engage in more information collection and processing than the managers of low performance organizations (Daft, Sormunen & Parks, 1998). Ancona and Caldwell's (1990) study on product development teams indeed found that the increased knowledge collection activities led to better performance in product innovation. Thus, we predict that increased knowledge collection activities contribute positively on product innovation performance. Our third hypothesize is:

Hypothesis 3: A higher level of knowledge acquisition activities leads to better product innovation performance of an SME.

Diversity of knowledge sources in knowledge acquisition and product innovation

SMEs often acquire knowledge from sources external to their organizations, assimilate the knowledge, and then apply it onto product or process innovation. Cohen & Levinthal (1989) divided the knowledge available from external sources into two categories: those provided by the industry itself and those derived from basic sciences and technology research

performed by academia or research institutes outside the industry. Their study shows that the knowledge from basic research is more influential to product innovation performance than the knowledge from industry. Although knowledge collected from an organization's industry and its materials and equipment suppliers tends to be more market-related (Cohen & Levinthal, 1990), an organization requires not only the market-related knowledge but also the knowledge from sources outside their industries in order to improve their innovation performance. Henderson & Clark (1990) pointed out that product or process innovation usually comprises a change in core concept or in the component architecture of a product or process. The driving force for such change originates from getting new knowledge that differs from existing knowledge already possessed by an organization. We argue that a greater diversity in the knowledge acquired leads to better innovation performance.

Jones & Craven's (2001) case study on a small and medium business in Birmingham showed that the use of diversified organizational routines, such as literature scan, customer contact, trade shows, competitors, customer input, supplier input, and reverse engineering for collecting external information and knowledge leads to better organizational learning. Since different channels of information and knowledge provide information and knowledge different in nature, it is necessary for an organization to have sufficiently diversified source of knowledge. When an organization is exposed to more diversified sources of knowledge, it will be able to exploit and evaluate new knowledge better.

George et al. (2001) emphasized the effects of alliance on absorptive capacity and innovation performance. They found that alliances in bio-technology firms, including horizontal, vertical, generative, and attractive alliances, provide these firms access to different resources of new knowledge. In addition, horizontal alliances affect positively patent innovation capability, whereas vertical alliances positively influence innovation performance. Consequently, firms with diverssified knowledge sources would have better innovation performance. Hence, we suggest that

Hypothesis 4: A greater diversity of knowledge sources in knowledge acquisition leads to better product innovation performance of an SME.

Interaction of knowledge absorptive capacity and knowledge acquisition activities on product innovation performance

Knowledge from different sources requires different levels of absorptive capacity. For example, the knowledge from basic researches relates less directly to product manufacturing and is more difficult to understand; hence, it requires a higher level of absorptive capacity (Cohen & Levinthal, 1990). Stock, Greis & Fisher (2001) conducted observations on the computer modem industry over a 24-year period to examine the

relationship between absorptive capacity and product innovation. Their results show that the relationship between absorptive capacity and product innovation is in an “inverted-U” shape, which suggests that a higher level of knowledge absorptive capacity will lead to a higher level of product innovation performance. However, the effect of knowledge absorptive capacity will diminish as the product innovation performance increases over a certain level. We suggest an alternative explanation for this finding. We argue that although knowledge absorptive capacity is important to organizational learning, knowledge acquisition activities are no less important than the knowledge absorptive capacity to innovation activities. A firm with a sufficient amount of knowledge collection will need a level of knowledge absorptive capacity parallel to the amount of knowledge acquired in order to assimilate and then apply the new knowledge to product innovation. A firm with an inadequate level of absorptive capacity to the amount of knowledge acquired will not be able to assimilate and apply the knowledge. As a result, innovation requires both sufficient knowledge acquisition and an adequate level of knowledge absorptive capacity. In other words, there is an interaction effect from knowledge absorptive capacity and amount of knowledge acquired.

Brown and Eisenhardt’s (1995) stressed the effect of information and knowledge collection through internal and external organizational communications on the innovation performacnce. On the other hand, Cohen & Levinthal (1990) emphasized the process of how organizations make sense of, assimilate, transform, and utilization of new knowledge onto product innovation. Neither Brown & Eisenhardt’s nor Cohen & Levinthal’s research paid enough attention to the possible interaction between knowledge absorptive capacity and knowledge acquisition activities. We suggest that these two factors have an interactive effect on product innovation performance.

Hypothesis 5: With a higher level of knowledge absorptive capacity, knowledge acquisition activities have a stronger positive effect on the product innovation performance of an SME.

METHOD

Prior to the data collection, R&D personnel of 3 bicycle companies and Industrial Technology Research Institute, a semi-official agency that provides technical assistance to the bicycle industries, were interviewed to obtain information about the processes of the organizational learning and of the product innovation in the bicycle industry. The information they provided served as the basis for the design of the measurement indices for the studied variables.

Participants

One hundred and twenty-two bike companies with 70 employees or above were the target population of this study. These firms were drawn from the 2003 directory of Taiwan Bicycle Exporters' Association and participants of the annual Innovative Bicycle Parts and Accessories Competition in Taiwan in 2001 and 2002. The questionnaire was addressed to R&D manager or chief executive officer of the firm. Forty-nine firms responded to the questionnaire (return rate, 39.8%). The data show that 84% of Taiwan bike companies have been established for more than 16 years, mostly between 16 and 20 years. Half of the bike companies (51.02%) have less than 100 employees. About 71% of the firms have a capital of less than NT$6,000,000. Most of the firms (61.22%) have less than 10 RD staff. The RD investment was mostly (75.52%) less than 6% of their annual budget in the past five year.

Measurement of Variables

Absorptive capacity. Rather than using R&D expenditure divided by sales as the index of absorptive capacity (Cohen and Levithal, 1990), we measured a firm's absorptive capacity by 24 items which cover four indices proposed by Zahra & George (2002): knowledge acquisition (7 items), knowledge assimilation (3 items), knowledge transformation (11 items) and knowledge utilization (3 items). The respondents were asked to rate each item by 5-point rating scale according to their firm's behavior in the past five years (1998-2003). The sum of these four indices represents the company's level of absorptive capacity. The higher the scores, the higher the absorptive capacity a company possesses.

Diversity of knowledge sources refers to the total number of knowledge sources that a company used to collect knowledge. Eight different knowledge sources a bicycle firm may consult with were identified from the interviews with project managers from Industrial Technology Research Institute of Taiwan, project managers from Taiwan Bicycle Industrial R&D Center, competitors in the industry, material or equipment suppliers, researchers in academic institutions, and customers of bicycle companies. A knowledge source that received a rating in extent of use equal to or higher than 3 was assigned a weight of "1". A rating less than 3 was assigned a weight of "0." The weights of the eight knowledge sources were then summed to derive the measure of diversity of knowledge sources used in knowledge acquisition activities.

Knowledge acquisition activity. A firm's knowledge acquisition activities were measured by two indices: the *extent* of usage of a knowledge source and the *importance* of knowledge source used in knowledge acquisition. Respondents were asked to evaluate,

on a 5-point rating scale, the *importance or relevance* of each of the eight knowledge sources to them. They then use a 5-point rating scale to rate *the extent* the firm used the knowledge source.

The results from factor analysis suggest that these eight knowledge sources can be classified into two categories: knowledge provide by basic science and technology research conducted outside the industry and knowledge supplied by the various different actors in the industry. Knowledge sources from basic research include knowledge provided by Taiwan's Industrial Technology Research Institute, the Taiwan Bicycle Industrial R&D Center, and universities and other academic institutions. Knowledge sources from the bicycle industry include knowledge supplied by competitors, material or equipment suppliers, alliances, and customers. The extent of use of each knowledge source and the importance of the knowledge source were then multiplied together to derive the amount of usage of the knowledge source in knowledge acquisition. A measure of the amount of knowledge sources used was calculated separately for knowledge acquisition from basic researches and from the industry. The two amounts of knowledge sources used were then added together. We then standardized the measures of diversity of knowledge sources used and amount of knowledge sources used into T scores. The sum of these two T-scores was the final measure of knowledge acquisition activity.

Technical and industrial experiences. Enterprise owner's and RD staff's breadth and depth of technical and industrial experiences were measured separately. The depth of technical and industrial experience refers to the time a owner (or the R&D staff) has been involved in the bicycle related occupations. The breadth of technical and industrial experience refers to be the different types of jobs the owner (or the R&D staff) has had so far. The types of jobs were into classified into four categories: research, marketing, manufacture, and others. Enterprise owner's breadth of experiences was measured by the number of categories they have been involved. R&D staff's breadth of experiences was measured by 5-point rating scales.

Product Innovation performance. Seven 5-point rating items were derived from the interview to estimate a bicycle firm's extent of product innovation in the past five years. In these items, the respondents were asked to evaluate the achievement of their innovation project according to the goals they set in the beginning.

Control variables. In addition to organizational learning, a firm's product innovation may vary with the firm's size, its number of R&D staff, and the amount of its R&D investment. Thus, these 3 variables were used as the control variables in our study. The size of the firm was estimated by its number of employees. The R&D staff was defined as those who are responsible for a firm's product improvement and innovation. The amount of R&D

investment was estimated by the ratio a firm's annual RD spending to its annual budget in the past 5 years (1998-2002).

Reliability and Validity of the Measures

The questionnaire was reviewed by both R&D staff from Taiwan's Industrial Technology Research Institute and a university professor specialized in bicycle mechanics. The construct validity of the questionnaire was examined by factor analysis. The observed factors structures of data from 49 bicycle companies correspond to the variables intended for the items to measure and explained about 55 to 81% of the total variances of the variables. The internal consistency coefficients of items in a scale range between 0.69 and 0.86 as measured by Cronbach's α.

Statistical Analysis

To investigate the contribution of knowledge acquisition activity, and absorptive capacity to SME's product innovation, hierarchical regression analysis was used. That is, relevant control variables (number of employees, number of R&D staff, or R&D investment) were entered into the regression first, followed by the respective organizational learning variables to estimate the additional contribution of these organizational learning variables to SME's product innovation. In all regression analyses, T-scored were used instead of raw scores.

RESULTS

The sizes of Taiwan bicycle companies vary greatly. Their number of employees differ from 55 to 510. Their numbers of R&D staff differ from 2 to 40. Their ratios of the R&D investment to annual budget vary from 1% to 15%. Most bicycle company owners have about 20 years of technical experiences, whereas the average length of technical experiences of their R&D staff is only 8 years (Table 1).

The simple correlations between the variables suggest that SME's product innovation performance is significantly correlated to organizational learning variables such as diversity O knowledge ($r = 0.62$), amount of knowledge acquisition ($r = 0.55$), and R&D investment ($r = 0.48$) . Enterprise owners' depth and breadth of technical experiences are the two variables most significantly related to the organizational learning (Table 2).

Table 1: Raw Mean Scores and Standard Deviations of the Variables.

Variables	Mean	SD
Knowledge Acquisition		
Amount of knowledge collection（1 + 2）	9.45	3.34
1. Knowledge from basic sciences（a*b）	8.00	2.78
a. Amount of knowledge from basic sciences	2.75	1.11
b. Importance of basic science knowledge	2.65	1.09
2. Knowledge from industry（c*d）	11.38	3.28
c. Amount of knowledge from the industry	3.38	1.56
d. Importance of industrial knowledge	3.26	1.23
Diversity of knowledge sources	4.18	1.03
Technical Experience		
1. Owner's depth of experiences	19.59	6.27
2. Owner's breadth of experiences	2.96	0.89
3. R&D staff's depth of experiences	7.82	3.22
4. R&D staff's breath of experience	3.02	1.27
Absorptive capacity	3.84	1.02
Product innovation performance	2.99	1.89

1	**Knowledge acquisition（1 + 2）**	--									
2	**1. Amount of knowledge (a + b)**	.55**	--								
3	**a. From basic sciences**	.56**	.66**	--							
4	**b. From the industry**	.57**	.23	.24	--						
5	**2. Diversity of knowledge sources**	.61**	.48**	.40**	.31*	--					
	Technical experience										
6	**a. Owner's depth of experiences**	.38*	.36*	.31*	.24	.33**	--				
7	**b. Owner's breadth of experiences**	.33*	.31*	.24*	.22	.28	.45**	--			
8	**c. R&D's depth of experiences**	.27	.21	.15	.12	.06	.38*	.49**	--		
9	**d. R&D's breadth of experiences**	.42**	.39*	.31*	.24	.31*	.22	.12	.29	--	
10	**Knowledge absorptive capacity**	49**	.38*	.33*	.29	.41**	.52**	.44**	.35**	.38*	--
11	**Product innovation**	.55**	.52**	.50**	.31*	.62**	.41**	.38**	.23	.30*	.42

* $p < 0.05$ ** $p < 0.01$,

Relationship between Technical Experiences and Absorptive Capacity

To examine the contribution of owner and technical staff's technical experiences to SME's absorptive capacity, owner and technical staff's breadth and depth of experiences were entered into the regression model after the amount of R&D investment and the number of R&D staff. Because the number of employees did not correlated with absorptive capacity (r = .02), it was excluded from the model 1 in the regression analysis (Table 3). There was a 41% increment in the total variances explained when the 4 variables related to technical experiences were added to the regression model (Model 2 of Table 3). The total variances explained, including the 33% by the two control variables, were 74% ($F_{6/42}$ = 19.44, p < .001). Other than R&D investment (β = .38), owners' depth (β = .36) and breadth (β = .22) of

Table 3: Technical Experiences as Predictors of Knowledge Absorptive Capacity.

	Model 1	**Model 2**
Predictors	**β**	**β**
R&D investment	0.36**	0.38**
Number of R&D staff	0.35*	0.12
Owner's depth of experiences		0.36**
Owner's breadth of experiences		0.22*
R&D staff's depth of experiences		-0.01
R&D staff's breadth of experiences		0.03
R^2	0.33	0.74
ΔR^2		0.41
F	11.11	19.44

* p < 0.05;** p < 0.01;***p<0.001

technical experience are two factors most important to a SME's absorptive capacity. R&D staff's depth and breadth of technical experience become insignificant once their owner's technical experiences have entered the regression. Apparently, owners play the most critical role in SME's absorptive capacity.

Contribution of Knowledge Acquisition to SME's Product Innovation Performance

Because the number of R&D staff was not related to product innovation (r = .12), it was not included in the regression analysis. Table 4 indicates that R&D investment (β = .44) and number of employees (β = .27) together account for about 30% of the total variance in product innovation. Inclusion of two knowledge acquisition variables, amount of knowledge acquisition and diversity of knowledge added another 30% of variances explained. The total amount of variance explained amounts to 61%, F (4/44) = 19.62, p < .001. The diversity of knowledge (β = .42) and the amount of knowledge acquisition (β = .35) appear

Table 4: Contribution of Knowledge Acquisition to Product Innovation Performance

Predictors	Model 1	Model 2
	β	β
R&D investment	0.44**	0.23*
Number of employees	0.27*	0.05
Amount of knowledge collection activities		0.35**
Diversity of sources of knowledge acquired		0.42***
R^2	0.30	0.61
ΔR^2		0.31
F	9.71	19.62

* p < 0.05 ** p < 0.01 *** p < 0.001

more important to predict SME's product innovation than the direct RD investment (β = .22). Furthermore, when the sources of knowledge were divided into those released from the basic sciences and those from the related industries, Table 5 shows that knowledge from basic sciences (β = .39), rather than knowledge from the related industries (β = .23), is significant predictor of SME's product innovation. Thus, the importance of basic science knowledge to SME cannot be underestimated.

Contribution of Knowledge Acquisition and Absorptive Capacity to Product Innovation

When knowledge acquisition and knowledge absorptive capacity were added to the regression model after the number of employees and R&D investment, these two organizational learning variables accounted for another 16% of additional variances in product innovation (model 2 of Table 6). The total variances explained amounted to 41%, F (4/44) = 19.62, p < .001. Knowledge acquisition (β = .42) and knowledge absorptive

Table 5: Knowledge Sources as Predicators of Product Innovation Performance

	Model 1	Model 2
Predictor	**β**	**β**
R&D investment	0.44**	0.28*
Number of employees	0.27*	0.09
Knowledge from basic sciences		0.39**
Knowledge from Industry		0.23
R^2	0.30	0.50
ΔR^2		0.20
F	9.71	10.83

* p < 0.05 ** p < 0.01 *** p < 0.001

capacity (β = .30) both are significant predictors of SME's product innovation. However, inclusion of their interaction term only accounted for another 4% of the residual variances as shown by the model 3 in Table 6. Thus, our prediction that knowledge absorptive capacity and knowledge acquisition will interact in product innovation was not supported. Absorptive capacity and knowledge acquisition seem to function independently on SME's product innovation.

Relative Importance of Organizational Learning Variables to Product Innovation performance

To examine the relative importance of organizational learning variables to SME's

Table 6: Stepwise Regression Analysis of the Contributions of Organizational Learning Variables to Product Innovation Performance

	Model 1	Model 2	Model 3
Predictors	**β**	**β**	**β**
R&D investment	0.44**	0.27*	0.18
Number of employees	0.27*	0.18	0.08
Knowledge absorptive capacity		0.30*	0.22*
Knowledge acquisition		0.42**	0.29*
Knowledge absorptive capacity* knowledge acquisition			-0.22
R^2	0.30	0.46	0.50
ΔR^2		0.16	0.04
F	9.71	12.33	15.45

* $p < 0.05$;** $p < 0.01$; *** $p < 0.001$

product innovation, two measures of knowledge acquisition, four measures of a firm's technical experiences, and the firm's number of employee's and R&D investment were subject to stepwise regression analysis. As Table 7 shows, diversity of knowledge sources (β = .46) and knowledge from basic sciences (β = .40) are the two most important predictors of SME's product innovation in Taiwan. These two variables alone explained 41% of total variances in product innovation, followed by R&D investment (β = .35), owners' depth (β = .28) and breadth (β = .26) of technical experiences. The results again confirm our hypothesis that owner' technical experiences plays a more critical role in SME's production innovation than their technical staffs. The results also shed lights on the fact that although direct R&D investment is critical, diversity of knowledge source is even more important for

Table 7: Contributions of Organizational Learning Variables to Product Innovation Performance

Predictors	R^2	ΔR^2	β	F
Diversity of knowledge source	0.41	0.37	0.46**	38.12
Knowledge Basic science	0.48	0.04	0.40*	25.78
R&D investment	0.52	0.07	0.35*	20.31
Owner's depth of experiences	0.57	0.04	0.28*	17.68
Owner's breadth of experiences		0.05	0.26*	13.25
R&D staff's depth of experiences				
R&D staff's breadth of experiences				
Knowledge from Industry				
Number of R&D staff				

* $p < 0.05$;** $p < 0.01$; *** $p < 0.001$

SME's product innovation. In addition, knowledge released from basic sciences is more important for product innovation than knowledge released from the industry. The last finding may be contrary to most people's intuition that small to medium enterprises, due to its limitation in R&D budget, should concentrate more on items ready to market.

DISCUSSIONS AND CONCLUSION

The purpose of this study was to investigate the contributions of organizational learning, in terms of knowledge acquisition and knowledge absorptive capacity, on SME's product innovation. Because for an SME firm, not only its R&D staff, but also its owner play a major role in acquiring new knowledge, we postulated that the prior technical experiences of the owner and the R&D staff would constitute the core of its absorptive capacity. The data from 49 companies of Taiwan's bicycle industry showed that, in addition to the R&D investment, the depth and the breadth of owner's prior technical experiences contribute significantly to SME's knowledge absorptive capacity. On the other hand, the depth and the breadth of R&D staff's technical knowledge and experiences and the number of R&D staff do not have any effect on knowledge absorptive capacity. The results suggest that the organizational learning of the bicycle companies in Taiwan depends heavily on their owners' prior technical experiences. An owner's prior technical knowledge and experiences affects the organization's knowledge absorptive capacity. R&D investment, a decision mostly made solely by the owner in SME, is still a force contributing to a company's knowledge absorptive capacity. The number of R&D staff and R&D staff's depth and breadth of prior technical experiences did not contributed significantly to SME's

absorptive capacity suggest that that the owner leads in directing the R&D activities and the R&D staff serve only an operational function in R&D activities. Thus, we can conclude that unlike the owners of large enterprises, the owner of SME plays a key role in developing his/her company's knowledge absorptive capacity.
The study also showed that though both the R&D investment and the size of company (number of employees) have a positive effect on innovation performance, this effect disappears after the variances of knowledge absorptive capacity and knowledge acquisition were accounted for. It is likely that , in SMEs, not RD investment or organizational size but knowledge acquisition and knowledge absorptive capacity determine a company's innovation performance. Furthermore although the study found a positive effect of knowledge acquisition activities on SME's product innovation, it also discovered that only collecting knowledge from basic sciences have a positive effect on product innovation performance. Activities for collecting knowledge from industry have no effect on innovation performance. Knowledge from industry concerns mainly market and commercial activities such as the actions of competitors, the changes in customer preferences, and the fluctuations in product demands. This kind of knowledge contributes less to technical breakthrough required for innovation. On the other hand, basic knowledge from sciences and technology research provides ideas for technical breakthrough and problem solving in innovation. It is apparent that even for SMEs, collecting know-how from basic sciences and technology research is more important to their product innovation than looking for information and knowledge from their industries.

The study failed to confirm the hypothesis for an interaction effect of absorptive capacity and knowledge acquisition on innovation performance. It is likely that knowledge absorptive capacity and knowledge acquisition activities have only independent effects on product innovation performance. Or, perhaps the small sample size of this study has prevented the interaction effect to reach statistical significance. Becasue this interaction addresses the important issue of whether higher level of absorptive capacity will be needed when there is more knowledge acquired by an organization to produce organizational learning, future studies should re-examine this interaction with a greater number of subjects.

The results of this study carry a significant implication for developing theories to account for SMEs' organizational learning and innovation. Past literature suggests that R&D investment determines the level of knowledge absorptive capacity an organizational can possible achieve. However, to SMEs, enterprise owner's prior technical knowledge and experiences serves as another important force contributing to the absorptive capacity. In large enterprises in which the ownership and management are separated, knowledge management process is standardized, and the large scale of organization may diminish an owner's direct influence on organization's absorptive capacity. Theories developed to account for the organizational learning may suit large enterprises better, but not SMEs. The characteristics of owner should be included as a major factor in the theories concerning SMEs' learning process. Further, even though the size and the experiences of R&D personnel have been found to contribute positively to a big organization's knowledge absorptive capacity; SME's owner probably is more important than R&D staff to constitute an SME's knowledge absorptive capacity. The learning theories built for SMEs should address more the effects from enterprise owner rather than those from R&D staff.

The finding of attenuated effect of R&D investment's on SMEs' innovation performance after the influence of knowledge acquisition and absorptive capacity were accounted for bears an interesting implication to SMEs' innovation management. For most SMEs, the shortage in funding and resources prevent them from investing heavily in R&D work. To enhance their innovation performance, the SMEs can work to acquire knowledge and to increase their knowledge absorptive capacity from sources other than R&D investment. The general process of organizational learning rather than investment in R&D should be the focus of the theories built to account for the SMEs' innovation management.

Theories of organizational innovation used to argue that information and knowledge imported from sources outside an organization facilitates the generation of new ideas and enhances product innovation. The lack of effect on absorptive capacity from collecting information from industries and the manifestation of a positive effect from collecting information from basic researches suggest that organizational learning theories should be revised to place a greater emphasis on the role of information collection from basic sciences if they want to better account for the innovation process in SMEs.

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MENTORING AT DREXEL UNIVERSITY – LAWRENCE S BAIADA CENTER FOR ENTREPRENEURSHIP IN TECHNOLOGY

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ABSTRACT

The Drexel University- Baiada Center- Incubator provides mentoring services for resident and other entrepreneurs. The Mentors (M's) are mainly retired, successful CEO'S. To facilitate the provision of services, a mentoring structure comprised of three components has been utilized.

A) Primary Mentors - Direct one on one continuous services to individual Entrepreneur and start-up Companies.
B) Pro – Mentors - Extended Network to provide specialized services to Entrepreneur's as required e.g. Legal Accounting, Finance.
C) Operational Mentors - Daily operations that addresses new requests for Mentor's help including new potential Entrepreneurs. They also participate in all aspects of BAIADA Center Programs and Academic program in Lebow College of Business

For each Entrepreneur (E's), the primary Mentor is the Project Manager who coordinates the services of the network, M's and other specialists as required. In fact a self-organizing and directed matrix organization is created to provide specific bundles of services in a timely manner.

A website has been established to facilitate communications and provision of services. The program has been highly successful.

Now, a WEB BASED COMMUNITY is being designed and implemented to extend mentor services to an expanded market of Entrepreneurs. Non- Resident Entrepreneurial companies including faculty, alumni and the community at large to facilitate the matching of mentor services to needs.

The Entrepreneurial ventures are classified as –

I. Start-up – Business concept preparation of business plan
II. Early implementation of company operation, 'cash flow' (TAP)
III. Growth oriented – successful entrepreneurial companies.
IV. Exit Strategies.

The classification scheme is proven helpful in assigning M's and monitoring E's progress, with an eye for identifying need for changes in the E relationship. The ultimate goal is to link with other incubators around the globe and extend the Entrepreneur community served by the Mentor program. It is anticipated that the entrepreneur community will facilitate the launching and landing of Entrepreneur's plans for global operation.

INTRODUCTION

Drexel University for long has been a pioneer in the field of Entrepreneurship and Technology. Its programs are well regarded in the US as ones that foster Entrepreneurship and Technology focus. The creation of Baiada Center for Entrepreneurship in Technology was a watershed event in the development of Drexel University as a nationwide leader in technology and entrepreneurship.

In March 2001, the Baiada Center opened the doors of its state-of-the-art entrepreneurial environment at 3225 Arch Street on the Drexel Campus in Philadelphia. The Laurence A. Baiada Center of Entrepreneurship in technology is a full-service entrepreneurial program run by the Lebow College of Business for the Drexel University Community. The Center provides an innovative and unique approach to entrepreneurial development, offering inter-disciplinary academic instructions, real world resources and a physical environment for accelerated business creation. The goal is to link research, coursework and entrepreneurial thinking with practical guidance for budding entrepreneurs (Figure 1)

The new Baiada Center space has been conceived in direct response to student input as a unique, full-service work, mentoring and collaboration space for the entrepreneurial community at Drexel.

An architectural reflection of Drexel's commitment to entrepreneurial innovation, the Baiada Center contains:

Significant incubation space for student teams creating businesses while at Drexel, including:

- Mentoring Space which can accommodate more than 20 student entrepreneurial teams (E's) at 12-14 flexible shared work stations with private "lockers" for each team

- Entrepreneurial Space, awarded based on exceptional merit, which can accommodate up to eight student entrepreneurial teams at private, dedicated workstations

- The Wedge, a presentation room designed to house the Baiada Center's ongoing workshops and presentations, entrepreneurial classes, and other public events

- The Cyber café, a central café designed to create a community social space for entrepreneurs at Drexel University

- Mentoring rooms for students meeting with mentors, pitching their ideas to investors, or holding teamwork sessions

The Center is a home for the Office of Technology Commercialization of Drexel, bringing Drexel's resources and guidance in the commercialization of new technologies to the wide spectrum of talent at Drexel -- from Drexel student teams with promising business ventures to Drexel researchers developing new technologies, to students and researchers creating new uses for advances in the biosciences.

The Center is a Total Facility - Literally a Mall of Services for the ambitious Entrepreneurs.

The Mentors (M's) are mainly retired, successful CEO'S. To facilitate the provision of services, a mentoring structure comprised of three components has been utilized (See Figure 2). We shall further discuss about these three components later in the paper

A – Primary mentors
B – Pro Mentors
C – Operational Mentors

The Center fosters inventive spirit of the entrepreneur. It brings students from different academic disciplines together in a collaborative environment where inspired ideas become promising enterprises. The deep interdisciplinary nature of the Baiada Center distinguishes it from other university entrepreneurship program. The deans of each of the schools and colleges across the Drexel campus have had a hand in the ongoing development of the entrepreneurship program. Students from every academic discipline are encouraged to participate through interactive workshops, entrepreneurial courses, an annual business plan competition and entrepreneur conference. In addition to academic programs and research opportunities, the E's are connected with the business community to develop mutually beneficial synergies through networking events and extended network of the mentors.

Seasoned entrepreneurs, business professionals, faculty and administrators make up the Baiada Center's management team and mentor program (Figure 4). This unique partnership provides students with potential partners in the business and investment community, as well as a wealth of knowledge and resources from the academic community. The Center and experienced mentors are continuously increasing their resources, enabling them to provide a significant package of services to entrepreneurial teams that demonstrate sustained promise and real progress in the creation of successful ventures as well as supporting and nurturing an entrepreneurial zest for those with "fire in the belly and gleam in their eyes". A web Platform has been designed to facilitate the flow of useful information, resources and smoothen the communication process between the Entrepreneurs and the expanding network of Mentors, available for crucial support and guidance.

Classification of Entrepreneurs (E's)

The Entrepreneurial ventures are classified as –

I. Start-up Business Concept - Preparation of business plan

The Center encourages university students to conceptualize their innovative ideas, and encourages them to convert them into business plan. It provides support, resources and training in fine-tuning their business plan. Every Year the business plan Competition hosted by the Center encourages business plans from budding Entrepreneurs.

II. Early implementation of company operation, 'cash flow'(TAP)

The Center has resources/ facilities to aid the specific needs of newly established start-ups.

III. Growth oriented – successful entrepreneurial companies.

The Center provides support/guidance/mentoring services to growth oriented ventures such as legal services, access to specialized organizations of professionals, specific guidance in financial issues, assistance in going public, etc.

IV. Exit Strategies.

Entrepreneurial Ventures very often face a need for radical change. The Center and experienced mentors provide guidance and support services to identify such situations and avoid or work through them, if possible.

The Entrepreneurs are first listed. Of this list the Potential applications for service are sorted. The BAIADA Center then assists the E's for the Business Plan preparation. Various workshops are conducted to smoothen the process. This is followed by Stage II i.e. Implementation of Business Plan – Organizing and Funding, Stage III i.e. Initial operations turn around tap (TAP), Growth and profitability. The final stage is EXIT. The classification scheme has proven helpful in assigning M's and monitoring E's progress at each stage (Figure 3)

Activities

Workshops

The Baiada Center's Entrepreneurial Workshop Series supports teams through seminars and workshops on the various facets and skills needed at developing a business plan and growing their network of resources. Workshops are conducted twice a month. Following are some of the examples of the kind of the workshops conducted at the Baiada center to guide the potential entrepreneurs. These workshops draw on the talents and expertise of business executives and successful entrepreneurs and offers insights into the skills and talents needed though the various stages of Entrepreneurship.

The Mentors, having an experience at dealing with the most common dilemmas and questions of the Entrepreneurs, help and participate in the design and conduct of these workshops.

The Workshops Series conducted so far support teams on various aspects of idea generation and development, conducting feasibility studies, developing a business plan, etc; drawing on the resources of Drexel, the Tri-State business community and the broader Drexel Network of entrepreneurial business leaders.

A brief description of sampling workshops held in the last two years:

- Lies investors and Start-ups tell themselves to avoid marketing

- Presented by Sandra Holtzman, Holtzman Communication LLC, NY this presentation shared unique perspectives on how to get to market efficiently, professionally and with minimum impact on limited funds. Attendees gained an understanding of the value of marketing, branding and positioning – a marketing blueprint for launching a company and solutions or the most common obstacles to success, including their resistance to marketing.

- A Day in the life of an Entrepreneur – What do Entrepreneurs do all day? Aimed at motivating budding entrepreneurs and fostering a sense of Entrepreneurship amongst Drexel students.

- How to create a killer business plan – Turning Ideas into Reality

- Presented by Mike Holton, VP, Managed Solution, Merrill Lynch, PA and Marc Lederman., Partner- New Spring Ventures, PA with Wayne Kimmel, MD- Eastern Technology Fund, PA.

- Having a great business idea without a solid business plan is like trying to hike without an itinerary or a map. The workshop helped students to learn the art of developing a business plan from these leading experts.

- Building a Customer-facing organization – It doesn't get any better than this.

- Presented by Mark Loschiavo, Director, Baiada Center and President, First Serve Technologies. Angela Blackburn, Customer Contact Center Consultant.

- It has been said that it costs five times more to acquire new customers than keep an existing one. It aimed at teaching attendees the strategies to avoid falling into the trap of customer dissatisfaction and build an organization that delights its customers.

- Finance 101 for Start-ups and Entrepreneurs – Buddy, Can you spare a dime?

- Presented by Tom Bonney, President, CMF Associates.

- This workshop aimed at giving introductory financial acumen to start-ups, particularly in the field of cash and accounts receivables management. The workshop was specially conducted to benefit those with a non-managerial background.

- Harvesting Value, Exit strategies and the IPO process- What is your exit strategy

- Presented by David Reed, Director, Investec.

- When reviewing business plans, investors want to know form the very beginning about the exit strategy. A weak or non-existing exit strategy could be a crucial factor in securing funding. The workshop gives valuable insights about harvesting value n a company and making appropriate VC pitching.

- Forget VC funding – go out and sell

- Presented by Bob Cooper, President, Ricochet Inc.

- The workshop aimed at providing the valuable skills of pitching for capital and financing, through non-traditional sources. It was helpful in giving new insights into capital and start-up financing.

- Approaching the Investor runway

- Presented by Dan Mckinney, Executive VP, T.Williams Consulting

- All start-ups require capital. The workshop provided valuable tips about approaching potential investors and communicating the passion and drive the Entrepreneur carries about his business idea.

- The Legal Aspects of Entrepreneurship

- Presented by William D. Kennedy and John Pauciulo, Partner(s), Litigation Department, White & Williams.

- The workshop was very helpful in giving a background on the legal aspects confronting new start-ups and the dos and don’ts involved.

Pitch a VC Event

This event gives the E’s an opportunity to make Business pitches to panel VC’s and Angel Investors

Forums

Forums are evening events that are presented to existing E’s and Start up communities to help them in their Business Plans. Forums are conducted monthly and topics are parallel to the listing above

Mentor Program

In Business environment, mentors are considered as a ‘Role models for potential entrepreneurs’. Mentors understand the “world of work”. They guide budding entrepreneurs in their venture by offering right direction, feedback, and hints while at the same time allowing entrepreneurs to take complete responsibility of their own actions; a mentor focus on providing facilitation to the learning process rather than telling entrepreneurs what they should know. Incubation is defined as the process where emerging businesses—entrepreneurial ventures—have the opportunity to develop in a nurturing and supportive environment. Many “incubator” models are collaborative efforts that are supported and underwritten by a combination of governmental agencies, state and local governments, other successful entrepreneurs and, yes, academic institutions.

Business mentoring occurs throughout today's business environment, both formally and informally, and across sectors.

At the Baiada Center, Mentoring is an extended, confidential relationship between the Mentors and the prospective Entrepreneurs who share a common goal of their business learning and corporate success of their ventures. We believe that a strong, committed relationship between an amateur entrepreneur and experienced business people can make the difference between success and failure, between growth and stagnation. Many Entrepreneurs have attributed their own successes to the presence of a supportive person who took a personal interest in them and the growth of their business.

Our mentors are seasoned and well qualified professionals from diverse fields who have either started their own businesses, networked in the business world, and are willing to share their knowledge and expertise with the Entrepreneurs and the student community at Drexel. They undergo a selection and interview process and then become a part of the committed services provided by Baiada center. Mentors provide assistance, guidance, and personal encouragement primarily to new entrepreneurs in start-up phase or to entrepreneurs who are growing an existing business. They offer the "big picture" perspective, a result of years of experience and expertise. Overall, mentors bring their expertise to the entrepreneur to help them implement a strategy and achieve objectives - a critical process in creating a successful business.

These Mentors have now become a part of a broader entrepreneurial initiative at Drexel. Mentors are now contributing towards the spread of Entrepreneurial spirit at various colleges at Drexel. The Mentors participate in the critique of business presentations at the MBA program, and provide motivation and support to the aspiring entrepreneurs to conceive their business ideas, and shape up a business plan. Entrepreneurial studies have emerged with a great deal of excitement, with interest and resources focused on establishing and conducting programs and creating a new academic venture. At Drexel, a task force is set-up to further the development of the Incubator and Mentoring program: Mr. Mark Loschaivo, Director of Baiada Center, Mr. Milton Silver, Director, Mentoring Program and Mr. Herb Lipton, Co-Chair, Business Community. A sampling of other participants includes representatives of LORE (Loosely Organized Retired Executives), Ben Franklin Partnership, City of Philadelphia, State of Pennsylvania, venture capitalists, students and other universities faculty members.

Mentoring: A Historical Perspective

The Mentoring Program for the Entrepreneurs at the Baiada Center is in place since about nine months now. The program involves 10 budding young entrepreneurs housed at the Baiada Center and a network of 15 Mentors. The mentoring program varies with mentors and entrepreneurs agreeing their own time commitments at the start of their relationship. The Mentoring Program works on three levels:

- Primary mentors - One – To – One:
- The Mentors and Entrepreneurial Teams are matched on the basis of their mutual interest and requirements. Whether they meet the entrepreneur face-to-face, or are available by arrangement on the telephone or e-mail is up to the individuals concerned.
- Pro- Mentors - Network Pool of Resources:
- The Entrepreneurs have access to the vast Mentor network and resources, for specialized inquiries and concerns such as legal opinions apart from their One-to-One Mentors.

- Operational Mentors - Daily Operations:
- An experienced Mentor resides at the Center for immediate assistance and guidance to the Entrepreneurs. They also participate in all aspects of BAIDA Center Programs and Academic program in Lebow College of Business

The Entrepreneurs are preliminarily matched with appropriate Mentors based on their business plan, and immediate growth requirements. The relationship is on one-to-one and daily operational base. The Mentors and Entrepreneurs decide to meet at their convenience and the Mentors are always available for crucial operational issues and concerns of the Entrepreneurs. The Center has designed a Web platform, exclusively to facilitate the flow of information and resources and smooth the communication process between the Entrepreneurs and the Mentors. Seamless transition and cross-functionality amongst the Mentor Network is being tested now. The matching of E's to M's is a dynamic evolving process. Through periodic meetings between the Mentor network and the Entrepreneurs, constant reassessment and reassigning based on the changing requirements of the Entrepreneur is achieved.

The E's are free to choose their own one-to-one Mentor based on their current dilemmas and also have access to the vast network of Mentors for some specific one-time counseling requirement.

The results have been impressive. Some thrust areas in this field which are being researched further are the recruiting and selection of Mentors, their training, matching them to entrepreneurs, enhancing their relationships, replacing and sequencing this chain of mentors, ensuring a seamless transition, evaluating the effectiveness of such programs and various other strategic issues.

Significant Developments:

- Online Web Community of Mentors and Entrepreneurs worldwide: The Center hopes to connect the wide area of resources worldwide, in the field of Entrepreneurship and Mentoring in Incubators, in the near future. This online community will help in forming a link between the young entrepreneurs, and Mentors, globally and would thus extend the reach of the highly successful Mentor program at Baiada. It shall enhance the role and scope of the Mentor Program to the students, faculty and community at large, globally.

- Academic CIE Programs and the Certificate Programs: The Drexel Career Integrated Education (CIE) Programs and the Certificate Programs give a practical edge to the theoretical concepts strengthened by the workshops and forums. It helps students to gain corporate experience in solving real world business problems and issues.

- Strategic Leadership: The workshop/forums cultivate leadership values in Entrepreneurs. A Boot Camp is organized for faculty to understand the change management procedures aimed at providing support to Entrepreneurial learning. A range of learning and training sessions are enhanced through simulations

- Research: In addition, the BAIADA Center is conducting Research to better understand the changes in the organizational development and provide the necessary changes in the management leadership as an entrepreneurial venture moves through the various stages. The lessons learnt from the research then become a part of the trend simulation design. Further, our research faculty gathers more data and learns about

entrepreneur problems and poses the hypothesis to identify the problem that would be studied in the research.

When mentors assign entrepreneurs to tackle their critical innovations, they instinctively work to match the requirements of the job with the capabilities of the individuals they charge to do it. In evaluating whether an entrepreneur is capable of successfully executing a job, mentors will look for the requisite knowledge, judgment, skill, perspective, and energy. Mentors will also assess the entrepreneur's values.

Future Plans / Vision Ahead

- Online Web Community of Mentors and Entrepreneurs worldwide: A Web Platform has been designed to facilitate the flow of useful information, resources and smoothen the communicating process between the Entrepreneurs and the expanding network of Mentors, available for crucial support and guidance
- Extending scope of the Mentor Program to the students, faculty and community at large
- Research Center – Behavioral Simulation
- The BAIADA Center – A Soft Landing and/or Launch Platform for Global Business

REFERENCES

FIGURE 1 - BAIADA CENTER ACTIVITIES

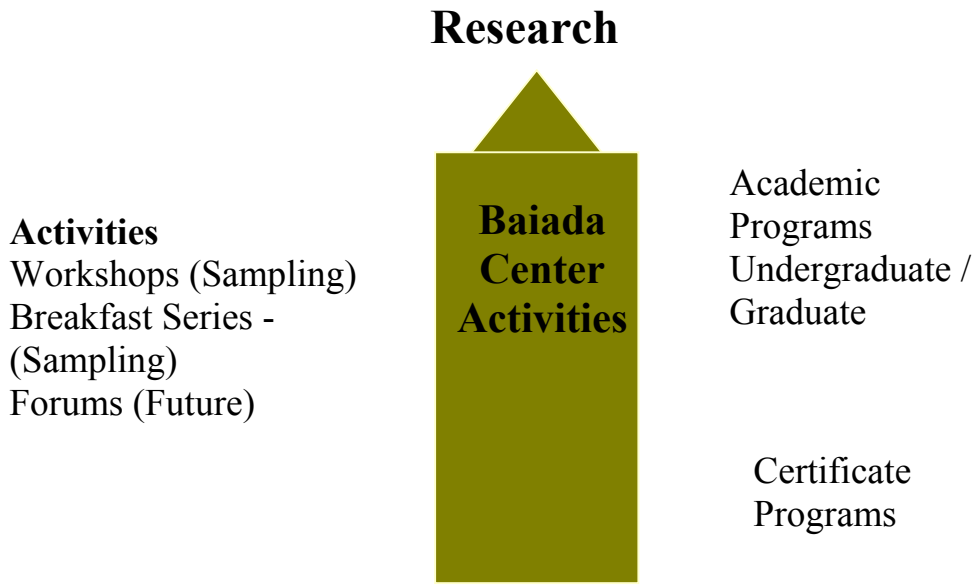


FIGURE 2 - ORGANIZATION CHART

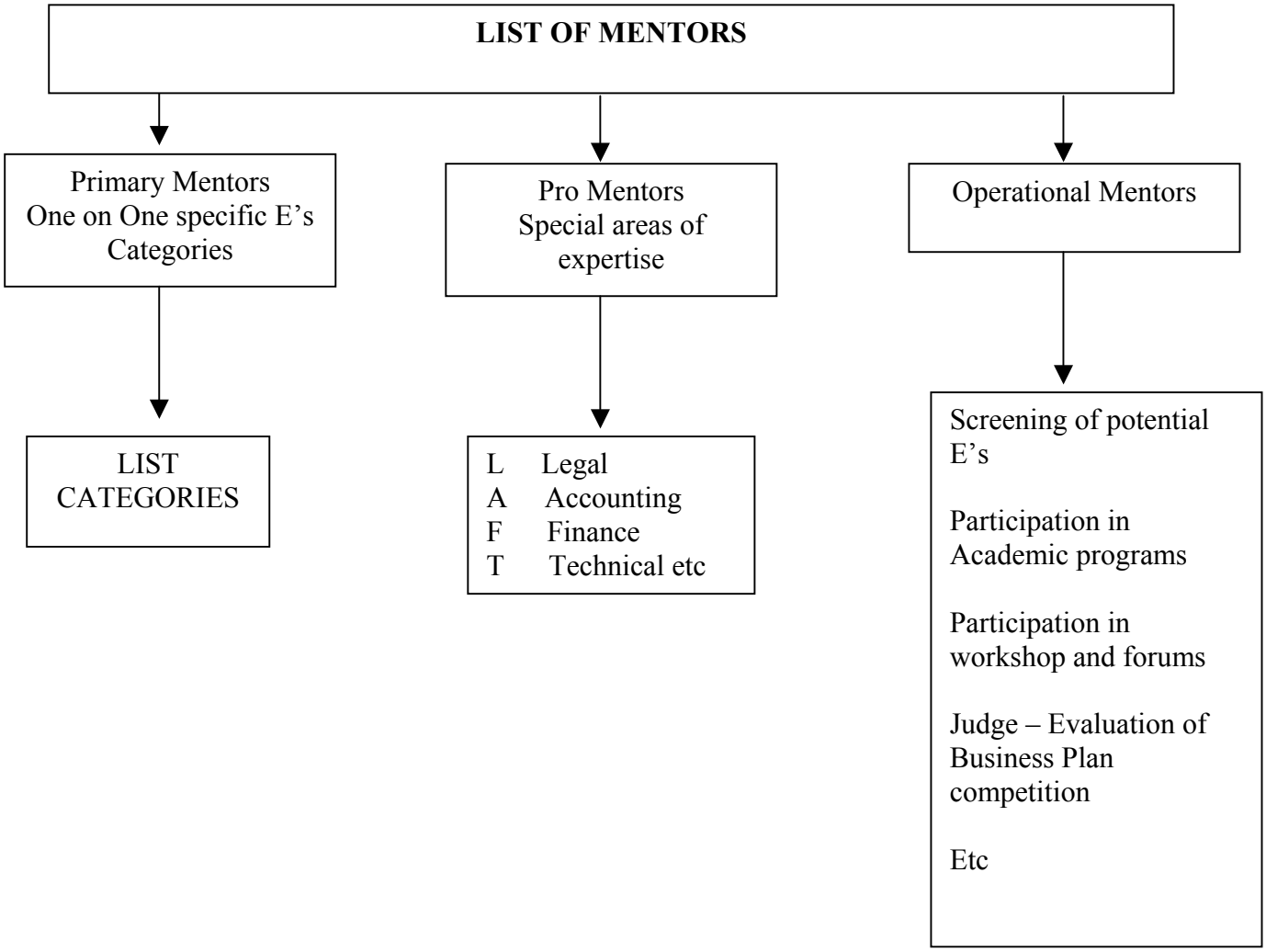


FIGURE 3 - ORGANIZATION BAIADA MENTORS

CLASSIFICATION OF ENTREPRENEURS (E's)

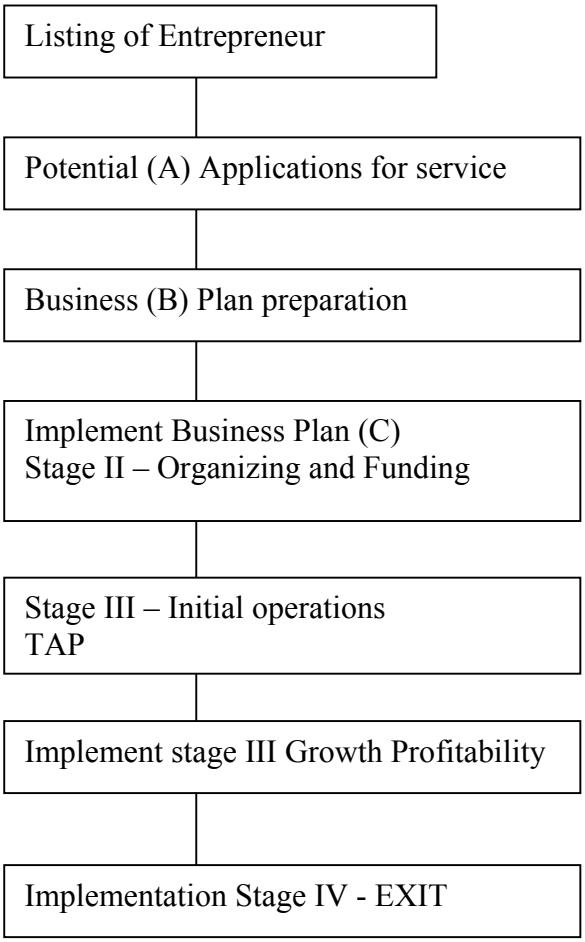
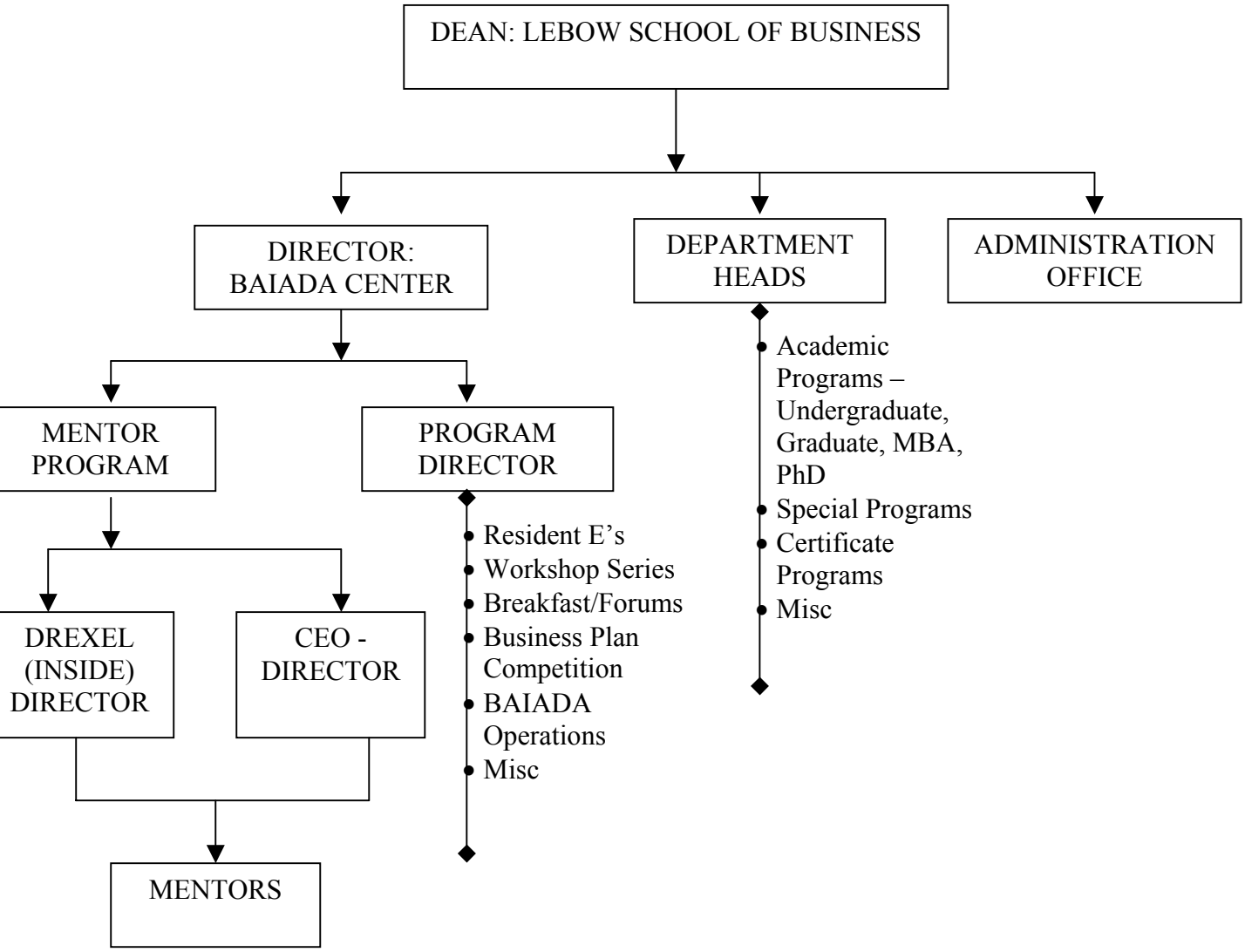


FIGURE 4 - BAIADA MENTORS - DESIGN FOR OPERATIONS

ORGANIZATION STRUCTURE OF BAIADA CENTER



MANAGING RELATIONSHIP PROBLEMS - STRATEGIES FOR SMALL AND MEDIUM ANCILLARY INDUSTRIES

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ABSTRACT

Often, an ancillary industry operates in a monopolistic situation but remains at the mercy of the client company because the client happens to be the monopoly buyer and dictates from a position of strength. The client company is averse to leverage its monopoly position because the ancillary is the only supplier. Thus, the client and the ancillary operate from a monopoly situation, yet unable to take advantage of the situation. Each develops its own strategy to make the best out of its negotiating position and bargaining power. The main determinant of bargaining power between two depends on the extent to which the relationship is crucial to its existence. Small units that are able to diversify in terms of products and customers are in a better position than those, which are captive to a particular client. This paper analyses the relationship strategies with respect to factors such as price determination, quality, regularity of orders etc.

INTRODUCTION

The industrial policy statement of the Government of India defines and ancillary industry undertaking as “An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 10 million”. Thus the ancillary industrial undertaking is usually small or medium enterprise (SME) due to the limit of Rs. 10 million imposed on the investment. It also happens to be supplying a major portion of its production of a given part or a component to the client company. At the same time, it is the only supplier or one of the few designated suppliers of the specific part or component to the client company.

Often, the ancillary industry operates in a monopolistic situation since it is the only supplier to the “client or parent” company. Even though it operates as a monopoly, is remains at the mercy of the client company because the client happens to be the monopoly buyer and much larger in size and dictates from a position of strength. At the same time, the client company is averse to leverage its monopoly buying situation because of the fact that the ancillary is the only supplier or one of the few designated suppliers for the particular item or service, and it is

not easy, if not impossible, to switch over or develop a new supplier in the short run. In other words, the client and the ancillary operate from a monopoly situation, but are unable to take advantage of the situation. It is very common to have friction between the two, but the very need for survival makes them to come to an understanding. Each develops its own strategy to make the best out of its negotiating position. Another important aspect of the relationship between large client company and the small ancillary supplier is their bargaining power vis-à-vis each other. The main determinant of bargaining power between two depends on the extent to which the relationship with one is crucial to the existence and viability of the other. Small units, which are able to diversify both in terms of products and customers, find themselves in a better position than those, which are tied and captive to a particular client. There are different reasons for the development of ancillaries. Also, there is a varying degree of involvement of the parent/client company. Companies such as Ashok Leyland and TELCO rendered considerable assistance in terms of technology, training as well as implementation of appropriate systems in the ancillary industries. The integration appears to be much higher with respect to these ancillaries. Similarly, Unilever PLC creates strong relationships with the suppliers in whichever country they are operating. It offers financial support, help in up gradation of equipment, and provide training. Often, direct technology transfers were made of machinery as well as formulations. They also provide help in quality assurance and expertise in analytical skills. While the suppliers derived benefits in terms of financial support and technical knowledge, Unilever benefited by the fact that the supply lines were set up quickly and easily without high costs [4].

Occasionally, the client company assists the ancillaries to survive in the face of certain demise. In the case of Indian Telephone Industries (ITI), the client company went into a massive technology up gradation and the ancillaries faced a certain closure. The parent company helped these ancillaries to form a consortium and transferred the technology for the manufacture of certain components and instruments. Ultimately, these were able to supply components not only to ITI but also to other companies.

Another important factor in determining the relationship between the SME supplier and the client is the extent of financial linkages between the two. The extent of financial linkages varies widely from company to company.

There are certain principles enunciated to maintain the relationships between the suppliers and the client companies. They should attempt to integrate their activities in their attempts to improve quality [3]. It was also suggested that the suppliers and the client companies should be motivated to initiate opportunities for product and process innovations.

Both the SME suppler and the client company need to maintain a symbiotic relationship, even though there are a number of points where the interests of the two conflict with each other. “While customers are seeking more collaborative relations through supply chain management, the supplier behavior may only be instrumental compliance rather than cultural change premised on deep-seated values [1]. The SME supplier may only be responding to a relationship of unequal power and the reality of supply chain management may be very different from the theoretical concepts of integration and collaboration”. The SME supplier and the client company evolve different strategies and procedures to take maximum advantage of the relationship and minimize the irritants. Most often, it is the large client company that is in a position to dictate terms, and consequently, the smaller ancillary unit will

have to evolve appropriate strategy so as to survive and make enough profits. The SME supplier needs to manage the relationship with the client company and at the same time derive the maximum from the relationship, making it a win-win situation.

Developing a healthy relationship with the suppliers is critical to the effective functioning of the firms [2][1]. Over the past few years, many large firms substantially reduced the number of their suppliers. This trend obviously means that there are certain suppliers who are exclusive to the client company. The primary reason is that the corporations are becoming leaner, and the procurement function is becoming more centralized. As outsourcing of operations is becoming more and more common, more opportunities to partner with suppliers are arising. Maintaining this partnership and managing the relationship is becoming increasingly important for several reasons such as,

- Declining market prices
- Rising competitive intensity
- Advanced technology enablers
- Reverse marketing strategies and
- Strategic positioning

It is not uncommon to have some suppliers exclusive to their client companies. Managing these relationships is becoming increasingly important in order to reduce the prices, rise the competitive intensity, use of advanced technology enablers, strategic positioning etc. A number of companies such as Eastman Kodak, Ford Motor Company, JC Penny and Levi Strauss etc. have demonstrated that considerable savings can be achieved by managing relationships with the suppliers [2]. It was found that the average length of relationship between suppliers and client companies in the Japanese automotive industry was 22 years. In addition, the client company purchased about half of the production of the supplier firm. The supplier firms are limited to 2 to 4 units. A well-managed relationship reduced the uncertainty and cost of the supplier. Even in terms of development efforts, about 26 percent of such efforts were devoted to a single client company [5].

The major irritants in the relationship between the SME supplier and the client company are

1. Price determination
2. Regularity of orders
3. Systems and procedures within the company
4. Quality control systems
5. Payment terms

The SME suppliers evolve various strategies to manage the relationship with respect to each of the above. Obviously, the strategies depend on the stage of relationship as well as the extent of interdependence. This paper attempts to highlight various strategies adopted by SME suppliers to manage their relationship with the client companies. The research method used is the case method where a number of SME suppliers were studied and the strategies and practices followed by them were collated. The effectiveness of these strategies and practices are analyzed with respect to the survival as well as the success or failure of the

[1] This part of the paper draws extensively from Prof Jagadish Sheth's paper {2}

relationship management of SME supplier. Initially, the sample of SME suppliers is limited to manufacturing sector.

This study is carried in two stages namely Exploratory Study and In-depth Study. A limited number of SME suppliers are interviewed in detail on various aspects of the relationship management. This information is used to identify the parameters that govern the relationship between the SME supplier and the client company. Based on the results of the Exploratory Study, a detailed questionnaire is prepared and a larger sample of SME suppliers is being studied using the questionnaire. This paper presents the findings based on the Exploratory Study.

The results of the exploratory study are discussed under the following heads:

- Initiative to start the SME
- Modality of price determination
- Regularity of orders
- Quality
- Payment terms and
- Business intelligence

Initiative to start the SME

A majority of the SMEs studied were started on their own initiative. One of the entrepreneurs had received training from Small Industries Service Institute (SISI) and decided to start his own unit. A large order from a public sector company helped in the initial stages. But the SME supplier started supplying to two other private companies and at present most of its production goes to these private companies and very little is supplied to the public sector company.

The public sector companies were performing very well during the eighties and many entrepreneurs were encouraged by these companies to start SME units and become ancillaries to these public sector companies. Two units in the sample have started primarily to supply the same component to a particular public sector company. The client company originally had a large monopoly supplier and they have helped in promoting 5 SME units to break the monopoly of the supplier. Two of these 5 units are included in our sample. One of these two units has diversified into other components and also started supplying to other client companies. Over a period of time, this unit has stopped supplying to the public sector, which has originally promoted the unit. This unit is expanding and thriving well due to its diversification efforts. At the same time the other unit remained completely with the public sector client company. This public sector client company is on the verge of closure now and consequently, the SME unit is also facing the prospect of closure.

As mentioned earlier, a majority of the units in the sample were started by their own initiative. One of them has started by developing a new product based on their study of the requirements of Indian Railways, which is owned completely by the Government of India. Subsequently, this unit has diversified into many other products. This unit operates either in a monopoly or a duopoly situation with respect to many products and components that are supplied to the Indian Railways. This unit has provided an excellent example of managing the

relations with a government organization and thriving well and expanding and diversifying into many other products, but mainly remaining as a preferred supplier to Indian Railways.

One of the important factors of the SMEs in managing their relationship with the client company is the fact that they are started by their own initiative and there by not emotionally or economically linked to the client company. Even those, which are started through external encouragement by the client company, tend to perform better when they reduce their dependence on the client company. In other words, it is important to the SME suppliers to be driven by their own strengths rather than be dictated by the requirements of the client company. It is important for the SME supplier to identify its core competence and establish the relationship with the client company accordingly.

Price Determination

The SME suppliers and the client companies establish different methodologies for determining the price of the component or the product supplied by the SME units. There is a clear distinction between the public sector companies and the private sector companies in the methodologies followed in price determination. The public sector companies invariably follow the competitive tendering process. The process that is generally followed is that the requirements are indicated to the SME suppliers and each is asked to quote their best prices. The SME quoting the lowest price is selected. Some of the public sector companies tend to split the order between units with the lowest quotation and the next lowest, provided the second unit is willing to supply at the same price as the lowest quotation. In a sense, this provides work for both the units. But, at the same time, neither unit will have the advantage of the economies of scale. The underlying objective of splitting the order is to make sure that none of the SME units will get the advantage of a monopoly supplier rather than providing opportunity to both the units. In case one of the suppliers fails to supply either in the required quantities or of required quality, the other supplier will receive additional orders, but at the lowest quoted price only.

The private companies appear to follow a different procedure in determining the price. The mechanism that they follow could be termed as “cooperative” pricing. Generally, the SME supplier is asked to quote his or her best price and this is followed by negotiations. The client company takes into account the final price that they receive for their product and the costing of component at the SME supplier. The objective is to make sure that the SME supplier does receive a remunerative price. At the same time neither the SME supplier nor the Client Company can take advantage of the monopoly position. As a matter of fact, the client company some times gets involved in carrying out a costing exercise on behalf of the SME supplier.

Because of the uncertainty involved with the tendering process, the SMEs tend to annualize most of the tooling and designing cost involved with a new products on the very first order. Since it is a new product, they are sure of the first order and the pricing is done such a way that at least 50 percent of the tooling and designing cost is built into their quotation. The main reason for this is that the SME supplier is not sure of repeat orders. On the other hand, where there is cooperative pricing, the SMEs are generally ensured of repeat orders and consequently they spread the cost of tooling and designing over a longer period. This helps both the SME supplier as well as the client company.

An interesting strategy is followed by the SME supplier to the Indian Railways. The Indian Railways maintains a very high level of transparency with respect to their tenders calling for quotations. In addition, they regularly publish information about the successful bid. The information includes the name of the firm, which was awarded the supply contract, the final price as well as the quantity to be supplied. The SME supplier in our sample maintains a very detailed database on the various components that it is interested. Based on the information from the database, the SME decides whether to quote for a particular component or not and also how much to quote. They also take into account the possible competitors and the incentives that they have such as excise duty rebate or sales tax rebate.

One of the public sector companies is in the process of setting up a special committee, which will actually do the costing for their SME vendors so that appropriate pricing mechanisms can be worked out.

The most important strategy for maintaining relationship on the pricing aspect is the cooperative pricing where both the SME supplier and the company client have sufficient understanding of the costs of the supplier and the price received by the company client for the final product. Even in such cases, the pricing mechanism worked out is dependent on the long-term commitment between the two in terms of continuity of the relationship. In other words, the pricing mechanism depends on the likelihood of regularity of future orders from the client.

Regularity of the orders

An important factor in the management of the relationship between the client company and the SME supplier is the regularity of the orders. Generally, when the relationship reaches a very high level, the operations of the two get seamlessly integrated and each has access to the production plans of the others. Obviously, such an access is limited only to that part of the production plans which impact the other partner. Unfortunately, such a level integration did not occur in any of our sample units.

The extent of information exchange with respect to the regularity of orders varied widely between the public sector and private sector client companies. One of the private sector companies has provided annual targets to its SME supplier. These annual targets are converted into monthly schedules. The SME supplier regularly informs the client about their production schedules, details of operations, capacities available etc. Using this information, the client company revises the schedule of monthly supplies from the SME supplier. At the same time the SME supplier makes sure that the annual targets are fulfilled and there is not too much of variation in the monthly schedules. As a matter of fact, since the annual targets are known, the SME supplier builds it into its own monthly schedules and fine-tunes it to suit the monthly requirements of the client company. Spare capacity, if any, is used to manufacture for other companies. Even this information is shared with the client company.

Another SME supplier makes regular forecasts of the clients requirements based on their market intelligence. Production schedules are made based on this forecast, and they manage to affect the supply within 10 to 14 days. In that sense, the SME supplier actually initiates a production schedule proactively based on his own forecast of the client company's requirement.

The situation with respect to the public sector company clients is very different. The SME supplier is not given any targets or annual requirements. The requirements are announced through tender notifications. Even these notifications do not have any regularity or periodicity. There is no long-term commitment from the client company. It is always the lowest quotation that gets the order for supply. The SME suppliers tend to manage the irregularity in the orders by managing the work force. The production capacity is more or less fixed and cannot be adjusted to suit the wide variation in the orders. On the other hand, the number of workers can be adjusted based on the quantum of the orders. Thus, some of SME suppliers maintain a small group of workers on a permanent basis. This work force is just sufficient to meet the minimum production requirements. As and when there is a need to increase the production because of fresh orders, or higher quantities to be delivered, additional workers are hired on a temporary basis. While this minimizes the running cost for the SME supplier, it results in lowering the quality of the output. It is not easy to get trained workers on a temporary basis at a short notice and invariably the SME ends up hiring untrained casual workers. Consequently the quality suffers. There are a few SME suppliers who manage the irregularity in orders in a different way. These units maintain a large enough work force, but they pay them low monthly wages. These workers are compensated by additional bonus paid to them based on weekly or monthly production levels. Here again, the quality suffers because a well-trained worker is unlikely to stay on at lower wages and uncertain bonuses.

Even though the ideal process to manage the production schedules between the SME supplier and the client company is to share as much information as possible, this does not happen in practice. As a result, the SME suppliers resort to different strategies, which impact the quality.

Quality

Many SME suppliers look at quality as something imposed on them from outside. At the same time there are a few which encourage quality from within. The SME suppliers who depend on outside intervention for quality generally leave it to the client companies. The client companies insist on a particular source for raw material and the SME suppliers have to procure the raw material from the sources certified by the client company. The client companies even designate the laboratories where the raw materials have to be tested with respect to certain parameters. There are few client companies, which have obtained ISO 9000 certification, which, in general is expected to have an impact on the processes of the SME supplier. But, many of these SME suppliers felt no such impact. These units appear to leave the quality aspect to be dictated by the client companies. With the result, the components supplied by them are checked one hundred percent at the inward receipts of the client company leading to additional costs to both the SME suppliers and the client companies.

The few SME suppliers who encourage quality from within have a different experience. Some of them have already gone for ISO 9000 certification. The decision to go for ISO 9000 certification is sometimes on their own other times based on the insistence of the client company. One of the SME suppliers operates three different units. They had obtained the ISO certification for only one of the three units. Even though the other two units officially do not have the certification, all the procedures and process involved in ISO 9000 are put in place in the other two units also.

One of the SME suppliers who regularly supply the components to the Indian Railways makes frequent visits to the operating sheds and workshops of the Indian Railways where these components are used. They obtain feedback on their components directly from the operators. In addition, these visits also help in evaluating the requirements of new components as well as the improvements in the existing components. When these new or improved components are designed and developed by the SME, they are in a position to offer these to the concerned operating shed or the workshop. Owing to the decentralized nature of the decision-making in the Indian Railways, the workshops can place the orders on the SME directly, taking advantage of the fact that this is a new component. Since the information on various components are pooled into a central database in the Indian Railways, the component becomes part of the central database and when the other operating sheds or workshops float a tender for these components, the SME suppler has the first mover advantage. This particular SME makes it a point to get the raw material from the same source as the Indian Railways. Even though this strategy entails much higher cost for the procurement of raw material, the quality is assured which in turn ensures regular orders from the Indian Railways. The SME supplier purchases large quantities of the raw material at one time to take advantage of the discounts on larger volumes. They feel that these discounts more than offset the increased inventory carrying costs.

Another SME keeps upgrading its machines to make sure that the quality is maintained. This also helps in low down time of the machines. The client company, which is a private sector company is fully aware of this and takes this into account in determining the price, order quantities as well as the delivery schedules. As a matter of fact, the client company recently brought in major modifications in the design of its own products and consequently, there are major changes in the nature of the components. The design group from the client company started working closely with the SME supplier in redesigning the components and retooling. In the process the client company is also carrying out the costing exercise so that the pricing can be done appropriately. The client company is even suggesting that the SME should acquire a few CNC machines and that the investment can be made a part of the costing exercise. This is the same client company, which shares the annual targets and monthly production schedules with the supplier.

One of the client companies, which has ISO 9000 certification, is insisting that the SME suppliers should also obtain ISO certification. The client company is offering to setup a team to do the costing exercise for the SME suppliers and use the data in negotiating the prices, provided the SME supplier obtains ISO certification. Some of the SME suppliers feel that this is enough of an incentive to obtain ISO certification. They also feel that they can get orders from more client companies on the basis of the certification.

Payment Terms

The SME suppliers normally deliver the parts or the components to the client company and also send the bills for payment at the same time. The client company is expected to make the payment as soon as possible after the components are tested for quality. But, the payment terms appear to be more in favor of the client company. There are occasions where payment takes anywhere from 45 to 180 days after the components are accepted by the client company. The payments are sometimes held up on flimsy grounds. No advance is paid by the client companies while placing the order. Even the client companies from the private

sector do not make any advance payments. Some of the client companies even insist of bank guaranties while placing order. On the other hand, the SME supplier does not get any credit from the suppliers of raw materials. This coupled with delays in payments, results in heavy working capital requirements.

The delays in payment by all the client companies involved in this study indicates that the payment to the SME supplier is linked to the receipt of payments by the client company. The client companies seem to affect the payment to the SME suppliers only after they receive the payments for their products. In other words it is the SME suppliers who are in effect subsidizing the working capital requirements of the client company. In this connection, it is interesting to note that the average time taken for payment is less in the case of public sector companies as compared to the private sector companies. This aspect needs to be studied further in the second stage of the study.

CONCLUSIONS

This exploratory study has provided valuable insights into the management of the relationship between SME suppliers and the client companies, which are much larger in size. Some of the SME suppliers involved in this study are on the verge of closing down where as there are others which are not only performing well but are in the process of expanding. Some of the factors, which contribute to the success of the SME suppliers, are worth noting, especially from the point of view of the relationship management.

The entrepreneurs who have started the SME units on their own initiative appear to have better chances of success. Those who had set up the units based on the encouragement from the client company tend to be successful only if they quickly diversify into other related products or take-up forward or backward integration. Those who have managed to increase their client base have managed to reduce the risk successfully. The risk is much higher when the SME supplier is completely tied to a single client for a single product. Those who are tied to a single client, but either had diversified into different products or managed forward or backward integration have been able to cope with the risk more successfully.

The cooperative pricing strategies appear to benefit both the client company as well as the SME supplier. The competitive pricing strategy of the client company is supposed to result in the best price for the client company. But, in reality, it is resulting in the supply of a lower quality components or the lowest tenderer defaulting on the supply. In such a case the client company has to resort to negotiating with the next lowest tenderer thereby paying a much higher price.

Similarly, the management of the relationship is successful when the information regarding the production planning of the client company is shared with the SME supplier and the capacity availability of the SME supplier is shared with the client company. Such exchange of information results in better performance for the SME supplier and the client company.

Quality is one of the most important aspects of the relationship. The relationship is at its best when the quality initiative comes from within the SME supplier. It is possible for the client company to enforce the quality requirements either by insisting on certification (such as ISO 9000) or procurement of raw materials from a pre-specified source or testing at designated laboratories. Ultimately, the quality aspect has to be internalized within the SME unit. The investments that the SME supplier has to make for better quality will naturally reflect in the pricing negotiations. The cooperative pricing strategy, which will take into account, the costing exercises carried out jointly by the SME supplier and the client company provide enough incentive for maintaining higher quality.

The major irritant in the management of relationship is the payment issue. The client companies appear to take advantage of their position of strength and delay the payments until they receive their own payments. In effect, the client companies are using the SME supplier to finance at least part of their working capital.

The most important lacuna in the management of relationship between the SME supplier and the client company is the lack of sharing of business intelligence. Each of the partners is left to themselves to obtain their own business intelligence. In this era of competition where the effectiveness of the company is predominantly governed by information and information technology, sharing business intelligence could contribute to the operational effectiveness of both the supplier and the client company. Such a sharing would ultimately lead to a better understanding and relationship and eliminate many irritants between the two partners.

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EMPLOYEE PERCEPTIONS OF WORKPLACE LEARNING ENVIRONMENTS IN SELECTED NEW ZEALAND SMALL MANUFACTURING FIRMS

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INTRODUCTION

Burgeoning literature on workplace learning, organisational learning and the 'learning organisation' is evidence of growing interest in workplaces as learning environments. The importance of learning is primarily attributed to rapid and continuous change in the organisation's external environment (Gardiner, Leat & Sadler-Smith, 2001). Some commentators believe that organisations that learn faster will be able to adapt quicker and thus avoid the economic evolutionary weeding out process (Schein, 1993). According to De Geus (1988: 71), learning is important, not only for organisational survival, but also because "the ability to learn faster than your competitors may be the only sustainable competitive advantage".

Small firms represent a significant part of the workplace-learning context in New Zealand (Cameron & Massey, 1999). Almost 99 percent of New Zealand enterprises employ 49 or fewer full time equivalents, and these firms account for approximately 54 percent of people employed in enterprises (Statistics New Zealand, 2002). This has important implications for New Zealand's national prosperity and competitiveness. How learning is orchestrated in such organisations is a matter of major interest (Gibb, 1997; Sadler-Smith et al. 2000).

Small business researchers (e.g. Chaston, Badger & Sadler-Smith, 2001; Gibb, 1997; Field, 1998; Hill & Stewart, 2000; Kerr & McDougall, 1999) agree that formal training is generally not suited to small firms for a variety of reasons. These include cost, time and perceived lack of relevancy (Gibb, 1997). Informal workplace learning is deemed the preferred approach. The importance of learning for competitive performance of small firms, and strong preference for informal workplace learning in this sector, suggests that managers in small firms could play an important role in fostering informal workplace learning (Sadler-Smith et al. 2000; Hendry, Arthur & Jones, 1995).

In New Zealand (NZ), studies of manufacturing practices (Australian Manufacturing Council, 1994; Ministry of Commerce, 1999; Knuckey et al. 2002) show that employee practices, including employee development, are underdeveloped. Thus, although the discourses of Human Resource Management, the 'learning organisation' and 'knowledge management' suggest that learning is a central concern in the workplace (Evans & Rainbird, 2002), these NZ studies indicate that the potential of workplaces as sites for learning are not being fully realised. These concerns need to be investigated from a

perspective that is broader than training to further understand learning processes in small firms, and to suggest practice that might, if addressed, improve both managerial performance and the quantity and quality of workplace learning.

Despite the importance of small business sectors to national economies, and wide recognition of the need to leverage learning for competitive advantage, field research on informal workplace learning in small firms has not been forthcoming. This paper reports selected findings of mail survey research examining employee perceptions of (1) their sources and methods of informal work-related learning; and (2) the extent to which managers create conditions in the work environment favourable to learning and enact behaviours in one-on-one settings that are likely to foster learning.

Factors such as the relative mix of learning sources and approaches to fostering employee learning are likely to vary across industry sectors. Therefore, this study used a single-industry sector design to control for potential industry sector effects. The choice of the manufacturing sector was influenced primarily by its importance to the national economy, and the prevalence of larger-size firms within this sector, compared to other sectors. For the current study, a manufacturing firm is defined as small if it has 10-49 full time equivalent employees.

METHOD

The mail survey questionnaire comprised six sections (A-F). This paper reports aggregate results and results by selected demographic variables of Sections A, B and E. Section A measured respondents' perceptions of conditions in their work environments, thought to be favourable for an integration of learning and work (Ellstrom, 2001), using eleven positively and two negatively stated propositions. Section B used seven positively stated propositions, which focus on behaviours that managers enact in one-on-one settings which are likely to foster learning, to measure respondents' perceptions of their supervisor's proximate support for learning. In both sections A and B of the questionnaire, responses were recorded on a seven-point Likert-type scale (7 = strongly agree; 1 = strongly disagree). Negatively stated propositions were reverse scored. Section E measured employees' perceptions of the usefulness of three sources and four methods of learning on a five-point interval scale (5 = extremely useful; 1 = not at all useful). Section F collected general information about the respondent in seven areas: sex, ethnicity, employment status, tenure, nature of work, education level and age.

Questionnaire testing, for the most part, followed the protocols recommended by Dillman (2000). The process started with knowledgeable colleagues, with diverse expertise, reviewing the draft questionnaire. Their feedback led to significant improvements in questionnaire content and layout. This was followed by interviews, using the retrospective technique (see Dillman, 2000), with nine respondents from two manufacturing firms of different employee size to evaluate cognitive and motivational qualities. Overall, feedback from the respondents indicated that questionnaire items were clearly worded and easily understood.

The sampling procedure used for the mail survey was a combination of systematic sampling on the one hand, and judgemental sampling on the other. Lists containing contact (and other) details of small manufacturing firms located in the lower North Island, were purchased from a supplier of business details. Using these lists as the sampling

frame, a systematic sampling procedure (see Zikmund, 2000) was employed to randomly select firms that would be invited to participate in the study. One hundred and twenty firms were selected from the sampling frame and pre-notice letters were mailed to owner/managers of these firms. The letter provided notice that the recipient would be receiving a telephone call to request help with an important study. The owner/managers of thirty-one firms agreed to allow their staff to participate in the study. Within these firms, sample members were selected using judgement sampling (see Zikmund, 2000). All employees in the operating cores of these firms, such as machine operators, maintenance staff, supervisors, foremen, production managers, production planners and research and development staff, were invited to complete the questionnaire.

Three methods of survey implementation were used. Giving questionnaires to an assembled group of staff to complete was the most efficient method of survey implementation. Following Dillman, (2000), a protocol for group administration of the questionnaires was developed to keep the questionnaire completion environment the same for all groups and individuals. The in-person drop-off/pick-up method of survey administration involved visiting managers at their firms to drop-off questionnaires and to agree on suitable times to pick-up completed questionnaires. Some managers preferred to have the questionnaires delivered and returned by mail. This method was also used for other reasons, mostly related to firm location and resource constraints.

Using these three methods, four hundred and sixty four (464) useable questionnaires were received from employees in the thirty-one participating firms. The survey data was analysed using descriptive statistics. Aggregate results as well as results for selected demographic groups are reported here. In regard to the results for demographic groups, independent samples t-tests were used to determine if there are significant differences between the groups.

RESULTS

This section of the paper presents and discusses selected results of the descriptive analysis. It includes an examination of results shown by: (1) nature of work; and (2) education level.

Work Environment Characteristics

In this study, one research question asked: Are managers perceived as creating conditions in the work environment favourable to learning? To help answer this question, Section A of the questionnaire measured respondents' perceptions of characteristics of work environments that have been found to have positive or negative effects on individuals' learning. These work environment characteristics include both factors that are proximate to the daily work of employees (such as task variety) and those that are distant, or associated with the organisation as a whole (such as rewards for learning). Of the thirteen items included in this section of the questionnaire, items A1-A6 were deemed to be proximate factors, and items A7-A13 distant factors. Results of reliability analysis indicate that the degree to which theses items are homogenous and reflect the same construct is satisfactory. The Cronbach's alpha of proximate factors is .7576, and distant factors has an alpha of .7761

Table 1 provides descriptive statistics for questionnaire items A1-A6.

Table 1 – Descriptive Statistics: Proximate Factors

	A1	A2	A3	A4	A5	A6
Responses	464	462	461	460	458	450
Mean	5.5	5.4	4.7	5.4	5.1	5.0
Std deviation	1.26	1.23	1.49	1.23	1.48	1.61

Table 2 depicts frequency distributions of the response key values (1-7) for these items.

Table 2 – Frequency Distributions of Response Key Values

	1	2	3	4	5	6	7
A1	4	14	25	27	91	222	81
A2	4	12	30	32	106	219	59
A3	9	51	44	51	152	126	28
A4	3	15	22	39	98	220	63
A5	13	24	39	48	110	174	50
A6*	5	39	60	51	65	160	70

Notes: 1= strongly disagree; 7 = strongly agree. *Reverse scored.

Data in tables 1 and 2 indicate weak disagreement with the (negatively stated) proposition, *there is no coaching or informal training available* (A6: $\bar{x}$ = 5.0 when reverse scored). There was weak agreement ($\bar{x} < 5.0$) with the proposition, *people are given opportunities to choose their own methods of working* (A3: $\bar{x}$ = 4.1). By comparison, there was stronger agreement ($\bar{x}$ > 5) with the other four propositions. These propositions are: *people are given opportunities to learn a number of different tasks* (A1: $\bar{x}$ = 5.5); *people are given opportunities to take on challenging tasks* (A2: $\bar{x}$ = 5.4); *people are given opportunities to use their skills and abilities* (A4: $\bar{x}$ = 5.4); and *if you need training it is arranged for you* (A5: $\bar{x}$ = 5.1).

These findings suggest that the learning potential of the work systems in the small firms studied is constrained mostly by limited scope for employee action (A3), and enhanced mainly by task variety (A1). The finding that employees perceive that they have access to a wide range of work activities, is consistent with the view often encountered in the small business literature - that managers and employees in small firms are often multi-skilled, because small firms rely on fewer personnel resources for multiple activities (see, for example, Cameron & Massey, 1999; Ghobadian & Gallear, 1997). The findings also suggest respondents perceive that there are limited opportunities to access training (A5 and A6). Other researchers have also encountered an apparent lack of opportunities to access training in small businesses. For example, based on findings of their empirical research, Hill and Stewart (2000) conclude, “in many small organizations training does not take place at all” (p.108).

Table 3 provides descriptive statistics for questionnaire items A7-A13.

Table 3 – Descriptive Statistics: Distant Factors

	A7	A8	A9	A10	A11	A12	A13
Responses	460	458	459	459	460	456	463
Mean	5.4	5.3	4.9	4.8	4.8	3.9	4.6
Std deviation	1.3	1.3	1.43	1.43	1.6	1.61	1.56

Table 4 depicts frequency distributions of the response key values (1-7) for these items.

Table 4 – Frequency Distributions of Response Key Values

	1	2	3	4	5	6	7
A7	5	16	29	38	77	234	61
A8	3	22	30	48	94	217	44
A9	10	28	40	75	120	148	38
A10	18	15	44	97	118	134	33
A11*	11	36	71	61	82	148	51
A12	33	86	60	112	72	84	9
A13	16	45	52	87	95	141	27

Notes: 1= strongly disagree; 7 = strongly agree. *Reverse scored.

Data in tables 3 and 4 indicate weak disagreement ($\bar{x}$ = 4.8, when reverse scored) with the (negatively stated) proposition, *there is little encouragement to learn new skills* (A11). There was weak agreement ($\bar{x} < 5$) with four propositions. These are: *people feel encouraged to experiment to learn new ways of doing old tasks* (A9: $\bar{x}$ = 4.9); *our ideas for change are welcomed by management* (A10: $\bar{x}$ = 4.8); *managers often share their learning experiences with employees* (A13: $\bar{x}$ = 4.6); and *people who learn new skills are rewarded* (A12: $\bar{x}$ = 3.9). By comparison, there was stronger agreement ($\bar{x} > 5$) with just two of the propositions. These propositions are: *managers tolerate mistakes when someone is learning a new task or skill* (A7, $\bar{x}$ = 5.4); and *people often take time to figure out ways to improve how work is done* (A8: $\bar{x}$ = 5.3).

The findings pertaining to encouragement to learn (A11) and rewards for learning (A12), suggest the respondents perceive that there is a lack of incentives to learn. Research linking goal setting and rewards to performance provides strong evidence that under the proper conditions, specific goals and contingent incentives do affect behaviour (Skinner, 1971). Similarly, establishing learning goals and making available rewards for learning are widely acknowledged by learning theorists (e.g. Ellstrom, 2001; Knowles, 1990) as being important in facilitating learning. Management can thus make important contributions to fostering employees' informal workplace learning by ensuring that rewards (and sanctions) are consistent with learning agendas. Apart from respondents apparently experiencing insufficient incentives, the findings also suggest managers are perceived by respondents to not provide modelling influences (A13). As Tannebaum (1997), and others, have observed, managers who wish to encourage learning at and through work should serve as role models.

The relatively low means scores for A9 and A10, compared to A 7 and A8, suggest conditions in the work environments of the small firms studied may be more conducive to

an adaptive mode of learning than to a developmental (or innovative) mode of learning. According to Ellstrom (2001), in the adaptive mode of learning the learner has to evaluate the outcomes and make minor corrections in the way the methods were used to solve the problem at hand. This would, for example, apply to a work setting where the workers have a responsibility for continuous improvements of formalised work procedures. By contrast, in developmental learning, the learner has to engage in a more active process of knowledge-based problem solving through experimentation. This mode of learning becomes necessary when we encounter novel or unfamiliar situations for which no rules or procedural knowledge (know-how) are available from previous experience. This mode of learning also occurs when individuals and groups within an organisation begin to question established definitions of problems or objectives and to act to transform institutionalised ideologies, routines, structures or practices. Although both modes of learning distinguished here are deemed necessary and assumed to be complementary, according to Ellstrom, individuals and organisations tend to get caught in an adaptive mode of learning.

Supervisors' Proximate Support for Learning

Another research question asked: Do managers enact behaviours in one-on-one settings that are likely to foster subordinates' learning? To help answer this question, Section B of the questionnaire measured the respondents' perceptions of supervisors' proximate support for learning. The positively worded propositions in this section focus on behaviours managers enact in one-on-one settings that are likely to foster learning. Results of reliability analysis indicate that the degree to which Section B items are homogenous and reflect the same construct is very satisfactory. The Cronbach's alpha of Supervisors' Proximate Support for Learning is .9077. Table 5 provides descriptive statistics for questionnaire items B1-B7.

Table 5 – Descriptive Statistics: Supervisors' Proximate Support for Learning

	B1	B2	B3	B4	B5	B6	B7
Responses	463	458	458	462	460	459	463
Mean	4.6	4.4	4.8	5.6	5.3	5.0	5.2
Std deviation	1.72	1.67	1.6	1.3	1.44	1.52	1.47

Table 6 shows frequency distributions of response key values for the seven items (B1-B7).

Table 6 – Frequency Distributions of Response Key Values

	1	2	3	4	5	6	7
B1	24	64	28	59	104	141	39
B2	20	66	47	68	99	127	29
B3	18	45	34	59	100	165	33
B4	7	18	12	34	70	228	88
B5	10	25	22	45	82	206	65
B6	14	30	29	64	94	171	52
B7	10	29	27	44	87	203	59

Notes: 1= strongly disagree; 7 = strongly agree.

The data in Tables 5 and 6 indicates comparatively weak agreement ($\bar{x} \leq 5$) with four propositions. These four propositions, that collectively imply a proactive stance to fostering employee learning, are: *meets me to discuss my performance* (B1: $\bar{x} = 4.6$); *asks me what I feel I need to learn to do my job more effectively* (B2: $\bar{x} = 4.5$); *provides constructive feedback on my performance* (B3: $\bar{x} = 4.8$); and *provides on the job training when I need it* (B6: $\bar{x} = 5.0$). By comparison, the data indicates stronger agreement with the other three propositions. These propositions are: *is available to talk about problems* (B4: $\bar{x} = 5.6$); *works with me to solve problems* (B5: $\bar{x} = 5.3$); and *arranges help from others when something comes up that I do not know how to handle* (B7: $\bar{x} = 5.2$).

Section B findings suggest that, in general, managers may not be effectively enacting their staff development role. Empirical research into factors that enhance or inhibit workplace learning (e.g. Sambrook & Stewart, 2000; Tannenbaum, 1997) has identified the key role of managers. Similarly, it is argued that managers should play an important role as facilitators of learning in the small firm context (Sadler-Smith et al., 2000; Hendry, Arthur & Jones, 1995). But the comparatively low mean scores, for items B1-B3 and B6, suggest managers are perceived not to be adopting a proactive stance in fostering their subordinates' learning, and that they are providing only low levels of learning support. These findings also suggest that the potential to learn through feedback on performance from social sources, specifically immediate supervisors, is not being fully realised in the small firms studied (B3).

Sources and Methods of Learning

In this study, one research question asked: To what sources and methods of learning do employees attribute development of their work-related knowledge and skills? To help answer this question, Section E of the questionnaire measured the respondents' perceptions of the usefulness of three sources (E1-E3) and four methods (E4-E7) of learning. Table 7 provides descriptive statistics for questionnaire items E1-E7.

Table 7 – Descriptive Statistics: Sources and Methods of Learning

	E1	E2	E3	E4	E5	E6	E7
Responses	440	434	445	419	428	441	416
Mean	3.6	3.2	3.8	3.7	3.5	3.9	3.6
Std Dev	1.00	1.05	0.92	0.82	1.03	0.89	1.07

Table 8 shows frequency distributions of response key values for the seven items (E1-E7).

Table 8 – Frequency Distributions of Response Key Values

	1	2	3	4	5
E1	13	36	149	148	94
E2	23	80	160	120	51
E3	8	22	136	178	101
E4	3	13	151	173	79
E5	12	51	151	128	86
E6	8	12	102	193	126
E7	17	46	130	133	90

Notes: 1= not at all useful; 5 = extremely useful.

Data in tables 7 and 8 indicates the respondents perceived their work mates (E3: $\bar{x}$ = 3.8) were the most useful source of learning. And respondents perceived their immediate supervisor (E1) as a more useful source of learning ($\bar{x}$ = 3.6) than other managers in their organisation (E2: $\bar{x}$ = 3.2). The respondents' perceptions of usefulness of various methods of learning are also captured in tables 7 and 8. The data shows that learning by observation (E6: $\bar{x}$ = 3.9) was perceived as the primary method of learning. Learning by direct experiences, of both everyday work activities (E4: $\bar{x}$ = 3.8) and trial and error (E7: $\bar{x}$ = 3.6), was perceived as more useful as a method of learning than learning by on-the-job training (E5: $\bar{x}$ = 3.5)

Thus, although managers were perceived as making significant contributions to their subordinates' learning, the respondents attributed more of their learning to work mates, than to their supervisor or other managers in the organisation. Following Bandura (1997), the importance attributed to work mates as a source of learning is consistent with the finding of the current study that respondents attributed development of their work-related knowledge and skills primarily to learning by observation. Bandura contends that most human behaviour is learned observationally through modelling, and that observational learning is governed by four component process: (1) attentional processes; (2) retention processes; (3) motor reproduction processes; and (4) motivational processes. According to Bandura:

"Among the various attentional determinants, associational patterns are clearly of major importance. The people with whom one regularly associates, either through preference or imposition, delimit the types of behavior that will be repeatedly observed and hence learned most thoroughly" (p.24)

In small manufacturing firms, factors such as physical workplace arrangements and spans of management are likely to provide more opportunities for interactions between co-workers, than opportunities that exist for interactions between employees and their immediate supervisors.

Findings pertaining to methods of learning (E4-E7) suggest the learning environments in the small firms studied are inquiry based, rather than transmission based. Thus, the process of acquiring work-related knowledge and skills in these firms seems predominantly informal, self-directed and involves primarily natural learning processes. The findings also suggest that most work-related knowledge and skills that respondents acquired in their organisations are tacit. In a manufacturing environment, a great deal of behaviour patterns that employees need to learn, probably do not lend themselves readily to verbal coding. The findings suggest respondents acquire this tacit knowledge and skills primarily through observation of knowledge embedded in actions of models (E6), and through direct experiences, of everyday work activities (E4) and trial and error (E7). These findings are consistent with Bandura's (1997) assertion that "human thought, affect, and behavior can be markedly influenced by observation, as well as by direct experience" (p. vii).

Nature of Work (Managerial/Non-managerial)

This sub-section presents and discusses results of sections A, B and E for 116 respondents whose work is of a managerial or supervisory nature (managers), and 296 respondents who perform production, maintenance or service work (non-managers). Mean scores for questionnaire items in sections A, B and E are in table 9.

Table 9 – Mean Scores of Questionnaire Items by Nature of Work

Section A: Learning Opportunities and Support for Learning													
	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	A12	A13
Managers	5.68	5.62	4.83	5.54	5.11	5.12	5.60	5.16	5.0	4.97	4.78	4.16	4.62
Non-managers	5.51	5.35	4.67	5.47	5.05	4.94	5.37	5.34	4.85	4.73	4.78	3.80	4.59
Section B: Supervisors' Support for Learning													
	B1	B2	B3	B4	B5	B6	B7						
Managers	4.66	4.47	4.72	5.59	5.36	5.05	5.13						
Non-managers	4.59	4.43	4.80	5.60	5.26	5.02	5.29						
Section E: Sources and Methods of Learning													
	E1	E2	E3	E4	E5	E6	E7						
Managers	3.58	3.18	3.50	3.88	3.39	4.01	3.54						
Non-managers	3.62	3.25	3.86	3.72	3.59	3.93	3.52						

Notes: A2, A12, E3 mean differences are significant at $p < .05$.

The results suggest managers perceived most (Section A) work environment characteristics more favourably. The t-test showed a statistically significant difference in mean scores for items A2 (*people are given opportunities to take on challenging tasks*) and A12 (*people who learn new skills are reward*). The statistically significant difference in mean scores for item A2 could be explained with reference to the job characteristics model (see Hackman & Oldham, 1980). In this model, managerial work would rate higher on core job dimensions such as skill variety and autonomy, than production, maintenance and service work. Thus, in a manufacturing environment, managerial work should provide more opportunities to take on challenging tasks than production work does. As noted earlier, there is also a statistically significant difference in mean scores for A12. This suggests that the reward systems may be biased, and that non-manager respondents, in particular, view links between performance (in knowledge and skill acquisition) and organisational rewards, as weak. Expectancy theory (Vroom, 1964) suggests such weak performance-reward links would have negative effects on employees' motivation to learn at and through work. In regard to Section B, mean differences for the items are small. None are statistically significant. Items B4 (*is available to talk about problems*) and B2 (*asks me what I feel I need to learn to do my job more effectively*) have the highest and lowest mean scores respectively for both managers and non-managers. Section E results show both groups of respondents perceive learning by observation (E6) as the most useful method of learning. Both groups also attribute much of their informal workplace learning to everyday work activities (E4). The groups differ markedly in their perceptions of the usefulness of work mates (E3) as sources of learning. The mean differences are statistically significant.

Education

This sub-section presents and discusses results of sections A, B and E for 270 respondents with some college or 7th form education (College) and 161 respondents with trade certificates, diplomas or degrees (Post-College). Mean scores for questionnaire items in sections A, B and E are in table 10.

Table 10 – Mean Scores of Questionnaire Items by Level of Education

Section A: Learning Opportunities and Support for Learning													
	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	A12	A13
College	5.67	5.48	4.69	5.49	5.18	4.93	5.42	5.42	4.96	4.81	4.76	3.89	4.65
Post-College	5.29	5.33	4.63	5.38	4.81	5.04	5.46	5.00	4.73	4.70	4.75	3.84	4.48
Section B: Supervisors' Support for Learning													
	B1	B2	B3	B4	B5	B6	B7						
College	4.67	4.54	4.85	5.58	5.32	5.18	5.33						
Post-College	4.51	4.29	4.71	5.62	5.30	4.84	5.06						
Section E: Sources and Methods of Learning													
	E1	E2	E3	E4	E5	E6	E7						
Managers	3.66	3.35	3.81	3.76	3.69	3.98	3.59						
Non-managers	3.59	2.93	3.67	3.73	3.29	3.89	3.53						

Notes: A1, A5, A8, B6, E2 and E5 mean differences are significant at $p < .05$.

The results suggest that respondents with post-college education perceived most (Section A) work environment characteristics less favourably. This group also perceived their immediate supervisors' level of proximate support for learning less favourably. These differences could, in part, be due to potential differences in levels of growth need strengths of members of the two groups (Alderfer, 1972). On the whole, growth needs – an intrinsic desire for personal development – may be stronger in respondents with post-school education. This group's overall less favourable assessment of workplace learning environments, may be related to factors such as frustration of growth needs or unmet expectations of organisational support for learning.

Section E results show both groups of respondents perceive learning by observation (E6) as the most useful method of learning. Both groups also attribute much of their informal workplace learning to everyday work activities (E4) and work mates (E3). The two groups differ markedly in perceptions of the usefulness of other managers (E2) and on-the-job training (E5). The mean differences are statistically significant.

CONCLUSIONS AND IMPLICATIONS

Section A results suggest that: (1) the respondents perceive that opportunities to access training, including on-the-job training, are limited; (2) the learning potential of the work systems is constrained mostly by limited employee scope for action (autonomy), and enhanced mainly by wide task variety; (3) the respondents perceive that there is a lack of incentives to learn; (4) managers are perceived to not provide learning leadership and modelling influences; and (5) conditions in the work environments seem to be more conducive to an adaptive mode of learning, than to a developmental (or innovative) mode of learning. On the whole, managers tend to view (section A) work environment characteristics more positively than non-managers do. Similarly, respondents with 7th form or just some college education view (section A) work environment characteristics more positively than respondents with post-college education do. Section B results suggest that: (1) immediate supervisors are providing only low levels of support for their subordinates' learning; (2) immediate supervisors are not proactive in fostering their subordinates' learning; and (3) the potential to learn through feedback from social sources, specifically immediate supervisors, is not being fully realised. Respondents with 7th form or just some college education view their supervisors' proximate support for learning more positively than respondents with post-college education do. Section E results suggest that employees attribute development of their work-related knowledge and skills primarily to natural learning processes, such as observational learning and learning through everyday work activities, rather than to on-the-job training. On the whole, respondents perceive work mates as a more useful source of learning than managers.

Overall, the results highlight the importance of examining characteristics of work environments and ensuring that these characteristics support informal workplace learning. To enhance learning in the small firms studied, managers need to attend to those factors in the work environments that appear to be stifling learning. These factors include lack of: (1) incentives to learn; (2) access to information from social sources necessary for learning; and (3) employee freedom to determine how work should be performed. The results suggest that many managers in the organisations studied do not view fostering employee learning as a priority managerial action or lack the required knowledge, skills and personal attributes to effectively perform their employee learning and development role. They may need practical advice and behavioural guidelines to help them strengthen informal learning at work. What's more, performance of their learning and development role should be managed.

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MICROFINANCE AND THE NEW INSTITUTIONAL ECONOMICS IN THE DEVELOPING COUNTRIES

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ABSTRACT

The paper shows how the new institutional economics can be used to address microfinance in the developing countries, especially to analyze problems related to uncertain property rights. Microfinance, as a system of promoting savings and providing a basis for lending to the poor, is an important and growing aspect of the economies of many developing countries. Most of the enterprises taking advantage of microfinance are small and medium sized enterprises (SMEs) and family businesses. Microfinance takes many forms in the developing countries, which is particularly true of arrangements for securing solidarity and discipline, which take advantage of the system of informal assistance that often characterizes these communities. Moreover the new institutional economics provides useful tools for analyzing incomplete information, weak infrastructure, unreliable judicial systems and high transaction costs, all of which are common problems facing microfinance in the developing world. The new institutional economics has specialized in problems related to agency, property rights, and transaction costs, which are all relevant to developing countries. The lack of registration of assets, and thereby the lack of creditworthiness of their owners and inability to increase capital through borrowing, is directly related to property rights. A great deal of economic activity in the developing countries is carried out extralegally, outside the official economy, and one consequence of this is that assets, for instance real estate, are not registered and therefore cannot serve as security for loans. Better organization of property rights is a prerequisite for the growth of microfinance, but any reform of existing formal rules in any society must take account of its informal rules. One of the most important issues in the developing countries is to ensure the proper registration of assets, thereby creating a secure basis for lending activities suitable for the banking sector, which will strengthen the SMEs and family business in these countries.

Keywords: Microfinance, new institutional economics, property rights

INTRODUCTION

Section 2 of this paper contains a short description of microfinance in the developing countries, which suffer from the unequal world distribution of income and are characterized

by weak infrastructure and poor coordination of effort by all sectors, private and public. Section 3 discusses why the new institutional economics (NIE) provides a useful approach for studying microfinance, particularly by applying theories of transaction costs, agency, and property rights. Microfinance, for instance, is plagued by high transaction costs. Section 4 discusses the problems of property rights in the developing countries as regards microfinance, where poorly defined property rights obstruct the creation of capital. The final section concludes.

MICROFINANCE INSTITUTIONS IN THE DEVELOPING COUNTRIES

Microfinance organizations, which specialize in lending to poor entrepreneurs, tend to be small, high cost, and engaged in risky lending where security is lacking. (Morduch, 1997).[1] 80% of the world's population have no access to banking services (Robinson, 1998). The distribution of income among the nations of the world is very unequal; of the six billion people in the world, 1.2 billion subsist on less than one dollar a day, and 10 million children died in 1999 from preventable diseases (World Bank, 2001). In 2000, the gross national income (GNI) at purchasing power parity (PPP) per capita in the world was $7,410. In low-income countries (40% of the world's population) the GNI in PPP per capita was $1,980, but for high-income countries (15% of the world's population) it was $ 27,770 (World Bank, 2002). Economic growth in the developing countries is uneven but often very slow. Out of 95 developing countries, 28 actually experienced a decline in gross domestic product (GDP) per capita between 1964 and 1999 (United Nations, 2000). There were 1.3 billion inhabitants on Earth in 1900, and this number is projected to increase from today's six billion to eight billion in 2030. Future difficulties in providing access to food, water and shelter will therefore be tremendous (Einarsson, 2001). Although progress in biogenetic sciences will greatly assist in the supply of food, increased capital, particularly human capital, in the form of education and knowledge, and social capital, in the form of relationships among people contributing to economic development, is a prerequisite for success. The activities of entrepreneurs are very important in this context.

The evidence shows that microfinance[2] can give good results, e.g. in the case of the Grameen Bank in Bangladesh. The bank is operated as a member-based financial organization. Groups of five members are formed, where each owns less than half an acre of land and saves a specific amount every week. Loans granted by the bank are repaid in 50 weeks and 5% of each loan is paid into a special fund. All the members of the group are liable for the loan, and attendance is mandatory at weekly meetings of the group and at a special development center consisting of 5-8 groups (Johnson & Rogly, 1997). The Grameen Bank has over two million members; 94% of the borrowers are women, who have proven a three times better credit risk than men (Khandker, 1998). The high proportion of microfinance loans to women as entrepreneurs underscores the importance of this form of lending for women's rights in the developing countries. Increased

[1] For numerous reasons, including corruption, the policy of aid to the poor in the form of subsidized loans has not given the intended results for numerous reasons.. Such loans do not guarantee access to credit, and their impact on interest rates discourages saving (Adams, 1998).

[2] One of the earliest forms of microfinance is described by the Danish writer, Karen Blixen. In her book, *Shades in the Grass*, Blixen describes how villagers outside the city of Nairobi in Kenya each put 1.000 rupees into a pot, from which loans could be taken for a specified time for as long as the pot lasted. Sometimes there was a wait for the money to trickle back, and occasionally the register of borrowers preserved in the pot would be consulted and borrowers asked to speed up their repayment so that new loans could be granted.

participation of women in the economy, together with their increased education, is one of the most effective means of bringing about progress in the developing world. Microfinance has another advantage. Poor people rely on an informal system of communal assistance, and regular group meetings in member-based financial organizations contribute to social capital (Rosenweig, 1998 and Anderson, Locker & Nugent, 2002).

A prerequisite for effective lending to entrepreneurs in the developing countries is saving. The poor people in the developing countries are quite capable of saving (Getubig, Gibbons & Remenyi, 2000) but one of the main problems of microfinance is the lack of a solid infrastructure capable of ensuring secure savings. Other factors, such as education, health care, a good justice system, efficient communications and transparent government are also of great importance. The methodology of microfinance has also been used with good results in the developed countries (Ashe, 2000, Copisarow, 2000 and Burrus, 2002). Virtually all enterprises which obtain credit through microfinance institutions are small and medium sized, in most cases microscopic. Also, the most common form of enterprise is the family business, where a family or families pool their efforts to start a business and take out a loan to do so. This is a traditional form of activities of entrepreneurs.

THE APPLICATION OF NEW INSTITUTIONAL ECONOMICS TO MICROFINANCE

New Institutional Economics (NIE) addresses, *inter alia*, imperfect information and different perceptions by individuals of their environment. Institutions represent the formal and informal rules that impose constraints on individual behavior (North, 1990). Organizations, which include enterprises, are sets of actors who co-operate in production. Transaction costs are the opportunity costs of gaining control of resources. Property rights are defined as the rights of individuals to use resources (Eggertsson, 1990). Property rights can consist in the informal rights to the disposal of tangible objects or intellectual work, or they can ensue from agreements or legislation. Institutions in any economy influence transaction costs, which means that the framework underpinning the rights of individuals to the disposal of property affects outcomes in the economy. NIE addresses phenomena, such as organizations and behavior as well as cultural differences in behavior between individual countries and ethnic groups. Research in the new institutional economics emphasizes transaction costs, agency, and property rights, all of which are relevant for developing countries.

Transaction costs are divided into three types of costs, market transaction costs, managerial transaction costs and political transaction costs. Market transaction costs, i.e. the cost of using the market, can be divided into search and information costs, bargaining and decision costs and supervision and enforcement costs. Managerial transaction costs are the costs of setting up, maintaining, changing and running an organization. Political transaction costs are the costs of setting up, maintaining and changing the formal and informal organization of a system, which include the costs of establishing the legal framework (Furubotn & Richter, 1997). Transaction cost economics explains what transactions are conduced across markets and what transactions are conducted within organizations. Transaction cost economics is based on two principles of human behaviour:

bounded rationality and opportunism.[3] Transaction cost economics can also be used to explain different forms of organization such as peer groups and simple hierarchies (Douma & Schreuder, 2002). Small enterprises are normally organized in a very simple hierarchy, i.e. a group of employees with one manager, which is the normal form of microfinance organizations and their customers.

Transaction costs arise because of incomplete information. One person may know more than another in any given transaction, e.g. the seller of a product may know more about a product than the buyer (asymmetric information). Another reason for imbalance in information is that formal, written rules of law and contracts are often modified or elaborated by unwritten, informal rules of usage. Communities with weak institutions, as in the developing countries, have fewer possibilities and less confidence in the market, which reduces specialization and prevents economies of scale. In a developed environment, enterprises have a system for resolving disputes without intervention by the courts, which is usually an expensive recourse. Such a solution can only exist in a secure environment where the parties involved can trust each other, but trust is obviously an important factor in economic transactions (Clague, 1997).[4]

Agency theory distinguishes between a positive theory of agency and the theory of principal and agent. The positive theory of agency looks at organizations as a nexus of contracts. It explains why organizational forms are the way they are. The theory of principal and agent is the main element of the contemporary agency theory. This theory takes account of risk. In its simplest form, a relationship exists between a single principal and a single agent. The agent carries out a task for the principal and incurs some cost. The outcome is dependent on the effort he makes (Douma & Schreuder, 2002).

Microfinance is frequently implemented in the form of group lending, where relations within the group are based on certain rules. In a sense, the groups have agreed on common ownership of financial resources where the rights of disposal are restricted. Relations within the groups and the relations of lender and borrower is the subject of the agency theory. Loans granted to the developing countries by international organizations, such as the World Bank, and earmarked for specific projects fit well within the framework of NIE, that is to say within the context of contractual relations in agency theory. Under NIE, lending of this kind might be considered unfeasible because it is impossible to exclude opportunistic behavior on the part of the governments taking the loans.[5] A comparable situation in the context of microfinance would arise if a lender and a borrower were to contract over the use of a loan, e.g. for the establishment of a small enterprise, but owing to the high costs of monitoring, supervision by the lender would be difficult.

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[3] Bounded rationality implies that people are limited in their ability to make complex decisions that require analyzing extensive data. The rational choice model, however, does not recognize such limits on decision making. Opportunism arises because human beings will try to exploit a situation to their own advantage (Williamson O.E., 1985).

[4] A study of the coffee trade in Tanzania finds that the liberalization of the coffee trade in Tanzania resulted in reduced costs (as expected), but surprisingly the transaction cost of financing activities, which had formerly been based on linked informal transactions, increased. This demonstrates that the impact of changed business procedures must be examined closely in order to secure effective implementation (Winter-Nelson & Temu, 2002).

[5] For instance, a government might not use the proceeds of the loan for their intended purpose, and the World Bank would have no opportunity for active surveillance or intervention. In a worst-case scenario of this kind, governments might deliberately take loans from international organizations with the premeditated intent of using the funds for purposes other than those provided for in the loan agreement (Toye, 1995).

THE PROBLEMS OF PROPERTY RIGHTS IN MICROFINANCE

In property rights theory a distinction is made between absolute and relative property rights. The first case involves private property rights and the second involves rights to contract. All must observe absolute property rights, which involve the rights to objects. The right to control in this analysis also extends to all rights, including the right to natural resources. Anyone who controls something must be subject to some rule of order, whether it is a national constitution, legislation or a contract. Because individuals may be expected to behave in a rational manner, it is possible to anticipate how a certain structure of property rights will affect the use of a natural resource or its disposal in a community. Relative property rights exist when there are certain undertakings or obligations attached, either under contract or under law, e.g. credit-debt relations as in microfinance. Relative property rights, in their widest sense, extend to rights arising out of a personal relationship, e.g. a business relationship or political relationship. A business relationship can make contracting parties so dependent upon one another that they are locked into a kind of contractual relationship. Thus, it can happen that a relationship which was formerly characterized by competition between a source of supply and a source of demand in a market develops into a monopoly (Furubotn & Richter, 1997).

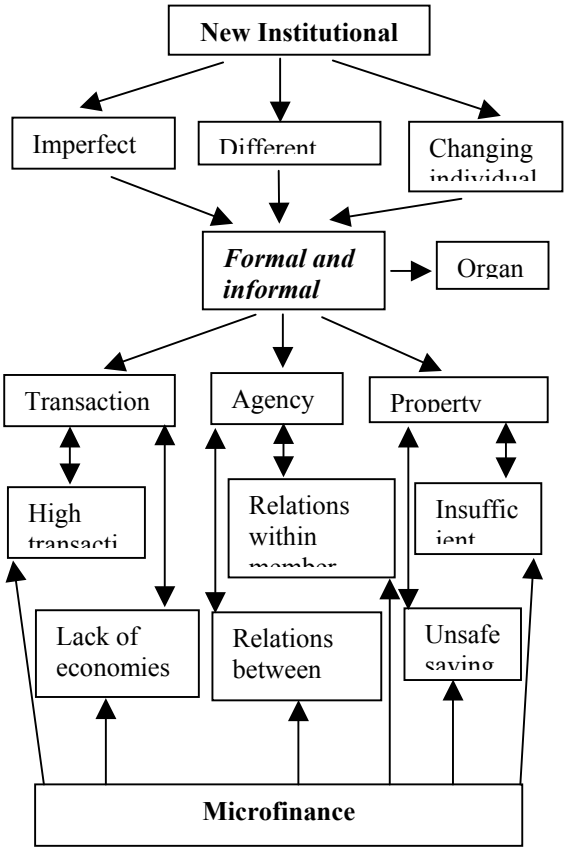
In many parts of the world, extensive economic activity takes place outside the domestic legal order, and NIE is particularly suitable for analyzing many aspects of such extralegal activities, especially the structure of property rights. Independent economic activity which is not documented anywhere by public authorities forms a part of the system of informal rules that exist in any community. Activities outside the scope of formal rules involve high transaction costs and prevent the formation of capital because assets cannot be used as collateral since their ownership is not formally registered. The informal rules which are common in microfinance, and vary from culture to culture, have a direct relation to the methodology of NIE, where institutions are arrangements of human behavior which include both formal and informal rules. If changes are made to the formal side of microfinance it is important for the changes to be consistent with the informal rules. It is a general principle that if no account is taken of informal rules in the course of reform, it is likely that the reforms will fail.

In the context of NIE, the views of Hernando de Soto regarding secure titles to property are very interesting. He claims that the primary problem of the developing countries is that assets are not registered and therefore not creditworthy, and that this is the same problem that the industrial states faced 150-200 years ago (de Soto, 2000). The problem of the developing countries is primarily that they have no possibility of obtaining credit based on assets which are substantial but unregistered. This problem is compounded by the lack of rules and the great migrations from rural areas to urban areas, where a large part of economic activities is extralegal. The implementation of microfinance in the developing countries is fraught with difficulties because it is complicated to pledge assets to secure loans when ownership cannot be proven officially and definitively; at the same time, however, the importance of real estate as security for loans is growing (Gelos & Werner 2002). The analysis above relates directly to microfinance, as the difficulty of lending to the poor is due precisely to the lack of security, which in many cases is not that there are no assets to pledge, but that these assets are to a greater or lesser degree unregistered and the title to them is not even clear. This applies not only to real estate but also to movable properties which are important for poor people in the developing countries.

Proper administrative procedures for establishing property rights are extremely important, and slow, inefficient administrative procedures, e.g. registration of companies, assets and operating licenses, are a great impediment to progress. This results in higher transaction costs. Of equal importance is the legislative framework and the will of the authorities to protect and encourage saving, as reflected in measures taken to preserve the integrity of financial systems and the strength of currencies. The lack of a strong framework for saving in the developing countries, which is an integral part of microfinance, is related to inefficient property rights which include problematic external regulation and supervision. In the developed countries, the sale of real estate is regarded as a relatively simple act, although it involves a complex process which is hundreds of years old; this process and infrastructure is lacking in many developing countries.

A western entrepreneur will normally obtain capital for his enterprise through loans which are provided through the banking sector. This encapsulates the difference between the entrepreneur in the developed countries and his counterpart in the developing countries. A western entrepreneur with a project can frequently obtain a loan, for which he will usually post security, e.g. in the form of his own home or property belonging to his close family. This avenue is closed to the entrepreneur in the developing countries, even if he owns a piece of real estate, because the property is not registered to his (or anyone else's) name in any definitive manner. Banks in the developing countries do not have the same access to debtors' assets, as do banks in the developed countries. The adaptation of new ideas that recognize existing informal rules can change matters quickly; for instance, the registration of real estate or movable properties in order to make them suitable as security would transform the possibilities for obtaining credit in the developing countries. The importance of getting a grip on extralegal property rights is clearly revealed by de Soto, who points out that "the recognition and integration of extralegal property rights was a key element in the United States becoming the most important market economy and producer of capital in the world" (de Soto, 2000, p. 148). Fig. 1 shows the relation between the conceptual framework of NIE and some elements of microfinance.

Fig. 1: The new institutional economics and microfinance



Within the discipline of NIE there has been much discussion of the importance of property rights for the effective utilization of various types of resources, including common pool resources. (Pejovic, 1998). Property rights also govern the exchange relationships that an entrepreneur intends to establish through microcredit. If he plans to set up a small enterprise, e.g. a manufacturing plant, to sell his products on the local market, the arrangements regarding marketing makes a great deal of difference. Unclear property rights are an obstacle to economic growth and improved living standards and microfinance, as a part of development policy, must aim at creating and implementing efficient property rights (North, 1995). The prerequisite for economic progress is technology, which can be divided into production technologies and social technologies. One of the principal problems impeding economic progress in poor countries is their inability to apply social technologies necessary for progress, such as well designed and secure property rights. Appropriate structure of social institutions is a prerequisite for prosperity and an inadequate institutional environment combined with the inability of government to reform the environment is the major obstacle to economic progress (Eggertsson, 2002). The problems of microfinance, which we have discussed in connection with property rights, are largely caused by inappropriate institutional environments.

CONCLUSION

The success of member-based financial institutions, such as the Grameen Bank in Bangladesh, has demonstrated the importance of microfinance for entrepreneurs, particularly for women, small and medium sized enterprises and family businesses. Microfinance, both in the form of lending and saving, represents only a small part of what has to change in the developing countries in order to improve their living conditions, but other matters are also important, especially more education, improved infrastructure and better health care. One advantage of microfinance through its positive effect on human capital and social capital.

The new institutional economics offer numerous possibilities for analyzing the problems of microfinance, such as the complicated agency relationships between lenders and borrowers. The absence of formal property rights is one of the principle problems of developing countries and one of the most important contributions of NIE to microfinance is the analysis of uncertain property rights. This includes activities that are outside the official system (extralegal) and the problem of unregistered assets which cannot be used to secure loans. Property rights are poorly specified in most less developed countries, and the situation is comparable to the situation one or two centuries ago in many industrial countries. A clear definition of property rights is very important for ensuring better collaterals for loans to entrepreneurs through microfinance institutions.

One of the principal reasons for the limited success of the industrial states in promoting development in low-income countries is the “limited understanding of the relation between formal and informal institutions” (Eggertsson, 1996, p. 22). Further analysis of microfinance as a part of the framework of NIE calls, among other things, for a better understanding of why appropriate social institutions for supporting the arrangement are lacking in many countries.

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A STUDY INTO THE PERCEIVED ROLE OF FACTORING IN NEW ZEALAND SME CASH MANAGEMENT

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ABSTRACT

Factoring has been described as an "oasis in a cash desert" (Riordan, 1997). In particular it can be useful for small to medium sized businesses (SMEs) that are expanding rapidly and need to convert debtors into cash quickly enough to pay creditors and sustain growth. However, cash-flow problems still exist for New Zealand SMEs, so this promise appears not to have been realised to the extent expected by its advocates.

A literature review confirmed that factoring can benefit SMEs cash-flow and debtor management. Yet arguments that it is underutilised or improperly used may stem from misunderstandings and perceptual blocks held by stakeholders making the cash management decisions (i.e. SME owner/operators, business advisors and factoring companies.)

An inductive research project was undertaken which: (1) investigated factoring utilisation; (2) analysed patterns and themes with respect to perceptions in the marketplace and; (3) developed a factoring perception model.

The study presents an investigation into stakeholder understanding and perceptions. Content analysis was applied to the semi structured interviews undertaken and relationships were identified. Specifically, there was general agreement in the marketplace that factoring is underutilised, poorly understood and suffers from a poor image.

From the findings, a factoring maximisation model was developed, demonstrating how perceptions should be changed in order to boost factoring's effectiveness in the New Zealand marketplace. These findings are useful in guiding factoring companies engaged in promoting factoring in the marketplace, and highlighting the deficiencies in SME owner/operators and business advisors understanding of factoring which is limiting the ability to maximise their cash-flow financing decisions.

INTRODUCTION

When factoring was first introduced to New Zealand more than a decade ago there was great expectation that it would offer a significant solution to the perennial small business problem of cash-flow deficiencies. Factoring has been described as an "oasis in a cash desert" (Riordan, 1997) and "a flexible friend" (Carty, 1995). It is claimed that factoring is useful for rapidly growing New Zealand small to medium sized enterprises (NZ SMEs) that have difficulty converting debtors into cash quickly enough to meet their needs. However, this promise does not seem to have been realised to the extent expected by its proponents. This may be due to the stigma sometimes attached to factoring as a source of last resort financing as well as the lack of understanding in the marketplace of how factoring actually works and the perceived high costs associated with this service.

Cash-flow deficiencies, commonly associated with the 'finance gap', are restraining SME performance. It is, therefore, essential that relevant and timely information be made available on all cash-flow funding options. Research on factoring as a NZ SME cash management tool, would address a present void in market knowledge. Research that addresses stakeholder understanding and perception as to the role of factoring in NZ SMEs may advance its overall recognition as a cash management tool and raise the profile of factoring which presently appears to be underutilised.

The aim of this study was to elicit the market's perceptions of factoring and determine how these perceptions may be influencing the phenomena of its apparent underutilisation in New Zealand.

To this end the study set the following objectives:

1. To ascertain whether factoring fulfils an effective role in NZ SME cash management.
2. To seek market opinion as to whether factoring is underutilised by NZ SMEs.
3. To identify the level to which factoring is understood by the identified stakeholder groups (business advisors, SME owner/operators and factoring companies).
4. To identify where there are the congruencies and variances in perceptions about factoring between the identified stakeholder groups (business advisors, SME owner/operators and factoring companies).
5. To devise a model for factoring maximisation in New Zealand that offers recommendations to address any perception disparities.

FACTORING AS A FUNDING OPTION

Factoring is a term used to describe a range of working capital financing facilities open to business enterprises. These facilities provide avenues by which to (1) release cash which is tied up in trade debtors and (2) enhance debtor ledger management (Henderson, 1996). In simple terms, the factoring process involves a business handing over its invoices to a factoring company and in return receives 80 - 90% of the face value of the invoice immediately and the balance when the debts are paid to the factor – less charges incurred for the service (Hattaway, 1999). In effect, injecting cash into the enterprise and removing the burden of collecting account receivables; a task that many business owner/operators have in the past been unwilling or unable to devote adequate time and effort to (de Vries, 2003).

There are a number of variations to the theme of financing through factoring and it can be tailored to suit differing client needs (Berryman, 2000). This gives credence to its standing as a flexible tool (Carty, 1995), but also muddies the water with respect to the market fully understanding factoring. Traditionally there are three prominent categories of factoring:

- *Full-service recourse factoring* where the factoring company provides complete debtor administration in which they purchase the debts and undertake the collection process with their team of experienced specialist credit controllers; though they do not accept liability for any bad debts.
- *Invoice discounting (Non-disclosed factoring)* is a relationship where the debtors are unaware of the factoring arrangement. In essence the SME retains control of their debtor ledger but have the option to draw funds against debtors, then pay a financial charge for this service.
- *Non-recourse factoring* in which the factoring company offer 100% protection against bad debts, hence, safeguarding businesses against loss of income. Fees tend to be significantly higher and in New Zealand, this mode of factoring has traditionally been limited to export (Hattaway, 1999).

Like most other forms of financing factoring companies require security. It is common for factor financing to be secured by (1) a debenture that is first ranking over the debtor's assets and (2) personal guarantees of the shareholders (Berryman, 2000; Walters, 2000). However, the level of security underpinning a borrowing facility is viewed as being well below the expectations of banks.

Effectiveness of Factoring

Within the financial marketplace there is considerable debate between business advisors (as stakeholders in a client firms cash management decisions) and finance companies as to the role of factoring. Robinson (1993) suggests that factoring should not be considered as an advance of money by a financier in the traditional sense. He argues that factoring is not a lending facility in the true sense where funds are borrowed for a specific capital outlay or other short-to-medium term need and require repayment (with interest) over a prescribed term. Furthermore it cannot be considered as an equity-based approach as it does not require that SME owner/operators to relinquish ownership or control of part of the existing company to the external fund provider (e.g. selling shares). Factoring in effect releases a firm's own cash which would otherwise be tied up in accounts receivable. Hence, it can be claimed that it does not directly compete with, but complements other forms of business finance as the circumstance in which it could be used may be quite different. Never-the-less, commonalities between the various market offerings do exist.

Internationally factoring has gained some notoriety. Soufani (2001) contends that factoring is a financing option that supports the working capital of firms, while Summers and Wilson (2000) note that a factor's credit management is more efficient than that of smaller firms because they are able to invest in specialised personnel and procedures. Factoring's effectiveness is often a function of the stage of development and growth of the business, where the role of factoring is particularly evident in the early developmental stage of a business life cycle and that the respective roles of other forms of financing (e.g. overdraft, term loans) come into play at later stages of growth (Soufani, 2001; Perrin, 1998). There are high-profile areas where factoring has become a key tool and that the demography of the businesses that use factoring are broadening and deepening in the UK (Perrin, 1998). With 80% of the UK corporate business transactions based on credit (Summers & Wilson,

2000) this potential market for factoring is not to be underestimated. Worldwide, in fact, factoring volume is estimated at US$600 billion (McNabb, 2002).

The significant variances in factoring costs both historically and between countries (e.g. Soufani, 2001; Robinson, 1993) may be limiting its overall acceptance and effectiveness. Spragins (1990) argues that in some cases the accumulative cost of US factoring fees could be five times as much as interest charges, but does concede that factors provide services banks don't. This argument may be rather extreme, but the cost of factoring is customarily comparable or higher than bank overdraft rates. In addition there are setup costs and the debtor ledger administration fee - a percentage which is based on variables such as average invoice number and size. A further drawback of most full factoring arrangements is that if debts are unpaid after 90 days the factor asks for its money back. Jarvis and Gillie (1998) contend that SMEs and their business advisors (predominantly accountants and bankers) perceive the cost of factoring as too high, thus, will traditionally not consider it as an option. Therefore, customarily the popularity of factoring tends to have a direct correlation with availability of overdraft facilities offered by banks. As overdraft finance terms toughen the use of factoring increases and vice versa (Miller, 1995).

Factoring companies contend that it is a facility that avails itself to large or small businesses, yet Summers and Wilson (2000) suggest that smaller firms are more likely to use factoring companies. They argue that factors may not specifically find smaller firms more attractive as factoring clients, but these firms are less attractive for other forms of finance such as bank loans. A common denominator is that factoring suits SMEs growing so fast that their banks can't keep pace (Goldman, 1979). In essence factoring can be viewed as a financing option that suits young undercapitalised businesses that have high profit margins so that they can absorb the factoring fees (Parks & Gallop, 1999). Robinson (1993) claims that the characteristics of businesses which suit factoring as a finance option are those that have: (1) sales on credit and not cash, (2) manufacturers or wholesalers with continuous trading with established customers, (3) no unusual selling terms or conditions, (4) no unusual purchasing terms and (5) businesses that demonstrate sound management and profitable trading. Cooper (1998) in contrast, outlines unsuitable businesses as: (1) those that sell on consignment or with the right of return, (2) high technology companies, (3) certain types of service industries, (4) professional corporations, (5) companies like building contractors and (6) industries in which the gross profit percentage is very narrow and turnover is very slow.

Factoring is generally perceived as having had a history of bad press, thus often being relegated to the financing option of last resort for SMEs. Many of the detractors (including accountants, business commentators, bankers, and business operators) have inferred that factoring is, in fact, the desperate effort of certain firms to get a cash injection into their failing businesses when other avenues have been exhausted (Berryman, 2000; Kennedy, 2000; Hattaway, 1999; Cooper, 1998; Jarvis & Gillie, 1998). During the 1980s factoring gained a 'cowboy' image internationally (Cooper, 1998) because many factors lacked professionalism or appropriate financial structures. As a consequence, SME owner/operators felt that employing a factor exposed them to unfavourable reactions from their customers (Jarvis & Gillie, 1998). They perceived that the message factoring sent (as a last ditch financing option) and the manner in which some accounts receivable were handled were detrimental to their customer relationships.

The negative view held towards factoring by the marketplace may be rather unfortunate as there are numerous international and local cases supporting factoring as the favoured

financing option (e.g. McNabb, 2000; Perrin, 1998). But perception often overshadows reality. Viewing factoring pragmatically from a cash management perspective, factoring can increase SME liquidity - especially in the early years of business operation (Robinson, 1993). The business can expand as sales grow because of the release of the debtor funds that factoring allows. Factoring is arguably the only form of working capital designed to grow with the business needs (Kennedy, 2000). Borrowing is against a SMEs growing turnover rather than against bricks and mortar assets which stay very static in value (Berryman, 2000). McNabb (2002) would suggest that one of biggest benefits is the ability to pay creditors immediately, which can earn considerable discount for early settlement.

From a debtor management perspective, there is evidence linking weak credit control with poor collection (de Vries, 2003) and poor businesses performance (e.g. Jarvis & Gillie, 1998). Customarily SME owner/operators do not consider debt collecting to be a part of their core business (Hattaway, 1999) and hence do not give it due attention. With late payment being cited as a major contributor to the high SME failure rates (Howie, 2003; Kennedy, 2002; Mian & Smith, 1992), their inability to manage debtors is problematic. Benefits therefore exist in contracting this task to factoring companies with professional credit management systems.

METHODOLOGY

In attempting to isolate factors influencing the identified phenomena: under-utilisation of factoring in New Zealand, this study identified the two following constructs:

When stakeholders poorly understand a form of financing then it is less likely to be considered as a cash management tool. Conversely forms of finance that are well understood are more likely to be considered.

When stakeholders hold negative or differing perceptions with respect to a particular form of financing then it is less likely to be considered as a SME cash management tool. Conversely if stakeholders hold congruent and positive perceptions about a form of financing then it is more likely to be considered with greater frequency.

It has been the objective of this study to explore the understanding of factoring and the areas of congruence and variance between stakeholder perceptions with respect to the role of factoring as a cash management tool. Of special interest will be variances that may limit its appropriate use within the SME sector in New Zealand and hence reinforcing a belief that it is the least desirable option of financing.

The triangulation approach was employed (e.g. Taylor & Bogdan, 1998) in which similar data was collected from the three New Zealand stakeholders groups involved in cash management decisions. Views were solicited which gave an insight into factoring knowledge and attitudes. Of specific relevance were misunderstandings, negative views or variance in stakeholder perceptions of factoring as a SME cash management tool. The sample consisted of: three SME owner/operators using factoring, three factoring companies and eleven business advisors (accountants and bankers).

The inductive research design utilised in-depth, semi-structured interviews as the means of data collection. The advantages of this method (Ticehurst & Veal, 1999) included: The ability to understand and explain the personal experiences of individuals associated with

factoring; that tacit knowledge or hunches can play a role in understanding the attitudes towards factoring; the research allowed a focus on people's understanding and interpretations; and that it allowed the researcher to experience factoring issues from a perspective of participants involved with the cash management decisions.

The factoring companies and business advisors were randomly selected from the metropolitan regions of Auckland, Christchurch and Wellington using the New Zealand Yellow Pages directory. The SME users of factoring were identified through: existing business contacts and introductions from business advisors previously contacted during the study.

The collected data was evaluated in a manner that met the needs of quantifying the constructs that (1) understanding and (2) congruencies and variances in stakeholder perceptions influence the level of utilisation of factoring as a SME cash management tool. Interviews were recorded on audio tape and thereafter transcribed word-for-word by the researcher. Content analysis was used as the textual investigation method (e.g. Silverman, 1993). Four sections were established in applying the content analysis approach to analysing the collected data; understanding of the factoring process, perceptions of factoring as a cash management tool, perceptions of the situations under which factoring would be used and perceptions of the role of factoring in NZ SMEs. Each section was then further divided into a number of categories in which data could be classified and organised (responses, words and phases) into recognisable patterns for each stakeholder group.

Limitations

The study was not without limitations regarding to methodology and size. Firstly, the aim of this study was to uncover *patterns* in stakeholders' understanding and perceptions of factoring as a cash management tool. Thus the study does not offer direct observation of the phenomena that can be statistically evaluated and reported. Secondly, the sampling frame encompasses businesses and professional organisations that have an involvement (directly or indirectly) with SME financing decisions at some level. However it was not an all-inclusive sample. For example, it did not include SMEs that have had no contact with factoring services, thus limiting any discussion of the SME sector as a whole. Furthermore, the study does not attempt to be 'all encompassing' with a total sample size of 17 informants from the Auckland, Wellington and Christchurch regions only. Finally, the methodology does not account for the existence of other constructs which may influence the results, e.g. varying level of influence of different stakeholders on the cash management decisions.

Within these limitations, the study may be viewed as a fact finding mission that reveals issues that will then require further in depth empirical investigation as opposed to offering definitive answers to the questions of under-utilisation of factoring by NZ SMEs.

RESULTS

Understanding of Factoring

1. The workings of factoring: All stakeholders interviewed had an appreciation that factoring offered an immediacy of cash, but understanding of how it worked varied. When

asked to explain the service, factoring companies descriptions were clear and concise whilst accountants appeared to be familiar with the factoring concept but only had a basic understanding of how it worked. Accountants used broad explanations such as “selling receivables at a discount to factoring agents, whose job is to recover the debt,” and “Buying invoices off clients at a discount.” to describe factoring. Account managers for banks had slightly more detailed explanations but still did not have a clear or complete understanding. SME users of factoring appeared to understand their particular arrangement only.

2. Costs of factoring: Factoring companies were again clear and concise in explaining the setup, borrowing and administration fees associated with various factoring services. They acknowledged that costs can vary considerably but down-played the argument that it is an overly expensive form of financing. Accountants and bankers were unsure of the costs associated with factoring, but were in general agreement that the costs are high, “Lender of last resort because costs are too high” was a typical comment. Few business advisors could recall an example of specific factoring costs and eight out of the eleven respondents did not know whether there is considerable variation in factoring costs within the market. SME users of factoring were quite clear on what their particular costs were and understood that fee structures could change over time. One respondent stated, “Once you have built up a relationship then figures alter (reduce) and different product ranges can be advanced which are more customised to the individual.”

Perceptions of Factoring

1. Reputation of factoring: When asked whether factoring had a respectable or cowboy image, the factoring companies contended that there are mixed views in the marketplace. With New Zealand being a small and new factoring market, a respondent suggested that it suffers from the ‘small community syndrome’, which infers a reluctance to accept something new or different. However, factoring companies did concede that 10 - 20 years ago factoring companies did not do their job well and hence the service gained a poor reputation. They argue that the industry is now driven by reputable and well run organisations. That some of the largest finance companies in the world are now involved with factoring and would not be interested in offering such a service if it were not a legitimate and viable financing option. Hence, they believe that it is now better received; especially with increased education of the market. As one respondent stated, “Maybe we are finally seeing the end of the doubters.”

SMEs using factoring stated that they have no concerns over its reputation believing it is very professional, though they concede that few businesses understand how it works. Accountants were unsure as to the reputation of factoring - offering varying comments such as “People look at factoring from time to time but shy away from it,” and “tool of desperation;” through to “there are professional organisations out there,” and “a tool for growth.” Two of the three bankers suggested that the market views factoring as a inferior financing option. One such banker commenting, “From a banker’s perspective there is a stigma attached to it - rightly or wrongly.” Both accountants and bankers suggested that there may be two tiers of factoring companies in the marketplace. “Some may be dodgy,” stated an accountant. Evidence from accountants and bankers would suggest that the accretion of factoring companies that we are “seeing the end of the doubters” might be far from the reality.

2. Image of factoring: All stakeholder groups were of the opinion that factoring was considered to be the last choice finance. Factoring companies argued that "people don't know it exists or don't understand it". They do admit that they are in the business of relieving cash-flow problems and therefore get some last resort desperation calls; but stress that factoring will not 'stave off the wolves' for companies in extreme difficulty or fundamentally unsound. Instead they prefer to do business with growing firms – stating, "We are after clients with quality products and services who have got potential to grow the business." Bankers and the majority of accountants were adamant that it was finance of last choice and were unequivocal in that view.

Factoring companies believed that there was sometimes confusion among their client's customers as to why an organisation would use factoring. One commented, "There can be a perception that they are in trouble." However, they argued that a competently managed transition of the debtor ledger from the client to the factor, with full and clear explanations to customers, presented few problems. They commented that the worst payers are generally the ones that react badly. Accountants were generally not sure about customer reaction to a factor collecting accounts receivable, while bankers believe it may send a message to the market that a company may not be as strong as they perceived. Furthermore it was suggested that it creates another burden for a customer's accounts clerk. "Processing an invoice from one firm and having to pay another is perceived as a burden they can do without," and "it's open to more mistakes."

3. Professional debtor management: Factoring companies all concurred that debtor management was a very useful aspect of the factoring service and suggested that the bulk of factoring in the New Zealand market is 'full factoring'. They viewed this as beneficial for SMEs who are generally considered to be hesitant, ineffective or too busy to collect money. The SME operators themselves believed that factors were much more professional than they could be and that they could focus on building client relationships rather than money issues. Accountants were evenly split as to whether it was a useful tool, suggesting that there are more effective ways of collecting accounts receivable. One accountant raised concerns about factors operating from outside New Zealand, commenting "All the management has been done from Australia and it has been difficult to get responses and information from them." Bankers were generally not in favour of factors managing the debtor ledger, arguing their lack of commitment. "The trouble is that they don't manage it – they wipe their hands of bad debts which come back to the client."

4. Difference between factoring and loan finance: Factoring companies stated that loans and overdrafts are not true forms of cash-flow finance because they do not ensure that borrowing facilities keep pace with growing turnover. They argue that factoring is the true dynamic growth tool. "With factoring the more turnover - the more money you can borrow," and go on to suggest "With factoring you can't overtrade." Accountants, on the other hand, were less clear about the differences. Some suggesting little difference, while others stated the main distinction as the higher costs associated with factoring. Comments were made with regard to different risk criteria, suggesting banks are more conservative than factors.

Bankers viewed factoring as an opposition product in some respects, but not a serious threat. They saw it more as a means of reducing short-term cash-flow problems and as a product that needed less security from the lender. One bank confirmed that it had recently introduced a form of factoring service for some of its larger business clients, while another bank stated that some of the financial products they already had worked in similar ways to

factoring in any case. SME users of factoring commented on its ability to grow with sales. They also believed that overdraft criteria were far more difficult to meet.

5. Drawbacks of factoring: Factoring companies understandably believe there are no real drawbacks to factoring as long as it is used correctly and clients' understand that accounts receivable are still their debt. Accountants reiterated that high costs are a major drawback and that the practice of factors operating client accounts from off shore was impractical. Bankers suggested that a danger exists if clients spend the cash generated from the improved cash-flow on non-revenue generating expenditure; believing that some business owners "can't help themselves" in spending business funds. They also see factoring as a double edged sword (immediate cash versus charge-backs) and argue that once you are trapped in the factoring cycle it is hard to get out later. In contrast, the SME users saw few drawbacks. However, this may be a situational response, as once an SME owner/operator is committed to using a particular financial service they will generally be positive about that decision.

6. Factoring's value: Factoring companies contend that factoring should be used to reduce the SME finance gap in growth situations. One account manager stated "We are after clients with quality products and services who have got potential to grow the business," though the manager did qualify this statement by saying "I'm not going to turn away companies with cash-flow problems – that's what we do." SME users also saw it as useful growth tool. One owner/operator commented on the perennial SME cash-flow problem "You can double your turnover and find you've got no cash," suggesting factoring was viewed as a tool that avoided such situations. Accountants were unsure as to when factoring should be used. With only two of the eight have experience with clients using factoring and in one case a bad experience, this is perhaps not unexpected. Generally accountants did see it as a tool for bridging the finance gap and fostering growth, though they were somewhat cautious in their endorsement. They suggested that growing firms can fall over if not managed carefully and responsibly and that firms need to give care and thought to the process of matching borrowing with the level of business activity. Three accountants saw it as simply a last resort means of dealing with cash-flow problems. Bankers also considered it to be simply a tool for cash-flow problems and in most cases a 'last ditch resort'. One banker commented that it could be helpful for firms dealing with seasonal cash-flow issues.

7. Appropriate industry sector: Factoring companies were ferriferous in arguing that most industries could use factoring; as long as they did not involve progress claims or stage payments as commonly found in the construction and software industries. Accountants had no clear opinion, while bankers believed most industries could use factoring, especially when undercapitalisation was common. SME users could see the merits for factoring in their particular industry and went on to propose that most invoice based businesses could use factoring. Stakeholders generally agreed that irrespective of the type of industry; users of factoring would need simple, well maintained and provable debtor ledgers with as few troublesome payers as possible.

8. Factoring's 'fit' for small or big business: There was considerable variance in opinion between stakeholders as to whether factoring was more suited to large businesses or SMEs. Factoring companies suggested the majority of their clients are SMEs, but were careful not to dismiss the potential for large clients. One manager stated that "The bulk of our clients have less than 20 staff." Accountants had no clear view on the appropriate fit, as their opinions were evenly spread between small businesses, medium businesses, large businesses and no opinion at all. Bankers suggested it was a tool for larger

businesses, while SME users believed both large and small businesses could benefit from factoring.

9. Factoring utilisation by NZ SMEs: All stakeholders interviewed were of the view that factoring is underutilised by NZ SMEs. Factoring companies suggested that there is huge scope to grow factoring - if the negative image can be removed. Interestingly, even though business advisors were sceptical about many aspects of factoring they still believed it was under-utilised. One banker did argue that market forces would suggest "If people felt that there were real benefits they would use it more," but still conceded "If anything, it is under-utilised". SME users of factoring contended that it is underutilised mainly because it is poorly understood and that people think it is a debt recovery tool. All stakeholders were adamant that banks, with their traditional overdraft facilities and term loans, were the first port of call for SME owner/operators needing cash injections.

10. SMEs understanding of factoring: All respondents conceded that SME owner/operators had little knowledge of factoring. Factoring companies argued that New Zealand is an immature market and people don't know it exists or can't grasp the concept of factoring. Business advisors maintain that SMEs adhere to the tried and proven (i.e. overdrafts and loans) and are by and large poorly informed of differing financial options. SME users concur that there is simply a lack of understanding 'out there' in the market place.

There is also a belief among the SME users and factoring companies sampled that business advisors have limited knowledge on factoring. A factoring accounts manager was quite frank, "Banks don't understand it and accountants don't understand it." SME users commented that they felt that business advisors did not make an effort to understand factoring. The business advisors themselves had mixed views about their knowledge levels. Half of the accountants interviewed suggested that advisors know little about factoring but would find out if required; two stated that advisors know the basics and two were not sure on the level of understanding in the marketplace. The bankers admitted to having limited understanding of factoring and suggested other business advisors would be the same.

Discussion

The study indicates that marketplace understanding of factoring is limited among business advisors and SME operators. Business advisors negative views appear to reflect this lack of understanding (further in depth research would be required to validate this relationship), but a further issue is the poor image associated with the early years of factoring's introduction into New Zealand.

Whilst factoring companies, who wish to promote factoring, argue the benefits of cash releasing capability, synergies with growth companies, prevention of overtrading and professional debtor management, the market has been very slow to embrace these claims Business advisors argue that it is a finance option of last choice as there are significant drawbacks, particularly that cost structures are too high. Interestingly, however, even with the divergence in perception over factoring's role, all stakeholders believed that factoring was underutilised; which would suggest that there is potential for greater use of factoring services if negative perceptions can be altered.

CONCLUSIONS AND RECOMMENDATIONS

The introduction contended that factoring offered a solution to the perennial SME problem of cash-flow deficiencies, yet has met with limited support in New Zealand. Therefore this study set out to investigate how market knowledge of factoring and perceptions influenced its use in New Zealand by identifying factoring's role in NZ SME cash management, the level of understanding within the marketplace and the perceptions held by stakeholders. To this end the study reports on the five objectives identified in the research aims.

Objective 1: To ascertain whether factoring fulfils an effective role in NZ SME cash management. The findings of the literature review acknowledged that the inherent cash management weaknesses within the SME sector can be, in certain cases, lessened through factoring. Growing SMEs suffer from cash-flow deficiencies which are compounded by under capitalisation, gearing, overtrading and poor debtor management practices. At best these businesses under perform and at worst face failure. Factoring in effect releases cash that is otherwise tied up in debtors, which can then be used to generate further revenue under appropriate business conditions. With increasing revenue, cash streams will grow as the business grows thus avoiding overtrading. Secondly, factoring offers a professional debtor management service, which relieves SME owner/operators of the often vaunted accounts administration burden. The indications are that factoring has a role to play in SME cash management. As to whether it is as good as factoring companies claim cannot be substantiated by this research, thus the whole area of how factoring can most effectively benefit SMEs requires greater research.

Objective 2: To seek market opinion as to whether factoring is underutilised by NZ SMEs. When factoring was introduced into New Zealand it was described as an "oasis in the desert"; yet this promise has not been realised to the extent that proponents of the service expected. In fact all stakeholder groups questioned, believed that factoring was underutilised, which would suggest that there is untapped potential for factoring services in New Zealand. Factoring companies believe there is huge scope to grow in New Zealand if perceptions can be changed. Certainly factoring is not suited to all enterprises or all situations but the perception is that there is a market for this service.

Objective 3: To identify the level to which factoring is understood by the identified stakeholder groups. The stakeholder analysis indicated that marketplace understanding of factoring was limited. Factoring companies understood their product implicitly (naturally enough) but were conscious of the poor market penetration of knowledge on factoring. A basic understanding of the factoring concept was evident in discussions with business advisors, but SME owner/operators only became aware of factoring and what it offered as a financial tool when it was introduced – typically as a last choice option. The study further indicated that there was little knowledge of the factoring's cost structures in the marketplace, with business advisors only being aware that costs were high. Whilst factoring companies affirmed benefits such as instant cash, prevention of overtrading and professional debtor management; business advisors' negative views appear to reflect the lack of understanding and the poor image that surrounds factoring, arguing factoring is the finance of last choice as it has significant drawbacks and high cost. These findings support the construct 'When stakeholders poorly understand a form of financing then it is less likely to be considered as a cash management tool.' Therefore, it is argued that the disparity in knowledge among stakeholder groups requires addressing.

Objective 4: To identify where there are the congruencies and variances in perceptions about factoring between the identified stakeholder groups. Where there were congruencies in stakeholder perceptions of factoring, they tended to be beliefs that held factoring in an unfavourable light, i.e. last choice option whilst banks were first choice finance, image problems and being poorly understood by both SMEs and their business advisors. With respect to issues espousing the benefits of factoring, i.e. assistance to growth, debtor management, and overall effectiveness, there were significant variances with factoring company's naturally positive whilst business advisors and to a lesser extent SME users were more critical.

The overall mix of perceptions tended to marginalise factoring as a financing option and reinforce the strong traditional culture of SMEs supporting bank financing as the 'natural' first preference. This supports the construct 'When stakeholders hold negative or differing perceptions with respect to a particular form of financing then it is less likely to be considered as a SME cash management tool'.

The study argues that underutilisation appears to be linked to the market's lack of knowledge about factoring which consequently reflects in poor perceptions of its image, business value and cost structures. Perceptions that will need changing through behaviour modification, education, an informed market and relationship building; in essence, creating a cultural shift with greater knowledge in the marketplace to make informed cash management decisions which maximise factoring effectiveness but minimise its inappropriate application.

Objective 5: To devise a model for factoring maximisation in New Zealand that offers recommendations to address any perception disparities. A model of stakeholder perceptions has been developed to explain the perception disparities and identify possible remedies (figure 1). The model delineates a theory that perceptual blocks underpin the underutilisation of factoring (dark shading), identifies the perceptual shifts required and stakeholder action needed to achieve perceptual change (light shading); thereby maximising the benefits factoring can offer NZ SME cash management.

The factoring maximisation model identifies factoring as a finance option of last choice, as SMEs prefer visiting their banks for overdraft and loans. Therefore, if factoring is to increase in prominence a shift is needed in 'financial culture' which encourages the market to consider all financial options. This would require a willingness of business advisors to accept and understand a greater range of financing alternatives and for SMEs to be far more rigorous in investigating all financing options. The fledgling factoring industry will need to take a prominent role in facilitating any attitude and behaviour modification in the market place; specifically marketing activities which create greater awareness and build relationships with all stakeholder groups. There is an argument to suggest that New Zealand suffers from the 'small town syndrome' where firms may be innovative in designing new products and services but hold steadfastly to conservative financing practices; none-the-less the study identified that all interviewees accept that factoring is underutilised in this country. This anomaly needs to be seized upon, as it would suggest that the market may be receptive to positive promotion of factoring and disposed to shifting from traditional financing habits if the benefits can be proven though independent in-depth research.

The factoring maximisation model identifies that factoring, as a financing option, is not well understood by SME owner/operators or their business advisors. However, factoring company's tradition of writing articles on factoring and distributing brochures alone will not

create the knowledge levels required to achieve a cultural shift in financing habits. To this end factoring companies need stronger ties with the business advisors that support SME owner/operators. Even though they argue that they promote factoring to the market place - a far more pro-active approach is required. Resources must be directed at educating accountants, who presently lack knowledge on factoring and consequently do not suggest it to SME clients. In fact, accountants quite likely dismiss any client interest in factoring out-of-hand, without clearly evaluating its suitability. As one manager of a factoring company stated, “Accountants can be our best friends or worst enemies,” so the challenge is to make them their best friends. Business schools, at the coal face of education, also need to be encouraged to include learning outcomes on factoring in the finance papers they deliver to accounting and business students. (e.g. provision for factoring in course literature or availability of guest speakers). Finally, factoring companies require working relationships with a sceptical banking industry. If factoring companies can build some kind of reciprocal relationships (e.g. linking the benefits of factoring and banking services) this may remove the stigma of bankers viewing them as fringe finance providers, to whom they should only send troublesome clients.

A further concern is the belief that the factoring industry image is damaged by ‘second tier’ factoring companies that may not have adequate systems or controls to scrutinise and manage clients effectively. The factoring industry as a whole could benefit from monitoring and managing the activities of all firms through a professional body which promotes ethical and professional guidelines. Also with the significant variance in opinion between stakeholder groups as to the drawbacks of factoring and the circumstances in which factoring should be used, the industry require greater critical analysis that a professional body could provide. Certainly factoring is not for everyone or suitable in all business situations and this study does not argue that it should. However, a well informed and educated market, which operates with reputable factoring companies, will ensure informed decisions are made regarding cash-flow and debtor management. Therefore the factoring industry must be proactive with strategies that position themselves favourably in main stream financing.

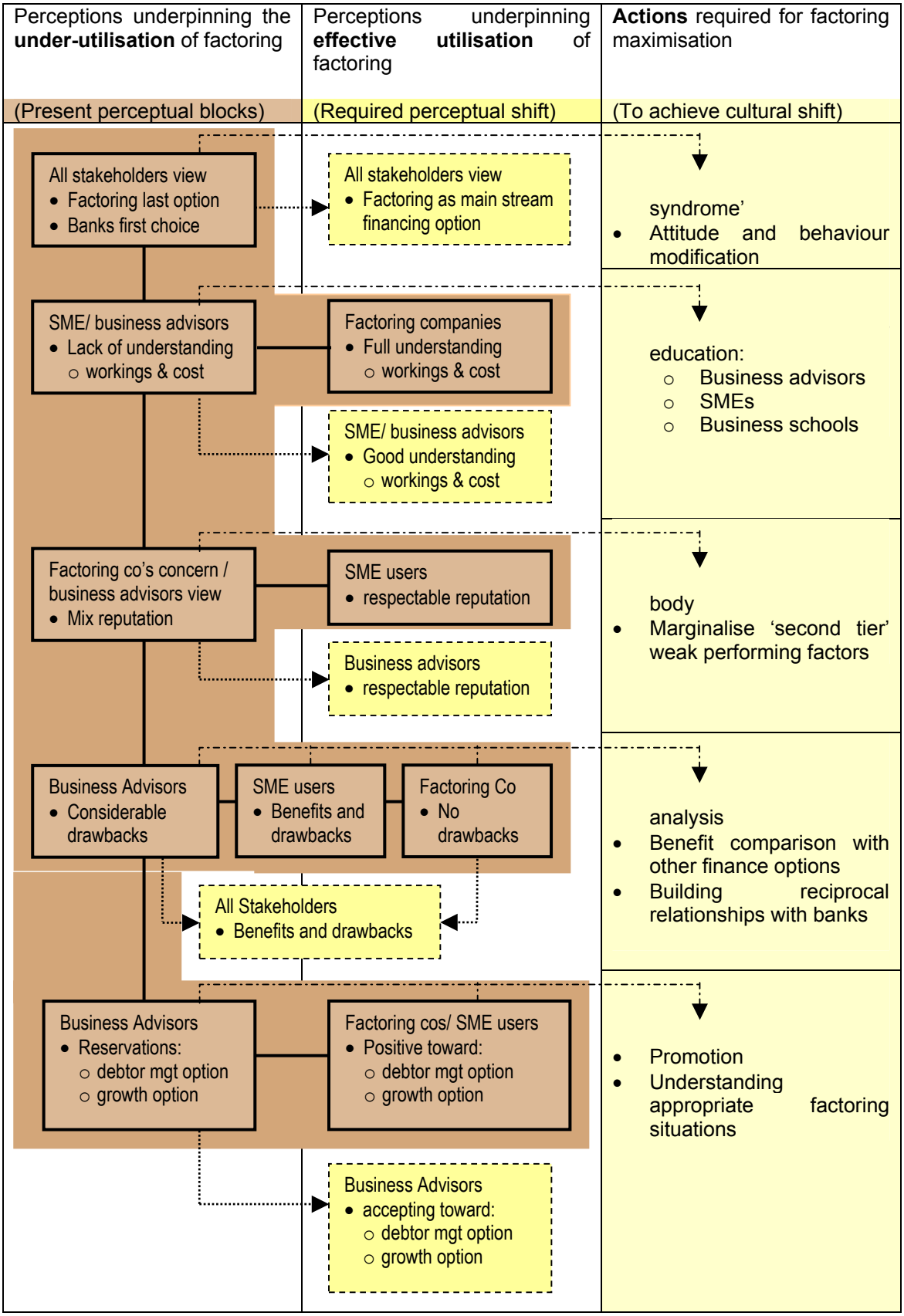

Figure 1: Factoring Maximisation Model

This study adds to the body of knowledge on NZ SME cash management, nevertheless, this study creates more questions and highlights that the area of factoring remains relatively bereft of empirical research. The study did not identify the level of influence of each stakeholder group in cash management decisions and argues that the implied relationship between understanding and positive perception requires further investigation. Research could also be undertaken with a wider sample frame including: SME non-users of factoring, other financial institutions and accountants specifically identified as having experience with factoring. Furthermore, to examine claims of factoring companies, as to how good factoring really is, longitudinal studies of SMEs using factoring should also be carried out with cost-benefit comparisons between the various financing options.

Factoring is a useful tool among the many available for NZ SME cash management, but this study has identified anomalies which have created a perceived environment of underutilisation. The challenge for stakeholders in the SME sector is to understand and embrace all financial services to maximise cash management decisions. Research into factoring is a step in that direction.

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INTEGRITY AND THE SMALL BUSINESS: A FRAMEWORK AND EMPIRICAL ANALYSIS

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ABSTRACT

This paper presents an analysis of the most pressing ethical issues small businesses face today and outlines a framework for resolving those issues to maintain personal and business integrity. We use a stakeholder management framework adapted for small businesses and provide survey data to identify relevant ethical issues. To pinpoint troublesome ethical issues for small companies, small business personnel across the U.S. were asked the following question: "What is the most difficult ethical issue that you have faced in your work?" Responses from 455 survey participants identify the kinds of issues that challenge the integrity of small business owners in the U.S. The set of issues mentioned most often is related to customers and competitors. The second most common category is concerned with the way a company treats its employees, including decisions about layoffs, workplace discrimination, fairness in promotions, and the like. The third category is related to the obligations of employees to their employers, focusing on the actions of personnel that may not align with the interest of their companies. Management processes and relationships came fourth. Management relationship issues can be especially disturbing because they reflect the moral fiber or culture of the firm, including weaknesses in managerial actions and commitments. Other findings are also explored.

INTRODUCTION

The highly-publicized corporate scandals and ethical disasters of the last few years suggest it is time to examine integrity issues confronting small business. The seeds of corporate misdeeds are sown when individuals compromise their personal integrity. Fortunately, many small firms strive to achieve the highest standards of truthfulness, fairness, and trustworthiness in their business relationships. This paper presents an analysis of the most pressing ethical issues small businesses face today and outlines a framework for resolving those issues to maintain personal and business integrity.

The Nature of Integrity

Stories in the news media concerning insider trading, fraud, and bribery usually involve large corporations. However, in the less publicized day-to-day activities of small businesses, decision makers face ethical dilemmas and temptations to compromise principles for the sake of business or personal advantage. This strikes at the heart of integrity.

What is Integrity?

The seeds of corporate misdeeds are sown when individuals compromise their personal integrity—that is, they do not live up to what they believe is the right and proper thing to do, or respond to what Max DePree, chairman emeritus of Herman Miller Inc., calls “a fine sense of ones obligations” (DePree, p. 85).

The entrepreneurial experience is far more fulfilling when the understood purpose of the business, at its core, is to create products or services that offer value to interested customers. In other words, it’s as much about *what to do* as it is *who to be*. In line with this perspective, relationships are critical and integrity is essential to success. Financial performance is important, but it is not the only goal of interest. In fact, excessive focus on financial gain can quickly lead to distortions in business behavior. It certainly is the root cause of many of the ethical failings of companies.\

Of course, lapses in integrity at large, high-profile corporations are readily noticed, but the problem obviously does not end there. Small business owners and managers confront situations every day that require them to sort out what is right and best to do from what is wrong. In these situations, it is important to decide which course of action will preserve the integrity of the company and safeguard its reputation, which can be especially difficult when doing the right thing runs counter to the immediate financial interests of the business.

Fortunately, many small firms strive to achieve the highest standards of truthfulness, fairness, and trustworthiness in their business relationships. Although unethical practices receive extensive attention in the news media, many entrepreneurs and other leaders are people of principle whose integrity regulates their quest for profits.

Doing the Right Thing

The notion of integrity is very much related to ethics. Ethical issues involve questions of right and wrong. Such questions go far beyond what is legal or illegal. Many situations call for decisions regarding what is honest, fair, and respectful.

Individuals who face ethical issues are sometimes tempted to place self-interest and personal financial gain ahead of the reasonable and legitimate interests of others. While self-interest is a legitimate force in human life, it can, when left unchecked, lead to behavior that is obviously unfair or harmful to others. To act with integrity, an individual must consider the welfare of others.

In the short run, at least, honesty does not always pay monetarily—in fact, doing the right thing can be downright costly. In other situations, honesty may boost business profits. But most people who show integrity in their business lives do not weigh the economic benefits to decide how honest and forthright they can afford to be. Instead, they live by the highest of standards simply because it's the right thing to do.

Troublesome Integrity Issues

Key Issues

In order to pinpoint the types of ethical issues that are most troublesome for small companies, small business owners nationwide were asked the following question: "What is the most difficult ethical issue that you have faced in your work?" As might be expected, the question yielded a wide variety of responses, which have been grouped into the categories shown in Table 1.

TABLE 1
Self-Reported Ethical Issues Facing Small Firms

Issue	Number of Respondents	Percentage of Total
Relationships with customers, clients, and competitors (relationships with outside parties in the marketplace)	111	27%
Human resource decisions (decisions relating to employment and promotion)	106	26%
Employee obligations to employer (employee responsibilities and actions that in some way conflict with the best interests of the employer)	90	22%
Management processes and relationships (superior-subordinate relationships)	63	15%
Governmental obligations and relationships (compliance with government requirements and reporting to government agencies)	40	10%

These responses provide a general idea of the kinds of issues that challenge the integrity of small business owners. As you can see in the table, the set of issues mentioned most often are related to customers and competitors (27% of the respondents). However, the second most common category is concerned with the way a company treats its employees, including decisions about layoffs, workplace discrimination, fairness in promotions, and the like (26% of the respondents). The fact that this set of issues

received almost as many responses as the first should not be surprising, given the challenges of the current economic climate. In fact, it is telling that this category was near the bottom of the list (8% of the respondents) when entrepreneurs responded to the same survey nearly a decade earlier (Longenecker, McKinney, and Moore, 1995). Times have changed.

The third category is related to the obligations of employees to their employers, focusing on the actions of personnel that may not align with the interest of their companies. Management processes and relationships came fourth. Management relationship issues can be especially disturbing because they reflect the moral fiber or culture of the firm, including weaknesses in managerial actions and commitments.

A Framework for Integrity

A Mix of Obligations. The results of the current survey reveal that entrepreneurs must consider the interests of a number of groups when making decisions—owners (or stockholders), customers, employees, and others. The individuals in these groups are sometimes referred to as stakeholders, indicating that they have a "stake" in the operation of the business. In essence, stakeholders are those who can affect, or are affected by, the performance of the company.

The interests of various stakeholder groups are different and sometimes conflict; thus, decisions can be very difficult to make. And since there is often no obviously right or wrong position to take, managing the process can be extremely complicated.

One executive observed that running a business is sometimes like playing the part of a juggler. Laura Nash recorded his description (Nash, 1993, p. 61):

I am given four balls to balance: the customer's, the employees', the community's, and the stockholders' by which I mean profit. It's never made clear to me how I am to keep them all going, but I know for certain that there is one that I'd better not drop, and that's profit.

Integrity and Owners. The Nobel Prize-winning economist, Milton Friedman, outlines the responsibilities of businesses to society in very focused terms. According to Friedman (1963, p. 133),

There is only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

For the most part, Friedman is arguing that businesses should be expected simply to serve customers and earn profits; any use of the firm's resources beyond this is justified only if it enhances the firm's value. Though we believe there is room for entrepreneurs to adopt a broader view of their responsibilities, it is undeniable that an owner has a clear and legitimate right to benefit from the financial performance of the company.

Integrity and Customers. What do you call a business without customers? *Bankrupt!* Customers are obviously one of the most important stakeholder groups that a company must please. They also stand at the center of the purpose of the business, which has implications for integrity. Entrepreneurs who take customers seriously and treat them as individuals about whom they care are apt to have more of them. And those they have are likely to return again and again for repeat business.

Marc Katz sets the example for an appropriate view of customers. In 1978, with a partner and an instinct to buy a building where many other restaurants had failed, Katz began offering the first complete and authentic deli menu in Austin, Texas. Katz Deli thrives because customers love the quality food, and Marc and his staff love their customers. Marc treats his guests as valued friends and family; in fact, he makes people feel as if they were visiting his home, where he has prepared a party for them. His driving motivation is not one of profit, however, even though the deli is an undeniable success. It is an expression of integrity to provide a quality dining experience with a genuine attitude of service (Bryant, 2002).

Katz Deli illustrates how a business can treat customers with respect and build strong relationships with them. But there is always a temptation to take advantage of customers, or to be less than honest with them. When making marketing decisions, a business owner is confronted with a variety of ethical questions. For example, advertising content must sell the product or service but also tell "the truth, the whole truth, and nothing but the truth." Salespeople must walk a fine line between persuasion and deception. In some businesses, a salesperson might obtain contracts more easily by offering improper inducements to buyers or by joining with competitors to rig bids. This is clearly illegal, but it does happen.

Integrity and Employees. The level of integrity in a firm is also reflected in the amount of respect given to employees. Through management decisions, an owner affects employees' personal and family lives. Issues of fairness, honesty, and impartiality surface in decisions and practices regarding hiring, promotions, salary increases, dismissals, layoffs, and work assignments. Employees are also concerned with concerns related to privacy, safety, and health, and these should not be ignored.

In communicating with employees, an owner may be truthful, vague, misleading, or totally dishonest. Some entrepreneurs treat outsiders with great courtesy but display demeaning behavior or attitudes toward subordinates, whom they regard as mere pawns in the game of business. Showing proper appreciation for subordinates as human beings and as valuable members of the team is an essential ingredient of managerial integrity. It is also deserved, since people are the most important resource of the firm.

Integrity and the Community. Some regard social responsibility as a price of freedom to operate independently in a free economic system. They believe that the public has certain social expectations regarding business behavior, not all of which are required by law. Accordingly, they regard some social expenditures as proper even when they are costly. We must simply recognize that opinions differ as to the extent to which businesses are obligated to engage in a variety of socially desirable activities.

In any case, companies have been accepting increased responsibility to the communities where they do business. This starts with creating jobs and adding to local tax revenues, but many small businesses have also increased their generosity. Entrepreneurs often feel a sense of duty to give back to the community in return for the local support they enjoy, and they usually benefit from increased goodwill as a result. Of course, the response of small businesses varies. Some emphasize environmentalism, minority contracting, and economic development, while others focus their attention on volunteerism, philanthropy, and day care for employees' dependents. Still others give only minimal attention to peripheral social issues.

Given that small business owners have some awareness of their broader obligations, how do they compare with big business CEOs in their view of social responsibility? The evidence is limited, but entrepreneurs who head small, growth-oriented companies seem to be more narrowly focused on profits and, therefore, are less socially sensitive than are CEOs of large corporations. A study by Aupperle, Simmons, and Acar (1990) compared small business entrepreneurs with large business CEOs and concluded the following:

The entrepreneurial CEOs were found to be more economically driven and less socially oriented than their large-firm counterparts. Apparently, [corporate social responsibility] is a luxury many small growth firms believe they cannot afford. Survival may be the first priority.

In defense of small firm owners, we note that they are usually spending their own money rather than corporate funds. It is, of course, easier to be generous when spending someone else's money. Furthermore, small business philanthropy often takes the form of personal contributions by business owners.

Entrepreneurs must reconcile their social obligations with the need to earn profits. Meeting the expectations of society can be expensive. Small firms must sometimes purchase new equipment or make costly changes in operations in order to protect the environment. For example, auto repair shops incur additional costs when they dispose of hazardous waste, such as used oil and filters. It is evident that acting in the public interest often requires the payment of money, with reduces profits. There are limits to what particular businesses can afford to do.

Fortunately, many types of socially responsible action can be consistent with a firm's long-term profit objective. Some degree of goodwill is earned by socially responsible behavior. A firm that consistently fulfills its social obligations makes itself a desirable member of the community and may attract customers because of that image. Conversely, a firm that scorns its social responsibilities may find itself the target of restrictive legislation and discover that its customers and employees lack loyalty to the business. Researchers Melissa Baucus and David Baucus of Utah State University compared the long-term performance of 67 corporations convicted of corporate wrongdoing with the performance of 188 other firms (see Elsass, 1998, pp.87-88). They found that the law-abiding firms experienced a significantly higher return on assets and on sales. To some extent, therefore, socially responsible practices may have a positive impact on profits.

Recognizing a social obligation does not change a profit-seeking business into a charitable organization. Earning a profit is absolutely essential. Without profits, a firm will not long be in a position to recognize its social responsibilities. This takes us back to the juggler, who recognizes that it is essential not to drop the "profit ball." Ensuring this is necessary for survival; however, it is also an expression of integrity toward the owners of the business.

Integrity and Government. Government at all levels exists for a reason, though there is room to debate whether it has too much power or too little. Government intervenes directly in the economy, for example, when it establishes laws to ensure healthy competition. But its reach is extended into other business matters as well—workplace safety, equal employment opportunities, fair pay, clean air, safe products, and so on. Entrepreneurs must comply with these laws and regulations if they are to maintain integrity, and avoid spending time behind bars.

One glaring example of unethical behavior by small firm management is fraudulent reporting of income and expenses for income tax purposes. This conduct includes

skimming—that is, concealing some income—as well as improperly claiming personal expenses as business expenses. We do not suggest that all or even most small firms engage in such practices. However, tax evasion does occur within small firms, and the practice is widespread enough to be recognized as a general problem.

The Internal Revenue Service regularly uncovers cases of income tax fraud. For example, the John E. Long family, the largest promoter of country folk art shows in the nation, was forced to pay millions in back taxes, and four members of the family were given prison terms for tax law violations. The Longs did not record the cash they collected for admission to their shows. Instead, they deposited into corporate accounts only checks received from such sources as booth rentals and magazine sales. Unfortunately for the Longs, the IRS discovered 2,000 unreported deposits that members of the family made into 37 different accounts. The Longs had reported that their business was losing money when, in fact, it was doing very well (Novack, 1994).

Ethical Challenges in Entrepreneurial Firms

Pressures to Act Unethically

Employees of small firms can face pressure from various sources to act in ways that conflict with their own sense of what is right and wrong. For example, a salesperson may feel pressured to compromise personal ethical standards in order to make a sale. Or an office employee may feel pressured by his or her boss to act unethically, perhaps by destroying documents. Such situations are guaranteed to produce an organizational culture that fails to promote integrity.

Fortunately, most employees of small firms do not face such pressures. In the current nationwide survey of individuals holding managerial and professional positions in small firms, respondents reported feeling the following degrees of pressure to act unethically:

No pressure	72.3%
Slight pressure	24.1%
Extreme pressure	3.6%

While it is encouraging to note that nearly three-fourths of the respondents reported an absence of pressure to compromise personal standards, the fact that more than one-fourth of the respondents experienced either slight or extreme pressure is disturbing. The level of a person's standards of integrity is, of course, related to that individual's perception of pressure to act unethically. That is, a person with low ethical standards would probably encounter few situations that violated his or her standards. However, a person with high ethical standards would find more situations that violated his or her personal norms. The ideal is to develop a business environment in which the best ethical practices are consistently and uniformly encouraged.

Vulnerability of Small Business

Walking the straight and narrow may be more difficult and costly on Main Street than it is on Wall Street. That is, small, privately held firms that are not part of the corporate world epitomized by Wall Street may face greater pressures than large businesses do to act unethically. For example, a lack of resources may make it difficult for owners of a small firm to resist extortion by public officials (Allen, 1988, p. R1).

Professor William Baxter of the Stanford Law School notes that for such owners, delayed building permits or failed sanitation inspections can be "life-threatening events" that make them cave in to bribe demands. By contrast, he adds, "the local manager of Burger King is in a much better position" to tell these people to get lost.

Because a small firm is at a disadvantage relative to larger competitors that have superior resources, the firm's owner may be tempted to rationalize bribery as a way of offsetting what seems to be a competitive disadvantage and securing an even playing field.

Nick Molina, referring to the early days of his company Let's Talk Cellular & Wireless, said, "Sometimes when you're backed up against the wall, your instincts take over, and you do what you have to do to survive" (see Allen, 1988). When Molina sought to obtain space in the all-important Dadeland Mall in Miami, the leasing agent told him that his company needed to be "established" to be considered. So Molina manipulated financial reports to make his six-month-old firm look as though it had been in business for two years. Entrepreneurs in such difficult positions often try to rationalize their behavior by distinguishing between posturing (putting their "best foot forward") and lying.

The temptation for entrepreneurs to compromise ethical standards as they strive to earn profits is evident in the results of a study of entrepreneurial ethics (Longenecker, McKinney, & Moore, 1988). In this research, entrepreneurs' views about various ethical issues were compared with those of other business managers and professionals. Participants were presented with 16 situations (or vignettes), each describing a business decision with ethical overtones. They were asked to rate the degree to which they found each action compatible with their personal ethical views. Here is one of the vignettes: "An owner of a small firm obtained a free copy of a copyrighted computer software program from a business friend rather than spending $500 to obtain his own program from the software dealer."

For the most part, the participants in this study, including entrepreneurs, expressed a moral stance; that is, they condemned decisions that were ethically questionable as well as those that were clearly illegal. For all situations, the average response of entrepreneurs and others indicated some degree of disapproval. For nine of the sixteen vignettes, the responses of entrepreneurs did not differ much from those of others. However, this was not the case with the remaining seven vignettes. In five cases, the entrepreneurs appeared significantly less moral (less disapproving of questionable conduct) than the other respondents ($p < 0.05$). Each of these situations involved an opportunity to gain financially by taking a profit from someone else's pocket. For example, entrepreneurs were less severe in their condemnation of collusive bidding and duplicating copyrighted computer software without paying the manufacturer for its use.

Obviously, a special temptation exists for entrepreneurs who are strongly driven to earn profits. However, this finding must be kept in perspective. Even though the entrepreneurs appeared less moral than the other business respondents in their reactions to five ethical issues, the majority of the entrepreneurs were actually *more* moral in their responses to two other issues that had no immediate impact on profit ($p < 0.05$). One of these involved an engineer's decision to keep quiet about a safety hazard that his employer had declined to correct.

Evidence shows, then, that most entrepreneurs exercise great integrity, but some are particularly vulnerable with regard to ethical issues that directly affect profits. While business pressures do not justify unethical behavior, they help explain the context in which

the decisions are made. Decision making about ethical issues often calls for difficult choices on the part of the entrepreneur.

The Potential Advantage of Integrity

The price of integrity is high, but the potential payoff is incalculable. For example, it is impossible to compute the value of a clear conscience. The entrepreneur who makes honorable decisions, even when it comes to the smallest of details, can take satisfaction in knowing that he or she did the right thing, even if things do not turn out as planned. The entrepreneur needs to be committed to doing the right thing even if it costs him or her dearly.

But some are convinced that integrity yields other important benefits as well. In their book, *Becoming a Person of Influence*, John Maxwell and Jim Dornan conclude that integrity is crucial to business success. They cite notable research to make their point. For example, in a recent survey of 1,300 senior executives, 71 percent considered integrity to be the personal quality that is most necessary to success in business (Maxwell & Dornan, 1997). Though an entrepreneur may lack personal integrity and still achieve financial success, he or she must swim against a very swift current to do so.

Others are even more certain that integrity pays (Siglin, 2001). In a study of 207 American firms, John Kotter and James Heskett, professors at the Harvard Business School, found that the more a company focuses on the needs of the shareholders alone, the lower its performance. Kotter and Heskett concluded that firms perform better when their cultures emphasize the interests of all stakeholders—that is, customers, employees, stockholders, and so on. Over the 11-year period of the study, those companies that looked beyond the balance sheet "increased revenues by an average of 682 percent versus 166 percent for those companies that didn't, expanded their work forces by 282 percent versus 36 percent, grew their stock prices by 901 percent versus 74 percent, and improved their net incomes by 756 percent versus 1 percent." While these results are impressive, they do not guarantee that doing the right thing will *always* lead to positive results for a company. However, these findings do suggest that integrity in business does not rule out financial success—in fact, doing the right thing may actually boost the company's performance.

Building a Business with Integrity

The goal of an entrepreneur with integrity is to have a business that operates honorably in all areas. This goal is not reached automatically, however. To build a business with integrity, management must provide the kinds of leadership, culture, and instruction that support appropriate patterns of thought and behavior.

Establishing a Foundation of Strong Values

The business practices that a firm's leaders or employees view as right or wrong reflect their underlying values. An individual's beliefs affect what that individual does on the job and how she or he acts toward customers and others. Of course, people sometimes engage in verbal posturing, speaking more ethically than they act. Thus, actual behavior provides the best clues to a person's underlying system of basic values. Behavior may reflect the level a person's commitment to honesty, respect, and truthfulness—that is, to integrity in all of its dimensions.

Strongly held values sometimes require tough choices. The most ethical and the most economical actions may differ, since taking the “right” course of action can be expensive. In such cases, an entrepreneur who has strong, widely recognized moral values will still do the right thing simply because it is the right thing to do.

Values that serve as a foundation for integrity in business are based on personal views of the universe and the role of humankind in that universe. Such values, therefore, are part of basic philosophical and/or religious convictions. In the United States, Judeo-Christian values have traditionally served as the general body of beliefs underlying business behavior, although there are plenty of examples of honorable behavior based on principles derived from other religions. Since religious and/or philosophical values are reflected in the business practices of firms of all sizes, a leader’s personal commitment to certain basic values is an important determinant of a small firm’s commitment to integrity in business.

A long-time observer of high-tech startups has commented on the significance of an entrepreneur’s personal values (Moore, 1998):

I can tell you, even with the smallest high-technology companies, the product had to be good, the market had to be good, the people had to be good. But the one thing that was checked out most extensively by venture capitalists was the integrity of the management team. And if integrity wasn’t there, it didn’t matter how good the product was, how good the market was—they weren’t funded.

Leading with Integrity

Entrepreneurs who care about ethical performance in their firms can use their influence as leaders and owners to urge and even insist that everyone in their firms display honesty and integrity in all operations. Ethical values are established by leaders in all organizations, and those at lower levels take their cues regarding proper behavior from the statements and conduct of top-level management.

In a small organization, the influence of a leader is more pronounced than it is in a large corporation, where leadership can become diffused. This fact is recognized by J.C Huizenga, who started a public school management company in 1995 called Heritage Academies, which has been ranked as one of the fastest growing companies in the country by *Inc* (Huizenga, 2002, p. 1).

The executive of a small company must often face moral challenges more directly, because he or she has more direct contact with customers, suppliers, and employees than an executive in a large corporation who may have a management team to deliberate with. The consequences of his or her choices often affect the business more significantly because of the size of the issue relative to the size of the company.

In a large corporation, the chief executive has to exercise great care to make sure that her or his precepts are shared by those in the many and varied divisions and subsidiaries. Some corporate CEOs have professed great shock on discovering behavior at lower levels that conflicted sharply with their own espoused principles.

Leaders of large corporations are also responsible to stockholders, most of whom focus a great deal of attention on corporate profits. The management team is under pressure to

deliver an increase in earnings per share year after year. The position of an entrepreneur is typically much simpler.

Developing a Supportive Culture

Integrity in a business requires a supportive organizational culture. Ideally, every manager and employee should instinctively resolve every ethical issue by simply doing the "right" thing. According to Shaun O'Malley, chairman emeritus of Price Waterhouse, an ethical culture requires an environment in which employees at every level are confident that the firm is fully committed to honorable conduct. To a considerable degree, strong leadership helps build this understanding. As a small business grows, however, personal interactions between the owner and employees occur less and less, creating a need to articulate and reinforce principles of integrity in ways that supplement the personal example of the entrepreneur.

The idealism and principles espoused by Rutledge & Company, a merchant bank in Greenwich, Connecticut, are reflected by a conference-room portrait that reminds employees "how to behave." The portrait of an early business partner, V. P. "Bake" Baker (a "wonderfully principled man") encourages today's employees to follow "Bake" principles such as these:

1. Do the right thing. Right and wrong are powerful concepts. A handshake with a person who tries to do the right thing is more comforting than a ton of legal documents signed by a bad guy.
2. Stick to your principles. Hire people who want to live by them, teach them thoroughly, and insist on total commitment.
3. Principles are not for sale.

CONCLUSION

To operate with integrity, entrepreneurs must reconcile the diverse interests of a number of stakeholder groups—owners, customers, employees, and others—when making decisions. The interests of stakeholder groups vary and sometimes conflict, which makes decision-making very difficult. And since there is often no obviously right or wrong position to take, managing the process can be very complicated.

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TECHNOLOGICAL INNOVATION OF VENTURE FIRMS IN PARTNERSHIP WITH I-U-G NETWORKS

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ABSTRACT

In modern times, the technological innovation paradigms have changed, characterized by the importance of openness and cooperation for technological innovation. That is, the strengthening of a linkage relation between the manufacturing industry and research institutes for technological innovation, and a rapid increase in network & technological cooperation.

This study aims to show that venture firms could sustain suitable activities on the basis of technological force and flexible production form against the change of this technological innovation paradigm, and also it seeks to analyze the relation between technological innovation performance of venture firms and Industry-University-Government (I-U-G) networks, and then proposes a suggestive point of policy. This study is based on empirical research; on the basis of the analytical results of questionnaires collected from 324 venture firms with theoretical research. Through this empirical research, our results suggest that the component parts of I-U-G networks for venture firms are other firms, universities, research institutes, government & its related agencies, associations, and civil service organizations.

Through interrelation analysis and regression, one between I-U-G networks of venture firms and technological innovation performance, it is found that networking with government and its related agencies and the one with civil producer organizations have a positive influence on process innovation, and also networking with government & its related agencies has a positive influence on product innovation.

Through the results of this study, we can know that support from government and its related agencies has an effective influence on innovation of venture firms, so continuous reform and complementary measures of government policy are needed. In addition, I-U-G's linkage support measures for technological innovation of firms by universities and research institutes should be strengthened.

INTRODUCTION

With the coming of the knowledge-based economy, the industrial environment has changed rapidly. In process of that time, the venture industry which is based on a technological power and a flexible production method has been brought to the fore as a new industrial model.

While the bringing-up of the venture industry, as a strategy for technological innovation and regional industry development, has added its importance, many-sided studies on the revitalization of establishing Industry-University-Government(I-U-G) networks to improve the performance of venture firms have been tried. A study on I-U-G networks for venture firms can be classified into 3 fields as an object of study; Production networks of Silicon Valley in the U.S., Daedeok region in Korea, and I-U-G networks of Korean Technopark (Kwon O-Hyeok, 1999; Shin Dong-Ho, 2000; Choi & Hwang, 2003). They have suggested, in their theses, that I-U-G networks of venture firms could have a big influence on the innovation performance of firms. However, these existing studies both home and abroad seem to be insufficient in empirical investigation concerning the influence of I-U-G networks on technological innovation performance of firms. Thus, the researcher would perform a theoretical & empirical study concerning the economic meaning of venture firms, the characteristics of technological innovation, and the influence of I-U-G networks on technological innovation. By making clear the characteristics of I-U-G networks of venture firms, this study could present a direction for the construction of I-U-G networks to improve technological innovation performance of venture firms.

The object of study in this research was venture firms at the main venture complexes around the country, and a method of study depended both on an empirical analysis through questionnaire survey and on a theoretical study through literature investigation.

THEORETICAL BACKGROUND

The Meaning of Venture Firms

The idea of the words "venture firm" has been used widely, but there is little difference in its concept according to scholars or a purpose of study. Lee Jang-Woo (1997) defined it as an adventurous small & medium enterprise (SME) making a challenge to undertaking with new ideas and technology. On the other hand, these words, "innovative firm" and "high-tech small firm" have been widely used in Western countries (Park Yong-Kyu et al, 2001: 19). As the notion of "venture firms", the researcher in this study would define it, in a broad sense, as, "a firm which is characterized by high-risk and high-performance and established on the basis of new technology", which takes on a comprehensive meaning of technology foundation, adventurous investment, and newborn enterprise.

The character of venture firms is in response to the coming of a knowledge-based economy and to the change of the technology innovation paradigms. That is, venture firms have a differential character compared with capital-led large firms or general small ones.

First, venture firms, as research and development (R&D)-type ones, have promoted technological innovation activities over all industries through innovative technology development, and created a new high value-added industry. Second, they, in terms of technology development, pursue the product competitiveness through merchandisation of new technology, and show a strong tendency of stressing a specialty and an exclusive technical power. Third, their production systems have a tendency of having elastic production systems rapidly corresponding to the changing demands of market and to the invention of new technology. And in the production process, most venture firms have placed an order with outside suppliers and then hold only patent rights for a technology. That is, a variety of industrial networks among related enterprises form a basis for survival & development of venture firms.

The Meaning of Technological Innovation

Technological innovation means a series of processes of producing, marketing and selling a new product or service through new combinations of production means such as process, market, material and organization (Schumpeter, 1961).

When looking at the change of technological innovation paradigm, it is found that a traditional technological innovation model is the process of sequential innovation, while being based on R&D activities, which an idea is developed into a prototype, designed as a product, and then is continued into mass production, while it is called 'linear model' in which each stage of innovation leads into the next stage. On the other hand, today's technology innovation model is a 'system model' in which innovation is regarded as a compound and cumulative process of self-reinforcing feedback loops. The change of this

technological innovation paradigm can be arranged as follows (Cho Hyun-Dae, 2001: 3-58).

First, there is a shortening of the R&D and technology period. As the competition of technology innovation has been intensified, firms want to attain a sure performance from R&D investment rapidly, and they are pressured to produce goods more quickly.

Second, the influence of scientific research on technological innovation has increased gradually, and then developed into direct relations between them.

Third, it is an increasing importance of openness and cooperation in technological innovation. Many various sources of knowledge · technology for new technological innovation exist on the outside more than on the inside, so for approach to external knowledge · technology and its practical use, the importance of the heightening of openness and, of mutual cooperation with external sources of knowledge have increased.

Fourth, it's the strengthening of linkage for technological innovation between the industrial world and universities. Through the manpower cultivation and the composition of technological innovation network, interactions between science systems and enterprises have become close over time.

Fifth, it's a rapid increase of network & technological cooperation. Due to increasing cost & risk for technological innovation, firms have converted, for research development and technological innovation, from internal-oriented (self-development of technology) into external-oriented (external cooperation and outsourcing), and they have specialized all the more in research development and technological innovation.

This technological innovation can be classified into process innovation and product innovation according to what the object is for technological innovation; the former is concerned with the introduction of product or new factors for operation of development, the latter with the introduction or development of new product by a venture firm concerned (Knight, 1967; Na Kwon-Jung et al., 2001: 123)

The Meaning of I-U-G Networks

The researcher would look about the concept, meaning, and importance of I-U-G networks for improving the performance of innovation for venture firms. Network concept, because it is ambiguous, has been used in a broad sense.

Modern institutional economics, including the new institution school, has proposed a network form as middle form or an independent one which makes up for both extremes of market and hierarchy. That is, it is network, a structure of relationships, that various social actors keep an interactional relationship on the basis of each participant's roles and understanding. It seems that, while traditional economical activities have been mediated and managed through 'cooperation via hierarchy' in the inside of firms or through 'competition via markets', 'mediation and control' in economic transactions through networks shows new organizational aspects of today's economy activities (Castells, 1997; Lagendijk, 1997; Cho Myeong-Rae, 1998: 31).

Economic significance of I-U-G networks concerning the performance of a firm can be confirmed with a dynamic capabilities theory which stresses 'dynamic capabilities' by which firms could create and change new special sources for them or a new firm, as a continuous source for competitive advantage (Teece et al., 1997; Tidd et al., 1997; Song Wi-Jin, 1998: 528). Resources that an enterprise has are not restricted only within the inside of that enterprise. Not only financial resource and facilities, knowledge foundation and operational systems needed for business, but also networks with innovative main bodies including external suppliers, consumer firms, universities and institutes, can be sources of intangible property. Thus, dynamic capabilities include not only internal resources but also forming a network with external main bodies for innovation and then securing insufficient properties and resources. Especially, in case of a venture firm which internal resources to use are not enough, securing external resources may be very significant.

Factors or nodes constituting I-U-G networks for venture firms are possible to estimate according to several standards; basically, there are government, venture firms, universities, research bodies, and financial agencies (Baek Jeong-Yeop, 2000: 38-39). In this study, the types of networks would be classified according to the characteristic of node, and especially enterprise network and enterprise external would be considered priorities. More concretely, the network between venture firms and general firms, universities, research institutes, government and its related agencies, associations, and private suppliers.

Sample of networking between venture firms and other firms may be networks among venture firms, between venture firms and SMEs, and between the ones and large enterprises. The reason that networks between venture firms and other firms are needed is that a cooperative production following the specialization of production process in the production system of enterprise will increase. As for the objects of cooperation, there are production & supply through specialization, joint use of equipment, joint R&D, and joint receiving of an order & marketing (Lee Kong-Rae·Shim Sang-Wan, 1999: 99)

Networks between venture firms, universities, and research institutes strengthens a complementary capability in basic science of enterprise as a pressure of technological innovation in each industry with the development of new knowledge and the intense world competition has increased, so it is expected that it could raise the performance of technological innovation for enterprises. The industrial world needs the cooperation of university and research institutes for the utilization of study infra of university and public research institutes and for the acquisition of technological knowledge which enterprise institutes have not, for securing excellent manpower, and for the maximization of research capacity of an enterprise (Kim Sung-Soo, 2000: 5).

As networks between venture firms and government & its related agencies, there are networks between venture firms and central government, local government, and government financed enterprise-supporting agencies. Through this network, enterprises could benefit from financial support, administrative support, technological support, and receiving technology & business information, which could also have an influence on the performance of enterprises.

Networks between venture firms and associations mean the one with autonomous organizations in the industry world which encourages the cooperation among same or different categories of business. Through participation of associations, for venture firms, such effects as exchange of business & technology information, formation of human networks, strengthening of joint purchasing and marketing, manpower employment, financial supply, and digging-out of joint policies could be expected.

Networks between venture firms and private producer service organizations mean the one with enterprise-supporting service organizations giving financial, legal, and accounting-related services needed for business activities of venture firms. It's expected that convenience in private service utilization for venture firms could have an influence on the performance of enterprises by helping their business activities.

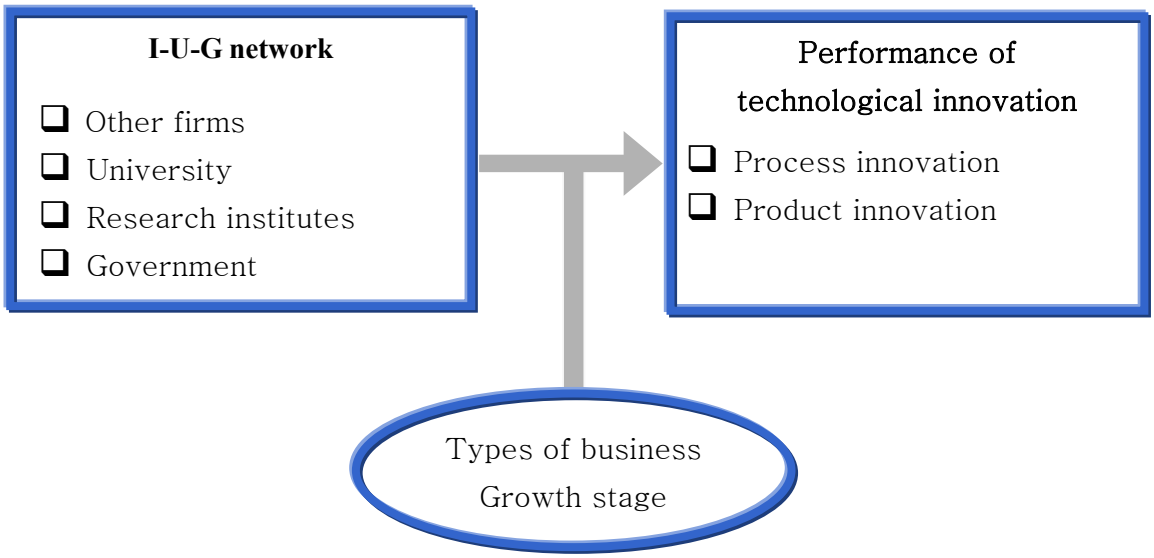
EMPIRICAL RESEARCH

The Characteristics of Empirical Research Model & Sample

Empirical Research Model

In the above theoretical discussion, the researcher showed that venture firms have the characteristics of technological innovation-type enterprise, looked into that securing external resources through I-U-G networks from the viewpoint of venture firms become a

strategy to improve business performance. On the basis of a discussion like this, this paper would look empirically about the characteristics of technological innovation for venture firms, of I-U-G networks, and about the relationship between I-U-G networks and business performance. First of all, the performance of venture firms would be examined concerning analysis of factors and characteristics in terms of technological innovation, and then concerning the types of I-U-G networks. That is, making venture firms located in the venture complex an object, the analysis of feasibility and confidence of the variables about technological innovation and I-U-G networks was conducted. Second, the characteristics of the samples with frequency analysis and technology statistics centering around these variables were investigated. In addition, a relation between I-U-G networks and enterprise' performance, a main concern for this study, were looked into through interrelation & multi-regression analysis. The above-mentioned discussion can be arranged with setting-up of a research analysis frame in Figure 1.



<Figure 1> Research analysis frame

To clarify the results in analysis of the characteristics of I-U-G networks for venture firms in this study, the researcher defined the types of business and a growth stage as follows.

First of all, the types of business of venture firms have been classified with a variety of standards according to the objectives of study, but in this study they would be limited to the manufacture & IT service businesses on the basis of the Korean Standard Industrial Classificatory Table.

Second, a growth stage of venture firms can also be classified according to a variety of standards. In this study their growth stage could be classified into 4 stages; the initial stage, early growth stage, high growth stage, and maturity stage.

Third, I-U-G networks of venture firms were examined on the basis of the existing literatures concerning the networks with other firms, university, research institutes, government & its related agencies, associations, and private service organizations.
Fourth, in analysis of the performance of innovation for venture firms located in the venture complexes, technological innovation power was measured with a technological superiority through a comparison of technological level for a similar product.

Material Collection & Sample Firms' Characteristics

The characteristics of I-U-G networks of main venture firms in several venture complexes were surveyed by use of a structurized questionnaire, and the means of material collection depended on postal & visit survey, telephone interview and e-mail. With classifying the answered contents by the types of business and growth stages, the researcher utilized a five-point scale standard for the questions which needed a comparison of average values in the answered questionnaire.

The survey was conducted during the period from Mar. 20 ~ May 10, 2002, and as the object areas of investigation, Teheran Valley in Seoul, a representative area for Korean venture firms, and Daedeok valley in Daejeon were selected preferentially, and in addition to them, venture firms located in Daegu and Kwangju metropolitan cities, Kyungsan, and Pohang were also selected.

The numbers of effective questionnaires used for final analysis were 324 copies, and among them, venture firms of manufacturing business accounted for 58% with 188 copies. Service-related venture firms such as software development and the Internet services, accounted for 42% with 136 copies.

General characteristics of sample firms included a high rate of IT firms, high weight of early growth rate in the growth stage, a small number of employees, high rate of starting business recently, and high rate of investment for R&D compared with sales. It seems that these characteristics have well reflected a special character of venture firms, newborn research development-oriented ones.

Analysis of technological innovation performance of venture firms

To look into the level of technological innovation as the performance of venture firms located in the complexes, the researcher compared with technological level of other firms by use of a measuring tool which could show the level of technological innovation. From the results of factor-analysis of main elements by use of a vertical turning method according to the varimax method for a feasibility study of variables, the two factors as

shown in <Table 1> were extracted. Factor 1 has loaded high the 4 items of technological element related with the reform of process. Thus, it means the concept of process innovative power related with technological innovation in the process. In addition, the factor 2 has loaded high the 3 items of descriptive elements related with the development of new product. Thus, it means the concept of product innovative power related with technology for product development. Cronbach's alpha values for the above items obtained show a high reliance level with .8233 for the factor 1 and .6179 for the factor 2.

<Table 1> Analysis of the factors about the performance of technological innovation of venture firms

Items	Factor 1 (Process innovation power)	Factor 2 (Product innovation power)	Reliability (Alpha)
Increased productivity	**.848**	.177	.8233
Introduction of new process	**.800**	.191	
Decreased ratio of inferior product	**.774**	.114	
Technology level for reform of production process	**.694**	.373	
Technology level for development of production process	.212	**.834**	.6179
Number of patent application & registered items	.068	**.717**	
Technology level for betterment of existing products	.341	**.687**	
Eigenvalues	2.605	1.901	
% of Variance	37.217	27.162	
Cumulative %	37.217	64.379	

Source: Questionnaire survey

Descriptive statistics of technological innovation performance factors, as a performance indicator of venture firms are shown in <Table 2>. The performance of process & product innovation, measured with the level of technology innovation, was over the average with 3.50 and 3.86, respectively.

<Table 2> Descriptive statistics of the performance of venture firms in the complexes

Variables		Frequency	Mean	Standard deviation
Performance of	Process innovation	288	3.50	.69
	Product innovation	317	3.86	.69

Analysis of I-U-G Networks of Venture Firms

The analysis results of factors concerning I-U-G networks of venture firms are shown in <Table 3>. In factor 1, it is found that 6 items meaning cooperative network with an association in several items including 'joint purchasing and a marketing' are loaded high. So the factor 1 means a cooperative network concept with association. In factor 2, 6 items including 'acquisition of technology & business information from university' meaning a cooperative network with universities is loaded high. So the factor 2 means a cooperative network with university. In factor 3, 5 items including 'acquisition of a technology & business information from research institutes' meaning a cooperative network with research institutes' is loaded high. So the factor 3 means the concept of a cooperative network with them. In factor 4, 4 items including 'cooperation in financial support with government & its related agencies' meaning a cooperative network with them is loaded high. So the factor 4 means the concept of a cooperative network with them. In factor 5, 4 items including 'support in legal, accounting & tax service from private service organizations' is loaded high. So the factor means the concept of a cooperative network with them. Finally, in factor 6, 5 items including 'joint receiving order and marketing with other firms' meaning cooperative network with them are loaded high. So the factor 6 means the concept of a cooperative network with them.

Cronbach's alpha values of the above items obtained to look into reliability of variables show high reliability with .7893 for factor 1, .9062 for factor 2, .9254 for factor 3, .9006 for factor 4, .9224 for factor 5, and .8527 for factor 6.

<Table 3> Analysis of the factors about I-U-G cooperation of venture firms

Items		Factor 1 (Asso.)	Factor 2 (Univ.)	Factor 3 (Research Institute)	Factor 4 (Gov't Agency)	Factor 5 (Private Service)	Factor 6 (Other Firms)	Reliability
Association	Joint purchasing & marketing	**0.814**	0.197	0.165	0.112	0.144	0.168	.7893
	Joint development of policy	**0.808**	0.123	0.160	0.143	0.183	0.062	

	Supplement of the personnel	**0.784**	0.084	0.044	0.223	0.077	0.144	
	Formation of human network	**0.780**	0.114	0.107	0.093	0.266	0.155	
	Financing	**0.751**	0.176	0.227	0.238	0.135	0.049	
	Exchange of business & technology information	**0.733**	0.127	0.120	0.230	0.229	0.084	
University	Acquisition of business & technology information	0.141	**0.847**	0.228	0.117	0.078	0.040	.9062
	Technology & business consultation	0.114	**0.840**	0.219	0.140	0.127	0.094	
	Joint R &D	0.061	**0.803**	0.191	0.208	0.072	0.150	
	Joint use of equipment	0.164	**0.772**	0.107	0.036	-0.098	0.200	
	Educational training	0.227	**0.756**	0.309	0.095	0.106	0.097	
	Employment of excellent manpower	0.113	**0.607**	0.260	0.098	0.354	0.032	
Research Institute	Acquisition of business & technology information	0.240	0.204	**0.802**	0.185	0.137	0.079	.9254
	Joint R&D	0.067	0.272	**0.799**	0.173	0.121	0.189	
	Educational training	0.214	0.276	**0.780**	0.199	0.148	0.121	
	Technology & business consultation	0.195	0.255	**0.771**	0.212	0.185	0.164	
	Joint use of equipment	0.120	0.324	**0.753**	0.099	-0.048	0.186	
Government Agency	Financing	0.103	0.090	0.141	**0.808**	0.204	-0.030	.9006
	Administrative support	0.346	0.191	0.187	**0.770**	0.119	0.039	

	Technological support	0.260	0.219	0.263	**0.767**	0.113	0.064	
	Acquisition of business & technology information	0.350	0.142	0.189	**0.761**	0.159	0.049	
Private Service	Legal, accounting, tax service	0.160	0.088	0.102	0.114	**0.827**	0.142	.9224
	Investment, financial service	0.160	0.086	0.041	0.181	**0.787**	0.112	
	Business consulting service	0.387	0.128	0.153	0.168	**0.694**	0.111	
	Educational training service	0.428	0.064	0.160	0.123	**0.623**	0.132	
Other firms	Joint receiving order & marketing	0.275	0.079	0.203	-0.119	0.180	**0.717**	.8527
	Joint use of equipment	0.163	0.270	0.200	-0.035	0.036	**0.715**	
	Joint R &D	0.041	0.289	0.226	0.022	0.046	**0.683**	
	Exchange of technology & business information	0.284	0.046	0.274	-0.012	0.151	**0.625**	
	Production & supply relation through specialization	-0.049	-0.047	-0.135	0.204	0.098	**0.617**	
Eigenvalues		4.819	4.403	3.942	3.017	2.801	2.622	
% of Variance		16.065	14.676	13.140	10.056	9.336	8.739	
Cumulative %		16.065	30.741	43.881	53.937	63.273	72.012	

To examine the general characteristics of I-U-G networks for venture firms, the researcher looked into the descriptive statistics. I-U-G networks, measured with the level of I-U-G networks construction for venture firms, show that it is very vulnerable with less than the average generally as shown in <Table 4>. Network level with universities was 2.76, the highest, that with other firms was 2.68, that with private producer service organizations was 2.63.

<Table 4> Descriptive statistics of I-U-G network of venture firms in the complexes

Variables	Frequency	Mean	Standard deviation
Network with other firms	300	2.68	.79
with university	297	2.76	.92
with research institute	297	2.48	.95
with government agency	307	2.55	.85
with association	293	2.32	.80
with private producer service organization	304	2.63	.79

<Table 5> shows the results of analysis of a difference by the type of business and the stage of growth in I-U-G network factors of venture firms. There is a significant difference according to the type of business between networks with universities and that with research institutes. It seems to be caused from the results that network levels between venture firms and universities was higher for manufacture business with 2.93 than that for the IT business with 2.54, and that the one between venture firms and research institutes was higher for manufacture business with 2.59 than for IT business. These results have reflected that the characteristics by the type of business cause a difference in the formation of I-U-G networks.
difference in the formation of I-U-G networks.

<Table 5>
Analysis of a difference in I-U-G networks by the characteristics of venture firms

Type of business	Mean/ Standard deviation	Other firms	University	Research institute	Government agency	Association	Private service organization
Manufacturing	mean	2.64	2.93	2.59	2.60	2.25	2.61
	standard deviation	.78	.86	.91	.85	.75	.78
IT service	mean	2.75	2.54	2.34	2.49	2.40	2.67
	standard deviation	.80	.96	.99	.86	.85	.79
t value		-1.173	3.644***	2.223**	1.163	-1.554	-.712

Note: * p<.10, ** p<.05, *** p<.01

From analysis of a difference by the stages of growth, it's found that there was a significant difference in networks with government & its related agencies, with an association, and

with private service organizations. Networks with government & its related agencies has been strengthened with growth of the firms concerned, so did that with associations. Networks with private service organizations also has been strengthened in its construction from early stages after starting business to the stage of high growth, but it has been weakened in the stage of maturity. For networks with other firms, universities, and research institutes, there is no significant difference by the stages of growth.

<Table 6> Analysis of a difference in I-U-G network by the stages of growth of venture firms

Growth stage	Mean/ Standard Deviation	Other firms	University	Research institute	Government agency	Association	Private service organization
Starting business one	Mean	2.56	2.65	2.29	2.28	2.22	2.49
	St. D	.86	1.04	.96	.86	.81	.87
Initial growth one	Mean	2.70	2.82	2.51	2.55	2.21	2.60
	St. D	.81	.94	.95	.84	.79	.75
High growth one	Mean	2.75	2.67	2.53	2.72	2.57	2.85
	St. D	.76	.83	.97	.85	.78	.80
Maturity one	Mean	2.71	2.90	2.66	2.83	2.59	2.65
	St. D	.51	.65	.73	.75	2.32	.65
F value		.685	.833	1.058	3.399**	4.070***	2.465*

Note: * p<.10, ** p<.05, *** p<.01

Analysis of a relation between I-U-G networks and firms' performance

To examine a relation between I-U-G networks factors of venture firms and the performance factors of technological innovation, the researcher performed an interrelation analysis. As shown in <Table 7>, the results of analysis show that there is no a significant interrelationship statistically between them or there is very weak interrelationship.

There was a weak positive interrelationship between process innovation and networks with government & its related agencies, and so did that between product innovation and network with universities, and government & its related agencies. This result suggests that for process and product innovation, network with universities and government & its related agencies could have a positive influence on technological innovation of venture firms.

<Table 7> Analysis of the interrelationship between technological innovation and I-U-G networks

Items		Process Innovation	Product Innovation	Other Firms	University	Research Institute	Gov't Agency	Association	Private Service Organization
Performance of Firm	Process Innovation	1.000							
	Product Innovation	.451***	1.000						
I-U-G Network	Other Firms	-.011	.029	1.000					
	University	.100	.106*	.392***	1.000				
	Research Institute	.049	.071	.469***	.612***	1.000			
	Government Agency	.116*	.120**	.225***	.418***	.478***	1.000		
	Association	-.062	.019	.387***	.401***	.458***	.539***	1.000	
	Private Service Organization	.069	.015	.356***	.331***	.383***	.469***	.565***	1.000

Note: * p<.10, ** p<.05, *** p<.01

To verify the influence of I-U-G network factors of venture firms on the performance of technological innovation, multiple regression analysis was performed while regarding process & product innovation power as dependant variables, and I-U-G networks as an independent variable.

The results of regression analysis are shown in <Table 8>. It shows that in relation of process innovative power with I-U-G networks, the networks with government & its related agencies and private service organizations have a positive significant influence. And it's found that a factor having the greatest effect of process innovative power was networks with private service organizations (β=.131). Among performance variables, in relation of product innovative power with I-U-G networks, networks with government & its related agencies has a positive significant influence on it.

Summing up, it seems that networks between venture firms and government & its related agencies, and private service organizations has a significant influence on process

innovation power, and for process innovative power, networks with government & its related agencies is a significant factor.

<Table 8> Regression analysis between the performance of venture firms and I-U-G networks

Dependent variables	Process innovation power		Product innovation power	
Independent variables	BETA	t value	BETA	t value
Other firms	-.066	-1.021	.052	.831
University	.087	1.331	.077	1.236
Research institute	.056	.857	.021	.343
Government agency	.128	1.968*	.199	3.195***
Association	-.094	-1.438	-.059	-.952
Private service organization	.131	2.013**	-.031	-.504
R^2	.058		.053	
Adjusted R^2	.033		.030	
F	2.284**		2.281**	

Note: * p<.10, ** p<.05, *** p<.01

CONCLUSION

The purpose of this study was to look into the necessity of I-U-G networks for improvement of technological innovation's performance by firms, by analyzing technological innovation and I-U-G networks making venture firms in the main complexes. From the results of analysis, it is found that as the types of I-U-G networks for venture firms there were networks with other firms, with universities, research institutes, associations, and private producer service organizations.

The results of analysis of I-U-G networks level for venture firms in the complexes showed that I-U-G networks of venture firms was very vulnerable overall. To examine the influence of I-U-G networks on the technological innovation's performance for venture firms, regression analysis was performed. From the analysis, it was found that networks with government & its related agencies and private service organizations have a positive, significant influence on the process innovative power, and in addition, networks with government & its related agencies has on product innovative power. These results suggest that while the construction of networks between venture firms and government & its related agencies has been strengthened, it could have a positive influence on the process & product innovation.

Through this analysis, it's found that in the region where the foundation of I-U-G networks is vulnerable, the necessity of newly forming or encouraging I-U-G networks is proposed as a matter of policy. As a representative example of a policy like this, consider an I-U-G cooperative promotion project such as the construction of Technopark. Policy tasks for the promotion of I-U-G networks can be proposed as follows;

First of all, the preparation of a firm cooperation program to strengthen networks among firms is preferentially needed, with the formation of symbiotic culture through the construction of networks for joint receiving order & marketing among firms, joint utilization of equipment, joint R&D, and exchange of technology & business information.

Second, for the expansion of practical solidarity between venture firms and universities, expansion of participation by universities in I-U-G cooperative projects in terms of finance, manpower for research and facility support is needed. And positive development and carrying out of a program through which venture firms could easily perform the acquisition of technology & business information, business consultation, research development, practical use of equipment, educational training, supplement of the personnel could be other basic activities (work) to strengthen the network.

Third, to strengthen weak networks between venture firms and research institutes, networks with research institutes in the I-U-G cooperation project should be also strengthened so that cooperation with research institutes can be smoothly performed.

Fourth, to strengthen a weak network between venture firms and government & its related agencies, financial support for I-U-G cooperation work by government should be also strengthened, with the preparation of long-term I-U-G cooperation project policy. Especially, the fact that networks of venture firms with government & its related agencies has a close relationship with the performance of technological innovation suggests that firm-supporting policy by government & its related agencies would have to preferentially consider the demands of firms.

Fifth, it's found that networks of venture firms with associations and cooperatives are very vulnerable. So the setting of activity direction, by associations and cooperatives, toward giving help for venture firms is strongly needed. In addition, government should play a participatory role such as a facilitator in joint purchasing & marketing, developing of policy, and exchange activities of business & technology information so that associations' activities could perform a positive function for firms' business.

Sixth, it seems that, to strength networks of venture firms with private producer service organizations, attracting or cultivating a producer service organization at local cities or expanding a support-program, which firms can utilize in a moderate price, is needed.

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THE IMPACT OF ENTREPRENEURSHIP EDUCATION ON CAREER INTENTIONS AND ASPIRATIONS OF TERTIARY STUDENTS IN GHANA

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ABSTRACT

Growth in entrepreneurship education has accelerated dramatically over the last two decades in both developed and developing countries. This growth is reflected in the inauguration of numerous international inter-collegiate business plans competitions, new entrepreneurship curricula and programmes and endowed professorships in entrepreneurship. The dilemma is for the field to stay on the 'cutting edge'. But more importantly the outcomes of entrepreneurship education must be known. Some entrepreneurship education has been introduced at the tertiary level of the Ghanaian educational system over the last eight years. However, the types of entrepreneurship education offered to business students are different from what are available to the science/engineering students. This paper assesses the impact of entrepreneurship education on student career intentions and aspirations at tertiary level in Ghana. Tentative evidence suggests that not only does entrepreneurship education impact on the career intentions and aspirations of undergraduate students but also influences their career intentions and aspirations towards self-employment. Besides, types of entrepreneurship education's pedagogy and curricula affect the degree of career aspirations towards self-employment. Evidence from the study indicated that the business students exposed to entrepreneurship education were more likely than the science/engineering to include self-employment in their career aspirations. Apparently other empirical findings from the survey further appear to indicate that the growth and investment in entrepreneurship education in Ghana is well founded. However, it is evident that a harmonisation of the curricula offered to business, science and engineering students as well as improving logistics, is imperative if entrepreneurship education could encourage more Ghanaian students to recognise self-employment as a career option.

INTRODUCTION

Evidence in the literature indicates that growth in entrepreneurship education has accelerated dramatically over the last two decades throughout the world (Robinson and Hayes, 1991; Faris, 1999; Brown, 1999; Lord, 1999; Charney and Libecap, 2000; Solomon et al. 2002). This growth is reflected in the inauguration of numerous international inter-collegiate business plans competitions, new entrepreneurship curricula and programmes and endowed

professorships in entrepreneurship. The dilemma is for the field to stay on the 'cutting edge'. To continue to be a vibrant member of the academic community, pedagogies must reflect the changing times. But more importantly the outcomes of entrepreneurship education must be known, though approaches to entrepreneurship education have varied across colleges and universities, from offering single courses in new business development or business plan preparation to integrated curricula that include marketing, finance, competitive analysis, and business plan development (Charney and Libecap, 2000). It is argued that core entrepreneurial skills and competencies are essential for the pursuit of effective entrepreneurial behaviour, individually, collectively and in the society (Gibb, 1998; Kirby, 2003). Entrepreneurship educational programmes have been introduced at some Ghanaian tertiary educational institutions in an attempt to reverse graduate unemployment trend by giving the needed training in entrepreneurial skills to tertiary students to establish and manage their own businesses and to consider self-employment as a career option. The study is borne out of the need to evaluate the outcome of the entrepreneurship education and initiatives recently introduced at third level institutions in Ghana in order to investigate the impact on career intentions and aspirations of tertiary students.

BACKGROUND

The tertiary educational system in Ghana in the past trained students for legal and administrative positions with little regard to prepare students to consider self-employment as a career option (Afenyadu et al. 2001; Oketch and Otieno, 1999). The rationale was that the public sector positions needed to be filled up following the departure of colonial leaders. This colonially-inspired tertiary education has not served Ghana well as it has contributed to a widespread unemployment (see GLSS, 1998). Graduate unemployment and underemployment in Ghana appears to have been a major problem for quite sometime now, in spite of government supported effort to train and motivate unemployed graduates for self-employment (Graphic, 2002; Dwomo-Fokuo, 2001). Recently, questions have been asked in Ghana as to which capabilities are being developed in graduates by the higher education process in general (Afenyadu et al., 2001; Afenyadu, 1998). In addition, more direct questions have also been asked about whether Ghanaian higher education influences graduates towards careers in direct wealth creation sectors of the economy as opposed to those in the public sector (NBSSI, 2001). Fundamentally, there is a growing interest within the Ghanaian educational system regarding how effectively programme offerings equip graduates with the range of desirable skills and competencies required in the marketplace.

Consequently, there is awareness that reforms in educational sector are essential to make curricula to reflect the national needs rather than the previous education that served the interest of the colonial administration. The National Coordinating Committee on Technical and Vocational Education and Training (NACET) was established in 1990 to coordinate activities across diverse agencies and a number of structural and curricula changes have already taken place at the tertiary level. First, educational reforms that reflect national character and needs have been implemented at the primary and secondary levels over the last two decades with some success (Sowa, 1993). A key component of the reform was to shorten pre-university education from 17 years to 12 years and a structural reform of the various curricula. Second, reforms in the tertiary educational sector were launched in 1991 and entrepreneurship

educational programmes, first introduced in the mid-1990s, are now available at some universities and polytechnics. Other agencies like the National Board for Small-Scale Industries (NBSSI) have designed training courses and programmes to create awareness, assist and motivate undergraduates, especially agriculture engineering, engineering and biochemistry students to consider self-employment as a career option (NBSSI, 2001). In order to meet the challenges emanating from questions and queries regarding the relevance of tertiary education in Ghana, attempts have been made to improve the calibre of university graduates produced, through training in entrepreneurial skills to enable them establish and manage their own business as well as reduce graduate unemployment.

Entrepreneurship education is still at its infancy in Ghana and the curricula, programmes and organisation is devoid of uniformity. University of Ghana was the first to introduce an entrepreneurship programme as a course in 1996 and it is available to business students only. Equally, the Kwame Nkrumah University of Science and Technology (KNUST) is also the only university in Ghana to offer entrepreneurship education to science and engineering students. However the entrepreneurship courses offered in both institutions differ; whereas it is an elective and part of undergraduate degree studies at the University of Ghana and run over a full semester, at the KNUST, entrepreneurship education is outside the formal degree programme. NBSSI organises, on behalf of the KNUST, a three-to-eight day intensive 'Entrepreneurship Awareness' and 'Start Your Business' seminar and workshops for the science and engineering degree students. The 3-8-day ad hoc entrepreneurship seminars and workshops offered at KNUST is shorter compared to a semester-long offer to business students at the University of Ghana. A comparison of the respective impacts of the entrepreneurship education programmes in the two institutions, with a varied exposure, on students' career intentions will further an understanding of the outcomes of entrepreneurship education.

In summary, with the Ghanaian tertiary education in transition to make it more responsive to national goals of accelerated employment and wealth creation, investment in entrepreneurship education is growing and that makes an investigation into the outcomes of such initiatives a researchable agenda. It is against this background that this study seeks to evaluate the outcomes of the entrepreneurship educational efforts in the two universities in Ghana by exploring the impact of entrepreneurship education on career intentions and aspirations of students at the tertiary educational level. This way the justification for the growth and investment in entrepreneurship education is verified.

PREVIOUS STUDIES

Not much research studies have been conducted in Ghana into the outcomes of entrepreneurship education. The primary aim of this study is to conduct research into the impact of tertiary entrepreneurship educational programmes and initiatives in Ghana on student career intentions and aspirations. The first step in the research process was a review of the literature on entrepreneurship, career choice and entrepreneurial careers. A number of studies dealing with the issue of education for entrepreneurship (Scott and Twomey 1988; Sexton and Bowman 1987, 1988; Brown, 1990; Robinson and Haynes, 1991; Lord, 1999),

career choice (Levesque et al., 2002; Simon et al., 2000; Carter et al., 2002; Dyer, 1994; Kolvereid, 1996) and entrepreneurial careers (Dyer and Gibb, 1994; Miller, 1963; Solomon et al. 2002) were found. The conclusion reached was that further exploratory research on the topic could be invaluable. Ronstadt (1985) argues that most people, even entrepreneurs, do not think of entrepreneurship as a career. Only a minority of all future entrepreneurs will know when they attend college that they will probably pursue entrepreneurship as a major life goal. Of those who are considering entrepreneurship while at college, it is envisaged that only a small minority will start immediately after graduating. Another small minority will wait but anticipate an entrepreneurial career by explicitly choosing to work for someone else in a position or industry, which will prepare him or her for future venture(s). However, the vast majority that become entrepreneurs will go to work for someone else without anticipating an entrepreneurial career. Ronstadt (1985) stresses the importance of sensitising students to the fact that entrepreneurship is a possible career option they will face or consider in the future.

Several research studies in USA, Europe and Asia indicate that students' attitude towards enterprise and small business are positive (Karr, 1985; Brockhaus and Horowitz, 1986; Scott and Twomey, 1988; Lord, 1999). Jackson and Vitberg (1987) reported that business college graduates and students are increasingly disenchanted with career prospects as organizational employees. Consequently, more and more students view the possibility of starting and operating their own business as a viable alternative to being employed in an established company (Duffy and Stevenson, 1984). Other surveys support this view. Karr (1985) reveals that 46% of college students consider a 'business of one's own' an excellent way to get ahead. In a University of Pittsburgh survey of 1000 MBA students from top business schools in the U.S., 44% responded that they wanted to become an independent entrepreneur. In contrast only 34% wished to be a high-ranking corporate manager (Sandholtz, 1990). Scott and Twomey (1988), based on data collected from English students, reported that 25% had a business idea and that 41% aspired to self-employment. Figures by Harrison and Hart (1989) revealed that over 51% of a sample of Northern Ireland students expressed a positive desire to run their own business. Hills and Welsh (1986) in a survey of almost 2,000 students found that 80% expressed an interest in taking one or more courses in entrepreneurship. Brenner et al. (1991) found in their study of 237 graduates in the U.S. that business graduates generally perceived business ownership in a positive light. However, the survey revealed an inconsistency between the graduates' attitudes towards owning and operating their own business and their intentions toward pursuing such a career. When they were given complete freedom of choice, 55% preferred operating their own business. An interesting point was that when they were asked their most likely choice considering their actual situation and constraints upon their options only 5% indicated that they would probably choose to operate their own business.

Weihe and Reich (1993) in their international study of entrepreneurial interest among business students found that 34.3% of those questioned had an unreserved interest in self-employment. The study found the highest number of students already self-employed, 6%, was in America. Brown (1990) reports that between 2% and 2.5% of Japanese graduates start their own businesses within a short time after graduation. Fleming (1992) in a study of Irish graduates, who participated in entrepreneurship initiatives and programmes while at college, found that a comparatively high proportion (45%) of the sample reported that the course taken had a positive effect on their subsequent career decision. The study also found that 5% of the respondents had initiated a start-up venture within five years of graduation. A

follow-up study of the Irish graduate cohorts who participated in entrepreneurship initiatives and programmes, found that 28.4% had initiated own businesses a decade after graduation (Owusu-Ansah and Fleming, 2001). Lord (1999) found in the United States that 22% of the national MBA class of 1998 indicated that they planned to initiate ventures within five years of graduating. However, it has been suggested that it is too early to know whether the graduate MBAs will indeed, become successful entrepreneurs.

In spite of the relationship demonstrated between level of education and business ownership, it has been argued that formal education in general does not encourage entrepreneurship. Rather, it prepares students for the corporate domain (Timmons, 1994), promotes a 'take-a-job' mentality (Kourilsky, 1995) and suppresses creativity and entrepreneurship (Chamard, 1989; Plaschka and Welsch, 1990). In Ghana in particular Robertson (1984) reported that higher education inhibits entrepreneurship development in Ghana. Lord (1999) also reports that a 1997 study at Babson College showed that of 30 entrepreneurs with just a high school education, 70% had successful launches versus none of the eight who had graduate degrees. In an explanation, Professor Katz of St. Louis University believes that such training will pay off. Katz's thinking is that 'business school graduates know what's happening to the money. There will be very few crashes and burns' (Lord, 1999). Some graduates are also believed to be taking up positions in small companies in 'intrapreneurial roles'. It is clear from the evidence of a number of studies in the literature that the preferred career of a considerable number of students and graduates is towards business ownership. However, many students and graduates perceive several obstacles that militate against business start-ups, such as lack of experience, or lack of finance, which block the path toward their preferred choice. The problem of this inconsistency may lie in the present business curricula, which have until recently, focused almost entirely on the needs of aspiring middle and functional managers rather than the needs of aspiring entrepreneurs.

Traditionally universities and colleges have not prepared students for self-employment as a career option, resulting in the loss of many potential entrepreneurs. As a result of this educational bias to large businesses and lack of information on self-employment as a career option, many universities and colleges are now offering topics and courses related to entrepreneurship and small business. To foster entrepreneurship, specialised courses have become increasingly common in tertiary institutions (Solomon and Fernald, 1991) and enterprise education has been promoted to encourage entrepreneurial behaviour (Donckels, 1991; Gasse, 1985). Reviews of the literature on enterprise and entrepreneurship education (Dainow, 1986; Gorman, 1997) and of particular entrepreneurship support programmes (McMullan et al., 2002) provide some evidence that these programmes are successful in encouraging entrepreneurs to start businesses or improve the performance of businesses.

RESEARCH OBJECTIVES

The objective of this paper is to assess the impact of entrepreneurship education on career intentions and aspirations of tertiary students who have been exposed to different types of entrepreneurship education in Ghana. To achieve this, the following sub-objectives were formulated in the development of the research instruments.

- To investigate the influence of entrepreneurship education on career intentions and aspirations.
- To examine the influence of entrepreneurship education on attitudes towards business start-ups.
- To ascertain the influence of entrepreneurship education on perceptions of desirability and feasibility of self-employment.

THE STUDY DESIGN

The study was designed to ensure that the results were meaningful and to compare the business and science/engineering degree students' career intentions and aspirations as a result of a varied exposure to an entrepreneurship education. A sample of four hundred Business and Science/ Engineering students were randomly selected, with two hundred each from the University of Ghana and the Kwame Nkrumah University of Science and Technology. Four hundred questionnaires were mailed to students sampled in November 2001 and were asked to return completed questionnaires in an enclosed envelope by December 2001. Table 1 illustrates the main characteristics of the survey sample.

Table 1 Student Survey Sample

	Male		**Female**		**Total**	
	n	**%**	**n**	**%**	**n**	**%**
Business	104	52	96	48	200	100
Science/ Engineering	160	80	40	20	200	100
Total	264	66	136	34	400	100

To meet the objectives of the research, information covering three key areas was investigated. First, information on students' career intentions and aspirations and the relative extent of influence of entrepreneurship education was collected by questionnaire. Second, information was collected on students' attitudes to starting own business and the perceived factors that discourage or militate against starting own business. Finally, the questionnaire further explored students' personal profiles and family backgrounds. It is expected that more of the business respondents who apparently have had more exposure to entrepreneurship concepts and practices as a result of a structured programme would include self-employment in their career intentions and aspirations than their science and engineering counterparts with ad hoc and unstructured programmes. The survey questionnaire consisted of 29 questions and 100 variables. Most of the questions in the survey questionnaire were closed questions with checklists and Likert rating scales where the respondents were offered a choice of alternative replies. Questions were designed to be easy and quick to answer by students. The closed questions could be divided into questions of facts and questions of perception. The closed questions were arrived at via a process of pilot test using initially a wider framework of open questions. The layout and sequence of the questions were designed to facilitate ease of response.

The questionnaire had three sections (A-C). Questions in Section A examined career intentions before and after entrepreneurship education, the effect of entrepreneurship education on career intentions and aspirations. Section B explores respondents' attitudes towards starting a business as well as factors considered as discouraging or militating against starting a business. The attitudes explored include motivation to start own business and activity towards the realisation, whether some respondents have business ideas and the probability that they would start business in the future. The final part of section B explores perceived barriers to set-up in order to understand the respondents' perceptions of the influence of entrepreneurship education on perceptions of desirability and feasibility. The final section (C) of the questionnaire looks at the personal profile and family background of the respondents. In this last set of questions, the respondents' personal details including gender, age and marital status were explored. Parents' occupation and the family influence were investigated. The final open question was designed to gather opinions, suggestions and comments in general with regard to the research and areas of further study. A total of 400 questionnaires were mailed to the survey sample in November 2001. A total of 113 valid responses were received. The valid data were coded and results were analysed using an SPSS computer package.

FINDINGS

This section presents an analysis of findings of the survey which explored the influences of entrepreneurship education on respondents' career intentions and aspirations, attitudes and perceptions of desirability and feasibility of self-employment.

Table 2: Personal Details of Respondents

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
Male	32	52.5	41	78.8	73	64.6
Female	29	47.5	11	21.2	40	35.4
Total	61	100	52	100	113	100

Table 2 outlines an analysis of the personal details of the respondents. Whereas 52.5% (n=32) of the business degree respondents were males and the remainder females 47.5% (n=29), the corresponding figures for the science/ engineering degree respondents were overwhelming 78.8% (n=41) males and 21.2% (n=11) females. Apparently, the personal details of the respondents (64.5% males vs. 35.4% females) compared favourably with the survey sample (66% vs. 34%) (See Tables 1 and 2). The gender profiles also compare to the tertiary student population of the disciplines the respondents were sampled from.

Table 3: Age of Respondents

	Business Degree n	%	Science/ Engineering n	%	Total n	%
20- 21 years	5	8.2	3	5.8	8	7.1
22-23 years	16	26.2	15	28.8	31	27.4
24 years	8	13.1	7	13.5	15	13.3
25 years or more	32	52.5	27	51.9	59	52.2
Total	61	100	52	100	113	100
Mean Age	**26.1 years**		**25.8 years**		**26 years**	

Table 3 presents the age characteristics of student survey respondents. Interestingly whereas 34.4% (n=21) of the business degree respondents were aged between 20 and 23 years, a corresponding figure for the science/ engineering degree respondents was 34.6%. The majority of the business and the science/ engineering degree respondents, 52.5% (n=32) and 51.9% (n=27) respectively, were aged 25 or more. Indication is that the age characteristics of both groups were similar, as verified by their mean ages of 26.1 and 25.8 years.

The mean ages of the respondents are high but it has to be interpreted with caution. An explanation is that Ghana had a long pre-university education until a new education reform was introduced and implemented in 1987. It appears the two systems co-exist as far as university admission intake is concerned. For instance, Ghana had 17 years of pre-university education in the past, consisting of a ten-year primary education, with an entry qualification examination option (Common Entrance Examination) to secondary school after seven years. It was followed by seven years of secondary education, five years towards a leaving certificate and two remaining towards an 'Advanced Level'. However, under the educational reform, pre-university education has been effectively reduced to 12 years, consisting of six years of primary education to be followed by three-year junior secondary school and another three years of senior secondary education. Apparently the products from the two pre-university educational systems continue to be educated together.

Table 4: Career Intentions and Aspirations Prior to Entrepreneurship Course

	Business Degree n	%	Science/ Engineering n	%	Total n	%
Further studies	15	24.6	25	48.1	40	35.4
Employment	18	29.5	10	19.2	28	24.8
Employment & Part-time business	10	16.4	5	9.6	15	13.3
Self-employment	7	**11.5**	3	**5.8**	10	**8.8**
None/ Not stated	11	18.0	9	17.3	20	17.7

Total	61	100	52	100	113	100

Table 4 outlines the students' career aspirations before exposure to entrepreneurship programme. Interestingly nearly half 48.1% (n=25) of the science/ engineering degree respondents initially intended to further their studies compared to 24.6% (n=15) of the business degree respondents. Besides, whereas 19.2% (n=10) of the science/ engineering respondents initially aspired to enter into employment, nearly a third, 29.5% (n=18) of the business degree respondents had similar career intentions. Similarly, a further 9.6% (n=10) of the science/ engineering degree respondents intended to go into employment of others and still have self-employment on part-time basis, the corresponding figure for the business degree respondents was 16.4% (n=10). Quite revealing is that whereas only 5.8% (n=3) of the science/ engineering degree respondents initially intended to become self-employed, a similar figure for the business degree respondents was 11.5% (n=7) and as a group 8.8% (n=10) gave self-employment as their career intentions and aspirations before the entrepreneurship course.

Table 5: Effect of Entrepreneurship Education on Career Intentions

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
Very important effect	34	55.8	26	50.0	60	53.1
Important effect	20	32.8	10	19.3	30	26.5
Fairly important effect	6	9.8	6	11.5	12	10.6
Little effect	-	-	4	7.7	4	3.5
No effect	1	1.6	6	11.5	7	6.2
Total	61	100	52	100	113	100
Weighted Average Score	4.4		3.9		4.2	

Table 5 presents the respondents' perception of the effect of the entrepreneurship programme on their career intentions and aspirations. An overwhelming 88.6% (n=54) of the business degree respondents indicated that entrepreneurship programme has either an important or a very important effect on career intentions compared to 69.3% (n=36) of the science/ engineering respondents who gave similar evaluation. Interestingly whereas 19.2% (n=10) of the science/ engineering degree respondents felt that the entrepreneurship programme has little or no effect on career intentions, only one (1.6%) business degree respondent shared the view. Evidently both the business degree and their science/engineering degree counterparts perceived entrepreneurship programme to have had important influence on career intentions and aspirations. What is however, distinctive is a nearly 20% point difference (19.3%) between the business degree and the science/engineering degree respondents on their respective evaluation of effect of entrepreneurship education on their career intentions and aspirations. The weighted average scores of 4.4 and 3.9 respectively for the business degree and the science/ engineering

degree respondents respectively further substantiates the relative perceptions of the effect of the entrepreneurship education on their career intentions and aspirations.

Table 6: Immediate Career Intentions and Aspirations after Graduation

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
Further studies	25	40.9	26	50.0	51	45.1
Employment	4	6.6	9	17.3	13	11.5
Employment & Part-time business	12	19.7	8	15.4	20	17.7
Self-employment	20	**32.8**	9	**17.3**	29	**25.7**
Total	61	100	52	100	113	100

It was decided to explore the immediate career intentions and aspirations of students that is one-two years after graduation following exposure to entrepreneurship education and the results outlined in Table 6. Whereas 40.9% (n=25) of the business degree respondents intended to further their education, the corresponding figure for the science/ engineering degree respondents was 50% (n=26). Besides, 26.3% (n=16) of the business degree respondents aspire to employment and still engage in business on a part-time basis compared to 32.7% (n=17) of the science/ engineering degree respondents.

What is perhaps the most interesting finding is the number of respondents who gave self-employment as their immediate career intentions and aspirations. Nearly a third, 32.8% (n=20) of the business degree respondents aspire to self-employment compared to 17.3% (n=9) of the science/ engineering degree respondents, which represents a sharp increase from 11.5% and 5.8% respectively for the business degree and the science/ engineering degree respondents before exposure to entrepreneurship programmes. Evidently it appears more of the business degree respondents than the science/ engineering degree counterparts have self-employment as immediate career aspirations. It is little surprising that the more business degree respondents had self-employment career aspirations than their science/ engineering degree counterparts given their academic degree programmes and differential exposure to entrepreneurship programme (structured programme versus ad hoc seminars and workshop).

The indication, however, is that the Ghanaian entrepreneurship programme which aims to provide awareness to the entrepreneurship process and to encourage tertiary students to consider self-employment as a career option appear to have a positive impact on the respondents. It is particularly instructive of the apparent shift and increase in career intentions and aspirations of both the business and science and engineering respondents following exposure to entrepreneurship education; whereas 11.5% of the business degree respondents had career intentions and aspirations in self-employment prior to exposure, after the exposure to an entrepreneurship education, the figure nearly trebled to 32.8%. Similarly whereas only 5.8% of the science/ engineering degree respondents had self-employment career intentions and aspirations prior to exposure to entrepreneurship programme, the figure

rose three times to 17.3% after the entrepreneurship programme. For the entire survey respondents the pre and post entrepreneurship education exposure resulted in a major change and increase in self-employment career aspirations from 8.8% to 25.7%.

Attitudes Towards Starting Own Business

This section presents information on the attitudes of respondents towards starting a business and the perceived skills to undertake such ventures.

Table 7: Motivation to Start Own Business

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
To a very large extent	34	55.7	20	38.5	54	47.8
To a large extent	17	27.9	17	32.7	34	30.1
To a certain extent	10	16.4	9	17.3	19	16.8
To a small extent	-	-	5	9.6	5	4.4
To no extent	-	-	1	1.9	1	0.9
Total	61	100	52	100	113	100
Weighted Average Score	4.4		4.1		4.2	

The survey respondents were asked to report on a five-point scale the extent to which they felt motivated towards starting own business. Table 7 outlines the results. An overwhelming 83.6% (n=51) of the business degree respondents felt motivated to either a large or a very large extent to start own business with the corresponding figure for the science/ engineering degree respondents a resounding 71.2% (n=37). Interestingly, whereas 11.5% (n=6) of the science/engineering respondents felt a small extent or no motivation at all towards a business start-up, none of the business degree respondents had similar attitude.

Evidently both groups of the respondents felt highly motivated to start own business with a near 10% point higher between the business and the science/ engineering degree respondents. The weighted average score of 4.4 and 4.1 on a five-point scale respectively for the business and the science/ engineering degree respondents confirm the relative levels of motivations. Evidently the entrepreneurship programmes appear to motivate the respondents towards career intentions and aspiration in entrepreneurship. The differential exposure to the entrepreneurship course of both groups is evident from the findings especially from their respective weighted scores (4.4 vs. 4.1).

Table 8: Do You Have Necessary Skills to Start Own Business?

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
Yes	56	91.8	42	80.8	98	86.7
No	5	8.2	10	19.2	15	13.3
Total	61	100	52	100	113	100

In order to explore the effect of entrepreneurship education on students' perceived ability to initiate and develop a new venture, respondents were asked to indicate whether or not they have the necessary skills to start own business. The results are presented in Table 8. An overwhelming 91.8% (n=56) of the business degree respondents affirmed that they possessed the necessary skills to start own business compared to 80.8% (n=42) of the science/ engineering degree respondents. Besides, 19.2% of the science/ engineering degree respondents compared to 8.2% (n=5) of the business degree respondents were of the opinions that they did not have the necessary skills to initiate and develop their own businesses. Evidently, both groups appear confident in their skills to run own business following exposure to entrepreneurship education and initiatives.

Table 9: Probability of Own Business in Future

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
Highly Probable	40	65.6	30	57.7	70	61.9
Probable	19	31.1	15	28.9	34	30.1
Some probability	2	3.3	5	9.6	7	6.2
Improbable	-	-	1	1.9	1	0.9
No probability	-	-	1	1.9	1	0.9
Total	61	100	52	100	113	100
Weighted Average Score	4.6		4.4		4.5	

Continuing further with the investigation, students were asked the probability that they would start own business in future. The results are outlined in Table 9. Interestingly 96.7% (n=59) of the business degree respondents indicated that a future business set-up was either probable or highly probable compared to 86.6% (n=45) of the science/ engineering degree respondents. It is instructive that 92% of the survey respondents perceive future business ownership as probable or highly probable. The finding is revealing as it lends itself to many deductions. It is possible that the reported high predisposition as well as overwhelming perception of desirability of business set-ups is partly attributable to the exposure to entrepreneurship education.

However, it appears socio-cultural environment may also be a factor. Business ownership appears culturally embraced and supported by many irrespective of academic background. Interest in business ownership varies from well-established formal businesses to informal ones including petty trading. Anecdotal evidence reveals that the majority of Ghanaians have been involved in business activities particularly in the informal sector. Children of all ages have been commissioned by their parents and guardians to sell items including foodstuffs and vegetable in most rural Ghana and in some instances in semi-urban areas, while others have been involved in street hawking in urban areas to augment family incomes. At any rate, it appears that it was the wish of the majority of the respondents (92%), including those who

gave career intentions and aspirations other than self-employment, to start own businesses in future. Evidently, a positive relationship appears to exist between exposure to entrepreneurship education and attitude towards business start-ups as the weighted average score of 4.6 and 4.4 respectively for the business degree and the science/ engineering degree respondents on a five-point scale substantiates the finding. It would be interesting to examine the effect of entrepreneurship education on the respondents' perceptions of desirability and feasibility of self-employment.

Perceptions of Desirability and Feasibility of Self-Employment

This final section examines the respondents' perception of desirability and feasibility of self-employment.

Table 10: Perceived Barriers to Business Start-ups

	Business Degree		Science/ Engineering		Total	
	n	%	n	%	n	%
Finance	33	54.1	26	50.0	59	52.2
Business Ideas	6	9.8	2	3.8	8	7.1
How to Explore Business Opportunities	12	19.7	9	17.3	21	18.6
Business & Management Skills	9	14.8	14	26.9	23	20.3
Business Advice	1	1.6	1	1.9	2	1.8
Total	61	100	52	100	113	100

The survey respondents were asked to indicate their perceived barriers to business start-ups and the findings are outlined in Table 10. The majority of the respondents, 52.2% perceived finance as a barrier to business start-ups in Ghana. Thus, whereas 54.1% (n=33) of the business degree respondents perceived finance as a barrier to business start-up, 50.0% (n=26) of the science/ engineering respondents mentioned finance as the main obstacle. Lack of business and management skills was perceived by 26.9% (n=14) of the science/ engineering respondents compared to 14.8% (n=9) of the business degree respondents as a barrier to business start-up and perception. Besides, whereas 19.7% (n=12) of the business degree respondents were of the opinion that a lack of know-how to start business as a barrier to business start-ups, a similar 17.3 %(n=9) of the science/ engineering degree respondents held similar opinion. Evidently finance appears to represent the greatest barrier to self-employment career option to the majority of the survey respondents. Another revelation about the Ghanaian student finding is the perceived lack of business and management skills where a noticeable over 12% point difference (14.8% vs. 26.9%) between the perceptions of the business degree students and their science/ engineering counterparts.

Table 11: Effect of Entrepreneurship Education on Business Start-Ups

	Business Degree n	%	Science/ Engineering n	%	Total n	%
Facilitates self-employment career option	20	32.8	9	17.3	29	25.7
Knowledge & skills acquired to own business	9	14.8	12	23.1	21	18.6
Course practicality & indispensability	4	6.6	4	7.7	8	7.1
Exposures to entrepreneurship process	8	13.1	2	3.8	10	8.8
Motivates towards self-employment	14	22.9	11	21.1	25	22.1
Inspires awareness of business opportunities	5	8.2	4	7.7	9	8.0
Self-confidence	1	1.6	3	5.8	4	3.5
Not stated		-	7	13.5	7	6.2
Total	61	100	52	100	113	100

In order to explore further the effect of entrepreneurship education on desirability and feasibility of self-employment, the survey respondents were asked to indicate their perceived effect of entrepreneurship education exposure on business start up. Many and varied reasons were assigned by the respondents and the results are outlined in Table 11. Whereas 32.8% (n=20) of the business degree respondents indicated that the entrepreneurship programme 'facilitates self-employment career option, a comparable figure for the science/ engineering degree counterparts was only 17.3% (n=9). Interestingly another 22.9% (n=14) of the business degree and 21.1% (n=11) of the science/ engineering degree respondents respectively perceived the programme as motivating them towards self-employment.

What was evident is that motivation towards self-employment was the second most mentioned effect of entrepreneurship education by both groups. Moreover, nearly 15% (14.8% or n=9) of business degree respondents and 23.1% (n=12) of the science/ engineering degree respondents respectively perceived the entrepreneurship course to equip students with knowledge and skills to start own business. Evidently the respondents' perceptions of the effect of entrepreneurship education on business start-up are both positive and revealing. The other effects of the entrepreneurship education the respondents reported included inspiring awareness of business opportunity, exposure to entrepreneurship process and building self-confidence. Finally respondents' perceived the entrepreneurship education as practical and indispensable to a business start-up. A deduction from the findings is that entrepreneurship education influences the survey respondents' perceptions of desirability and feasibility of self-employment. This finding is instructive against the background that entrepreneurship programme in Ghana is relatively recent and taught for a short duration. In addition, the programmes are beset with a many technical problems including few up-to-date

entrepreneurship textbooks, few qualified lecturers and mentors as well as little interaction between students and established entrepreneurs.

DISCUSSION AND CONCLUSION

The resolve to carry out this research evolves from the belief that unemployment and under-employment among Ghanaian graduates from the tertiary educational institutions remain unacceptably high in Ghana and needs redressing. This is due to fewer avenues for job opportunities. It also stems from the belief that tertiary level academic training prepares students for white-collar jobs which are non-existent while self-employment is perceived as a preserve of the illiterate and semi-literate. Entrepreneurship educational programmes are now available at some of the tertiary educational institutions in Ghana as an attempt to reverse the unemployment trend by providing the necessary training in entrepreneurial skills to students to establish and manage their own businesses and to consider self-employment as a career option on completion of their studies. The study is thus borne out of the need to evaluate the outcomes of entrepreneurship education and initiatives recently introduced at the third level educational institutions in Ghana to encourage students to consider self-employment as a career option. The study examines the impact of entrepreneurship education on student career intentions and aspirations at the tertiary level in Ghana. Tentative evidence from the current study suggests that the Ghanaian entrepreneurship education appears to positively influence student career aspirations towards self-employment. This was evident throughout the analysis. For instance, nearly 80% of the entire student survey respondents felt the programme had influenced their career intentions and aspirations to a large or very large extent. Besides, there was a noticeable shift and increase in the respondents' career intentions and aspirations in self-employment from a prior to exposure to entrepreneurship education level of 8.8% to more than a quarter, 25.7% after exposure to entrepreneurship concepts and practices.

The impact of the ad hoc entrepreneurship educational seminars and workshops offered to the science and engineering students was evident throughout the survey findings presented. For instance, when respondents were asked to evaluate the effect of entrepreneurship education on their career intentions and aspirations on a five-point scale whereas the business degree respondents scored 4.4 that of the science/ engineering counterparts was 3.9. Further findings substantiate this position; as more business students' respondents had career aspirations in self-employment than their science/ engineering counterparts (32.8% vs. 17.3%). Again, in all instances more business students reported high motivation towards business set-ups (4.4 vs. 4.1); were more confident in their skills to start own business (91.8% vs. 80.8%); and were more probable to own business in future (4.6 vs. 4.4). It was little surprising that over a quarter (26.9%) of the science and engineering respondents reported compared to 14% of their business degree counterparts reported that they lacked business and management skills to manage own business. It was instructive that though the entrepreneurship education offered to the science and engineering students is unstructured and ad hoc, yet it appears effective in equipping and encouraging the science and engineering respondents to consider self-employment as a career option. Obviously it would be more effective if it is incorporated into the degree programme as available to the business degree respondents.

What appears revealing is the tendency for the respondents to have joint career aspirations of entering into employment and running their own business on part-time basis. The finding was evident among both the business and the science/ engineering students. This finding is unique and may be subjected to many interpretations. In the first place, it appears to suggest reluctance on the part of students to take risk. It could also well be a calculated risk taking strategy through diversification. Apparently, the joint career intentions and aspirations represent a strategy of generating capital to finance not only the part-time business but also for an eventual future 'spin-off' to self-employment. This probably appears more plausible as finance emerged from the study, as well as from observation and anecdotes, as a major barrier to business set-up in Ghana. Finance was perceived by 52.2% of the survey respondents as a barrier to business start-ups in Ghana and this corroborates the earlier empirical findings in the literature (Owusu-Ansah and Fleming, 2001; Owusu-Ansah, 2004). At any rate, this joint career intentions and aspirations require further investigation in Ghana. Besides, the technical and logistics bottlenecks appear to negatively affect the delivery and outcomes of the entrepreneurship programmes as nearly one-fifth of the survey respondents indicated that they lacked business and management skills (20.3%) and know- how to start their own businesses (18.6%) after the exposure to the entrepreneurship course. This finding reinforces the anecdotal evidence that the entrepreneurship education in Ghana was beset with many and varied problems ranging from educational material, mentors, organisation and logistics. To ensure that entrepreneurship education achieves its objective fully, efforts must be made to address them.

The survey findings were revealing regarding the respondents' attitude towards business set-up. An overwhelming 77.9% of the survey respondents indicated they were motivated to a large or a very large extent to initiate business start-ups. Indication was also that 86.7% of the survey respondents felt equipped with skills and competencies to initiate and run own business. However, it is the findings from a question on a probability of future businesses start-up that substantiated further respondents' attitude towards business start-ups; 92% of the survey respondents indicated that it was highly probable or probable that they would initiate own business in future. The evidence from the study appears to indicate that an entrepreneurship education is perceived to provide knowledge and skills to business start-up, creates awareness about the existing business opportunities and raises self-confidence and self belief to enter into self-employment. It thus appears to have engendered in the respondents a high perception of desirability and feasibility of business start-up or self-employment, which were hitherto low among graduates from tertiary educational institutions. At any rate, it is obvious that an entrepreneurship education is indispensable in Ghana if the chronic graduate unemployment could be reduced to some extent.

The survey evidence appears to contradict an earlier study (Robertson, 1984) that reported that higher education inhibits entrepreneurship development in Ghana. The prevailing political environment in the late 1970s when Robertson's study was carried out apparently influenced the research findings as Ghana was governed by a military Marxist junta which was anti-capitalist and anti-market economy. In fact, business ownership was discouraged by the then military junta (Armed Forces Revolutionary Council (AFRC) as entrepreneurs were considered as not deserving anything they earn and were considered criminals. A case in point is a prominent Ghanaian industrialist Joshua Siaw who had a tax evasion charge placed on him resulting in a confiscation of his multi-million dollar Brewery Company in 1979 by the then AFRC government. It is now emerged that the industrialist paid all the special and sales

taxes under laws at that time (Ghanaian Chronicle, 2002). There were many entrepreneurs who suffered from the political victimisation of the junta. This probably explains a seeming apathy and reluctance of highly educated individuals at that time from engaging in business start-ups rather than acquired higher education per se.

In conclusion, evidence from the study indicates that entrepreneurship education positively impacts on career intentions and aspirations of the Ghanaian respondents. It also motivates and equips students with the necessary skills and confidence as well as aids in engendering the perceptions of desirability and feasibility of self-employment as a career option. This is reassuring for the budding Ghanaian entrepreneurship education and it appears that the interest, investment and growth is well founded, but it is also obvious that many potential entrepreneurs are being excluded from participation in entrepreneurship educational programmes in Ghana, as they are not available to all tertiary students. It is recommended that the entrepreneurship programmes be offered to all the tertiary undergraduate students in Ghana. Besides, it was evident that the Ghanaian entrepreneurship education requires harmonisation of the curricula offered to the business, science and engineering students as well as improving upon logistics, if the entrepreneurship education could encourage more Ghanaian students to recognise self-employment as a career option. Finally, it is imperative that the duration and intensity of the entrepreneurship education is increased to realise a maximum impact on tertiary students' career intentions and aspirations.

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BIOGRAPHY

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PERFORMANCE AND GROWTH OF SMALL SCALE INDUSTRIES IN INDIA INA TRANSITION ECONOMY

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ABSTRACT

This study deals with the socio-economic profile and the role of entrepreneurship, which has been evaluated mainly on the basis of performance of the entrepreneurs. The study is confined to small scale industries in two major industrialized states of India i.e. Punjab and Haryana. Keeping in view the changing business environment, this study has implications for promotion of industrial entrepreneurship in India. The family background of entrepreneurs influences their occupational choice. The business families supply more entrepreneurs than any other type. The persons from business families are directly or indirectly exposed to family a business which makes them familiar with the business practices. An overall analysis of growth and development of entrepreneurship in India indicates that in the different states, the number of SSI units is increasing manifold. The main aim of this study is to examine the performance, policy perspective of the Government and the problems faced in the promotion of SSI units in the state of Punjab and Haryana.

INTRODUCTION

In a developing country like India, Small Scale Industries play a significant role in economic development of the country. These industries by and large represent a stage in economic transition from traditional to modern high tech industries. The variation in transitional nature of this process is reflected in the diversity of these industrial units. Besides playing an economic role for the country's economic development, small scale industries also play social and political role in employment creation, balanced regional development and promoting further economic growth.

Development of entrepreneurship in the small scale industry is the only alternative to the problems that need immediate solutions viz., dispersal of industrial activity, cope with the

unemployment problem, a more equitable distribution of the national income and mobilisation of local resources and the capital.

The overall analysis of growth and development of entrepreneurship in India indicates that in the different states, the number of SSI units is increasing manifold. Their contribution in overall production, employment, investment and exports has a multiplier impact on the different sectors. There is a shift in the policy perspective of the Government as to the promotion of entrepreneurship in the country. The risky projects are being promoted and financed by venture funds. With the advent of an era of liberalisation and gloablisation, the small-scale entrepreneurs are facing an acute competition. With the coming in force of the WTO agreement on 1.4.2001, the SSI units will have to face the uphill task and the challenge from MNC and other large-scale industries.

The aim of this is to examine the performance, policy perspective of the Government and the problems faced in the promotion of SSI units in the state of Punjab and Haryana. This study will help the policy makers, researchers, Government financial institutions and all those concerned with the development of industrial entrepreneurship in the country to build a policy perspective in this regard.

This region does not enjoy any locational advantage in terms of raw material and markets for most of its industries. The industries, which have developed in recent years, are mostly dependent on outside resources for the supply of materials and the disposal of the output. As far as the disposal of products manufactured by these very industries is concerned, dependence on outside markets is quite substantial. Products in which the region has come to specialise include among others hosiery, textiles, sports goods, bicycle and bicycle parts, hand tools, agricultural implements, machine tools and scientific instruments. A large share of the all India output of most of the products originates in the Punjab and Haryana, Naturally, bulk of this output has to be sold in markets outside two states. The export of these products is also taking place in the states of Punjab and Haryana.

The heavy reliance on outside markets and raw material supplies constitutes a significant feature of the industrialisation process in the region. Like Japan, Punjab did not start with any locational advantage. The engineering industries employ the largest number of persons in the modern small-scale industries. The state is situated far away from the sources of steel and other raw materials. And till late, even the markets for finished products are far away located.

The performance of small-scale industrial units must be judged by the contribution they make to the development of the nation. The growth of SSI units may also be measured in terms of the increased employment, fixed assets, investment, production, turnover, profits, market share, etc. Each of these measures has its own merits and demerits. Irrespective of this, it has not been found possible to gather information on some of these variables in case of SSI units.

OBJECTIVES AND RESEARCH METHODOLOGY

The aim of this study is to examine the performance, policy perspective of the Government and the problems faced in the promotion of SSI units in the state of Punjab and Haryana. The study is based on both the primary and the secondary data. The primary information

has been collected on the basis of questionnaire and the secondary data has been collected from the various government and the company records.
The Growth and Performance of six types of Small Scale Industries has been taken for study i.e. Hosiery, Textile and Handloom, Cycle Parts, Rice Processing Units, Surgical and Scientific Instruments, Hand Tools and Cutting Tools, Sports and Leather Goods in the two states of Punjab and Haryana.

In this study the units with High Growth rate turnover have been identified as those units whose growth is more than 20% on the basis of five years average performance and annual turnover. Those units whose growth was less than 20% on the above mentioned basis have been identified as units with Low Growth rate turnover. Out of total 160 units taken as sample in the two states of Punjab and Haryana, 141 units had provided required information on the basis of which high growth rate and low growth rate units have been identified. Rest 19 units did not provide the required information restricting the researcher to confine his research on this subject to 141 units. A comparative study of these two types of units have been conducted here on the various parameters like organisational and individual factors, personality, motivation, marketing, financial and production performance.

ORGANISATIONAL BEHAVIOUR AND INDIVIDUAL FACTORS:

Organisation is a vehicle through which goals are sought to be achieved in any business enterprise. The organisation of a unit binds the economic activities undertaken by the entrepreneur. The development of an organization is inevitable part of the economic activities of entrepreneurs. The behavioural factors like attitude, personality and motivation behind setting of an entrepreneurial unit are also very important in the growth of any organisation. The individual factors and socio-economic indicators like age, education, religion, prior occupation and business experience also play a role in shaping the destiny of a small enterprise. In this section an analysis of these factors has been carried out in case of high growth and low growth units.

FORM OF ORGANIZATION:

As per Table1, 58 units out of total 141 units have been identified as High Growth rate turnover units and 83 units as Low Growth rate turnover units. Of the 58 high growth turnover units, 29 (50%) units fall under sole proprietorship form of organization, 24 (41.38%) were of partnership nature and only 5 (8.62%) were of private limited form of organization. On the other hand in the low growth turnover categories position was as follows: 17 (20.48%) out of total 83 such units were of sole proprietorship 59 (71.08%) were of partnership and 7(8.43%) were of private limited form of organization. The X^2 for these was 10.640 and 55.036 respectively for two categories of entrepreneurs indicating significant variation. The standard error for various forms of organization was 3.679, 3.527 and 0.040 respectively which indicated significant difference in the case of first two categories while insignificant in the case of third type of entrepreneurs.

TABLE 1
FORM OF ORGANISATION-WISE PROFILE OF ENTREPRENEURIAL UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Sole Proprietorship	29	50	17	20.48	3.679
Partnership	24	41.38	59	71.08	3.527
Pvt. Ltd. Co	5	8.62	7	8.43	0.040
X^2	10.640		55.036		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

TYPE OF UNITS:

As per Table 2, 16 (27.59%) units out of total 58 units under the first category of high growth turnover were capital intensive and 42 (72.41%) units were of labour intensive nature. In the second category of units i.e. of low growth rate turn over 34 (40.96%) were capital intensive and 49 (59.04%) were labour intensive. The X^2 for the two categories of entrepreneurs was 11.560 and 9.400, which pointed out significant variations in the case of two types of units. The standard error was 1.633 and 1.6333 for two types of units, which does not show any significant difference.

TABLE 2
NATURE OF UNIT-WISE PERFORMANCE OF SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Capital Intensive	16	27.59	34	40.96	1.633
Labour Intensive	42	72.41	49	59.04	1.633
X^2	11.560		9.400		

AGE GROUP:

As per Table 3, 6 (10.34%), out of total 58 entrepreneur under the first category were in the age group of 18-30 years, 18 (31.03%) were in the age group of 31-40 years 27 (46.55%) were in the age group of 41-50 years, 6(10.34%) were in the age group of 51-60 and only one entrepreneurs was above 60 years of age. In the second category of entrepreneur under low growth rate turnover, 7 (8.43%), 34(40.96%) 36 (43.37%) 4 (4.82%) and only 2 (2.2.41%) were in the various age groups as mentioned above respectively. The X^2 for various categories of the entrepreneurs was 14.800 and 68.867 respectively indicating significant variation. The standard error for various age groups was 0.386, 1.203, 0.374, 1.257 and 0.279 respectively which shows no significant difference.

TABLE 3
AGE GROUP-WISE PERFORMANCE OF ENTREPRENEURIAL UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
18-30	6	10.34	7	8.43	0.386
31-40	18	31.03	34	40.96	1.203
41-50	27	46.55	36	43.37	0.374
51-60	6	10.34	4	4.82	1.257
61 and above	1	1.72	2	2.41	0.279
X^2	14.800		68.867		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

RELIGION:

As per Table 4, the 44 (75.86%) entrepreneur in the first category of entrepreneurs followed Hindu religion whereas 14 (24.14%) were Sikhs. In the second category 63 (75.90%) were Hindus and 20 (24.10%) were Sikhs. The X^2 was 3.240 and 22.277 respectively for two categories of entrepreneurs, which pointed out significant variations as to the above factors. The standard error was 0.005 and 0.005, which indicated insignificant difference in two categories of entrepreneur.

TABLE 4
RELIGIONWISE PROFILE OF ENTREPRENEURS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Hindu	44	75.86	63	75.90	0.005
Sikh	14	24.14	20	24.10	0.005
X^2	3.240		22.277		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

EDUCATION:

As per Table 5, 6 (10.34%), out of total 58 entrepreneurs under high growth rate turnover were under Matric, 4 (6.90%) held Matric certificate, 12 (20.67%) hold ITI/Engg. Diploma, 20 (34.48%) were graduate, 13 (22.41%) were CA/MBA/BE and 3 (5.17%) were postgraduate. The X^2 for this category of entrepreneurs was 40.896 which pointed out significant variation whereas in the second category of entrepreneurs with low growth rate turnover 12 (14.46%) were under matric 3 (3.61%) were matric 8(9.64%) held ITI/Engg.Diploma, 32 (38.55%) were graduate, 20 (24.10%) were CA/MBA/BE with professional qualification and 8 (9.64%) were of post graduate qualification. The X^2 for the second category of entrepreneur was 58.096, which indicated significant variation. The standard error for various variables for the two categories of entrepreneurs was 0.721, 0.885, 2.254, 0.493, 0.233 and 0.974 respectively pointing out insignificant difference in the case of categories at sr. Number 1, 2, 4, 5 and 6 revealed significant difference while for variable at serial Number 3 indicated insignificant variations.

TABLE 5
EDUCATIONAL QUALIFICATION-WISE PROFILE OF ENTREPRENEUR

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Under Matric	6	10.34	12	14.44	0.721
Matric	4	6.90	3	3.61	0.885
ITI/Engg. Diploma	12	20.67	8	9.64	2.254
Graduate	20	34.48	32	38.55	0.493
CA/MBA/BE	13	22.41	20	24.10	0.233
Post Graduate	3	5.17	8	9.64	0.974
X^2	40.850		58.096		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

FATHER'S OCCUPATION:

As per Table 6, of the 43(74.14%)) out of 58 entrepreneurs under high growth category had their own ancestral business, 2 (3.45%) were from agricultural background, 13 (22.41%) were from service background. In the second category of entrepreneur with low growth turnover 59 (71.08%) out of 83 entrepreneurs, had own business, 8(9.64%) were from agricultural background, 11 (9.64%) were from service and 5 (6.02%) were from business and agricultural background. The X^2 for these two categories was 20.600 and 16.700 respectively pointing out significant variation in the two categories of entrepreneurs, while standard error for various categories of occupation was 0.400, 1.409, 2.096 and 1.903 respectively except the service category where the standard error was 2.096, however, no significant difference was found in other categories.

TABLE 6
FATHER'S OCCUPTION AND ITS ROLE IN PROMOTION OF ENTREPRENEURIAL UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Own Business	43	74.14	59	71.08	0.400
Agriculture	2	3.45	8	9.64	1.409
Service	13	22.41	11	13.25	2.096
Business Agriculture	-	-	5	6.02	1.903
X^2	20.600		12.396		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

PRIOR OCCUPATION:

As per Table 7, 32 (55.17%) entrepreneurs in the first category reported that they were unemployed before they took up first venture and 26 (44.83%) replied that they were employed before starting their unit.

In the second category of low growth turnover, 46 (55.42%) entrepreneurs said that they were not employed before establishing the present set up while 37 (44.58%) said that they were in job before they started the present business. The X^2 for two categories of entrepreneurs was 0.400 and 0.976 respectively showing insignificant variation. The standard error for their previous occupation was 0.029 and 0.029, which indicates that there was no significant difference.

TABLE 7
PRIOR OCCUPATION OF THE ENTREPRENEURS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	32	55.17	46	55.42	0.029
Yes	26	44.83	37	44.58	0.029
X^2	0.040		0.976		

PERSONALITY FACTORS:

As per Table 8, the 11 (18.97%) entrepreneurs under the high growth turnover stated that they did not have any firm plan to start their own enterprise whereas 47 (81.03%) entrepreneurs under same category replied in positive as they had firm plan for starting their own unit. In the second category of low growth rate turnover 26 (31.33%) entrepreneurs replied in negative and 57 (69.67%) said they had firm plan to establish their own units since childhood. The X^2 for these two categories was 9.000 and 11.578 respectively which pointed out significant variation in both the categories of entrepreneurs. The standard error for their firm plan was 1.641 and 1.641 respectively again indicating no significant difference.

TABLE 8
FIRM PLAN TO ESTABLISH NEW UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	11	18.97	26	31.33	1.641
Yes	47	81.03	57	68.67	1.641
X^2	9.000		11.578		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

PERSONALITY FACTORS: FIRM PLAN SINCE CHILDHOOD

As per Table 9, risk-taking ability is the essential feature of entrepreneurship. The information collected in this regard indicated that 10 (17.24%) entrepreneurs under high growth rate turnover stated that they did not take any risk while establishing their set ups

whereas 48 (82.76%) revealed that they took risk in the setting up their ventures. On the other hand 30 (36.14%) entrepreneurs of low growth rate turnover explained that they did not take any risk while 53 (63.86%) entrepreneurs stated that they took risk to establish their sets up. The X^2 for these two categories of entrepreneurs was 14.440 and 6.373 respectively pointing out significant variation. The standard error was found to be 2.450 and 2.450 respectively, which again indicated significant difference.

TABLE 9
RISK TAKING ABILITY OF ENTREPRENEURS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Yes	10	17.24	30	36.14	2.450
No	48	82.76	53	63.86	2.450
X^2	14.44		6.373		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

PERSONALITY FACTORS: COURAGE AND OPTIMISM

As per Table10, the 58 entrepreneurs under high growth turnover, stated that they did not have any courage and optimism for starting their ventures, whereas 44 (75.86%) replied in positive as they had enough courage and were optimistic as to their set-ups.

In the second category out of 83 entrepreneurs, 13 (15.66%) replied in negative as they did not have any courage/optimism for starting the present business while 70 (84.34%) entrepreneurs under the same category stated that they have all courage and were optimistic about establishing their units. The X^2 was 3.240 and 39.145 respectively showing significant variations in the two categories of entrepreneurs. The standard error was 1.259 and 1.259, which pointed out no significant difference.

TABLE 10
COURAGE AND OPTIMISM FOR STARTING A NEW VENTURE

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	14	24.14	13	15.66	1.259
Yes	44	75.86	70	84.34	1.259
X^2	3.240		39.145		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

PERSONALITY FACTORS: CAREFUL SCRUTINY AND PLANNING

As per Table 11, out of total 58 entrepreneurs under the first category of high growth turnover, 13 (22.41%) stated that they did not go for careful scrutiny and planning in order to establish their set ups while 45 (77.59%) replied that they had gone for careful scrutiny and planning before setting up their establishments.

On the other hand 14 (16.87%) entrepreneurs out of the total 83 under the second category stated that they did not go for careful scrutiny and planning for the establishment of their plants whereas rest of 69 (83.13%) entrepreneurs under the same category replied in positive. The X^2 for two categories of entrepreneurs was 36.446 and 40.346, which indicated significant variation of the two categories of entrepreneurs. The standard error was 0.823 and 0.823, which indicated no significant difference.

TABLE 11
CAREFUL SCRUTINY AND PLANNING IN ORDER TO ESTABLISH A NEW UNIT

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	13	22.41	14	16.87	0.823
Yes	45	77.59	69	83.13	0.823
X^2	40.346		36.446		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

RESTLESS URGE TO CREATE SOMETHING NEW:

As per Table12, the 7 (12.07%) entrepreneurs with high growth turnover stated that they did not have any restless urge to create something new, while 51 (87.93%) entrepreneurs under the same category said they had restless urge for creating some thing new. The 9 (10.84%) entrepreneurs with low growth rate turnover stated that they did not have any urge to create something new while 74 (89.16%) entrepreneurs said that they had urge for creating something new. The X^2 for these categories of entrepreneurs was 11.560 and 17.653, which indicated significant variation as to the two categories of entrepreneurs. The standard error in this regard was 0.227 and 0.227 respectively which shows no significant difference.

TABLE 12
RESTLESS URGE TO CREATE SOMETHING NEW

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	7	12.07	9	10.84	0.227
Yes	51	87.93	74	89.16	0.227
X^2	11.560		17.653		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

MOTIVATION FACTORS – URGE TO DO INDEPENDENT JOB:

As per Table13, the 14 (24.14%) entrepreneurs under the first category with high growth rate turnover stated that they did not have any urge for doing independent job while 44 (75.88%) stated that they had strong urge for doing an independent job. Besides, 32 (38.55%) entrepreneurs with low growth rate turnover stated that they never had any urge for doing an independent job while 51 (61.45%) replied in positive as they had strong urge for some independent work. The X^2 for these two categories of entrepreneur was 14.440

and 4.349 respectively pointing out significant variations in the case of both the types of entrepreneurs on this aspect of urge to do some independent job and standard error was 1.796 and 1.796 respectively which shows no significant difference as to the above factors.

TABLE 13
URGE TO DO SOME INDEPENDENT JOB

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	14	24.14	32	38.55	1.796
Yes	44	75.76	51	61.45	1.796
X^2	14.440		4.349		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

MOTIVATION FACTORS – BUSINESS EXPERIENCE IN THE SAME LINE:

As per Table 14, the 20 (34.48%) entrepreneurs under the high growth turnover stated that they were not motivated to establish the present unit due to business experience in the same line and 38 (65.52%) entrepreneurs under the same category replied in positive as they were motivated due to their previous experience in the same business line.

In the second category of entrepreneurs with low growth rate turnover, 30 (36.14%) replied in negative while 53 (63.86%) stated that they were motivated to establish their own units due to the fact that they had previous experience in the same business line. The X^2 was 0.040 and 6.373 respectively as to the two categories of entrepreneurs showing significant variations in the case of second category of entrepreneur on the above factor whereas the standard error was 0.203 and 0.203 respectively which indicated no significant difference.

TABLE 14
BUSINESS EXPERIENCE IN THE SAME LINE

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	20	34.48	30	36.14	0.203
Yes	38	65.52	53	63.86	0.203
X^2	0.040		6.373		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

MANAGEMENT OF UNIT BY SELF OR BY OUTSIDE MANAGERS:

As per Table15, in the first category of entrepreneurs only 4(6.90%) stated that their units were managed by employed Managers whereas 54(93.10%) entrepreneurs under the same category stated that they were managing their units themselves. On the other hand in the second category of entrepreneurs, only 2(2.41%) units were managed by Managers while 81(97.59%) units were managed by the entrepreneurs themselves. The X^2 for two categories of entrepreneurs was 68.390 and 75.193 as to the stated factor indicating

significant variation. The standard error was 1.300 and 1.300, which indicated no significant difference.

TABLE 15
MANAGEMENT OF FACTORY BY SELF OR BY PROFESSIONAL MANAGERS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	4	6.90	2	2.41	1.300
Yes	54	93.10	81	97.59	1.300
X^2	68.390		75.193		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

MARKETING MANAGEMENT:

The products are produced by the SSI units for sale in the different markets. The same amount of skill is desired in marketing of an article as in the choice of a product. Hence marketing is another criterion of measuring the performance of entrepreneurs. The products of SSI sector are sold to various Government outlets and Private outlets. Besides this, the other important areas for SSI units are fixation of prices, product standardization, and adoption of quality mark, marketing research and sales promotion in order to market the products. In this section an analysis of marketing functions has been discussed in case of high growth and low growth units.

PRODUCT STANDARDIZATION:

A question was asked to the respondent about the standardization of products. As per Table 16, out of total 58 entrepreneurs under the first category of entrepreneur under high growth rate turnover, 14 (24.14%) stated that their products were not standardised, whereas 44(75.86%) entrepreneurs replied in positive as their products were standardised. In the second category of entrepreneurs under the low growth rate turnover, 23 (27.71%) replied in negative and 60 (72.29%) replied in positive as they said their products were standardised. The X^2 was 1.960 and 16.494 respectively showing significant variation for the second category of entrepreneurs. The standard error was 0.474 and 0.474 respectively for two variables, which shows no significant difference.

TABLE 16
STANDARDIZATION OF PRODUCTS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	14	24.14	23	27.71	0.474
Yes	44	75.86	60	72.29	0.474
X^2	1.960		16.494		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

INTRODUCTION OF NEW PRODUCTS:

A survey was conducted to know about the future plans as to the introduction of the new products. As per Table 17, the 19 (32.76%) entrepreneur under first category of high growth turnover revealed that they did not have any future plan as to the introduction of new products while 39 (67.24%) entrepreneurs stated that they had firm future plan for the introduction of new products. In the second category out of total 83 entrepreneurs, 39 (46.99%) replied in negative while 44 (53.01%) replied in positive as they had firm plan for the introduction of new products. The X^2 was 10.696 and 12.832 of the two categories of entrepreneurs indicating significant variation. The standard error was 1.690 and 1.690, which indicated no significant difference on the issue of introduction of new products.

TABLE 17
INTRODUCTION OF NEW PRODUCTS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	19	32.76	39	46.99	1.690

Contd...Table 5.61

Contd...Table 17

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Yes	39	67.24	44	53.01	1.690
X^2	10.696		12.832		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

CHANGE IN MARKETING ARRANGEMENTS:

A survey was conducted to know about the marketing arrangement made by the entrepreneurs. As per Table 18, the 24 (41.38%) entrepreneurs under the first category stated that they did not change their marketing arrangements while 34 (58.62%) entrepreneurs under the same category pointed out that they brought changes in their marketing system. In the second category, 40 (48.19%) entrepreneurs stated that they were not able to bring any change in marketing arrangements, while 43 (51.81%) replied in positive as they had brought changes in their marketing system. The X^2 was 1.960 and 1.250 indicating insignificant variation whereas standard error was 0.799 and 0.799, which indicated no significant difference in the two categories of entrepreneurs on this issue.

TABLE 18
CHANGE IN MARKETING ARRANGEMENT IN SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	24	41.38	40	48.19	0.799
Yes	34	58.62	43	51.81	0.799
X^2	1.960		1.250		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

CUSTOMERS SATISFACTION AS TO THE QUALITY OF THE PRODUCTS:

A survey was undertaken to know about the satisfaction level of customers. As per Table 19, the 1 (1.72%) entrepreneur under the first category stated that the consumers were not satisfied with the quality of products whereas 57 (98.28%) entrepreneurs under the same category claimed that the consumers were highly satisfied with the quality of products produced by them. In the second category, 6 (7.24%) entrepreneurs informed that their customers were not satisfied with the quality of products whereas 77 (92.77%) replied in positive as their customers were satisfied as to the quality. The X^2 was 9.000 and 60.735 indicating significant variation in the two categories of entrepreneurs whereas standard error was 1.482 and 1.482 respectively which shows no significant difference.

TABLE 19
CUSTOMER SATISFACTION AS TO THE QUALITY OF PRODUCTS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	1	1.72	6	7.23	1.482
Yes	57	98.28	77	92.77	1.482
X^2	9.00		60.735		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

EFFECTIVENESS OF MARKETING RESEARCH:

Respondents were directly approached to know about the role of marketing research. As per Table20, the 8(13.79%) entrepreneurs under first category with high growth turnover stated that marketing research was not helpful or effective in the determination of quality of the products whereas 50 (86.21%) entrepreneurs were of the views that marketing research was highly effective and helpful for quality determination of the products. In the other category of low growth rate turnover, 16 (20.48%) entrepreneurs were of the opinion that marketing research was not effective for determining the quality of the product while 67 (79.52%) gave positive opinion on the issue. The X^2 was 6.760 and 4.800 showing significant variations while standard error was 1.024 and 1.024 respectively showing no significant difference.

TABLE 20
MARKETING RESEARCH IN SSI UNINTS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	8	13.79	16	20.48	1.024
Yes	50	86.21	67	79.52	1.024
X^2	6.760		4.800		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

PRICING POLICY:

Whether the entrepreneurs follow the market price or they themselves fix the prices of their products, a question was asked in this regard. As per Table 21, the 16 (27.59%) entrepreneurs under the first category stated that they did not follow market price for the fixation of prices of their products while 42 (72.41%) entrepreneurs under the same category were of the views that they were fixing prices of their products on the basis of prevailing market price. In the second category, 77 (92.77%) entrepreneurs stated that they did not follow market price for the fixation of prices of their products whereas 6 (7.23%) entrepreneurs replied that they always considered market prices as guiding factor for the fixation of prices of their products. The X^2 for the two categories of entrepreneurs was 1.000 and 10.133 respectively while standard error was 0.627 and 0.627 respectively which shows no significant difference.

TABLE 21
PRICING OF PRODUCTS IN SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	16	27.59	77	92.77	0.627
Yes	42	72.41	6	7.23	0.627
X^2	1.000		10.133		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

ADOPTION OF SALES PROMOTION TECHNIQUES:

To know about the sales promotion techniques adopted by the SSI units, a question was asked to the respondents in this regard. As per Table 22, the 30(51.72%) entrepreneurs under the first category stated that they did not adopt any sales promotion technique for selling their products whereas 28(48.28%) entrepreneurs under the same category claimed that they have been adopting sales promotion techniques for the above purpose. On the other side, 47(56.63%) entrepreneurs under the second category with low growth rate turnover revealed that they had not used any sales promotion techniques while 36(43.37%) said they had always used various sales promotion techniques for selling their products. The X^2 for the two categories of entrepreneurs was 0.360 and 1.458 respectively showing insignificant variation whereas standard error was 0.576 and 0.576, which indicated no significant difference.

TABLE 22
SALES PROMOTION IN SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	30	51.72	47	56.63	0.576
Yes	28	48.28	36	43.37	0.576
X^2	0.360		1.458		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

HEAVY DEMAND FOR THE PRODUCT

Whether heavy demand for the products was a motivating factor, a question was asked in this regard to the entrepreneurs of SSI units. As per Table 23, the 13 (22.41%) entrepreneurs under the high growth rate turnover category said that they were not motivated due to heavy demand of the product while 45 (77.59%) replied in positive as they were motivated due to heavy demand of the products. In the second category of entrepreneurs under low growth rate turnover category, 23 (27.71%) entrepreneurs stated they were not motivated for producing a particular product due to its heavy demand whereas 60 (72.29%) entrepreneurs said that they were motivated to produce a particular product due to its heavy demand. The X^2 was 40.892 and 16.494 indicating significant variation.

TABLE 23
WHETHER MOTIVATED BY HEAVY DEMAND FOR THE PRODUCT

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	13	23.21	23	27.71	0.710
Yes	43	76.79	60	72.29	0.710
X^2	40.892		16.494		

HIGH PROFIT MARGIN:

Whether the entrepreneur was motivated by high profit margin, a question was asked to the respondent. As per Table 24, out of 58 entrepreneurs under the first category 17 (29.31%) replied that they were not motivated to establish their own units due to high profit margin factor while 41 (70.69%) stated that they were highly motivated due to this factor. The 41 (49.40%) entrepreneurs under the second category replied in negative while 42 (50.60%) replied in positive as they were motivated by high profit margin factor. The X^2 was 1.000 and 0.400 indicating insignificant variation whereas standard error was 2.386 and 2.386 respectively which indicated significance difference in the two categories of entrepreneurs on this particular aspect.

TABLE 24
PROFIT MARGIN IN CASE OF SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	17	29.31	41	49.40	2.386
Yes	41	70.69	42	50.60	2.386
X^2	1.000		0.400		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

PRODUCTION MANAGEMENT:

The Production management includes the function of production planning and control. The transformation of raw material into finished goods in a shortest period of time has been an important function of an entrepreneur. The management of productive activity is

the process which includes the different facets of the development of entrepreneurship. The expansion, modernization, diversification and optimum capacity utilization lead to the growth of an organisation. What is the role of above factors in the growth and performance of SSI units has been examined here in detail.

EXPANSION OF THE UNITS:

To know about the state of expansion, respondents were contacted in this regard. As per Table 25, the 5 (8.62%) entrepreneurs under the first category replied that they did not expand their units due to various reasons whereas 53 (91.38%) entrepreneurs stated that they expanded their units since their inception. On the other hand 16 (19.28%) entrepreneurs under the second category stated that they did not expand their units whereas 67 (80.72%) claimed they were able to expand their units. The X^2 was 39.440 and 31.337, which indicated significant variations as to the above factor while standard error was 1.749 and 1.749 respectively which indicates no significant difference in the two categories of entrepreneurs on this particular aspect.

TABLE 25
EXPANSION OF THE UNITS SINCE INCEPTION

HIGH GROWTH			**LOW GROWTH**		
	N	**%**	**N**	**%**	**SE**
No	5	8.62	16	19.28	1.749
Yes	53	91.38	67	80.72	1.749
X^2	39.440		31.337		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

EFFECTIVENESS OF EXPANSION:

As per Table 26, the 1 (1.72%) entrepreneur under the first category replied that expansion was not effective, 52 (89.66%) revealed that the expansion was effective while 5 (8.62%) entrepreneurs did not reply on this issue. In the second category, out of 83 entrepreneurs 3 (3.61%) stated that the expansion was not effective whereas 64 (77.11%) entrepreneurs replied in positive, while 16 (19.28%) did not say anything on this issue. The X^2 was 9.800 and 55.537 respectively for the two categories of entrepreneurs indicating significant variations in both the categories of entrepreneurs. The standard error was 0.666 and 1.920 respectively which indicated no significant difference in the two variables.

TABLE 26
EFFECTIVENESS OF EXPANSION

HIGH GROWTH			**LOW GROWTH**		
Effective Expansion	**N**	**%**	**N**	**%**	**SE**
No	1	1.72	3	3.61	0.666
Yes	52	89.66	64	77.11	1.920
No response	5	8.62	16	19.28	
X^2	9.800		7.600		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

EXPANSION/DIVERSIFICATION MADE AND INSTALLATION OF IMPROVED MACHINERY:

What was the mode of expansion, a question was asked and as per Table27, the 6 (10.34%) entrepreneurs under the first category pointed out that neither they have expanded/diversified nor they have installed any improved machinery, 51 (87.93%) replied in positive as they had diversified and installed improved machinery 1(1.72%) entrepreneur did not respond on this issue. On the other side, 7 (8.43%) entrepreneurs under the second category stated that they have not diversified or installed any improved machinery while 61 (73.49%) stated that they were able to install new/improved machinery and also diversify their activities. The 15 (18.07%) entrepreneurs did not reply on the issue. The X^2 was 38.692 and 42.882 indicated significant variations. The standard error was 0.386 and 2.087 showing insignificant difference as to the first category and significant as to the second category.

TABLE 27
EXPANSION/DIVERSIFICATION BY INSTALLATION OF IMPROVED MACHINERY

HIGH GROWTH			LOW GROWTH		
	N	**%**	**N**	**%**	**SE**
No	6	10.34	7	8.43	0.386
Yes	51	87.93	61	73.49	2.087
No response	1	1.72	15	18.07	
X^2	38.692		42.882		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

REASONS OF UNDER-UTILIZATION OF CAPACITY:

What were the reasons for under-utilization of capacity, a question was asked in this regard. As per Table 28, the 8 (13.74%) entrepreneurs under the first category did not have any problem as far as full capacity utilization of the plant was concerned, 3 (5.17%) entrepreneurs of the same category said that under utilization was due to finance and power problem, 7 (12.07%) stated that it was because of marketing and power problems, 9 (15.52%) attributed it to labour and power problem, 13 (22.41%) revealed that under-utilization was due to recession, 2(3.45%) stated that it was because of labour/raw material problem and 16 (27.59%) did not reply on this issue.

In the second category of entrepreneurs under the low growth rate turnover, 18 (21.69%) entrepreneurs did not have any problem as to full utilization of plant capacity. The 18 (21.69%) respondents stated that the capacity of the plant was underutilized due to finance and power problems, 10 (12.05%) respondents pointed out that it was due to marketing and power problems, 12 (14.46%) replied that under-utilization was due to labour/power problem, 6 (7.23%) revealed it was due to recession, 8 (9.64%) of them pointed out that under-utilization was because of labour/raw material and 11 (13.25%)

entrepreneurs did not reply on the subject. The X^2 was 3.000 and 10.667 respectively for two categories of entrepreneurs showing significant variation whereas standard error was 1.190, 2.711, 0.004, 0.174, 2.598 and 2.598 respectively. The standard error at Serial Number 2, 5 and 6 shows significant difference and at serial Number 1, 3, 4 indicated insignificant difference.

TABLE 28
VARIOUS REASONS FOR UNDER-UTILIZATION OF CAPACITY

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	8	13.79	18	21.69	1.190
Fin+power	3	5.17	18	21.69	2.711
Marketing + power	7	12.07	10	12.05	0.004
Lab + Power+ Fin.	9	15.52	12	14.46	0.174
Recession	13	22.41	6	7.23	2.598
Lab +Raw Mat.	2	3.45	8	9.64	2.598
NAC	16	27.59	11	13.25	
X^2	3.00		10.667		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

FUTURE PLAN AS TO EXPANSION:

To know about the expansion plan, a question was asked to survey respondents and as per Table 29, out of 58 entrepreneurs under the first category, 16 (27.59%) respondents stated that they did not have any future plan for expansion of their plants while 42 (72.41%) replied in positive as they pointed out that they had plan for the expansion of their plants. In the second category of entrepreneur under the low growth rate turnover 28 (33.73%) entrepreneurs replied in negative, while 55 (66.27%) replied in positive as they had firm plans for expansion of their units. The X^2 was 1.000 and 8.783 respectively for two categories of entrepreneurs pointing out significant variation in the second category of entrepreneurs whereas standard error was 0.774 and 0.774, which shows no significant difference in the two categories of entrepreneurs on this issue.

TABLE 29
FUTURE PLAN AS TO EXPANSION

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	16	27.59	28	33.73	0.774
Yes	42	72.41	55	66.27	0.774
X^2	1.000		87.83		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

POLICY PERSPECTIVE AND THE ATTITUDE OF GOVERNMENT AGENCIES TOWARDS THE SSI UNITS:

The supply of entrepreneurs is a function of the right type of industrial climate provided by the various promotional institutions and the Government policy frame work. The Government incentives in the forms of tax exemptions provision of infrastructure in the form of Industrial sheds, cheap power etc. also play an important role in giving a boost to the SSI units. The attitude of Government agencies is also an important consideration in the growth and performance of SSI units. An attempt has been made here to know about the perception of the entrepreneurs as to the Government Policy and support systems for SSI units.

GOVERNMENT ATTITUDE TOWARDS PROMOTION OF SMALL SCALE UNITS:

As per Table 30, the 55 (94.83%) entrepreneurs with high growth rate turnover stated that they were not motivated to establish their own units due to Government attitude/policy, whereas only 3 (5.17%) entrepreneurs were motivated due to Government attitude and policies. On the other side 82 (98.80%) entrepreneurs under the second category stated that they were not motivated due to Government policies while 1 (1.20%) entrepreneur stated that he was motivated by Government attitude/policies. The X^2 was 17.640 and 23.695 showing significant variation for the two categories of entrepreneurs on the said aspect while standard error was 1.398 and 1.398 respectively which shows no significant difference.

TABLE 30
GOVERNMENT ATTITUDE/POLICY TOWARDS SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	55	94.83	82	98.80	1.398
Yes	3	5.17	1	1.20	1.398
X^2	17.640		23.695		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

ALLOTMENT OF INDUSTRIAL SHEDS:

As per Table 31, out of 58 entrepreneurs under high growth rate turnover, 45 (77.59%) of them replied that they were not motivated and were not allotted any industrial sheds for establishing their own units while 13 (22.41%) of them stated that they were allotted industrial sheds and were motivated for starting their own units. In the second category of entrepreneurs of low growth rate turnover 72 (86.75%) replied in negative and 11 (13.25%) replied in positive. The X^2 was 9.000 and 44.831 respectively for two categories of entrepreneurs pointing out significant variations on the factor mentioned above. The standard error was 1.424 and 1.424 respectively which indicated no significant difference.

TABLE 31
PROMOTION OF INDUSTRIAL INFRASTRUCTURE FOR SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	45	77.59	72	86.75	1.424
Yes	13	22.41	11	13.25	1.424
X^2	9.000		44.831		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

ATTITUDE AND FUNCTIONING OF GOVERNMENT AGENCIES:
5.3.4.3

As per Table 32, the 22(37.93%) entrepreneurs under the first category stated that the attitude of Government agencies was encouraging, 28(48.28%) of them stated that it was discouraging while 8(13.79%) replied that it was indifferent. In the second category 33(39.76%) entrepreneurs said the attitude of Government agencies was encouraging, 34(40.96%) stated the attitude was discouraging and16 (19.28%) claimed the attitude was indifferent. The X^2 was 0.080 and 7.398 respectively which pointed out an insignificant difference for the first category and the significant variation as to the second category. The standard error was 0.219, 0.862 and 0.956 respectively which indicated no significant difference.

TABLE 32
INSTITUTIONAL SUPPORT SYSTEM AND ATTITUDE OF GOVERNMENT AGENCIES

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Encouraging	22	37.93	33	39.76	0.219

Contd.Table 32

Contd.Table 32

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Discouraging	28	48.28	34	40.96	0.862
Indifferent	8	13.79	16	19.28	0.956
X^2	0.080		7.398		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

LABOUR MANAGEMENT IN SSI UNITS:

In India, small-scale industries adopt labour intensive technology. The growth and expansion of production capacity depends on the careful selection of personnel and the

optimum utilization of work force. Wherever the labour content is high some discontent is also found among the work force. The SSI units face the problems from Labour side and which has a bearing on the performance of any organisation, hence it is of great interest to point out the causes of labour trouble and methods being employed to solve their problems. In the case of high growth and low growth unit a modest attempt has been made in this regard.

The Reasons of labour problems faced by SSI units:

To know about the causes of labour problems faced by SSI units, a question was asked to the respondents in this connection. As per Table33, 51(87.93%) entrepreneurs under the first category stated that they did not have any labour problem while 1(1.72%) entrepreneur faced labour problems due to finance, 2(3.45%) of them had it due to retrenchment, 1(1.72%) stated that it was due to salary advance, 3(5.17%) respondents stated that it was due to absenteeism. On the other side in the second category of entrepreneurs, 70(84.34%) did not have any labour problems, 2(2.41%) of them had it due to shortage of funds, 7(8.43%) of them had it due to retrenchment, 2(2.41%) said that it was due to salary advance and 2(2.41%) due to absenteeism. The X^2 was 38.720 and 40.750 for the two categories of entrepreneurs, which indicated a significant variation while standard error was 0.601, 0.279, 1.191, 0.279, and 0.872 and in no case there was any significant difference.

TABLE 33
LABOUR PROBLEMS IN SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	51	87.93	70	84.34	0.601
Finance	1	1.72	2	2.41	0.279
Retention	2	3.45	7	8.43	1.191
Salary Advance	1	1.72	2	2.41	0.279
Absenteeism	3	5.17	2	2.41	0.872
X^2	38.720		40.750		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

METHODS OF SOLVING LABOUR PROBLEMS:

To know about the methods of solving the labour problems, a question on this issue was raised to surveyed respondents. As per Table34, 2(3.45%) entrepreneurs did not have any labour problem in the first category, 47(81.03%) solve their labour problems through arbitration, 6(10.34%) entrepreneurs stated that it was through courts, 1(1.72%) of them pointed out that it was through trade unions, 1(1.72%) of them stated that they solved it through other methods and 1(1.72%) of them was of the view that they solve it through arbitration and courts. In the second category of entrepreneurs 6(7.23%) respondents did not have any labour problems, 55(66.27%) respondents have been solving their labour problems through arbitration, 9(10.84%) of them took the help of courts, 2(2.41%) of them

solved it through trade unions, 5(6.02%) respondents took the help of other methods, 5(6.02%) of them solved it through arbitration and court and only 1(1.20%) respondents used to solve it through courts and trade unions. The X^2 was 21.160 and 186.627 respectively shows significant variation. The standard error was 0.955, 1.928, 0.095, 0.279, 1.245, 1.245 and 0.837, which show insignificant difference as to the above factor in the two categories of entrepreneurs.

TABLE 34
MACHINERY FOR REDRESSAL OF LABOUR PROBLEMS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	2	3.45	6	7.23	0.955
Arbitration	47	81.03	55	66.27	1.928
Courts	6	10.34	9	10.74	0.095
Trade Unions	1	1.72	2	2.41	0.279
Any other	1	1.72	5	6.02	1.245
2+3	1	1.72	5	6.02	1.245
3+4	-	-	1	1.20	0.837
X^2	21.60		186.627		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

FINANCIAL MANAGEMENT:

The surplus cash and inadequacy of the financial resources hampers the smooth working of SSI units. The Financial management is a function of procurement of funds and effective deployment of funds. The SSI units largely rely n the friends, relatives/family's members for the starting of the enterprise and later on they try to obtain loans from banks and other financial institutions. The adequacy and timely availability of loans from the Banks and Financial Institutions help in smooth running of their enterprises. An attempt has been made here to examine the performance of high/low growth units and the perception of the entrepreneurs in this regard has been noted down.

FINANCIAL ASSISTANCE RECEIVED FROM PARENTS:

To know about the financial support rendered by the parents of the entrepreneurs in establishing their units, a survey was conducted. As per Table35, the 4 (6.90%) entrepreneurs under the first category stated that they did not receive any help from their parents, while 54 (93.10%) of them under the same category replied in positive as their parents were highly helpful to them financially at the time of setting up of their units.

In the second category out of total 83 entrepreneurs 5 (6.02) revealed that they did not receive any financial help from their parents, while 78 (93.98%) of them replied in positive as they had received sufficient financial help from their parents for establishing their units. The X^2 was 64.205 and 64.205 indicating significant variations in the second categories of entrepreneurs whereas standard error was 0.210 and 0.210 respectively which shows no significant difference.

TABLE 35
HELP RECEIVED FROM FATHER

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	4	6.90	5	6.02	0.210
Yes	54	93.10	78	93.98	0.210
X^2	64.135		64.205		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

FINANCIAL HELP RECEIVED FROM FAMILY MEMBERS AND RELATIVES:

As per Table36, the 21 (36.21%) entrepreneurs under the first category of entrepreneurs stated that they did not receive any financial help from their families and other relatives whereas 37 (63.79%) entrepreneurs replied in positive as they received sufficient financial help from their relatives as well as family members.

The 54 (65.06%) entrepreneurs under the second category stated that they did not receive any financial help from their family members while 29 (34.94%) of them stated that their family members were quite helpful to them. The X^2 was 0.040, which shows insignificant variation.

TABLE 36
HELP RECEIVED FROM FAMILY MEMBERS AND RELATIVES

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	21	36.21	54	65.06	3.378
Yes	37	63.79	29	34.94	3.378
X^2	0.0400		0.400		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

HELP RECEIVED FROM FRIENDS:

As per Table37, the 36 (62.07%) entrepreneurs out of total 58 entrepreneurs under the first category stated that they did not receive any financial help from their friends while 22 (37.93%) entrepreneurs under the same category replied in positive as their friends were financially helpful to them. In the second category 46 (55.42%) replied in negative while 37 (44.58%) received help from their friends. The X^2 for the two categories was 1.960 and 0.976 respectively showing insignificant variations and standard error was 0.788 and 0.788 respectively which indicates no significant difference.

TABLE 37
HELP RECEIVED FROM FRIENDS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	36	62.07	46	55.42	0.788
Yes	22	37.93	37	44.58	0.788
X^2	1.960		0.976		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

AVAILABILITY OF LOAN IN TIME:

As per Table38, 38 (22.41%) entrepreneurs stated that the required loans was not made available to them in time while 45 (77.59%) entrepreneur under the same category replied in positive as their loans was made available to them in time. In the second category, 22 (26.51%) entrepreneurs replied in negative whereas 61 (73.49%) entrepreneurs said that the loan was made available to them in time. The X^2 was 11.560 and 18.325 respectively pointing out significant variation in the two categories of entrepreneurs and standard error was 0.555 which indicated insignificant difference.

TABLE 38
TIMELY AVAILABILITY OF LOAN

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
No	13	22.41	22	26.51	0.555
Yes	45	77.59	61	73.49	0.555
X^2	11.560		18.325		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

ATTITUDE OF FINANCIAL AGENCIES:

To know about the attitude of financial agencies a question was asked to the respondent. As per Table39, the 44 (75.86%) entrepreneurs under first category claimed that the attitude of financial agencies was quite helpful, 11 (18.97%) stated the attitude was indifferent and 3 (5.17%) said that the attitude was not forthcoming. In the second category of entrepreneurs 60 (72.29%) said that the attitude of the financial agencies was helpful, 17 (20.48%) stated it was indifferent and 6 (7.23%) said the attitude was not forthcoming. The X^2 was 58.867 indicating significant variation in the case of second category of entrepreneurs while standard error was 0.474, 0.221 and 0.492 respectively which shows no significant difference

TABLE 39
ATTITUDE OF FINANCIAL INSTITUTION TOWARDS SSI UNITS

HIGH GROWTH			LOW GROWTH		
	N	%	N	%	SE
Helpful	44	75.76	60	72.29	0.474
Indifferent	11	18.97	17	20.48	0.221
Not Forthcoming	3	5.17	6	7.23	0.492
X^2	55.700		58.867		

Source: Compiled on the basis of questionnaire administered to SSI units of Punjab and Haryana.

CONCLUSIONS:

To sum up an overall analysis of growth of small scale industries under study point out that the various industries viz. Hosiery, Handlooms and Textiles, Sports Goods, Surgical and Scientific Instruments, Cycle and Cycle parts, Rice Processing Units and Cutting and Hand tools product, industry has experienced formidable growth during the five years period under study. The classification of industries under more than one crore annual turnover and less than one crore annual turnover and High Growth vs. Low Growth point out that entire production of SSI units suffers from lack of various managerial problems. An analysis of marketing performance of SSI units indicates that SSI units suffer from lack of marketing culture and lack of any scientific marketing practice to be employed for marketing of the products. The financial management indicates that these units suffer from lack of finance and heavy overhead burden leading to the resource crunch. The Research and Development activities in case of SSI units have been nil. On the whole SSI units in Punjab and Haryana hardly employ any suitable management technique in scientific management of the units. The glaring lapses observed in their functioning outweigh their achievements. There is a need to adopt strategic management approach to the management of SSI units in Punjab and Haryana.

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THE PROXIMITY LAW OF SMALL BUSINESS MANAGEMENT: BETWEEN CLOSENESS AND CLOSURE

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"A small business is not a little big business" This is almost certainly the most commonly quoted sentence in introductory chapters to books and articles on the management of SMEs. Over time, the postulate of the SME as an entity governed by specific laws of management has established itself as a genuine paradigm structuring research in the field, giving legitimacy to the creation of scientific journals and research associations like the ICSB (*International Council for Small Business*) in the English-speaking world or the AIREPME (*Association Internationale de Recherche en Entrepreneuriat et PME*, International Association for Research in Entrepreneurship and SMEs) in French-speaking countries.

This theory of the specificity of SMEs has now been widely accepted. It nevertheless has one major drawback. It does not precisely define the specificity of SMEs. If SMEs are specific, it must also be admitted that large companies are, too. Using the same term, *specificity*, to define two such fundamentally different realities is clearly unsatisfactory. The two types of specificity thus need to be qualified and given a more precise term.

The theory that we put forward is that the specificity of the management of SMEs is proximity. We use the term *proximity* as an ambivalent concept that refers us to both what unites us and brings us together (*closeness*), as well as what shuts us in and isolates us (*closure*). Proximity refers to the classic concepts of family[1], friendship and neighbours, as well as to more modern concepts such as "link" and "social capital". All these concepts have the particularity of revealing the same ambivalence between closeness and closure.

As regards *family proximity*, Bridge, O'Neill and Cromie (1998:129) note that a "family business can produce a permanent, solid family atmosphere and *esprit de corps*, which can often encourage both a closeness among staff and long-lasting relationships with customers, suppliers and other contacts". The family can also, however, become a very closed circle and the source of clan-like management techniques, particularly in terms of human resource management (giving positions of responsibility exclusively to members of the family) or of setting objectives (a refusal to accept growth as a means of maintaining family control of the business). Denieul (1992) mentions this type of phenomenon several times. The family business is often seen as "the universe of continuity, certitude and trust, as opposed to the faceless company which is exposed to the dangers of chance and subjected to the unpredictable decisions made by associates": "If he is not a member of your family, you can expect him to be capable of doing anything to you, good or bad. A

[1] It should be noted that originally the word proximity, from the Latin *proximitas* and *proximus*, was used in the 15th and 16th centuries in its legal meaning of family relations in deeds of inheritance (Le Boulch, 2001).

member of your family will try to do his best and to develop, with all the benefits coming back to the family, through my sister's children. The metaphor of the closed circuit ("will come back") and autonomy sanctioned by being a member of the family structure should be noted". Once again, this is the closeness/closure ambivalence.

The same can be said for friendship. Firstly, "sociologists have especially noted that the value of friendship increases as the closeness of the family declines" (Bell, 1981 in Yager, 1998). This means that friendship is a strong link for proximity that can sometimes replace family ties. But this friendship can also become a form of exclusion and closure. "The two-person nature of the Great Friend Approach is implicit. So all-encompassing and exclusive a relationship would be hard to sustain in a three-way (triad) or a group (network) setting. Such an idealized and intimate friendship thus cancels out other friends or friendships. The Great Friend relationship is hence as exclusive and as binding emotionally as marriage is legally" (Yager, 1998). Friendship is a type of proximity that can insidiously become a form of exclusivity.

As regards neighbours, a neighbour is someone who occupies the closest place, someone at a relatively short distance and someone we frequent. But in legal terms, a neighbourhood is often understood to be a place of potential nuisance and disorder. A neighbour is thus also someone who can disrupt daily life, someone with whom we are in disagreement and someone separated from us by some kind of enclosure. The term neighbourhood thus also refers to the ambiguity of proximity, between closeness and closure.

The concepts of links and social capital are more recent. They both have their foundations in sociology (Granovetter, 1973; Bourdieu, 1980). Regarding links, although many authors have highlighted their function as a means of making contact (*the link that links*), it is also important to note the negative dimension of the *link that binds*[2] (Laplantine, 2003), sometimes until there is total suffocation (Poussin, 2003). This ambivalence can also be seen in terms such as *bound*, giving "*bound up with"*, meaning *connected* or *linked to*, as well as *boundary*, meaning a limitation. Similarly, although *bond* is a synonym for *link*, it also suggests *bondage* (slavery and submission).

The same can be said for social capital, which Bourdieu defines as "the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition". Although social capital is often seen to be a strength, it can also be a weakness, especially when it leads to phenomena of withdrawal and imprisonment. The title of the article by Grabher (1993), written to contrast that of Granovetter, "The weakness of strong ties: the lock-in of regional development in the Ruhr Area" is quite explicit on this subject . This article "describe the troublesome attempts to transform the close interfirm linkages into loosely coupled networks" (Grabher, 1993: 256). He identifies a threefold "lock-in" of regional development : functional lock-in, cognitive lock-in, political lock-in. If the

[2] According to Laplantine (2003: 186): "The French language of the 12th century used the word "lien" to designate a *lead* (for a dog) and, a little later, in the Gascon language, the term meant *chain*". It is thus easy to understand a "link" is something that links, but also something that ties. Once again, this is the ambivalence of proximity.

social capital is too strong, it can even lead to *corporatiste*[3] phenomena as we have shown in the Californian Mondavi's failure to set up his business in the small village of Aniane in France (Torrès, 2004). "The relation between positive and "negative" social capital can be viewed in a similar light. Capital (except financial capital) is timebound. The social capital of groups and regions that is considered negative from society's standpoint came into being once upon a time as a rational solution intended to safeguard and strengthen the group's interests (…) By creating strong networks, actors/groups have shut others out from the resources and markets to which they have access" (Westlund and Bolton, 2003: 81).
All these concepts reveal the ambivalence of the concept of proximity.

Of all the works on proximity, the psychology of space described by Moles and Rohmer (1978) gives an ideal summary of this ambiguity by introducing two concepts, that of proxemics[4] and that of partition. They propose a subjective and *"egocentered"* conception of space which corresponds to the "Here and Now" point of view of the individual in a given situation (living space), perceived as being the centre of the world: " Me, Here and Now, I am the centre of the world and everything is organised in relation to me in a discovery that is a function of my audacity. A world that is focused on Me is only peopled with beings and events to the extent that I perceive them. This is what is known as proxemics, with the importance of beings, things and events necessarily diminishing with distance to the extent that their perception itself diminishes" (Moles and Rohmer, 1978).

This is how Abraham Moles and Elisabeth Rohmer define the notion of proxemics. According to them, "fundamentally and axiomatically, what is close is more important than what is far, all things being equal, be it an event, an object, a phenomenon or a being." (Fig 1-a). The Law of proxemics appears as a principle of organisation that creates a hierarchy in the degree of importance of the actions and reflections of the individual[5].

But if, for one reason or another, a deviation from this fundamental law of psychological continuity occurs – be it a discontinuity or a sudden variation –, then, another phenomenon emerges: the idea of an partition conceived as a dividing line, which necessarily reduces the importance of the phenomena lying beyond this singular point compared to the phenomena situated before this point (Fig 1-b). The partition weakens the outside compared to the inside. It effectively creates an opposition between the outside and the inside (Schwach, 1993). Thanks to the phenomenon of partition, Moles and Rohmer introduce the notion of proximity by studying what is close, and no longer what is far. They also highlight the ambiguity of proximity, which means both a preference for what is close (proxemics) and closure or isolation (partition).

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[3] *Corporatisme* is both a preference granted to oneself and one's own (peers, relatives and friends), and a form of protection against others (those on the outside and strangers).
[4] Here, we do not use the term "proxemics" in the sense of E. Hall (1981), referring to the study of perception and the use of space by Man.
[5] This idea of growing function can be seen again in Campbell (1978): "feelings of inequity are a function of the perceived closeness".

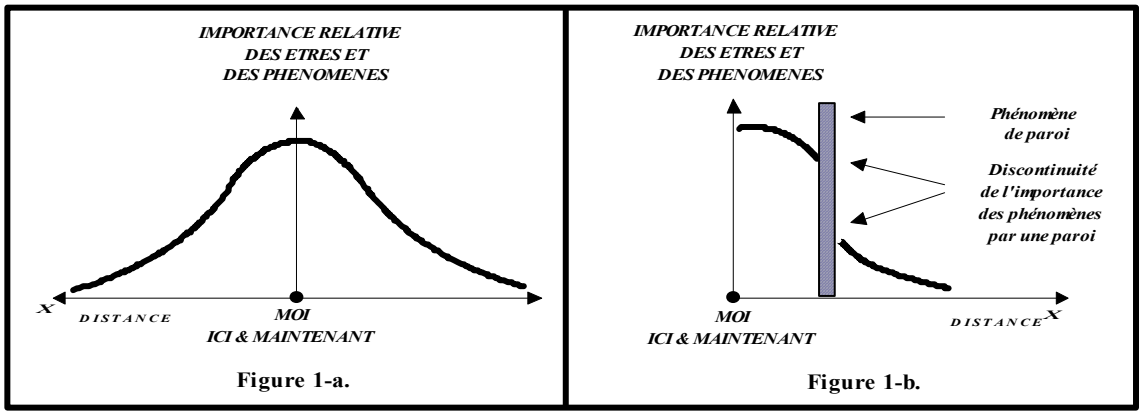

Figure 1. – The proxemics Law (a) and the partition phenomenon (b) by Moles and Rohmer

For those interested in the management of small-sized companies (Small Entreprises and Very Small Entreprises), the value of this axiomatic is twofold: on the one hand, it is founded in psychology (Moles, 1976; Schwach, 1993), which is a particularly appropriate field for understanding the strategic and organisational behaviour of small-sized companies[6] (Gervais, 1978; Parent, 1978). On the other hand, it is also based on the centrality of a single point of reference (the *Me, Here and Now*). This last aspect is perfectly suited to the situation of SMEs, as it is generally recognised that one of their specificities is the important role given to the director-owner, a central reference point *par excellence* (Marchesnay, 1991; D'Amboise, 1993; Julien, 1998). This is reminiscent of the famous expression from Gumpert and Boyd (1984), " *The business is the 'ego'"*. Moles and Rohmer's egocentered conception of space seems very apt for explaining the mechanisms that govern how a highly personalised management system functions.

The remainder of this article will aim to demonstrate to what extent the effects of proxemics and the effects of partition make it possible to explain in a unified and coherent manner a considerable number of existing results. The aim of this article is to propose a general theorisation for the smallness of companies based on the concept of proximity.

Management of SMEs and *closeness*: the role of the effects of proxemics

It is in this sense that proximity management, as we see it, is not confined to simple metric measurement. It is the choice-making principle for owner-managers. All other things being equal, the SME manager will opt for what is both geographically and temporally closer to him. This preference for proximity, and the management style that results from it, is a strategic and organisational construction enabling the SME manager to keep control of his firm and its development.

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[6] In terms of spatial decisions, Koenig and Joffre (1985: 194) note that "the satisfactions of a psychological nature in the choice of a particular site are more important in individual companies than in large companies, where power is more spread out and where there is greater rationalisation". It is precisely this aspect that makes Deshaies (1998) say that in SMEs, it is preferable to talk of *reasons* for localisation (in reference to the entrepreneur) than of *factors* of localisation: "The entrepreneur becomes the obligatory source of information. You should start with him, rather than with a uniform space as in traditional localisation theories. Instead of drawing up a list of theoretical postulates concerning space, you should replace them with a set of hypotheses on the representations, attitudes and behaviour of entrepreneurs". We believe that Moles and Rohmer's Proxemics Law is the response to this desire.

If we accept the concept of SMEs as described by the GREPME (Julien, 1994; 2000), we have already demonstrated that all the characteristics of the specificity of SME management can be expressed as a particular form of proximity (Torrès, 2004).

From management SPECIFICITY… (according to P.A. Julien)	**…to PROXIMITY management (according to O. Torrès)**
Centralized management	*Hierarchical proximity*
Low level of specialisation	*Intrafunctional proximity*
Simple and informal information systems	*Proximity information systems*
Implicit short term strategy	*Temporal proximity*
Close market, either geographically or psychologically	*Spatial proximity*

Table 1. – From specific management of SMEs to proximity management

Hierarchical, intrafunctional, temporal and spatial proximity (to name but four) make up a coherent framework producing the conditions required for action and reflection within a centralised and non-specialised organisation, which consists of simple internal and external information systems and which favours informal and intuitive strategies. The concept of SME defined by Julien can be understood as a *proximity mix* (Table 2).

This reformulation enables us to move from a descriptive approach (a mere listing of characteristics) to an explanatory approach (highlighting a superior principle). The latter combines all the features of SMEs around a federating mechanism (proximity) and transforms this mechanism into the essential requirement for the standard operation of an SME. In other words, our perspective is that of a specific management style for SMEs that obeys a *proximity principle* (Torrès, 1999, 2003).

Several theoretical advances in the field of SME management reveal the existence of hierarchical mechanisms of this type, based on proximity:

- ***In the choice of country for export****:* attacking international markets seems to be governed by a proximity priniciple, as shown by the Swedish school in Uppsala in its concept of psychic distance (Johanson and Wiedersheim-Paul, 1975; Johanson et Vahlne, 1977). Similarly, the 6-stage exportation model developed by Bilkey and Tesar is based on proximity: “firms at early export stages should focus on psychologically close countries and firms at later stages should focus on psychologically more distant countries” (Bilkey and Tesar, 1977: 95). As Joffre (1987) remarks, “we often insist on the geographical rigidity of small- and medium-sized companies. The presence of small-sized companies decreases as the commercial distance increases, with exportation on a large scale remaining the specialty of large companies”. Similarly, the concepts of “glocalisation” (Johanisson, 1994; Torrès, 2002) and “internationalising milieus” (Torrès, 1999; Fourcade and Torrès, 2001) have made proximity an active principle in the export strategies adopted by SMEs.

- In the choice of successor-buyer: despite the fact that “in the minds of company directors, the alternatives are neither exclusive nor part of an unchanging order” (Haddadj and D’Andria, 2001), the director of an SE who wants to make over his company is often subjected to what we could refer to as an "*organisation into a hierarchy of his choice of successor”*: a preference for the family, then the employees, clients or suppliers and finally for a third party. In this way, “when choosing a buyer, company directors often adopt a system of concentric circles, starting with the closest contacts and relations and progressively widening their search" (Bah, 2002). This organisation into a hierarchy can be broken down into three segments: the *internal segment* (the director’s heirs and close family, the executives or all or part of the employees in the company), then the *immediate segment* (the clients, suppliers, colleagues, accountant and so on) and finally the *external segment*, which correpsonds to a market open to unknown third parties. According to Bah (2002), the first two segments make up the “closed” market that operates essentially in a trust-based manner and by “word of mouth”. Only the third segment is a truly “open” market, although it has a bad reputation as companies that are on the market are often seen as “lame ducks” by potential buyers. We thus find ourselves returning to the classic problem of asymmetry of information and the well-known article, “The Market of Lemons” by Akerlof.

- In strategic choices: Ansoff’s product/market model also provides an implicit organisation into a hierarchy for the way in which companies develop. Development axes must first of all be established within a single sector, within a single activity in the company. Once this axis has become saturated, it then becomes possible to envisage diversification, either in terms of profession or in terms of mission. Total diversification is a last resort solution, as it is the most subject to risk. “Bearing in mind that synergy gives companies the advantage of a higher consolidated return on investment than any group can hope for, at first sight it could seem that diversification should be made according to the principle of maximum synergy. That is, preferring changes that are the least different from the normal experience and internal resources of the company” (Ansoff, 1989: 132). This model brings us back to an implicit order, which goes from horizontal growth (“the most normal, the most common and the most habitual type of growth for companies”, [Parent, 1978]), to vertical and finally to conglomeral growth. The smaller the size, the more the company has a vested interest in remaining within its field, as Penrose developed quite clearly in his theory of interstices. Who cannot see, here too, that these strategic principles are further proof of a proximity rule that indicates that a company’s growth must go from what is closest (its niche or its interstice) to what is most distant and most subject to risk (diversification). The stagist models of growth can be interpreted as being part of a proxemic design.

***- In recruitment choices*:** generally speaking, the smaller a company, the more it tends to prefer proximity in its management of human resources. In a survey conducted recently in France on the management of human resources in small companies, Chassard (2003) demonstrates that acquaintances and word of mouth are the top responses, well ahead of temping agencies or recruitment agencies. Directors of small companies do not like intermediaries and prefer to make use of their own lists of contacts when they must take on new staff. This type of behaviour is perfectly rational, as a recommendation from someone you know is a vote of confidence. It is for this reason that when directors of SMEs hire someone new, they prefer to start with their spouse, then turn to their family in general or circle of friends. Looking on the job market, which is much more anonymous, is only a

last resort. Family, friends and an immediate circle of acquaintances are thus a strategic resource when the director says that he uses them as his main source for recruitment purposes (Torrès, 2003). It is the very importance of these proximity human resources that made Letowski (2003) say that the concept of Human Resources is meaningless in very small companies, unless "non staff" human resources are taken into account, such as spouse, children, associates, peers and so on.

- In the choice of means of financing: many empirical validations of Myers' hierarchy theory (1984) for financial choices as applied to the field of SMEs stipulate that the growth of SMEs is essentially financed by self-financing, then by bank loans, rather than by issuing share capital (opening the capital) (Norton, 1991; St-Pierre and Baudouin, 1995; Mahérault, 1999). Similarly, Belletante's concept of "*financial territory"* (1991) or Crevoisier's concept of "*proximity capital*"[7] (1997) support our theory of a hierarchical principle of proximity in financing. This *financial proxemic* also makes it possible to explain why SMEs prefer short term financing to long term (temporal financial proximity), or why, according to Hirigoyen (1984), SMEs pay more attention to maintaining the profitability of a company in the short term than to future profitability[8]. This once again reminds us of the concept of proximity in the relations the director-owner has with his banking partners. Effectively, "the results of certain surveys show that directors tend to do business with only a few financial institutions (sometimes only one). It is more profitable to develop a good relationship with a banker, who ends up understanding the personality of the owner-director and accepts his own, personal way of making decisions" (St-Pierre and Baudouin, 1995). Binks and Ennew (1997) go even further, recommending *participative behavior* between SMEs and their bank: "Clearly, perfect information is an unobtainable goal, but a *close working relationship* between bank and business can significantly improve information availability". Later, they add: "While collateral may be one mechanism for reducing the adverse effects of information asymmetries, the development of a *close working relationship* is an alternative. An effective banking relationship, by its nature, must involve two parties. For bank and businesses to invest time and effort in developing and maintaining such relationships requires that there are discernible benefits from so doing. (…) Further analysis suggests that more participative relationship types are associated with benefits to the firm in the form of better financing conditions and better quality of service and benefits to the bank in the form of more favourable customer assessments of bank service" (Binks and Ennew, 1997: 90).

- In the choice of support networks and backing**:** Gibb's "layers" theory (1988) once again bears witness to the hierarchical proxemic relationships between the various spheres that make up the director of an SME's support network. According to Gibb (1988), "a small business will be subject to many influences. It is not however always obvious what these influences will be or what will be the interplay between the different influences". "The

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[7] As further proof of the link between proximity and financing in SMEs, Corpataux (2003) showed in his doctoral thesis to what extent the draining of the regional financing circuit in Switzerland mainly had an impact on SMEs. In his opinion, "the result is that from now on, SMEs can grow in two ways. Either they enter the stock market, with all the technical problems that that entails for small organisations, or they sell out to large, international groups. In the 1990s, for example, all the brand names from the clock-making sector were taken over by large groups" (Corpataux, 2003: 116).

[8] Hirigoyen (1984) wisely states that directors of SMEs turn their companies into *expense centres* rather than *profit centres.*

relative strengths of the influences of different groups of people are indicated in a diagram produced by Gibb to indicate the layers of small business support networks. One implication of this is that the closer, and more personal, layers will always have a much stronger influence than the outer, and more official, layers" (Bridge, O'Neill, Cromie, 1998). Gibb considers that the influence of the support network is organised into a hierarchy in relation to proximity and thus draws the following conclusions: "If friends when consulted are negative in their advice then it will be far more influential than any positive input from government agencies". These opinions and influences are not all equal, but are organised into a hierarchy on the basis of weighting that increases in relation to the closeness of the link with the owner-director.

Figure 2. - The "layers" theory (source: A. Gibb, 1988).

These six examples show that the effects of proximity create a hierarchy of strategic decisions that privilege that which is close to the detriment of that which is distant[9]. The proximity principle is, in our opinion, a response that is adapted to the principles of limited rationality and the asymmetry of information. Proximity is a vote of confidence. This type of behaviour, which privileges proximity, is perfectly rational because anything recommended by a close friend or family member, or business relationship with an acquaintance, is trustworthy. Here, proximity plays the role of guarantee as well as a reducer of uncertainty. It reduces the asymmetry of information and broadens the rationality. This recalls Ackerlof, who advises someone selling a car in good condition to sell it to someone who trusts him – in other words, someone he knows. Proximity is the most natural response, and the least costly, to the problem of the asymmetry of information.

But this proximity strategy, which privileges the family and the familiar, nevertheless has its limitations, the biggest risk being that of isolation and imprisonment. And it is precisely this that highlights the concept of the partition effect.

[9] There are several counter-examples to this proxemic concept. Studies on INV (International New Ventures), companies that grow rapidly or start-ups, on capital-risk and so on show that certain small-sized companies diverge completely from this conception. It is these companies that we have qualified as managerial SMEs as they tend to be managed like miniature versions of large companies (Torrès, 1998). This type of company is the opposite of the standard SME, and is the illustration of denaturation phenomena (dilution of specificities) (Torrès, 1997).

Management of SME and *closure*: the role of the partition effect.

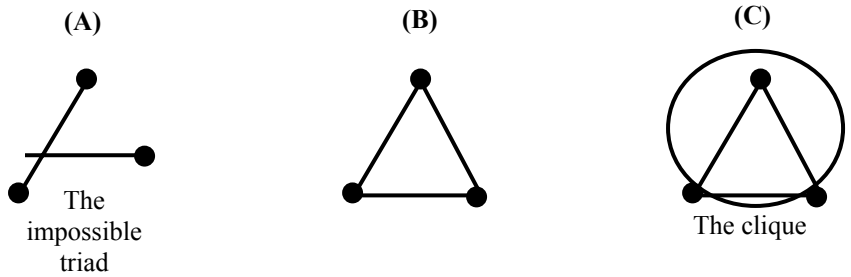
One of the theoretical bases that make it possible to explain the isolation of SMEs can be explained through the theory of links and social networks.

As early as 1973 in his founding article, "*the strength of weak ties*", Granovetter provided the basic hypotheses for a general theory of social networks by proposing a distinction that has now become a classic, between strong links and weak links. According to Granovetter, the strength or weakness of a link is a combination of the amount of time, emotional intensity, intimacy (mutual trust) and reciprocal services that characterise the link. This explains why, in general, individuals only have a small number of strong links (rarely more than a dozen). By absence of link, he means not only a total absence of link, but also the links that are not very important such as vague acquaintances (people living on the same street, for example, or the link that you have with your newsagent). There is an absence of link when the interaction between two individuals remains negligible even if they know each other's name.

From these few definitions, Granovetter develops a number of principles that govern the constitution of social networks and their evolution. He thus considers that the stronger the link between two individuals, the more these individuals will tend to resemble each other. To such an extent that when there are strong links that join A to B and A to C, there is a high probability that B and C will resemble each other too. This is the principle of the transitivity of strong links. Granovetter then continues his analysis by considering that if A has strong links with B and C, in time it would become almost impossible for B and C to have no link between them. Diagramme (A) illustrates this impossible triangle. Over time, the triad tends to be completed so that it resembles diagramme (B)[10].

The problem with strong links, however, is that they tend to lead to enclosure. "For example, if we spread a rumour to all our closest friends and then they, in turn, do the same thing, there will be many who will hear the rumour twice, or even three times, because individuals linked by strong links often have the same friends. If, on the other hand, the motivation of these individuals to spread the information decreases each time the rumour is told, then there would be a higher probability that it would remain enclosed in a few clans if it is transmitted by strong links than if it were transmitted by weak links: it would not be able to bridge the gaps". In this type of case, Granovetter speaks of the *suffocation effect* that we have represented as a circle that encloses the triad of strong links in diagramme (C). Strong links, and particularly if you work on the basis of a small number of individuals, tend, over time, to form cliques or closed circles that function as a closed circuit where exchanges become unnecessary. This means that a network composed of strong links tends to be walled off (clusterable). As Davis (1970: 844) says in his analysis, "groups tend to form levels (like floors of a building) and within levels all relationships are mutual positive or mutual non-positive; within levels, clusters or cliques occur (like rooms on a particular floor of a building) such that (by definition) within clusters all pairs are mutual positive, and between clusters all pairs are mutual non-positive".

[10] By analysing 742 sociograms, Davis (1970) demonstrates with great precision that triad B is the most common, and that triad A is, on the contrary, one of the least common.



However, it can be considered that the smaller the size, the more the number of interpersonal relationships is reduced. Smallness thus creates the conditions for strengthening the links between those involved. Directors know their staff personally, as well as their clients, suppliers, banker and so on. The smaller the company, the more probable it is that the links between the different active members of the company will be frequent, intense or even intimate. Smallness strengthens links because they are less in number. This provides us with an explanation of the double dimension of proximity: smallness increases the strength of links but also increases the risk of enclosure. It is thus easier to understand Michael Piore, who, in the inaugural speech for the 3rd Congrès International Francophone PME (International French language Congress for SMEs, CIFPME) at Trois Rivières in Canada in 1996, said, "the problem for SMEs is not that they are small, but that they are isolated (Torrès, 1997).

This isolation has already been mentioned many times in the literature on SMEs. For example, in the article, "The loneliness of the small-business owner" by Gumpert and Boyd (1984), "the authors explore the silent partnership between loneliness and the small-business owner": "As a consequence, entrepreneurs often lack colleagues with whom to share experiences, explore ideas, and commiserate. Among respondents to our survey, 68% reported that they had no confidant with whom they could share their deep concerns. Also owners become more and more sequestered as demands on their time isolate them from others". According to the authors, "on the one hand, loneliness reflects objective or environmental factors, such as the special nature of a small business and value conflicts between owners and those close to them – chiefly family and friends. On the other, it is also subject to internal or subjective pressures including the need to project a strong image and a proclivity for individual achievement rather than group dynamics." (Gumpert and Boyd, 1984: 19). This isolation is even promoted in certain cases: "I'm not competing with anyone here. In corporate life, I was competing with everybody. If one of my decisions didn't work out, you'd better believe there were six others guys in the company saying it was my fault. In my own business, the only competition is outside" (…) "Solo activities are satisfying for the immediate feedback on performance and the sense of control they provide" (Gumpert and Boyd, 1984: 22).

Nevertheless, isolation is a handicap that the authors highlight quite clearly: "Without input from peers, friends, or family, entrepreneurs are unlikely to consider all relevant options and risks in their decision making. Reducing loneliness should improve financial results." (…) "In view of our findings, we think it essential that entrepreneurs also enter into group

activities with family and friends; the energy and determination they show in the marketplace must be directed toward emotionally satisfying relationships as well".

The isolation of the director of an SME can certainly be put into perspective, as shown by Curran and Blackburn (2001: 6), who write, "a high proportion of small firms, perhaps approaching 40 per cent, have two or more owner-managers/partners/directors. (…) Enterprises linked through cross-ownership may operate significantly differently to enterprises that have no such linkages". This perspective nevertheless raises two points worth mentioning: on the one hand, it should be noted that 60% of companies are still managed by just one person, which is still a majority, and, on the other, that there is nothing that proves that the partners are genuinely active and not just *sleeping partners*. As Gumpert and Boyd (1984: 20) note, "Ironically, the presence of partners does not necessarily change this pattern. In fact, it can make things worse. Our first survey showed that more than two-thirds of the respondents who began with partners eventually split up. Conflict among principals was the chief reason. Understandably, therefore, these owners approach the idea of a subsequent partnership reluctantly". The model of the isolated owner-director, "with his nose to the grindstone", seems to us to still have considerable validity.

It is for this reason that the concept of the microcosm effect developed by Mahé de Boislandelle not only seems to us to be pertinent, but also a useful means of explaining the isolation and enclosure effects in SMEs.

The Microcosm effect is defined by the fact that the director of an SME generally focuses his attention on the immediate, in terms of both time, that is, the short term, and space, that is, whatever is closest to him either physically or psychologically. The Microcosm effect results from the director's high level of involvement in the organisation, the affective intensity of his relationships, the urgency perceived and the number of activities for which he is responsible. The Microcosm effect can also be seen in the relationships that the company develops with its environment. From an external point of view, the company's image is affected by the director's relational capital, which often plays a key role through his public, professional, social or political appearances. The Microcosm effect is similar to the concept of *environmental proximity* that Gueguen (2001) defines as an ensemble of external factors, perceived by the director, that emanate from key players who are close in terms of geographical and psychological distance, that are the subject of frequent and informal interactions and that have an incidence on how the company functions. It could be said that this is the ensemble of strong links.

The Microcosm effect also illustrates the fact that smallness in size often leads to an increase in the frequency of events liable to disturb the director's decisional activities. This can be explained by centralisation, which leads to further burdening the decisional agenda with short term problems. Drucker-Godard (2000) thus demonstrates, in his study into directors' day-to-day management of priorities, that to a certain extent centralisation is often represented by a strong emphasis on the short term and the operational. Small size thus exposes the owner-director more easily to daily disturbances and, as a result, prevents him from spending time thinking about strategy and looking at things objectively.

Directors of SEs often reason in the short term, preferring solutions that will work quickly to those of a more strategic nature whose positive effects are less immediate (over-estimation of the "Now" compared to the future). Similarly, their field of action is often limited to the environment closest to them, because it is at this level that directors think they have the most room for manoeuvre and that they have the highest level of control over the consequences of their actions (over-estimation of the "Here" compared to the "Elsewhere"). This Microcosm effect is strengthened by the single establishment nature of small-sized companies, which favours the pregnance of a point "Here".

The unity of place in SEs and VSEs suggests a strong correlation between organised space and physical space and allows directors to appropriate their companies to a great extent. The smallness of companies accentuates the *domestication* of their management practices and shows that they have created a "home away from home", a place of privacy *par excellence* where directors fully exerce their control, which makes personalised management possible. This partition (enclosure) effect also makes it possible to explain why certain directors of small companies seem to be allergic to the principle of giving details of how they operate. The 35 hours law in France[11] was seen by some bosses as a real intrusion by the State into the internal operations of the company. Similarly, as Charpentier and Lepley (2002) state, small companies are characterised by the absence of institutions representing the staff. "The trade's union representative is often reviled, particularly because he would introduce exogenous procedures to the micro-organisation" (Lepley, 2002). Smallness gives the functioning of the company a domestic nature where norms come directly from the authority of the company director, and are more rarely subjected to the principle of an external third party. Smallness thus reinforces the enclosures that separate what is inside from what is outside, which explains the high degree of isolation in which many SEs and VSEs function.

This isolation limits perception of external events and reinforces the weight of internal elements, thus multiplying the proxemic effects and, more particularly, the role and importance of the director, who thus becomes the kingpin on which the entire management system depends. It is this aspect that makes many specialists in the field of SMEs say that the management of SEs is highly personalised, thus leading to *acute proxemics*. This concept of "*acute proxemics*" results in a reduction of the director's field of vision because of his tendency to *systematically* over-evaluate all that is close and to under-estimate all that is distant.

These partition effects can be perfectly illustrated by the classic theories of SMEs. If we return to the six points mentioned above in relation to proximity (succession, growth, recruitment, financing and internationalisation and support networks), several theories have dealt with this phenomenon. For questions of succession, especially in family-owned companies, opening the capital to someone who is not in the family is often difficult, not to say impossible. Small, family-run companies are a perfect illustration of the ambivalence between proxemics (priority given to blood relations) and the risk of enclosure (the term "clan" is often used). In terms of strategy, certain authors mention the theory of limited growth, or a refusal of growth, when talking about small companies. More generally speaking, the result of the difficulties associated with recruitment in SMEs is often the risk

[11] As part of the law on the reduction of work time, the legal duration of the working week was decreased from 39 hours to 35 hours in France.

of exposing the director to a work overload and thus to both fatigue and solitude. In a study by Chassard (2003), three quarters of those questioned declared that when they have too much work, they manage on their own, as best they can. It is this isolation, and the over-work that results from it, that explains why directors of SMEs sometimes find it difficult to formalise their own needs. In terms of financing, many authors, such as Stiglitz and Weiss (1981), have developed the theory of the rationing of credit. Others have insisted on the inaccessible nature of the capitals markets: "Essentially, the capital-structure decision must be regarded as *residual* in that the owner of the small business does not have the choices available to larger firms with access to public capital markets. The small business finances where it can, always attempting to minimize the cost of that capital, but it is constrained by its limited access" (Osteryoung, Newman and Davies, 2001: 263). Similarly, according to Barton and Matthews (1989), although owner-directors prefer to finance their companies with internal financing rather than with external capital (loans or shares), it is to maintain the control of their company, the decisions that they must make as well as of day-to-day management. They thus prevent all investors from participating in these decisions by initially privileging internal financing. In terms of international development, crossing a national border, added to the linguistic and cultural differences that entails, are often seen as obstacles that are difficult to get round for small, and very small, companies. Bilkey and Tesar's exportation model (1977), based on proximity, also stresses the idea of "perceived barriers". Finally, regarding the support network, Gumpert and Boyd (1984) demonstrate how the director can find himself totally isolated. In Gumpert and Boyd's opinion, solitude represents a wall that separates the director very definitely from the rest of the world.

Conclusion:

It seems possible to summarise management of SMEs in terms of proximity management, on the condition that both dimensions of the term "proximity" be taken into account. That is, the proxemic effet (the priority given to what is closest) and the partition effect (the risk of enclosure or isolation). It is for this reason that we consider that the management of SMEs is situated somewhere between closeness and closure. Our modelisation of the management of SMEs demonstrates the interest of synthesising, in a single framework, both the advantages and disadvantages of SME management.

Taking the "proximity" factor into account when discussing the management of SMEs is part of a broader research trend that grants greater importance to relational aspects than to transactional aspects. In our opinion, the wall separates two spheres, one governed by relations, the other by transactions. It is precisely the importance and quality of these relations that are one of the key points of the analysis of the specificities of SMEs. Fuller even states that relations and personalisation are at the very heart of the specificity of the management of SMEs (Fuller, 2003, Fuller and Lewis, 2003). "Small businesses embody the personalities of their owners, and their ways of doing business with stakeholders are largely personal. The human "touch" and personal networks create the opportunity for enterprises with little market or financial power to stay more in control of their future" (Fuller, 2003). For Fuller, the futures of small business are deeply connected with the futures of the value of 'the personal' in society. These remarks coincide with those made by Gibb (1997: 18), "Managing relationships with the stakeholder networks (external and internal) is the very essence of management of the small company. A day spent with any owner-manager will reveal the numerous contacts, internal and external, that are integrated

into the web of the business activity. Networking and the “know-who” that goes along with it is the very essence of entrepreneurial activity and small business management and is fundamentally related to the survival and growth of the business. It is critical to the firm’s transactions costs, the development of trust and its credibility with its ‘community’. Later, he adds, “The very essence of small company management is the personal day-to-day handling of transactional and other relationships with networks of customers, suppliers, bankers, accountants, solicitors, agents, marketing channels, workers and regulatory authorities as well as (more intimately) acquaintances, friends and family” (Gibb, 1997: 18).

Our proxemic theory explains not only the importance of a hierarchy of relations in the management of SMEs, but also the tendency that SME directors have to remove themselves from the logic of the market. Resorting to the job market, the capitals market, the consultancy market and so on are often last resort solutions. Directors of SMEs do not like anonymous transactions. Whenever possible, they replace them with interpersonal relations based on links of proximity.

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THE IMPORTANCE OF SHORT TERM FINANCING SOURCES IN SMALL FIRMS

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ABSTRACT

Traditional theory based understandings of the use of external financing sources by business entities are most commonly informed by variations of agency theoretic approaches including the pecking order framework. This traditional understanding is that as firms become larger and more successful they are better able to overcome information asymmetry problems and also are likely to benefit from the tax advantages of debt over equity. Consequently they rely more on external debt.

This paper reports results (from the analysis of a large Australian database) that explore differences in the equity and debt structure of small firms. Initially the paper provides descriptive detail of financial structure groupings that identify four principal groups with significantly different core financing (the bank loan debt group; the related persons debt group; the short term debt group and the working owner equity group). Results are presented of analysis that seeks to identify associations with a range of variables likely to be associated with a firm's membership of one of the financial structure groups. Included are size measures, age, asset tangibility, industry, profitability, liquidity, growth, risk, business practices, and, owners' characteristics.

Expectations from theory are that, for most of these variables, higher (better performed) values would be associated with the bank loan debt group. The results, however, indicate that the larger, better performing firms are in the short term debt group. This implies that small firms may not take advantage of the information asymmetry advantages they gain through size and performance to increase external medium to long term borrowing. Rather they seem more likely to use the benefits of their size and performance to develop stronger short term relationships with product and service suppliers (through trade credit) and finance providers (through short term and overdraft bank borrowings). These results are most closely associated with the pecking order framework approach to understanding small firm financial structures, although the strength of the reliance on short term sources is greater than that expected from traditional considerations of that framework.

The Importance of Short Term Financing Sources in Small Firms

INTRODUCTION

To fund any firm's operations (including the production of goods and/or the provision of services), financial resources are required (Vickers, 1970). These financial resources are acquired either: a) in the form of debt, the cost of which is the interest paid; b) in the form of equity which has a cost represented by the providers required rate of return (Reid, 1996); or c) in most cases as a mix of both debt and equity. For publicly traded firms, equity is most commonly acquired through public share markets and is generally separated into external equity (direct contributions by shareholders) and internal equity (accrued profits and cash flows not yet distributed to shareholders). Debt may also be acquired in a number of ways, with a major distinction usually made in respect of maturity (i.e. the distinction between short-term and long-term debt) and debt source. The latter (public firm debt sources) are identified by Denis and Mihov (2003) as being primarily (i) bank, (ii) non-bank private lenders (generally institutional lenders that provide debt that has qualities associated with both bank and low grade public debt), and (iii) public debt offers such as debentures (see Bolton and Freixas, 2000). The final mixture of funds acquired from both debt and equity constitutes the firm's capital structure (Peirson *et al*., 2002).

There appear to be two major differences from these large firm circumstances when considering the financial resources of small firms. Both are associated with the dominance of personal shareholdings. First, equity funding is not accessible through organised markets and most privately held firms need to rely on a single owner or small informal groups to provide equity funding. Second, the debt sources available to privately held firms are not as expansive because public debt is generally not available. Also small firms' source of non-bank lenders is likely to be family and friends rather than institutional lenders (Cosh and Hughes, 1994; Storey, 1994). Where institutional fund sources are used they differ from the debt of large firms in that they often have to be supported by guarantees or collateral from the owners' personal wealth (Avery *et al*., 1998; Cosh and Hughes, 1994).

The research reported in this paper is based on the analysis of a comprehensive data set and was concerned with the categorisation of firms into groups defined by dominant funding sources and associations between those groups and a range of potential influencing variables. There was also a secondary purpose that was concerned with the potential of using group membership as an alternate to attempting to understand financial structure in small enterprises by focusing only on one dimension of funding such as a leverage ratio and then treating all firms as an homogenous group (as, for example, in Cassar and Holmes, 2003; Lopez-Gracia and Aybar-Arias, 2000; Chittenden *et al*., 1996; Hall *et al*., 2000; and Michaelas *et al*., 1999).

Results of the analysis have confirmed the presence of financial structure groups as well as identifying associations with most potential influencing variables. The focus on financial structure groups also appears to provide significant insights into financial structure that are not captured by traditional single measures. The major finding of the study is confirmation that the financial structure outcomes in small firms are influenced by different factors than

those that influence large firms. These differences include the absence of a separation between ownership and control, the dominance in decision making of the owner managers' attitudes favouring independence and control aversion, and the use of other personal wealth assets by owners to support borrowing.

Expectations Regarding Capital Structure of Publicly Traded Firms

Theories of capital structure as they apply to large publicly traded firms can be categorised as the agency theoretic framework, the static trade-off model, and the pecking-order hypothesis (Booth *et al*., 2001). Each of these theoretical frameworks offers a range of logical explanations about the capital structure of large publicly traded firms. While there is obviously a potential influence generated by taxation benefits and distress trade-offs as suggested in the static trade-off model (Chirinko and Singha, 2000), this seems to be significantly eroded where an imputation or flow through taxation system exists (as it does, for example, in Australia). The other two explanations both rely on agency relationships, but differ in the focus of those relationships. The agency theoretic framework focuses on both: (a) the type of monitoring and debt choice influences generated by managements' desire to favour equity holders (Cassar and Holmes, 2003); and, (b) the debt consequences of potential perquisite consumption problems arising from free cash flow circumstances and managerial investment in firms (Novaes, 2003). The pecking-order hypothesis in its explanation uses the recognition that agency costs change for different funding sources and that the firm first uses sources with the lowest agency cost (Frank and Goyal, 2003).

Influences on capital structure that emerge from these various theories and that have been the subject of empirical research include size, age, governance, asset tangibility, industry, taxation, profitability, liquidity, growth, risk, and business practices. However, analysis of the results often suggests that the interaction of theoretical explanations and potential influencing variables related to capital structure does not depict a clear relationship (Booth *et al*., 2001; Graham and Harvey, 2001). While evidence exists to suggest all of the influences discussed were associated with differing capital structures it was often not clear which was the more common direction of the relationship. Consistent with the confusion concerning associations with influencing variables, it appears that no one theory dominates, but that each contributes in different ways to an understanding of capital structure (Hovakimian *et al*., 2001; Frank and Goyal, 2003). However, agency explanations, while not dominant, could potentially be most useful. As indicated above, it seems to be the agency aspects of the pecking-order hypothesis that are important, and even from a static trade-off perspective it seems that the agency considerations related to distress costs are of greatest importance.

Expectations Regarding Financial Structure of Privately Held Firms

As is the case for large firms, each of the theoretical explanations for financial structure in privately held firms had a logical focus that helped to understand the overall situation, but none seemed complete (Reid, 2003). However, given the limited explanatory capacity of the static trade-off approach and the agency focus of the other theories it might be that an overall explanatory framework seems best developed from an agency theory perspective of the pecking-order hypothesis framework. Also analysed were potential influences on financial structure that emerge from these various theories. Potential influences include those identified in the discussion of large firms (size, age, governance, asset tangibility, industry, taxation, profitability, liquidity, growth, risk, and business practices) plus an influence related to owner characteristics.

An important aspect that emerged from the review of financial structure theories and influencing variables was that, while each of the theoretical perspectives contribute to understanding financial structures, the influences that create the frictions are different for small privately held firms when compared to large publicly traded firms (Berger and Udell, 1998; Cosh and Hughes, 1994). The management perquisite control aspect of debt that is important in explaining large firm capital structure is not important for small firms because, for the majority of small firms, there is no separation of ownership and control (Ang, 1992). While the agency conflict between equity holders and debt holders still exists, the monitoring and control reactions of funds providers are different. The magnitude of agency costs is likely to be higher because of greater information asymmetry problems. However the fund provider response can be directed to owner collateral and guarantee mechanisms rather than being restricted to firm based covenants (Berger and Udell, 1998). Also the acceptance or otherwise of debt options by small firms will be heavily influenced by the owner/managers' attitude to control and independence as well as being associated with the owners' personal wealth (Avery *et al*., 1998). These same attitudes are likely to be a stronger influence in defining pecking orders than the information asymmetry, risk exposure and signalling capacity that are used to explain pecking order in large firms. Also more important than for large firms is the influence of position in the business life cycle, and also the possible reliance on funding sources outside the institutional market.

These differences also bring into question the appropriateness of a simple dichotomous measure such as leverage (even if explored from different dimensions) to capture the underlying complexity of the financial structure of small firms. The preceding discussion suggests that many small firms will have a financial structure dominated by the owner's equity contributions although some will move toward a greater reliance on debt. However debt is likely to be sourced from non-bank private sources and be of a short-term nature. There is not likely to be a clear substitution of debt for equity as is implied in the leverage construct usually used as a dependent variable in large firms.

DATA

The analysis in this study utilizes results from the Business Growth and Performance Survey (BGPS) developed by the Australian Bureau of Statistics (ABS) on behalf of the Australian Federal Government's Office of Small Business. The survey collected data for the first time in respect of the 1994-95 financial year, which was "the first of a planned five year annual series" (ABS, 1998, p.32). However, only four years data was collected, although questions in the first survey about prior year activity does enable use of up to six years data for three main variables (employment, exports, and sales). The principal purpose of the surveys was "to provide estimates on the growth and performance of Australian employing businesses and to identify selected economic and structural characteristics of these businesses" (ABS, 1998, p.32). Data from the BGPS has already been used in finance and performance related research by McMahon (2001), Gibson and Cassar (2002), and, Cassar and Holmes (2003), among others.

The availability of such a database is a significant advance in understanding issues associated with small firm finance. As Berger and Udell (1998, p.617) suggest the informational opacity that makes the study of small firm finance of interest has also been a contributing factor to the difficulties of such study. Included amongst such difficulties are circumstances such as the absence of trade in securities, the absence of publicly available financial details, and the generally private nature of contracts. Also, unlike the study of

large firm finance issues, there are often no major data sets available. The BGPS overcomes some of these difficulties by utilising a major data set that has a large number of firms, is longitudinal, and provides aggregate financial details for up to four consecutive years. It does not overcome the difficulties created by the absence of trade in ownership stakes or the capacity to identify the private nature of contracts. It also raises some additional difficulties associated directly with the recorded data.

One of the initial difficulties associated with using the BGPS data as the basis of analysis was to determine which of the available years should be used. In the end, only two years data were used because of significant differences in the wording of the questions (in the first two surveys compared with the last two) relating to the proportions of funds from various sources used in the business. Specifically there was no information gathered about the separation of funds from bank and other financial sources into short term and long-term sources in the earlier surveys.

The specific source of the data used in the analysis was the Business Longitudinal Survey (BLS) Confidentialised Unit Record File (CURF), made available by the Australian Bureau of Statistics (ABS). As described more fully in the documentation accompanying the CURF (ABS, 2000, p.3), included in the scope of the survey were all non government business units in the Australian economy except for businesses not registered as group employers (non employing businesses) and certain ANZSIC industry subdivisions (primarily agriculture, education and community services). Across the four years of data, available records exist in the CURF for 9,732 firms. There were 5,530 firms active and available for the cross sectional analysis of the 1997-98 results reported in this paper.

RESULTS

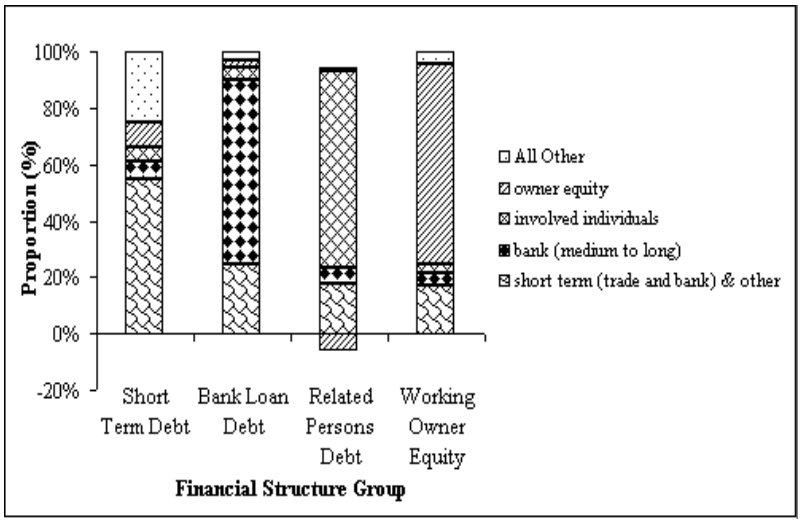


Figure 1 - Group Funding Proportions

The first stage of the study was to use cluster analysis on computed fund proportions to ascertain if groupings of distinguishable financial structures could be identified. Cluster analysis is an analytical technique for developing meaningful sub groups of individuals or objects (Hair *et al*., 1998, p.15). K-means clustering was used, as it is the most appropriate procedure when there are a large number of cases (SPSS Inc. 1998). In prior research in Australia, Kotey (1999) had identified three clusters, while Gibson (2002), using the same database that is used in this study but a different set of sample parameters, had settled on five. Accordingly, cluster analysis processes specifying from 3 to 6 clusters were applied and a visual inspection of results was used to determine the most informative structure. A four-cluster solution seemed appropriate as a consistent basis of classification. The cluster groups and their relative major funding proportions are indicated in Figure 1.

The first group is described as *Short Term Debt* because it is the combination of trade creditors, bank loans (short term and overdraft), and other debt that dominates the fund sources (collectively around 55%). This is the largest group and represents around 45% of all firms. The second group is described as *Bank Loan Debt* in which the largest proportion of funds (approximately 66%) is in the form of bank loans (medium to long term). Around 15% of firms in the sample are in this group. The next group reflects the reliance on shareholder loans in small business and is based on loans from involved individuals (around 79%), hence the label *Related Persons Debt*. There is also a very low level of negative equity in the firms in this group. This is the smallest group with only around 8% of the sample in the group. The final group is described as *Working Owner Equity* because of the strong reliance on that source of funds (just over 70%). This is the second largest group with just over 30% of all firms in this group.

To provide comparability with more traditional measures of capital and financial structure (for example, leverage), group averages for different interpretations of these traditional measures were determined and are presented in Table 1. Considering initially the aggregate results: debt (defined using the complete financial structure base that is central to this study and which includes short-term trade credit) is just under 67% of total funding. However, traditional leverage measures do not always include trade creditors as a short-term funding source. Consequently various interpretations of traditional debt based proportions using total funding without trade creditors are also provided. Total bank debt (around 30% in aggregate) is separated into long-term and short-term. Also shown separately is total debt (around 58%). This is lower than the financial structure base because of the omission of the trade credit proportion from both the numerator and denominator. Finally, because of the potential importance of owner influences in small firm financial structure outcomes, the sources have been presented from an external (to the owner) perspective that indicates an aggregate external funding of about 56%.

Table 1 - Aggregate Financial Structure Summaries by Groups

	Short-term Debt	*Bank Loan Debt*	*Related Persons Debt*	*Working Owner Equity*	*Aggregate*
Financial Structure Base	74.39	96.95	107.80	27.65	66.45
Traditional Base[a]					
Long-term Bank Debt	8.93	75.97	7.36	4.91	19.13
Short-term Bank Debt	18.37	9.61	5.99	4.09	10.86
Total Bank Debt	27.30	85.57	13.35	9.00	29.99
Total All Debt	63.39	96.46	109.02	19.30	58.07
External[b]					
Short-term external sources	42.88	21.82	18.72	14.02	28.69
Long-term External Sources	27.97	69.28	7.73	8.72	27.12
Total External Sources	70.85	91.10	26.45	22.74	55.81

a - excludes trade credit from the denominator

b - external sources exclude provisions, loans from parent companies, loans from involved individuals, working owner equity, non working owner equity (family and non family) and equity from parent company

The group-by-group means reported in Table 1 highlight the important disparity between the financial structure patterns evident in the four identified groups. From a traditional leverage perspective (total all debt), the two major financial structure groups range from around 64% (*short-term debt* group) to about 20% (*working owner equity* group). The other groups have even higher leverage ratios with the *related persons debt* group actually having a leverage ratio of over 100%. Using the distinction between internal and external sources as a potentially more appropriate indicator of small firm financial structure reveals similar disparities with the *related persons debt* and *working owner equity* groups using only around 26% and 23% respectively of externally sourced funds while the other two groups are completely opposite, relying on high levels (between 70% and 91%) of external funds.

These results are significant because they give a first indication of the nature of the differences in financial structure outcomes in the small to medium sized firm sector. To the extent that debt proportions (leverage ratios) are used to reflect financial structure, there is a group of firms that will have high proportions because of the existence of related persons debt. When focusing only on bank debt or external debt these firms drop to the lower end of the range of proportions. Different associations with influencing variables might be expected depending on the ratio chosen.

The results also show that there is a group (the *short-term debt* group) that, as its name implies, has the highest levels of both short-term debt and short-term external sources, but is not highest in respect of traditional leverage measures.

Analysis of group membership at both the single variable and multiple variable levels was used to identify associations with influencing variables. Single variable analysis involving categorical variables used Chi square measures of association. For the single variable analysis of continuous independent variables a parametric ANOVA test was used. The main multiple variable analysis technique used was that of multiple discriminant analysis.

However, an alternative approach was considered useful because of the number of identified categorical variables that appeared to be statistically significant but had to be omitted from the multiple discriminant analysis procedure because they did not satisfy the assumptions of that technique regarding independent variables. Multiple logistic regression was used as the alternative approach.

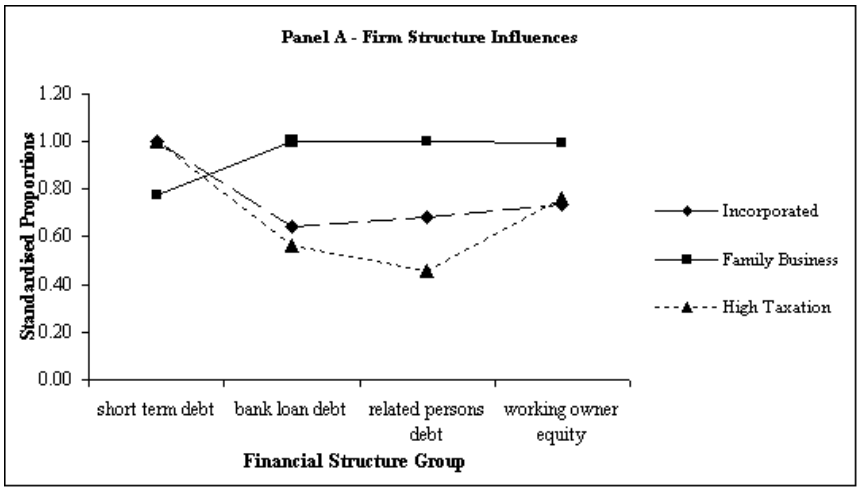
From the single variable analysis using a statistical significance of $p < 0.001$, financial structure group membership was associated with structural influences that include all of the alternate size variables (sales, employees and assets), age (measured as a continuous variable), several categorical measures of governance, asset tangibility measures including capital expenditure on tangible assets, the estimated tax range of the owners, and depreciation as a tax shield. From an operational influences perspective, the single variable analysis also identifies associations with profitability (both as an absolute and a relative measure), liquidity, growth intentions (but not past growth of either sales or employees), risk (but only when using a default risk proxy and not when using an operating risk measure), operating and innovative business practices, and owner characteristics related to human capital (experience and education).

A summary of the major associations at the single variable analysis is contained in the following figures. Figure 2 focuses on variables with continuous measures and is separated, to aid interpretation, into firm structure influences (Panel A) and firm operating influences (Panel B). The graphs in these panels compare the standardised means of the variables across the groups. The standardised means set the reported value at one for the group with the highest mean, and then computes the reported value for the other groups by dividing the mean of each group by the mean of the group with the highest mean.

Figure 3 focuses on categorical variables and is also split into firm structure influences (Panel A) and firm operating influences (Panel B). The graphs in these panels compare the standardised proportions calculated in a similar manner to that used to determine the standardised means.

Analysis of the results summarized in Figures 2 and 3 also provides the basis of a profile of each group.

Firms in the *short-term debt* group are the largest firms and have, by a significant margin, the highest average sales (and, although not shown in Figure 2, the highest average employment and total assets). They are also the oldest firms (although the age difference is not large across groups) and despite having higher absolute levels of capital expenditure (not graphed) they have the lowest asset tangibility proportion. Firms in the *short-term debt* group also have the largest average earnings when adjusted for owners' remuneration and interest although they have (with the *bank loan debt* group) the lowest return on assets and also have lower liquidity and default risk measures. They are also more likely to be incorporated and be in the higher taxation bracket but are least likely to be regarded as family businesses. This group also has the highest proportion with a positive growth intention and are more likely to engage in both operating and innovative business practices. Although not shown in either Figure 2 or Figure 3, results of analysis by industry indicate that the *short term debt* group is a more prominent group within the wholesale trade sector and also well represented in the mining and manufacturing sector, but is not prominent in the accommodation, cafes and restaurants sector.



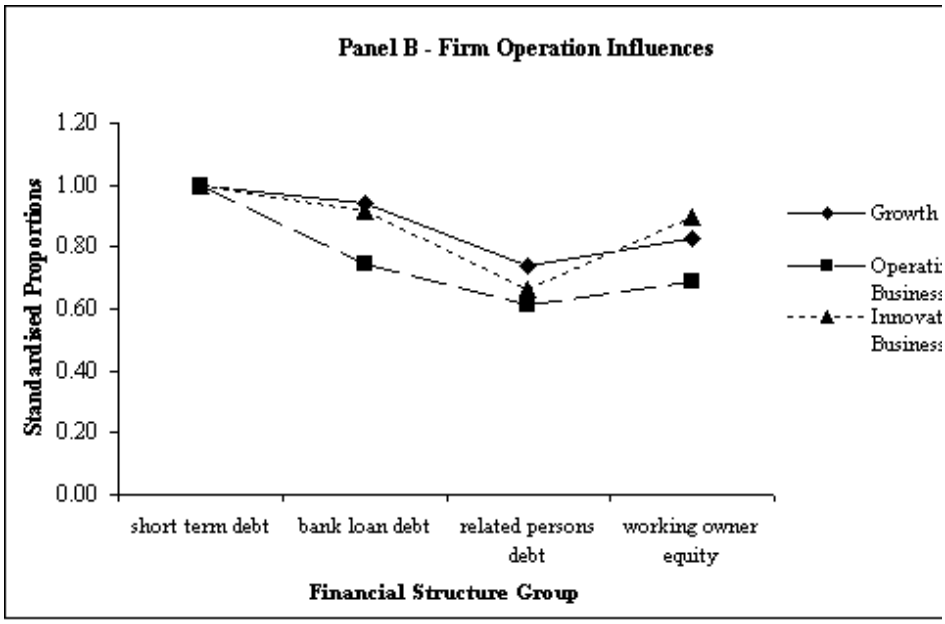
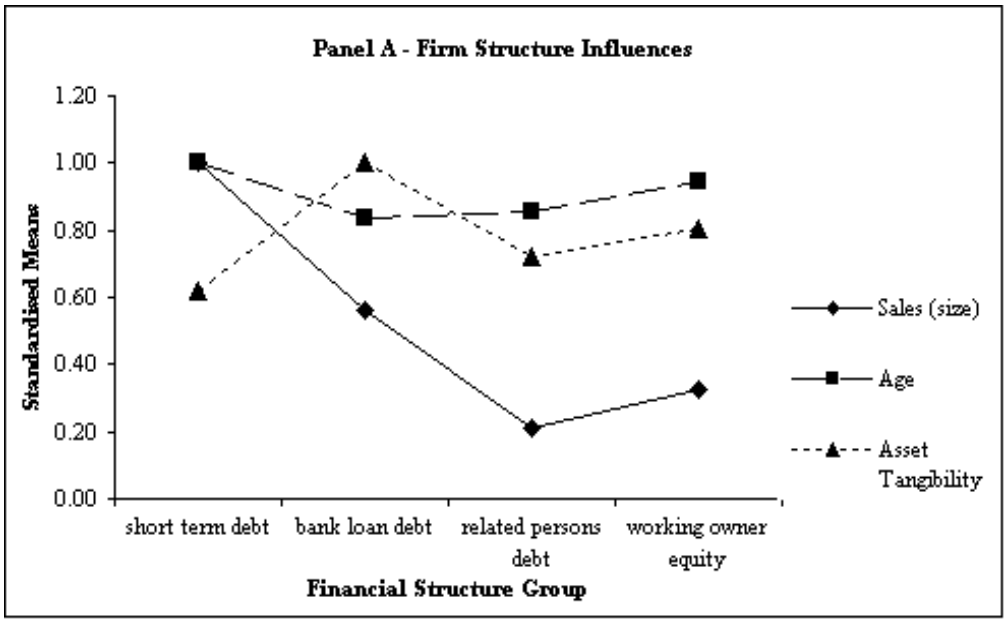


Figure 3 - Categorical Measure Influencing Variables and Groups



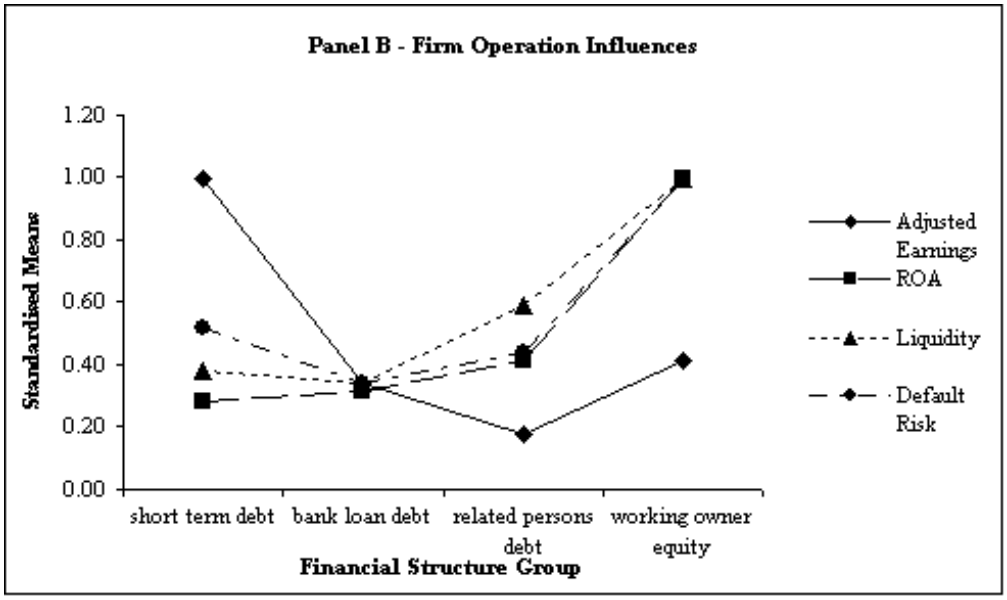


Figure 2 – Continuous Measure Influencing Variables and Group

The *bank loan debt* group is associated, as anticipated, with the highest asset tangibility (and, although not shown, the strongest depreciation tax shield and higher levels of capital expenditure), but has no other dominant association. Firms in the group share lower return on asset values (with firms in the *short-term debt* group), and have the lowest average of all groups with respect to liquidity and default risk. There appears to be some industry effect with stronger representation in the retail trade, accommodation cafes and restaurants, transport and storage, and cultural and personal services sectors. It is under represented in the wholesale trade sector.

The *related persons debt* group tends to consist of the smallest and lowest profit firms and therefore have the lowest proportion in the highest taxation category. Firms in this group also have lower proportions of firms with growth intentions and lower proportions of firms that engage in both operating business practices and innovative business practices. There is a slightly higher representation of this cluster in the accommodation, café and restaurants and property and business services industry sector.

Finally the *working owner equity* group seems to be more strongly associated with higher relative profits (return on assets) but are only second ranked with respect to absolute earnings. Firms in the group have the strongest liquidity but also have the highest levels of default risk. Apart from having a high proportion of firms that regard themselves as a family business, firms in the group are mostly second ranked for other categorical measures. They also tend to be smaller (but not the smallest) firms in terms of size measures. Finally the group it is more represented in the construction, the property and business services, and the cultural and personal services industry sectors.

Reinforcing these group relationships were the results of the multiple variable analysis. Discriminant analysis results confirm the existence of the different financial structure groups and suggest the existence of predictive discriminating functions. The major discriminating variables are in respect of liquidity (using the logarithm transformation of the working capital ratio), tangibility (an arcsine based transformation of tangible to total assets structure), size (the logarithm transformation of sales), risk (measured by an Altman (1968) Z score based estimate of default risk) and owner characteristics (using owners' years of experience). Multiple logistic regression results confirm, for most variables, the results identified in the single variable analysis especially with respect to the omission of growth and operating risk variables.

DISCUSSION

A major implication of the results discussed above is that, while there are statistically significant associations, many are not as anticipated by extant theory. The agency theoretic approach, for example, generally predicts that larger and more profitable and liquid firms use those advantages to overcome information asymmetry problems and hence carry higher levels of long term bank debt or at least greater levels of external funding (from the owner perspective). However, the results of this study did not support these predictions. The larger, more profitable and more liquid firms were not the greatest users of long term debt or external fund sources but they were the greatest users of either short term funding sources or working owner equity. These results support the importance of *short-term debt* as a major funding source in small firms that is not evident in large firms.

From a theoretical perspective, it is the pecking-order hypothesis that seems to be best supported by the results. Older and more profitable firms are associated with groups that use less external debt, supporting the expectation that firms in the small firm sector are likely to use surplus cash flows to minimise or reduce their reliance on external finance. This is consistent with the influence of owner attitudes to independence and control aversion.

These results also highlight the inappropriateness of using continuous measures of dichotomous relationships to reflect financial structure in small firms. The presence of related persons debt in a significant number of such firms is the first confounding issue if these types of measures are used. Recognising loans from involved individuals as debt is likely to blur true relationships because, as shown in the single variable results, the *related persons debt* group has characteristics that are more closely aligned to the *working owner equity* group than to the other debt based groups. It is therefore essential that the use of a continuous measure be based on external funding rather than the more generic debt focus of much past research. Even the use of an external source measure does not avoid further

complications created by the presence of such a large number of firms in the *short-term debt* group. While these firms do tend to have more institutional debt and external funding than the *working owner equity* group, they do not have as much as the *bank loan debt* group, yet it is this *short-term debt* group that is associated with size and performance measures generally associated with higher debt levels. The funding relationship does not have the linear relationship that is assumed in many prior research studies.

There are a number of implications for researchers that follow from this study. As indicated above, care needs to be taken when trying to use a simple continuous variable such as leverage to capture a complex non-linear relationship. Greater emphasis needs to be placed on the influences of short term funding sources and the recognition that, with the exception of those associated with the pecking-order framework, agency cost considerations do not appear to be important in understanding the financial structure of small firms. Importance seems more appropriately directed toward the independence and control aversion approaches of owner/managers. Also important is an improved understanding of the changes that occur over time and why they occur.

It is also important to identify that traditional measures of growth and risk do not seem to capture those constructs well. However there are growth (intentions) and risk (default) variables that do reflect associations with financial structure. More work is needed to improve the development of variables that accurately reflect these dimensions of small firms. Also, while the theoretical arguments for the influences of owner attitudes to independence and control have been highlighted in this paper, measuring such attributes was achieved through weak proxies and there needs to be a greater endeavour to develop variables that more accurately capture these dimensions.

From a public policy perspective the implications of the findings in this study are that financial requirements are neither homogenous nor static. To the extent that policy makers seek to address financial problems in the small enterprise sector they need to be aware of the different needs of different groups that are not always identifiable by demographic variables such as industry and age. If firms with positive performance outcomes such as earnings and liquidity are the focus of policy support, they are more likely to be located in groups that rely primarily on short-term debt or owner equity. The constant policy focus on the relationship between institutional long-term debt providers and small firms may be inappropriate. A more appropriate focus may be on supporting access to the fund sources preferred and used by successful small firms such as trade credit and bank overdrafts.

CONCLUSIONS

This research presents an analysis of possible financial structure relationships. It is clear that there are distinct categories based around certain dominant funding sources. These are short-term debt, bank loan debt, related persons debt, and working owner equity. Firm membership in these groups is associated with many simple demographic or performance variables. There are strong associations with industry, profitability, tangibility, size, age, governance, liquidity, growth intentions, default risk, business practices and owners' characteristics but no clear association with past growth or operating risk measures. Some of these results could be influenced by poor specification of the variables used in the study. Consequently, the true underlying relationship may not necessarily be reflected in the results, which paves the way for more detailed study. Notwithstanding these possible limitations, the results clearly identify different finance structures in small firms and support

the agency aspects of the pecking-order framework as the most useful theoretical explanations for those differences.

The results have identified a need to change the focus of research and policy development that is concerned with the financial structure and financing activities of small firms. Small firms need to be understood from a perspective that recognizes diversity in financing activities, a diversity that cannot be captured by a simple approach based on the substitution of debt for equity. The identification of clearly different financial structure groups is a significant contribution to that improved understanding.

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SMALL BUSINESS TECHNOLOGY TRANSFER FROM NATIONAL RESEARCH INSTITUTES AND UNIVERSITIES

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ABSTRACT

Research was conducted to document the processes and activities used by Korean small and medium size businesses (less than 200 employees) transferring not fully developed (incomplete) technology from Korean National Research Institutes and Universities. A conceptual model of the technology transfer process was built from a literature review and a preliminary survey. This model was tested by in depth interviews of Korean small and medium size machinery firms transferring incomplete technology from public research institutes and universities. It was determined that the model of the external technology transfer process used by the Korean firms followed five distinctive stages: Awareness, Evaluation, Contract, Formal Transfer, and Application. There were some differences from the conceptual model conceived from the literature review. It was learned that the role of the National Research Institutes and Universities changed during the process from a technology educator in the Formal Transfer stage to a co-developer in the Application stage. The National Research Institutes and Universities also performed a technology consultant role when the firms tried to apply the technology to specific products. The small business' role changed from selector to learner to applier. Learning occurred most during the Evaluation, Formal Transfer, and Application stages; while knowledge creating occurred most during the Evaluation and Application stages. The time required for the complete transfer process was twice the original estimated time for transfer with the most time required for Evaluation and Application. The firms consider technology transfer as being successful if a satisfactory prototype was developed and sufficient technological knowledge was obtained. Firms felt that their absorptive capacity was the most important factor for a successful technology transfer. Recommendations include utilization of the authors' technology transfer model by the National Institutes and Universities in planning technology transfer to small and medium size businesses.

INTRODUCTION

Interest in outsourcing technology is increasing due to today's business environment and some implementation successes. Outsourcing can provide increase technology diversity for a firm to achieve its business strategies. Even though external technology may have features that interest users, technology is often not readily transferable and may not be easily integrated into the user's mainstream business.

Until recently, many Korean corporations and R&D laboratories had undertaken external technology acquisition efforts on an ad hoc basis, often without strategic planning and appropriate transfer management. One of the most important tasks in external technology acquisition is to successfully integrate the new technology into the mainstream practice of the corporation and to ensure organizational learning and improvement for its next business stage. The primary focus in external technology acquisition is not in finding and acquiring the technology but in successfully nurturing and exploiting it after it has been acquired. Many aspects of technology transfer have been studied (Parente, 1994). Most of the studies have focused on the reasons for outsourcing and on the acquisition methodologies. Although much is known about the types of external sources and transferring mechanisms, few studies address the user's internal process for absorbing and applying the external technology. In order to reveal all aspects of technology transfer, the user's internal activities demand further study. Managing the technology transfer process unavoidably requires a better understanding of the activities within the process.

LITERATURE REVIEW

Studies of the flow of external technology within a user's organization and of factors affecting the user's next steps in the process are rare. Many studies of external technology transfer are taken from specific case studies or mathematical modeling. The focus is mainly on the reasons for outsourcing, the merits and disadvantages of external technology, and the various transfer or cooperation mechanisms. Detailed interaction mechanisms are not mentioned in these studies because researchers have neglected to consider the internal activities of the receiving firm. Previous studies on external technology are well summarized by Lucien. Several studies stressed the importance of receiving a firm's internal activities to the successful transfer and utilization of external technology (Cohen, 1995). Some studies focused on the roles that internal R&D plays in the effective transfer (Cohen, 1990). Other studies stressed the successful utilization of external technologies after transfer (Chatterji, 1997). Some authors showed empirical evidence that external technology acquisition was more successful when it was combined

with internal R&D (Faulkner, 1995). Even though these studies stressed the importance of internal R&D involvement, the detailed mechanisms of interaction were not analyzed. A couple of studies have examined external and internal sources of technology at the same time and have tried to show the relationship between these two innovation sources (Kurokawa, 1997). In their studies, the authors treated the internal technology source as a fixed unit rather than a flexible unit that changes according to the type of external source and the transferring status. The authors show decision criteria by which a firm decides to buy technology from external sources or to develop it by itself, and the situations and conditions that best allow the two sources to be integrated (Kurokawa, 1997). Trott showed a firm's inward technology transfer process using four perceptual processes in his case study on the chemical industry: awareness, association, assimilation, and application. This is one of the rare attempts to reveal the interaction mechanisms within a user's organization. This technology transfer activity, adoption of new technology and integration into the user's mainstream business, was an organization learning process. Many studies have been done on the organizational learning or knowledge-creating process, even though there has not, until now, been one complete theory (Argyris, 1994; Kim, 1993). Many of these authors stress that organizational learning is a critical element for survival in the rapidly changing business environment. As the business environment becomes more turbulent and more complex, the need for organizational learning accelerates and must be rapidly adjusted to the changing environment. Various models and processes for organizational learning and knowledge-creation were suggested in these studies. Previous studies of the organizational learning were well summarized by Neilson. Argyris suggested two types of learning models in the workplace: single-loop learning and double-loop learning. He explained, "double-loop learning asks questions not only about objective facts but also the reasons and motives behind those factors; while, single-loop learning asks a one-dimensional question about objective facts to elicit a one-dimensional answer." Schroeder and Congden studied five manufacturing cases that adopted the same technology under Argyris's learning model, and concluded that double-loop learning was more efficient when adjusting to a major new technology. Kim suggested an integrated model for individual and organizational learning under the framework of Kofman's learning cycle for individuals (observe, assess, design, and implement), Draft and Weick's model on the learning process of an organization (scanning, interpretation, and learning), and Argyris's single and double-loop learning. Kim also argued, "the learning process is fundamentally different at the organizational level, even though the meaning of the term "learning" remains essentially the same as in the individual case." Several authors tried to connect the organizational learning with the external technology acquisition or alliance (Steensma, 1996). Steensma suggested an interplay model between the level of collaborative interdependence and dominant learning modes for user's technological competency development. Levinson and Asahi suggested four steps for inter-organizational learning in alliance (aware and identify, transfer and interpret, use, and

institutionalize) and explained the factors that affect the learning (culture, structure, technology, and absorptive capacity). Even though these authors effectively explained organizational learning and knowledge creation, most studies were done conceptually and lacked empirical evidence for their arguments.

RESEARCH DESIGN

The purpose of this study is to analyze how not fully developed (incomplete) technology[1] is transferred into and incorporated into a user's organization. By studying the procedures and processes used in multiple cases that involve acquiring external technologies, it will be shown how the user's internal activities are affected by the external technology and vice versa. Following the literature review, twenty nine (29) firms who had transfer technology from a Korean public research institute were surveyed. The brief written survey was used to collect preliminary information on the technology transfer process. This data was analyzed and used to prepare for indepth personal interviews conducted over a month period following the year in which the firms had participated in the technology transfer program sponsored by the Korean Ministry of Science and Technology[2]. A total of nine (9) firms in the machinery field were interviewed in-depth to find out detailed content~~s~~ of the technology transfer activities between the firms and the public laboratory. These firms were located in Korea and were not concentrated in a particular geographical area. All firms were small and a medium-sized firm, i.e., total employees does not exceed two hundred (200), according to the guidelines established by the Korean government. All firms interviewed transferred technology from either a Korean national research institute or a Korean university. The institutes and universities developed the transferred technology originally without any specific firm's usage. The selected interviewees were those who had participated in the firm's technology transfer process; most of the interviewees were CEOs (Chief Executive Officer).

RESULT OF STUDY

Stages of Technology Transfer Process.

[1] Technology that fundamental principals are known, but additional developments are needed to be used for a certain commercial purpose

[2] Central government organization in Rep. of Korea which is mainly in charge of science and technology development of national level (**www.most.go.kr**)

Based on the literature review and the preliminary survey, it was proposed that the total process of each firm's technology transfer and application could be classified into the following distinct stages: 1) the Awareness stage, 2) the Evaluation stage, 3) the Contract stage, 4) the Formal Transfer stage, and 5) the Application stage. The five distinct stages could be confirmed through in depth personal interviews to determine details of each stage. Each stage has specific activities that were carried out and events that were held to be important were: to become aware, evaluate, make a contract, transfer formally, and apply external technology during a certain time period.

In the Awareness stage, the user firm becomes aware of the existence of the external knowledge. It becomes aware of which organization has the technology and generally the content of the technology. Such awareness may occur unexpectedly or intentionally. Some firms say that they became aware of the existence of technology as they collaborate with the source organization on other projects. Some firms obtain information by chance while attending technology exhibitions, symposia, or seminars. Other firms say that they had sought specific technologies to solve urgent problems, such as those related to quality improvement or production cost reduction. The Awareness stage could last a relatively long time if the potential user firm has no immediate plans to utilize the external technology even though it knows of its existence. When the demand for applying a technology is high, the time spent in the Awareness stage on one technology is relatively short. There were three (3) such firms in the study that had an urgent need for specific technologies. These firms began the evaluation as soon as the existence of technology became known. In one case, the firm had a very urgent need for technology that could solve a defect in a product. The firm was contacting various sources and searching for various solutions for the problem. Most of the time spent in the Awareness stage was looking for and comparing various technologies.

If a firm has interest in using a technology, whether it has become aware of it by chance or intentionally, the user firm will begin to formulate a plan for possible application of the technology. In some cases, the user firm already has a clear target application, which stemmed from the user firm's own assessment of a specific future benefit, an urgent market demand, a need to respond to a competitor, or a suggestion by the technology source. When a potential user firm senses that it can achieve an intended target by applying external technology, the Evaluation stage begins. In this stage, more detailed data and information on the technology are required to make an in-depth assessment of whether or not the technology has the potential capacity with further development to provide the desired needs when applied to the target application. At this stage, the potential user firm tries to catalogue the potential capabilities of the technology for application to the target as clearly as possible. It attempts to carry out all aspects of the new product development process to the extent possible including whether the technology

is applicable, whether the application will be easy or not, and whether there is a market for the new product. The user firm also tries to estimate the costs and the amount of time that will be necessary to execute the whole technology transfer and utilization process. The capabilities of the external technology, the impact on the target, and the budget are all interrelated. Where possible, adjustments are made in the analysis at this stage of these three items until the potential user firm arrives at a conclusion that the technology is feasible for the target application. The user firm also tries to check the source organization's other technological capabilities in case assistance is needed for further development or modification during application. If the potential user firm does believe that the incomplete technology is questionable for the target application, it tries to research other technologies or sources.

Negotiations related to technology transfer start when the potential user firm concludes that the external technology and its source organization can provide valuable benefit for the intended target. If a technology receives a favorable assessment by the user firm after review of further information, the source organization and the firm negotiate the terms and conditions for transferring the technology. In the Contract stage, the source and the user agree on a plan for technology transfer and utilization. During negotiations, firms must often balance minimizing technology transfer fees with maximizing support from the technology source. Firms report that negotiations with public research institutes are generally not as difficult as negotiations with private companies. Usually public research institutes welcome the commercialization of their technologies[3]. They also expect a continued cooperative relationship with user firms with whom they have agreed to supply their technology.

External knowledge transfer begins full-scale once all parties involved have formally agreed to the contract. In the formal transfer stage, the source provides its technology to the user as contracted. Various teaching and learning techniques and media are used as the source organization teaches the user firm, and vice versa. Methods include holding seminars, dispatching source and user personnel to each other, and providing technological documents and drawings. The most frequently used method is dispatching technological personnel for one or two months to each other's sites. During this stage, the user also tries to forecast possible problems in applying the new technology and ways to solve such problems. The user firm also tries to set criteria that will allow the new product's performance to be evaluated.

[3] It is recommended by national technology policy of Rep. of Korea, that the public research institute and researcher can get some portion of Royalty if their technology is transferred to private firm and commercialized.

In the Application stage, the transferred technology is applied to the user firm's intended target application. During this stage, the transferred knowledge is modified, developed further, and combined with the user firm's other knowledge in order to achieve the target.

Each stage happens sequentially. Within certain stages, activities are reported many times while other activities occur only once during the whole process. For example, in the Evaluation stage some activities may be repeated many times. The user firm surveys and checks an external technology based on what is known about the technology. If the user thinks that the technology cannot meet the firm's needs, it may give up on the idea of transferring that specific technology. If the user still thinks the technology can provide enough performance, it goes back to the source for a more in-depth study of the external technology until a decision can be made on whether or not to purchase the technology. This additional study may help the potential user firm increase its awareness and understanding of the external technology whether it purchases the technology or not. Generally, the Contract stage and formal technology transfer stage occur once during the whole process. In the Application stage, trial and error is used to help close the gap between the externally transferred technology and the intended target application. Developing a prototype, testing, finding problems, and solving them are a process that occurs continuously and repeatedly until the final target is achieved during the Application stage.

External technology transfer model.

During the Awareness stage, the existence of potentially useful external technology is generally made known and introduced to a firm's CEO, in the case of small firms, and by executive members in medium-sized firms[4]. Executive members are personnel whose positions are lower than CEO but above middle manager. The executive members include CTO (Chief Technology Officer), the head of marketing, and the head of the finance or production division. Although learning and knowledge creation occurs during this stage, it is limited. In most cases, there is no systematic way of carrying out the Awareness stage; however, most firms feel that there is no way to improve on carrying out this stage.

Activities involved in the Evaluation stage are generally carried out by CEOs in small firms and executive members in medium-sized firms. This stage allows firms to understand more about the external technology and the source organization. The most important action in this stage is deciding whether or not the external technology can meet the requirements for achieving the objectives. Many things are surveyed and checked during this stage: the applicability of the technology to the intended product; the costs and benefits of the transfer and production; the time required for mass production; intellectual

[4] Total employees of firm is between one hundred to two hundred.

property issues; the degree of risk in investing. The source organization and the user firm have equally important roles at this stage. Choosing a proper target is the user firm's responsibility. Providing proper information on the technology in order to enable a decision is the source organization's responsibility. Source organization typically acquired patents on their technology. Likewise, the institute has a duty to open its technology information to qualified small and medium size firms if a firm desires it because the technology is developed by public funds. Technological ability is the most important feature assessed during consideration and decision-making activities. Learning and knowledge creation also occur at the evaluation stage. The content of knowledge is similar to that of the Awareness stage: knowledge is gained on the technology itself, on the target, and on the methodology for using the technology. Although the knowledge in this stage is similar to the Awareness stage, the user firm usually has a deeper and broader knowledge base after this stage. In some cases, the user learns most of the technology developed at this stage, and only a few pieces of knowledge remain to be learned during the formal transfer stage. Most firms feel that they do not need to improve their methods of surveying and evaluating through the Evaluation stage.

In the formal transfer stage, personnel from both the source organization and the user firm participate in the transfer. Ten persons for both entities is a typical participation in each technology transfer project. Compared to the Awareness or Evaluation stage, the working group's participation is more active. In this stage, the source's role is more significant compared to its role during other stages. Most of the actions that occur during this stage involve learning from the source organization. Learning happens through various styles and channels. The most common method involves sending a user firm's technology personnel to a source organization's lab to observe and study demonstrations and attend lectures on related theories. Sometimes personnel from the source visit the user's facilities and provide instruction on the technology and related areas. Conducting seminars or workshops is a method commonly used to provide instruction. Written documents as well as drawings and software are also delivered to the user firm. The most important concern at this stage is to learn as much as possible from the source organization. Firms undergo such a learning process, as they have always done before, without considering the effectiveness or the efficiency of the methodology they are using. At the end of this stage, a user firm knows not only the technology to be transferred but also the source organization's related technological abilities.

The Application is the critical stage of the whole transfer process. Producing a prototype based on the transferred technology, analyzing and testing the prototype, and modifying and remaking the prototype carries out the application for a new product carries out the application for a new product. This process of trial and error occurs repeatedly until the user firm obtains a satisfactory result. The ability of the external knowledge is actually

proven at this stage even though it is screened first at the Evaluation stage. Most learning and knowledge creation occurs during this stage. When a user firm encounters a problem during the Application stage, the technology is re-examined to ensure a correct understanding of the technology. If there is an apparent lack of understanding of the technology, further learning is made to acquire a better understanding. If the user firm cannot solve the problem even though it understands the technology correctly, it looks for other technological knowledge that will help solve the problem. These feedback processes are very similar to the single-loop and double-loop learning processes of Agyris. Meeting unexpected problems and trying to solve them are actions that occur most frequently at this stage. The source organization's role often changes to co-developer or consultant at the stage.

The model for the process of transferring technology from Korean public research institutes and universities to small and medium size Korean machinery firms developed in this study is shown in Figure 1. The user firm is expected to conclude certain outcomes when completing each stage.

It was shown that distinctive stages also existed during technology transfer in the cases of the Korean machinery firms. This study verified Trott's result of the existence of distinctive stages in the technology transfer process. In the case of small and medium-sized Korean firms, the technology transfer process can be classified in five distinctive stages according to the types of activities and the purpose of the activities within the stages: Awareness, Evaluation, Contract, Formal Transfer, and Application. Most stages had similar features to that of Trott. The exception was the addition of the Contract stage. This is a distinctive stage necessary for negotiation, deciding terms and conditions, and securing a contract. This stage was not recognized in the Trott study since it looked only at internal technology transfer. The lack of a Contract stage in Trott's study may be explained by the difference between inter-organizational (formal) transfer and intra-organizational (informal) transfer. The cases in this study were formal technology transfers from external sources while Trott's cases were not. The specific activities of each firm within each stage were described in detail in this study. This study documented how each specific activity was connected with other activities throughout the entire process for each firm.

Three groups of diverse actions that occurred frequently during the process were shown: judging the usefulness or potential value of the external technology, selecting the target, and applying the transferred technology. The role-changing pattern of source and user during the whole process was also shown. The source's role changed from technology teacher, at the formal transfer stage, to co-developer, during the Application stage, to consultant, at the end of Application stage. The user's role changed from a selector, at the

Evaluation stage, to a learner, at the formal transfer stage, to an applier, at the Application stage.

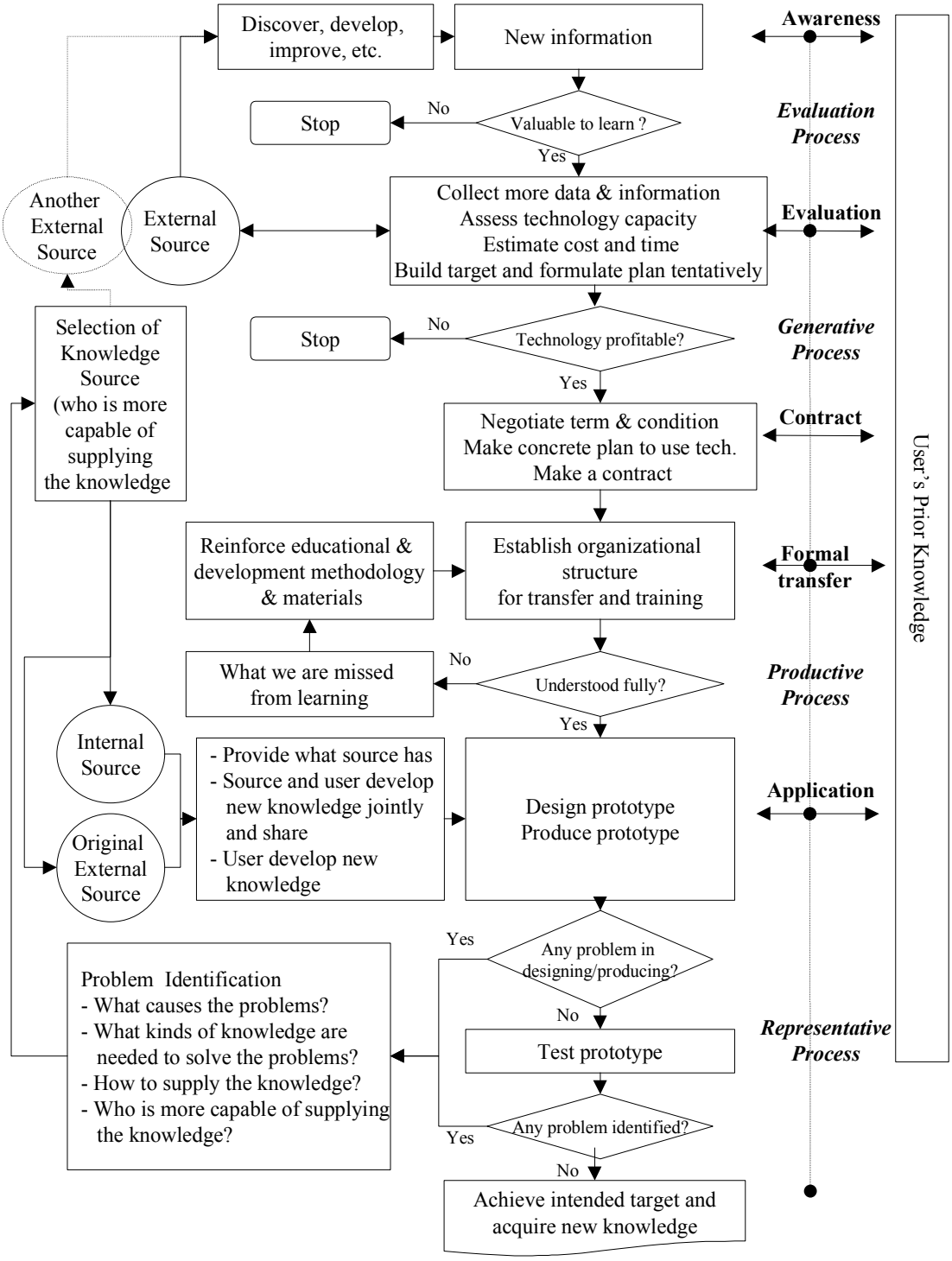

Figure 1. External technology transfer model

The types of knowledge the user obtained through learning or creation within specific stages were revealed. Learning for the user occurred most during Evaluation, formal transfer, and the application, while creating by the user occurred most during Evaluation

and application. It was revealed that approximately two years were required for public research institutes' technologies to be transferred to the user and utilized to achieve a satisfactory prototype. Most of this time was spent evaluating the technology and potential profitability (average four months) and applying the external technology to the user's specific purpose (average ten months). The user's criteria for a successful technology transfer were shown to be the production of a satisfactory prototype and the acquisition of enough technological knowledge to continue the business development plan. A successful technology transfer was dependent upon user's persistence and prior knowledge. The study revealed that, although eager to obtain the technology transferred, all nine firms were unable to meet the technology transfer budget and time goals. Thus, more than one year was required beyond the planned completion date. The final costs exceeded the initial estimate by three to four times. Each of the firms recognized the need to better understand the technology transfer process. This exploratory study provides analytical structures that the source and the user employed to achieve their goals and performed specific activities required to transfer external knowledge into the user's organization. The structure built in this study can further enable research to deepen and broaden the knowledge of technology transfer.

CONCLUSION

In order to manage the technology transfer process better and to significantly improve the process, it is necessary to have a better understanding of not only the stages but also the general activities within the stages. Through this exploratory study of small and medium-sized Korean firms in the machinery field, several aspects of the technology transfer process were shown:

Table 1. Comparison of Trott's classification and the classification in this study

Trott	This study	Outcomes of each stage (this study)
- Awareness: Scans for and discovers what information on technology is available. - Association: Recognizes the value of the technology for the organization.	- Awareness: Become aware of the existence of external knowledge (unexpectedly or intentionally). - Evaluation: Collect more detailed data and information on the technology, Assess technology capacity and build target to use the technology, Estimate costs and times needed for technology transfer and utilization, Formulate a plan to use the technology. - Contract: Make a concrete plan for technology transfer and utilization, Negotiate terms and conditions, Make	Awareness: Knowledge on the owner of external technology, General knowledge on the content of the external technology and usages, Knowing whether the technology is available to the user Evaluation: Knowledge on the detailed content of the external technology, Knowledge on the capacity of the external technology, Estimated cost and time to transfer the technology and to use it for user's purpose, Estimated benefit that the technology can provide to user, Tentative target to which the external technology is applied, Tentative plan to transfer and to use the technology. Contract: Determined terms and conditions for the technology transfer, Concrete plan to transfer and to use the technology. Formal transfer: Full knowledge on the content of external technology, Technological materials provide from source such as drawing, document,

- Assimilation : Communicates ideas and Creates genuine business opportunities - Application: Applies the technology for a competitive edge.	contract. - Formal transfer: Provide technology as contracted, Forecast possible problems and ways to solve, Set criteria to evaluate new product's performance. - Application: Apply transferred technology for the user's intended target, Modify and develop further and combine transferred technology with other knowledge, Acquire additionally necessary knowledge.	sample, etc, User side's educated and trained personnel on the technology, Anticipation of possible problems that would happen during the application and tentative solutions for the problems, Understanding on partner's job style and ways of cooperation. Application : Satisfactory prototype(s), Justified full knowledge on the content of external technology, Other miscellaneous knowledge necessary for the target, New knowledge that was not transferred from source originally but developed during the application, Knowledge on the partner's technological capacity on other fields but related (or have potential to be related) to source's business area

It was shown that distinctive stages existed during technology transfer in the cases of the Korean machinery firms. For the small and medium-sized Korean firms, the technology transfer process can be classified in five distinctive stages according to the types of activities and the purpose of the activities within the stages: Awareness, Evaluation, Contract, Formal Transfer, and Application

The source's role changed from technology teacher, at the formal transfer stage, to co-developer, during the Application stage, to examiner, at the end of Application stage. The user's role changed from a selector, at the Evaluation stage, to a learner, at the formal transfer stage, to an applier, at the Application stage.

The technology transfer process was surveyed for the point of organizational learning and knowledge creation. Learning occurred most during Evaluation, formal transfer, and the application, while creating occurred most during Evaluation and application. It was also shown how the user firm learned and created the technological knowledge during the technology transfer process. Each firm had a clear target application to develop a commercial product, such as oil coupler, solid ball and portable fume collector, etc., in the course of technology transfer. Table 1 is the comparison of Trott's classification and the classification of this study.

This exploratory study provides a model which the source and the user employed to achieve their goals and performed specific activities required to transfer external knowledge into the user's organization. The structure built in this study can further enable research to deepen and broaden the knowledge of technology transfer.

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SOCIAL SUPPORT THEORY: A NEW FRAMEWORK FOR EXPLORING GENDER DIFFERENCES IN BUSINESS OWNER NETWORKS

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Social Support Theory:

A New Framework for Exploring Gender Differences in Business Owner Networks

ABSTRACT

Historically, studies of small firm networks have concentrated on collecting quantitative data on the size, shape and other structural dimensions of business owner networks. As a consequence, little is known or understood about the contents of networks or the processes of interactions by which such networks are created. There is also a scarcity of empirical evidence about the types of networks in which women business owners are

embedded or how they make use of their networks for business purposes. One reason for this may be that to date, entrepreneurship research has predominantly defined women's experiences in relation to men. Consequently, what is known about small business owner networks has been shaped by the perceptions and experiences of men. This paper argues that to advance knowledge about small firm networks and considers the impact of gender, research should also consider the network experiences of women business owners. To engage in such research, this paper proposes a conceptual model of business owner networking which is informed by social support theory. In particular we argue that as social support theory refocuses research on entrepreneurial social networks from structure to content, it may be better suited to and reflective of women business owners' networking experiences. Having proposed this conceptual model, the paper concludes with recommendations for a research agenda for exploring and creating an understanding of the impact, which gender and social capital may have on business ownership.

Key words: female entrepreneurs, social networks, social capital, social support

INTRODUCTION

Research that has sought to explore the relationship between social capital and business ownership is at an early stage of development. Consequently, there is no agreed understanding of how to define or measure a business owner's social capital (Davidson and Honig, 2003). However, borrowing from established sociological theory, it can be argued that social networks constitute a major component of an individual's social capital (Baron and Markman, 2000; Mitchell, 1969). Since the 1990s, entrepreneurship and small business research has been interested in exploring the relationship between networks and the survival and success of small firms and it is now generally accepted that networks are particularly useful for small firms because they afford access to resources that small firms cannot easily access through market mechanisms (Curran *et al,.* 1993; Granovetter, 1985; 1992). Despite significant research interest in business owner networks, it has more recently been suggested that like much of the small business management process, gender differences may exist both in the types of networks in which business owners are embedded and their use of these networks for business purposes (Shaw *et al.*, 2001). However, research about the gender differences of owner-manager networks is at an early stage and initial findings are inconclusive (Carter, 2000). For example, survey-based research from the US suggests that women business owner's networks differ significantly from those of men regarding activity levels, density and with whom they network (Aldrich *et al*., 1989); however similar UK research has found fewer gender differences in these respects (Cromie and Birley, 1992). There is also little agreement about the types of individuals who are found to contribute to owner-manager networks. For example, Moult (2000) suggests that both men and women are more likely to network with persons of their own gender whereas Aldrich *et al.* (1989) argue that while the networks of women business owners are not as extensive as those of men, the networks of both male *and* female business owners tend to consist mostly of men. Finally, Ibarra (1997) found that women tend to have two types of networks, one for friendship and emotional support and another for advice and information. The former consisted primarily of women, the latter primarily of men.

Notwithstanding these contrasting findings, research suggests that women business owners face particular challenges when establishing and accessing networks (Moore and Buttner, 1997). Brush (1997) suggests that one reason for this may be that women are

less welcome in social networks. Considered alongside suggestions that women are likely to have stronger communication and interpersonal skills which should enable them to network effectively (Wilkinson, 2001), this suggests that it as a consequence of social structures which are deeply rooted within institutional and traditional business and social practices, women business owners may be prevented from accessing networks. At present, however, a scarcity of empirical evidence about the types of networks in which women business owners are embedded or and what assistance or support they seek through their networks has restricted comprehensive explanations which may account for gender differences in business owner networks. This lack of empirical data about women business owners' networks and their experiences of networking raises an interesting question: *do women business owners perceive gender-based differences in both the types of networks in which they are embedded and the type of support that they can access?*

BUSINESS OWNERSHIP, SOCIAL CAPITAL AND NETWORKS

According to Weiler and Bernasek (2001), the long-term persistence of network-based advantages, for example, preferential treatment in the timing and delivery of orders, may make women business owners consistently less successful. This is echoed by Brush *et al.,* (2002) who posit that social structures and the way women socialise may influence the social capital endowments with which they start their business. Further, the ability of women business owners to penetrate entrenched male networks may be limited and be reflected in the fact that women-owned businesses are consistently younger than those owned by men (Carter *et al.*, 2002). However, social structures tend to be invisible, unless they are thought about consciously (Stets and Burke, *forthcoming*). A final aspect influencing the extent of women business owners' networks may be found in the different actions and decisions that women make with regard to networking just because they are women, thus imposing a self-restriction on their networks (Aldrich *et al.*, 1989).

Thus, extant research seems to raise more questions than it answers and suggests that there is a pressing need to investigate women business owners' networks particularly if the contribution, which women-owned businesses make to economic and social development is to be encouraged and supported. At present, female participation in self-employment and business ownership varies by country with marked differences between the US and Europe. For example, recent US-based studies have shown that not only are women now starting new businesses faster than men, they also constitute around 38% of all owners small firms, (Carter, 2000) while European figures suggest that the female rate of business ownership has remained static over long periods. In Denmark, for example, women's share of new business ownership has remained constant at about 30% of all new businesses since monitoring of this began in 1999, but is now declining (Hancock and Bager, 2004). It is thus likely that national differences in industry structure may influences founding rates. Such differences in national rates of women's business ownership suggest a number of implications. The higher proportion of women-owned businesses in the US where affirmative action is supported by government suggests that when a more level playing field is created, more women become involved in business ownership. A second implication is that when, despite increasing participation in the labour market, European figures reveal that women's business ownership has either remained static or has declined over the past five years, this may be because women's participation in business ownership is restricted by gender-based influences including the types of networks in which they are embedded. Supporting this is the argument that the types of networks within which business owners are embedded will be influenced by their human capital, including their

educational, employment and managerial experiences (Madsen *et al.*, 2003). Taken further, it can be argued that the ability to create and manage a small business will be influenced by an individual's social capital which includes social, cultural, educational and managerial experiences, and can be affected by social structures and the range of opportunities which the labour market offers to acquire these experiences.

Building upon the argument that, to date, small business research has defined women's business ownership experiences in relation to that of men, it can further be argued that there is a need to address the gender blindness and gender bias which has dominated small business network research. This is supported by Greer and Greene (2003), who argue that feminist theory may help reduce or even eliminate such bias. Particular to our interests in small firm networks, we propose to reframe social network research from a woman's perspective by developing a conceptual model of business owner networks, which is informed by social support theory. Our reason for this is that while social network theory recognises that conceptually networks are comprised of structural and interactional dimensions (Mitchell, 1969; Granovetter, 1973; Powell, 1990), most research has focused on the structural and quantifiable interactional dimensions of business-owner networks. These dimensions essentially 'count' such aspects as the number of contacts, how frequently they are used and the diversity of the occupations of those involved in a business owner's network. Although such research has found some gender variation in business owner networks (Aldrich *et al.*, 1989), the contents of such networks – that is the meanings which individuals attach to the relationships in which they interact – may reveal substantial gender differences. As social support theory encourages exploration of both the structure of business owner networks and the contents and interactions by which such networks are created, its application to small firm research has the potential to generate a comprehensive understanding of such networks which may provide clearer insights into the impact which gender may have on business owner networks. As Nielson (1990) suggests, the application of social support theory to business owner network research offers the potential to explore business owner networks in a different way and to look at the familiar differently.

THEORETICAL FRAMEWORK

To address this research gap and consider the impact, which gender and social capital may have on business owner networks, we recognise that gender is a social structure that is generally accepted without questioning. For example, gender is taken for granted as a means of organising all aspects of our society, including families and work. This infers that research on women, including women business owners, is often carried out on premises derived from research on men and as such, may lead to gender-biased results. While gender-neutral research can be impossible to achieve, we argue that by building on a feminist essentialist approach, research can recognise and account for gender differences in both theory and method. According to Greer and Greene (2003), there have been sparse efforts to use feminist theory in entrepreneurship research and they are critical of current efforts for the lack of integration between studies of women in the labour force and entrepreneurship research and the lack of focus on one perspective within feminist theory. We seek to address these criticisms by taking a social support approach within the feminist essentialist perspective. This perspective perceives gender as a variable emphasizing how women's experiences are different from those of men. Where traditional research disregards gender, often generalizing between the sexes without taking account of possible differences, feminist essentialist research starts from the recognition that

possible differences exist between men and women in terms of situation, experiences and discrimination and recognizes that these must be taken into account.

In the following sections, we first consider the relationship between social capital and social networks arguing that social capital is a major component of social network analysis. We then suggest that by incorporating elements of social support theory in network studies of women business owners, a more comprehensive understanding of such networks can be acquired. Finally, we discuss the advantages, disadvantages and challenges to future research of such an approach.

The Relationship between Social Capital and Social Network Theory

Social capital is not a new concept – its earliest use dates back as early as last century (Borgatti et al., 1998). Despite this, social capital has been described as a growth area in organisational network research (Borgatti and Foster, 2003) and is rapidly becoming a core concept in entrepreneurship research. In recent years, research has turned its focus from social networks to social capital, arguing that social capital is the value of a network's form and content (Burt, 1997). However, disagreement continues to exist concerning how to define and measure social capital (Hospers and van Lochem, 2002). Despite these definitional ambiguities, most definitions stress the relationship between social capital and social networks. For example, Burt (2000) suggests that when social networks contribute to entrepreneurial goals, they constitute social capital. Likwis, Borgatti and Foster (2003) argue that social capital equals the value of network connections. Social capital has also been described as the tangible and intangible resources acquired through social networks (Gabbay and Leenders, 1999; Greve and Salaf, 2003) and as being comprised of a number of variables including social networks. Developing this final point, Baron and Markman (2000) suggest that social capital consists of social networks and the support gained from these.

To overcome these definitional difficulties, social network theory may offer an appropriate analytical framework for identifying social capital at an individual level and considering the impact, which such capital will have on individual actions and behaviours. This is supported by Burt (1997:355) who defines the social capital value of a network as '*a function of both form and content*' and also by Bourdieu who proposes that social capital is '*the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition*' (1986:248). An individual's social capital is further determined by the size of their relationship network, the sum of its cumulated resources (both cultural and economic), and how successfully (quickly) the individual can set them in motion. Considered alongside the concept of a social network which Mitchell (1969) conceived of as possessing both structural and interactional dimensions, these descriptions of social capital lend support to the suggestion that by analysing the social network within which a business owner is embedded, much can be learnt about their social capital.

Mitchell (1969) defined the content of social networks as a way of describing the meanings which people attach to relationships and the understandings they have about the implications which their involvement in particular relationships have for their actions and behaviours in respect to those relationships. For example, if a person defines a relationship as a 'friendship', they will engage in activities and behaviours, which they perceive to be appropriate to those of a 'friend'. As the contents of relationships are not directly observable, Mitchell suggested that the meanings, which individuals attach to relationships, could be interpreted in terms of their information, communication or

normative contents. Identification of these contents is complicated by what Mitchell referred to as the 'multiplexity' of relationships. Multiplex relationships are comprised of more than one content and within any single relationship, a number of contents will typically exist. While recent discussion of the content of social networks (for example, see Blackburn *et al.,* 1990; Szarka, 1990) has sparked debate over whether, for example, economic networks can be distinguished from those comprised of information and normative contents, Mitchell (1969) was explicit that while social networks are comprised of a variety of contents, this did not imply that each content represented a conceptually distinct network. Drawing on the work of Kapferer (1969), Mitchell argued that within multiplex relationships, the interactions between social actors are comprised of a variety of contents. For example, the same two people may share an employer-employee relationship comprised of an economic content and also a friend-friend relationship containing normative expressions. As a consequence, the behaviour of individuals vis-à-vis multiplex relationships cannot be understood unless *all* of the contents of which they are comprised are identified. Mitchell defended this by explaining that where relationships contain more contents, each one impinges on the interactions by which the other contents are created. Using the same example, this suggests that when an employer-employee also engages in a friend-friend relationship, their interactions in the former may condition those in the latter.

Mitchell's description of a social network suggests that individuals will seek a variety of support from their networks. Taken further, this suggests that the milieu in which network interactions are played out influences the type of outcomes obtained from network interactions. For example, the same friends might share certain revelations over a cup of coffee in an environment which they regard as 'safe' yet under different circumstances, for example during a meeting at work, they would not be comfortable sharing such confidences. Social network theory suggests then that individuals are embedded within and connected to one another by networks of overlapping relationships which are comprised of different, often multiple, contents and varying strengths (Granovetter, 1985; 1992; Szarka, 1990). Accepting this, social network theory argues that social action and behaviour can be understood as a compound of the positions that individuals hold within social networks and the interactions that they share. Described like this, and given the difficulties inherent in analysing and measuring social capital, we argue that social support theory offers an appropriate analytical framework within which to position research which seeks to analyse and understand the impact of social capital on business ownership. Particular to our interest in gender, social capital and business ownership, this argument is supported by More and Buttner (1997) whose research found that women are restricted in their access to networks, hold less central positions and use their networks as sounding boards rather than for resource acquisition. However, while these gender differences may be explained by the types of support, both tangible and intangible, which are contained within business owner networks, the scarcity of small business network research which has sought to explore both the structure and interactions of business owner networks or to consider the impact which gender has on such social networks restricts a comprehensive understanding of the extent of and reasons for these differences.

Social support theory may assist in addressing this research gap. A comparison of Mitchell's perception of social network characteristics and those of social support theory reveals obvious overlaps in the structural elements analyzed. Therefore using social support qualities to help analyze the content of social networks seems both relevant and natural. Some social support researchers have likewise seen the advantage of combining their research with social network theory (Wellman and Hiscott 1985). Despite the shared characteristics between social network theory and social support theory, few social

network researchers have implemented social support constructs in their research and none refer to these constructs as derived from social support theory.

The Relationship between Social Network and Social Support Theory

Early research conceptualized social support as '*a generalized resource available from an individual's network of friends and acquaintances (the social network) that helped one to deal with everyday problems or more serious crises*' (Walker *et al.*, 1993:71). The subject was addressed from a structural point of view, very much the same way as social networks have hitherto been analysed. The structural elements of social support that were applied included network size, density and frequency of interaction, indeed according to Schwarzer and Leppin (1988:334) '*sometimes all of these aspects are considered as 'support''.*

However, more recently researchers have realized that the composition of the social network is as essential as the presence of a dyadic tie. Different relationships provide different types of support. This means that a business owner has to maintain relationships with different types of individuals in order to cover all needs. In other words, family, friends and acquaintances provide certain types of support while colleagues and other associates provide different types of support. Within the social support perspective, a network is thus perceived as a complex and unique entity but contrary to the social network perspective, focus is on the specific resources provided by specific individuals in specific contexts. Thus, social support theory picks up where social network theory leaves off: operationalizing the content of social networks. Hitherto, social support theory has primarily addressed how various types of support affect an individual's psychological wellbeing. However, these concepts can be easily transferred to a business context, e.g. imagine how the social support given by an individual's close and extended network influences the handling of stressful periods or crises that arise during the process of new venture foundation. Founding and running a new business may readily be perceived as an event with many conflicting demands for which the entrepreneur or business owner seeks support from his or her network to handle. Further, entrepreneurship research has shown that relations of kinship, friendship and previous work relations may be important players in the up-start phases of new venture creation and members of these groups may even participate in founding teams (Ruef *et al.,* 2003).

However, most research on social support has so far focused on identifying how power and status in network relationships reflect on the social support obtained through a comparison of the social support obtained via three types of kinship relations (parent-adult child, siblings and extended kin) and those obtained through relationships with friends, neighbours, and co-workers (Walker *et al.,* 1993). Translated into a business context, Bian (1997) found that achieving success in business transactions may be related to attaining status in the social structure of the business segment concerned. In another study, comparing the contacts of men and women, Lin *et al.,* (1981) found that men were much more likely to reach higher status contacts than women. In general they found that support tends to flow through equals/peers, which means that women may thus be disadvantaged as regards access to business resources (either tangible resources or information) because as yet there are fewer women among the entrepreneurs and business owners to include in their social networks. Interestingly, women are just as aware as men if not more of the need to develop and use networks (McGuire, 2002).

Some of the contents of the interactional dimensions proposed by Mitchell (1969), overlap with those suggested by social support theory. According to a literature review by Wan *et*

al (1996) social support research has consistently distinguished between four types of support: *emotional, informational, companionship and tangible*. So far, social support research has found that it is highly unlikely that any one member of an individual's network provides all the four types of support. According to Wellman and Hiscott (1985), most ties convey only one or a few kinds of support and those that provide emotional support are unlikely to provide any other type of support. Emotional as well as companionship support are primarily found through strong ties, whereas tangible and information support are accessed through weak ties (Walker *et al.,* 1993). In other words, the strength of the tie and type of support provided are highly correlated.

Emotional support is associated with sharing life experiences. This type of support conveys that an individual is valued for his or her own worth and experiences and is accepted. Behaviours expressing *esteem, affect, trust, concern* and *listening* constitute emotional support. Emotional support helps enhance an individual's self-esteem. According to Campbell and Lee (1990) among others, women are more likely than men to provide emotional support. Wellman and Wortley (1989) found that it is also most likely that kin rather than friends provide emotional support since a certain amount of intimacy is needed in order to share what they call 'life experiences'. Such support is therefore sought from what is called "alters" in social network theory (Ruef *et al.,* 2003). A number of studies have further shown that kin and friends differ in the type of support given, thus friends are more likely to give companionship support (Essock-Vitale and McGuire, 1985; O'Connell, 1984; Warren 1981).

Companionship support serves to help distract persons from their problems or to facilitate 'positive affective moods' (Wan *et al.,* 1996). Activities such as spending time with others in leisure and recreational activities are subsumed under this category (Schwarzer and Leppin, 1988). According to Wan *et al*., (1996), such activities reduce stress and provide affiliation and contact with others. Wellman and Wortley (1989) found that providers of companionship support are primarily close friends, colleagues and neighbours. Spending time in leisure and recreational activities with friends, colleagues or neighbours, e.g. exercising or watching a movie may provide a relaxed context in which individuals undertake networking activities that provide support (Wellman and Wortley, 1989).

Tangible (or material) support refers to the provision of financial aid, material resources and needed services, indeed all the various types of physical resources needed for running a business. Any behaviour providing money, labour or any kind of direct resolution of a problem can serve this function. Although the knowledge about the sources and forms of finance available to and used by entrepreneurs is extensive, little research has focused on how social networks influence on the access to tangible support, particularly seed-stage financing (Shane and Cable, 2002). However, entrepreneurs may have difficulty in identifying business angels and therefore primarily elicit tangible support from kin or banks (Neergaard *et al.,* 2003). Much evidence has also been offered that points to venture capitalists as providing informational support such as direction and advice in conjunction with their tangible support.

Informational support concerns the provision of knowledge that might help an individual to increase their efficiency in responding or generating solutions to a problem (Cross, 2000). It may also bolster an individual's belief in own capacity to handle challenges. Associated with this are thus behaviours that provide *feedback, advice, suggestions* and *direction* (Wan *et al.,* 1996). Wellman and Walker (1990) found that individuals with similar status are more likely to exchange small services such as

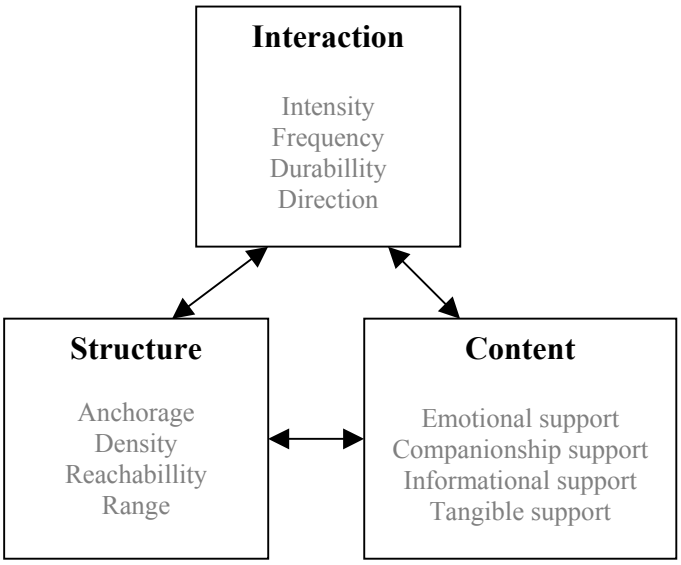
information. In a social network context this means that women and men with the same status should be more likely to exchange information with each other and unlikely to exchange information with individuals of their own sex with a different status. This could explain why some social network theory has shown that men and women entrepreneurs have similar networks and that these consist mainly of men (Aldrich *et al.,* 1989). Following the line of thinking provided in Wan *et al.* (1996), women may be more likely to reach out to men for information and tangible/material support because men are perceived as higher status individuals and in a better position to benefit the female entrepreneur's interests. This is also supported by Ibarra's (1997) findings.

Proposed Research Framework

Taken as a whole, social support theory provides meaning to the content dimension of Mitchell's framework, meaning that can be operationalized. Further, the structuring of support into four sub-categories may assist in understanding the contradictions in extant findings, e.g. that some researchers find no differences between the networks of men and women and other find that differences exist. These discrepancies may arise because men and women attach different meanings to their relationships and their understanding of the implications that their involvement in these relationships may differ (O'Connell, 2001). Further, recent organisational research has found that while female managers are typically involved in both personal and professional networks, male managers tend only to be involved in professional networks (Moore and Buttner, 1997). These findings thus imply that both the range of support available and the context in which it is provided may differ depending on the gender dimension. The question is, however, how gender differences arise and whether they have a positive or negative impact.

Thus, a tentative research framework incorporating the existing social network dimensions and social support theory is provided in Figure 1. The arrows indicate that each of these dimensions probably influence the other two, but the proposed research has to address the strength and type of such influence and how it is exercised. According to Mitchell (1969), content is a component of the interaction dimension, but where all the other components can be measured quantitatively, it is questionable whether the content dimension can be sufficiently elucidated through such measures. Figure 1 depicts the content dimension as a separate dimension, rather than being an element in the interaction dimension. The reason is that whereas anchorage, density, reachability and range, intensity, frequency, durability and direction can all be measured in quantitative terms, it may be difficult to quantify the content dimension.

Figure 1: ***Social Network Research Framework***



In the content dimension we would be interested in identifying who provides esteem, affect, trust, concern, and listens to the ideas of the entrepreneur; what activities are undertaken in order to distract the entrepreneur from the problems encountered and with whom these activities are undertaken; who provides professional feedback, advice, suggestions and direction; who provides financial assistance, material resources and services; and finally, for all of these, what is the context in which the exchange takes place. Further we venture to research the interactional and structural dimensions in relation to the content dimension, since there may be a link e.g. between the frequency of contact and the amount of trust invested in an individual.

RESEARCH METHODOLOGY

In order to achieve the above, a three-stage research strategy is proposed. First, we need to undertake in-depth interviews with an equal number of male and female entrepreneurs in order to increase our understanding of the four support dimensions. The interviews will be conducted using the critical incident technique (Flanagan, 1956), since critical incidences and the circumstances surrounding them are usually recalled with greater clarity than everyday occurrences. Therefore, it is more likely that an entrepreneur will be able to recall, who provided a certain type of support for e.g. the critical event of founding a venture. The interviews are expected to yield information about how best to phrase questions in a survey in order to avoid misinterpretation.

The second stage involves developing a questionnaire that incorporates the structure, content and interaction thus enabling us to explore and capture the multidimensionality of networking. Since particular identifiable characteristics of population members are germane to the subject of inquiry (gender) and a particular subgroup (women) is of special interest, we need to break down the population into subgroups and take a sample from each of these. Stratified random sampling requires that the individuals can be subdivided into mutually exclusive and collectively exhaustive groups, which is the case with gender. Thus, stratum A is females; stratum B is males. Since we expect female business owners to give similar answers and male business owners to give similar

answers to other males, but the group of males to show an overall difference from the group of females there is a distinct advantage in stratifying the sample by gender. Further, we will apply disproportionate sampling, which allows us to 'oversample' a small but important stratum in order to ensure that we have some representation of the 'rare species' of women business owners – even to the extent where we include all of them. Dividing the population into strata means that the sample is more likely to be representative, and that the sample mean is likely to be closer to the population mean. Given the limited population size, a threshold sample size of minimum 30 usable responses for each stratum is needed in each country in order to enable meaningful statistical analysis and relevant comparisons. When the exact size of the population is known, we will be able to calculate precisely the sample size needed to minimise the margin of error. Following the stratified sampling procedure, we will then proceed to select the sample systematically from the Yellow Pages taking into account the that we may have to select a larger sample from the female stratum in order to compensate for this being a smaller population.

Third, the findings from the survey will be further elucidated through another round of in-depth interviews. This is particularly important since surveys often yield results that are not readily explicated. The three-step strategy should further enable us to obtain a holistic picture of networking behaviour.

DISCUSSION

What can social support theory contribute to entrepreneurship research? First and foremost, it refocuses research on entrepreneurial social networks from structure to content and hence helps elucidate the essence of networking. The premise is that individuals forge networks to elicit support, particularly in dire straits. Good support networks help them solve problems, regardless of the circumstances. Thus, social support theory provides meaning to the content dimension of Mitchell's framework; meaning that can be operationalized. The only research so far that seems to incorporate some aspects of social support theory is that of Aldrich *et al.* (1997:1) who studied "the ability of men and women entrepreneurs to mobilize *the support and resources* needed for the survival and growth of new businesses" [emphasis added]. Arguing that women experience their personal reality differently to men, they studied the process of acquiring resources such as legal, financial or accounting advice or business loans and financing, as well as expert advice from individuals in the same line of work. However, they did not find substantial evidence that women's networking behaviour and the support gained differed from that of men. In the light of the proposed framework it is clear that their research was partial, in as much as they focused singularly on the tangible and informational dimensions disregarding the influence of emotional and companionship support. Although these two dimensions may influence how individuals perceive the opportunity and possibility of founding a new venture we know next to nothing of their importance for men and women respectively. What role does emotional support play at the idea stage? Who enhances the entrepreneur's self-esteem in times of doubt by saying ' of course you have the capability to bring this off? What discussions take place with friends whilst jogging in the park? Business ideas may indeed be developed through informal discussion with good friends or colleagues in informal settings. So far, the contextual aspects of entrepreneurial networking behaviour have played a minor role in research frameworks. By adopting the proposed three-stage research strategy, we aim to create a holistic understanding of networking behaviour.

CONCLUSION

This research will be aimed at exposing the situations in which women network and how their networking behaviour can be distinguished from that of men. Extant research has not yet been able to prove beyond doubt that differences exist in the networking behaviour of men and women. Reframing social network theory by incorporating social support theory may provide a promising framework for uncovering such gender differences. If the proposed research provides evidence that gender differences are identifiable through the incorporation of insights from another field, this has implications for future research, e.g. the networking behaviour of ethnic minorities may need to be addressed using a substantially different framework. In other words, the same size does not fit all.

Of course, it would not do to be blind to the pitfalls of trying to integrate a framework from another field, despite the apparent overlaps and possible advantages. But if we do not venture into untested fields we may not make any progress in broadening our understanding.

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INNOVATION, INFORMATION AND THE INFORMATION CATALYST IN SMES

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ABSTRACT

Giving sense to information is a vital activity in most organizations. The SMEs competitive strategy results from this sense making by the entrepreneur and a few of his key staff. Among these are boundary spanners and gatekeepers; but within the high performing SMEs we notice other individuals who link, synthesize, interpret and adapt information much more efficiently. We call this person an "information catalyst". In some path dependant way these individuals play a major role in helping to reduce the equivocality of cues in fragmented information of weak signals for instance, they create space for, and thus enable, innovative initiatives.

Based on a case study of nine organizations we have discovered the existence of such catalysts in the better performing ones. In this article we identify factors that enhance their activity. By identifying path dependant information process determinants and variables this study sheds light on an important piece of the puzzle. We can thus demonstrate how information is transformed into knowledge and innovations in SMEs.

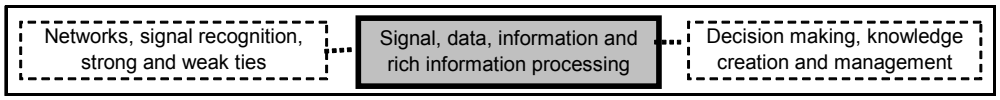
INTRODUCTION

Information processing by individuals within organizations extends from the capture and processing of strong and weak signals to decision making based on information. The scope of this subject includes the *environment* or sources of information signals, networks that convey the signals to the entrepreneur and the organization's boundary spanners. It includes the *individual* in an organizational context; he receives, exchanges, processes and transforms information. It also includes the *organization* itself which generates data through systems and information, through individuals, favors or hinders information exchange and uses rich information in its decision and sense making processes and amplifies and disseminates information which has been transformed into knowledge by individuals. Many perspectives

attempt to explain parts of information processing by individuals. From a cognitive[1] perspective some pruning is required in order to identify the process' building blocks. In this paper, we scale down and simplify the analysis of information processing by the individual by eliminating elements such as networks from the environment. We can also eliminate from the organization elements such as knowledge creation which are independent of the individual's direct relationship with information processing. We emphasize the individual as the unit of analysis.

This paper is about signals, data, information and rich information processing and their transformation by the individual, not signal detection by using strong or weak ties, not information networks, decision making or knowledge creation in organizations. This is illustrated in the shaded section of Figure 1.

Figure 1: Scope of research



Our objective is to better understand how the individual's information processing and his cognitive framework are interdependent. We attempt synthesis through model building. Johnson-Laird (1983; *ix*, 3, 4) discusses multiple approaches and synthesis: "the mind is too complicated to be seen clearly, or to be studied with advantage, from the perspective of a single discipline. The scientific understanding of cognition depends on a synthesis…" and he goes on discussing models "…like clocks, small scale models of reality need neither be wholly accurate nor correspond completely with what they model in order to be useful… There are no complete mental models for any empirical phenomena. What must be emphasized, however, is that one does not necessarily increase the usefulness of a model by adding information to it beyond a certain level…to understand a phenomenon is to have a working model of it." The idea here is to strike a balance; modeling is also a form of vicarious learning (Gioia and Manz, 1985).

We briefly recall definitions of key related elements which are relevant by their inclusion in the scope of our research, as in the case of *information* and *information richness*, *strong* and *weak signals* and elements which are also relevant by their exclusion from our research as in the case of *knowledge*[2] which is sometimes wrongly equated with *rich information*. We explore weak signals as they are less well understood. We relate these definitions to each other from an information processing perspective and review definitions of *cognitive schemas* and *scripts* from the individual's cognitive framework perspective. They are essential

[1] Not to be mistaken with a cognitivist approach. According to Von Krogh, Ichijo and Nonaka (2000; p.265) the cognitivists share tacit information by holding shared and complete representations without any doubt about the correspondence of these representation to reality. The constructionists have a different point of view. Every individual has unique, personal information, much of which is tacit. In order to share that information each individual must justify such information. Sense making which helps construct the reality of the organization, is identified with the latter.

[2] In defining the scope of our study, Knowledge, Rich Information and Information itself had to be clearly defined in order for us to obtain a cohesive unit of analysis; by removing knowledge we had to consider what we were eliminating.

elements that determine the level of information processing by the individual in our model. We synthesize and present extant research relevant to information processing by the individual. We also present our model and discuss its implications. Our conceptual framework is built on two groups of related constructs. The first group is made up of seven information variables; they are seven units of performance of the individuals' information processing and are directly related to the individuals' cognitive information schemas. The second group is made up of seven information determinants from the individual's immediate environment; they determine the level of performance of the individual's information processing.

Finally the methodology and results of our study are presented followed by a discussion of the findings. We conclude by indicating some general observations and further areas of research on the process of information processing by the individual.

SOME DEFINITIONS RECALLED AND EXTANT RESEARCH

Knowledge

Davenport, De Long and Beers (1998) define knowledge as "…information combined with experience, context, interpretation, and reflection. It is a high-value form of information that is ready to apply to decisions and actions. While knowledge and information may be difficult to distinguish at times, both are more valuable and involve more human participation than raw data..." Knowledge is rich information in an action oriented context. It relies on experience to provide expertise and sense making for stable interpretations of equivocal data about environmental change. This definition requires further clarification of information richness.

Information and information richness

Information is that which alters mental representations (Daft and Macintosh; 1981). Daft and Lengel (1986) define *information richness* "…as the ability of information to change understanding within a time interval." Communication transactions that can overcome different frames of reference or clarify ambiguous issues to change understanding in a timely manner are considered rich. Rich media, such as face to face discussion, enable people to interpret data and make sense of ambiguous information such as rich information laden weak signals. Equivocality is integrated through extensive discussions concerning such ambiguous information cues to arrive at a common interpretation of the environment.

Nonaka and Takeuchi (1995) distinguish two philosophical dimensions which relate to information. The first, an ontological dimension, is a dialogical process of exchange between the individual who synthesizes information and thus creates knowledge and the group as knowledge amplifier and disseminator, and the second, an epistemological dimension, inspired by Polànyi's (1966)[3] work, distinguishes between tacit and explicit knowledge.

[3] Polanyi and Nonaka and Takeuchi do not define tacit information exactly the same way. Polanyi's tacit dimension refers to innate intelligence, perception and reasoning as opposed to Nonaka's which refers to memory and experience which can be made explicit through socialization.

Whereas information reduces uncertainty, rich information helps make sense of ambiguous situations. It is conceptually closer to knowledge than to data.

Signals

Blanco and Lesca (2002) define weak signals as anticipatory, qualitative, ambiguous and fragmentary, of various formats originating from very diverse sources. These sources can be from within or from outside the organization. Further explanations are given in Table 1.

According to Ansoff (1975) information that is required to anticipate unpredictable changes can be assimilated to weak signals. Blanco and Lesca (2002) relate weak signals to early warnings from a business intelligence perspective and equate weak signals with early warning signals.

According to Porter (1980) early warning signals can be defined as any action by a competitor that provides direct or indirect indications about its intentions, its motivation, its objectives or its internal situation. However, early warning signals can also concern the technological, political, economical or social environments (Bright, 1970).

It is in keeping with these definitions to categorize messages external to the organization such as market cues, environmental and early warning signals (competitive or otherwise) and messages emanating from within the organization such as assumption surfacing (Finney and Mitroff, 1986) and tacit knowledge externalization as either strong or weak signals. Strong signals are the opposite of weak signals, so if we define strong signals as:

- Unambiguous, usually complete and clear but new information-poor message than we should define weak signals as:
- Ambiguous, fragmentary and unclear but innovative and new information-rich message.

Table 1: Characteristics of Weak Signals

Characteristics	Explanations
Anticipatory	Weak signals are related to future potential events that may affect the organization's survival; so a piece of information has no intrinsic relevance as it is not related to immediate decisions.
Qualitative	Weak signals do not consist of numbers or in extrapolations as they concern events that have not occurred yet; factual or quantitative data are not available.
Ambiguous	Weak signals can be interpreted in various ways, which makes them difficult to understand and use.
Fragmentary	Weak signals present themselves in the form of fragments, each of which are insignificant and suspect.

Various formats and sources	Weak signals can be picked up in any shape or form, such as bits of conversation, fragments of electronic data, messages from conferences, discussions with customers and suppliers.

Adapted from Blanco, S. and Lesca, H. (2002), *Business Intelligence: Integrating Knowledge into the Selection of Early Warning Signals*, Working Papers, Université Pierre Mendès France, Grenoble.

Data

Data are a collection of facts, measurements and statistics, they are transactional in nature (i.e. banking transactions) they represent a unit of analysis. *Information* is defined as that which alters a mental representation. To qualify as information, data must effect a change in the individual's understanding of reality. From this perspective, information is defined as organized or processed data, (Turban and Aronson, 2001; 349) indicating trends, reducing uncertainty (Galbraith, 1973, 1995; Weick, 1979, 1995) as in the decision making process. *Rich information* is timely information, when strategically needed. *Knowledge* goes further; it allows the making of predictions, causal associations, or prescriptive decisions about what to do (Bohn, 1994), knowledge is information that is contextual, relevant and actionable. Information is used by cognitive schemata and scripts, two knowledge structures which are critical to information processing by the individual.

Schemata and scripts

"Because of the limited capacity of individuals to deal with information, information that can be embedded into existing, heavily organized, and interconnected knowledge structures has greater weight. Information demanding attention, that is, salient information, will be incorporated into organized knowledge structures and long-term memory if it seems relevant to those structures. If the information is too discrepant, it will be discounted and forgotten." (Kiesler and Sproull, 1982; p. 556) Organization members do not actively process all informational cues anew in order to decide how to behave. Rather, they frequently can depend on personal and consensual schemas to understand (and sometimes fill gaps in existing scripts) and respond to organizational situations with relatively little active information processing. Implicit theories concerning the importance of information signals form part of such schemata (Gioia and Manz, 1985).

Gioia (1986) defines schemata as a built-up repertoire of tacit knowledge that is used to impose structure upon, and impart meaning to, otherwise ambiguous social and situational information to facilitate understanding. Well established schemata enable one to process information essentially unconsciously if a good match between current context and existing schema is obtained, thus freeing cognitive capacity to handle other more pressing or more novel demands. Gioia and Poole (1984) describe cognitive scripts as schematic knowledge structures, held in memory, that specify behavior or event sequences appropriate for specific situations.

Information-processing models are organized in such abstract structures and these knowledge structures are the constructs against which new information is tested for relevance. Schemata simplify information processing and storage, but, in the process introduce biases. Such

associative thinking leads to information expectations that are both well organized and resistant to new evidence. In this fashion schema-based expectations affect judgment and memory, and also filter the use of new information in weak signals. Motivational processes such as external, vicarious or self-applied reinforcements can provide incentives to enact an information-processing related script. In this sense an organization might be viewed as "a culture composed of a complex set of interrelated scripts that influence one another in both supportive and contrary ways" (Gioia and Manz, 1985).

We can hypothesize that in ill structured, novel and complex new information situations such as information provided by weak signals or rich information requiring sensemaking, the individual in organizations tends to use more trial and error type *heuristic* approaches to information processing (Daft and Lengel, 1986; Simon, 1976; 1991; Tversky and Khaneman, 1974; 1982) whereas in structured information situations such as problem solving or uncertainty reduction situations the individual tends to use more pattern type *algorithmic* (Daft and Lengel, 1986; Simon, 1976; 1991) approaches to information-processing. We can also hypothesize that by determining the individual's implicit theories about information acquisition and use the organizational culture shapes and motivates the level of the individual's *information alertness* and therefore his receptivity to information rich weak signals. Information alertness can thus be socially constructed and motivated.

Extant research on information processing by the individual can be classified into two groups:

- Information processing variables which are elements of the individual's information processing performance framed by cognitive information schemata, and
- Information processing determinants, environmental factors which determine the level of information processing by the individual

The processing variables are:

- Heuristic information processing (Daft and Lengel, 1986; Simon, 1976, 1991; Tversky and Khaneman, 1982);
- Algorithmic information processing (Daft et Lengel, 1986; Simon, 1976, 1991);
- Weak signal processing (Ansoff, 1975; Julien, 2000; Lesca and Blanco, 2002);
- Strong signal processing (Ansoff, 1975; Julien, 2000; Lesca and Blanco, 2002);
- Use of tacit information (Brockman and Anthony, 1998 ; Nonaka, 1991, 1994; Nonaka and Takeuchi, 1995; Polanyi, 1962, 1966);
- Use of archived information (Choo, 1996, 1998a, 1998b; Cohen and Levinthal, 1990; Walsh and Ungson, 1991);
- Use of feedback loops (Choo, 1996, 1998a, 1998b; Cohen and Levinthal, 1990).

The processing determinants are:

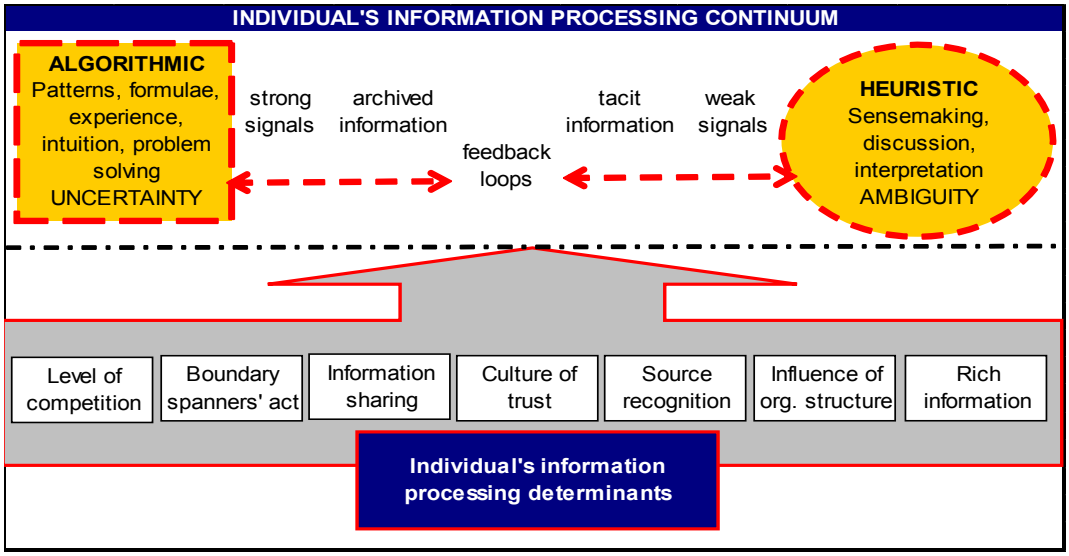
- The level of competition in the industry (Porter, 1980);
- The level of activity of Boundary Spanners (Dollinger, 1984; Tushman and Scanlan, 1981a, 1981b);

- The level of information sharing by individuals (Cohen and Levinthal, 1990; Davenport, 1997; Davenport and Prusak, 1998; Kramer and Tyler, 1996);
- The existence of an information culture (trust and collaboration) (Ballé, 2001; Davenport, 1997: Johnson-Laird, 1983; Stinchcomb, 1990);
- The recognition of information sources (Choo, 1998a, 1998b; Davenport, 1997; Davenport and Prusak, 1998);
- The organizational structure (Galbraith, 1977, 1995);
- The use of rich information (Daft and Lengel, 1984; Davenport and Prusak, 1998; Davenport, Eccles and Prusak, 1992).

SCOPE OF THE MODEL

Based on this literature and then on these variables and determinants we present the model in Figure 2. We built it by grounding existing theory in field data during an action research project in 2000 and 2001 within SME GD+ a subsidiary of a large gas distributor, GD.

Figure 2: How individuals process information In an organizational context



This model shows the individual's information processing continuum between algorithmic and heuristic information treatment. For example, engineers and accountants use established scripts[4] and patterns of the algorithmic end of the model's continuum in their work to process information. Artists and musicians who create and innovate use trial and error or heuristic type of information processing at the other end of the model's continuum. Entrepreneurs in interpreting constructing and enacting their environment, also use a heuristic type of information processing for sense making.

[4] Based on their cognitive information schemata

A causal relationship exists between determinants and variables as it does between the individual's environment and his information schemata. This is indicated by the arrow in the figure. This relationship impacts the level of performance of each variable in a contingent way. This is indicated by the dotted line separating variables and determinants in the figure.

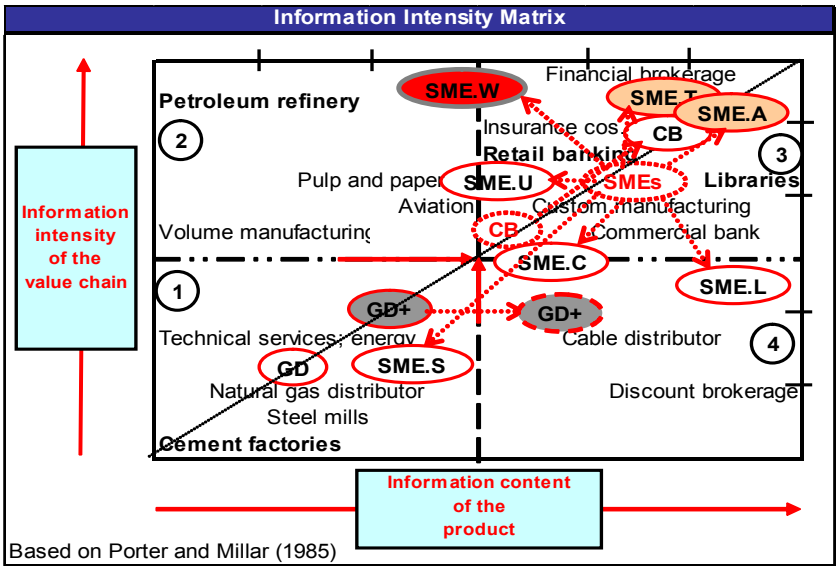
METHODOLOGY

The conceptual framework is operationalized by measuring the level of performance of information processing by individuals. In order to measure the level of information processing performance of individuals, the level of intensity of each of the seven variables and determinants are measured on a scale of 1 to 5. This measure has to occur before an aggregate result can be obtained for entire organizations.

In order to test and validate our model we use in depth interviews for data gathering from a sample of nine organizations. Interviews were conducted from December 2001 to September 2002 and lasted on the average over 90 minutes with lower and upper limits of 60 to 120 minutes. Where applicable, a plant tour was taken with further research related discussions.

The nine organizations' selection process is based on a priori perceptions of the firm's level of information intensity based on Porter and Millar's (1985) information intensity matrix in Figure 3. The matrix measures the information intensity content of the value chain on one axis and the information intensity content of the firm's product on the other axis. High information content and information value added knowledge management firms such as consultants, are in the right hand corner of quadrant 3 and low information content with little information value added firms such as commodity manufacturing firms, are in the lower left hand corner of quadrant 1.

Figure 3: Information Intensity Matrix



The nine organizations consist of a variety of perceived information intensity levels along the diagonal of the information intensity matrix. In ascending order: two organizations that showed interest and participated in the research, a large regulated energy distributor and a mid-sized commercial bank, five manufacturing SMEs and two service SMEs. The SMEs were selected from a database of the SME Research Institute of the Université du Québec à Trois-Rivières each with about 60 to 300 employees.

The sampling strategy consists of covering quadrants 1 and 3 along the matrix's diagonal in order to generate a variety of information processors, cultures and structures in organizations of different sizes. This allows contrasting and thus a finer grain appraising of the impact of our model's process variables and determinants.

Letters in the identification tags of the matrix such as GD stand for the regulated energy distributor; CB for commercial bank and the seven SMEs are labeled as such with suffixes: C, L, U, S, A, T and W.[5] We have also included as a reference point the unregulated subsidiary of the energy distributor (GD+), with its tag shaded in dark grey. This organization is where we staged tests for our methodology in the fall of 2001 and for which we have withheld results due to possible contamination or biases related to initial questionnaire trials and other preliminary field work such as observation and action research.

We met with total of 55 individuals from the sampled organizations. They were selected on the basis of their information roles in sales, marketing and purchasing or their high information processing functions in credit, R&D and pricing. A careful selection had to be made to obtain representatives from strategic, functional and operational levels combined with our criteria. A variety of incumbents were targeted:

- At the energy distributor (GD) a sample of eight strategic (Vice President and Directors), functional (Managers) and operational individuals (Supervisors and Representatives) in marketing (high information processing and pricing) and sales (boundary spanners with customers) were interviewed.
- At the commercial bank (CB) a sample of 12 strategic (Executive Vice Presidents and Vice Presidents), functional (functional Vice Presidents and Directors) and operational individuals (Supervisors and Representatives) in credit (high information processing and pricing) and sales (boundary spanners with customers) were interviewed.
- At the seven SMEs individuals consisting of the entrepreneur and his functional managers represented the organization's boundary spanners and the R&D, engineering or estimating head represented the high information processing pricing function.

An interview guideline was drawn up based on the seven process determinants and process variables in our model that we wanted to measure. Innovation and marketing complaints were used as triggers to establish a dialogue and a level of trust necessary for the exchange of rich information.

[5] SME.C, SME.L, etc.

The analysis of results consists of an initial review of notes taken during the interviews and listening to the recordings of the interviews while reviewing their typed presentations and noting the salient facts of the interviews. A second phase consists of four successive codifications of data to develop information; decimals were eliminated trough a forced choice process using developed measures.[6] A summation of results is developed for each participant firm and a graphic analysis is built to generate new knowledge. Analysis based on this double review, the rating, the recording of salient facts, the four codifications and the comparison to our notes, form the basis of our results.

RESULTS

The perceptions that provided the basis for the sample selection proved fairly accurate as measured by the displacement of each firm's ID tag from the matrix's diagonal line where we initially positioned them. The rankings did not change much, with the exception of the commercial bank. In Figure 3 the displacement of ID tags from their initial perceived positions which are identified with dotted lines is indicated by dotted arrows.

We hypothesized that the SMEs would prove to be more efficient information processors as evidenced by their initial positioning in the matrix and this is more or less what happened. We did not expect the high level of performance by the bank (CB). The energy distributor (GD) met our expectations. The two service SMEs (A and T) scored well as their products are information intensive. SME.W which is used as a benchmark for their best practices within the sample is highlighted in grey in table 2.

The ranking of the variables and determinants is presented in table 3. The process determinant which enhances information alertness is a trust building culture, a factor on which all surveyed organizations fared below the overall average (3.1), this process determinant is ranked last. This factor with the weak signal processing variable, are the major all-around weaknesses in organizations in our survey with a score of 2.8.

The overall high score level on the 'organizational structure' determinant reflects an information processing hierarchy where information, albeit filtered, flows mostly to the highest position with or without concomitant information sharing. This factor is the best understood of the determinants and is ranked in first place in conjunction with the algorithmic processing variable. The latter is attributable to individuals' propensity to use established procedures, policies, experience, intuitive patterns based on their cognitive schemata in order to reduce uncertainty.

[6]An example of the five measures developed for the variable "Processing weak signals" is attached for reference.

Table 2: Summary of results

SUMMARY OF RESULTS									
Likert scale(1 = none, 5 = extensive)	GD	CB	SME.C	SME.U	SME.W	SME.L	SME.T	SME.A	SME.S
Number of interview s = 55	8	12	4	5	6	4	4	7	5
Process determinants									
Level of competition in industry	1.0	3.0	2.0	3.0	4.0	4.0	1.0	4.0	3.0
Level of boundary spanning activity	4.0	4.0	3.0	3.0	4.0	4.0	2.0	4.0	3.0
Level of information sharing	3.0	4.0	2.0	4.0	4.0	2.0	2.0	4.0	4.0
Information alert and trust building culture	2.0	3.0	2.0	3.0	3.0	3.0	2.0	4.0	3.0
Recognition of information sources	3.0	3.0	2.0	2.0	4.0	2.0	3.0	3.0	4.0
Influence of organizational structure	3.0	4.0	4.0	3.0	4.0	3.0	4.0	3.0	4.0
Use of rich information	2.0	3.0	3.0	3.0	4.0	4.0	3.0	4.0	4.0
Special information processors		2 catal.			1 catal.	1 catal.		1 catal.	1 catal.
Average of process determinants	**2.57**	**3.43**	**2.57**	**3.00**	**3.86**	**3.14**	**2.43**	**3.71**	**3.57**
Process variables									
Processing of weak signals	2.0	3.0	3.0	2.0	4.0	3.0	2.0	4.0	2.0
Processing of strong signals	3.0	4.0	4.0	3.0	5.0	4.0	4.0	4.0	4.0
Processing of tacit knowledge	2.0	3.0	3.0	3.0	4.0	3.0	3.0	3.0	4.0
Use of archived information	4.0	5.0	4.0	3.0	5.0	3.0	4.0	3.0	3.0
Use of available feedback loops	4.0	4.0	3.0	2.0	4.0	4.0	2.0	4.0	4.0
Heuristic processing (trial and error)	1.0	4.0	2.0	3.0	4.0	4.0	2.0	3.0	3.0
Algorithmic processing (use of formulae)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Average of process variables	**2.86**	**3.86**	**3.29**	**2.86**	**4.29**	**3.57**	**3.00**	**3.57**	**3.43**

Competition and boundary spanning activities are factors that evolve proportionately to one another. The higher the competition the more boundary spanners or boundary spanning activities one would expect. This is true for all the surveyed organizations with the exception of the regulated energy distributor (GD) where we have low competition associated with relatively high boundary spanning activities. Boundary spanning activities for GD take the form of a necessary minimum of industrial technological scanning and R&D. For example, in SME.U the entrepreneur and his organization are in reactive 'order taking' mode. SME.U's major vulnerability is the lack of sales proactivity while serving a dominant customer which keeps plant loadings at high levels. This vulnerability is also reflected in three information processing factors with ratings of 2.0

Table 3: Ranking of process variables and determinants

PROCESS VARIABLES AND DETERMINANTS		
Likert scale(1 = none, 5 = extensive)	**Average**	**Rank**
Number of interview s = 55	**55**	
Level of competition in industry	**2.8**	**6**
Level of boundary spanning activity	**3.4**	**2**
Level of information sharing	**3.2**	**4**
Information alert and trust building cultur	**2.8**	**6**
Recognition of information sources	**2.9**	**5**
Influence of organizational structure	**3.6**	**1**
Use of rich information	**3.3**	**3**
Average of process determinants	**3.1**	
Processing of weak signals	**2.8**	**7**
Processing of strong signals	**3.9**	**2**
Processing of tacit knowledge	**3.1**	**5**
Use of archived information	**3.8**	**3**
Use of available feedback loops	**3.4**	**4**
Heuristic processing (trial and error)	**2.9**	**6**
Algorithmic processing (use of formulae)	**4.0**	**1**
Average of process variables	**3.4**	

DISCUSSION

Best practice

Some ‘best practice’ related findings at SME.W are:

- A culture of information alertness and sharing within the organization which influences the implicit theories and values that individuals have about information processing
    a. Timely and accurate information is provided to users on the production floor as well as to the management team;
    b. Problem solving is used to reduce uncertainties on customer orders including product ecology and ergonomics;
    c. Sensemaking through intensive communications of rich information is used to integrate ambiguity on R&D projects;
    d. A no nonsense approach is used to communicate information: no information asymmetries exist within the management team;
    e. Quality of information is important and information arbitrage is not tolerated within the organization and seldom if ever practiced with customers;
    f. An ongoing product quality and process improvement program externalizes tacit knowledge.
- Proactive use of weak signals with customers, the commercial and technology environment
    g. Weak signal sources are used to tap into rich technical and commercial information through ongoing relationships with institutions of higher learning;
    h. Firm reputation and product quality are considered as high value intangible assets and are used both proactively (weak signal, spoken testimonials) and reactively (weak signal, word of mouth reputation) to attract customers;
    i. All feasible bids are evaluated irrespective of plant loadings, they are considered a good source of competitive information and provide a trigger for rich information exchange.
- Information source recognition and reciprocity to encourage information sharing
    a. Members of the top management team are all involved with customers in different ways;
    b. Rich information laden symbols such as plant capabilities, product know-how and product and process R&D are the sources of pride;
    c. Extensive documentation of information in both electronic and hard copy form are made available on intranet or trough archiving;
    d. The ability to continuously insert rich information by the individual into strategy formation to take advantage of nascent opportunities;
    e. Autonomy is encouraged within the management team and within high information impact groups such as engineering, R&D and quality control, creating trust and intense communications by individuals;
    f. Heuristic and algorithmic information processing are recognized and used invariably

- The quick paced environment requires fast resolution of ambiguity and top management is continuously involved in integrating ambiguity trough sensemaking and sometimes improvisation exercises;
- Uncertainty is reduced by individual managers and by individuals in high information impact groups either intuitively or by problem solving approaches and communicated at regular management meetings.

Information catalyst

In our interviews we have encountered six exceptional individuals whom we call *information-catalysts*[7]. These individuals treat uncertainty and ambiguity with relative ease and effectively process rich information along an implicit algorithmic – heuristic continuum. They know what the customer wants from a commercial standpoint to the point that they will recommend alternative and novel product solutions. They are very well appraised (and apprised) of their organization's capabilities to satisfy customers' expectations. They are the organization's information nexus and are charged most of the time with the preparation of quotations for competitive submissions. In a manufacturing environment their functions are R&D or job estimation related and, as such, they determine the organization's gross margin. In the commercial bank they are the credit officers of the company. In SMEs they complement the entrepreneur and organization boundary spanners as the third leg of the SME's vital information processors.

The SME's information alertness is determined by these three information processors and to a larger extent by the *information-catalyst's* propensity to share information. It is important for the organization to recognize this special ability of the *information-catalyst* by reinforcing his role as a rich information disseminator and by using his special ability to insert such rich information into product or process innovations and strategy formation to generate nascent opportunities; this is what SME.W does so well.

Other findings led to the following observations:

- The organization's culture shapes the individual's information alertness through the individual's implicit theories on information processing
- Alert, proactive individuals process information along an implicit algorithmic – heuristic continuum
- Most individuals have difficulty recognizing weak signals, or distinguishing competitive information from channel noise
- Some individuals cannot change mental models which no longer accommodate or explain competitive occurrences in the environment
- Some individuals do not realize their own cognitive shortcomings blindsiding them to competitive information
- A few individuals don't even listen for signals from their customers or suppliers.

[7] We note that Von Krogh, Ichijo and Nonaka (2000; p. 150) also use the term *catalyst* for the knowledge creation activist.

CONCLUSION

In conclusion, we highlight a few variables which we feel measure an organization's information alertness:

- The level of competition in the organization's industry requires information alertness towards customers, suppliers, competitors and technological substitutes to name but a few targets. This is the role of strategic intelligence where information provides competitive advantage.
- As stated above, the organization's culture shapes the individual's information alertness through the individual's implicit theories on information processing.
- An efficient way to recognize important information sources is by information reciprocity. The major sources of information in the SMEs we surveyed are the *entrepreneur*, information *boundary spanners* and the *information-catalyst.*
- Information sharing, especially by the information-catalyst, with other members of the organization has a leveraged effect on innovations and the information alertness of the organization.
- The most important aspect and the most difficult to measure is the ability of the *entrepreneur*, the *boundary spanners* and the *information-catalyst* to continuously insert rich information into the decision making process to either innovate or to take advantage of nascent opportunities.

Practical benchmark applications will further strengthen the model through refinements of its determinants. Comparing information behavior between information intensive and information poor organizations, such as, consultants and commodity manufacturing for instance raises interesting areas of new investigation.

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Processing weak signals

1. Lack of all elements which typify the sensemaking characteristics of ambiguous and changing environments (a communication and exchange of information logic) and elements related to weak signal detection (strategic environment scanning), no visible interest in and processing of anticipatory, qualitative, ambiguous, fragmentary information of various formats and sources; lack of innovations.
2. Lack of most elements which typify the sensemaking characteristics of ambiguous and changing environments (a communication and exchange of information logic) and elements favourable to weak signal detection: no visible interest in and processing of anticipatory, qualitative, ambiguous, fragmentary information of various formats and sources; so-called innovations are imitations.
3. Some elements which typify the sensemaking characteristics of ambiguous and changing environments are present (lack of an information culture) with some elements favourable to weak signal detection: sporadic processing of anticipatory, qualitative, ambiguous, fragmentary information of various formats and sources; few innovations.
4. Most elements which typify the sensemaking characteristics of ambiguous and changing environments are present (there exists a logic of information communication and an information culture) with elements favourable to weak signal detection (information networks and environment scanning): explicit processing of anticipatory, qualitative, ambiguous, fragmentary information of various formats and sources; innovations are disseminated and rapidly implemented.
5. Strategic mix of elements which typify the sensemaking characteristics of ambiguous and changing environments with elements favourable to weak signal detection: concerted and proactive processing of anticipatory, qualitative, ambiguous, fragmentary information of various formats and sources; innovations are created, disseminated and implemented rapidly.

THE GOOD, THE BAD AND THE UGLY: AN IDENTIFICATION AND CLASSIFICATION OF THE BARRIERS TO E-LEARNING ON AN UNDERGRADUATE E-LEARNING ENTERPRISE DEGREE.

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ABSTRACT

This paper examines and evaluates the existence of barriers to learning on an online BA in Enterprise and the impact they have on student retention. Strategies to overcome and diminish these barriers are presented. The BA Enterprise is offered by E-College Wales (ECW), a project designed by the University of Glamorgan aimed at creating and improving entrepreneurial and managerial capacity in the European Union Objective One Areas of Wales. This elearning programme has been created with the aim of aiding individuals and communities to generate their own economic development solutions, through the tools of entrepreneurship and promotion. The BA Enterprise programme commenced in September 2001 with approximately 400 students. This programme had an open entry policy attracting a diverse population of applicants in terms of experience, age and prior qualifications. The academic literature has identified the existence of a number of barriers to e-learning including technology, the student experience, course delivery and on-line miscommunication. Research has provided preliminary classifications of these factors as student, situational and educational system factors. The combination and influence of these factors is impacting upon student retention and withdrawal rates on all e-learning providers. This study examines the existence of barriers to e-learning experienced on the E-College Wales BA Enterprise programme during the 2001/02 academic year. The study found that e-learning enterprise students are subject to a variety of barriers including HE, e-learning and enterprise related factors. Key strategies to diminish their influence are proposed including induction, accreditation of prior learning and experience and flexible course design.

E-College Wales

ECW is a project initiated and designed by the University of Glamorgan aimed at creating and improving entrepreneurial and managerial capacity in the European Union Objective One Areas of Wales. The University of Glamorgan and Further Education colleges located throughout Wales supported the project. The project was piloted with the BA Enterprise degree, which was initiated in September 2001. The course was supported via the online Blackboard Virtual Learning environment (VLE). This comprised interlinked communication and content area. The VLE communication area supported both synchronous and asynchronous communication media enabling interaction between students and module tutors. This paper examines the retention issues within the program

and identifies whether the causes of withdrawal correlate with the existing academic literature.

The Reasons for Withdrawal on Higher Educational Programmes

The Higher Education sector faces a two-fold enrollment problem: firstly getting students to enroll and secondly retaining them on their courses (Wetzel, O'Toole and Peterson, 1999). Retention remains a critical issue as identified within the Dearing Report, 1997. The Select Committee on Education and Employment (2001) identified that one in six of students entering British Universities would not complete their qualification. Yorke and Thomas (2003) posit withdrawal and non-completion is viewed as inefficiency, which must be controlled and minimized within HE providers. Furthermore, Bennet (2003) identifies problems caused by student withdrawal as creating financial problems for Universities through lost fee income, lecturer time wastage, disruption of remaining student group and possible drop in student morale. Hence the introduction of league tables to monitor and gauge the effectiveness of University performance. Despite this trend, Yorke and Thomas (2003) note that the UK HE sector retains a tendency of full time student participation although the increasing trend is for students to work part time to fund their studies. This implies that the HE sector is not meeting the changing needs of the student and retention remains an issue. Tinto (1982, 1987) posits that there is no one stop solution to student retention and "the key to successful student retention lies with the institution, in its faculty and staff, not in any one formulae". Tinto suggests that retention involves 2 commitments from the student namely to achieve a qualification and secondly to achieve that award at a particular institution. These are described as goal and institutional commitments and their interrelation will directly influence the retention level. Tinto also recognised the need for the student to achieve social and academic integration to ensure successful completion. Social integration is a measure of the student's satisfaction within the colleges' social and institutional framework. Whilst academic integration evaluates the match between the colleges academic program and the individuals own motivation and academic ability. Wetzel, O'Toole and Peterson (1999) criticise this framework as simplistic and lacking consideration of financial variables. Bennet (2003) identifies 2 classification of student withdrawal as compulsory or voluntary. Compulsory withdrawal includes illness, finance, caring for a family member and failing the course. Voluntary withdrawal is a conscious decision to withdraw due to dissatisfaction with factors related to the course.

Dunwoody and Frank (1995); Yorke and Thomas (2003) identified topics influencing student retention in HE as: academic preparedness, the academic experience (also Medway and Penney, 1994) (poor teaching, learning and assessment), institutional expectations and commitment, academic and social match, finance (also Porter, 1989) and employment, family support and commitments and institutional support services. In terms of significance Callender's (1999) survey of 1000 students identified that financial hardship was the dominant cause of withdrawal. By contrast, Davies (2000) study identified that drop out rates varied between 3 and 56% across different courses, despite similar student circumstances. Davies concluded that financial or personal problems are only significant when the students have a low opinion of the course.

Yorke and Thomas (2003) and Martinez (2001) identify several key factors in reducing student withdrawals as a student centred approach, good teaching, pre entry and early engagement with students, curriculum related issues such as assessment and effectiveness of induction, satisfaction with courses, personal tutoring, effective recruitment and supporting student finance. Yorke and Thomas (2003) suggests that factors likely to have a positive impact on retention and students experience includes a

supportive institutional climate, student support (also Dunwoody and Frank, 1995), formative assessment, development of social interaction via learning activities and flexibility to meet student needs.

Wetzel, O'Toole and Peterson's (1999) research empathises with Tinto's earlier research in recognising the importance of academic and social integration. Interestingly they identify that financial considerations have limited significance, rather students are driven by success and progress and this correlates positively with programme completion. They posit that courses require greater flexibility in meeting student needs and there might be a case for limiting the quantity of modules studied and increasing course length.

Research investigating barriers to e-learning is emerging. The literature suggests three main categorisations as student or dispositional, situational and institutional factors (Diaz, 2002; Rezabek, 1999; Garland, 1993). Student or dispositional factors, recognises levels of educational preparation, attitude, motivational and persistence attributes. Situational factors occur within an individual's general life and include transportation, age, time constraints and family responsibilities. Educational or institutional system examines the educational standards and qualities of the course and the impact of pastoral support for the student. These can include issues related to admissions, registration, scheduling of courses, financial aid and support services. Therefore we can conclude that e-learning retention is a complex and multi faceted issue. For e-learning courses to improve rates of retention, time and effort must be given to prepare students for the learning experience (Alexander 2001) and ensure the course is flexible with suitable assessment requirements.

The necessity for enterprise education

Enterprise education is a key activity to ensure the development of both the enterprise and its employees. The justification for enterprise education for the business is necessity. Running a small business professionally isn't a just a good idea, its a perquisite for business survival (Ehrenfeld, 1995). Garavan and O'Cinneide (1994) suggest that there is a positive relationship between enterprise education and business start-ups. Whilst Coulsen-Thomas (1999) suggests businesses would benefit from positive steps to encourage and build entrepreneurial qualities. Research indicates that skills deficiencies exist in smaller enterprises in areas such as strategy, planning, marketing and sales (Welsh, 1996). Scott et al., (1996) and Greig (1997) - identifies a lack of formal vocational training culture within SMEs. Gibb (1998) suggests that the dominant mode of learning in SMEs is experiential, namely learning by doing. This includes learning from customers and suppliers, also from problem solving and opportunity taking and learning by error. Anderson, Boocock and Graham (2001) concur with this suggesting informal unplanned education via social and business networks.

In terms of individual's development of enterprise skills, Binks (1996) posits that many graduates were poorly prepared for employment post Higher Education and that there was insufficient provision for enterprise education. Westhead (1997) noted that few SMEs employed graduates whilst Fletcher (1999) noted that fewer UK graduates started their own business than their counterparts in the USA and Japan. Petermen and Kennedy (2003) posit that existing formal education does not encourage entrepreneurship but prepares individuals for work in corporations. Shurry et al. (2001) suggests that there is a general mistrust of entrepreneurs in the UK. Carter and Collinson (1999) identifies there are a latent population of graduates, interested in starting their own businesses who require training to encourage and inform the process of business start up. They suggest that such training programmes should focus on younger graduates and concentrate on

reducing barriers such as ideas generation, finance (also Shurry et al. 2001) and expertise. Further barriers are recognised by Galloway and Brown (2002) as graduates suffering from debt (also SBS, 2002), lack of funds (DTI, 2001), limited experience, regulation, taxation (Michaelis et al, 2001) alternative personal priorities and fear of failure (HM Treasury, 2001). Continuing negative attitudes to entrepreneurship form a significant barrier to business start up (Roberston et al. 2003)

By contrast, Watkins and Watkins (1984) and Robertson et al. (2003) reported that the typical entrepreneur are in their mid thirties, white and male. This indicates that female entrepreneurs and ethnic groups are disenfranchised from business start up. Ball and Shank (1995) identify 3 prerequisites for small business education to occur; firstly potential participants must recognise a need for enterprise education, secondly, they must know of the programmes existence and lastly that these courses match potential users needs.

The development of Enterprise Education

Enterprise Education has seen a growth in provision since the 1980s in schools, vocational colleges and Higher Educational institutions (Peterman and Kennedy 2003). Furthermore, the individuals involved in Enterprise Education have increased to include owner managers, students, pupils, graduates, women, unemployed and other disadvantaged groups (Caird, 1990; Curran and Stanworth 1989). Galloway and Brown (2002) report on the increase on growth of Entrepreneurial education in UK universities such as Strathclyde and Stirling. This suggests that this increased provision will enable graduate start-ups, which given the knowledge and capabilities of the owner-managers are more likely to be survive and be successful (Galloway and Brown 2002). Garavan and O'Cinneide (1994) posits a high level of entrepreneurial education enables higher levels of enterprise growth. However, Galloway and Brown's (2002) study indicated that the return in HE entrepreneurial education is likely to be long term rather than immediate. Despite the development of enterprise education Kolvereid and Moen (1997) and Garavan and O'Cinneide (1994) state that there is a lack of research investigating the phenomena. Furthermore, Garaven and O'Cinneide (1994)a claim existing research has a tendency to be exploratory in nature.

Whilst enterprise literature considers the deterrents to initial business start up in depth, there is limited appreciation of the causes of withdrawal from such programmes. Moreover the development of Enterprise Education programmes via e-learning is an emergent phenomena and remains unexplored within the academic literature. This study investigates reasons for student withdrawal on an online Enterprise Education undergraduate programme. These barriers to online Enterprise Education are evaluated and contrasted against the extant literature.

METHODOLOGY

The research methodology comprised both quantitative and qualitative research encompassing 71 students from two partner colleges (Coleg Sir Gar and Coleg Morgannwg) within the ECW project. Initially a detailed analysis of the demographic breakdown of the student cohort and completion, withdrawal and deferral information was undertaken. Thereafter the study used in depth content analysis of student feedback to identify reasons for withdrawal. A semi structured questionnaire was developed to identify prime motivations for student withdrawal. Withdrawn students were contacted via

telephone and the questionnaire was completed in a 15-minute interview with each respondent. In total, 35 former students (85%) completed the questionnaire, whilst six (15%) respondents declined or were unobtainable. The aim of the questionnaire was to investigate the prime causes for student withdrawal. The initial question established the date of withdrawal from the programme, whilst the second question asked the respondents to explain their rationale for leaving the course. This was an open-ended question designed to fully explore the key reasons behind the withdrawal decision

FINDINGS

This section analyses the student data in terms of gender, age, result, occupation and entry qualifications.

Student Results

Seventy-one students enrolled for the first year of the programme within both partner colleges. As can be seen from Table 1, 22 (31%) students successfully completed the first year, 41 (52%) withdrew and 7 (26%) deferred to the next academic year. Forty-four (62%) students were male and 27 (38%) female, the oldest being 67 and the youngest 25. The average age of the group was 43 with a standard deviation of 9.9. A group frequency analysis revealed that the most populace group was 31-40 (38%) followed by the 41-50 (28%). Overall 55% (39 out of 71) of the year group were 41 years of age or over. Male students were predominantly in the 31- 40 (45%) age bracket whereas females were principally in the 41-50 (41%) group. Male students accounted for 74% of the 31-40 age group and 65% of the 51-60 age classification whilst females accounted for 55% of the 41-50 age group.

Table 1:Classification of Student withdrawal factors

Age Groups	Group Demograhics			Completion data			Withdrawal data		
	All Group	Male	Female	Overall	Male	Female	Withdrawn	Male	Female
21 - 30	5	2	3	0	0	0	4	2	2
31 - 40	27	20	7	8	7	1	15	11	4
41 - 50	20	9	11	7	3	4	10	4	6
51 - 60	17	11	6	7	3	4	10	8	2
61 - 70	2	2	0	0	0	0	2	2	0
Totals	71	44	27	22	13	9	41	27	14

Overall, 33% of female and 30% of male students were successful. Further analysis revealed that 67% of 51-60 aged female students were successful. The most successful male age group was the 31-40 category, with a 35% success rate. The least successful age groups were the male 51-60 category with a 27% success rate and the female 31-40 group (14%). Eighty-eight percent of successful females were 41 year olds or above in contrast to 46% of males in this age category. In total, 66% percent of withdrawn students were male and 34% female. Within each gender 61% of all male students and 52% of female students withdrew. The most prevalent age groups for student withdrawal were

51-60, with a 59% rate, followed by 31-40 (56%). The 51-60 male age group suffered a high withdrawal rate with a 73% dropout rate. Similarly the female 31-40 (57%) and 41-50 (55%) categories endured high withdrawal rates.

Employment Data

Twenty-nine students were self-employed (41%), 15 worked within the public sector (21%), 17 were in private sector (24%) and 10 (14%) were not in employment. Self-employed students witnessed a 31% completion rate and a 66% withdrawal rate. Public sector students recorded a reasonable completion record (40%) and a high withdrawal rate 47%. The worst completion record was displayed in the private sector employment group with only an 18% completion record and 59% withdrawal record. In terms of entrepreneurial activity it can be seen that 46% of self employed student withdrew from the course.

Table Employment by Student completion, Withdrawal & Deferral

Sector	All Pop	%	Passed	% of Passed	% of Sector	W/DN	% of Withdrawn	% of Sector
Self Employed	29	41	9	41	31	19	46	66
Public sector employment	15	21	6	27	40	7	17	47
Unemployed/Not Working	10	14	3	14	30	5	12	50
Private sector employment	17	24	4	18	24	10	24	59
	71		22	100		41	100	

Educational Profile

Forty percent of students possessed no prior HE qualifications, 20% were graduates and 5% possessed a Masters degree. Forty six percent of students had achieved O levels or equivalent qualifications and 49% attained A levels. When these statistics are analysed in terms of completion against prior qualifications it revealed that of the 20 students with a prior HE qualification only 20% successfully completed the year and 80% withdrew. Of the 22 successful students only 4 (18%) possessed a prior degree. Typically successful students were lacking in prior HE attainment with only 41% of students having gained a previous qualification.

Table : Student Cohort by Qualifications

Total Students	Graduates	Masters Degree	HE qualification	No HE Qualification	O levels	A levels
71	20	5	31	40	33	35
%	28	7	44	56	46	49

Questionnaire Results

The semi-structured interviews with 35 students revealed 11 factors of withdrawal cited on 69 occasions (see Table 8). Nine prime causes were identified occurring on 4 or more occasions. The average number of withdrawal factors per student was two, with 17 students identifying two causes.

Table 8: Reasons for Student Withdrawals		
Factor	Frequency of Occurrence	As a % of all Respondents (35)
Prime Causes		
Lack of Time	13	37
Job or Business Changed/increasing pressure of work	12	34
Nature of the Course	9	26
Personnel Issues	8	23
Amount of Coursework	7	20
Technical Problems	6	17
IT skills	4	11
Did not require further qualification	4	11
Confusion/lack understanding	4	11
Other Causes		
Inflexibility in course design	1	3
Withdrawn by College	1	3
	69	

Lack of Time

Thirteen students (37%) cited time as a prime cause of their withdrawal. Of this number, 5 ran their own business and 2 held high-level positions in the public sector. All of these individuals identified that they did not initially appreciate the amount of time the course would entail and also underestimated the demands of their current posts. As identified in the previous section there was a realisation that the coursework was onerous and required reduction. Again this factor can be identified as a contributory factor towards their withdrawal decision.

Job or Business Changed – increasing pressure of work

This was the second most frequently identified cause of withdrawal cited by 34% of respondents. These were students who suffered a change in their working circumstances. Four of this group withdrew due to having to relocate due to new employment whilst 6 cited a change in their existing working circumstances caused by launching their own business or extra responsibility within their current post. Nine out of twelve students who cited this factor either ran their own business or were employed within the private sector where time is a critical factor. Four students identified this factor as the sole reason for their withdrawal whilst 3 students recognised it as 1 of the 2 factors behind their withdrawal.

Nature of the course

Nine students identified that they did not think that this was the right course for them. This was a contributory factor behind student's withdrawal as 5 candidates identified it as one of the two reasons which caused their final withdrawal. These students were from a diversity of backgrounds and quoted a variety of reasons including a lack of enjoyment of the subject matter and the method of learning not suiting their learning style. Comments included "*I needed a vocational course which equipped me with the relevant business skills in a short time scale*" and "*lacking interest in subject matter*", "*not meeting my*

needs", "*lacked applicability to my current job*" and "*preferred the chalk and talk and intimacy of an actual lecture*". One student complained about the distance that he had to travel to attend support sessions in a partner college and a feeling of isolation.

Technical Problems

Six students identified technical problems as a cause of their withdrawal. Technical issues severely affected the launch of the course and included virtual learning environment (VLE) reliability and connection issues. Two students identified it as the sole cause, whilst two others identified it as one of two reasons for withdrawal

T Skills

Four students identified their IT skills as a reason for their withdrawal from the programme. These students identified several other factors that contributed to their withdrawal; they were all self-employed males in excess of 54 years of age.

Confusion/ Lack of understanding could be course related factor

Four students identified a lack of understanding and confusion as a factor contributing towards their withdrawal. This was one of a number of factors, which caused the students to withdraw from the programme. Student comments included that they did not understand what they needed to do and felt confused about using the technology.

Personal Issues

Eight students (23%) quoted personal issues as reasons for withdrawal. These personal issues were a significant factor (such as illness, divorce or family issues) in the decision to withdraw accounting for the sole reason for 3 students.

Amount of Coursework

Seven students criticised the amount of coursework, which involved weekly tasks and assignment work. Three students withdrew stating that they could not cope with the number of assignments. Four students identified that they were unable to complete the weekly tasks due to lack to time and withdrew or stopped participating early on in the course. Five students identified it as one out of the two reasons for their withdrawal. This can be seen as a contributory factor rather than a prime reason for student withdrawal.

Did not require further qualification

This factor was identified by four students and was a contributory factor to withdrawal interacting with several others. When students understood the demands of the programme in terms of workload and time those with first degrees typically withdrew stating they did not need a further first degree.

Other Causes

Two other factors were identified on one occasion namely withdrawn by supporting college and inflexibility in course design.

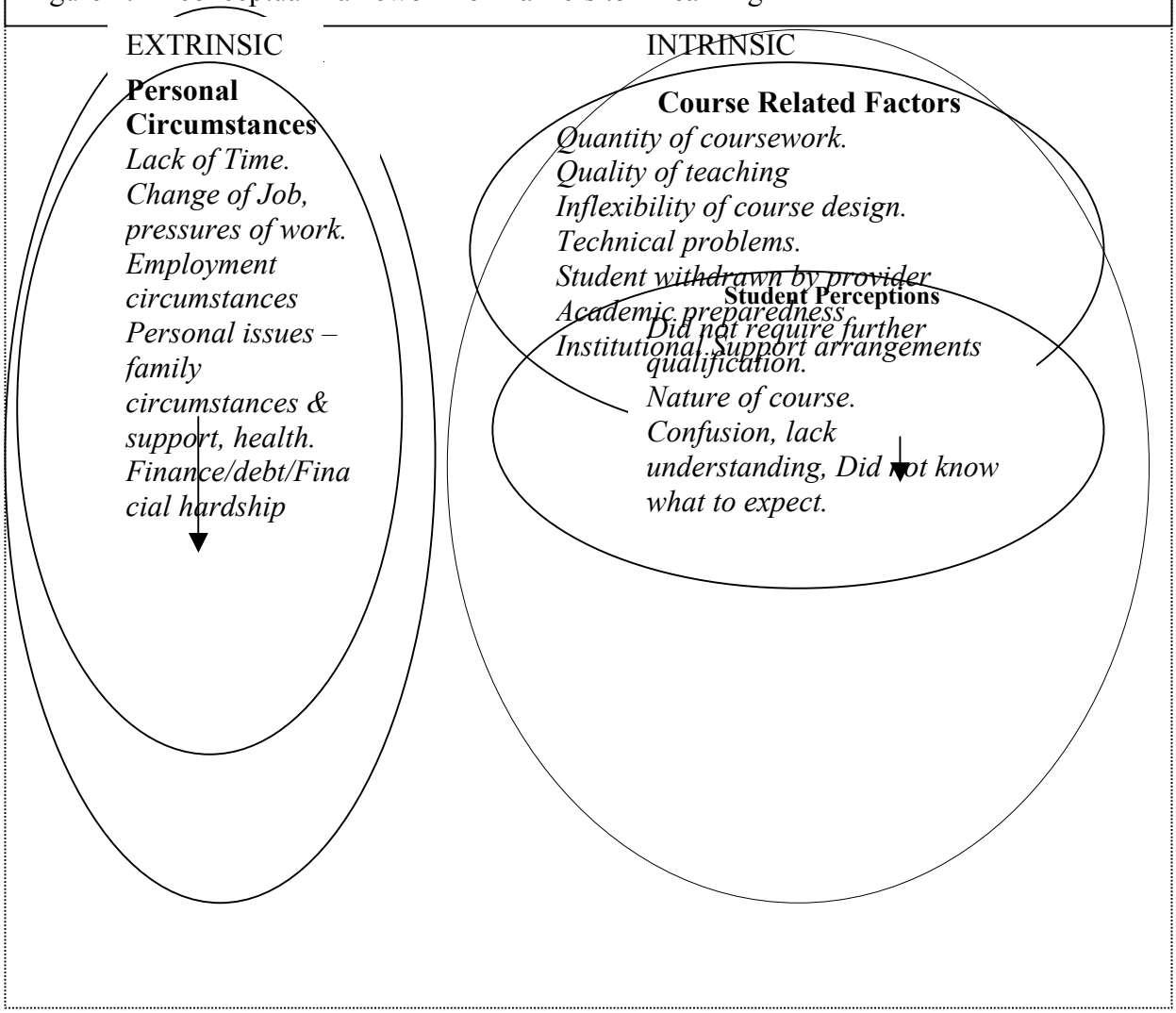
CONCLUSIONS

This study classifies reasons for withdrawal on this undergraduate enterprise e-learning programme and correlates these causes with the extant literature suggesting strategies to manage and overcome them. Students who withdrew from the course were influenced by a variety of barriers to online Enterprise education including HE, e-learning and Entrepreneurial related factors. These factors will negatively impact on students to make a compulsory or voluntary withdrawal decision. There is considerable interrelation between these factors. For example a key barrier to withdrawal has been identified as time (Jones et al 2003). Both the HE and entrepreneurial literatures recognises the influence of this factor. The study found that successful students were typically non HE qualified, self employed and aged between 31 and 60. Female students were marginally more successful than their male counterparts with older males particularly likely to withdraw. The lack of success of students with prior HE qualifications could be attributed mainly to their motivation. Students with existing undergraduate and postgraduate awards were discouraged from pursing the qualifications due to its extensive demands in terms of commitment and time. Several identifying they wanted to achieve specific vocational business skills rather than another degree thus de-motivating them from continuing with another long educational programme.

Our study of withdrawn students identified the existence of nine prime causes of withdrawal, which can be categorised in two ways. Figure 1 presents a framework to explain these relationships.

The factors impacting on the e-learning enterprise students can be classified as extrinsic or intrinsic. Intrinsic factors (see Figure 1) are internal and course related, which the course provider can influence and extrinsic, which are external to the course and more difficult to control. Within these two categories we can identify sub classifications namely personal circumstances (PC), course related factors (CRF) and student perceptions (SP). The nine factors of student withdrawal identified within this study can be positioned within these classifications. The personal circumstances category is an extrinsic classification and are external to the programme such as a change of employment and family and health related problems. These variables are far more difficult to influence and control, a critical consideration being their initial identification and coping strategy. The Intrinsic or internal course related element contains two sub categories namely SP and CRF. The CRF group identifies any withdrawal decision related to a course component such as technical problems, assessment, reliability of the VLE, course structure and type of and quantity of assessment. The SP group identifies problems related to the students understanding of the course and how it could benefit them.

Figure 1: A conceptual framework for Barriers to E-learning



COMPULSORY or VOLUNTARY WITHDRAWAL DECISION

Figure 2 provides an analysis of the student results using an extension of the conceptual framework. Individual students are charted by withdrawal factor. Coleg Morgannwg students are identified via a PP code in the range 1-27 and Coleg Sir Gar students with a C suffix in the range 1 - 44. The student's code is placed in the set associated with their withdrawal decision. For example, PP3 identifies a Coleg Morgannwg student who withdrew due to lack of time, which this study classifies as a personal circumstance factor. If a student withdrew due to a number of causes their coding appears in the relative subset. For example, C22 identifies a student who withdrew due to the nature of the course and the quantity of coursework. Therefore their coding appears in the intersect between the course related and perceptions sets.

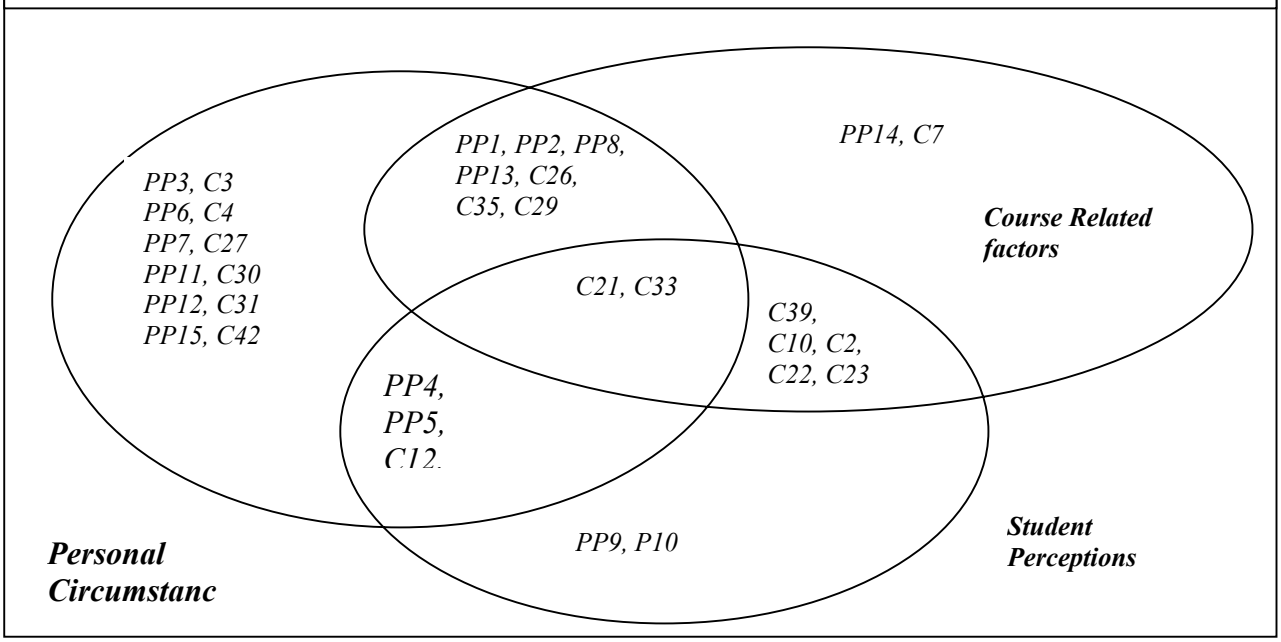
In summary, an enterprise student's withdrawal decision can be seen to have several influences such as HE, e-learning or entrepreneurial related factors. As Figure 1 identifies some of these factors are interrelated. HE factors can include the academic experience, institutional expectations, family support and commitment, college support arrangements. Therefore in our conceptual framework, HE factors can impact on PC, SRFs and CRF. This would apply to any traditional or e-learning related programme. E-learning courses are impacted by HE and e-learning specific barriers. The e-learning barriers are those

factors that directly influence and potentially detract from the student experience such as limited IT skills, technical problems and learning style associated with the media. Finally there are entrepreneurial related barriers to enterprise education. These will only impact on the individuals who are owner managers or employees of an SME. In this study this would involve 41% of the students in self-employment and 24% in private sector employment. Specifically these would involve 2 factors identified within this study namely limited time and increased pressure of work. These individuals would have to cope with these entrepreneurial related pressures in edition to the e-learning and HE factors. Therefore in conclusion barriers to online enterprise education can be seen to be multi layered and interrelated. The critical success factor is to identify and alleviate their influence both their negatively impact on the student experience.

Therefore specific policies to improve retention on enterprise related programmes should include effective recruitment and selection policy. This process should identify candidate applicability for the programme of study and identify their specific training needs. These would include identification of IT skills and a provision for training if required. In addition student would require thorough training in the use of the Virtual Learning Environment (VLE) prior to the commencement of the course. These might involve a face-to-face induction and production of high quality technical manuals explaining the use of the VLE as a support mechanism for students. Moreover it is important that Entrepreneurial students receive accreditation for any prior qualifications or experiences via a process of accreditation of prior learning (APL) and experiential learning. These systems would allow the course to be customised to suit the needs of the learner and avoid duplication of existing knowledge.

This paper will assist e-learning enterprise education providers in identifying and managing barriers to e-learning for enterprise education and creating strategies and systems to reduce their impact and by association improve student retention.

Figure 2: Classification of Student withdrawal decision



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MENTORING NEW ENTREPRENEURS
A COURSE OF ACTION TO RETAIN KNOWLEDGE AND EXPERIENCE IN SOCIETY

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ABSTRACT

In many parts of the world the population pyramid is becoming top-heavy. This creates a worrisome situation where the ratio for worker/pensioner is high and growing dramatically in favour of the approaching troop of pensioners, particularly in Europe. When glancing at other parts of the world as Africa and Asia this problem is not to be found. The reason for this problem is the fact that policies practised today are founded in the fact that the working force is to outnumber retired workers in able to function. If we by some means could counteract these opposing poles and bring them all together we can keep on living almost as before even in the future to come.

This study investigates the possibility to keep the retiring population of senior management for a longer time in the market, with their profession as foundation for doing so. We look at self-employed and persons with top management positions and focus on what can be done for them. They possess a lot of knowledge and experiences that could be of use for new and young entrepreneurs, and that could help them from failing and instead guide and develop these new entrepreneurs to success. There is a need among new and young entrepreneurs to have a mentor, as many of them are afraid of failing. The reality is this: nearly half of those who start their own business actually fail.

There are barriers for the investigated group because senior management has a tendency not to let the grip go from their company when succession is to be realized. When senior management leaves their profession they change to a new stage in life and face problems with emotional bonds that have to be conquered. A way to do that is to become a mentor, which concerns their earlier identity. To find out if it is of interest for senior management to become mentors after retirement we constructed a questionnaire, consisting 61 questions, going out to 1269 respondents, with a response rate of 32%.

According to the survey there is an unambiguous result. Senior management is interested in working with mentorship after retirement. This is not all; senior management was unanimous about mentoring even before retirement. The results have in this perspective found a promising way to keep senior management active longer in the market and help

new and young entrepreneurs to success by decreasing the risk of failing. These two components together will contribute to society and force back the unjust ratio of worker/pensioner to become more equally balanced.

For governmental and other supporting agencies the results indicate new directions for cost effective business development programmes to SMEs and entrepreneurial firms.

INTRODUCTION

Todays healthcare has resulted in longer life spans in those parts of the world, which can pay for the medical technology. In Sweden, as in many other parts of the western world, this luxury has become a problematic issue resulting in a large numbers of pensioners, which need to be provided for.

The reason for not having this situation earlier is due to the fact that before the 1930:s medical technology did not have a positive impact on an individuals recovery when a person was sick [Falk & Nilsson, 1999]. But when penicillin and other antibiotics were invented, a new era began and healthcare had a positive influence on peoples health [ibid]. Since this point in time people live longer.

Many of the upcoming pensioners are self-employed as well as holding top-management positions. In the near future these roles are to be passed on to the next generation involving troublesome emotions due to the transfer and entering a new stage in life.

At the same time as the older generation exit the market, a younger generation enters. These people will face problems similar the problems the exit-generation has already experienced. Furthermore not only does the competition today contain the local and the domestic market it also includes the rest of the world.

Exporters in the western world countries have historically been Swedish exporters biggest competitors and the competition will increase further when fast growing countries as China, containing a population over a billion, enter the world market more seriously.

Problem and purpose

To be able to deal with increasing competition it is of great importance to make better use of the existing knowledge in society. Therefore it is of great interest to see what can be done in an effort to keep the knowledge of retired people in business. The retiring workforce has received and accumulated a huge amount of knowledge and experience throughout their careers. This knowledge and experience should be used. Pensioners would be an asset in any branch and profession. There are different methods and solutions contingent on earlier occupation. At the same time there are new entrepreneurs at the market, entrepreneurs that might fail their business without competent assistance. There are theoretical arguments that suggest support for new ventures should be provided on a mentoring basis, for the reason that mentoring should have an impact on the management ability and confidence of such new firm starts [Deakins *et al*, 1998] and probably save many new entrepreneurs from failing. There is a possibility that retiring entrepreneurs i.e. self-employed and persons with top management positions would find it of great interest to mentoring these new entrepreneurs.

According to mentioned aspects this paper will focus on how to make better use of the self-employed and persons with top management positions, which are soon to be retired and according to this see if there is an interest from their side to become mentors for new and young entrepreneurs.

Future workforce

The amount of births, and when they arrive in a womans life, are of great interest because it reveals how large the coming workforce will be and when it will arrive. Females wait longer in life for having their first child in the western world. In Sweden an average female have their first child at the age of 28,6 years, in Europe 27,8 and in the USA 24,9 [United Nations, 2003]. In the world approximately 31% of the population are 0-14 years, in USA 22% and Europe 17%.

Trends have been changing about giving birth since the 1970: s. The birth ratio has decreased in Europe from 2,38 child per female to 1,45 [European Commission, 2000]. Europe is in an uncomfortable situation, as it requires a birth ratio of 2,1 per female to avoid a reduction of people [SCB, 2003]. But Europe is not alone as the same trends are to be found in the rest of the world as well. In the USA the ratio has dropped from 2,48 to 2,07 and in Japan from 2,1 to 1,46 [European Commission, 2000]. The fact that less children are being born and that females wait to a later stage in life to give birth results in generations being decreased and postponed and in that way only increases the gap between future workforce and pensioners.

As long as the birth-ratio around the world decreases, leaders of today must realise that females need support and not obstacles when it comes to giving birth and the start of a family. When facing these statistics it does not seem to improve, indeed it is getting worse.

Retired workforce

European workers of today finance much of yesterdays workers living. The politics of today are founded on the fact that the workforce is larger than the number of retired workers. The current worker/pensioner ratio in Europe has fallen to about three workers for each pensioner, and it seems to fall further to about three workers for every two pensioners within 30 years [Economist, 2003]. Europe differs from many parts of the world. In Africa and Asia there are about 10 workers for every person over the age of 65 [European Commission, 2000].

The attitude towards work seems to be that you shall not work for longer time than you have to. Swedish people do not want to work longer than to the age of 65 [SIFO, 2003]. According to the same study, 78% do not feel that they have been affected to retire later than the age of 65 because of lack of working labour. Instead the actual retirement is in the age of 62 and seems to be falling even more [SCB, 2002].

People of today do not face the fact that it will not be possible for workers to pay for the increasing amount of pensioners. This situation is problematic, as the attitudes do not seem to be changing in favour for working later in life.

Business transfers

In the corporate area approximately 20% of the self-employed entrepreneurs in Europe are over 55 years old [European Commission, 2002]. Small and medium enterprises (SMEs) are facing business transfers.

In Sweden 99.2% of all private companies are small, with less than 50 employees. Privately owned companies employ 63% or 2.6 million Swedes. A fourth of every self-employed in Sweden was born in the baby boom in 1940, and in Sweden a person is granted a pension at the age of 65. When these entrepreneurs now go to pension it will directly lead to 180 000 company transfers [SIFO, 2003).

Business transfers are very often triggered by the entrepreneurs retirement. In Germany and Austria more than 40% of the transfers are due to pension. Approximately 33% of the enterprises in Europe will transfer ownership in the next 10 years (ranging from 25-40% depending on the Member State), a figure that corresponds to an average of at least 610 000 SMEs to be transferred each year. [European Commission, 2002].

It is a lot of enterprises that face succession; these companies need to be provided for. To be able to keep these enterprises running, new entrepreneurs must be encouraged to take over where old entrepreneurs left off. Otherwise many companies will go to their grave since there are no successors.

It is not easy to find someone that wants to and can take over a business. According an interview in the local morning paper called “Nerikes Allehanda” in the city of Orebro a self-employed in the steel-industry claims that he wants to get well paid for his lifetime achievement and want his company to be running in the future to come. But it is not only to put the money on the table and take over the business. You have to learn about material qualities, customers and suppliers. They order steel from all over the world, it is a complicated business and he concludes that he will have to walk hand in hand with a buyer for a long time.

New entrepreneurs

It is a demanding mission to start a new business. This is a matter, which many times work as a barrier for new ventures. The total entrepreneurial activity, i.e. share of the population who either are actively engaged in the start-up process or managing a business, in 2002, was low in the European Union (EU) with only 6% and even lower in Sweden with 4% [GEM, 2002].

This should be compared to the United States of America (USA) with almost 11% [GEM, 2002]. The interest in the EU to be self-employed instead for an employee has decreased to 45% and in Sweden to 32% but the interest in the USA has increased to 67% [EOS GALLUP EUROPE, 2002].

According to table 1 below, Swedish people do not, in general, consider starting a business; more do however in the rest of the EU and in the USA. The same survey also reveals what scares potentially new entrepreneurs the most and that is the possibility of going bankrupt, uncertain income and a risk of losing ones property. What is positive is

that more than half (55%) of the EU respondents are willing to take classes on how to set up and manage a business. [EOS GALLUP EUROPE, 2002]

Table 1. Individuals taking steps to start a business, 2002, in% [EOS GALLUP EUROPE, 2002]

	Never came to his/her mind	Is thinking about it	Gave up	Currently taking steps to start
European Union	59	11	9	2
United States	41	20	4	10
Sweden	73	9	3	2

Potentially new entrepreneurs have good reason to be afraid, as business insolvencies in the Europe have increased with 10.7% in 2002, compared to the previous year. The situation in Sweden as well with an increase of 5.2% the same period, but in the USA the bankruptcies fell and had a decline of 3,9% [CERU, 2003]. Bankruptcies do not only strike SMEs, also large companies as the retail chain K-Mart, Philipp Holzmann in the construction sector and the Frankfurt bank Gontard & Metallbank amongst a lot of other companies went bankrupt in 2002. Only 55% of the new enterprises who set off their business in Sweden 1998, survived and were still running three years after start [SCB/ITPS, 2003a]. However there are people who conquer the barriers and start their own business and in Sweden there was an increase of 5.4%, in 2002, in the establishment of new enterprises. Then again the newly registered companies, excluding existing enterprises that expand, have decreased 15% in Sweden 2002. [SCB/ITPS, 2003b]. The same survey reveals that only 20% of the newly started companies have received support when they started their business.

METHODOLOGY

Our targets are self-employed and persons with top management positions in Sweden. As a result of this we developed cooperation with StyrelseAkademien in Sweden. StyrelseAkademien is an association for board members in Sweden. The members of this association have the background we are looking for. Their association is wide spread over Sweden, concentrated to seven regions in both large and small cities. We did not get access to all their members but we got access to their members in five of the regions.

We decided to use an online questionnaire, which is very effective; however it has two major weaknesses. Firstly it demands that respondents have access to and computer/Internet use knowledge. We assumed the target population was likely to have access and knowledge as a result and condition of their profession. Secondly Internet correspondence, in contrast to ordinary tangible mail correspondence for answering the questionnaire, is less likely to be answered. It is however much cheaper, faster and more effective than tangible correspondence.

To be able to receive a high participation rate from the respondents, the chairman of the board of each region in StyrelseAkademien helped us by sending an email, with the link to the questionnaire on the Internet, expressing the importance that they answer the survey.

After two weeks we followed up with a similar email from the headboard to remind those who had not yet answered. The total population with email in the five regions is 1 269 persons and the total amount members for all seven regions are approximately 1 800 persons. After the survey had been closed we had a response rate of 32% from 1 269 respondents.

Table 2. Facts about the respondents

	All respondents	**Self-employed**	**Top management positions**
Share of the total amount respondents (n=406 respondents) in%	100	39	61
Gender			
Woman	25	26	24
Man	75	74	76
Age			
< 23	0	0	0
24 - 33	3	2	1
34 - 43	16	5	11
44 - 53	35	13	23
54 - 63	40	14	25
64 - 73	6	4	2
> 74	0	0	0

Table 2 shows some background variables of the respondents, almost a fourth of these being females. The age is structured in accordance with which decade the respondents were born, for example the interval 24 – 33 were born in the 1970:s et cetera. Other interesting facts are that more than 70% of the respondents have had the profession as self-employed or top management position for more than 10 years. The respondents come from different company-sizes were 37% are micro- (0-9 employees), 24% small- (10-49 employees), 18% medium- (50-249 employees) and 22% from large (≥250 employees) companies. They all come from a wide array of sectors of industry.

EMPIRICAL DATA AND DISCUSSION

Succession

When working in a profession for many years the profession becomes a part of a persons soul and expresses the identity of that person. When working, every person one-day has to face the fact that someone else is to replace him or her after retirement. This is troublesome for every person involved and for that reason succession is of great importance, as a motivator for becoming a mentor.

The goal for any succession plan should be to provide the road map for a business to continue as a successful operation in the event of its leaders departure, whether that departure is planned or completely unexpected due to a life-threatening experience, such as for example a heart attack. It is of no less importance for senior agents to have a

succession plan than for major corporations. With business succession planning, the trust, respect, and goodwill that has been cultivated with clients is being passed on. [Crews C. & Halperin L., 2003]

Top management succession is a challenge for everyone involved. Succession of top management positions has a tendency to be very demanding. A substantial quantity of the succession literature concentrates on the resistance of the entrepreneur to let the business pass on to the next generation. Entrepreneurs have a tendency to hang on to their creation even when they officially have left their top management positions [Handler 1994, Dyer 1986]. Another cause of resistance for succession is linked to the fear of a vanished identity, were the main cause for resistance lies in the lack of appreciation, recognition and love felt by the person who is to be retired [Hubler, 2002].

When the self-employed are to realize succession for their company, it is of a high and complex nature and frequently incredibly severe, concerning issues of technical, organisational, psychological character [Kets de Vries, 1996]. These issues have been described as the ultimate test [Gersick *et al*, 1997]. Although the technical and organisational issues have a tendency to be the ones in centre of attention, it is regularly the psychological ones that are the most troublesome, due to the fact that they have an effect on deep psychological needs such as belonging, control and identity. Succession must not be understood as a single occurrence [Gersick *et al* 1997 & Handler 1994]. Instead, succession is a long procedure that exists over time, beginning long before than the heirs even enter the business [Handler 1994:134].

This might explain the fact that 43% of the self-employed respondents in our investigation aged 54 years or more have not started to think about succession at all. In accordance with Gersick *et al* (1997) & Handler (1994), 46% of the self-employed respondents express the feeling that emotional bonds are the most challenging issues to handle with succession before organisational (28%) and technical (26%) tasks. Regarding emotional bonds, our survey made it clear that it is people in the age of 54 – 63 who find it most demanding; the older you get the harder it gets. Another issue most of the self-employed respondents declare is that taxation in Sweden, is, in itself, a bothersome issue. As one of the self-employed respondents express it:

"Small entrepreneurs are discriminated for the reason that they have to pay the same tax as salary-earners, however nobody shares the risk inherent with self-employment. In many cases we stand outside of the welfare-system, which many Swedish people appreciate, but which seldom benefits those who run a small business."

At the same time 23% of the self-employed respondents announce that they have the intention to be a part of and influence actions concerning the company even after change of ownership. One respondent proclaims:

"I burn for the vision that exists in the company and I estimate that I can contribute a lot, but the age factor will result in a lower rate of work and to a lesser extent".

It is 37% of the self-employed respondents that agree just about completely or more that their company is a lifetime achievement and that it is hard to set free the control over the company (33%). But it seems that it is harder for females to loose the grip. When leaving a company for retirement this can result in a loss of identity (33%) and their belonging (31%). Results become more correlated when focusing those over 63 years of age; those

who are to be retired in a near future. In this group, 63% agree just about completely or more that they will lose belonging when they do not head a company.

As we can see, the self-employed respondents are not homogeneous with regard to deep psychological needs such as belonging, control and identity when running a company. However the figures are strong when looking at the age-structure of the respondents. The survey reveals that those who are soon off to pension at a larger scale considers a lost of belonging, but not a loss of the identity in it self, which is the same in all age-structures.

Mentoring

Mentoring is understood as a journey that describes a unique relationship between mentor and student teacher [Awaya *et al*, 2003]. There are many other definitions regarding mentoring: "The process in which an experienced veteran helps to shape or guide a newcomer…true mentoring is an extended, confidential relationship between two people who have a mutual personal growth and corporate success as common goal…a protected relationship in which learning and experimentation can occur, potential skills can be developed, and in which results can be measured in terms of competencies gained" [Sullivan, 2000]. There are theoretical arguments suggesting that support for new ventures should be provided on a mentoring basis, where mentorship should have an impact on the management ability and confidence of such new start-up [Deakins *et al*, 1998]. It is also considered that mentoring is of crucial importance to the survival and growth of SMEs [Sullivan, 2000], and that provision of new firm support can yield positive and worthwhile returns to the public sector investment [Deakins *et al*, 1998].

In Scandinavia, mentoring programs, where the involved offer their services free of charge to new and young entrepreneurs, are soon to be found in Sweden at Almi Business Partner; in Finland at Yrityskummit ry and in Denmark with the "Sparring med erfaring" project. Other countries in Europe that offer similar services are ECTI and EGEE in France, SES in Germany and the "Saturno" project in Italy. In the USA there is the SBAs Scoring program.

Finding or becoming a mentor may seem like a huge responsibility, but it is actually rather easy [Call, 2003]. The mentor plays five key roles (1) coach, (2) co-ordinator, (3) supporter, (4) monitor and (5) organiser, where the roles are changing dependent on the needs of the protégé [Clutterbuck, 1991]. Assigned relationships through formal programmes have, however, been found to be problematical [Kram, 1986]. There is a need to be careful in matching the mentor with the protégé, so as to try to match the mentors to clients based on the mentors sector experience [Deakins *et al*, 1997] et cetera.

Results from our survey reveal that after their retirement 97% of all respondents are willing to act as mentors, for new and young enterprises. Among the respondents only 22% agree just about completely or more that money is a big issue when becoming a mentor, but on the other hand, almost half (47%) of the respondents want to get paid for their provided service. Those who are most interested to get paid are males between 44-53 years of age.

The reasons for acting as mentor are: the possibility to share their knowledge and experiences (99%), meet new people (93%) and that it is a challenge (90%). Other reasons for becoming a mentor are according to the respondents:

"Do something that are of value for other persons and the society"

"To get my own youth-inspired ideas"

The respondents are of the opinion that if they would start mentoring after retirement this would not be on a full-time basis (see table 3 & 4), instead they want to do it for 10-20 hours a week (46%) and less than 10 hours a week (42%). Those who could consider mentoring 30 hours a week or more are those at the age of 44 years or older, but they are only a few %. Females do not want to mentor as many hours as males and would prefer mentoring ten hours a week, or less. Other appealing facts that were revealed can be presented as two of the respondents proclaims:

"Knowledge and experiences can avoid a lot of mistakes. I would rather see the next generation make new mistakes than repeat mine"

"It is too long time to wait for retirement. There is a need for younger mentors than the ones who are about to get retired".

Table 3. Hours a week the respondents want to fulfil after retirement, based on gender and position

	Background 1/2					
		All respondents	**Male**	**Female**	**Self-employed**	**Top position**
Hours a week	**< 10**	42%	39%	54%	43%	41%
	10-20	46%	49%	35%	46%	46%
	20-30	9%	10%	7%	9%	9%
	30-40	2%	2%	1%	1%	3%
	> 40	1%	0%	3%	1%	0%
	n=326					

Table 4. Hours a week the respondents could imagine them self to fulfil after retirement, based on age

	Background 2/2					
		Age 24-33	**Age 34-43**	**Age 44-53**	**Age 54-63**	**Age 64-73**
Hours a week	**< 10**	30%	46%	39%	41%	63%
	10-20	60%	50%	46%	44%	32%
	20-30	10%	4%	10%	12%	5%
	30-40	0%	0%	3%	3%	0%
	> 40	0%	0%	2%	0%	0%
	n=326					

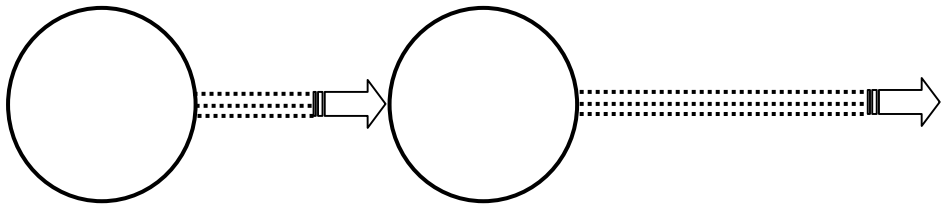
According to our study there is a great interest for becoming a mentor before retirement as well (93%) and doing this for the same amount of hours and reasons as after retirement.

According to Kram (1986) and Deakins *et al* (1997) mentioned above it is of importance for mentors to make the mentorship as smooth as possible. The respondents express a need for a working plan to follow (54%), courses about mentorship (52%), to be able to choose for themselves which clients they would like to be mentoring (81%) and that they should be able to meet the client on a regular basis (91%). If these needs were not to be satisfied there would be a possibility that the mentorship would be problematic according to Deakins *et al* (1997), and if satisfied mentoring could be just as easy as Call (2003) proclaims. Other aspects that do not seem to matter are the total amount of employees in the clients company (50%); if the business has come to a start (33%) and the sort of branch the clients have their business in (45%). This is something that is in some contrast to Deakins *et al* (1997) that claiming that matching the mentors to clients based on the mentors sector experience is of importance.

As the survey reveals, there is a possibility to keep retired persons, with the background as self-employed or holding top management positions, in the society for a longer period of time than to retirement. This means that they would stay longer in their active life and at the same time contribute to society and to the new entrepreneurs. Mentorship does not necessarily have to wait until after retirement since people with this background would be more than happy to become mentors even before their retirement. Such efforts would give contributions to the new entrepreneurs as well as to society in general.

There are three possible outcomes after the final succession when the entrepreneur is off to pension. Figure 1 is the first of them and shows the worst outcome for society and the Gross Domestic Product (GDP). This is when the entrepreneur vanishes from the market totally.

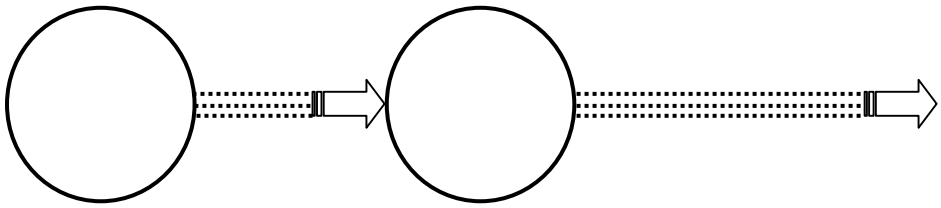
Figure1. Model over effects to GDP when vanish from the market after expected retirement



As the model reveals the entrepreneur in this case go to full retirement. An act like this is not pleasant from a macro economic aspect due to the fact that they will no longer contribute by earning a salary by active labour; but instead live on a pension. Going from work force to non work force. Further on, a lot of knowledge goes off to pension, which is troublesome because it could be of more value if the entrepreneur passed on his accumulated knowledge.

Second, many times the entrepreneur has a hard time cutting off their relations to their old company; resulting in prolonged interference, which can be seen in figure 2.

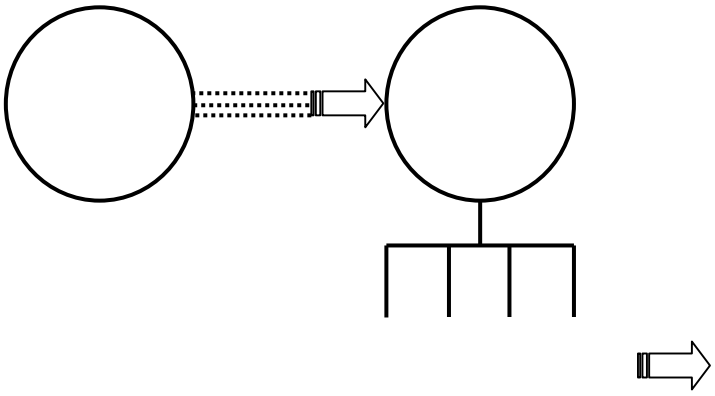
Figure 2. Model over effects to GDP when helping old company after expected retirement



In this scenario the entrepreneurs choose to stay in the market and not go off to full retirement. Instead, he helps his old company out in some way; usually as the chairman of the board. When such an action is realised, knowledge will remain in the old company. But this can still lead to a lot of problems, such as conflicts between the old entrepreneur and the successor. The old entrepreneur will still have some salary for the labour but most importantly makes his knowledge, experiences and contacts available to the successor and the company, which will help the company manage better and generates a higher GDP to society.

Finally the entrepreneur is still in the market but decides to share his knowledge to other persons he did not previously know.

Figure 3. Model over effects to GDP when becoming a mentor to new and young entrepreneurs after expected retirement

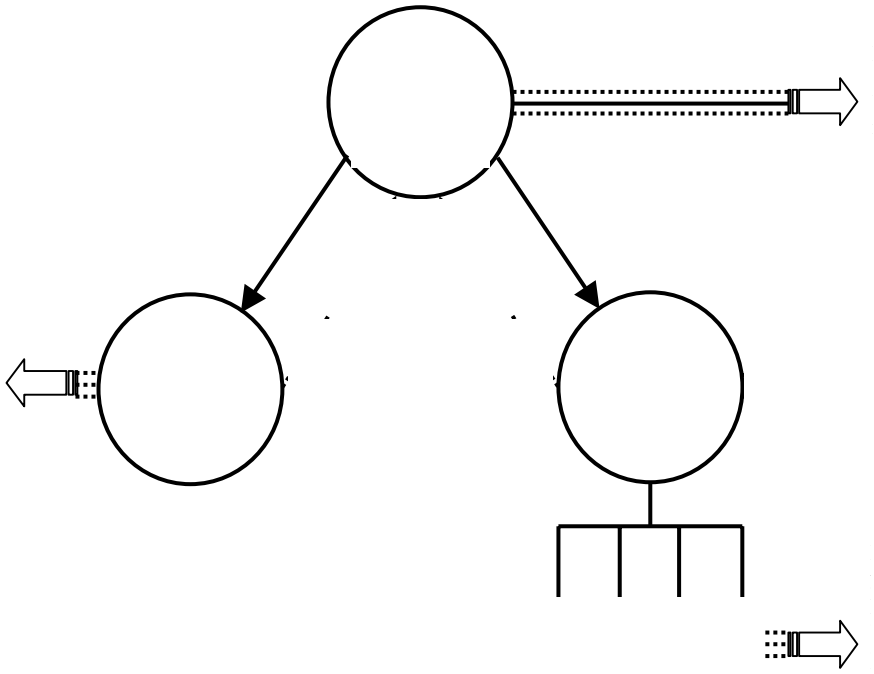


When doing this, he does not only help one company but helps a lot of new and young entrepreneurs that with guidelines can manage better and receive success, if not could cause failure. When the new and young entrepreneur has a mentorship with a person with great knowledge and experience of handling a business this gives him an advantage to other new starters. During the mentorship the adept gets access to the mentors network and support. All this together will result in an easier way to plan and implement strategies and know what to do if something does not work out as planned. For this reason,

mentorship will decrease the risk for liquidation and help the company stay in the market, generating, in aggragate, a higher GDP to society.

When we put all these effects together it could look like figure 4 below, which summarise the effects with mentorship after retirement.

Figure 4 Summarized model over contributed effects with mentorship after expected retirement



CONCLUSION

The present time holds good opportunity for mentorship and young entrepreneurs. The reason for this being, there are many self-employed and persons with top management positions that will retire, and are interested in mentoring an adept. Many of the new entrepreneurs are afraid of failing and the reality is that nearly half of those who start their own business actually fail. In Sweden and EU, the share of the population who either is actively engaged in the start-up process or managing a business is very low. It is apparent therefore that entrepreneurial activity could be increased if new and young entrepreneurs would get the opportunity to have a mentor. They would, by all means, take a chance due to the fact that many are willing to participate in activities, which would help them to better manage and develop their business.

If we arrange for new/young entrepreneurs to start a mentorship on a larger scale, we can turn threats into possibilities, a situation where companies may survive with good guidance. This will by all means create a better climate for our entrepreneurs, mentors and society as a whole.

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THE KENYAN ENTREPRENEUR: TYPOLOGIES AND CHARACTERISTICS

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ABSTRACT

This study aimed at investigating and profiling cases of successful Kenyan entrepreneurs who started and have been managing their enterprises for over 5 years. It examined how these entrepreneurs have steered their firms to success through many challenges that make many enterprises (at least 50%) fail to celebrate their first anniversary, especially in the developing countries. Specifically, the study examined entrepreneurial characteristics, factors that influence growth, and the problems and challenges facing entrepreneurs. The study involved tracing the biographies and exploring coping mechanisms adapted by these entrepreneurs; as well as looking at how they have took advantage of opportunities to develop their firms to high levels of growth and expansion. The study documented survival techniques used by the respondents in such liberalized and highly competitive market. Sampled entrepreneurs were asked to express the extent to which they did apply the following key influencers to business growth: management techniques, marketing strategies, financial resources and personal motivation.

The Case Study approach was the main method for the study. Observations and face-to-face interviews were the main tools for data collection. The population of the study comprised of all successful indigenous entrepreneurs who had operated their business for over 5 years and had shown tremendous growth, innovation and creativity. Snowballing was the main sampling technique coupled with purposive approach. Lists provided by the following organizations were used: The Kenya Industrial Estates (KIE), Kenya Association of Manufacturers (KAM), and the Kenya National Chamber of Commerce and Industry (KNCCI). The theoretical base that under pined the study was a combination of the concepts from the psychological and classical schools of thought of entrepreneurship.

Findings indicated that most Kenyan entrepreneurs exhibited typical characteristics of other entrepreneurs elsewhere. They rated themselves as being at least strong on the following characteristics: drive and energy level, setting challenging but realistic goals, commitment, moderate risk taking, and persistent problem solving and competing against self-imposed standards. At least 50% of the respondents were driven into business by the opportunity in the market; this was followed by poverty as another major influence to starting the business. Major factors of success included hard work, honesty and self-confidence besides having a vision.

INTRODUCTION

Background

The place of entrepreneurship in an economy, and especially in a developing nation, cannot be overemphasized. It has been found to play a key role in creating employment, offering unlimited opportunities to the citizens and helping them generating income for themselves. It is often said that, the Western World (and indeed most industrialised countries in the world) were build by entrepreneurial individuals (Price, 2001). People who took enormous risks by innovating in areas where most said it could not be done, worked long hours over extended periods of time, and even suffered personal problems, all for the excitement of developing a product or building an enterprise. Entrepreneurs have been known to mobilize otherwise idle resources to create employment, alleviate poverty through the distribution of incomes and assist the disadvantaged members of the community. They have also assisted in the promotion of the national and regional socio-economic linkages for development. Entrepreneurs have been found to promote a more flexible, innovative and creative competitive economic structure. Entrepreneurship has also opened opportunities for the unemployed including graduates of the school system as well as the re-trenched/retired employees.

Various studies have shown that entrepreneurs are the major players in the development and successful management of enterprises in an economy. Armed only with viable business ideas coupled with limited resources, they have been noted to achieve tremendous heights in creating and operating enterprises successfully. These are people, according to Professor Ian C. Macmillan, a guru of entrepreneurship at the Wharton School, who behave like possessed men and women once they experience a flash of understanding known as 'entrepreneurial insight'. According to O'Reilly (2001), "They have seen in their mind's eye, a better mousetrap, the great unmet need, the changing tide, and the big opportunity. Because they see it clearly, they feel they know exactly what must be done to prevail." (p 26). O'Reilly goes further to give examples of people like Ken Olsen who, due to entrepreneurial insight, enabled him to grasp a way to make computers much cheaply as compared to IBM. Other examples from other fields include Ted Turner founder of Cable News Networks (CNN), Bill Gates of Microsoft Computer Company, Kiichiro Toyoda the founder of the Toyota Motor Corporation and John D. Rockeffeler (Sr.) among others.

As noted above, entrepreneurs can play a major role of being 'catalysts' in any economy. This is more pronounced in developing countries; which are usually more affected by unemployment, poverty and low standards of living among other challenges. As compared to the Western Countries (and the South East Asian countries), most countries in the developing world, including Africa, are said to lack behind in entrepreneurial activities. This is evident as one may note from the current initiatives such as, the New Partnership for African Development (Nepad) which is aimed at uplifting the African countries from underdevelopment among other challenges. Countries that have a high concentration of entrepreneurs appear to also have a high concentration of people who are high achievers. These countries no doubt, are industrializing at a much faster rate than the rest of the World. The United States of America, Japan, Germany, India, South Korea, and South Africa to

name a few are among such countries. The entrepreneurial culture appears to be well established in these countries according to the GEM report of 2003; this is also coupled with role models who are accomplished entrepreneurs.

This study aimed at surveying for authentic Kenyan entrepreneurs who have steadily steered their firms to greater levels of success. They included individuals who started their businesses from 'ground zero' and have successfully operated them in responding and adapting to challenges and opportunities of economic reform and globalization. Such entrepreneurs act as role models in the community and provide some sense of inspiration to the up-coming entrepreneurs. Such entrepreneurs are expected to eventually form the critical mass for the development of an entrepreneurial culture.

The Kenyan Government has been in the forefront in promoting and encouraging the entrepreneurial culture through various legislations and support mechanisms. This it has done more progressively for the last 30 years through various legislations such as the Sessional Papers No. 1 of 1986 on Economic Management for Renewed Growth, Sessional Paper No. 2 of 1992 on Small Enterprise and Jua Kali Development in Kenya, and the Sessional Paper of 1996 on Industrial Transformation to the year 2020 to name a few. The Sessional Paper No. 2 of 1992 acted as a watershed, as it set out a comprehensive policy framework to enhance and develop the enterprise culture through a multi-dimensional approach. This paper outlined strategies of how the micro-and small-enterprises could be strengthened so as to transition to medium and large size enterprises. It also outlined the role of the private sector and non-governmental organizations in developing a suitable environment for the enterprise culture.

Theoretical Framework

This study was based on a synthesis of entrepreneurship theories and models that have been developed over time, to explain the rise of entrepreneurship development. Cunningham and Lischeron (1991) classified these models under six broad categories of schools of thought of entrepreneurship. They are: Assessing Personal Qualities (the Great Person and Psychological Characteristics), Recognizing Opportunities (Classical school), Acting and Managing (the Management and Classical schools), and those involved in Re-assessing and Adapting (the Intrapreneurship School). These schools view the concept of entrepreneurship from different perspectives as they define a wide array of entrepreneurship activities such as creation, founding, adapting, and managing a business venture. Table 1, illustrates a summary of the concepts represented by these schools in terms of definitions, focus, measures, behaviours and skills.

Though this study combined the concepts presented by various schools of thought as shown in Table 1, the researchers were informed largely by both the psychological and classical schools of thought. These approaches have been widely applied in defining and explaining the 'entrepreneurial phenomena'.

Table 1: Entrepreneurship Models and Schools of Thought

Entrepreneurial Model/Schools	***Definition and Focus***	***Measures***	***Behaviours and skills***
"Great Person" School	• Extra-ordinary achievers • Has intuitive ability born with (sixth sense)	• Personal principles, histories and experiences • Described/featured widely in the media	• Intuition, vigour, energy, persistence and self-esteem
Psychological characteristics School	• Entrepreneurs have unique values, attitudes, and needs that drive them	• Locus of control, and need for achievement • Behaviour is according to the values as one satisfies the needs	• Personal values, risk taking, and need for achievement
Classical School	• Innovation and creative are central characteristics • Bearing risk and uncertainty	• Decision making • Ability to see opportunities and take action	• Innovation, creativity, and discovery
Management School	• Entrepreneurs create value by recognizing opportunities, organize resources, own, manage and assume risks	• Expertise, technical knowledge and plans	• Production planning, people organizing, capitalization, and budgeting.
Leadership School	• Entrepreneurs are leaders of people. • "Social architects" as they promote and protect values	• Attitudes, styles of management • Level of team spirit	• Motivating, directing and leading
Intrapreneurship School	• Pulling together resources to promote innovation in an organization • Development of independent units to create, market, and expand services	• Decision making and level of flexibility	• Alertness to opportunities, maximizing decisions

Source: Cunningham and Lischeron (1991)

Both the Psychological and Classical Schools of thought theories and concepts guided this study in identifying and profiling successful Kenyan entrepreneurs. The Psychological School of entrepreneurship believes that certain personality characteristics are key in the development of entrepreneurs. These include: need for achievement, locus of control, risk-taking, tolerance of ambiguity, and type A behaviour (Begley and Boyd 1987; Brockhouse and Horwitz 1986). The need for achievement (*n Ach*) is a personality identified by McClelland when he found that individuals with high levels of *n Ach* had a strong desire to solve problems, receive feedback, and enjoyed setting targets and achieving them.

Under the Classical School of Entrepreneurship, entrepreneurs are viewed as individuals who undertake/develop ventures which have elements of risk; those that require some creativity and innovativeness. Schumpeter (1934), agreed with this notion by stating that the key ingredient of entrepreneurship lies in innovativeness of the individual and not ownership of a venture. He went further to define entrepreneurship as "Carrying out of new combinations of firm organization – new products, new services, new sources of raw material, new methods of production, new markets, new forms of organization." (P4, Dollinger 2001). The Classical school's main thesis is that innovation, creativity and discovery are the key factors underlying the development of entrepreneurship. One example of a creative and innovative behaviour is seen in Steve Jacobs, one of the co-founders of Apple Computers; being full of energy and being innovative, he is said to have motivated the others to be creative and launch into a new industry.

These schools of thought are seen as offering unique viewpoints to explain and illustrate how the sampled entrepreneurs have reached where they are and the type of adaptive mechanisms they have employed to maintain the lead.

Statement of the Problem

Lack of sufficient empirically developed Case Studies of successful entrepreneurs is one of the major problems affecting both academicians (as learning materials) and practitioners (as role models) in the developing countries including Kenya. Hence this study attempted to provide Case Studies of 'who is who' between authentic and successful medium and large-scale entrepreneurs in the country. These comprised of those who have demonstrated innovative and creative skills in business for at least 5 years – having experienced steady growth and expansion in all those years.

Why this study?

Researching and profiling of cases representing successful local entrepreneurs in Kenya has been long overdue; given that the country is now moving towards creating an enterprising culture. Moreover, various courses on entrepreneurship are now being taught at different levels in the school and college system with limited relevant learning materials. Non-Kenyan Cases in entrepreneurship which, do not often represent the exact environment, are being used in a number of entrepreneurship classes. Most do not capture the Kenyan business environment as it is currently. Hence appropriate Case Studies need to be developed so as to form the basis for effective training by providing suitable local learning materials, examples and lessons. The study has also generated literature for future studies in the area of the

African Entrepreneur. Case studies of successful indigenous entrepreneurs will serve as role models to be emulated by other entrepreneurs. They will also provide the much needed literature on local micro and small enterprises for use by practitioners, learners, academicians and small businessmen and women, and other stakeholders in the sector. In addition, success stories will be used as bench marks in terms for evaluating success for aspiring young entrepreneurs and college graduates including those from other tertiary institutions..

Overall, case studies will be useful tools in business training and counselling sessions - these have been found to be appropriate for adult learners. Cases provide real life experiences and actual problems encountered in the field (Marvis and Leiniger, 1991). Use of cases has been found to enhance skill and knowledge acquisition as learners are fully engaged in discussing real issues and decision-making situations.

Cases and Profiles of successful entrepreneurs can play an influencing and motivating role effectively, especially for those intending or engaged in entrepreneurial activities. They provide practical and inspirational information about: commitment, creativity, and perseverance, hard work, assuming risks, organization and management of business ventures are brought out in cases. They also give insight into the application of sound management principles and bring out significance and feasibility of combining a small business career, family obligations, and individual goals. Last but not least, cases were to expose the abundant business opportunities that are available to individuals across the sectors for viable entrepreneurship.

Objectives and Purpose of the Study

The purpose of this study was to develop authentic Case Studies and Profiles of successful Kenyan entrepreneurs at what is often knows as the 'missing middle' or medium and large Enterprises. Those who have changed things and are continuing to do so in the entrepreneurial 'map' of Kenya. It aimed at surveying a selected number of successful entrepreneurs operating in Nairobi and spread across all sub-sectors of the economy; those engaged in best practices in innovation, creativity and business management.

Specific Objectives

The study aimed at:

1. Determining the characteristics of successful Kenyan entrepreneurs.
2. Determining factors influencing the growth or success of medium and large enterprises.
3. Ascertaining problems and challenges faced by these enterprises and their coping mechanisms.
4. Compiling case studies of successful Kenyan entrepreneurs

The cases developed from this study form part of the needed literature on the typologies of the Kenyan entrepreneur for use by scholars and students engaged in the discipline. They provide the knowledge, practical tools and techniques that have been used for success. Hence the findings shed more light on level of the entrepreneurial culture in the country.

LITERATURE REVIEW

Who are entrepreneurs? These are individuals who are prepared to take enormous but, calculated risks, innovate in areas where most say that it cannot be done, work long hours over extended periods of time and even suffer personal problems all for the excitement of building an enterprise (Price, 2001). They are also said to have a passion and bring a singular concentrated focus to their projects- often starting with nothing more than an idea and go on to bring together 'teams' that have the ability to use limited resources and create successful businesses. Entrepreneurs are also said to be smart at putting together all the ideas and resources and moving to make profits as quickly as possible. They are known to scan the environment for viable business opportunities, and to take the initiative to create something of value for gain (Kibas, 2000). Two types of entrepreneurs have also been identified – craft and opportunistic entrepreneurs. Whereas craft entrepreneurs rely on their own acquired skills of creating/fabricating products, the opportunistic entrepreneurs engage themselves in business through identifying viable opportunities.

Entrepreneurship on the other hand, is a process, which involves the creation of an innovative economic organization for the purpose of gain or growth under conditions of risk and uncertainty (Dollinger, 2001). Vanderwerf and Brush (1989) after reviewing twenty-five definitions concluded that, entrepreneurship is a business activity consisting of some intersection of the following behaviours: creativity, innovation, general management, risk bearing and intention to realize high levels of growth. It is a continuous process of creating something different that has value to the users (Hisrich and Peters, 1992). The process is dynamic and leads to creation of wealth and economic empowerment to the individual.

Entrepreneurship plays a major role in the economies of countries that have a developed entrepreneurial culture. For instance, Price (2001) notes that for an enterprising nation like the USA, "… Entrepreneurs' firms are critical to the health of America's economy; they create two out of every three jobs and are twice innovative as large companies. The entrepreneur has also become increasingly important in restoring the competitive position of many US companies in the global market place." (p7).

Few studies, if any, in Kenya have focused on developing profiles of successful cases of entrepreneurs. The closest have looked at characteristics of micro and small enterprises, gender issues and impact of various interventions on the development of the Small and Micro Enterprise Sector. According to Bwisa (1997), most research on entrepreneurship in Africa (including Kenya) has tended to look at it unfavourably due to low level of efficiency in their operation. He points out that, though many firms had the capacity to increase outputs without additional investments, most suffered from high mortality and poor profitability. This was said to be due to lack of relevant entrepreneurial culture and skills, which manifested themselves in different ways. For instance, when the firms grew to some level, the owners tended to loose managerial control; they also tended to lack foresight to recruit and develop efficient teams of workers. He however, hastens to acknowledge that there are exceptional owner-managers (entrepreneurs) who have excelled in entrepreneurial activities.

Further, Bwisa points out that, the origin of the successful entrepreneurs has various sources. There are those who have grown from the informal sector (*Jua Kali*) i.e graduated from

operating under harsh environments of hawking and petty trade into the formal sector; others were employees of large expatriate Asian/Foreign-run enterprises; while others were former politicians and civil servants. Shirley and Muzyka (1997) gave a wider perspective of the origin of entrepreneurs in the Western World. They pointed out that entrepreneurs in society emerge largely as a result of various forces and variables over time. They stated that the supply of entrepreneurs is influenced in part by genetic powers (such as need to achieve), by family (history in business), background and early business experiences, and he economic (*and socio-political*) environment.

Talk about entrepreneurs, both positive and negative, tends to revolve around high fliers like Bill Gates and Richard Branson or, in New Zealand's case, entrepreneurs such as retail giant Stephen Tindall. Yet, in many countries including Kenya, there are equally successful entrepreneurs shaping and contributing immensely to the economies of these nations. Many of the businesses are started and owned by entrepreneurial people who may, for various reasons, never reach the heights of Bill Gates and others, but nevertheless contribute significantly to their communities and to their countries.

This study aimed at filling the knowledge gap as regards the emergence of authentic Kenyan entrepreneurs; who have been successful in starting and steadily steering their firms to high growth and expansion. The output of the study being authentic Case Studies and Entrepreneurship Profiles which are based on empirical study.

RESEARCH METHODOLOGY

Research Design

This study was mainly based on the Case study methodology in conjunction with the exploratory approaches; these involved qualitative techniques as stated by Cooper and Schindler (2001). As a unique type of study, the methodology incorporated two phases of data collection and analysis before cases were developed. These included, preliminary identification of potential respondents using various sources, followed by selection of respondents and finally focusing on the sample for detailed data collection.

The qualitative approaches were used to enable the researchers gain a clear perception of the dynamics that go into operating an enterprise; and to document the intricacies that have brought about the success of sampled entrepreneurs. Descriptive methodology combined with the case study approach were utilized to enhance the findings of the study; this was also Profiles of success stories were prepared from the data. done to capture the true historical and contemporary events that have shaped the lives of the respondents. The aim was to arrive at findings that are seen to be paramount and representative of a true and full picture of the constructs under investigation (Jacobsen, 2003)

The design focused on a holistic view of the sampled entrepreneurs to be studied through document review, case histories, observations and interviews. Both secondary and primary sources were used for data collection. Secondary sources included visiting and conducting

journalistic investigations from the various sources (including organizations) and also published information regarding the entrepreneurs.

Primary data involved direct interaction with the sampled entrepreneurs to conduct face-to-face interviews with them. This was done in all cases at the client's premises. It also included making observations and further reading of literature about them.

Population

The population for the study comprised of all successful Kenyan entrepreneurs who have been in business for over 5 years and have achieved great strides in innovation, creativity and growth among others. They comprised a wide spectrum of individuals who have been identified as successful entrepreneurs in the country. The study took note of the spread of the correspondents geographically and across the various sectors and levels of operation in terms of volume of business, capitalization, and number of employees.

Membership from various trade and manufacturing associations were surveyed in order to arrive at the population of interest. The associations visited included, The Kenya Manufacturers Association (KAM), the Kenya National Chamber of Commerce and Industry (KNCCI), the Kenya Institute of Management (KIM), the Kenya Industrial Estate (KIE), and the Federation of Kenya Employers (FKE). The population of interest comprised of those entrepreneurs who have been consistent and persistent towards achievement of excellence.

Sample Frame - Case Studies and client Profiles

To be able to have representative cases, the sampling frame took cognizance of the sectors (manufacturing, trading, and service) and the classification of businesses in the country by number of employees. This classification categorized enterprises into: micro- and small-enterprises with less than 19 employees, medium enterprises with between 20 and 49 workers, and large enterprises with over 50 employees (GoK/World Bank, 1996). The total number of final respondents is expected to be 12 entrepreneurs made up of one (1) from each sector and level of business. However, due to uneven spread of respondents across the sub-sectors, the total number identified were identified 24 were interviewed. Table 2 gives a summary of the initial number of respondents that were to be sampled:

Table 2: Sample Frame of respondents

Sectors ---------- **Level of enterprise**	Manufacturing	Trading	Service	Totals
Medium enterprises	5	5	5	15
Large enterprises	5	5	5	15
	10	10	10	30

Profiles of only 18 successful entrepreneurs have been documented from the summaries and analysis made. These cases came from various sub-sectors including: service, manufacturing and trade. The study included at least 20% successful women entrepreneurs.

Sampling Process

Purposive sampling in combination with stratification and snowballing strategies formed the main technique employed. The sectors and regions formed the strata from which samples of entrepreneurs who meet the given criteria were drawn. Lists of all possible entrepreneurs was drawn based on the secondary search from the Kenya Association of Manufacturers (KAM), the Kenya Industrial Estates (KIE), the Kenya National Chamber of Commerce and Industry (KNCCI) and other relevant sources. From these records, respondents who met the following general criteria were purposively sampled:

i) Were (or have in the immediate past operated) operating what is termed a 'unique' enterprise of their own which they started and have been in existence for over 5 years
ii) The enterprise having grown in assets, volume of sales and profits, and employees over at least 10 times since inception.
iii) Be within any of the following sectors – Manufacturing, Trade, Service or any other closely related to these.

Due to the complexity of the study and the multiple variables to be examined for each respondent, two phases of sampling and evaluation was be used: Phase I - which used secondary data mainly and Phase II, the final sampling, which incorporated snowballing technique to arrive at the number of respondents for interviews and detailed profiling.

In Phase I the researchers identified organizations and professional institutions with members operating enterprises. From these organizations, and based on the information provided, lists were then drawn of possible respondents with the help of these institutions. Appointments were then made in advance before the visits and interviews. Phase II involved visiting the identified respondents and conducting interviews and making observations. The general criteria for sampling included examining:

i) Growth in Profiles of success stories was prepared from the data. employment as measured by number of jobs created
ii) Increase in monthly sales in terms of value in shillings
iii) Increase in number of assets in value
iv) Great increase in capital employed
v) Major diversification in terms of new products and or services offered
vi) Increase in number of branches/locations/new businesses
vii) Creativity and innovation in terms of uniqueness features in business operations
viii) Exceptional Improvement in general business management – marketing, financial records etc

Data Collection and analysis

As an exploratory investigation, the approaches used in collecting data from the various relevant sources as stated by Cooper and Schindler (2001) included: interviews and document analysis. Data was collected within the context of their natural occurrence. Personal in-depth interviews by the researchers were held with the sampled respondents. These were conversational in nature and aimed at capturing the true picture of their history and perception of the enterprises. On-site observations were also used; these were participant in nature in order to perceive firsthand, what the entrepreneurs and their

employees experienced in the business setting. Documents were also analyzed to evaluate historical as well as current records, reports and others that were related and relevant to the sampled entrepreneurs.

The main tool used in collecting data was the Interview Guide. It comprised semi-structured open-ended questions to capture the bio-data and other details of the entrepreneur. The items in the guide covered major events in their lives, philosophy, goals, achievements, education, training, and family business history (where it was relevant). Part two of the guide was used to assess the extent to which the respondents possessed certain key Personal Entrepreneurial Characteristics (PECs) associated with successful entrepreneurs and venture capitalists (Dingee et al 2001). Two researchers assisted by a research assistant were involved in collecting the field data (including interviews) and analyzing it. The Graduate Research Assistant assisted in the summary, keeping the records of collected data from the sampled respondents and processing it.

The primary data from the interviews and secondary sources was analyzed by use of content analysis and descriptive statistics; they were then harmonized and summarized in form of overall findings and detailed case studies. Use of the SPSS tool enhanced data processing by providing relevant tables for analysis. A summary of the cross-cutting characteristics was also prepared followed by detailed cases of the respondents.

STUDY RESULTS AND FINDINGS

Overall findings

The study aimed at developing authentic case studies and profiles of successful Kenyan entrepreneurs. A total of 24 entrepreneurs were identified and interviewed; out of whom 18 profiles were analyzed for detailed profiling. They comprised 17 (70.8%) males and 7 (29.2%) females and were spread across the following sub-sectors: manufacturing, trade and service. The main objective of the study was to identify dominant characteristics and traits that are often identified with successful entrepreneurs and also distinguish them from non-entrepreneurs (or ordinary business people). These were mainly personality-based predictors of success as entrepreneurs.

The case studies discussed in this paper describe entrepreneurs who have successfully steered their firms to success. The study focuses on the personal characteristics the entrepreneurs expressed, the events that led to venture creation, their up-bringing, brief history of the enterprises, major challenges and their future goals among others.

Entrepreneurs Background and Characteristics

The findings in this study are analyzed under: family background, education and training, employment record and history of the enterprise. This is in agreement with what Hirsch and Peters (1992) stated when they posited that there are a number of aspects, which tend to differentiate an entrepreneur from the general populace and managers. These include: Family background, education and work history.

Family background

As regards the birth order, the largest number, 9(37.5%) respondents were the 2nd borns followed by 4th borns represented by 6 respondents. Family size varied between 1 and 19 siblings with the majority, 20 (83.4%) of the respondents falling between 1 and 9 siblings in the family. Most respondents grew up in average neighborhoods. A few had at least one parent in formal employment, others had business parents and the rest came from farming (and agricultural) backgrounds. The home environment for most (65.6%) respondents was competitive – with parents demanded more from their children in terms of performance. In a number of cases, respondents indicated their fathers tended to have exerted more influence on the upbringing and later careers; these parents expected their children to work had and be winners. As regards upbringing, 15(62.5%) of the respondents grew up in a rural setting while 9(37.5%) grew up in urban settings.

The modal range of the respondents was within the 46-50 years-age bracket where 25% of the respondents were found. Most respondents however, were between age 36 and 60 years old. As regards marital status, the majority, 23 (95.8%) were married. The common age at marriage was between 23 and 28 where the majority 17 (70.8%) were found. The family size varied between 1 and 6 children; while the majority of respondents, 17 (70.8%) had between 2 and 4 children.

Education and Training

For the level of education and training, 12 (50%) respondents had a college degree 33.3% with the 1st degree and 16.7% with a masters' degrees. Seven (29.2%) respondents had diplomas in relevant fields for their line of business whereas only 5 (20.8%) had up to high school education. Out of the total number of respondents, 17(70.8%) attended public schools and 7 (29.2%) were educated in private schools.

All the respondents had undergone some form of relevant training – either and or both technical and business training. Nine ((37.5%) had undertaken both technical and business training. Twenty (83.3%) of the respondents had been employed; fifteen (62.5%) had worked for over 2 years and some having risen to the level of senior managers before going into self-employment. For personal values, most respondents believed and practiced had work, integrity, and creativity among others.

Personal Entrepreneurship Characteristics (PECs)

On the Likert scale on Personal Entrepreneurial Characteristics (from 1=Very weak to 5=Very strong), the respondents scored means ranging from 4.21 (for Setting challenging but realistic goals) to 4.88 (for Taking initiative and seeking personal responsibility). This indicates that most of them appear to posses a high level of entrepreneurial characteristics and traits. The majority (at least 75%) of respondents rated the following characteristics as being very strong: Self-confidence, Long-term involvement, Learning from failure, and Taking initiative and seeking personal responsibility. These are often associated with successful entrepreneurs.

For further understanding, the following PECS were analyzed: drive and energy level, self-confidence and believe in oneself to achieve goals, setting challenging but realistic goals, long-term commitment, using money as a performance measure, persistent problem solving, taking moderate risks, learning from failure, using criticism positively, taking initiative and seeking personal responsibility, making good use of resources, and competing against self-imposed standards.

a) Drive and energy level

Table 3 summarizes the ability to work for long hours for sustained periods with less than normal sleep; 54.2% rated themselves very strong, 37.5% strong and 8.3 % was average.

Table 3. Drive and energy level.

Rating	Distribution	
	Frequency	%
Average	2	8.3
Strong	9	37.5
Very Strong	13	54.2
Total	**24**	**100.0**

Mean=4.46

b) Self-confidence

As regards self-confidence, belief in oneself and ability to achieve own goals. All the respondents rated themselves as at least strong with 18 (75.0%) rating themselves very strong and 25.0% strong. The mean rating was fairly high at 4.75. Table 4 analyses the ability to set challenging but realistic goals; 8 (33.3%) rated very strong, 13 (54.2%) rated strong and 3 (12.5%) rated average.

Table 4. Setting challenging but realistic goals.

Rating	Distribution	
	Frequency	%
Average	3	12.5
Strong	13	54.2
Very Strong	8	33.3
Total	**24**	**100.0**

Mean=4.21

c) Commitment to the enterprise

Long-term commitment to the enterprise was rated as at least being strong by 23(95.8%) respondents. This is seen in the ability of the entrepreneur to be totally dedicated to projects that was reach completion in five to seven years and to work towards distant goals. 75.0% of the respondents rated themselves very strong whereas 20.8% strong and only 4.2% as average. Table 5 gives the summary of long-term involvement.

Table 5. Long-term involvement.

Rating	Distribution	
	Frequency	%
Average	1	4.2
Strong	5	20.8
Very Strong	18	75.0
Total	**24**	**100.0**

Mean=4.71

d) Use of money as a performance measure

Most entrepreneurs have been found to consider money as a means to an end – achievement. As regards the respondents in this study, 17(70.8%) rated themselves as very strong, 4(16.7%) as average and 3(12.5%) as strong. Table 6 gives the summary.

Table 6. Using money as a performance measure.

Rating	Distribution	
	Frequency	%
Average	4	16.7
Strong	3	12.5
Very Strong	17	70.8
Total	**24**	**100.0**

Mean=4.54

e) Problem solving

Entrepreneurs are said to have persistent problem solving skills. Table 7 shows how the entrepreneurs rated themselves on their ability to solve a problem towards completion of tasks; 15(62.5 %) rated themselves very strong, 8(33.3%) as strong and only 1(4.2) % was average.

Table 7. Persistent problem solving.

Rating	Distribution	
	Frequency	%
Average	1	4.2
Strong	8	33.3
Very Strong	15	62.5
Total	**24**	**100.0**

Mean=4.58

f) Risk taking

The propensity to take moderate risks is seen as one of the key characteristics that distinguish entrepreneurs from ordinary people. From Table 8, it is noted that 23(95.8%) respondents rated themselves as at least strong; only 1(4.2 %) rated average.

Table 8. Taking moderate risk.

Rating	Distribution	
	Frequency	%
Average	1	4.2
Strong	8	33.3
Very Strong	15	62.5
Total	**24**	**100.0**

Mean=4.58

g) Learning from failure

As regards learning from failure, 22(91.7%) respondents indicated that they were at least strong. Failure is not seen as the end of the road but as tuition. As for the use of criticism, 22(91.7%) respondents also rated themselves as at least strong. Most of them indicated that they went out of their way to seek comments from their employees as well as other clients. All the 24(100%) respondents indicated that they seized opportunities and put themselves in situations where they were personally responsible for success or failure; they took initiative to get things going.

h) Making use of resources

Table 9 shows the rating on the ability of the entrepreneur to make good use of resources; ability to identify and use expertise and assistant that is relevant to the accomplishment of ones own goals, 16(66.7%) rated very strong, 6(25.0%) strong and 2(8.3%) average.

Table 9. Making good use of resources.

Rating	Distribution	
	Frequency	%
Average	2	8.3
Strong	6	25.0
Very Strong	16	66.7
Total	**24**	**100.0**

Mean=4.58

I) competing against self-imposed standards

Table 10 analyses the ability of the entrepreneur to establish ones' own standard of performance and compete against it. From the responses, 17(70.8%) respondents rated

themselves as very strong, 6(25.0%) strong and only 1(4.2%) as average. Thus 23 (95.8%) of the respondents appear to set their own standards and compete to achieve them.

Table 10. Competing against self-imposed standard.

Rating	Distribution	
	Frequency	%
Average	1	4.2
Strong	6	25.0
Very Strong	17	70.8
Total	**24**	**100.0**

Mean=4.67

The Enterprise

History of the enterprise

All the enterprises visited had been in existence for at-least 5 years; some had however, been in existence for over 15 years. Half (50%) of the respondents indicated that the current enterprises were not the first ones. They had operated other businesses before. For eleven (45.8%) respondents, this was their first enterprise. Fifteen (62.5%) of all the respondents started enterprises in the sectors in which they had relevant skills.

Reasons for starting the business

Various reasons were given for starting the business. From Table 11, it is noted that half (50.0%) of the respondents said that they were driven by an opportunity in the market, 16.7% wanted to be boss of their own, and 3(12.5%) were driven by the need to face a challenge and be able to start an enterprise besides the need for money.

Table 11. Reason of starting business

Reasons	Distribution	
	Frequency	%
It was existing	1	4.2
To face challenge	3	12.5
Opportunity in the market	12	50.0
Be boss of his/her business	4	16.7
Need for money	3	12.5
Unemployment	1	4.2
Total	**24**	**100.0**

Major influences on the entrepreneur
Table 12 gives a summary of the responses on the major influencing factors. Eleven (45.8%) respondents stated that they were driven by "poverty" to establish their own business, and 7 (29.2%) said they were influenced by their fathers.

Table 12. Who influenced you into starting your own business

Rating	Distribution	
	Frequency	%
Influenced by father to enter into business	7	29.2
Influenced by Mother to enter into business.	1	4.2
Influenced by both parents	1	4.2
Poverty acted as the drive in starting business.	11	45.8
Strong desire to be boss to yourself	1	4.2
Brother	1	4.2
Grandfather	2	8.3
Total	**24**	**100.0**

Challenges at start-up
As regards the challenges faced by the respondents, Tables 13 analyses the challenges at business start-up stage. Lack of capital appears to have been a major challenge as stated by 12(50.0%) respondents; 4(16.7%) said lack of modern technology and 3 (12.5%) respondents gave lack of skills for management staff as obstacles at business start-up stage.

Table 13. Challenges faced at start

Rating	Distribution	
	Frequency	%
Lack capital	12	50.0
Managing staff	3	12.5
Competition & Liberation	2	8.3
Marketing	1	4.2
Lack of modern technology	4	16.7
Poor infrastructure	2	8.3
Total	**24**	**100.0**

Current Challenges
Current challenges faced by the entrepreneurs included: competition from imports, which was leading with 7(29.2%) respondents, poor infrastructure 6(25.0%) respondents and an under-performing economy (20.8%) among others. Table 14 gives the current challenges that face the entrepreneurs.

Table 14. Current challenges

Rating	Distribution	
	Frequency	%
Under performing economy and low purchasing power	5	20.8
High interest rate and taxation	1	4.2
Insecurity	4	16.7
Competition from imports	7	29.2
Poor infrastructure	6	25.0
High duty in raw materials	1	4.2
Total	**24**	**100.0**

Use of free time

As regards the use of 'free' time, 9 (37.5%) respondents indicated that they are involved in sports and games, followed by 4 (16.7%) who spend their time traveling. The other large number, 9 (37.5%), of respondents spend time with their families, community work and reading for pleasure. Table 15 shows the distribution of how "free" time is spend. Closely related to use of time, is the lifestyle of respondents. Most respondents, 13 (54.2%), have the ability to work for long hours for sustained periods with less than normal sleep.

Table 15. How do you spend your free time?

Rating	Distribution	
	Frequency	%
With family and friends	3	12.5
Community work	3	12.5
Traveling	4	16.7
In sports and games such as golf, squash etc	9	37.5
No free time	2	8.3
Reading books like bible	3	12.5
Total	**24**	**100.0**

Major success factors

Success indicators are generally associated with growth, expansion, capitalization, profitability, and diversification in products among others. Respondents in this study attributed success largely to hard work, honesty and confidence (45.8%). The other factors include: vision of the founder (20.8%), knowledge of business (16.7%), and interest in the business (8.3%) among others. Table 16 gives a summary of what it takes to start and operate a business successfully.

Table 16. Major success factors

Rating	Distribution	
	Frequency	%
Hard work, honest and confidence	11	45.8
Team work	2	8.3
Knowledge of business	4	16.7
Interest	2	8.3
Vision	5	20.8
Total	**24**	**100.0**

As regards other businesses started by the respondents, nine (37.5%) of them were surviving and reported to be doing well whereas 7 (29.2%) had collapsed due to a number of factors.

Business Plans

Business plans are seen as essential tools to guide an enterprise. In this study, it was noted that slightly over half, 14 (58.3%), of the respondents had business plans at the start of the enterprises Ten (41.7%) respondents did not have business plans, but developed them when they were already in business.

DISCUSSION AND CONCLUSION

This study aimed at determining the characteristics of Kenyan entrepreneurs who have been in business for over 5 years and made major expansion and growth through innovation and creativity. Entrepreneurs who have taken calculated risks to invest in new ventures, displayed high levels of drive and energy and managed their ventures successfully.

As regards their up-bringing, most entrepreneurs grew up in competitive environments; parents, especially the fathers, demanded a lot more from them in terms of hard work, productivity and aiming to be winners. This to a large extent explains why they have succeeded in their ventures. As regards marital status, most entrepreneurs stated that they were married and had supportive families. This is often said to be one of the major sources of motivation for the entrepreneur to succeed. Spouses, children and relatives do often play an active role in providing encouragement and “free or highly subsidized” labour in the enterprise – thus minimizing the cost of operations. The modal age of the entrepreneurs was between 46 and 50 years; this indicated that they were right in their mid-life careers and now settled in self-employment. It is significant to note that almost all the respondents had worked as employees elsewhere before starting their own businesses – a sign of commitment for success.

The major challenge faced by entrepreneurs at the start of the enterprise was found to be lack of adequate working capital – both at start-up and growth stages. Capital to purchase sufficient stock to satisfy the clients’ demands and also to meet operating expenses is not sufficient. Since most (75%) enterprises start using own capita from private savings (family

and friends), this is usually not sufficient for the enterprise to operate at optimum level. This is often mentioned by both business start-ups and existing enterprises. As the enterprise grows, strategic financial sources need to be identified, pursued and secured. The other challenge that was common is competition from similar products/services or close substitutes. With globalization and liberalization, competition was found in all sub-sectors covered in this study. This includes, security services, health services, manufacturing, and training and education services among others. From the findings it was noted that most of the entrepreneurs interviewed had developed coping mechanisms to overcome these challenges.

Such coping mechanisms included the following which were given as advice to up-coming entrepreneurs:

- Be and stay focused on a viable business idea (s)
- Ensure that there is effective demand for the products/services being offered
- Be customer-oriented in all transactions i.e. aim at satisfying the customer on a continuous basis.
- Stay a head of competition by being innovative and creative – continuously providing new (or re-packed and value added) products and services
- Incorporate flexibility and uniqueness in the enterprise – always looking at what the customers want and being able to change to meet their needs.
- Prepare a succession plan right from the start and not to wait until the business matures.
- Involve spouses and the immediate members of the family all along – as they provide a lot of support (emotional and financial).

In conclusion, as observed in the findings, it is noted that the dominant entrepreneurs' behaviours, of the respondents, were closely associated with both the Psychological Characteristics and the Classical Schools of thought. They displayed strong internal locus of control in decision making, unique attitudes towards the enterprise, innovativeness in handling the processes in the business, creativity in coming up with new products and services, taking calculated risks where others could have feared to tread and by being action oriented. These findings are in agreement with findings from other similar studies in other parts of the world regarding characteristics of successful entrepreneurs. This confirms that, the typology of the Kenyan entrepreneur compares positively with other typologies if given enabling environments.

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EXPORT PARTICIPATION OF SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN SOUTH AFRICA

By Vusi Gumede*

ABSTRACT

This paper presents results of an assessment of export participation of small and medium manufacturing Enterprises in South Africa. The basic premise is that enterprise linkages, export marketing, and sunk costs significantly affect the propensities to export and intensities of exporting of small and medium manufacturing in South Africa. The hypothesis tested was that small and medium manufacturing enterprises break through into foreign markets with relative easy when involved in linkages because that facilitates information flows thereby mitigating international marketing burden on shoulders of individual enterprise units. A theoretical perspective adopted is that small and medium enterprises involved in enterprise linkages and have intermediaries are in a better position to deal with sunk costs as far as entering and exiting international markets is concerned. Empirical results, using survey data, confirm this.

INTRODUCTION

The role of the manufacturing sector worldwide and in South Africa remains particularly important. For instance, 1 out of 4 units produced in the South African economy originates from the manufacturing sector. More than half of exports are manufactured. It is also estimated that 25% of economically active population is employed in the manufacturing sector in South Africa. From the international trade perspective, it is estimated that at least 80% of global export trade is comprised of manufactured products.

Juxtaposing these figures within the context of small and medium enterprise sector reveals that most of manufacturing activities are by small and medium enterprises. At least 90% of manufacturing sector is small and medium in terms of enterprise size classes in South Africa. There are more than 160 000 small and medium manufacturing enterprises, approximately 10% of total small and medium enterprises in South Africa. These small enterprises contribute about half of employment, two quarters of gross domestic product and 1 out of 5 units exported is produced in the small and medium sector in South Africa[1]. Notwithstanding the

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[1] Own calculations based on various issues of Statistics South Africa data, the South African Reserve Bank Quarterly Bulletins, South African Industry data, State of Small Business in South Africa data, Eurostat, National Manufacturing Advisory Center surveys, etc. These figures are simply an indication. There are some problems with data.

recent decline[2] of manufacturing sector's contribution to most economic variables, the fundamental importance of the manufacturing sector remains uncontested.

This paper explores export propensities and intensities[3] of small and medium manufacturing enterprises in South Africa. There are many reasons that justify a study on these issues. For example, exports broadly contribute to productivity growth and increase the exposure of enterprises to competition, thereby precipitating technology accumulation. In addition, exports ought to encourage employment, sustain the external balance and promote economic growth by generating foreign exchange. As such studies on external trade related issues[4] are important, especially when such studies attempt to answer key trade & industrial policy questions that have not been sufficiently addressed before.

EXPORT PARTICIPARTION LITERATURE & AN EMPIRICAL MODEL

Pioneered by Balwin and Krugman (1989) and Dixit (1989), the importance of start-up costs has gained prominence in recent analytical literature [e.g. Roberts and Tybout (1997), Clerides, *et al.* (1998), Bernard and Jensen (1999), Das *et al.* (2000) and Tybout (2000)]. The so-called export hysteresis framework postulates that enterprises are faced, over and above other factors, by sunk costs (including costs of packaging, upgrading of product quality, establishing export market channels, and accumulating information on demand sources). In effect, export market participation is largely influenced by these factors. There are no studies that have assessed export-marketing factors in South Africa, especially within the context of small and medium enterprises[5].

In short, there are four key assumptions made on the model: the foreign and domestic markets for each enterprise's product are monopolistically competitive; producers are heterogeneous in terms of their marginal production costs and the foreign demand schedules they face for their products; plants are risk neutral and maximize the expected discounted sum of real profits and marginal costs do not respond to output shocks.

The model begins with static optimization and proceeds to dynamic optimization as proposed by Dixit (1989). The operating profit function associated with demand and cost functions of the enterprise are derived taking into account macro variables, denoted by (m_t), and an enterprise specific stochastic intercept (x^1_{it}):

$$q_{it} = -\eta_i p_{it} - \Psi_i m_t + x^1_{it} \qquad (1)$$

[2] Refer to Bell and Madula (2001) for a detailed examination of the behavior of the South African manufacturing industry. Bell and Madula (p. 4) emphasize that "any account of South African manufacturing in the period 1970-2000 must seek to explain" the deterioration of SA's manufacturing since early 1970s.
[3] As defined in Philp (1998:80), the propensity to export refers to the probability of either exporter or non-exporter whilst the intensity of exporting refers to the proportion of export sales to total sales.
[4] I have, for example, attempted to address trade elasticities issues (see, Gumede, 2000b and Gumede, 2003b) and also attempted to address export propensities of small manufacturing enterprises (see, Gumede et al. 2002 and Gumede, 2004).
[5] Rankin (2002b), Edwards (2002) and Gumede, et al. (2002) are the closest recent studies that have made an attempt to examine some aspects of the export behavior of South African manufacturing firms, also using survey data.

Where q_{it} is the log of the ith enterprise's exports in year t, $\eta_i > 1$ is the elasticity of foreign demand the enterprise faces, p_{it} is the log of the enterprise's real price of exports in the domestic currency, and the random variable x^1_{it} captures factors that shift the enterprise specific demand curve. Equation 2 specifies the logarithm of marginal costs. x^2_{it} is a random variable that evolves overtime. Macroeconomic variables also appear in the marginal cost equation because of their effect on imported input prices and real wages.

$$c_{it} = \Psi_2 m_t + x^2_{it} /(1 - \eta_i) \qquad (2)$$

The static profit maximization condition below yields optimal q_{it} choice among exporting enterprises. This is informed by the assumption that enterprises facing entry costs when initiating foreign sales can change the volume of their exports without incurring adjustment costs thereafter.

$$q_{it} = \eta_i \log [1 - 1/\eta_i] + x^1_{it} - [\eta/1 - \eta_i] x^2_{it} + (\Psi_1 - \eta_i \Psi_2) m_t \qquad (3)$$

Given equations 1 to 3, the log of current export revenue (R) and the log of current operating export profits (π) are linear in $x_{it} = (x^1_{it}, x^2_{it})$ and m_t:

$$ln[R(x_{it} m_t)] = \pi_{0i} + ln(\eta_i) + \{\Psi_1 + (1 - \eta_i)\Psi_2\} m_t + x^1_{it} + x^2_{it}, \qquad (4)$$

$$ln[\pi (x_{it} m_t)] = \pi_{0i} + \{\Psi_1 + (1 - \eta_i)\Psi_2\} m_t + x^1_{it} + x^2_{it}, \qquad (5)$$

Where $\pi_{0i} = [(\eta_i - 1/\eta_i) - ln(\eta_i - 1/\eta_i)]$

In a dynamic optimization framework, the fact that enterprises incur fixed costs, $\Gamma_F + \varepsilon_{1it}$, each period they maintain presence in export markets is taken into account. Also, if the ith enterprise did not export in period t-1 it must pay some additional start-up costs, $\Gamma_S + \varepsilon_{1it} - \varepsilon_{2it}$, in order to establish distribution channels, learn bureaucratic procedures, and adapt its products and packaging for foreign markets. ε denotes errors, which can be transitory optimization errors when choosing q or could be variations in fixed and sunk costs.

$$u(\cdot) = \begin{cases} \pi_i (x^1_{it}, x^2_{it}, m_t) - \Gamma_F + \varepsilon_{1it} & \text{if } y_{it} = 1 \text{ and } y_{it-1} = 1 \\ \pi_i (x^1_{it}, x^2_{it}, m_t) - \Gamma_F - \Gamma_S + \varepsilon_{2it} & \text{if } y_{it} = 1 \text{ and } y_{it-1} = 0 \end{cases} \qquad (6)$$

After solving the above equations and taking into account regulatory conditions, equation 7 below gives the optimal exporting status:

$$f_t (m_t, x_t, y_{t-1}, \varepsilon_t, \theta) = \max_{y_t \in \{0, 1\}} [u (m_t, x_t, y_{t-1}, y_t, \varepsilon_t, \theta) + \delta EV_t (m_t, x_t, y_t, \varepsilon_t, \theta) \qquad (7)$$

Given the parameter θ and distributional assumptions for the exogenous random variables (m_t, x_{it}, ε_t), equations 4 and 7 determine optimal export revenues for the ith enterprise as a function of a vector of macro variables (m_t), the previous exporting status (y_{t-1}), marginal costs and demand shifters (x^1_{it}, x^2_{it}) and transitory shocks (ε_{1it}, ε_{2it}). Hence, aggregating over enterprises, equations 4 and 7 provide a framework for evaluating the impact of sunk costs, heterogeneity and history in affecting dynamics of exports at an industry level. There are

other important issues that need to be taken into account regarding the model presented here. In particular, it is almost impossible, computationally, to obtain estimates of all parameters from a simple estimator, given the number of parameters involved and the need for several layers of numerical integration. In order to handle this complexity, studies have proceeded in two stages of estimations. The first stage involves solving the model and the second stage entails taking the results of a complex dynamic model and construct a function for estimation. At this juncture, this part of the paper is limited to export propensities and intensities, within the context of sunk costs hysteresis[6].

EXPORT PARTICIPATION RESULTS

The preliminary results of small and medium manufacturing's export participation are based on the realized sample (of the National Enterprise Survey) for small and medium manufacturing enterprises that equals 66% of the total response rate (55%). In total, 1200 small and medium manufacturing enterprises were targeted for interviews from a list comprising thousands of small and medium manufacturing enterprises.
Empirical analyses focus on 941 small and medium manufacturing enterprises in South Africa, of which 415 are exporting[7]. The main criterion used in this paper in classifying enterprises in terms of size classes is the equivalent of full-time employees.

Table 1 below is an extract from South Africa's National Small Business Act (1996) which gives guidelines for definitions and classifications of enterprises by size class.

Table 1: Extract from the schedule to the National Small Business Act (1996)

Column 1	**Column 2**	**Column 3**	**Column 4**	**Column 5**
Sector or Sub-sectors In accordance with the Standard Industrial Classification (SIC)	**Size - Class**	**Total full-time equivalent of paid employees** Less than	**Total annual turnover** Less than	**Total gross asset value (fixed property excluded)** Less than
Manufacturing	Medium Small Very small Micro	200 50 20 5	R 25.00 m R 6.00 m R 2.00 m R 0.15 m	R 7.50 m R 1.75 m R 0.60 m R 0.10 m

The next table captures the specific characteristics of the data, with emphasis on variables used in the analysis. The enterprises surveyed are relatively old, although almost half of very small manufacturing enterprises are younger than 3 years (hereafter called infants). A surprising number is 38 (median) years of age of micro manufacturing enterprises. The micro

[6] Other aspects of this research will, in future, propose theoretical and empirical underpinnings of export participation of small and medium enterprises.
[7] An Appendix gives further generic characteristics of the National Enterprise Survey data

manufacturing enterprises this paper is dealing with seem very established and doing well, in contrary to the norm. For instance 40% of micro manufacturing enterprises are exporting.

Table 2: Specific Characteristics of Manufacturing by Size-class

	Micro	Very small	Small	Medium	SMM[8]
Observations	*100*	*322*	*209*	*178*	*809*
Age			*Years*		
Mean	53	17	23	23	22
Median	38	12	17	20	15
Number of Employees			*Number of Full-time Employees*		
Mean	2	12	33	103	35
Median	2	11	31	91	20
			Percentage Shares		
Exporting	40	26	42	61	38
Years of Exporting - if exporter			*Years*		
Mean	12	9	11	12	11
Median	10	6	8	7	8
			Percentage Shares		
Infant	16	46	23	7	11
Sunk costs, information & links			*Percentage Shares*		
Sunk costs	17	14	10	17	14
Information	87	85	91	93	82
Linkages	22	11	14	46	19

The main variables of interest are sunk costs, information and linkages. Many enterprises have access to information. There are few enterprises that have cited the inability to penetrate export markets (a proxy for sunk costs). For instance, only 1 out of 10 small enterprises said that they were unable to penetrate export markets. It would seem that penetrating export markets is not a problem for many enterprises, the problem is maintaining higher export intensities. As suggested in literature, smaller enterprises export but haphazardly emanating from unsolicited export orders. The challenge is to remain in an export market and increase the proportion of output that is exported.

Correlation and regression analyses provide some deeper insight into factors that influence the probability of being an exporter and the intensity of exporting for small and medium manufacturing enterprises in South Africa. There are many factors that influence the probabilities to export and the intensities of exporting.

These factors range from macroeconomic conditions to enterprise and/or managerial factors. For instance, factors perceived as macroeconomic constraints (e.g. high interest rates) and enterprise characteristics (e.g. profitability) as well as managerial characteristics (e.g. outlook) impact on the probability to export. However, this paper asks questions relating to export marketing, information gaps, and entry and exit costs to international markets. This does not imply that other factors are not critical. Results in table 3 suggest that although factors such as lack of access to finance affect the operations of an enterprise, it is systematic factors relating to export marketing that effectively constrain successful exporting of small and

[8] SMM refers to small and medium manufacturing (including micro and very small).

medium manufacturing enterprises. The correlation table presented below shows that, amongst other factors, linkages and access to information increase the probability of being an exporter and also increase the intensity to export.

Table 3: Correlation Analysis (small and medium manufacturing)

	Propensity to export	Export intensity
Linkages in South Africa	0.1731**	-0.1202**
	[0.0000]	[0.0074]
Foreign linkages	0.22**	0.2108**
	[0.0000]	[0.0018]
Total linkages	0.2564**	0.0595
	[0.0000]	[0.3845]
Sunk costs	0.0093	-0.1773**
	[0.7954]	[0.009]
Member of association	-0.0305	-0.0973
	[0.3951]	[0.1550]
Profitability, last year	0.0443	0.0322
	[0.2222]	[0.6408]
Expected profitability, next year	0.097**	0.0176
	[0.0076]	[0.7992]
Constrained by government policy uncertainty	-0.2001**	0.0804
	[0.0000]	[0.2391]
Constrained by social uncertainties	-0.1378**	0.0634
	[0.0001]	[0.3537]
Constrained by high interest rates	-0.0712*	-0.0875
	[0.0458]	[0.2000]
Constrained by poor outlook in industry	0.0073	-0.0991
	[0.8379]	[0.1465]
Constrained by uncertain exchange rates	-0.0559	-0.923
	[0.1171]	[0.1766]
Constrained by labour regulations	-0.0605*	0.0244
	[0.0895]	[0.7214]
Constrained by competition in South Africa	-0.1096**	-0.1093
	[0.0021]	[0.1091]
Constrained by access to own finance	0.017	-0.1093
	[0.6340]	[0.1093]
Constrained by access to borrowed finance	-0.0079	-0.0187
	[0.8252]	[0.7849]
Constrained by corporate tax rates	-0.1877**	0.0254
	[0.0000]	[0.7110]
Increase full-time employees, current year	0.148**	0.105
	[0.0000]	[0.1240]
Has information from South African sources	0.1587**	-0.0239
	[0.0000]	[0.7272]
Has information from foreign sources	0.1064**	0.0064
	[0.0028]	[0.3540]
Has access to information	0.0956**	0.1238*
	[0.0072]	[0.0694]

Positive outlook for firm's sale, current year	0.1358**	0.2472**
	[0.0003]	[0.0005]
Positive outlook for firm's sale, next year	-0.0173	0.0008
	[0.6869]	[0.9919]
Positive outlook for industry sale, current year	0.1538**	0.1405*
	[0.0001]	[0.0585]
Positive outlook for industry sale, next year	0.0753*	-0.0896
	[0.0903]	[0.2738]
Positive outlook for capital expenditures, this year	0.0988*	-0.0792
	[0.0147]	[0.2974]
Positive outlook for capital expenditures, next year	-0.0069	0.2**
	[0.8716]	[0.0085]
Fixed assets	0.2316**	-0.0276
	[0.0000]	[0.6892]
Lack of working capital	0.0061	-0.0618
	[0.8633]	[0.3660]
Lack of export finance	-0.0072	-0.0161
	[0.8409]	[0.8145]

There are many unsystematic[9] factors that affect the probability and intensity of exporting. It does seem however that the most significant factors (as shown by stars) are the ones that this study is premised upon. There are other variables that have signs that are not expected but most of those are not significant.

There is a smaller number of factors affecting the intensity of exports compared to the number of factors affecting the propensity to export. Similar factors (i.e. access to information and business linkages) affect both the propensity and the intensity of exporting. The probability to export is also affected by other factors such as macro economic factors and enterprise perceptions. The intensity of exporting, in addition to access to information and business linkages, is negatively and significantly affected by sunk costs. Perhaps the main problem for small manufacturers is to maintain exporting rather than breaking into foreign markets.

I now turn to logit analysis and regressions. Logit estimates are ratios. They represent a chance of being one of the two results, in this case exporter or non-exporter. As a rule of thumb, anything equaling one refers to equal chance whilst above one is a chance and below one is half a chance.

[9] The distinction is made between factors that are within the control (unsystematic) and those outside the control of an enterprise (systematic). The focus for the paper is on the later.

Table 4: Logistic Regression (1=exporter and 0=non-exporter)

Observations	*809*
R-squared	10.94
Size class (very small)	0.4124**
	[-5.255]
Age	1.0102**
	[2.823]
Constrained by competition in SA	0.6167*
	[-2.542]
Constrained by access to borrowed finance	1.7741*
	[2.529]
Constrained by corporate tax	0.5934**
	[-3.126]
Has linkages	2.5228**
	[4.775]
Has access to information	1.8698*
	[2.432]

Table 4 presents a model that proved robust and gave significant results. Amongst other factors that were significant are linkages and access to information. Others are significant but the probabilities are minimal. For linkages and information, the chance of being an exporter is 2 times larger than for age as an example. Corporate tax, competition and smaller enterprise size reduce the chance of being an exporter, but by very negligible proportions.

The regression of the intensity of exporting, for exporters only, shows that the same factors as above also play a role in export-output ratios. Typical constraints such as lack of access to finance and macro economic variables impact negatively on the intensity of exporting.

Table 5: Regression Analysis (Export Intensity)

Export Intensity (if exporting)	
Observations	*193*
R-squared	20.48
Constant	-0.0074
	[-0.121]
Infant	0.2120**
	[4.158]
Constrained by social uncertainty	0.0817**
	[2.564]
Constrained by Industry outlook	-0.1038**
	[-3.110]
Constrained by unstable exchange rate	-0.0627*
	[-1.888]
Constrained by access to own finance	-0.0812*
	[-1.948]
Constrained to access to borrowed finance	0.0888*
	[1.750]
Number of full-time employees	0.0007**
	[2.168]
Access to information	0.1307**

	[2.330]
Linkages	0.058
	[0.191]
Sunk costs	-0.1219**
	[-3.031]

Of critical relevance to the analysis is the negative impact of sunk costs. The point made above that sunk costs reduce the intensity of exporting also surfaced in this regression. In fact, a sunk costs variable is among few factors that are highly significant in their influence of export-output ratios of small and medium manufacturing enterprises in South Africa.

CONCLUDING REMARKS

This paper presented export propensities and intensities of small and medium manufacturing enterprises. It can be concluded that export-marketing factors are very important for small and medium manufacturing that export or intend to export. The main implication is that export-marketing intelligence is crucial for small and medium enterprises, especially those participating on export markets or intend to. Findings suggest that enterprise linkages and intermediaries minimize sunk costs.

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APPENDIX: SURVEY DATA

Survey[10] data on Small and Medium Manufacturing in South Africa

The table 1 below shows the population and realized sample for small and medium manufacturing enterprises. Except for North West Province, all other provinces are represented in the small and medium manufacturing part of the survey. The realized sample for small and medium manufacturing enterprises equals 66% of the total response rate (55%). In total, 1200 small and medium manufacturing enterprises were targeted for interviews from a list comprising thousands of small and medium manufacturing enterprises. 941 small and medium manufacturing enterprises responded.

Table 1: Population and realized sample[11]

	Population of Small and Medium Manufacturing						*Realized Sample*
	PE/EL	Blm/Kim/Welk	Jhb/ER/Pta	DBN/PMB	Nelspruit	CPT	
Food & beverages	60	54	495	142	35	236	101
Wood, pulp & paper	43	7	474	151	18	194	119
Chemicals	84	33	945	319	18	320	121
Auto	40	10	285	74	6	64	93
Clothing & textiles	45	15	547	380	7	345	116
Fabricated metals	108	41	1299	300	46	254	102
Furniture	8	9	194	68	10	86	86
Machinery	68	50	1462	244	22	314	110
Printing & publishing	25	14	708	111	6	187	93

Table 2 below gives generic characteristics of the data. The data covered a wide range of sector categories, sectors, size classes and provinces.

[10] The survey (National Enterprise Survey) was conducted during late 1999 and early 2000.

[11] PE/EL: Port Elizabeth & East London, Blm/Kim/Welk: Bloemfontein & Kimberly & Welkom, Jhb/ER/Pta: Johannesburg & East Rand & Pretoria, DBN/PMB: Durban & Peter Maritzburg , and CPT: Cape Town.

Table 2: Characteristics of the data

	Micro (100)	Very Small (322)	Small (209)	Medium (178)	Large (132)	Total (941)	*Exporters (415)*
Resource-intensive (220)	12	15	20	26	34	19	*20*
Food & beverage (101)	7	7	12	17	21	11	*12*
Wood, pulp & paper (119)	5	8	8	9	13	8	*8*
Scale-intensive (214)	15	20	19	19	20	19	*19*
Chemicals (121)	13	16	15	13	12	5	*15*
Auto assembly & parts (93)	2	4	4	6	8	14	*4*
Labour-intensive (304)	43	33	35	41	28	36	*35*
Clothing & textiles (116)	11	11	13	22	17	14	*13*
Fabricated metal (102)	29	18	18	16	9	18	*18*
Furniture (86)	3	4	4	3	2	4	*4*
Knowledge-intensive (203)	30	32	26	14	18	26	*26*
Elec. Machinery & other (110)	17	20	18	11	14	17	*21*
Printing & publishing (93)	14	11	8	3	4	9	*5*
Total (941)	*100*	*100*	*100*	*100*	*100*	*100*	*100*
Eastern Cape (81)	3	4	6	7	9	5	*5*
Gauteng (402)	64	63	52	39	36	54	*50*
KwaZulu-Natal (192)	19	16	16	23	24	18	*20*
Western Cape (201)	12	16	24	28	20	20	*21*
Other provinces (65)	2	1	2	3	11	3	*4*
Total (941)	*100*	*100*	*100*	*100*	*100*	*100*	*100*
Exporting (415)	**40**	**26**	**42**	**61**	**80**	**43**	***100***

The total numbers[12] are shown in brackets and percentage shares of enterprises sum up to 100%. The size class distribution is dominated by very small enterprises, followed by small enterprises. There are more labour intensive manufacturing enterprises (36% of the total) than other sector categories. Resource intensive enterprises seem to be largely large in size, compared to knowledge intensive sectors which seem to be predominantly small. Scale intensive and labour intensive enterprises are widely distributed in terms of size classes.

43% of manufacturing enterprises in this survey come from Gauteng Province. Interestingly, it appears that Gauteng has more of smaller size class enterprises. This is the direct opposite of the Eastern Cape Province's size class spread. Another observation from data is that half of Gauteng enterprises are exporting.

Table 3 presents characteristics of exporting small manufacturing enterprises. Some of their properties have already been mentioned above. The turnover of small manufacturing is in line with the one prescribed by the Act (1996), except for the micro. As said before, the micro enterprises in this study seem fairly advanced. For most small and medium manufacturing enterprises here, total turnover is a million rand more than the guidelines given by the Act. Regarding export earnings, although many small manufacturers export but the rand value of their total exports is low. Again, against the norm, micro manufacturing enterprises have higher export earnings than small and medium enterprises.

[12] Note that the application of weights per calculation may result to slightly different numbers because observations are given equal weights.

Table 3: Exporting small and medium manufacturing enterprises

		Micro	Very small	Small	Medium	SMM
Observations (only exporters)		*41*	*75*	*84*	*109*	*809*
				Million Rand		
Turnover	Mean	84.1	11.4	11.1	43	35.8
	Median	30	3.2	7	26	11
	Standard Deviation	149	36	32	59	78.3
Export Earnings	Mean	9.3	1	1.7	6.8	4.7
	Median	3	0.2	0.5	2	0.9
	Standard Deviation	14	3	4	14	10.7
				Percentage shares		
Export intensities	Mean	18	15	16	18	16
	Median	10	7	7	8	8
	Standard Deviation	21	24	22	23	22
Destination of export				*Percentage shares*		
	Africa	57	71	56	57	64
	EU	30	20	24	29	21
	Asia	3	3	8	8	6
	Australia	7	2	6	4	3
	Other	3	4	6	2	6
	Total	100	100	100	100	100

Table 3 further shows that most of small and medium manufacturing enterprises export to Africa, followed by the European Union. This is not surprising given that most studies on this subject find that small enterprises largely export to markets that are in transition (see for instance, Smallbone *et al* 1999). It is also reasonable to suppose that proximity plays a role here.

The next table examines exporting small and medium enterprises with linkages, with access to information and faced with sunk costs. Almost all exporting small and medium manufacturing have access to information.

Table 4: Export marketing factors

	Micro	Very small	Small	Medium	SMM
Observations (only exporters)	*41*	*75*	*84*	*109*	*809*
			Percentage shares		
Access to information	94	87	96	93	92
Sunk costs	15	15	11	17	14
Linkages	22	11	14	46	19
South African linkages			*Percentage shares*		
Yes	53	43	52	71	57
No	38	24	40	54	34
Foreign linkages			*Percentage shares*		
Yes	87	73	61	82	79
No	33	24	41	57	35

Similar to information, linkages play an important role for exporting. Table 4 shows that 1 out of 5 exporting small and medium manufacturing enterprise has a linkage, either in South Africa or overseas. There is a further break down of linkages in the table. It seems that most exporting enterprises have overseas linkages.

COULD THE LACK OF FORMAL OR INFORMAL TRAINING BE A POSSIBLE REASON FOR THE LOW JOB CREATION IN SMMEs IN DAVEYTON AND SOWETO? AN EXPLORATORY STUDY

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ABSTRACT

The SMME sector is widely regarded as the driving force in economic growth and job creation in both developed and developing countries. The South African government has recognised the sectors importance in achieving national objectives and is committed to its growth. But, yet it is felt by many that SMMEs are failing at the vital role of creating jobs for the unemployed.

The objective of this paper is to investigate the possible reasons why job creation has not been successful in SMMEs in selected township areas in South Africa, with a focus on the formal or informal training undergone by the manager or owner and his/her staff members. The research will be conducted by investigating how long the selected SMMEs have been in business, whether the owners feel that there has been any growth in job creation or if they have in fact created any jobs through opening their own business. The formal or informal training undergone by the manager or owner and organisation's staff members will also be investigated.

INTRODUCTION

Only 37% of all school leavers succeeded in securing jobs once they left school, with the figure dropping to 29% for African first-time work seekers, according to Mark Orkin the chief executive of the (HSRC) Human Sciences Research Council (Pela 2004:28). According to Orkin, what is needed is large-scale investment in education and training institutions, research and development facilities, networking activity among employers through formal associations, as well as partnerships between higher education institutions and industry. This statement, based on research conducted by the HSRC illustrates the important role that education plays in the creation of work in South Africa.

It is estimated that the South African economy has shed more than a million jobs since 1990 (Msomi 2000:1). According to the department of labour the official unemployment rate for South Africa in February 2002 was 28 percent. In 2003, this figure rose to 30.5 percent (Statistics South Africa).

To compound this problem, the demand for semi-skilled labour in South Africa and the rest of the world has shown a consistent drastic decline in the last decade (Comiteau, Crumely, Gibson & James 2000:24).

THE IMPORTANT ROLE PLAYED BY SMMEs IN SOUTH AFRICA

The important contribution that SMMEs (small, micro and medium sized enterprises) can make to employment and income generation is increasingly being recognised around the world. In South Africa, this contribution is increasingly being more important, due to the fact that the non-agricultural formal sectors shed more than a million jobs between 1990 and 20001. This phenomenon, coupled with a high population growth rate, has resulted in the high unemployment rate in South Africa. The main causes for the growing unemployment rate include factors such as the low employment elasticity of the South African economy, as well as the high rate of labour force growth (Ligtelm & Cant 2003:41).

Research conducted recently by the University of Cape Town's Centre for Innovation and Entrepreneurship as part of the 2002 Global Entrepreneurships Monitor project, shows that formal entrepreneurs (defined as those with registered businesses) employ an average of 7.2 people as compared with 0.8 people employed by their informal or unregistered counterparts (Herrington 2003:1). Considering that formal registered businesses make up only 12 percent of privately owned business activity in disadvantaged areas, it can be seen that while informal unregistered businesses remain enormously important in generating income, they do not play a large enough role in the creation of employment for others.

The South African government recognises the importance of this sector in achieving the country's national objectives and is committed to its growth (Budget Speech 2001). This commitment can be illustrated by the formation of bodies such as CHAMSA (Chambers of Commerce and Industry of South Africa) and BUSA (Business Unity South Africa). CHAMSA's biggest challenge will be to promote SMME's by helping owners overcome problems such as funding, as well as to deliver support services to blue-chip organisations (Anon 2003:1).

OBJECTIVE OF THE STUDY

The main objective of this paper is to determine the reasons why jobs are not being created by SMMEs in the Daveyton and Soweto regions of Gauteng, South Africa. The study will place a special focus on the role played by formal and informal training undergone by managers or owners of the organisations, as well as the staff members of these organisations.

An awareness of the impact of the reasons identified by the study will enable SMMEs (both existing and planned) to be forewarned and proactive in their decision-making and planning for organisational growth.

The results of the study may also enhance the design of course material or syllabuses for managers, owners and staff members to ensure that SMMEs are fully aware of the factors that may affect their organisations sustained success, and ability to create jobs.

POSSIBLE REASONS FOR THE LACK OF JOB CREATION

Small, micro and medium sized organisations form an integral part of the national economy, and are influenced by various factors. In this context, the problems that SMMEs experience in conducting a successful business can be grouped in to various categories (Ligtelm & Cant 2003:42), which include:

- Economy based problems that are associated with national economic factors related to the state of the economy, such as specific stages in the business life cycle and the exchange value of the national currency.

- Industry-based problems that are associated with the industry in which the organisation operates, and may include factors such as the degree of competition, demand and supply factors as well as barriers to entry or exit the industry.

- Organisation-based problems that refer to internal factors such as the availability of resources such as finances and managerial skills.

Similar studies conducted by Everett and Watson (1998) and by Peterson, Kozmetsky and Ridgeway (1983) found that organisation-based problems were associated with the majority of small business failure in the SMMEs investigated. Based on the findings of the above, by focusing this study on the above group of factors, possible reasons as to the lack of job creation in SMMEs in Daveyton and Soweto in Gauteng, South Africa can be identified.

RESEARCH DESIGN

In order to fully understand the possible reasons for the lack of job creation in SMMEs, with a special focus on the formal or informal education received, an empirical survey by means of a structured questionnaire was conducted in Daveyton and Soweto in Gauteng, South Africa. In the absence of a comprehensive sample frame of SMMEs in these regions, a judgemental sampling procedure was used according to specified criteria. The requirements for the sample was that the business:

- Operated from a demarcated business area
- Occupied a permanent structure
- Employed fewer than 50 full-time employees
- Covered one of the following economic sectors: retail organisations, service organisations, consultancies, wholesale organisations or other

These criteria ensured the inclusion of managers or owners with a reasonable understanding of variables such as minimum wages and the specifications of the Employment Equity Act. In total 135 businesses were interviewed in these areas occupied by previously disadvantaged individuals.

Analysis of the data collected

The analysis in this paper is based on statistical procedures. Descriptive data are presented by means of frequency tables.

Table 1: How long has your organisation been in business?

Number of years in business	**Frequency**	**Percentage**
Less than one year	19	14%
One to two years	60	44%
Two to three years	21	16%
Three to five years	12	9%
More than five years	23	17%
Total	**135**	**100%**

Table 1 above shows that the majority of respondents (44%) indicated that their businesses had been in operation for one to two years, while only 9% indicated that they had been in operation for three to five years.

Table 2: Have any jobs been created by your organisation since it was started/since you took over the business?

Have any jobs been created?	**Frequency**	**Percentage**
Yes	99	73%
No	36	27%
Total	**135**	**100%**

Table 2 shows that 73% of the respondents indicated that their organisations had created jobs since the organisation was started or had been taken over, while 27% indicated that no jobs had been created.

Table 3: If YES, how many jobs have been created?

Number of jobs created	Frequency	Percentage
1	36	37%
2	16	16%
3	35	35%
4	12	12%
>10	0	0%
Total	**99**	**100%**

From the results in Table 3 above it can be been that 88% of the respondents who stated that their organisations had created jobs, indicated that only 1 to 3 jobs had been created, while none of the respondents indicated that more than 10 jobs had been created.

Table 4: If NO, why were no jobs created?

Reasons indicated	Frequency	Percentage
Will increase long term costs	3	8%
Tough to survive	9	25%
Market up and down	6	17%
Economy is dead	11	31%
Business too small	7	19%
Total	**36**	**100%**

Table 4 shows that the majority of respondents who indicated that their organisations had not created jobs, indicated a dead economy as the main reason.

Table 5: What qualifications do you as manager or owner have?

Qualifications	Frequency	Percentage
No matric	13	9%
Matric	76	57%
Tertiary	4	3%
Postgraduate	12	9%
Other (certificates, diplomas etc)	30	22%
Total	**135**	**100%**

From Table 5 above, it can be seen that a majority of respondents have a matric qualification only, while only 3% of respondents indicated that they have a tertiary qualification.

Table 6: What is the average qualification of your staff members?

Qualifications	Frequency	Percentage
No matric	47	35%
Matric	67	50%
Tertiary	18	13%
Postgraduate	3	2%
Other	0	0%
Total	**135**	**100%**

From Table 6, it is clear that half of the respondents indicated that the average qualification of their employees is a matric certificate, while only 2% of the respondents indicated that their staff members have a postgraduate qualification.

Table 7: Do you feel that training is necessary for your business to be successful?

Necessity of training	Frequency	Percentage
Yes	89	66%
No	24	18%
Unsure	22	16%
Total	**135**	**100%**

Table 7 shows that 66% of respondents indicated that training is necessary for a business to be successful, while 16% of respondents were unsure if training was in fact necessary for a business to be successful.

Table 8: If YES, why?

Reason indicated	Frequency	Percentage
Good for growth	13	15%
Must keep aware of new procedures	11	12%
Only way to stay in touch with the latest business developments	32	36%
Skills age-need new ones	16	18%
Business methods change	17	19
Total	**89**	**100%**

Table 8 above indicates that 36% of the respondents that indicated that training was necessary for a business to be successful, stated that training was necessary in order to stay in touch with the latest business developments. 12% of the respondents indicated that training was necessary to keep aware of new business procedures.

Table 9: If NO, why?

Reason indicated	Frequency	Percentage
Need experience	7	29%
Can learn on the job	11	46%
Skills are more important than a qualification	6	25%
Total	**24**	**100%**

Table 9 above indicates that almost half (46%) of the respondents that indicated that training was not necessary for the success of a business due to the fact that employees could learn on the job. 25% f respondents indicated that training was not necessary for the success of a business as skills are more important than a qualification.

Table 10: Have you undergone formal managerial training?

Undergone training or not	Answer indicated	Percentage
Yes	53	39%
No	82	61%
Total	**135**	**100%**

From Table 10 it is clear that 61% of the respondents indicated that they had not undergone formal managerial training, while 39% of the respondents indicated that they had in fact undergone formal managerial training.

Table 11: If YES, what type of training have you undergone?

Type of training undergone	Number	Percentage
Diploma or certificate courses	18	34%
Various short courses	16	30%
In-house training	16	30%
University courses	3	6%
Total	**53**	**100%**

The majority of respondents (60%) indicated that they had undergone formal managerial training in the form of various short courses and in-house training.

Table 12: If NO, why not?

Reason indicated	Number	Percentage
No time	51	62%
No opportunity	23	28%
Training not needed	8	10%
Total	**82**	**100%**

From Table 12 above it can be seen that 62% of the respondents who indicated that they had not undergone formal managerial training, stated that the reason for this was a lack of time. 10% of the respondents that indicated that they had not undergone formal managerial training, indicated that training was not needed.

SUMMARY

The research conducted amongst the sample population, consisting of relatively small yet sophisticated businesses in Daveyton and Soweto in Gauteng, emphasised that:

- 73% of respondents indicated that their organisations had created jobs, but that 88% of these businesses only created between 1 and 3 jobs
- The majority of respondents indicated that their highest qualification was a matric certificate
- The majority of respondents (61%) had not undergone formal managerial training

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STRATEGY CHARACTERISTICS AND BUSINESS PERFORMANCE IN ZIMBABWE

PSYCHOLOGICAL ACTION STRATEGY PROCESS CHARACTERISTICS AND BUSINESS PERFORMANCE: A LONGITUDINAL ANALYSIS OF RECIPROCAL DETERMINISMS AMONG ZIMBABWEAN SMALL BUSINESS OWNERS[1]

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ABSTRACT

In a longitudinal sample of *N*=97 Zimbabwean business owners, we examine causal reciprocal determinisms between individual psychological strategy process characteristics *comprehensive planning*, *critical point planning*, *reactive*, *opportunistic* on the one hand and business performance on the other hand. First analyses indicate that comprehensive planning strategy characteristics increase business success; in turn, business success strengthens the owners' comprehensive planning strategy characteristics. For reactive strategy characteristics, the reciprocal determinism is negative. Reactive strategy characteristics lead to lower business performance and low performance increases the owners' reactive strategy characteristics. Finally, opportunistic strategy characteristics have no relationship with business performance.

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This paper presents results of a longitudinal field study on small scale business owners in Zimbabwe, Southern Africa. We focus on reciprocal determinisms (Bandura, 1978) between business owners' action strategy process characteristics on the one hand, and business performance on the other hand. Strategy process characteristics are action templates (van Gelderen, Frese, & Thurik, 2000) that determine the manner in which entrepreneurial activities are carried out. The contribution of our psychological perspective to entrepreneurship research is threefold:

First, the longitudinal study design allows for causal analyses of business performance determinants, which are rare in entrepreneurship research (Rauch & Frese, 2000).

Second, we investigate reciprocal determinisms between strategy process characteristics and business performance (cf. van Gelderen, et al., 2000): Business performance is not only the criterion but should also cause intra-individual self-regulation. Owners regulate their strategy process characteristics in response to their business performance. In the field of psychology, the existence of reciprocal determinisms and self-regulation is widely acknowledged (e.g., Bandura, 1997; Carver & Scheier, 1998; Frese & Zapf, 1994; Hacker, 1986; Locke & Latham, 2002). In entrepreneurship research, however, reciprocal determinisms have not yet been integrated into the theoretical framework (except for being implicit to the line of arguments by van Gelderen et al., 2000).

Finally, we emphasize the importance of the founder/owner/managers[2] in small enterprises where subordinate decision makers and the organizational structure are less important than in medium sized and large businesses (cf. Miller & Toulouse, 1986). As main actors in their business, owners make all important decisions, overlook the finances, manage human resources, and maintain customer relationships. Founders, in particular, determine strategies, culture, and business goals at an early stage of the business development and set the course for future success (Frese, van Gelderen, & Ombach, 2000; Schein, 1983).

The Theoretical Model

Our theoretical model of entrepreneurial business performance (Figure 1) proposes reciprocal determinisms between strategy process characteristics and business performance (cf. Bandura, 1978). A comprehensive psychological approach to entrepreneurial performance should incorporate self-regulatory processes. Self-regulation refers to reciprocal determinisms where intra-individual factors influence actions and extra-individual action outcomes operate as feedback signals that cause intra-individual regulation processes (cf. Carver & Scheier 1982; Frese & Zapf, 1994; Hacker, 1986; Locke & Latham, 2002). Applied to the entrepreneurial context, self-regulation entails that the business owners' strategy process characteristics influence business performance; performance, in turn, impacts on the owners' strategy process characteristics. Hence, we assume reciprocally determined causal relationships between comprehensive planning/ critical point planning/ reactive strategy process characteristics of the owner on the one hand and business performance on the other hand (Figure 1, H1 and H2). Opportunistic strategy process characteristics, however, are not expected to impact on performance, nor should performance influence opportunistic strategy process characteristics (Figure 1, H3).

In the following, we will set forth our theoretical arguments in detail and develop our hypotheses referring to the performance model shown in Figure 1.

[2] All in one person, for simplification referred to as owners in the following.

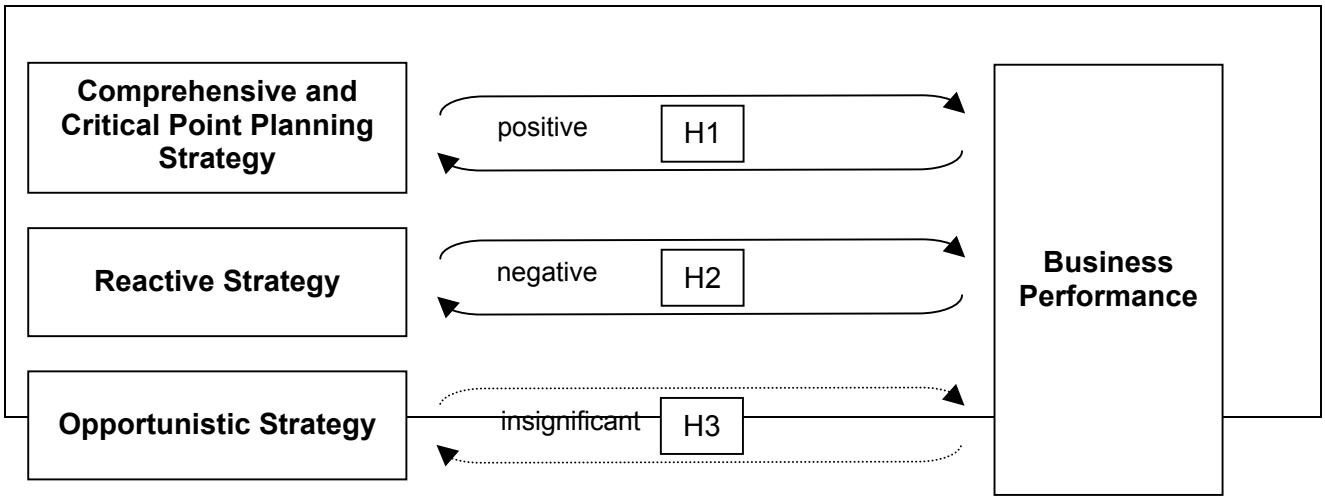

Figure 1: A Model of Reciprocal Determination between Strategy Process Characteristics and Business Performance.

Psychological Strategy Process Characteristics

Psychological strategy research focuses on the strategy process, on how strategy contents are developed and implemented (Olson & Bokor, 1995). Strategy characteristics are general action templates that are employed after a rudimentary analysis of the situation (cf. Bem, 1983; Frese, Stuart, & Hannover, 1987). Frese et al., (2000) distinguished four types of strategy process characteristics: Comprehensive planning, critical-point planning, opportunistic, and reactive strategy process characteristics[3].

Comprehensive planning strategy characteristics imply a strong goal orientation, extensive long-term and top-down planning, a broad knowledge base, high proactiveness, as well as a relatively low situational responsiveness. Also inherent to comprehensive planning strategy characteristics are a comprehensive mental model of the task process and a detailed signal knowledge (Frese & Zapf, 1994; Hacker, 1986) that enables one to anticipate future problems and opportunities (cf. Kirzner, 1997). Individuals who employ comprehensive planning strategy characteristics do not only scan the environment for opportunities that fit their goals and long-term plan, they also develop back-up plans for projected worst case scenarios. However, situational responsiveness in the form of goal adaptation is relatively low. Being goal oriented and long-term planning means to commit personal (time and energy) as well as financial investments. Such investments lead to a reluctance to change the goal and/ or basic structures of a plan. The resulting low responsiveness might backfire in situations where goal adaptation in response to external environmental change would be necessary. Nonetheless, comprehensive planning structures the situation proactively, generates knowledge, and allows one to interpret the situation adequately.

When using a *critical point planning* strategy, individuals merely plan out the most immediate and crucial issues for the goal accomplishment (Zempel, 1994). They only engage in further planning, when the first, critical hurdles are taken. Thus, critical point

[3] For increased readability strategy process characteristics are referred to as strategy characteristics in the following.

planning is an iterative, localized form of planning (Sonnentag, 1998) where persons 'cross the bridge when they come to it'. Compared to comprehensive planning, critical point planning strategy characteristics imply similar goal orientation while the planning is less long-term, the knowledge base is less sophisticated, and proactiveness is lower (Frese et al., 2000). As a result, critical point planning strategy characteristics allow for higher situational responsiveness and are more parsimonious in terms of personal and financial investments than comprehensive planning strategy characteristics.

Scanning the environment proactively for opportunities and acting immediately upon them are the distinguishing aspects of *opportunistic strategy characteristics*. While an opportunistic strategy is proactive in the sense of searching and recognizing opportunities, proactiveness is low in long-term pre-planning, back-up planning, and actively influencing the environment. Individuals using an opportunistic strategy only engage in rudimentary short-term planning, they easily abandon a goal if better opportunities arise, they have a moderate to narrow knowledge base, and they are highly responsive to the situation (Frese et al., 2000). The opportunistic strategy's advantages lie in the exploitation of all available opportunities, in economical planning, and in flexible responsiveness to market demands. However, the downside is that individuals using an opportunistic strategy dissipate their energies, might lose sight of their goals, do not follow through on a strategy, and might not put enough time and effort into long-term business development.

In contrast to the strategy characteristics described above, *reactive strategy characteristics* do not imply a proactive stance. Individuals employing reactive strategies do not attempt to influence their circumstances but are driven by the situation. The person is not goal oriented, does not plan ahead, possesses a limited knowledge base, and is mainly directed by situational demands (Frese et al., 2000). Employing a reactive strategy means to, for example, merely copy competitors' products, to introduce change only if inevitable or suggested by influential others (e.g., support organizations, customers, suppliers).

Psychological strategy characteristics are independent of the strategy content. They are action templates (van Gelderen et al., 2000) that are applied in various situations and help the human mind to overcome its limited processing capacity (Frese & Zapf, 1994; Kahneman, 1973). Therefore, strategy content can be implemented employing any one type of strategy characteristics. If the strategy content was, for example, to diversify the product range, a comprehensive planning strategy would entail an in-depth analysis of the enterprise's core competencies and resources, of the market and of marketing possibilities, of competitors' activities, of machinery and supplies availabilities, as well as of long-term financing. A business owner whose strategy is characterized by critical point planning would focus on the most critical and immediate aspects for the goal attainment (e.g., market research and financing). With opportunistic strategy characteristics, the owner would snap at any chance of diversification. A product that seems attractive would be introduced without market analysis; machinery would be bought immediately if on offer at a good price without beforehand assuring a viable source for raw materials. Finally, employing reactive strategy characteristics, the owner would wait and only embark on new products if they had been introduced successfully by competitors or if customers specifically ask for them.

Strategy Process Characteristics and Business Performance

Psychological action theory suggests that, independent of the strategy content, active strategies have a positive impact while reactive/ inactive strategies are detrimental for business performance (cf. Frese & Zapf, 1994). By employing a proactive strategy

(comprehensive, critical point, and opportunistic strategy characteristics) one inevitably accumulates positive as well as negative experiences and learns about various perspectives on the strategy content. As a result, more information is integrated into the cognitive representation and one reaches a deeper understanding of the situation as a whole (cf. Kirzner, 1997). Identifying important feedback cues becomes easier and realistic goal setting, effective problem solving, as well as successful decision making is facilitated.

Scanning a wide variety of potentially important aspects of the business environment (e.g., customers, suppliers, competitors) fosters competitive strategy adjustment (Beal, 2000). Consequently, CEOs of small to medium sized companies are more successful if they scan their environment proactively (Daft, Sormunen, & Parks, 1988). However, scanning the environment and recognizing opportunities does not automatically lead to success. Opportunities must be developed (Ardichvili, Cardozo, & Ray, 2003) and action steps must be planned in advance. If preplanning has been neglected, the individual must catch up on planning during the action itself. Especially in complex or problem situations, this means an additional burden for the human cognitive processing capacity (Frese, Krauss, Grabarkiewicz, Escher, Heers, Luneng, & Friedrich, 2003; Frese & Zapf, 1994). Moreover, thorough planning includes back-up plans on the basis of anticipated throwbacks. Therefore, planning helps business owners to deal with insecurities inherent to their tasks and to make maximal use of available resources (Rauch & Frese, 1998). Planning is also useful for the realization of goals (Gollwitzer & Brandstaetter, 1997) because it helps to stay focused on the important goals and their subordinate targets. Finally, the efforts of a thorough plan is a manifestation of goal commitment which strengthens the relationship between goals and performance (Locke & Latham, 2002). In line with the above arguments, a longitudinal Dutch study by van Gelderen et al. (2000) found empirical evidence that comprehensive/ critical point planning strategy characteristics are positively related with business success.

According to psychological action theory, an action strategy is a sequence of means to achieve a goal which must be individually regulated in order to be effective (Frese & Zapf, 1994; Hacker, 1986; Miller, Galanter, & Pribram, 1960). Thus, strategy characteristics are not static. Theoretically, there are two distinguishable influence paths from business performance to comprehensive/ critical point planning strategy characteristic: (A) The more successful business owner are, the more will their business expand (in e.g., turnover, customers, employees, suppliers) and require sounder managerial decisions. Hence, the business owners must ‘rise to the challenge’ and employ more long-term oriented and planning business strategies. When business expansion demands a more managerial planning, individuals are capable of increasing their planning strategy characteristics even when planning had not been integrated in their previous action template. (B) Positive experience leads to an increase in strategy characteristics that had previously been successful. Success is a salient feedback cue that provides information on useful and appropriate business practices (cf. Bandura, 1969). Extra-individual feedback signals lead to intra-individual self-regulation that results in an adjustment of the strategy characteristics (cf. Frese & Zapf, 1994; Hacker, 1986). Thus, business owners regulated their action templates in response to (A) situational requirements and (B) performance feedback cues. Accordingly, van Gelderen et al. (2000) found Dutch owners who successfully employed critical point planning strategy characteristics to adopt comprehensive planning strategy characteristics in the long run. Therefore, we expect business success and comprehensive/ critical point planning strategy characteristics to be reciprocally determined and to follow the dynamics of an upward spiral (cf. Lindsley, Brass, & Thomas, 1995): Planning (comprehensive, critical point) strategy characteristics improve business performance and business performance increases the use of planning strategy

characteristics (Figure 1, H1).

Hypothesis 1: Comprehensive/ critical point planning strategy characteristics of the owners have a positive influence on business performance and high business performance increases the owners' comprehensive/ critical point planning strategy characteristics.

Reactive strategy characteristics entail neither planning, nor proactiveness, nor goal commitment. The lack of planning means that business owners cannot anticipate future trends in their trade, develop insufficient cognitive representations of the situation, cannot interpret feedback cues adequately, and cannot transfer their experiences into ready-made responses to problematic situations (Frese & Zapf, 1994). Individuals employing a reactive strategy have to start the decision making process from scratch every time they face a new decision or problem. Time and again, a multiplicity of available information must be integrated into the cognitive representation. The extensive need for information integration then results in cognitive overload and poorer decision making (Hacker, 1986; Hockey, 1996). Furthermore, reactive strategy characteristics imply passive adaptations that do not attempt to shape the environment. The owners do not scan their environment for opportunities but react passively to general trends, copy what others do, or adopt strategy contents that the environment imposes upon them. Thus, others will take the lead before reactive owners initiate the necessary steps (cf. Liebermann & Montgomery, 1998). Finally, the goals of reactive owners are neither self-developed nor intrinsic. Therefore, they develop only weak goal commitment which is detrimental to business performance (cf. Locke & Latham, 2002). In correspondence with the above arguments, research suggests that owners employing a reactive strategy are late movers who miss out on market opportunities (Liebermann & Montgomery, 1998). Reactive strategy characteristics were negatively related with business success in North America (Doty, Glick, & Huber, 1993), as well as for Dutch (van Gelderen et al., 2000) and Namibian (Frese, Brantjes, & Hoorn, 2002) small business owners.

As for planning strategy characteristics, we assume reciprocal determinism for the relationship between reactive strategy characteristics and business performance (Figure 1, H2): Low business performance poses an immediate threat to the owner. Threatening experiences elicit emotional (stress, anxiety) cognitive (narrowed attention, decreased information processing capacity, perpetuation of action strategies), and behavioral (performance decrease when action templates are inappropriate) consequences for the individual (Staw, Sandelands, & Dutton, 1981; cf. also Frese & Zapf, 1994). Hence, the business owners' experience of failure results in personal distress (emotional). The emotional effects cause the owner to process information in an emergency mode (cognitive) where additional cognitive strain is minimized. Averting danger turns into the primary task and the owner becomes less likely to engage in planning, proactive actions nor to venture into unknown areas (behavior). Reactive strategy characteristics, which have caused lower performance in the first place, are intensified, performance decreases further and a rigidity cycle (cf. Staw et al., 1981) or downward spiral (cf. Lindsley et al., 1995) is ignited. Accordingly, van Gelderen et al. (2000) found the relationship between reactive strategy characteristics and business performance to match a downward spiral in their Dutch sample.

Hypothesis 2: Reactive strategy characteristics of the owners have a negative influence on business performance and low business performance increases the owners reactive strategy characteristics.

Opportunistic strategy characteristics are defined by high proactiveness, low planning, and low goal orientation. The consequences of opportunistic strategy characteristics are ambivalent: On the one hand, business benefits from the owner's opportunity alertness (high proactiveness) that is realized flexibly (low planning, low goal commitment) because hardly any resources had been invested into long-term planning (Frese et al., 2000). On the other hand, business suffers because opportunities are not developed comprehensively (Ardichvili et al., 2003) and goals are easily abandoned (low goal commitment), especially when difficulties arise (low back-up planning). Moreover, interfering opportunities can distract the owners' attention and result in goal conflict. Conflicting goals cause incompatible action tendencies and have a negative impact on success (Locke, Smith, Erez, Chah, & Schafer, 1994). Empirical findings reflect the above arguments' ambivalence: Opportunistic business conduct was associated with lower goal orientation and long-term business success in Nigeria (Wilfert, 1992) while it had no effect on success in The Netherlands (van Gelderen et al., 2000). We assume that advantages (opportunity alertness, flexibility) and disadvantages (lack of planning, conflicting goals) of opportunistic strategy characteristics result in an insignificant effect on business performance (Figure 1, H3).

The reverse effect of performance on opportunistic strategy characteristics should also be inexistent (Figure 1, H3): First, opportunistic strategy characteristics do not contribute to success. Therefore, performance related feedback cues do neither reinforce nor weaken opportunistic strategy characteristics. Second, a successful, expanding business demands self-regulation towards more planning, not opportunistic strategy characteristics (cf. Hypothesis 1). Third, if performance is low, failure poses a threat that restricts one's information processing capacities (Staw et al. 1981; cf. also Frese & Zapf, 1994). Thus, unsuccessful owners will perceive less opportunities and their strategy characteristics become more rigid (Staw et al., 1981), not more opportunistic (cf. Hypothesis 2). The above arguments appear to suggest that business owners strategy characteristics should generally not be opportunistic. Yet, empirical data shows that small business owners' strategy characteristics are frequently opportunistic (Frese et al., 2002; van Gelderen et al., 2000). This seeming contradiction's explanation is the low planning activity of owners who employ opportunistic strategy characteristics from the business start-up. Since the very beginning these owners employ strategy characteristics that do not entail systematic planning. Therefore, they cannot develop a sophisticated cognitive representation of the business environment and do not learn about important feedback signals (Hacker, 1986). Consequently, owners cannot interpret the feedback provided by business performance adequately and cannot regulate their strategy characteristics accordingly.

Hypothesis 3: Opportunistic strategy characteristics of the owners have no influence on business performance and business performance has no influence on the owners' opportunistic strategy characteristics.

Studying Small Scale Enterprises in Zimbabwe

We chose Zimbabwe as study site for practical, methodological, and theoretical reasons: First, a prospering small business sector facilitates sustainable growth in developing countries: It creates employment (Krauss, Frese, & Friedrich, 2004; Livingstone, 1996; Mead, 1994; Mead & Liedholm, 1998), fosters industrialization (Kiggundu, 1988), and supports upward social mobility (Koo, 1976). With our research, we want to contribute to the fragmentary knowledge on factors influencing small business performance in Africa. Second, samples of African business owners provide a wider variance than Western samples. Business entry barriers are comparatively low and many start a business

because they have no other income (cf. Krauss et al., 2004). At the same time, there are also enterprises that are on par with Western businesses regarding proficiency, professionalism, and entrepreneurial motives. Samples with a wider variance allow for stronger correlations (Cohen and Cohen, 1983). Therefore, African samples are favorable to finding general laws that might not become salient in more homogenous samples. Third, the Zimbabwean study site allows to examine the generalizability of US-American and European results on strategy process characteristics with other cultures and economic environments.

METHOD

Sample

We applied a behavioral definition of entrepreneurs (Gartner, 1989) and sampled business owners who had started their enterprise themselves and were responsible for the day-to-day management (Rauch & Frese, 2000). The longitudinal sample consisted of N=97 Black Zimbabwean participants who had at least one and up to fifty employees at the first measurement time (T1).

The T1 sample (*N*=122) was drawn between September 1998 and April 1999. Many Zimbabwean businesses do not appear in any listing nor do they have phone lines. Therefore, we used a random walk procedure for sampling: The interviewers called on the business site in person and carried out an interview on the spot or made a later appointment if the owner was preoccupied. Typical businesses sampled with the random walk procedure included mechanics, scrap metal merchants, furniture manufacturers, bottle stores, tailors, welders, hairdressers, and others who provide for the immediate local market. To include up-market businesses and those located in urban office buildings (e.g., commodity brokers, travel agencies, advertising agencies, and telecommunication companies), we contacted businesses listed in business directories at random. The response rate was 70%.

One year after the fist data collection, the second measurement wave (T2) was carried out from May 2000 to April 2001. Out of *N*=122 owners interviewed at T1 we could re-interview *N*=104 participants. Seven of the *N*=104 re-interviewed participants had given up their business. Thus, the T2 sample size was *N*=97.

Procedure

The main measurement instrument was a structured interview throughout which confidentiality was repeatedly assured. Where appropriate, interviewers used prompts to clarify participants' answers. Interview answers were written down as verbatim as possible and typed subsequently. It was not possible to use tape recordings as the noise level was too high at most business sites. The interviews were carried out by the first author, by German graduate students, and by local interviewers (who were especially helpful with participants who could not speak English well).

The interviewers were trained thoroughly (2 – 10 days, depending on their prior knowledge). The training included interviewing techniques, taking notes for the protocols,

the handling of questionnaires, and the rating of participants' answers. After performing role-plays, interviewers practiced in vivo accompanied by an experienced interviewer.

Each interview was rated by two raters, one of them always being the interviewer. Ratings were done on the basis of typed protocols and an elaborate coding scheme that provided rating anchors. Throughout the study, close supervision and consultative meetings minimized rating biases. Ratings were either 5-point Likert assessments (e.g. opportunistic strategy characteristics low/ high), factual (e.g., number of employees), or nominal (e.g., the business was self-established or not).
In addition to the interview, the participants filled out a questionnaire on growth goal orientation and risk-taking orientation. Directly after the interview, when the impressions of the owners and their businesses were still vivid, the interviewers filled out the interviewer evaluation form that captured the interviewers' personal impressions of the participants and their businesses.

Operationalization

Business Performance. Our business performance measures are self-reported interview data. For self-reported performance data, interview measures are superior to questionnaires because they allow for the clarification of discrepancies between the appearance of the business and the participants' answers. In order to get a differentiated picture, we used business performance measures that are related to business size (number of employees) and to business growth (growth scale consisting of growth in sales, customers, and profits). The *number of employees* at T1 and T2 was a single item interview measure. The *business growth* scales included interview items where we asked participants to indicate percentages of increase, decrease, or stagnation in profit, customers, and sales compared to the previous year. Since the number of employees and the growth measure of business performance depict different performance aspects that are not inevitably interrelated, we did not collapse them (Meyer & Gupta, 1994).

Strategy Process Characteristics. *Comprehensive planning*, *critical point planning*, *reactive*, and *opportunistic strategy characteristics* at T1 and T2 were measured with an in-depth interview-based analysis of how business owners want to reach their goals. We first asked participants to rank common business goal areas developed in prior studies (e.g. new marketing strategy, expanding, making more profit). Then we asked participants to describe the two most important goal areas in detail and to exactly tell us what their objectives in these areas were. This led to a description of operational subgoals. The next step was to ask the participants how they wanted to go about achieving each of the subgoals and what they had already accomplished. We used prompts extensively (e.g., What do you mean by ....? Can you give me an example for ...?). A general prompt was to repeat what the participant had said. We carefully avoided leading words like 'plan' or 'active'. The strategy section of the interview took up to 40 minutes.

The interviewer and an independent second rater subsequently assesses the strategy characteristics of the two most important super-ordinate goal areas. Thus, we have two double ratings for each type of strategy characteristics. We employed a coding scheme with 5-point Likert scales and rating anchors. The anchor for high comprehensive planning strategy characteristics was: 'Everything is planned out in detail, all necessary steps including some substeps are described.' Critical point planning strategy characteristics: 'One important/ crucial point is described in detail, everything else is left vague; however high goal orientation, keeps goal in mind.' Reactive strategy characteristics: 'Goes from one issue/ problem to the other; does not produce changes, but waits for them to happen

and then reacts, no goal orientation.' Opportunistic strategy characteristics: 'Does not plan in advance, but actively looks for business chances and exploits them; easily deviates from goals'.

Alternatively, we could have used questionnaires to measure the strategy characteristics. However, questionnaires using Likert items can only lead to the exact information that the items address. For strategy characteristics of business owners, this would not have been appropriate. The measure must be flexible enough to account for the individual strategy content (what exactly does the owner want to reach with what particular strategy) and the specific circumstances of each business (e.g., the industry). Questionnaires using open questions are problematic because the answers are often not detailed enough to rate strategy characteristics and the interviewer has no possibility to ask further questions. The latter is a serious issue for our Zimbabwean participants, most of whom speak English well but are not proficient in the literary language.

RESULTS AND DISCUSSION

This paper presents first findings from a longitudinal field study on small business performance in Zimbabwe. Our preliminary results contribute to entrepreneurship research by (A) providing evidence on reciprocal determinisms between business owners' strategy process characteristics and business performance (cf. Bandura, 1978; Lindsley et al., 1995) and (B) examining findings from Western samples in a different cultural and economic environment (cf. Doty et al., 1993; Frese et al., 2000; Frese et al., 2002; van Gelderen et al., 2000).

First, we found direct contemporaneous effects of the owners' strategy characteristics on business performance (Table 1). Therefore, the impact of our psychological predictors on changes in business performance is relatively immediate and must have occurred within one year — some time between the first and the second measurement (Dwyer, 1983). Highly structured, proactive, and goal committed comprehensive planning strategy characteristics resulted in positive changes in the business' number of employees (Table1, r=.23, p<.05) as well as in its growth (Table1, r=.33, p<.01). This confirms previous findings in a culturally and economically different environment (van Gelderen et al., 2000) and suggests ubiquitous importance of comprehensive planning strategy characteristics in the entrepreneurial process. Critical point planning strategies, influenced change in the number of employees marginally (Table1, r=.20, p<.10), but had no significant relationship with business growth (Table1, r=.03, n.s.). Critical point planning strategy characteristics cover fewer business aspects, are less long-term, and less strictly top-down organized than comprehensive planning strategy characteristics (Frese et al. 2000). Thus, owners who employ critical point planning strategy characteristics develop a less sophisticated mental representation of the entrepreneurial task as well as of feedback signals in the environment than owners using comprehensive planning strategy characteristics (cf. Frese & Zapf, 1994; Hacker, 1986). Therefore, critical point planning strategy characteristics facilitate a positive business performance development, yet not to the same extent as comprehensive planning strategy characteristics. Van Gelderen et al. (2000) argued that critical point strategy process characteristics are most useful in early phase of the business development: "In this phase, the founder is bombarded with the need to make quick decisions under a high degree of uncertainty. Thus the most economic form of planning – the critical point strategy – is the most effective one in this phase (p.175)." Our participants had on average been operating their business five to six years when we first

interviewed them. In this later stage of business development, a critical point planning strategy might not reach far enough and owners should preferably adopt a more comprehensive planning strategy. Reactive strategy characteristics imply the passive adaptation to external demands and were expected to obstruct business performance (cf. Doty et al., 1993; Frese et al., 2000; Frese et al., 2002). All relationships between reactive strategy characteristics and performance were negative. However, only the negative impact on business growth was (marginally) significant (Table 1, r=-.20, p<.10). An explanation could be that copying a successful business idea (that someone else had planned out systematically) keeps business performance form decreasing dramatically within our time lag of one year. Yet in the longer run, reactive strategy characteristics should lead to considerably lower success than any of the other three strategy process characteristics and, eventually, result in failure. Opportunistic strategy characteristics had, expectedly, no direct effect on either of our performance measures (Table 1; cf. Locke et al., 1994; van Gelderen et al, 2000). On the one hand, business owners benefit form opportunistic strategy characteristics in so far as they proactively recognize and tackle many opportunities. On the other hand, the little planning entailed in opportunistic strategy characteristics is a disadvantage. Low planning means that the identified opportunities are not developed adequately (cf. Ardichvili et al., 2003). The owners juggle a multiplicity of rudimentarily developed opportunities without focusing on any one sufficiently to turn them into success. Thus, the combination of high proactiveness and little planning activities does neither promote nor obstruct entrepreneurial task accomplishment.

Table 1
The Effect of Strategy Characteristics on Business Performance (contemporaneous analyses controlling for business performance T1)

	Number of Employees T2	Business Growth T2
Predictor Variables T2		
Comprehensive planning strategy	r = .23*	r = .33**
Critical point planning strategy	r = .20†	r = .03
Reactive strategy	r = -.17	r = -.20†
Opportunistic strategy	r = .00	r = .02

$^{\dagger}p$<.10. * p<.05. ** p<.01.

Second, we established reverse lagged effects: The effect of business performance on strategy characteristics is less immediate than the contemporaneous impact of psychological variables on business performance because it requires the adequate interpretation of feedback information (Carver & Scheier, 1998). Before feedback information can lead to self-regulation, it must accumulate and be interpreted — both of which takes time. From T1 to T2, an increase in the number of employees led to more comprehensive planning (Table 2, r=.40, p<.01) and less reactive strategy characteristics (Table 2, r=-.25, p<.05; cf. van Gelderen et al, 2000). Hence, a growth in the number of employees constitutes a situation that demands strategy characteristics that are more comprehensive planning and less reactive on the part of the owner. Highly successful owners become more comprehensive planning and little successful owners become more reactive. The latter effect is due to the cognitive consequences of stressful threatening experiences such as low business performance. The owners react with less long term planning (cf. Frese & Zapf, 1994), narrowed attention, and lowered cognitive processing capacities (Staw et al. 1981). As a result, feedback cues are overlooked or misinterpreted, owners make the wrong decisions, and business performance decreases even further.

Critical point planning characteristics were not influenced by either of the performance variables (Table 2). As described above, critical point planning strategy characteristics should be most important in the business start-up phase where economic planning and quick decisions are important (van Gelderen et al., 2000). Our participants, however, are at a stage of business development where enterprise expansion demands concurrent consideration of the whole spectrum of business aspects, not just the most critical and pressing issues. Opportunistic strategy characteristics were not influenced by neither of the performance measures. The feedback information provided by business performance does not suggest to adopt more or less opportunistic strategy characteristics. Highly successful owners become more comprehensive planning and unsuccessful owners become more rigid and reactive (cf. Staw et al., 1981).

See Table 2

The effects of business performance on strategy characteristics were only significant from the performance measure number of employees, not from business growth. Thus, the change in strategy characteristics was caused by a growing workforce, not by a thriving business as such (additional growth in customers, profits, sales). When the owner of a grocery store, for example, opens a second branch and hires new employees to run the shop, the situation becomes more complex and requires a more planning strategy (Frese & Zapf, 1994). When the owner, for comparison, sells double the amount of groceries in the old shop, the situation does not necessarily become more complex and strategy characteristics need not inevitably become more planning.

Third, we found reciprocal determinisms between psychological variables and business performance that suggest upward spirals (Lindsley et al., 1995). The effect of performance on comprehensive planning strategy characteristics (Table 1) roughly matches the one from comprehensive planning strategy characteristics on performance (Table 2). Owners high on planning strategy characteristics are not only more successful than others; their business success also increases those psychological variables that contributed to success in the first place. Similar results were found in a Dutch sample by van Gelderen et al. (2000). Therefore, reciprocal determination of planning strategy characteristics and performance can be generalized across cultural and economic environments. Reciprocal determinism can only be detected by longitudinal analyses. However, only few studies in the area of entrepreneurship research are designed longitudinally (Rauch & Frese, 2000).

We also expected reciprocal determinism between reactive strategy characteristics and business performance (van Gelderen et al., 2000). Reactive strategy characteristics influenced change in the performance measure business growth (marginal) negatively (Table 1) and, in turn, the performance measure number of employees had an effect on reactive strategy characteristics (Table 2). Hence, we did not find truly reciprocal determinism where the same performance measure that was influenced by reactive strategy characteristics influenced the strategy characteristics reversely. Yet, all effects point to a downward spiral (Lindsley et al., 1995). Reactive strategy characteristics cause a decrease in business performance (business growth); low performance (number of employees) then leads to emotional distress, cognitive rigidity, and non-proactive behavior which decreases performance even further (Staw et al., 1981). For critical point planning strategy characteristics, our data indicates no reciprocal determination. Critical point planning strategy characteristics influenced the number of employees marginally (Table 1) and the reverse effects from business performance were not significant (Table 2). The results on the critical point planning strategy characteristics in our sample of long standing business owners tie in with findings in samples of nascent entrepreneurs by van Gelderen

et al. (2000). In their sample of nascent business owners, van Gelderen et al. (2000) showed that critical point planning strategy characteristics were only in the early phase of the business development related with business success. In a later phase, owners who had successfully practiced critical point planning strategy characteristics earlier, adopted comprehensive planning strategy characteristics. As in the present study, critical point planning strategy characteristics were not influenced by business success in an advanced phase of business development (van Gelderen et al., 2000). Hence, our Zimbabwean entrepreneurs were probably in a phase of their business development where critical point planning strategy characteristics are less appropriate than in earlier phases. Businesses in an advanced phase of development probably demanded more comprehensive planning than critical point planning strategy characteristics.

Strengths and Limitations

The ipsative interview procedure for the strategy characteristics certainly is an issue. The interviewers kept asking for more details on the participants strategy characteristics until they felt they had enough information to give the owners a high rating on one of the four strategy process characteristics. An advantage of the ipsative measurement is that the interviewers compare strategy characteristics consciously during the interview. This is reasonable in interview field-research because it mimics the practical situation where one has to make decisions between alternative characteristics (cf. Baron, 1996). The owners' descriptions of their strategies never completely corresponded with our operationalization of, for example, comprehensive planning strategy characteristics. A strategy might be mainly characterized by comprehensive planning, but there are virtually always some strategy aspects that also involve critical point planning, opportunistic, or even reactive characteristics. Reversely, owners who mainly employ reactive strategy characteristics occasionally also engage in planning. Thus, it was important for our research to clearly identify the most prevalent type of strategy characteristics in order to find significant causalities between strategy characteristics and performance. However, the disadvantage is that our measurement of the strategy characteristics are not statistically independent. Consequently, relationships between the non-planning and non-proactive reactive strategy characteristics and the other three types of strategy characteristics were highly negative (cf. Closs, 1996).

IMPLICATIONS FOR FUTURE RESEARCH

The present study examined reciprocal determinisms between strategy characteristics and success in a sample of business owners who had established their enterprise on average five to six years prior to the first measurement time. Thus, the reciprocal determinisms described above represent the entrepreneurial process in an advanced stage of the business development. In order to fully understand the reciprocal determinisms, future research should investigate nascent entrepreneurs in their starting phase and accompany them throughout the business life cycle. In the middle-term, reciprocal determinisms should become stronger and upward/ downward spirals should emerge. In the long run, however, ceiling effects, which limit the spiral process, are likely to occur and reciprocal determinisms should become weaker (Lindsley et al., 1995).

CONCLUSION

Our longitudinal approach enabled us to investigate reciprocal causalities in the entrepreneurial processes that emphasize the importance of the individual, the person of the business owner. We, first, established reciprocal determination between the owners' strategy characteristics and business performance: Comprehensive planning strategy characteristics increase business success. In turn, business success strengthens the owners' comprehensive planning strategy characteristics. Thus, we found a positive reciprocal determinisms that suggests the existence of an upward spiral. For reactive strategy characteristics, however, the reciprocal determinism is negative. Reactive strategy characteristics lead to lower business performance and low performance then increases the owners' reactive strategy characteristics even further. Moreover, the causal effects involving strategy characteristics appear across cultures and economic environments (cf. van Gelderen et al., 2000).

Furthermore, the impact of comprehensive planning strategy characteristics on business performance was the strongest and the most consistent influence across performance measures. Thus, entrepreneurship support programs should concentrate on enhancing the comprehensive planning strategy characteristics of small business owners. Psychological training methods can help business owners to improve their planning abilities, to strengthen their goal commitment, and to increase as well as focus their proactiveness. In the longer run, business success will, in turn, foster the development of more comprehensive planning strategy characteristics.

Last but not least, we want to call attention to the imperative of longitudinal research designs and the necessity of behavior proximal research constructs such as strategy characteristics (cf. Kanfer, 1992) in order to investigate individual influence factors of entrepreneurial performance.

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Table 2

The Effect of Business Performance on Strategy Characteristics (lagged analyses controlling for strategy characteristics T1)

	Comprehensive Planning Strategy T2	Critical Point Planning Strategy T2	Reactive Strategy T2	Opportu Strategy
Predictor Variables T1				
Number of employees	*r* = .40**	*r* = .08	*r* = -.25*	*r* = -.14
Business growth	*r* = .17	*r* = -.07	*r* = .17	*r* = -.02

†*p*<.10. * *p*<.05. ** *p*<.01.

NEW VENTURES AND INDUSTRIAL CLUSTERING: A CASE STUDY OF TAIWAN

Meng-chun Liu, Tain-Jy Chen and Ming-Wen Hu*

The main purpose of this paper is to investigate the role of industrial clusters in the formation and development of new ventures as well as entrepreneurship. We take Taiwan as an example; the empirical works are conducted first by a look at the contingency table of incumbents and new firms' regional distribution to see their geographic linkage. Then a Tobit regression was performed to decide the determinants of Taiwan's manufacturing new ventures. Our empirical results show that industrial clustering and R&D intensity are important facilitators of new ventures. The policy implication from our results is that promotion of the spatial agglomeration of firms is a useful means of nurturing startups.

This study further suggests that inter-firm linkages play a critical role within an industrial cluster, indicating that government support for the incubation of new businesses should be targeted towards the building of networks. In order to assist in matching local networks to the global production system, the aggressive promotion of spatial agglomeration is necessary in order to facilitate mutual learning and knowledge spillovers. Developing countries in particular may need to design policies aimed at leveraging the capabilities of multinationals in establishing both local and cross-border networks for learning.

Key Words: New Ventures, Clustering, Spatial Proximity, Inter-Firm Networks, Entrepreneurship.

INTRODUCTION

New venture is the center of economic progress, especially for developing countries lacking natural endowments. Drawing on Hoang and Antoncic (2003) recent review of (social) network-based research in entrepreneurship, we synonymize entrepreneurial activity with new venture creation. There are many definitions for an entrepreneur, even more for the concept of entrepreneurship. Ranging from defining entrepreneurship simply as the creation of new enterprises (Low, 2001) to regarding entrepreneurship as a spirit to deploy the resources in pursuit of an opportunity, independent of the origin or ownership of such resources (Johannisson, 1998). While Bygrave and Hofer (1991: 14) defined the

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entrepreneurial process as “involving all the functions, activities, and action associated with the perceiving of opportunities and the creation of organisations to pursue them”. Hébert and Link (1989) define the entrepreneur as someone who specializes in taking responsibility for and making judgmental decisions that affect the location, the form, and the use of goods, resources, or institutions. In any event, entrepreneurs are dynamic and willing to launch new ventures and to take necessary risks. Because of asymmetric information and lack of knowledge, an economy is normally characterized by hidden profit opportunities that have not yet been uncovered. Entrepreneurs are capable of identifying these opportunities and engaging in proper activities to realise the gains.

Although the personal characteristics of individuals are important constituents of entrepreneurship, some environmental factors have been identified as necessary for the incubation of new ventures, including political, economic and cultural factors. In recent years, some studies have noted that external networks can represent an alternative mode of organisation that enables entrepreneurial growth. It was argued that spatial proximity and long-term relations between firms are very important in improving market competitiveness within a region, in which important roles are played by social, reputation, cooperative, knowledge, innovative and technology networks (Lechner and Dowling, 2003).

Apparently, the external networks embodied in the industrial clusters provide the firms in the region with a close supplier-chain relationship, common technologies and customers, and a labor market pooling. Industrial clusters can also be a practical means of linking neighborhood firms to the regional and even global economy. Industrial clusters may effectively reduce the barriers of market entry and further incubate new ventures. A few studies have indicated that an industrial cluster stimulates market entry into a region in which a number of firms have accumulated. This is because an industrial cluster is connected with suppliers of intermediate inputs, and is capable of creating knowledge spillover effects (Marshall, 1890). Industrial clustering effectively reduces the market entry barriers and drives a high rate of market entrance, which in turn, is associated with a high rate of innovation, which improves productivity.

The main purpose of this paper is to investigate the role of industrial clusters in the formation and development of new ventures as well as entrepreneurship. Taiwan, once regarded as a newly industrialized economy, has long been known for its abundant entrepreneurship resources. The empirical evidence for this study is to be obtained from a case study of the manufacturing industry in Taiwan. The remainder of this paper is arranged as follows. Brief literature review surrounding industrial clusters and entrepreneurship is presented in Section 2. In Section 3, we introduce the measurement of industrial clusters, and suggest the need for a content analysis of industrial clusters in order to better understand the relationship between new ventures and industrial clustering. This section also presents a general picture, in the form of a case study of industrial clustering in Taiwanese manufacturing industries for the year 1992 and 1994. We then look at the patterns of market entry over the periods from 1992-95 and 1992-97. Section 4 employs a quantitative model to examine the role of industrial clustering in reducing market entry barriers and incubating new ventures. The empirical results are presented in Section 5. The findings of this study are summarised in the concluding section.

LITERATURE REVIEW

There are many advantages for a new venture to lunch within an industrial cluster. Within an industrial cluster, collective economic actors who are closely connected to one another possess shared technological narratives, affluent mutual trust and a willingness to cooperate (Solvell and Zander 1998: 409). Organisations involved in research and development (R&D), such as universities and government-sponsored research institutes, function as an intermediary source of new technology (Lundvall 1992: 13-14). As noted by Schumpeter (1934), innovation underlines entrepreneurship, and all of the above factors are conducive to innovation. Industrial clustering also stimulates competition and emulation between individuals in their entrepreneurial achievements. Competition between classmates is often observed in the locations that are famous for industrial clustering, such as the Silicon Valley in the US and Hamamatsu in Japan, with achievements by alumni also being capable of inspiring younger graduates to embark on the course of entrepreneurial activities.

Some factors underscore the inter-firm network embodied in regional clusters. First of all, drawing on Lechner and Dowling's (2000) study of the biotechnology cluster in Munich, Germany, we note that regional culture influences corporate culture in terms of both cooperation and competition. Given the time and energy constraints, spatial proximity is critical to building trust between firms over time, which mainly stems from frequent interactions and face-to face contact. Thus, it is argued that a network of entrepreneurial firms is regionally embedded, and the successful development of the industrial cluster will determine the competitiveness of firms within the cluster.

Lechner and Dowling (2003) also emphasize the importance of external relations to the growth of entrepreneurial firms by examining the case of the IT cluster in Munich, Germany. As noted in Lechner and Dowling (2003), inter-firm networks do not work in a virtual space in which spatial proximity is unimportant. Both spatial proximity and long-term relations determine the quality of the relationship and the competitive advantage of firms, which are derived from close relations. Generally, the network relationship of firms enables them to enjoy advantages in terms of social networks, cooperative networks, marketing networks and knowledge-innovation networks.

The nature of collectiveness of the cluster provides the firms within the cluster with some advantages. As in the earlier studies, the emergence of industrial clusters is recognised here as shaping and driving the competitiveness of firms within clusters at both national and global levels. This may be attributable to agglomeration externalities, three types of which are classified by Glaeser et al., (1992). The first type is Marshall-Arrow-Romer externality which highlights industrial specialisation within a region. Each firm in the cluster enjoys the benefit from saving investment costs by specialising within a narrow area of the value-added chain. Similar firms within the clusters find ways to differentiate themselves by locating unique market niches that have not been filled by other firms. Small firms can join together to fill a large contract that none of them could undertake alone, and as such, these small businesses can be more competitive and successful in the long run by becoming a part of a dynamic cluster which fosters competition, collaboration and innovation amongst the participants.

The second type is Porter externality, which arises from regional specialisation and the

differentiation of products. This effect stems mainly from local rivalry between firms, which further fosters the rapid diffusion of knowledge and adoption of new ideas. In addition, the development of industrial clusters may lead to simultaneous competition and collaboration in offering innovative products and services, and to further establish a sustainable competitive advantage in the dimensions of technology, workforce, production methods, delivery time, quality, and resource procurement.

The third type of externality is diversity externality, which is stimulated by the interchange of ideas between various types of activities within the region. As noted in Jovanovic and Rob (1989), new ideas can be derived from heterogeneous knowledge across firms and people.

Industrial agglomeration externalities enable firms within a cluster to enjoy higher growth and competitiveness, and these three types of externality have pointed to some important dimensions in the competitiveness of industrial clusters. This is because firms within a region can share a common dependence on research, innovation, knowledge and regional industry-specific assets.

An industrial cluster also reduces the risks for business ventures. Labour pooling is an important feature of industrial clustering since it cuts the costs of hiring and discharging workers. Pooling of skilled workers also makes the mobilisation of managerial resources much easier. Industrial clusters are often supported by a venture capital industry which finances the start-ups and helps innovators to realise their gains by organising proper production processes. Moreover, industrial clustering provides industry-specific information, particularly that which is pertinent to technology, and which thus prevents an entrepreneur from making huge mistakes. An industrial cluster also represents a learning region which spawns innovation. Chell and Baines (2000) indicated that 'weak tie' networking is part of fundamental entrepreneurial behavior, since the interchange of entrepreneurial contact, knowledge and confidence are necessary in the pursuit of opportunities through the mobilization of resources, which include raising capital, labour and effort, for ventures with uncertainties.

Hoang and Antoncic (2003: 178) summarize the key findings around networks as determinants of new ventures formation. They are fund-raising benefits for new ventures; interorganizational linkages within emerging industry signal that spur new venture formations; and early legitimating activities affected persistence of entrepreneurial activity. In short, new ventures may be regarded as the inherent underpinning of network activity. In the following section, in order to examine this assumption, we measure the degree of spatial agglomeration for each manufacturing industry, along with the market entry rate.

NEW VENTURES AND INDUSTRIAL CLUSTERING FOR TAIWANESE MANUFACTURING INDUSTRIES

Measurement of New Ventures for Taiwanese Manufacturing Industries

According to Wennekers and Thurik (1999: 34), new entry is the act of launching a new venture. Drawing also from Geroski (1995: 431), who presents a 'stylized result' that *high rates of entry are often associated with high rates of innovation and increases in efficiency* in his brief survey

of recent empirical work on entry, we regard start-ups as new ventures. Table 1 summarizes the patterns of market entry in each Taiwanese manufacturing sector over two periods 1992-95 and 1992-97, in terms firm size and the industrial distribution of new entrants.

Table 1 Pattern of New Ventures in Taiwanese Manufacturing
Unit: %

	1992-95		1994-97	
Industrial Sectors	Large Firms	Small Firms	Large Firms	Small Firms
Food Manufacturing	3.202	96.798	3.285	96.715
Textile mill products	3.544	96.456	3.887	96.113
Wearing apparel & accessories	3.327	96.673	4.403	95.597
Leather, fur products	4.294	95.706	4.615	95.385
Wood & bamboo products	0.761	99.239	0.792	99.208
Furniture & fixtures	1.200	98.800	0.875	99.125
Pulp, paper & paper products	0.704	99.296	0.847	99.153
Printing processing	0.734	99.266	1.131	98.869
Chemical materials	3.670	96.330	4.428	95.572
Chemical products	2.094	97.906	1.875	98.125
Petroleum & coal products	9.524	90.476	7.692	92.308
Rubber products	1.987	98.013	2.303	97.697
Plastic products	1.198	98.802	0.976	99.024
Non-metallic mineral products	3.365	96.635	3.093	96.907
Basic metal	2.384	97.616	2.191	97.809
Fabricated metal products	0.537	99.463	0.680	99.320
Machinery & equipments	0.932	99.068	0.907	99.093
Electrical &electronic machinery	4.201	95.799	3.426	96.574
Transport equipments	2.903	97.097	3.135	96.865
Precision instruments	2.770	97.230	2.796	97.204
Miscellaneous industry	1.487	98.513	1.503	98.497
Total	1.952	98.048	1.956	98.044

Source: Calculated by this study

Based on early studies, two types of innovation stand out from a microeconomic perspective, ‘entrepreneurial innovation’ and ‘managed innovation’. The emergence of entrepreneurial innovation relies mainly on the economic opportunities brought about by new technologies and scientific development. In this case, the entry of small, dynamic and rapidly growing firms is responsible for such innovation. In contrast to the case of entrepreneurial innovation, managed innovation is made by existing firms in the market and, as argued by Schumpeter (1942), this type of innovation tends to be dominated by large firms with a monopoly in the market. In some sectors, such as petroleum & coal products and leather & fur products, some large startup firms are not clearly associated with industrial sectors with capital-intensity. The large shares of entry firms in three industry sectors, fabricated metal products, machinery & equipments, and electrical & electronic machinery may demonstrate that these booming industrial sectors attract large share of new entry firms and absorb larger share of employees. There is also clear evidence that the startup firms tend to be SMEs in a significant share. Parts of new-entry firms make R&D investments in their correspondingly established years. Such new-entry firms,

especially associated with small in size, may be regarded as entrepreneurial innovation firms. As is apparent from Table 1, some sectors deeply attract the entries of entrepreneurial firms. These industrial sectors not only include high-tech industries, such as electrical & electronic machinery, chemical materials, and chemical products, but also include traditional and heavy industries, such as leather & fur products, and rubber products, indicating that the entry of entrepreneurial firms cannot be simply attributed to the industrial characteristics in R&D intensity.

Measurement of Industrial Clusters for Taiwanese Manufacturing Industries

This subsection set outs to measure the level of spatial concentration of Taiwanese manufacturing industries at town level for 1992 and 1994. The geographical agglomeration index comprises of the intra-industry distribution of employment by plants, as the geographical Herfindahl index. The geographical agglomeration index is defined as follows:

$$GH = \sum x^2$$

where *GH* denotes the geographical Herfindahl index, *x* is locational share of employment for each industry. In the case of perfect agglomeration, G*H* approaches 1.

Based on the geographical Herfindahl index, we calculate the level of *GH* at town level and the 2-digit Chinese Standard of Industrial Classifications (CSIC) codes for 21 manufacturing industries. In contact to Table 1, Table 2 gives data on the industrial geographical agglomeration, number of incumbent firms for 1992 and 1994, and the entry rates of large firms and SMEs for 1992-95 and 1994-1997. In regard to industrial agglomeration, petroleum & coal products industry reaches an extraordinary high level in 1992. Against the background that Taiwan's energy consumption mainly relies on the imports, the firms of such industry generally gather together in some harbor regions. Next to petroleum & coal products industry, non-metallic mineral products, basic metal, transport equipments, and chemical material are significantly higher than other sectors in terms of geographical agglomeration indicator. Table 2 shows that the entry-rates across industries for 1992-95 and 1994-1997 range from 15.7% and 19.1% (wood & bamboo products) to 56.4% and 53% (electrical &electronic machinery), and the average of entry rates achieves at 37.4% and 35.1%. Apart from petroleum & coal products industry, wearing apparel & accessories, and electrical &electronic machinery drive a comparatively high entry rate of large firms.

Table 2 Industrial Spatial Agglomeration and Entry Rates in Taiwanese Manufacturing Sector

Industrial Sectors	GH* Indicators (1992)	1992-95 Total Firm	GH* Indicators (1994)	1994-97 Total Firm
Food Manufacturing	0.0107	20.7	0.0102	20.0
Textile mill products	0.0190	31.4	0.0190	30.3
Wearing apparel & accessories	0.0184	47.0	0.0186	39.3
Leather, fur products	0.0254	32.9	0.0326	31.5
Wood & bamboo products	0.0123	15.7	0.0132	19.1
Furniture & fixtures	0.0145	37.5	0.0140	27.2
Pulp, paper & paper products	0.0133	30.9	0.0130	28.8
Printing processing	0.0389	48.2	0.0397	47.6

Chemical materials	0.0335	32.6	0.0358	26.5
Chemical products	0.0205	25.7	0.0212	21.0
Petroleum & coal products	0.3119	43.8	0.2004	21.0
Rubber products	0.0256	26.9	0.0244	28.7
Plastic products	0.0125	32.8	0.0132	29.5
Non-metallic mineral products	0.0298	24.4	0.0276	24.1
Basic metal	0.0486	34.6	0.0448	30.1
Fabricated metal products	0.0192	47.8	0.0179	48.8
Machinery & equipments	0.0181	41.4	0.0180	36.3
Electrical &electronic machinery	0.0242	56.4	0.0246	53.0
Transport equipments	0.0204	38.6	0.0205	32.3
Precision instruments	0.0259	37.1	0.0255	29.0
Miscellaneous industry	0.0128	33.3	0.0184	27.8
Total number of new firms	-	25,822	-	24,277
Average Entry Rates (%)	-	37.4	-	35.1

Note: * GH indicator denotes geographical Herfindahl index as the way to measure spatial agglomeration for each industrial sector.
Source: calculated by this study.

Spatial Distribution of New ventures and Incumbents

The above sections underline the role of spatial agglomeration in new firm formation rate. In addition, variances in market entry rates may be explained by industrial concentration, market growth/market room, scale disadvantage, and R&D investments. However, the above research does not yet make sure whether new firm start-ups are significantly correlation with their incumbents in terms of the geographical deployment. This section aims to provide more specific evidence to underline the industrial agglomeration effect in driving new firm formation.

We perform a comparative approach to two types of industries in terms of locational choices of new firm start-ups. According to the degree of correlation of new firm start-ups with their incumbents in terms of spatial distribution, we intend to identify two types of industries. The first type of industries denotes such industrial sector that the new firms intend to locate their production bases close to their incumbent counterparts. The others are regarded as the second type of industries. Based on the networking attributions of industrial clusters, if other condition is given, new firms should be attracted to locate themselves into the clusters in order to share a common dependence on research, innovation, knowledge and regional industry-specific assets, demonstrating the evolution process of industrial clusters. The comparison of two types of industrial clusters in their entry rates may underpin the argument that the spatial agglomeration effect of firms can effectively drive new firm formation.

Two-stage approach is utilized to examine the hypothesis. First of all, test for independence and Pearson correlation index are performed to identify some specific industrial sectors of Taiwan, in which new firms are similar to their incumbents in spatial distributions cross 336 towns. The χ^2 test procedure is used to test the hypothesis of independence of new firms and their incumbents in spatial distributions. The observed distributions are presented in Table 3, which is known as a contingency table.

Table 3 2 x 336 Contingency Table of Probabilities for an industrial sector

	Region 1	…Region j…	Region 336	Total
New Firms	$\pi_{1.1}$	…π_{1j}…	$\pi_{1.336}$	$\pi_{1.}$
Incumbents	$\pi_{2.1}$	…π_{2j}…	$\pi_{2.336}$	$\pi_{2.}$
Total	$\pi_{.1}$	…$\pi_{.j}$…	$\pi_{.336}$	1

In the contingency table test, χ^2 is employed in a goodness-of-fit test for the 93 manufacturing industries. The null hypothesis is that new firms are independent from their incumbents in terms of spatial distribution. Let π_{ij} denote the underlying bivariate probability distribution of firm group i in region j. The firm group is new firms if i=1, and firm group the incumbents if i=2. Let π_i and π_j similarly denote the marginal probability distribution of firm group i and region j. It should be noted that the measures for spatial distributions of incumbents are based on the numbers of employees. The null hypothesis of statistical independence may be stated precisely:

$$Ho: \pi_{ij}=\pi_i \,.\, \pi_j$$

The Chi-square statistics for examining the null hypothesis is

$$\chi^2=\sum_{i}^{2}\sum_{1}^{336}\frac{(\pi_{ij}-\pi_i\pi_j)^2}{\pi_i\pi_j}n\ ,$$

where *n* is the sum of the number new firms and the incumbents.

Furthermore, the Pearson correlation indexes are utilized to confirm the positive correlation between new firms and incumbents in their spatial distributions. According to both Chi-square statistics and the Pearson correlation indexes, we can choose some industries as the first group, of which Chi-square statistics are significant at 5% and Pearson correlation indexes are positive.

In the second stage, we examine if the first group of industrial sectors are higher than the second group in the market entry rates for the two periods. Table 4 shows that in the first period of 1992-95, the first group and the second group are consist of 24 and 69 industrial sectors, respectively. Their average market entry rates for four years are 0.57 and 0.40, respectively. The first group is significantly higher than second group at the significance of 10%. Over the second period of 1995-97, number of industrial sectors in first group increases up to 29, and the number of second group decrease to 64. Their average of market entry rates for three years reaches 0.40 and 0.25. The average market entry of first group is significantly higher than that of second group at the significance of 5%. The empirical evidence from Taiwan's manufacturing sector indicates that spatial agglomeration of incumbents, new firm formation, and locational choice are of high interdependence.

Table 4 Average Entry Rates for 1992-95 and 1995-97

Period	Group	Number of	Average Entry Rate	St.d	t-value[a]

		Industrial Sectors			
1992-95	1	24	0.57	0.61	1.95
	2	69	0.40	0.25	
1995-97	1	29	0.40	0.49	2.23
	2	64	0.25	0.18	

Source: calculated by authors.

Note: The t-values are corresponding to the null hypothesis that the average entry rate of group 1 sectors is larger or equal to that of group 2 sectors.

In brief, the empirical evidence from Taiwan's manufacturing industrial sectors generally supports the above arguments that the significant role played by the industrial agglomeration reduces entry barriers. Industrial clusters facilitate the information diffusion of markets and technologies and also benefit firms in the labor market pooling. These advantages from industrial clusters help new entry firms in overcoming entry barriers and also attract firm to access the industrial clusters. The determinants of new-firm entry rate for each industrial sector cannot be totally explored by Table 4. The next section applies a quantitative approach to this issue.

DETERMINANTS OF MARKET ENTRY FOR TAIWANESE MANUFACTURING INDUSTRIES

In this section, we utilise the data bank of manufacturing plant Census Survey at 3 digital CSIC codes for 93 industries to empirically examine the factors affecting firms' market entry decisions over two periods of 1992-95 and 1992-97. *Entryr*, the dependent variable in this empirical model, is the entry ratio of number of startup firms to the number of incumbents for each manufacturing sector. Considering that the dependent variable is a censored number in nature, we employ a Tobit regression in this study. The empirical models are set as follows:

$$Entryr = F_1(GH, KL, CR4, IRD, IEX, MES, MARR, INDS)\,. \quad (1)$$

$$Entryr = F_2(GH, KL, CR4, IRD, IEX, MES, MAGR, INDS)\,. \quad (2)$$

The explanatory variables used in the above model are: the geographical agglomeration index (*GH*), capital to labors ratio (*KL*), Industrial Concentration (CR4), industrial R&D intensity (*IRD*), industrial export intensity (*IEX*), scale disadvantage ratio (*SDR*), market room (*MARR*), market growth (*MAGR*), and industrial scale (*INDS*). The explanatory variables used in the above model and the hypothetical impacts on Entryr are explained as follows:

Geographical agglomeration index (GH)

GH, the geographical Herfindahl index, is used to measure the extent of industrial agglomeration for each industrial sector. Firms within industrial clusters share a common dependence on innovation, knowledge and regionally industrial assets. The spatial agglomeration also facilitates the interchange of entrepreneurial contact, knowledge and confidence, which are necessary in pursuing market and innovative opportunities. And due to the networking relationship embodied on industrial clusters built on their common background can generate reputation networks, which automatically lead to trust-based business relationship. Based on the above research on entrepreneurship, networking and industrial clustering, this paper utilizes the level of industrial clustering simply as a proxy for network strength. We assume that an industry associated with higher spatial agglomeration will have stronger network ties, leading to a higher rate of market entry. Thus, the geographical agglomeration an

industry is, the higher market entry rate it has. Therefore, we hypothesize that the GH variable has a positive impact on the Entry variable.

Capital Intensity (KL)

Capital Intensity **(KL)** is the ratio of book value of fixed capital stock to labor compensation in an industry. Most literature generally regard capital-labor ratio as a type of market entry barriers (Dunne and Robers, 1991; Rosenbaum and Lamort, 1992). This is because capital goods, such as machinery and factories are characterized by their natural indivisibility and inflexibility. Morrison (1997) argued that capital actually has a quasi-fixity nature, and that where a firm's production technology is more capital-intensive, it may suffer from higher sunk costs in natures. We expect that industry with higher capital labor ratio will place greater entry barriers and therefore hypothesize that the KL variable will have a negative impact on Entry variable.

Industrial Concentration (CR4)

Concentration is defined as the share of the four largest firms measured for 1992 as a proxy for the degree of industrial concentration. Where an industry has a higher concentration, this suggests that it is more likely to be dominated by a few firms. In contrast, firms within the industry with a lower CR4 value have much less monopolistic power and are therefore more likely to engage in keen competition. Chen, Chuang and Yang (2002) used between 1991-1996 Taiwan's Consensus Databank to examine the entry and exit of manufacturing firms. They suggest that the increase in industrial concentration ratio over the period lead to the decline in market entry. However, based on Jeong and Masson's (1990) research on Korea's market entry, high concentration may lead to expectation of either cooperation or of retaliation for new entry firms, indicating that the effect of CR4 is uncertain on market entry. Based on the above studies, the coefficient of CR4 is not sure in the entry equation.

Industrial R&D intensity (IRD)

IRD is designed to measure the extent of opportunity innovation. R&D intensity is used as a proxy for the knowledge stock of an industry. An industry with high R&D intensity may have a large room for new entry firms to differentiate their products. There is also situation where technological break through uplifting scale limits of production hence enhances entry. Such is so called entry-facilitating effect (Mukhopadhyay, 1985). Early studies, such as Orr (1974), provided some empirical evidence to suggest that a high intensity of R&D symbolizes the entry barrier in an industry. By contrast, Geoski (1995) observes a positive correlation between the rate of innovation and the rate of entry to an industry. As pointed out by Marsili (2002), whether innovation in technologies of high or increasing opportunities is associated with entrepreneurial activities is dependent on the nature of knowledge. Without any solid stock of technologies, Taiwan's industries heavily rely on the transferred technological from overseas, and the innovation activities also focus on product engineering and continuous processes, characterized by low technological entry barriers in knowledge and scale. Accordingly, we expect that industries with higher R&D intensity will have lower entry barriers and therefore hypothesize that the IRD variable will have a positive impact on *Entryr* variables.

Industrial Export Intensity (IEX)

This study also examine whether industries with high export orientation tend to drive the new-firm entry. The empirical result seems to counter the presumption in based on some early studies. Utilizing Taiwanese firm data for 1986 and the frontier production function, Aw and Batra (1998) suggest that the productivity-export correlation differs significantly across firms depending on their investment in technology. In addition, Aw and Hwang (1995) suggested the existence of a significant linkage between firm-level productivity and exporting activities, and developed an empirical model to shed light to the value-added differences between export-oriented and domestic market-oriented firms in the electronics industry in Taiwan, confirming the importance of learning mechanism from export markets. Both studies may suggest that export markets enable to attract the new firm entry because of strong learning effects in improving productivity and technological diffusion. However, in comparison with the learning effect of export markets, the keen competitive pressure may yields to market deterrent effects, especially for small new-firms. Thus, the effect of export markets on market entrants should not be clear.

Minimum Effective Scale (MES)

MES measures the ratio of the average size of largest 50% firms to average firm size in terms of number of employees. In certain industries, these scale economies are a barrier to entry since it is unlikely that multiple businesses can all attain the minimum efficient scale to be commercially viable. In most of the manufacturing sector, scale economies are unlikely to be as pronounced relative to market demand and thus, absent policy-induced constraints, such economic barriers to entry are likely to relatively modest, and some in cases, relatively low. This variable is designed to measure the entry barrier resulted from their production scales. MES, like capital intensity, included in the entry equation proxies for entry barriers. We presume that the coefficient of MES is negative in the entry equation.

Market Growth (MAGR) and Market Room (*MARR*)

MAGR is measured as the change in value of shipments over the period of 1992-95 (1994-97) divided by shipments in the initial year, 1992 (1994). As in Rosenbaum and Lamort (1992), an industry experiencing growth usually benefit for potential firms to make market entry. Moreover, MARR is defined as the ratio of MAGR/MES, that the increase in the number of minimum efficient scaled-sized plants, which could occur due to growth in the market. Such variable is measured as the value of market growth over minimum efficient scale at the initial years 1992 and 1994. Both variables can describe the inducement conditions of an industry. We expect that both variables MARR are positive on the market entry ratios.

Industrial Scale (INDS)

INDS refers to the scale of an industry in terms of number of employees. A larger scale industry may provide new entry firms with more market share for their survivals. In addition, this paper measures for an industry's scale in number of employees. We may expect that an industry with comparatively high value of INDS can enjoy the advantage

in labor pooling and also benefit the new entry firms in saving the cost of looking for the suitable labor. Accordingly, we presume that the coefficient of INDS is positive in the entry equation. This variable takes natural logarithm.

We summarize our hypothesis of the impact of each explanatory variable, and provide the corresponding summary statistics of these variables in Table 5.

Table 5 Variable definitions

	Definition	Expected sign	1992-95 Mean (Std. Dev.)	1994-97 Mean (Std. Dev.)
GH	Herfindhal index for geographical agglomeration	+	0.062 (0.070)	0.695 (0.097)
KL	Capital-labor ratio, measured by the fixed capital stock over total labor compensation	−	4.978 (2.935)	4.831 (3.001)
CR4	Industrial concentration	?	0.304 (0.238)	0.305 (0.233)
IRD	Industrial R&D intensity	+	0.038 (0.029)	
IEX	Industrial export intensity	?	2.340 (1.752)	
MES	Minimum efficient scale	−	1.729 (0.111)	1.953 (0.250)
MARR	Market room	+	0.302 (0.734)	0.071 (0.138)
MAGR	Market growth	+	0.016 (0.078)	0.044 (0.084)
INDS	Industrial scale in terms of employee (in terms of natural logarithm)	+	9.243 (1.359)	9.352 (1.299)

Source: calculated by this study.

EMPIRICAL RESULTS

Entry equation is estimated using structural variables, including inducements entry barriers and geographical agglomeration, as explanatory variables. Tobit estimates for Equation (1) and (2) are generated for the 1992-95 and 1992-97 samples, respectively. The empirical results are presented in Table 6, showing that in the case, LR χ^2 reaches significance at the 5 per cent level and the explanatory variables of both models have significantly high explanatory power. There are 93 observations in the sample. The empirical results may demonstrate two kinds of perspectives related to market entry: namely entry barriers and inducement conditions. However, as is emphasized in Caves (1998), there are also chances that entry ‘barriers’ may become entry gateways for lucky entrants.

– Entry Deterrent or facilitating factors

The hypothesis of entry barriers is examined in this study. Table 6 presents that the coefficient on *GH* (industrial geographical agglomeration) is statistically significant positive at the 5% level in the entry equation. That is, an industry characterized by spatial agglomeration has comparatively high market entry ratio. The evidence may confirm the presumption that industrial spatial agglomeration will reduce the entry barriers because the formation of industrial cluster can drive the formation of production

networking and then enhances the diffusion of local knowledge. In other word, the development of industrial clusters not only benefit local incumbent firms in production

Table 6 Empirical Results- the Tobit Estimations

	1992-95		1994-97	
	Model (1)	Model (2)	Model (1)	Model (2)
Constant	2.094**	2.107**	0.358**	0.371**
	(5.59)	(5.63)	(2.61)	(2.65)
GH	1.093**	1.100**	0.610**	0.589**
	(2.51)	(2.53)	(3.10)	(3.00)
KL	-0.036**	-0.035**	-0.011*	-0.011*
	(-3.48)	(-3.49)	(-1.78)	(-1.77)
CR4	0.388**	0.397**	0.165	0.167
	(2.77)	(2.84)	(1.38)	(1.40)
IRD	3.260**	3.233**	1.250**	1.205**
	(4.02)	(3.98)	(2.26)	(2.18)
IEX	0.006	0.006	0.003	0.002
	(0.37)	(0.38)	(0.27)	(0.16)
MES	-1.415**	-1.463**	-0.175*	-0.178*
	(-5.48)	(-5.55)	(-1.78)	(-1.82)
MARR	0.079**	--	0.205*	--
	(2.22)		(1.83)	
MAGR	--	0.146**	--	0.374**
		(2.16)		(2.05)
INDS	0.063**	0.064**	0.018	0.017
	(2.63)	(2.66)	(1.05)	(1.02)
σ	0.220	0.220	0.140	0.140
Observation	93	93	93	93
LR χ^2	61.05	60.81	23.63	24.45

Note: *: significant levels at 10% and ** 5%.

specialization, knowledge sharing, and labor market pooling, which also benefit the potential firm entry in reducing entry barriers.

Table 6 also shows that the capital intensity is included in the equation as a proxy for sunk costs. The variable is statistically significant. The negative coefficient of *KL* indicates that industries with more capital intensity have the lower ratio of firm entry. And Table 6 also shows that the industrial concentration (CR4) has certain positive influence on the market entry. Similar to Jeong and Masson (1990) on the Korean case, and Masson and Shaanan (1986) and Rosenbaum and Lamort (1992) on the case of the U.S., the empirical result for Taiwan's case supports the argument of signals of expected "cartel stability" or "accommodation," but seems not support the argument of strategic entry deterrence of high concentration industries. More than that, this empirical evidence may also underline Taiwan's policy reform in 1990s. Since 1990s, the policy reforms have been heading for internationalization and liberalization by reducing institutional barriers of entry to concentrated markets, which used to be monopolized by state-own enterprises.

Some early studies, such as Bunch and Smiley (1992), regard R&D intensity as market deterrents. This is because the access to the industry with R&D intensity has comparatively high capital and technological requirements, and the incumbents in such industries have high likelihood in use the strategy of market deter to their potential

competitors. However, in the empirical result of this paper, the coefficient of *IRD*, measured by the ratio of R&D employee number to total employees is statistically positive upon market entry ratio. The empirical results is similar to some early studies, including Chen, Chung & Yang (2002), which stress that industries with higher R&D intensity comparatively have a broad room for driving new-firm entry. As in the case of other NIEs, Taiwan lacks a solid technological knowledge base, but we can expect that entrepreneurs in Taiwan will generally demonstrate an ability to adapt. The task for entrepreneurs in identifying market opportunities can be classified into 'ordinary' and 'extraordinary' discoveries. Ordinary discoveries involve making the discovery whilst keeping the system largely unchanged. This kind of entrepreneurial activity merely exploits market opportunities and can be referred to as 'adaptive entrepreneurship'. In contrast to adaptive entrepreneurship, extraordinary discoveries involve the uncovering of hidden opportunities in the market by entrepreneurs, leading to a change in the system. Obviously, such 'extraordinary entrepreneurship' comes close to the Schumpeterian idea of entrepreneurship.

Table 6 demonstrates that the coefficient of IEX in the entry equation is negative. This study lacks statistically significant evidence to explore whether an industry associated with high export orientation tends to yield market deterrent effect. This empirical result is also similar to Chen, *et. al.,* (2002), in which the coefficient of industrial export propensity is negative at marginal significance.

The coefficient of MES in the entry equation is statistically negative at 5%, indicating that MES is important in determining firm's entry rate. The minimum efficient scale varies substantially across industries. Entrepreneurs need to start a new firm usually at a suboptimal scale (Audretsch, 1999). The starting scale is usually linkage to MES in order to avoid the scale disadvantage.

– Inducement Conditions

Market growth (*MARG*) is defined as the change in value of shipments over the period divided by shipments in the initial year if a market experience positive growth, there should be incentives for the potential firms to entry. In Table 6, the coefficient on market growth is significantly positive at 1% in the entry equation, indicating that the empirical result is consistent with the presumption. Market room (*MARR*) is the percentage increase in the number of minimum efficient scale-sized firms that could take place due to growth in the market. The increase in market growth referring the future potential has to be tempered with the size of firm to fit in such markets. In Table 6, the coefficient on *MARR* is significantly positive in the entry equation, confirming the presumption.

Finally, one of structural characteristics of industries, *INDS*, is measured by the industrial scale in terms of numbers of employees. As the presumption of this paper, the coefficient of INDS is positive on market entry rate. Taking this in the context of networking, we may argue that the influence of an industrial scale upon market entrants mainly depend their networking relationship rather than the absolute scale. In this paper, *GH*, the industrial spatial agglomerations, refers to the networking relationship of firms. As in Chell and Baines (2000), the advantage of firm owner-manager's networking is to draw upon information, advice and assistance from a large, diverse pool. Accordingly, given the extent of networking relationship, an industry with more industrial scale leads to have higher market entry.

In summary, the empirical evidence from Taiwan's manufacturing industrial sectors is generally in line with other early studies for identifying entry barriers and inducement conditions. The important contribution of this study is to highlight the significant role played by the industrial agglomeration in reducing entry barriers. An industrial cluster cannot be simply regarded as the spatial agglomeration of firms, but the formation of inter-firm business networking. Industrial clusters facilitate the information diffusion of markets and technologies and also benefit firms in the labor market pooling. These advantages from industrial clusters also help new entry firms in overcoming entry barriers. There are some important policy implications related to entrepreneurship behind this work, especially for new industrializing countries in the age of the knowledge-based economy.

CONCLUSIONS

The purpose of this paper is twofold. First of all, drawing on Chell and Baines (2000) which stress on networking relationship on fundamental entrepreneurial behavior, and Lechner and Dowling (2000; 2003) which underlines the spatial proximity of industrial clusters as firms' network relationship in essence, this study presumes that firms' spatial proximity should be positive on new ventures. We use the Taiwan's manufacturing industry database to examine the determinants of industrial market entry over two periods of 1992-95 and 1992-97. The determinants are grouped into sets, namely entry barriers and industrial inducement conditions.

In this study, the entry barriers characterized by capital intensity, R&D intensity, export propensity, scale disadvantage, industrial concentration and spatial agglomeration, and the industrial inducement condition includes market growth, market room, and industrial scale. Generally, the empirical results are in line with the early studies. The more interesting result is that the role played by an industrial cluster can effectively reduce entry barrier, indicating that industrial clusters not only enhance the firms' productivities, but also promote new ventures. More preciously, clusters may induce entry in two forms, which are new start-ups by entrepreneurs and diversification by existing firms. There is no telling which form is more important in driving the industry dynamics, but the factors that give rise to each form of entry may be different.

Secondly, it is welled accepted that industrial clusters cannot simply be regarded as firms' spatial agglomeration, but the inter-firm linkage relationship should be emphasized. A successful industrial cluster is able to facilitate the diffusion of technological and market information across clustering firms, effectively to reduce the transactional costs, and further to drive new ventures.

From the empirical results, an industry R&D intensity have high market entry rate in Taiwan, demonstrating that even lacking a solid technological knowledge base, entrepreneurial activity in Taiwan may gradually shift from merely exploit of market opportunities, adaptive entrepreneurship, to extraordinary entrepreneurship referring to the discovery of hidden opportunities in the market. Innovation is an important means of competition leading to constructive destruction; thus, when innovation ceases, competition degenerates into a price war. The main feature of modern industrial clusters may therefore be a shift from

cost-saving competition to innovation competition, particularly in this era of globalizations of production and even international R&D investment. In the age of the knowledge-based economy, innovation actually stands out at the canter of market competition.

This study especially emphasizes that the inter-firm linkage should play a critical role in an industrial cluster. Some policy implications result from this research is that support of new venturing should focus on emerging networks linking firms rather than on individual firms. And if local systems are to match the global organizing of economic activity, aggressive use of proximity to promote mutual learning and joint knowledge creation through business-social-network exchange should be necessary. In the era of production globalization, the policies should be designed by developing countries to leverage multinationals' foreign affiliates in an industrial cluster to establish both local and cross-border industrial linkages.

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THE MULTIPLE SOURCES OF AUTONOMY AS A STARTUP MOTIVE

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Autonomy is a primary motive for a large majority of small business starters. However, as an explanation of why people want their own (autonomous) business it is largely circular. Therefore we focus on an explanation of the autonomy motive itself. As the current literature of autonomy as a startup motive is limited as well as weakly developed, we provide a theoretical and empirical exposition of autonomy as a startup motive. Specifically, it is questioned why small business starters want autonomy. In answering this question a distinction is made between proximal and distal reasons for wanting autonomy. The motivation for autonomy can be an end in itself (proximal). The small business starter is then motivated by the decisional freedoms and responsibilities with regard to the what, how, and when aspects of work. Autonomy can also be instrumental for the fulfillment of other motives (distal). We discern the following distal autonomy motives: resistance towards bosses or rules, self-congruence/self-endorsement, and power/ control. Our framework is confirmed studying a sample of 167 nascent entrepreneurs motivated by autonomy. The findings suggest that beneath the surface of small business starters striving for autonomy, they differ in their relative emphasis on the underlying sources of the autonomy motive.

“Both [entrepreneurs] articulated goals of personal independence and fulfillment. For White, independence meant security in that he was in control of his destiny; for Dean, it

meant the freedom to accept challenges and do what interested and enthused him" (Pitt, 1998, p. 392)

INTRODUCTION

The economic importance of small businesses in general and newly started businesses in particular is widely acknowledged nowadays. Research has shown that the small business sector has a large share in creating growth, innovation, and employment, with the share of newly founded businesses being especially large (Audretsch and Thurik, 2001; Carree and Thurik, 2003). This can be considered an example of Adam Smith's invisible hand operating. How important growth, innovation, and employment may be important from a macro point of view, they are not what motivates the large majority of business starters themselves. A minority may have growth and innovation ambitions, as is established by research on nascent entrepreneurship. For example, van Gelderen, Bosma, and Thurik (2003) find that of those people who are in the process of setting up a business, 82% has no growth motivation and prefers to stay small. However, even those who have firm growth as a goal have their motives for wishing so, which are not necessarily influenced by macro-economic considerations.

What does motivate people to set up their own business has been studied extensively. One answer that prominently and consistently emerges in this type of research is that the business starter wants autonomy (also labeled as independence or freedom; Blais en Toulouse, 1990; Shane, Kolvereid en Westhead, 1991; Birley en Westhead, 1994; Gatewood, Shaver, and Gartner, 1995; Kolvereid, 1996; Feldman en Bolino, 2000; Carter, Gartner, Shaver, and Gatewood, 2003). People start businesses (amongst others) in order to be autonomous, and in many cases success of their firm is instrumental for achieving that goal. In spite of its empirically proven importance, the research that is currently available on autonomy as a startup motive is scarce. It seems to be taken for granted that small business starters want autonomy. However, the observation that small business starters want autonomy does not amount to very much. There is an element of circularity in people wanting to have an autonomous (independent) business because they want autonomy (independence). The logical next step thus becomes to focus on the explanation of the autonomy motive itself. The question why business starters want autonomy will be the research question of this paper. We will explore this question both theoretically and empirically.

The concept of autonomy

Autonomy as a startup motive

The existing literature on autonomy as a startup motive is not only small, it is also weakly developed. First, research on startup motives generally assumes that startup motives exist independent of each other. For example, Gatewood et al. (1995) find that "identification of a market need" is the most offered reason for getting into business. Although the discovery of an opportunity has motivating properties, without considering why someone would like to fill this market need not much knowledge about career reasons is gained. Because of the circularity mentioned above inherent in people wanting an autonomous business because they want autonomy, it becomes important to investigate the role of other startup motives in relation to autonomy. This is even more important as almost all small business

starters attach great importance to autonomy[1]. In fact, even a control group of non-business starters values autonomy as much as nascent entrepreneurs do (Carter et al., 2003).

Second, few efforts have been made to link autonomy to a theoretical framework. The typical approach has been to categorize empirically by means of factor analysis. In these cases a number of ad-hoc sampled items originally designated to represent different theoretical startup reasons are post-hoc labeled as autonomy. For example, Blais and Toulouse (1990) report on a 14-country study of startup motives. Factor analysis generates "need for independence" as the factor with the largest explained variance. Items originally referring to an 'independence' conceptualization of autonomy belong to the factor: (e.g., control own time; own approach to work; work with people I choose; be my own boss; lead, rather than being led). However, the same factor also includes items that theoretically were labeled as “escape” (avoid unreasonable boss), and as “accommodation” (greater flexibility in life; work with people I like).

Studies that use open response formats fare better in terms of consistency, but still define categories on an ad-hoc basis. For example, Kolvereid (1996) classifies the responses of MBA alumni for choosing either for an entrepreneurial career or for organizational employment. Of those who prefer self employment 40% lists autonomy as the prime reason. Responses such as freedom, independence, being one's own boss, and choosing one's own methods are listed as autonomy. Examples of other categories distinguished by Kolvereid are authority (15%, items such as being boss, control, responsibility), self-actualization (12%, realize dream, creative need, create something), and challenge (19%, challenging, exciting, inspiring, motivating). However, it may well be that these are motives that all require a certain degree of autonomy in order to be fulfilled. Whether Kolvereid's categorization is correct from a theoretical point of view, and whether we can arrive at an conceptualization and subsequent operationalization of autonomy that will cause (e.g. factor) analyses to generate homogeneous factors, will be investigated in this paper.

A motivational definition of autonomy

Our conceptualization of autonomy rests on the treatment of the subject by philosophers. They first point to the Greek roots of the term. Autonomy is derived from two words: self (autos) and rule or law (nomos). While the Greeks discussed autonomy with respect to the relationships between states, in the 18th century the term starts to refer to individuals (Lindley, 1986). Autonomy becomes an important theme for political philosophers as they discuss the relationship between the state and the individual. According to the large majority of the (Western) political philosophers, the state should not interfere with the autonomy of the individual (providing 'negative freedom'), and according to some, the state should even enlarge the autonomy of the individual (providing 'positive freedom', for example by providing education and jobs). Although individual differences in opinion exist on details (Dworkin, 1988), broad consensus is that autonomy means that individuals make their own choices independent of others (Metaal, 1992). People who value autonomy strive for a state of independent self determination. In this paper we will consider the three elements of this definition (independent, self, determination) as motivational sources of autonomy. Based on this conceptualization of autonomy we expect small business starters to differ individually in their respective emphasis on independence

[1] Autonomy is part of psychological conceptions of entrepreneurial orienation. EO distinguishes entrepreneurs from small business owners. However, since nearly all small business owners consider autonomy to be important, it can not be a discriminating factor.

('others do not determine what I will do'), on self-congruence ('I want to do my own things'), and power to decide ('I want to be the one that sets the rules').

These three motives all require a certain degree of autonomy in order to be fulfilled at work, implying that autonomy is instrumental for their realization. Using the distinction between 'distal' and 'proximal' motivators (Kanfer, 1990; 1994), they can be denoted distal motives for starting a business. Distal motives guide the establishment of an individual's behavioral intentions and choice between alternative courses of action. Distal constructs have indirect impact on behavior and performance (Kanfer, 1990; 1994). With respect to sources of autonomy that are more proximal to work behavior, we will elaborate on a conceptualization of autonomy that concerns task characteristics of a work situation (Hackman and Oldham, 1975). Breaugh (1999) distinguishes three so-called 'decisional freedoms' with respect to the what, how, and when aspects of work. He labels these as criteria, method, and scheduling autonomy. These aspects of autonomy are proximal motivators as they are sources of motivation located in the work itself. They are motivational constructs that control the initiation and execution of actions during engagement with the task.

For purpose of conceptual clarity, we will shortly distinguish motives from traits, goals, needs, and values. Following Winter, Stewart, John, Klohnen, en Duncan (1998), we regard a motive as a construct that explains what goals people strive for (in this case, a work situation that offers autonomy), while a trait explains how someone typically behaves. So a motive is an answer to the question 'Why?' and a trait to the question 'How?'. Consider as an example the affiliation motive and the trait of extraversion vs. introversion. Whether someone is high in affiliation motivation is conceptually independent of whether (s)he tries to fulfill this motive in a more extraverted or more introverted manner. In fact, while at first sight extraversion might appear to be related with affiliation, it might as well be that introverts are higher in affiliation motivation, as they have more difficulty establishing contact with other people.

While motives are conceptually distinct from traits, they are conceptually related to goals, needs, and values. The relation between motives, goals and needs is one of specificity. If given priority, motives can be translated into goals, and goals can induce intentional acts (Emmons, 1995). Starting a business can be regarded as intentional behavior. In this case the autonomy motive has been translated into a goal (having one's own business), which has induced particular courses of action (setting up a business). Needs on the other hand can give rise to motives, and in a following paragraph we will discuss the different needs from which the autonomy motive may derive. Values are related to motives in the sense that values have a motivational base (Schwartz and Bilsky, 1987). Values have a quality of "oughtness" in the sense that they specify how individual's beliefs about how he or she "should" or "ought" to behave (Meglino and Ravin, 1998). We will return to this issue when explaning the underlying sources of the autonomy motive.

Our motivational definition of autonomy differs from conceptualizations of autonomy as an ability. The latter is emphasized by philosophers (Haworth, 1986; Benn, 1988; Berofsky, 1995; Young, 1996) who state that a certain degree of rationality and competence are necessary conditions for exercising autonomy. As a consequence, small children and mentally handicapped are not considered being capable of autonomous behavior. Also psychologists have written about autonomy as ability. Two opposing strands of research can be discerned (Metaal, 1992). In clinical and in developmental psychology, theory and research are directed towards the promotion of autonomy. For example, in his well known life-cycle theory, Erickson (1950) states that autonomy is the central issue of the second

life phase (1,5 till 4 years old), in which the foundations are laid for later autonomous functioning. The fallibility of human rationality on the other hand has been proven repeatedly in cognitive psychology (e.g., Nisbett and Ross, 1980; Fiske and Taylor, 1984), and social psychology has brought forth some famous experiments showing the conformity (e.g, Asch, 1956, 1958) and blind obedience (e.g., Milgram, 1963) of people. The issue of autonomy as a competence will be left aside for now.

Determinants of autonomy

On account of the literature we have introduced three distal sources of autonomy (resisting rules/bosses, self-expression/self-endorsement, power/control), and one proximal source (the decisional freedom to decide with regard to the what, how, and when aspects of work). The primary point that this paper tries to make is that the freedoms associated with autonomy can be instrumental for the fulfillment of other motives. Therefore, we will focus on these sources of autonomy for which autonomy is instrumental. For literature on autonomy as a work characteristic we refer to Greenhaus, Callanan and Godschalk (2000). Since behavior is a function of both personal and situational determinants, we will discuss autonomy as a startup motive on the individual level as a psychological motivational construct; on the societal level as a cultural norm; and on the situational level as particular experiences or circumstances can cause someone to want more autonomy.

Independence: resisting constraints. One of the earliest articulators of need theory, Murray (1938) discussed autonomy in the context of rebelliousness. Murray viewed autonomy as one of several psychological needs that concerned human power, and contrasted autonomy with deference and dominance. People with a strong need for autonomy insist on not being dominated by other persons, avoid influence from others, and show impulsive, obnoxious, and irresponsible behavior (Metaal, 1992). A later motivational theory that emphasizes resistance towards restrictions is reactance theory (Brehm, 1966; Brehm and Brehm, 1981). This theory states that when people perceive that their behavioral freedom is threatened to be reduced or eliminated, they will experience so called reactance effects. This is a state of motivational arousal that leads them to protect or restore their freedom. As a result, the behavior under threat will be more often engaged in and perceived as more valuable. Also, aggression against the prohibitor may occur (Brehm and Brehm, 1981).

In the workplace, reactance effects have been studied under the heading of organizational frustration. Frustration caused by constraints in the work situation that block individuals from achieving valued work goals or attaining effective performance (Fox and Spector, 1999). As a consequence, counterproductive behavior within the organization may occur. Another consequence can be turnover, if the employee tries to become elsewhere employed or self-employed. In fact, when studied as a psychological disposition variable, reactance has been found to be related to entrepreneurial career interests (Buboltz, Woller, and Pepper, 1999). On the positive side, it should be noted that resisting constraints and restraints can facilitate personal development and fulfillment, and can be a healthy expression of a need for freedom.

The self: congruence and actualization. Two researchers that have written extensively on autonomy are Richard Ryan and Ed Deci. In their opinion, any theory of personality should include a notion of self, as it is the self that regulates environmental and interpersonal forces (Deci and Ryan, 1991; Ryan, 1993). These contextual and personal factors can function either to support autonomy or to control behavior (Deci and Ryan, 1987). There can be all kinds of controlling forces: internal to the self (e.g., drives or ego involvements),

or from outside the self (e.g., social pressure). Autonomy according to Ryan and Deci means that one acts in accordance with self-endorsed values, needs, and intentions, rather than in response to controlling factors (Ryan, Kuhl, and Deci, 1997)[2]. Thus, "autonomy refers not to independence but rather to volition – the sense that one's behavior emanates from and is endorsed by oneself" (Kasser & Ryan, 1999, p.937). Thus, autonomous behavior does not imply that one necessarily likes what one is doing - if one endorses a particular obligation or duty, there is still choice. Autonomy as a motivational construct was originally proposed by DeCharms (1968), who stated that people have a primary motivational propensity to be origins of behavior and that they constantly struggle against being confined and constrained by external forces. The prime example of autonomy is the concept of intrinsic motivation. Intrinsic motivation means that one acts for its own sake, because one likes what one is doing. Playful behavior, creative acts, and personality expression are all considered instances of intrinsically motivated and self-endorsed behavior, which are ultimately considered expressions of a generalized need for personal growth (Deci and Ryan, 2000).

Determination: power and control. The wish to be the one who is at the steering wheel and making the decisions can be subsumed under several motivational theories. The first set of theories revolves around need for power. Winter (1973) considered people high on need for power to desire influence, impact, and control. Power striving often centers on a need for dominance, reputation, status, or position (Reeve, 2001). High-need-for-power individuals tend to gravitate towards leadership positions and influential occupations (Reeve, 2001). Need for power is the prime ingredient of the Leadership Motive Pattern developed by McClelland (1975), which has been found to be predictive of leader behavior and effectiveness in small, entrepreneurial organizations (House and Aditya, 1997). However, need for power theories emphasize social influence and impact on others, while the determination aspect of autonomy merely refers to the power to make decisions, whether other people are involved or not. A set of motivation theories that touches on the determination aspect of autonomy are control theories. In these theories control beliefs direct and energize behavior. Two types of control beliefs make up perceived control: efficacy beliefs and outcome beliefs (Reeve, 2001; Skinner, 1996). An efficacy belief is a judgment of whether one is capable to perform a particular behavior; an outcome belief is a judgment whether this behavior will cause a particular outcome. While motivation can arise when efficacy and outcome expectations are high, these theories do not explain why people want control. To this end, desire for control is sometimes explained by competence or effectance motivation (White, 1959), a desire to interact effectively with the environment, to produce desired effects and to prevent undesired effects.

Our discussions above serve to show that the elements of independent self determination - resisting restraints, self-congruence and self-endorsement, and power/control - are treated distinct in motivation theories. In practice, they are likely to occur simultaneously, but empirical work has shown that these constructs can produce independent or even opposite effects in certain situations. For example, Patrick, Skinner and Connell (1993) found perceived control and self-determination to have independent effects on behavior and emotions of children in the classroom. Koestner, Gingras, Abutaa, Losier, DiDio and Gagne (1999) found individuals high on reactance ("reactive autonomy") to differ from individuals high on need for self-determination ("reflective autonomy") in their reactions to expert advice.

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[2] Deci and Ryan (1985) call their overall theory "self determination theory". In this paper we will avoid this terminology because we want to distinguish between the self-congruence and the power-to-determine aspects of autonomy

Situational determinants of autonomy. The psychological theories discussed above describe personal motivational sources of autonomy. At the same time, autonomy can be reinforced as a cultural norm. Autonomy as a cultural value means that people are socially expected to behave and think independently, and that obedient and following behavior are regarded with suspicion and contempt. Autonomy as a cultural value is interesting in the context of entrepreneurship, because over the last decades autonomy has become an ever more important value in Western societies (Abramson and Inglehart, 1995; Heelas, Lasch, and Morris, 1996; Inglehart, 1990; 1997). Autonomy as a cultural norm can be considered as part of a broader syndrome of behavior called individualism (Hofstede, 1980, 1991; Triandis, 1995). All distal autonomy sources are part of this syndrome, but also other features link conceptually with entrepreneurship,, such as the ability to innovate and the importance of being successful (need for achievement). Thus, individualization processes should increase the perceived attractiveness of self-employment. As individualists strongly prefer working environments in which rewards are distributed individualistically (Triandis, 1989), and in which they can express their individuality, the popularity of self-employment will only increase.

Psychology points to the various antecedent motivational sources of autonomy, and sociology points to the influence of collective norms. We should not lose sight of the fact, however, that in many cases the wish for autonomy is determined by the characteristics of the particular situation the business starter was in before starting his business. A particular boss or particular rules can cause someone to start his own business without having a generalized aversion to bosses or rules. Similarly, limited possibilities for personal expression and limited power and influence can cause someone to want more autonomy without necessarily having a generalized need for self-endorsement or for power.

In our empirical section, we try to determine if indeed business starters want autonomy for instrumental reasons. By an open response format, we investigate the relative prevalence of the various distal and proximal sources of autonomy. Our hypothesis is that there are two types of motives: One proximal motive associated with task characteristics (decisional freedom), and three distal motives for which autonomy is instrumental (to avoid a boss or restrictions; to act in a self-endorsed and self-congruent manner; and to be in charge).

METHOD AND RESULTS

Sample

Our sample consists of 167 persons who were nascent entrepreneurs in 1998 (interviews were conducted in 2001). Nascent entrepreneurs are people who are busy setting up a business. We chose to use a sample of nascent entrepreneurs because we wanted to conduct a study for all people who try to start a business, not only those people who currently run a business. Our sample is free from survivor bias in the sense that it includes people whose business is not currently operational. Of our sample, 60% had succeeded in setting up a business and was still in business, 10% had succeeded in setting up a business but was already out of business, and 30% had not succeeded in setting up a business. The sample was collected in 1998 by randomly calling phone numbers. The person who answered the phone was asked: are you currently, alone or with others, setting up a business? If the person answered affirmatively, two exclusions were made. First, it is essential to be active in setting up a business. If he or she is only dreaming about starting up a business, he or she was considered a potential entrepreneur instead of

a nascent entrepreneur. Second, someone who set up a business that is already operational, even though in a start-up phase, must be considered an entrepreneur instead of a nascent entrepreneur. In this manner, a random and representative sample of 517 nascent entrepreneurs was created. Because the sample of 517 nascent entrepreneurs had been studied in four waves of previous research, a multitude of data was available on every person.

For this study, we felt that a sample out of the complete sample would suffice. During follow ups since the start of the project, 33 persons had stated that they did not want to be contacted anymore. In the fall of 2001 the remaining 484 persons were contacted three times by telephone. In total 193 persons were interviewed (24 persons refused to participate). The final sample consisted of 167 persons who stated that autonomy was important to them (in the context of starting one's own business). In terms of non-response, participants showed no difference with the remaining sample in terms of age, education, business success (getting started/abandoning the startup effort), and business ambitions. There was a significant difference in age however: participants were on average 37 years old, non-participants 35 years old.

Disadvantage of this procedure is that people needed to remember in 2001 why they wanted to start a business in 1998. Whether people were able to come up with an account was tested and confirmed in a pilot study (n=20). Still, perception of relevant motives etc. might have changed in the meantime. On the other hand, it might also be possible that people offer more accurate information looking backwards because of having a helicopter view instead of being in the middle of it. Table 1 gives some sample characteristics.

Table I Sample characteristics (N=167)

Procedures and classifications

Data was collected using semi-structured interviews. The research question, why people want autonomy, was approached in two manners: indirect questions using an open response format, and direct questions using 4-point-scales. Pilot studies showed that a direct approach using open questions was not viable. In these pilots, respondents were first asked what autonomy meant to them. Then they were asked why they wanted the particular aspects they just mentioned. The large majority of respondents was not able to answer the question. They typically either did not answer the question at all, or they repeated their answer to the first question (e.g., Q: what does autonomy mean to you? A: that you can make your own decisions. Q: why do you find that important? A: because then you can make your own decisions). Besides the fact that autonomy for many people is an end in itself, we believe its high level of abstraction causes the difficulty which respondents had with this question. Indirect evidence (not asking about autonomy directly) was obtained by asking the respondents to tell the story of their startup effort: How it started, what happened, and how it ended up. The respondents were also asked about their motives for setting up a business, their goals and the advantages of self-employment as compared to organizational employment. Up to this point the interviewee did not know that the phone interview was about autonomy. Then, the respondents were asked whether autonomy was important to them (in the context of starting one's own business). If not, the interview was discontinued.

If autonomy was considered to be important (as stated above, this was the case for 167 out of 193 persons), they were asked what autonomy meant to them. This question functioned as a second indirect measure of the sources of the autonomy motive. Table 2

gives an overview of their answers. Row 1 gives the frequency of the answer “freedom” without reference to a work aspect. Proximal motivational sources of autonomy are decisional freedoms with respect to the what, how, and when aspects of work (Breaugh, 1999) (rows 2 and 3 in Table 2). Compared to previous research on autonomy in the workplace, which typically is conducted with employees, business starters emphasize one more aspect: responsibility for decisions and results (row 4 in Table 2). For the expression of the distal motivational sources reference was made to autonomy as being instrumental to the fulfillment of other motives (rows 5, 6 and 7 in Table 2: to avoid a boss or restrictions; to express one's personality and creativity; to be in charge). Still some other meanings were expressed (row 8), notably the instrumentality of autonomy for the appropriation of income. The validity of our research framework is supported by the limited frequencies of meanings outside the framework. Respondents could give as many meanings as they liked.

Table 2 Meaning of autonomy to respondents

Using the total of the indirect questions, respondents were coded as to whether they emphasized a distal source of autonomy. For example, people would be scored for the power motive if someone would indicate that he or she started a business because he or she felt a lack of decision power in his or her previous job. Answers to the question what autonomy meant to the respondents were also used as a basis for classification. Answers reflecting proximal autonomy were distinguished from answers reflecting distal autonomy by means of the particular terminology used in giving the description of autonomy (e.g., “that you can make your own decisions” would be scored as an proximal aspect, while “that you are at the steering wheel” would be scored as a distal power/control motive). The avoid boss/rules motive was scored for 71 persons (43%), the self endorsement/congruence motive for 55 persons (33%), and the power/control motive for 57 persons (34%). Note that people can score on more or less than one motive. In fact, 14 persons (8% of sample) scored on all three motives, 63 persons (43%) scored on two motives, 72 persons (38%) scored on one motive, and 18 persons (11%) scored on none of these motives.

In the third part of the interview the strength of the distal sources for wishing autonomy was quantified. For example with respect to the avoid boss/rules motive the respondents were asked: "one reason to consider autonomy important could be that you dislike working under a boss or to work under externally imposed rules. To what extent does this apply to you". Then a 4-point scale (not important, neutral, important, very important) format was read out to the respondent. A question about the value attached to autonomy as an end in itself (row 1 in Table 2) was added to this list of motives. Table 3 gives the means and standard deviations of the motive scores derived from the 4-point-scales.

Table 3 Frequency distributions of the distal motive scores

The frequency distributions show that the avoid boss/rules motive is not present for half of the sample, while being important or very important to nearly the other half. The other motive sources are generally considered important. Chi-square analysis shows that the open question-categorizations and the 4-point-scale scores are significantly associated: avoid boss/rules chi-sq 28.13, $p<.01$, endorsement/expression chi-sq. 11.91, $p<.01$, decision control/power chi-sq 8.64, $p<.05$. When looking at the 4-point-scale correlations, it can be seen that the power motive correlates negatively with the boss/rule avoidance motive ($r=-.30^{**}$). This is also the case with the open format results (chi-sq 11.90, $p<.001$). This result is interesting as it indicates that it does not necessarily mean that people want

decision power themselves when they dislike being ordered, and vice versa. Using the open response format motive scores as dummy variables, we checked for associations with other variables in the nascent entrepreneurship dataset. The power motive was positively associated with being male (chi-sq 6.76, $p<.01$), with being higher educated (chi-sq 4.58, $p<.05$), and with the amount of intended startup-capital (t-value 2.19, $p<.05$). The self endorsement/expression motive was positively associated with starting out in retail/trade (chi-sq 11.23, $p<.01$), and negatively with starting out in business services (chi-sq 4.44, $p<.05$). There was no association of any of the three motives with eventual success in setting up a business.

DISCUSSION

One of the most important drivers for self-employment is that people want to run a business themselves instead of working for someone else. A large majority of small business starters like to be responsible, to decide on strategy, to decide on working methods, and to regulate their own time. This is called autonomy. Still, our exploratory research indicates that small business starters differ in their relative emphasis on reasons why they like autonomy. Many like autonomy for the sake of autonomy itself. However, at the same time, the operational aspects of autonomy are necessary conditions for the fulfillment of other motives. People like the freedom associated with autonomy, but they also need freedom as a necessary condition for the fulfillment of other motives. Some are motivated by negative freedom, in the sense that they generally dislike or are currently experiencing a difficult boss or unpleasant rules. Others emphasize the fact that self-employment offers the opportunity to work in accordance with one's goals, values, and attitudes. Still others emphasize the opportunities that self-employment offers for being in charge, for directing, and for leading instead of being lead. Our empirical work shows that these are the main underlying sources of the autonomy motive. They are conceptually associated and often simultaneously present; still when interviewing small business starters about how they got into starting a business it is often easily noticeable that the interviewees emphasis mainly one or two of these sources. So Kolvereid (1996) was indeed correct in distinguishing autonomy, authority, self-realization, and challenge. He has left implicit, however, that these motives might have specific underlying relationships.

An obvious next step is to develop a questionnaire for each motive source in order to conduct a confirmatory factor analysis that might corroborate the motive source pattern that was distinguished and found in our study. Furthermore future research should establish whether the presence of more or stronger motive sources strengthens the autonomy motive as a whole, or whether one must think of the emphasis on motive sources as profiles (Law, Wong, and Mobley, 1998). For the moment, our research only points at the presence of different sources of the autonomy motive. This already has a number of implications.

For people who train small business owners, it is important to know what aspect a trainee who is motivated by autonomy emphasizes. Trainees can claim to be motivated by autonomy as an end in itself while at the same time instrumental, distal sources are operating. These sources bring along their paradoxes and pitfalls. Persons who resist bosses and rules now must be a boss and set rules themselves. Their resistance of constraints and restraints might make it difficult for them to deal with the pressures of customers and suppliers. People who want to express their personality and creativity in their work might be so busy and occupied that there will be little space left for personality

and creativity expression. Moreover, their focus on self endorsement and congruence might make it difficult for them to deal with controlling forces and circumstances that small businesses are often confronted with. People who want autonomy because of the power and control it brings them may find that as a small business owner they often have very little control, if only because they have to deal with several types of uncertainty. A focus on power and control might also make it difficult to empower employees and to retain a relaxed attitude. Trainers and educators in the small business field can make their clients and students aware of these tensions and help them to find appropriate ways of coping.

From a research perspective the differential impact of the multiple sources of the autonomy motive is interesting as it illustrates that distal constructs are not irrelevant to studying small business owners. The study of distal constructs such as personality traits is generally considered to be outmoded in entrepreneurship research (Delmar, 2000), and has been replaced by more proximal constructs such as attitudes or behavior (Rauch and Frese, 2000). However, this research shows that while on the proximal level all may appear the same, distal influences may still be relevant. For researchers who study small business motives using questionnaires, the implication is that they should either operationalize autonomy only in a proximal sense without regard to underlying motive sources (e.g., items such as "regulate own time" or "making one's own decisions"), or take all distal motive sources into account and offer items that reflect these autonomy motive sources.

For policy makers, one of the routes of achieving an entrepreneurial society is to motivate individuals to become entrepreneurs (EC, 2003). We have highlighted the fact that autonomy is an extremely important driver for small business starters, and we have discussed literature that has found that autonomy as a cultural value is becoming ever more important in Western societies. So a lack of need for autonomy is not the bottleneck - it is rather the question why many people in principle would like to start a business but will never succeed in realizing. One issue involved are the paradoxes and pitfalls involved with the various autonomy sources discussed above. Starting or running a business means that a line is drawn - within bounds it is now the small business owner who is autonomous. However, drawing a boundary will not make the outside world go away - on the contrary. Autonomous small business starters and owners deal with customers, suppliers, competitors, etcetera on a continuous basis, and in doing so need to balance their autonomy wishes with the demands imposed on them by the business environment. Freedom and constraints of freedom are at the heart of the entrepreneurial motivation and practice. The study of how autonomy driven small business starters and owners manage to attain and retain a state of autonomy is therefore an important line of future research, along with a study of the factors that threaten the experience of autonomy.

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Exhibit 1: Psychological correlates of individualization

• The belief that everyone is a unique individual
• The importance of authenticity
• The importance of individual expression, of expressing one's unique personality
• Identity and self are defined without reference to social context but rather as an independent entity
• Emphasis on personal rights and needs as opposed to obligations and social norms
• Own goals and preferences are more important than those of the group
• The importance attached to freedom of choice
• Independent development of personality, attitudes and opinions
• Truth is based on personal experience instead of on authority figures
• Therefore, innovative behavior, experimentation with opinions as well as with self image
• A hedonistic orientation
• Importance of being successful, as one is responsible himself for what one makes of life
• A certain sense of loneliness as ties with groups are loose
• Therefore, an emphasis on special friendships and romance

Table 1 Sample characteristics (N=167)

Variable	%	Variable	%	Variable	%
Sex		Education		Team	61%
- male	75	- low/middle	49	- solo	39%
- female	%	- high	%	- team	
	25		51		
	%		%		
Age		Sector		Startup capital	
- 18-24 years	4%	- industry	10%	- 0-4.500 euro	32%
- 25-34 years	42%	- trade	16%	- 4.500-22.500	37%
- 35-44 years	34%	- business	31%	euro	13%
- 45-54 years	17%	services	16%	- 22.500-45.000	18%
- 55-64 years	4%	- consumer	27%	euro	
		services		- > 45.000 euro	
		- other			
Small - large firm		Make a living -		Part time-fulltime	
- wants small firm	80%	rich	87%	- start out part	51%
- wants large firm	20%	- make a living	13%	time	49%
		- become rich		- start out fulltime	

Table 2 Meaning of autonomy to respondents

	N	% (of 167)
freedom	31	19%
making one's own decisions about work goals and methods	74	44%
regulating one's own time	39	23%
responsibility for decisions and for results	26	16%
no boss / no rules	39	23%
self-congruence / self - endorsement	25	14%
being boss / being in control	30	18%
other (e.g., earning your own income)	10	6%

Table 3 Frequency distributions of the distal motive scores

autonomy in order to achieve ...	not important.	neutral	important	very important	M	SD
independence: avoid boss/rules	83	10	43	30	2.12	1.22
self: endorsement/congruence	13	11	61	82	3.27	.89
determination: decision control/power	29	7	81	50	2.91	1.02

IN SEARCH OF COMPETITIVE ADVANTAGE HOW DO SMALL BUSINESSES FIND BUSINESS OPPORTUNITIES?

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ABSTRACT

This paper provides new insights about where SMEs can find new business opportunities. The aim of this paper is to present the sources of opportunities and organise these sources into a model which can assist SMEs in finding opportunities. It examines the different sources of opportunities at all the relevant environmental levels. The paper concludes with a proposed model that provides a comprehensive and integrative framework for exploring business opportunities.

INTRODUCTION

SMEs (small and medium enterprises) all over the world play a significant role in the economic development and growth, both in terms of contribution to gross domestic product (GDP) and proportion of the labour force employed in their host countries. Yet, those same SMEs are faced with an increasingly challenging external environment. Chen and Hambrick (1995) explain that small firms pose some advantages over larger firms, such as their ability to seek out protected market niches that are too small or not important enough for larger firms (Porter, 1980), that they are seen as quicker due to structural simplicity, streamlined operations and the limiting amount of competitive moves (Chen & Hambrick, 1995), a lack of structural inertia (Hannan & Freeman, 1984), entrepreneurial and risk orientated leadership (Hitt, Hoskinsson & Harrison, 1991) and innovativeness. This may lead to small firms possessing competitive advantages over larger firms in some cases. However, without the ability to identify new business opportunities, it is unlikely that any of these advantages may lead to sustained competitive advantage.

Timmons (2002) suggests that “in a free enterprise system, opportunities are spawned when there are changing circumstances, chaos, confusion, inconsistencies, lags or leads, knowledge and information gaps, and a variety of other vacuums in an industry or market” (p. 81). Clearly, opportunities exist in several forms that seem difficult to follow because

many of the forms seem rather complex and vague. Therefore, a comprehensive framework that legitimates the sources of opportunities would be of useful for SMEs searching for opportunities. This idea is supported by Drucker (1985) who says that successful innovations are the results from a deliberate search for opportunities. In his work he only addresses sources of opportunities which are typically discovered by entrepreneurial firms, that is innovative opportunities. To maximize the number of opportunities all kinds of business opportunities should be studied because innovative opportunities exclude a variety of productive opportunities. As Gummer (1986) implies, not only entrepreneurial firms would benefit from examining sources of opportunities, this could benefit any type of business, especially small businesses. Consequently, there is a necessity to create a framework or model targeting a variety of business opportunities for all kinds of firms.

This paper provides new insights about where SMEs can find new business opportunities. The aim of this paper is therefore to present the sources of opportunities and organise these sources into a model which can assist SMEs in finding opportunities. It examines the different sources of opportunities at all the relevant environmental levels. The paper concludes with a proposed model that provides a comprehensive and integrative framework for exploring business opportunities.

DEFINING OPPORTUNITIES

Hean, Maw and Boon (2002) describe an opportunity as a "future situation that the decision makers deem personally desirable and feasible (that is within their control and competence)" (p. 125). Firms seize opportunities to reach a goal (Seifert & Patalano, 2001). Although opportunities exist for individuals, non-profit organisations, business firms (organisational level), and governments, this paper only deals with opportunities aimed at business firms. These opportunities are known as business opportunities.

Caffey (1998) describes a business opportunity as "any package of goods or service that enables the purchaser to begin a business and in which the seller represents that it will provide a marketing plan or sales plan, that a market exists for the product or service, and that the venture will be profitable" (p. 148). This definition is too restrictive since it excludes all business opportunities that are not involved into setting up new ventures. However, Caffey's definition is important because it identifies three critical elements that need to be present for opportunities to be characterised as business opportunities. Firstly, it requires that profits be generated. Secondly, it notes that in order for an opportunity to be a business opportunity, the firm concerned has to provide goods and/or services. Finally, a relevant market for the firm's products and services has to exist. Timmons (2002) adds dimensions such as attractiveness, durability, timeliness and the creation of value to this definition. Barney (2001) introduces two more dimensions to the definition of business opportunities. He does not only include opportunities directly associated with selling products and services, but also opportunities created through strategic action and opportunities created within a firm by improving internal processes.

This leads us to define business opportunities as:

> *attractive, durable and timely chances for a firm to improve its competitive position and performance, in order to generate profit given that a relevant market exists or can be created for a firm's products and/or services.*

This definition points out that an opportunity does not necessarily have to lead to a competitive advantage (Shrivastava, 1994). Instead, every chance a firm has to improve on its position and performance, also marginally improvements, are in the true sense opportunities. Because opportunity seeking has traditionally been viewed as characteristic of entrepreneurial behaviour, the literature has only been concerned with identifying innovative opportunities. Metaphorically speaking, business opportunities can be perceived as an umbrella covering a variety of opportunities such as marketing and entrepreneurial opportunities. This implies that entrepreneurial opportunities are less inclusive than business opportunities. This is backed up by Kirzner (1997) who states that entrepreneurial opportunities differ from the larger set of all opportunities because the former requires the discovery of new means-ends relationships, whereas the larger set of opportunities involves optimisation within existing means-ends frameworks. Consequently, it is useful to also analyse the sources of entrepreneurial opportunities since these sources are an important kind of business opportunities.

CREATING A POSITIVE ENVIRONMENT FOR THE IDENTIFICATION OF OPPORTUNITIES

When a firm intends to increase the number of opportunities generated within that firm, it should consider three main issues. These are: who are likely to find new opportunities; the importance of designing a management system and infrastructure that can support potential entrepreneurial employees in finding and exploiting more opportunities; and where employees can find new opportunities. The first two issues are discussed briefly in this section. The third issue is the topic of the rest of the paper.

Research has shown that everybody can find new opportunities because the discovery of opportunities is situation-specific (Shane, 2000). However, to discover new opportunities in a particular field, it is necessary to have a minimum level of technical knowledge within that area (Shane, 2000; Tan, 1998). Unfortunately, for firms who want to hire employees that are more likely to find new opportunities, these empirical findings only provide a sketchy picture of which people to employ. Therefore, Hargadon and Sutton (2000) suggest that firms who specialise in innovation hire people with varied skills, interests and backgrounds. This is based on the assumption that greater diversity promotes creative and innovative ideas (Esty, 1988). Various researchers suggest that such potential employees are identified by measuring them against a list of typical characteristics, such as resourcefulness, creativity, visionary, optimistic, being an independent thinker, hard worker, an innovator, a risk taker, often a leader and finally, someone who can recognise and take advantage of opportunities (Min, 1999).

Even if the firm has managed to locate employees who have the ability to find new opportunities, the firm's management system and infrastructure must be constructed so it can enhance the innovative abilities of their employees (Hornsby, Naffziger, Kuratko & Montagno, 1993). Stevenson and Gumpert (1985) point out that the strategic orientation of the firm should be driven by the perception of opportunities. They also emphasise action-oriented behaviour as favourable, and stress that a flat management structure with multiple informal networks are likely to enhance entrepreneurial behaviour. The firm must provide enough resources for and support to the employees (Quinn, 1999). This also involves time available for the employees to incubate their ideas (Hornsby, Naffziger, Kuratko & Montagno, 1993). Barringer and Bluedorn (1999) argue that it is important to have a high level of employee involvement at all levels and that the control system should

reward creative behaviour. Other authors suggest streamlined procedures, delegated and challenging tasks, encouragement of small innovations, proper rewards (Quinn, 1990), top management's active involvement (Radnor & Robinson, 2000), allowing employees to fail, job autonomy, flexibility (Tan, 1998), and providing employees with multiple mentors (Krueger, 2000). Once the firm has put the right employees and environment in place to facilitate the identification of opportunities, it can investigate the sources of opportunities. This is done in the subsequent section.

SOURCES OF OPPORTUNITIES

This section identifies how individuals or groups can find new opportunities which may ultimately improve its competitive position and performance. The sources of opportunities discussed in this section aims to create awareness of where potential opportunities may be discovered. Opportunities are found on two levels, namely the macro environmental, and the industry and firm level (Drucker, 1985). Most of the sources of opportunities can be organised into one of the two categories described above, but a few exceptions exist. These are termed universal sources of opportunities, which exist at both levels. To prevent repetition, these sources of opportunities will be presented separately; whereafter the macro, and industry and firm levels will be examined.

Universal sources of opportunities

Five different sources of opportunities can be labelled as universal sources of opportunities. These sources of opportunities are found at both the macro environmental level and within an industry and firm. These sources of opportunities are new knowledge, technology, unexpected occurrences, incongruities and old ideas and are presented next.

Drucker (1985) describes **new knowledge** as the "superstar of entrepreneurship". Innovations inspired by this source of opportunity can result in the creation of new goods and services, the introduction of methods of production, the utilisation of new sources of supply, the restructuring of industries, and the creation of new markets and regions (Schumpeter, 1934). Innovations based on new knowledge do not need to be scientific or technical, for example new knowledge about how to organise a firm better may be just as valuable as a technical innovation. Drucker (1985) proposes that new knowledge involves the greatest opportunities since these opportunities are likely to entail innovations attached to earning (Grammar?) the most money and gaining the most publicity. On the other hand, these innovations also have the longest lead times, are capricious, hard to manage, volatile and involve considerable uncertainty. New knowledge is never based on one factor, but on the convergence of several kinds, mostly independently invented. Further, inventions based on new knowledge require careful analysis of all the necessary factors required to bring forth the innovation. These are social or economic factors, perceptual factors and the knowledge itself (Drucker, 1986). The purpose of the analysis is to identify factors that are not yet available for the new invention, and thereby explore whether these missing factors can be produced. If all the knowledge is not available, then the innovation is premature and will fail (Drucker, 1986).

Dess, Ireland, Zahra, Floyd, Janney and Lane (2003) recommend that three types of new knowledge are products of the interaction between the enterprise and acquisitive learning and experimental learning. Firstly, technical knowledge facilitates the enterprise with knowledge about the properties of specific activities, which may be used to refine products

and processes. Secondly, integrative knowledge is a “product of how the firm has learned to creatively and uniquely combine its idiosyncratic resources and capabilities to create value” (p.357). Thirdly, exploitive knowledge is the skill of uncovering new ways of creating value by effectively applying the firm’s technical and integrative knowledge set. Zahra, Nielsen and Bogner (1999) advise firms to capitalise on the three types of knowledge mentioned above in pursuit of competitive advantage. In combination, the benefits from these three types of knowledge can significantly strengthen the firm's market and financial position.

Shane (2000) suggests that **technological change** is the basic cause of opportunity. Those firms who are not fast enough to respond to new changes will experience problems. A typical example is in the case of disruptive technology (Bower and Christensen, 1995). Here the technology will change the rules of the game, in which often result in the incumbent firms loosing in the competition because they are not able to adapt to the changes. Consequently, for those firms, often small, start-ups, low cost providers, the disruptive technology represents an opportunity (Utterback, 1994). Though technological changes do not have to involve as drastical consequences as being disruptive to cause opportunities to arise. In fact, small and simple ideas may in many instances transform into great opportunities. If a firm introduces technological innovations, this represents an opportunity in itself. New products with unique features will strengthen both a firm’s strategic position and performance.

It is also advisable to revise **old ideas**. Hargadon and Sutton (2000) revealed that the best innovators systematically use old ideas as the raw materials to find new ideas. They recommend firms to take one idea which is commonplace in one area and move it to a context where it isn’t common at all, which is referred to as knowledge brokering. To exploit this source of opportunity, Hargadon and Sutton (2000) advise firms to systemise the process of playing around with and passing around old ideas in the organisation so that they can be applied to less obvious contexts, and thereby discovering new opportunities. When using old ideas to find new opportunities, the firm could either take a proactive or reactive approach. An example of the latter is a firm who takes another firm’s products or services, and introduce competing and substituting products and services. An example of a proactive approach in terms of copying others’ ideas, would be a firm that adopt other firms’ products or services and develop these products and services further so that the copying firm can launch an improved and superior version of what the other firms are offering.

Based on empirical research, Franklin (2003) demonstrates that innovations that take advantage of random events clearly generated more successfully ideas than ideas created by following trends, mental inventions constructed, need-, and solution spotting and finally market research. Drucker (1985) classifies this source of opportunity as **unexpected occurrences**. He suggests that this source of opportunity is often showed as problems/failures or successes in firm reports. Thus, unexpected occurrences are easily recognisable and highly practical for enterprises as deviations occurs frequently in most firms’ accounts. Drucker (1986) states that to benefit from this source of opportunity, substantial knowledge and expertise within the business are required. He continues to explain that he believes that such a task suits large enterprises best because these large firms often understand what he describes as the “big picture” better than small firms. Unexpected occurrences can be exploited by those acting quick and correctly. An easy approach to begin with is to exploit the deviations in the firm’s accounts since many opportunities may not be too complicated. In fact, Drucker (1985) suggests that the most successful innovations actually are simple, but focused, meaning that all firms have a fair

chance of discovering significant opportunities, both small and large firms.

An **incongruity** is defined as "a discrepancy, a dissonance, between what is and what ought to be, or between what is and what everybody assumes it to be" (Drucker, 1986, p. 72). They are described as qualitative rather than quantitative because incongruities do not manifest themselves in the firm's accounts. Four sub-sets of opportunities related to incongruities exist (Drucker, 1986). First, incongruities may exist in the *economic realities*. In other words, when industries experienced increased demand for their products and services, it is natural for the firms to expect performance to improve. However, in some cases this does not happen, and even worse, the performance may decrease. Such a situation may indicate that there exist incongruities between micro level behaviour and macro level outcomes. To illustrate this, we explain how an industry with cyclical demand that requires heavily investments may only be profitable at peak points in the industry cycle, which indicates that there may exist superior business models that are more profitable (Eckhardt & Shane, 2003). The second kind of incongruities are those who exist *between reality and the commonly assumptions about the reality*. The result is that expected events end up in observed surprises. Here the opportunity exists in simply doing what other people have failed to because of cognitive errors (Eckhardt & Shane, 2003). The third kind of incongruities exists between *perceived and actual customer values and expectations*. Here "firms fail to recognise that latent demand exists for only minor modifications to existing products or for an overlooked demographic group" (Eckhardt & Shane, 2003, p. 345). The logic behind this incongruity is that producers and suppliers often misconceive what their customers actually buy (Drucker, 1986), meaning that firms estimate the true value of their products and services higher than their customers. The final incongruity exists within the *rhythm or logic of a process*. Eckhardt and Shane (2003, p. 345) suggest that in this case, "opportunities exist for improving key steps in industry routines that have been perpetuated without question." However, this incongruity is in most cases only available to people within the industry or service. Therefore, the opportunity exists if the invention can be transferred to the focal industry (Eckhardt & Shane, 2003). Many firms may perceive incongruities as threats since the incongruities easily can lead to misinterpretation of the realities, and consequently, wrong investments, business models, products and services are introduced. However, for those firms that actually understand the underlying incongruities, this represent a great opportunity which can strengthen both the firm's competitive position and performance This is based on the assumption that the one firm is the first to recognize the incongruity and react to it, while the other firms may have difficulties in copying the first firm since these other firm may not understand why changes are being carried out.

In summary, the universal sources of opportunities discussed above are new knowledge, technology, the revising of old ideas, unexpected occurrences and four kinds of incongruities. These sources were said to exist at both the macro environmental level and at the industry and firm level. Finally, it was suggested that all these sources represent vital areas that firms should explore to find new opportunities.

Macro environmental sources of opportunities

According to Drucker (1986) macro environmental sources of opportunities are external to the firm in the way that a firm has no or little chance of influencing them. Such sources are government actions, demographics, geographies, perceptional and sociological changes and finally consumer economics, though it may be argued that the firm in some instances can affect the consumer perception.

Stevenson and Gumpert (1985) suggest political action and regulatory standards as a source of opportunity. This is what Eckhardt and Shane (2003) describe as **government action**. This action appears in three broad categories, political, legal and economic actions. Saloner, Shepard and Podolny (2001) provide examples from the macroeconomic environment where the government intervenes: taxes and subsidies, international trade rules, regulations, price controls, antitrust laws and information provision. Clearly these external factors represent opportunities, for example imagine a government deciding to increase subsidises to families with children under three. Firms aiming at selling goods to small children families will find that these families currently can afford more exclusive products and are able to purchase more products. Consequently, the increase in demand provides these firms to harvest from the opportunity.

Drucker (1985) suggests **demographic changes** to be the most reliable source of opportunity outside the firm or industry because demographic events have known lead times. Eckhardt and Shane (2003) illustrate this by describing the aging of the baby boomers to cause new opportunities. Firms aware of this aging follow the distribution of age and will act proactively by reallocating resources from products and services aimed at children to tailor products and services for the elderly. Still, although managers have known for a long time that demographics are of severe importance, the conviction is that population statistics change very slowly. Drucker (1985) argues that this is not the case for this century. He also suggests that innovations exploiting demographical changes are amongst the most “rewarding and least risky entrepreneurial pursuits” (Drucker, 1985, p. 70). Therefore, managers should examine how demographics affect their business so that opportunities can be discovered.

Geographies can also be categorised as a source of opportunity because there are many opportunities to be found within this area. Czinkota and Ronkainen (1990) suggest a variety of reasons why firms should internationalise. Firstly, international sales may be a source of higher profit margins or of more added-on profits. A second stimulus emanates either from unique products or from a technological advantage. A firm may produce goods or services that are not widely available from international competitors or may have made technological advances in a specialized field. Another motivation could be if the firm hold exclusive information about foreign customers, marketplaces or market situations that is not widely shared by other firms. Finally, Czinkota and Ronkainen (1990) suggest that firms may wish to go abroad to obtain tax benefits or utilise economies of scale.

Change in perception of current or potential new customers is by Drucker (1985) suggested as a source of opportunity. He argues that when such a change takes place, the facts do not change. Instead people’s meaning change, for example moving from seeing a glass as half empty towards perceive it as half full. By studying sociology, such as fashions and trends, firms can try to discover opportunities arisen from this source. Complementary to this Stevenson and Gumpert (1985) emphasise social values as one of the sources for opportunities. They say, “social values define new styles and standards of living” (Stevenson & Gumpert, 1985, p. 87). It is not necessarily economics that dictate such changes, and in many cases it does not have anything to do with economics. For example, due to the extermination of rhinos, people in general do not buy souvenirs or other articles made of rhinos, even though it is available. When firms experience unexpected success or failure, this can in many cases be an indication of a change in perception and meaning (Drucker, 1986).

Stevenson and Gumpert (1985) suggest **consumer economics** as a source of opportunity. It alters both the ability and willingness to pay for new products and services.

For example, during economic periods of prosperity, consumers typically increase their demand for luxury goods. Though it is unclear whether consumer economics is a source in itself because consumer economics highly correlates with the overall economy. This implies that it may be more accurate to display overall economy as a source of opportunity instead of consumer economics. Since the effects from both sources are similar when it comes to the opportunity consequences for the firm, it is enough to only represent this cause and effect relationship through one of the sources of opportunities. For that purpose consumer economics has been selected since its description is more targeted towards what is the opportunity for the firm than just using the term overall economy.

In summary, the sources of opportunities discussed above are government actions, demographic changes, geographies, changes in perception and consumer economics. These sources of opportunities are all part of the macro environmental level and it was recommended that firms examine all of them, even though some may seem irrelevant for the firm.

Industry and firm level sources of opportunities

Six sources of opportunities exist purely at the industry and firm level. According to Drucker (1986), two of these sources of opportunities are process needs and industry changes. The result of Hills and Shrader (1998) empirical study suggests that customers are an important source of opportunities for the majority of business firms. Love and Gunasekaran (1999) indirectly propose suppliers as a source of opportunities by discussing the importance of cutting costs and improving quality through collaboration with suppliers. The two final sources of opportunities at this level are rivalry-related and internal-directed sources of opportunities.

Industry changes entail opportunities to arise due to the requirements of reallocating resources to respond to the new industry structure (Drucker, 1985). Such changes within an industry are commonly perceived as threats by incumbent firms, which frequently respond conservatively to structural changes by defending what they already have with traditional tools like for example lowering prices or increasing marketing instead of adjusting their business model towards the new situation (Utterback, 1994). However, “new opportunities rarely fit the way the industry has always approached the market, defined it, or organised to serve it” (Drucker, 1985, p. 70). As a result, incumbent firms frequently fail to prevent newcomers to establish as in the case of disruptive technology. While the insiders often neglect the new opportunities and do not reorganise their business, industry changes are often highly visible and predictable for outsiders, and consequently it represents an indisputable source of opportunity. Barney (2001) explains that the kinds of opportunities a firm can expect to discover at the industrial level depend on the industry structure and life stage. In his book, Barney provides a list of opportunities depending on the nature of the industry. For example, firms operating in emerging industries may try to benefit from first-mover advantages to gain technological leadership, pre-empt strategically valuable assets or create high customer switching costs. Therefore, firms that understand the nature of the industry they operate within, or moving towards, are more likely to take advantage of this knowledge and discover new opportunities.

Opportunities related to **process needs** start out with the job to be done, focusing on the task rather than taking a situational orientation. “It perfects a process that already exists, replacing a link that is weak, redesigns an existing old process around newly available knowledge. Sometimes it makes possible a process by supplying the missing link” (Drucker, 1986, p. 85). Typically for process needs, everybody in the firm are aware of the

need to improve the process, but seldom anyone reacts to this need. Hence, when someone solve the problem and presents the new innovation, everybody instantly accept the innovation as being obvious and as a result, it becomes the standard. Such an invention is the discovery of common platforms, which means to share common production processes and components (Robertson & Ulrich, 1998). It facilitates firms with the ability to tailor products to the needs of different market segments and customers. In addition, it lowers the risk since investments per product decreases. Moreover, it enables firms to reduce development cost and time. Finally, by sharing components across products allows companies to stock fewer parts in their production and service parts inventories, which translates into better service levels and/or lower service costs (Roberson & Ulrich, 1998).

Suppliers present a source of opportunity in the sense that they can provide the company with vital inputs such as technical advices, expertise about raw materials and they can gather information which would not have been easily accessible for the firm alone (Wright, 1999). In addition, a firm's performance depends on the quality of the supplier's materials, the supplier's capacity and ability to deliver (Monczka, Trent & Callahan, 1993). Consequently, every possibility that contributes towards joint performance to increase should be initiated. Batson (2002) recommends that co-operation between suppliers and customers, like for example customer-supplier partnerships, can result in drastically cost reductions within the value chain. Reduced costs may cause the firms strategically position to improve, and thus the performance is likely to increase or at least maintain (Barney, 2001).

The traditional marketing approach perceives **customers** as a source of opportunity. Both Flores (1993) and Thomke (2002) highlight the importance of listening to the customer and respond to their needs. Usually customers cannot identify solutions to their problems, but they can identify their problem, which is the firm's opportunity (Havener & Thorpe, 1994). However, the firm often has to identify where the opportunities are without facing specific complaints, suggestions or requests from the customers. To uncover such opportunities, a frequently used tool is data-mining. By better understanding the needs of their customers, firms can predict customers' behaviour, reveal unhidden preferences and adjust products and prices towards the customers' requirements (Peacock, 1998). In other instances, the firm is aware of the opportunity, but face difficulties exploiting it.

Rivalry-related sources of opportunities target all opportunities which arise as a result of the interrelationship between the firm and its rivals where the latter involves competitors, substitutes, suppliers and customers (Porter, 1980). Such a focus opens up a wide variety of opportunities since every industry possess its own particular features. Not any industries are equal, which means that it is not possible to produce a complete list that shows all opportunities which this source holds. It is important to describe the difference between this source of opportunities and industrial change. The latter only deals with new opportunities arising because of the new situation that occurs, while rivalry-related sources of opportunities advocate that firms do not necessarily have to wait for industries to change to find opportunities. Through examination and action, the firm can generate many opportunities by themselves. Firms in typical demand-side increasing returns industries can benefit greatly if they manage to reach a critical mass of customers (Saloner, Shepard & Podolny, 2001). Such achievement may be obtained through lock-in strategies, like for example signing long-term contracts or introduce loyalty programs (Shapiro & Varian, 1998). In other words, firms with the capability to implement such strategies should exploit this opportunity to increase their performance and competitive position.

While rivalry-related sources of opportunities has an external focus on creating new

opportunities, **internal-directed** sources of opportunities should be examined to discover whether there are areas of improvements within the firm. Every chance that arises within the firm to improve its internal processes relates to the internal-directed source of opportunity and should be exploited. Internal-directed sources of opportunities often involve opportunities that are often obvious for many managers because there is a specific problem to be solved. However, what this source of opportunity tries to signal is that firms should always attempt to adapt to best practises (Heyes and Wheelwright, 1984), and take a kaizen approach (Wright, 1999). Translated, Kaizen means continuous improvement, and is what internal-directed sources try to signal, that things can always be done better.

In summary, a variety of sources of opportunities exist within the industry and firm level. These are industry changes, suppliers, customers, process needs, rivalry-related and internal-directed sources of opportunities. The three latter sources may appear most difficult to understand. Therefore, these are briefly repeated. Process needs refers to the task of solving specific problem, which often leads firms to discover new opportunities (Drucker, 1985). Rivalry-related and internal-directed sources of opportunities targets all opportunities which the firm can create itself, like forming a tacit collusion or acquire a competitor so that competition decreases (Barney, 2001), and thereby strengthen the competitive position and the firm's performance. While rivalry-sources of opportunities aim at opportunities within the interrelationship between the firm and its rivals, the internal-directed sources of opportunities deal with operational areas within the firm that can be improved. To simplify the process of finding new opportunities, and making it easier to keep control of the different sources of opportunities, the next section introduces an opportunity-source model based on the findings in this chapter. This model is purely conceptual and should ideally be tested empirically in future.

THE OPPORTUNITY-SOURCE MODEL

Having gained a thorough understanding of the different sources of opportunities, the next step is to develop a framework that organise the opportunity-seeking process in firms. The opportunity-source model consists of two different levels, the macro environmental and the industry and firm level. Government action, demographics, geographies, change in perception and sociology, and consumer economics are inserted within the macro environment while industry change, process needs, suppliers, customers, rivalry-related- and internal-directed sources of opportunities are included at the industry- and firm level. In addition, five sources of opportunities exist at all levels, namely new knowledge, unexpected occurrences, incongruities, old ideas and technology which are illustrated through the vertical columns.

Together, all the sources of opportunities offer multiple perspectives on where to find new opportunities. This paper adopts Drucker's (1985) advice on how to interpret the different sources of opportunities by taking a metaphorical perspective. Each source symbolises a window exposing an area of where opportunities can be found. By looking through the different windows, some of the same opportunities can be seen from more than one window. However, the angle is always different, and each window shows its own unique scenery, making it purposeful to look out of all the windows if one wants to know which opportunities that are hiding outside. Such an approach is desirable since new opportunities are likely to appear when one think in new and creative ways, which is the case if a firm explores sources of opportunities that are not typically studied in that industry. As a result, firms should explore all the different sources of opportunities and not

just those sources that at first glance seem relevant to the firm.

Figure one: The opportunity-source model: where opportunities are

Macro environmental sources of opportunities	New Knowledge	Unexpected occurrences	Incongruities	Old Ideas	Technology
➢ Geographies					
➢ Politics, legislation & economics					
➢ Demographics					
➢ Sociology / change in perception					
➢ Consumer economics					
Industry and firm level sources of opportunities					
➢ Industry changes					
➢ Process Needs					
➢ Supply side (Suppliers)					
➢ Demand side (Customers)					
➢ Rivalry arena (Firm action)					
➢ Internal processes (Firm action)					

When examining the different sources of opportunities, in certain cases it may seem obvious that some of the sources of opportunities will reveal the same opportunities. For example, many opportunities that are created in the mind of the individual are sprung out from old ideas. It can involve technological issues, marketing issues, supply chain issues and so forth. In a similar vein, new knowledge is also a basic source of opportunity that are likely to reveal opportunities that can be discovered by other sources of opportunities. However, less obvious relationships between the different sources may exist.

If a firm wants to cut costs, it can take an internal focus and examine internal-directed sources of opportunities. Then the opportunity may lay in downsizing or improving operational processes (Wright, 1999). The same firm may also cut costs in a variety of other ways. By exploring the rivalry-related sources of opportunities, the firm may find that a vertical integration can reduce the costs (Malburg, 2000), at least in the short term. By relocating to areas that offer cheaper labour costs, cost may be reduced, which demonstrates that geographies can be studied for the purpose of cutting costs. Customers can also serve as an important source towards cutting costs as they may be able to identify parts of the product or service that provides minimal customer value, but that represent a substantial cost for the firm. These approaches show that not one source are the “right” or most important source to examine. In the example above, the firm had an objective it wanted to achieve, and thereby explored different sources of opportunities to find solutions on how to solve the problem. However, in many instances, the firm may instead just want to browse through the sources to see if any new ideas occur that can turn out to become great opportunities.

Such a pictorially description has three clear advantages. Firstly, firms will experience that many of the same elements will arise under the different sources, thus creating awareness that an opportunity should be explored from different angles, which raises the possibility of discovering new and unique opportunities. For example, it is likely that ideas generated by exploring technological issues also can be identified when revising old ideas, or that industry changes and rivalry-related sources of opportunities will cause the same opportunities to arise. Secondly, when searching for and discussing new opportunities, it is

easier to work with a simplified picture rather than endless pages of descriptive text, making the model a valuable complementary working tool. Thirdly, the opportunity-source model also serves as a creativity tool towards finding new opportunities. As several techniques exist to assist firms in generating new ideas (Crawford, 1997), the employment of the opportunity-model as a creativity tool relates closest to the Delphi technique (Brown, 1968; Helmer, 1966a; Helmer, 1966b). This demands for several contributors to take part in the pursuit towards finding new opportunities with the opportunity-source model. The first stage involves that each participant individually exploit all the sources of opportunities suggested by the model. They should note down their findings as key words in the model attached with a separate sheet containing a detailed description of how they interpret the sources and what the following opportunities involve. As all contributors are expected to follow this procedure, the next step is then to pass the suggestions to another participant. The receiver then starts of by interpreting the model as it is presented by the sender, and examine these suggested opportunities and sources from their own perception just based on the key words in the model. As a result, some of the interpretations will be dissimilar to what the sender intended, and thereby more ideas will be generated. Only when the receiver does not recognise more opportunities, they can read the attached descriptions of the sources and opportunities. If a gap between the sender's and the receiver's interpretations are identified, the receiver should try to add in their own viewpoints on the ideas already initiated by the sender. At the stage where no more ideas can be generated by either examining the model or the attached descriptions, the work should be passed on to a third participant which repeat the whole procedure described above. The employment of the opportunity-source model ends when no participants manage to generate new ideas. At that stage, the firm will possess a comprehensive list of suggested opportunities the firm can exploit. Evidently, the model serves as a creativity tool directly related to where opportunities can be found, making it a highly targeted tool towards finding new opportunities.

Moving from an interpretation stage of the opportunity-source model, its benefits and how it can be applied as a creativity tool, it remains to illustrate how the firm should explore the different opportunity sources. As an example, assume that a law firm wants to explore how demographics can represent an opportunity for them. The first step would be to gather demographical data, which are often public available or can be purchased if more specific information is required. Such demographics can be wealth, income, household expenditures, segmentation, gender and age distribution, crime, health, immigration and migration, cultural diversity, unemployment rate and the educational level. Having gathered the data, the law firms may find it very interesting to discover that the divorce rate has dramatically increased during the last months since this represents an important niche for the firm. A second opportunity may be to set up a consultancy department dealing with immigration issues if the firm expects the number of immigrants to increase. Thirdly, as the amount of immigrants increase, it may be advisable to employ staff with the same language skills and cultural background as the immigrants to differentiate the firm's services, and thus leverage customer satisfaction. These three examples both illustrate how demographics can be used to find new opportunities and that all the cause and relationships based on just demographics hide a great portion of opportunities. The same procedure should be applied to all the other sources of opportunities as well, to maximise the possibility of finding new opportunities. When the firm has identified all the opportunities, it has to decide which one to exploit, and how to do so. In the case of the law firm, it may be as simple as increasing the marketing concerning these services, adjust the capacity accordingly and employ the required staff, but this is highly situational, and in many cases the solution may be far less obvious.

In summary, the opportunity-source model provides firms with a vigorous tool towards finding new opportunities as it can be described as both a creativity tool towards finding new opportunities and a perspicuous illustration summarising all the sources of opportunities in one model. Still, before employing the model, it is important to be aware of which limitations it holds, which will be discussed in the next section.

LIMITATIONS AND FUTURE RESEARCH

Even though the opportunity-source model can assist firms in finding opportunities, it has it its limitations. Firstly, it does not include any information about cognitive mechanisms like for example why some people and not others recognise and create new opportunities, how people perceive opportunities differently (Baron, 1998), and how opportunities are identified and evaluated (Kaish & Gilad, 1991; Keh, Foo & Lim, 2002). This means that the model guide firms into where to search for opportunities, but not how people should think to recognise the opportunities.

Secondly, the employment of the opportunity-source model is only a first step towards exploiting new opportunities. Since the exploitation of opportunities cause change, for the outcome to be successful, it is required that the firm has the ability to implement such changes (Wright, 1999). For example, the firm needs an organisational culture supporting the exploitation of new ideas (Jarve, 1996; McCosh, Smart, Barrar & Lloyd, 1998; Searle & Ball, 2003). In addition, as recommended by Barringer and Bluedorn (1999), innovation also requires that the firm's strategic management practises support the exploitation of opportunities. Carnall (1999) therefore suggests that firms implementing major changes need to take an organizational-wide approach to successfully carry out the changes.

Thirdly, the model may not include all kinds of sources of opportunities. It is a first step towards systematising the sources of opportunities making them more visible, and creating awareness of where one can search for new opportunities. Depending on which perspective to adopt, it can be argued that employees are a source of opportunity equivalent to customers and suppliers (DeSimone, Hatsopoulos, O'Brian, Harris, & Holt, 1995). Other related sources of opportunities are trade associations, consulting firms, patents, franchises, Internet and so forth. The reason why none of these entities have been included is that the model aims at assisting firms in finding opportunities on their own, and not through a third being.

Fourthly, in addition to including more sources, it may be practical to include sub-categories of sources of opportunities into the model such as the four kinds of incongruities, all different kinds of demographics, technological areas where sources may be and so forth.

Furthermore, it may be purposeful to combine the opportunity-source model with general suggestions on how to find more opportunities from a strategic perspective. Baghai, Coley and White (1999) suggest seven strategies that may assist firm into finding more opportunities. That is to introduce existing products to existing customers and/or new customers, to sell new products and services, to develop new delivery systems, to expand into new geographical areas, to reshape the industry structure and finally to enter into new competitive arenas. By including such strategies into the model, it increases its comprehensiveness and the usefulness of the model may be leveraged.

Lastly, the model in itself has not been empirically tested. Closely related, Hills and Shrader (1999) studied what are the most employed sources of entrepreneurial opportunities. The results showed that solving specific problems and customers where clearly the most recognised sources of opportunities. The same research also indicated that technology is an important source of entrepreneurial opportunity, but that it is only selectively important towards firms operating in typical technological industries (Hills & Shrader, 1999). Other research has recommends that the solving of problems is a frequently employed source of opportunity (Bhide, 1994) which is described above as process needs. Hargadon and Sutton (2000) found that old ideas make up the basis when the most successful entrepreneurs find new opportunities. Finally, through his research, Markides (1997) examined a series of companies which have succeeded in attacking established industry leaders without the help of a radical technological innovation. He concluded that through strategic innovation, these firms managed to change the rules of the game instead of trying to play the game better, which is an important insight when employing the different sources of opportunities above.

The limitations discussed above guide the areas of future research which should be explored. Research should be conducted to not examine what are the sources of innovative opportunities as most prior research has explored, but instead study the sources of business opportunities. Such an approach may be both exploratory, so that new opportunities can be discovered, and confirmatory to see that the sources suggested in this article are valid and relevant sources. When conducting such research, the majority of the interviewees should be selected from innovative and opportunity driven firms since these firms usually are the experts in finding opportunities. Consequently, the learning outcome would be greatest by studying such firms.

Future research may also empirically test and retest the opportunity-source model to reveal the practical usefulness of it. By testing the model, adjustments can be done so that it becomes more approachable. Moreover, such a study may also reveal elements which should be included to improve the model.

A closely related approach to the opportunity-source model has already been tested by DuPont when they attempted to identify new business opportunities. The emphasis for DuPont was to create businesses that were new to the company and not simply line extensions. To do so, they developed a matrix comprising of a) macro trends and associated implied issues, and business/product needs implications b) major, transformational technologies or technology trends and c) potentially attractive markets along with associated market drivers. The result proved to be highly successful as DuPont managed to discover of a huge amount of opportunities (O'Brian, 1999). This advocates that the opportunity-source model is in fact practical useful.

A final step possible to initiate is to insert the model into a broader context including areas as cognitive processes, strategic innovation and the underlying elements within each source of opportunities as mentioned above. Such an approach would totally revitalise the model, in other words, using an old model/idea to create a new and improved model.

CONCLUSIONS

This article represents a unique contribution towards identifying and systemising the sources of business opportunities, which is described as the underlying dimensions where

the opportunities occur. It provides firms with new insight about where they can look to find new business opportunities. The findings reveal that sources of business opportunities exist at three separate levels, namely the macro-, industry - and firm level. Within the specific levels, it is proposed that the macro level comprise of geographies, government action, demographics, changes in consumer perception and consumer economics sources of business opportunities, while the industry and firm level are suggested to consist of industry changes, process needs, suppliers, customers, rivalry-related and internal-directed sources of business opportunities. In addition, five sources of business opportunities are found to exist at all levels; namely new knowledge, unexpected occurrences, incongruities and old ideas. As all these sources have its own distinctive features that can provide firms with the ability to find new and unique opportunities, it is proposed that firms should examine all the sources of opportunities and not just those apparently seeming most relevant. This article also present an entirely new creativity tool designed to assist firms in finding new opportunities. The tool, named the opportunity-source model, summarises all the different sources of business opportunities into one figure, thus offering a perspicuous picture of how the different sources of opportunities are organised. It is suggested that firm should take an approach closely related to the Delphi technique, described in the article, to get the most out of the model. Be applying this approach, the firm will find themselves with the possession of a powerful and targeted tool to assist them in finding new opportunities. Finally, recommendations for future research are that the model should be empirically tested and emphasis should be placed upon exploring whether there are sources of business opportunities that are not included in the opportunity-source model.

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COMPARING THE APPROACH TO STRATEGY-MAKING PROCESS WITH FIRM PERFORMANCE: THE CASE OF NEW ZEALAND SMEs

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ABSTRACT

This paper investigates the strategy-making practices of SMEs (small and medium enterprises) and relates it to firm performance. It does so by firstly investigating the existing literature on strategy-making in SMEs. It uses the literature to develop a typology of strategy-making processes that is useful for an empirical investigation into the strategy-making practices of SMEs. It then describes the results of the empirical study of the strategy-making practices of SMEs in New Zealand. These results were obtained through a survey of 477 managers/owners of SMEs. Two approaches to strategy-making are found to correlate with high performance, namely the adaptive participative and internal participative approaches.

INTRODUCTION

Research into strategy-making in SMEs has been haphazard, often descriptive and lacks a strong theoretical framework. Since strategic management is an applied field of business, its survival and growth depends not only on its theoretical sophistication and the rigour of its methodology, but also on its relevance to practitioners. Although studies such as that of Pekar and Abraham (1995) show that firms that are sophisticated users of strategic management are more successful than firms that have not yet acquired strategic management skills, practitioners often do not perceive such relevance (Heracleous & DeVoge, 1998). Popular belief holds that SMEs are unsophisticated users of strategic management, moreover, that they do not make strategy at all.

This perception may be a question of misinterpretation of terminology because of the preoccupation of business schools with rational approaches to strategy-making. These rational approaches to strategy-making propagate a deliberate, formal and step-by-step process (Mintzberg, Ahlstrand & Lampel, 1998). Such a view of strategy-making is

limiting, and therefore researchers of strategy and performance relationships, especially those in small or entrepreneurial firms, are suggesting one or more of three approaches of strategy-making, namely stable (planned) and slowly evolving, dynamic (adaptive) and rapidly changing and a combination of both that is more dynamic than planned, but more static than emerging (entrepreneurial) (Schwartz & Teach, 2000). Another two approaches that are identified in large firms may, however, also be relevant to SMEs. These are the symbolic (Hart, 1992) and participative (Dess, Lumpkin & Covin, 1997) approaches to strategy-making.

This paper investigates the strategy-making practices of SMEs and relates it to firm performance. It does so by firstly investigating the existing literature on strategy-making in SMEs. It uses the literature to create an understanding of the five strategy-making processes that may be useful for an empirical investigation into the strategy-making practices of SMEs. It then describes the partial results of the empirical study of the strategy-making practices of SMEs in New Zealand. These results were obtained through a survey of 477 managers/owners of SMEs. Lastly it offers a discussion of and conclusions from the results.

THEORY DEVELOPMENT AND HYPOTHESES

This section of the paper presents the background that supports the empirical study. Firstly, it introduces five approaches to strategy-making that SMEs may employ. Secondly, it investigates how these approaches may be related to performance in SMEs. Lastly, it introduces three hypotheses that will be tested empirically.

Defining strategy-making

Strategy-making is usually viewed as a rational process which is typical of the approach that is taught in business schools. Mintzberg, Ahlstrand and Lampel (1998) explain that this approach is prescriptive and advocate deliberate, formal processes that are initiated by management. A change from the single, rational approach to strategy-making can be found in the strand of strategic management literature that investigates approaches to strategy-making that firms follow. In 1973 Henry Mintzberg wrote an article called “Strategy making in three modes” which describes how strategies can be made in an entrepreneurial, planning (rational) or adaptive manner. It introduces the idea of different ways for a firm to make strategy. These ways or approaches can be used on their own or in various combinations with each other. This work of Mintzberg is the first significant reference that uses the term strategy-making although no definitive definition of the term is given. Mintzberg (1973) and subsequent authors such as Miller and Friesen (1977, 1978) and Dess, Lumpkin and Covin (1997) use the term “strategy-making” as one would use the term “decision-making”, that is, to refer to a process that is undertaken by an individual or firm. Mintzberg (1973) compares strategy-making in business to policy-making in government where the outcome of the process is an implementable policy. An important aspect of strategy-making that arises from Mintzberg’s (1973, 1978) works is that it can be viewed as different modes or approaches. The entrepreneurial, planned (also “rational” or “deliberate”) and adaptive (also “emergent”) views are just three approaches to the strategy-making process that are promulgated in the strategic management literature. Other authors describe additional approaches to strategy-making, such as the participative and symbolic approaches mentioned before.

Several issues contribute to a definition of strategy-making. Firstly, it is a broad concept that may be defined as being similar to strategic management, but which includes various approaches to strategy-making, beyond just the rational view. Strategy-making is thus a broader concept than strategy formulation or planning. Secondly, the approach to strategy-making may differ between firms. Hart and Banbury (1994) explain that "strategy-making is typically portrayed in "either/or" terms" (p. 251). An example of this is either rational or incremental processes. Lastly, it can be viewed as a process that takes place in a firm, but is strongly linked to the content and context aspects of strategic management as evident from Mintzberg's (1973) interpretation, namely that strategy-making is the manner in which firms make important decisions (process) that lead to strategies (content) within a certain environment (context) (Mintzberg, 1973). Dess, Lumpkin and Covin (1997) provide a definition that addresses these aspects and define strategy-making as

an organisational level process that encompasses the range of activities firms engage in to formulate and enact their strategic mission and goals …. [and that] include analysis, planning, decision making, strategic management, and many aspects of the [firm's] culture, shared value system and corporate vision (p. 679).

A set of approaches to strategy-making process, such as those by Mintzberg (1973), that is presented as complementary to each other is called a typology (Meyer, Tsui & Hinings, 1993) of strategy-making processes. A bewildering array of such typologies (conceptually derived) or taxonomies (empirically derived) of strategy-making processes have been developed over the past 40 years. This proliferation of typologies has produced several problems to researchers in this area. According to Hart (1991) the 'lack of methodological consistency and confusion over typologies that focus on similar phenomena from different points of view' (p. 99) is the most significant of these problems. Other issues include that limited attempts have been made to validate these typologies empirically or to test their effectiveness in a business setting. This paper uses the typology of Verreynne and Monin (2004) in which strategy-making processes are conceptualised as either rational, adaptive, entrepreneurial, participative, symbolic, or combinations thereof. This author is therefore in agreement with authors such as Hart (1992) and Mintzberg (1973) who state that these modes are not seen as mutually exclusive, and that firms may in fact be combining two or more modes at different stages of its development, or even at the same time, either in different parts of the firm, or simultaneously. Further clarification of the typology is provided in the subsequent two sections. Firstly, the dimensions of strategy-making processes will be described and used to provide a conceptualisation of their prevalence in the chosen modes of strategy-making. Secondly, the dimensions of the five modes of strategy-making will be presented.

Dimensions of strategy-making process

Strategy-making research tends to focus on opposites such us deliberate versus emergent strategy or induced versus autonomous behaviour. These opposites represent some of the underlying dimensions of most strategy-making processes (Hart, 1991). Several such dimensions have been identified, namely emergent versus deliberate strategies (Mintzberg & Waters, 1985), induced versus autonomous behaviour (Hart, 1991), vision (Hart, 1992), involvement or political versus ideologically driven (Mintzberg, Ahlstrand & Lampel, 1998), vision (Hart, 1992) and an entrepreneurial dimension (Dess, Lumpkin & Covin, 1997, Khandwalla, 1976/77). The emergent and deliberate; induced and autonomous; and political and ideological dimensions can all be placed on the opposite sides of a continuum. This section provides a brief overview of these dimensions.

Burgelman (1983) and Hart (1991) identify the difference between strategy-making processes that are induced by top-management versus those processes that present autonomous strategic behaviour by employees. Top-down behaviour implies that strategy-making is the result of the use of structure or systems to induce employees to behave in a way that is consistent with the strategy expectations of top management. Bottom-up or autonomous behaviour suggests that employees introduce improvements, business opportunities or ideas and attempt to convince managers to support these ideas (Hart, 1991).

Mintzberg and Waters (1985), on the other hand, distinguish between deliberate and emergent strategies. Deliberate strategies are strategies that are purposeful or dictated from the top, whilst emergent strategies are patterns that realise as strategies, either despite of, or in the absence of, top management intentions. Deliberate strategies form part of the formal processes of the firm and although it does not have to be carried out by top-management, it is dictated by top management and therefore top-down or induced behaviour. Emergent strategies are patterns of behaviour that realise as strategies and therefore part of the informal processes. This view posits that managers can consciously control this process, but the process can also be bottom-up driven, emergent or incremental. These patterns can therefore result from the behaviour of any employee, and may include the actions of top-managers. However, unless emergent strategies are guided by a vision (top-down), they are usually formed through autonomous (bottom-up) behaviour. Induced and autonomous behaviour and deliberate and emergent strategies seem to be similar concepts but can be distinguished in terms of two aspects, namely the ability of top-managers to guide or to harvest emergent strategies.

Various authors identify vision as a dimension of strategy-making processes in firms (Chaffee, 1985; Covin and Slevin, 1991). They describe vision as being more concerned with the broad objectives that have to be attained than the specific strategies needed to achieve these objectives. This is similar to the umbrella strategy defined by Mintzberg and Waters (1985). This vision is then translated into targets, which the members of the firm aspire to. The vision provides a frame of reference to employees and other stakeholders to understand the firm and its intentions (Hart, 1992). Vision, as it is used in this paper, refers to this frame of reference that exists in firms in the absence of a deliberate, top-down strategy-making process and not to the short statement called a vision that can sometimes be found at the beginning of a strategic plan. These two concepts may, however, be the same when carefully crafted and instilled throughout he firm.

Mintzberg (1987) identifies the perspective and ploy dimensions of strategy. A ploy can be likened to the political dimension of the strategy-making process whereas a perspective refers to the ideological or cultural dimension of a strategy-making process. Shrivastava (1986) defines ideology as referring 'to those aspects of idea systems that obscure interests served by ideas and facilitate the establishment and maintenance of domination' (p. 365). Some authors equate an ideological dimension of strategy-making to the existence of a clear and compelling vision and mission in the firm (Hart, 1992). In this case the vision provides 'meaning to the [firm's] activities and provides a sense of identity for employees…. [and therefore] defines the basic philosophy and values of the firm (Hart, 1992, p. 336). On the other side of this continuum, the political dimension can be found. This dimension refers to the involvement of the firm with its internal and external stakeholders during the strategy-making process (Richardson, 1994). Khandwalla (1976/77) identifies two dimensions that inform the political dimension of strategy-making, namely participative management and coercion. Participative management is described as the ability of a firm to utilise its human resources to ensure survival and growth, a

dimension that is mostly internally directed. He further explains that whereas 'participation and peer pressure are the means by which commitment and compliance are sought in highly participative managements, fear and dominance are the primary mechanisms by which compliance is secured in coercively oriented managements' (p. 24).

A number of other dimensions are identified. These include risk-taking (Khandwalla, 1976/77) which indicates a propensity for entrepreneurship. Mintzberg (1973) adds two further dimensions (characteristics) of modes of strategy-making to this discussion, namely time horizon (short or long term) and a proactive/reactive orientation. The next section explains the relevance of these dimensions to the different strategy-making processes identified in the previous section.

Types of strategy-making processes

The various modes of strategy-making processes each display a mix of the dimensions of strategy-making. This section provides a brief explanation of how these dimensions apply to the modes of strategy-making.

- ***Rational strategy-making***

The rational mode of strategy-making assumes that strategic decision-making takes place in a number of steps, usually the analysis of the environments, formulation and evaluation of alternatives and the choice of one or more of these alternatives for implementation (e.g., Ansoff, 1965). This approach has also been termed a mechanistic perspective (Farjoun, 2002), a design or planning mode (Mintzberg, 1973), and deliberate strategy (Mintzberg & Waters, 1982). The rational mode uses tools such as the SWOT analysis to develop strategy. It is important to strategy teaching, research and practice because of its well developed concepts, theories and models. The following dimensions of the rational approach to strategy-making can be identified, namely:

- *Induced behaviour*: consciousness of strategies is an investigation into the explicitness of corporate strategy and the commitment of managers (Miller & Friesen, 1978);
- *Deliberate strategies*: strategy-making takes place in a number of steps in which formulation is clearly followed by implementation through detailed plans, that is a rational, orderly and integrated process (Mintzberg, 1973);
- *Vision*: futurity of decisions is an examination of how far ahead the firm thinks when making decisions (Miller & Friesen, 1978);
- *Politics*: rationality does not allow for the influence of internal politics;
- *Ideology*: there is a recognition that the beliefs and preferences of the managers who formally lead the firm, may influence the outcomes of decisions; and
- *Other issues*: analysts play an important role in strategy-making and a variety of factors are taken into account during decision-making; and organisational structure follows strategy (Ansoff, 1987; Miller & Friesen, 1978).

- ***Adaptive strategy-making***

Various authors have alluded to strategy-making processes that are more adaptive or emergent in nature. Cyert and March (1963) portray strategy-making as reactive and incremental. Mintzberg (1973) first coined the term adaptive mode, but it has also been referred to as an organic perspective of strategy (Farjoun, 2002) and incremental strategy (Quinn, 1980). Whereas agreement seems to exist on the make-up of the rational mode of strategy-making, the other four modes that are presented in this paper are less clear and

can benefit from rigorous empirical testing. Adaptive strategy-making exhibits dimensions such as:

- *Autonomous behaviour*: there is an absence of direction from upper levels of management (Mintzberg, 1973);
- *Emergent strategies*: strategy formulation and implementation cannot be separated; experimentation and learning lead to the development of new strategies (Hart, 1992); decisions are made in incremental steps (Quinn, 1980); and decisions are disjointed (Mintzberg, 1973);
- *Vision*: in certain views of adaptive strategy-making (Miller & Friesen, 1978), such as logical incrementalism, a clear vision provides the framework for employees to act in;
- *Politics*: involvement of stakeholders such as employees, customers, suppliers, and government in the strategy-making process (Hart, 1992); strategy is driven by political forces (Mintzberg, 1973; Mintzberg & Waters, 1982));
- *Ideology*: a common set of beliefs may be the driver of adaptive strategy-making in some firms (Quinn, 1980);
- *Other issues*: strategy-making is reactive rather than pro-active (Mintzberg, 1973); and it can be seen as an informal managerial process (Bourgeois & Brodwin, 1984).

- ***Entrepreneurial strategy-making***

The approach that is thought to exhibit the most similarities with strategy-making in SMEs is entrepreneurial strategy-making (see next section). Entrepreneurial strategy-making as an approach to strategy-making has been under-investigated in the literature. The authors who are particularly prolific researchers in this area are Mintzberg (1973, 1990) and authors such as Dess, Lumpkin and Covin (1997). Most of the research in this area is conceptual in nature (Mintzberg, 1973) and where it has been tested empirically (Dess, Lumpkin & Covin, 1997), the research is exploratory and the sample small. Furthermore, entrepreneurial strategy-making has not been studied in the firms where Mintzberg (1973) first suggested that it would fit best, namely SMEs. This type of research may be very important to SMEs who have been accused of neglecting strategic planning (Robinson & Pearce, 1983), probably because they do not engage in rational strategy-making. It may also be able to provide answers to performance differences in SMEs that employ different approaches to strategy-making. The dimensions or behaviours of entrepreneurial strategy-making are identified as:

- *Induced behaviour*: strategy-making authority lies with one powerful individual who takes decisive action (Mintzberg, 1973);
- *Emergent strategies*: extensive use of emergent strategies to detail the umbrella strategy; learning and experimentation (Dess, Lumpkin & Covin, 1997);
- *Vision*: the use of a clear vision or umbrella strategy to guide the firm (Hart, 1992; Mintzberg & Waters, 1982);
- *Politics*: little opportunity for participation or influence of decisions through politics since power lies with the entrepreneur/CEO;
- *Ideology*: culture is driven by the vision of the entrepreneur;
- *Other issues*: flexibility or adaptiveness to change the strategic direction of the firm; risk-taking; innovation; active search for opportunities (Miller & Friesen, 1978); and a growth orientation (Mintzberg, 1973).

- ***Participative strategy-making***

Participative approaches to strategy-making process have only received attention in the literature in the last few years (Hart, 1991). Even so, whilst employee participation has received much attention (Crane, 1976; Parnell, Bell & Taylor, 1992; Parnell, Carraher & Holt, 2002; Sashkin, 1976; Wooldridge & Floyd, 1990), little refers to the explicit role of employees in the strategy-making process. Participation in the strategy-making process can be undertaken by employees, managers (Wooldridge & Floyd, 1990), shareholders or corporate boards (Cutting & Kouzmin, 2000), or other stakeholders. Participation can further be viewed as either political or relational (Hillman & Hitt, 1999). As explained before, the political view espoused that coercion takes place, whilst the relational view explains on the influence that one party has on another. The following dimensions of participative strategy-making can be identified:

- *Induced behaviour*: top management involves firm members in decision-making (Bourgeois & Brodwin, 1984); middle managers act as intermediaries who disseminate information and influence results (Wooldridge & Floyd, 1990);
- *Emergent strategies*: a continuous process in which the input of stakeholders in the process adjust the direction incrementally (Bechtold, 1997; Pettigrew, 1977);
- *Vision*: does not play a role in dictating the mode;
- *Politics*: the use of power to affect the outcome of the strategy-making process (Pettigrew, 1977); internal participation in the strategy-making process (Dess, Lumpkin & Covin, 1997); and
- *Ideology*: culture does not impact on strategy-making directly, but rather through how different types of cultures will either result in a political or relational environment (Parnell, Carraher & Holt, 2002).

- ***Symbolic strategy-making***

The symbolic mode of strategy-making mainly takes its cue from the ideological dimension of strategy-making processes. As stated before it implies that top managers create a compelling vision and clear corporate mission. The vision is translated into specific targets. The vision leads to a specific culture in the firm. Symbols and emotions are central to this process as are a strategy driven by a vision, rapid growth, dynamism and radical change (Hart, 1991, 1992). Bourgeois and Brodwin (1984) explain that their cultural mode takes the participative aspects of the collaborative mode to other levels in the firm. The vision of the CEO provides the framework for strategy-making, whereafter employees participate in designing their own work procedures to fit into the framework. The most important dimensions of symbolic strategy-making are as follows:

- *Autonomous behaviour*: shared 'frames of reference' influence the outcomes of the process (Daniels & Bailey, 1999);
- *Deliberate strategies*: the strategy-making process is limited, firms are committed to past strategies (Dess, Lumpkin & Covin, 1997; Miller & Friesen, 1978);
- *Vision*: the organisational vision drives the culture of the firm (Lumpkin & Dess, 1995);
- *Politics*: participation may play an *ad hoc* role in some cases but this is not typical; and
- *Ideology*: symbols, emotions and values are central to the process (Daniels & Bailey, Hart, 1992).

The preceding discussion leads this study to state the following hypotheses:

> *Hypothesis 1: The (H1a) rational; (H1b) adaptive; (H1c) entrepreneurial; (H1d) participative; and (H1e) symbolic strategy-making processes are important modes of strategy-making that a SME may exhibit.*

In the following section strategy-making in SMEs is investigated and compared to the planned, adaptive, entrepreneurial, participative and symbolic approaches to strategy-making as well as perfomance.

STRATEGY-MAKING IN SMEs

Dean, Brown and Bamford (1998) argue that it is important to investigate whether models that were developed for large firms can be generalised to small firms. That is because it is possible that the correlates of performance differ between large and small firms (Castrogiovanni & Justis, 2002). The research into strategy-making in SMEs has furthermore been haphazard, often descriptive and lacks a strong theoretical framework[1]. This section aims to provide support for the preceding statement by summarising the research on strategy-making in SMEs, and the likelihood that some approaches to strategy-making process may improve performance in the firms that employ it. It concludes with a summary of the dimensions or characteristics of strategy-making in SMEs from the existing research on the topic. The dimensions identified in this section will also be compared to those of the modes of strategy-making from the preceding section.

The nature of strategy-making in SMEs cannot be investigated without alluding to the disagreement in the literature about whether it takes place at all. Most studies that investigate strategy-making behaviour in SMEs agree that these firms do not engage in 'traditional' strategic planning (Ogunmokun, Shaw & FitzRoy, 1999, 1999). The lack of strategic planning in small businesses is attributed to a variety of factors, including a lack of time and know-how. Robinson and Pearce (1983) point out that it is highly personalised and influenced by the owner or manager who may get locked up in operational issues and consequently neglects strategic management. But they find no significant difference between the performance of small banks that engaged in strategic planning and those who did not. A study undertaken by Orpern (1985) in 58 small businesses finds that there is no significant correlation between any of the performance measures used and long-range planning. Results like this may influence the motivation of the firm to engage in formal planning. This notion is supported by Ogunmokun, et al. (1999) who find in a study of 48 small Australian businesses that another factor may also play a roll in the lack of motivation to plan, namely the rewards that were expected from doing planning.

Storey (1994) explains that growing firms tend to plan more, but is not able to explain whether it is the growth that leads to planning, or the planning that leads to growth. Entrepreneurial or new ventures that need outside finance have to create a business plan for financing purposes. These plans are not perceived as anything but a tool to acquire finance (Anderson & Atkins, 2001), but there is empirical evidence that suggests that the extent and quality of these plans is a critical factor in the success of new ventures (Frank, Plaschka & Roessl, 1989). However, SMEs may also choose to engage in strategy-

[1] Note that this study recognises that the research undertaken in the US and Canadian SMEs is not necessarily applicable to NZ SMEs that are much smaller (500 versus 100 employees).

making to outperform firms that do not employ any strategy-making practices. In these firms, owners or managers do not make a distinction between strategy formulation and implementation (Beaver & Jennings, 2000) which indicates that either an adaptive, symbolic or an entrepreneurial process is used. According to Frost (2003) it can be argued that a small firm's commitment to strategy-making is crucial and that SMEs can improve their performance significantly through strategy-making. This argument does not dictate the manner in which strategy-making occurs, since this will be influenced by various factors such as firm size, age and the nature of the firm environment.

From the preceding discussion it is clear that SMEs, just like large firms, place differing emphasis on strategy-making and may employ different modes of strategy-making. Researchers are also not able to provide a definitive answer on the question of what the likelihood is that strategy-making will lead to improved firm performance (e.g., Orpern, 1985). Although such a relationship can be hypothesised, strong empirical evidence still has to be found. The characteristics or dimensions of strategy-making in SMEs are subsequently investigated.

Strategy-making processes in smaller firms can be described as special and frequently unique (Beaver & Jennings, 2000; Cooper, 1979). Robinson and Pearce (1983) characterise strategic planning in small firms as informal, unstructured, irregular, incomprehensive, short term and reactive. Competitive advantage arises as a result of the specific operating circumstances of the firm. Strategy-making in SMEs, according to Beaver and Jennings (2000), is an adaptive process, which manipulates limited resources for immediate advantage. This means that efforts do not focus on changing the environment, but rather on adapting quickly to it through suitable tactics. Strategy-making is therefore practised instinctively and informally. Sexton and Van Auken (1985) describe planning behaviour in SMEs as unstructured, irregular, incomprehensive, incremental, sporadic and reactive. McCarthy and Leavy (1998/99) conduct an in-depth, longitudinal study of nine SMEs with fewer than 120 employees from different industries. They find that there were two distinct types of owners/entrepreneurs in these businesses, and that they make strategy in different ways. The charismatic owner makes strategy in a visionary, idealistic and intuitive manner. The pragmatic owner makes strategy in a rational, planned and analytical manner. The pragmatic owner's thinking is conservative; they are concerned about the economy and driven by skills and knowledge.

Anderson and Atkins (2001) further suggest that small firms can use one or more of the following approaches to strategy-making, namely robustness (similar to the umbrella strategy of Mintzberg and Waters, 1985, or entrepreneurial strategy-making of Mintzberg, 1973); flexibility (adaptive strategy); the 'butterfly' strategy (experimentation followed by learning); and the 'lottery' strategy (experimentation alone). In a study by Chen and Hambrick (1995) it is explained that smaller businesses initiated competitive challenges more actively, were speedier and more secretive in executing their challenges. Miller and Toulouse (1986) find that successful Canadian SMEs have specific strategies that coordinate, unify and motivate middle managers, longer planning time horizons and more detailed decision analysis. It is however noteworthy that SME in a Canadian context, means 500 or less employees. Spillan and Ziemnowicz (2003) study 40 small Guatemalan retail firms through in-depth interviews. The largest firm in their sample had 37 employees. Most of these firms participate in a variety of strategic management activities, but mostly in an informal manner. A strong commitment to pro-active strategy-making was found in 26 of these firms.

SMEs may or may not engage in strategy-making, and if they do, they may have different approaches to it. The following dimensions or behaviours of strategy-making in SMEs represent a summary of the preceding discussion:

- *Induced behaviour*: highly personalised and influenced by the owner/manager;
- *Emergent strategies*: frequent use of emergent (adaptive and reactive) strategy, experimentation and learning;
- *Vision*: umbrella strategies or a vision set the general direction;
- *Politics and ideology*: no research that comments on these dimensions could be found;
- *Other dimensions*: informal, unstructured, irregular, and incomprehensive; sporadic and short term strategy, but where longer time horizons are employed, firms are likely to be more successful; no distinction between formulation and implementation of strategies.

Table 1: Comparing strategy-making in SMEs to the other modes of strategy-making

	Rational	Adaptive	Entrepreneurial	Participative	Symbolic	SMEs
Top-down	High	Low	High	Medium to low	Medium to low	High
Bottom-up	Low	High	Low	Medium to high	Medium to high	Low
Deliberate	High	Low	Low	Medium to low	Medium to high	Low
Emergent	Low	High	High	Medium to high	Medium to low	High
Vision	Medium	High	High	Low	High	High
Political	Low	High	Low	High	Low	
Ideological	Medium	Low	Medium	Variable	High	
Other dimensions	Long term	Reactive Short term	Risk-taking Pro-activeness Long term			Short term

When investigating the dimensions of the various modes of strategy-making and those in SMEs as exposed in table 1, it becomes abundantly clear that similarities exist between two of these modes and strategy-making in SMEs. Whilst the adaptive mode exhibits three similar dimensions (deliberate, emergent and vision) to strategy-making in SMEs, only one difference between entrepreneurial strategy-making and strategy-making in SMEs is found, namely the time horizon of the strategy-making process. In entrepreneurial strategy-making it is long-term orientated, but in SMEs it is short-term orientated. This section therefore proposes that SMEs will employ an entrepreneurial mode, although an adaptive mode is also possible. However, the preceding discussion made it clear that only the rational, entrepreneurial and participative modes will be related to high performance in SMEs. From the previous discussion, it can thus be hypothesized that:

Hypothesis 2: The (H2a) rational; (H2b) entrepreneurial; and (H2c) participative modes of strategy-making will be related to high performance in SMEs.

Hypothesis 3: The (H3a) adaptive; and (H3b) symbolic modes of strategy-making will not be related to high performance in SMEs.

RESEARCH METHOD

In the first phase of the empirical study, exploratory factor analysis was used to determine the underlying dimensions of strategy-making, and therefore to test hypothesis one. In the second phase correlations and moderated regression were employed to examine the relationship between the dependent variable, performance, and the modes of strategy-making, therefore to test hypotheses two and three. This section describes the research method employed in this study.

Defining SMEs in New Zealand

A general definition for a SME in New Zealand will include the following dimensions: personal ownership and management; few, if any, specialist managerial staff; not being part of a larger business enterprise (Ministry of Commerce, 2000); and fewer than 100 full time equivalent employees (FTEs) (0-5 micro, 6—49 small and 50-99 medium enterprise) (Cameron & Massey, 1999). Cameron and Massey (1999, p.5) give one of the few comprehensive definitions of SMEs in New Zealand, namely 'a business that is independently managed by the owners, who own most of the shares, provide most of the finance and make most of the principal decisions'. Firms with fewer than 100 employees account for 99.5% of all the enterprises in New Zealand, employ 76% of the workforce that is currently employed (Statistics New Zealand, 2002) and account for 55% of the total output in the economy.

Sample

Postal questionnaires were sent to 2000 owners or managers of SMEs in New Zealand. Information on these firms came from the Kompass database and respondents were selected randomly by employing the functions of the database. A follow-up letter was sent to all non-responding firms. Responses were received from 504 firms. The total usable responses were 477 or 23.85% of the original sample.

The firms that responded to the survey represented a broad cross-section of firms from various industries, firm sizes and ages. The average firm size was 23 employees and the average firm age 33 years. On average managers or owners have been managing the firm for 14 years. Participants indicated that more than 90% of their firms were in the growth or maturity stages of the industry life cycle. It is therefore clear that the focus of this study is not start-up firms. 55% of firms fell in the manufacturing (31%), wholesale (14%) or construction (10%) industry sectors, with sectors such as communication, consultation, property and business services, and retail presenting 5% or more of the participants.

Research instrument

Type of strategy-making was measured with the Hart (1991) scale as modified by Dess, Lumpkin and Covin (1997). Hart's (1991) scale was developed to test for the five strategy-making modes as described earlier in this paper. It consists of 25 items and is scored on a 5 point Likert scale, ranging from 1 'Strongly disagree' to 5 'Strongly agree'. The scale is based on two dimensions that Hart (1991) argues as 'central to [conceptualising] and understanding strategy-making processes: (1) top management 'intentionality,' and (2) [organisational] actor "automony"' (p. 104). The dependent variable, *performance*, was

measured by using the financial performance scale developed by Covin and Slevin (1989) and Gupta and Govindarajan (1984). Respondents had to indicate the importance of ten financial measures, namely sales level, sales growth rate, cash flow, return on shareholder equity, gross profit margin, net profit margin from operations, profit to sales ratio, return on investment, ability to fund business growth from profits, and overall firm performance, to the firm. Thereafter they were asked to indicate their satisfaction with the firm's performance for the same ten performance measures. The 'satisfaction' scores were multiplied by the 'importance' scores and aggregated in order to compute a weighted average performance index for each firm.

The scales that were included in the final instrument received acceptable levels of reliability in previous studies. As indicated in table 2, the scales that are used in this study have generally received acceptable levels of reliability in previous studies (Cronbach's coefficient alpha of 0.70 or above). Furthermore, the overall alphas for both scales in this study was >0.70. The individual alpha of the simplicity subscale was, however, lower. This result is similar to the findings of Hart (1991). Factor analysis was undertaken for the purpose of assessing the construct validity, data reduction and to establish the dimensionality of the scale. The various subscales were relatively independent of each other. The results of the factor analysis can be found in table 3 and is discussed in the next section.

Table 2: Alpha levels of the scales utilised in the measurement instrument

Section	Scale	Number of items	Mean	Standard deviation	Cronbach Alpha	Alphas from previous studies
E	**Strategy-making**	**25**	**88.58**	**9.46**	**.79**	
	Entrepreneurial	7	24.52	4.30	.79	.75
	Simplicity (symbolic/rational)	8	28.74	3.81	.60	.64
	Adaptive	4	13.98	2.78	.69	.74
	Participative	12	44.67	5.90	.81	(Hart, 1991)
F	**Performance**	20	74.62	10.27	.89	.88 (Covin & Slevin, 1989)

RESULTS

An examination of the descriptive statistics of the strategy-making scale shows that questions representing dimensions such as teamwork, cooperation, top-down behaviour, clear values, processes that suit the business and equality, exhibited the highest means. A CEO that places his/her mark on every initiative, failure avoidance and conflict suppression exhibited the lowest means. This section reports the results of the two phases of the data-analysis.

Phase 1: Factor analysis

Exploratory factor analysis was used to identify underlying dimensions of strategy-making in the respondent firms. This test was sufficient to investigate hypothesis one of the study. The factorability of the data was assessed using the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1974) and Bartlett's Test of Sphericity (Bartlett, 1954). The KMO should have a minimum value of .50 and Bartlett's test of Sphericity should be significant at $p<0.05$. The strategy-making scale had a KMO of .89 and a p-value of 0.00. These results indicate that the data are highly factorable.

Four factors were identified using a promax rotation, since the scree test indicated a significant gap between factors four and five. In addition, these factors explained the greatest amount of variance. The results of these four factors are reported in table 3. All but one of the variables had significant factor loadings (≥0.30) (Hair, et al., 1998). The interpretation and labeling of the dimensions presented by the different questions were straightforward when compared to the modes of strategy-making processes identified in the preceding literature. The first factor, 'Participative SMP (strategy-making process)' includes dimensions such as similar values, set practices, input from employees in decisions, equality, cooperation, teamwork, consensus and a negative conflict suppression. Participative SMP in this context was therefore considered as internally directed participation. The second factor, 'Entrepreneurial SMP' includes dimensions such as risk-taking, a dynamic process, and experimentation. This is consistent with previous definitions of an entrepreneurial SMP (e.g., Dess, Lumpkin & Covin, 1997). The third factor 'Adaptive SMP' includes dimensions such as adaptation, ongoing process, and listening and involving stakeholders. Adaptive SMP in this context was therefore externally directed participation and adaptation. The fourth factor was termed 'Simplistic SMP' (compare Dess, Lumpkin & Covin, 1997). This factor includes dimensions such as a blueprint of strategies exist, top down behaviour, an internal process, set practices and the CEO takes decisions. It can therefore be considered to be a simplified combination of the rational and symbolic modes which were described in the literature review.

Table 3: Factor analysis, using promax rotation

Variable	Factor 1 Participative SMP	Factor 2 Entrepreneurial SMP	Factor 3 Adaptive SMP	Factor 4 Simplistic SMP
Blueprint				0.331
Top down				0.438
Adapt			0.480	
Ongoing			0.541	
Stakeholder listen			0.583	
Stakeholder involve			0.607	
Internal process				0.428
Values	0.625			
Set practices	0.457			0.454
Analysis level	0.359	0.336		
Input decision	0.516	0.422		
Risk-taking		0.737		
Equality	0.575	0.307		
Dynamic		0.587		
Conflict suppress	-0.426			
Roles defined				
Cooperation	0.702			
All views	0.624			
Teamwork	0.687			
Avoid failure				0.337
Experiment	0.338	0.345		
Long-term	0.507			
Suit business	0.562			
Consensus	0.418	0.381		
CEO decide				0.428

To summarise, hypotheses 1a and 1e are rejected, but support was found for hypotheses 1b, c, and d. Another mode of strategy-making, namely simplistic strategy-making, was identified and is explained as a simplified combination of the rational and symbolic modes of strategy-making.

Phase 2: Correlations and regressions

In phase 2, hypotheses two and three were examined, these refer to the relationships between the modes of strategy-making and performance. First, Pearson's product moment correlations were undertaken to investigate whether such relationships exist. The correlation measures 'how well the relationship between two interval variables can be described by a straight line' (Page & Meyer, 2000, p. 154). The correlations investigated in this study are two-tailed. This is because direction (causation) cannot be established by using this test. Table 4 presents the descriptive statistics and Pearson correlations for the variables.

Table 4: Means and correlations of constructs

			Correlations			
	Mean	**SD**	**Performance**	**Participation**	**Entrepre-neurial**	**Adaptive**
Performance	139.92	38.62				
Participation	.00	.90	.269***			
Entrepreneurial	.00	.82	.046	.117*		
Adaptive	.00	.79	.232***	.135**	.116*	
Simplistic	.00	.80	.169***	.049	-.118**	-.004
Sample Size = 477 firms						

*Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).
*** Correlation is significant at the 0.001 level (2-tailed).

There are several results from the correlation matrix (Table 4) that are important. Firstly, significant relationships ($p<0.001$) were found between performance and the participative, adaptive and simplistic modes of strategy-making. No such relationship was, however, found between performance and the entrepreneurial mode of strategy-making. The latter result is consistent with the findings of Dess, Lumpkin and Covin (1997). Secondly, although the relationship between performance and the participative, adaptive and simplistic modes of strategy-making was significant, and the effect size was large at n=477, the correlation between simplistic strategy-making and performance cannot be considered to be meaningful at .169. The correlations therefore do not support hypotheses 2a and 2b, and to accept hypothesis 3b.

Further investigation of hypotheses 2c and 3a is undertaken by means of regression analysis. The performance index and the factor scores were used for this test. Two such regression analyses were undertaken, one each for participative SMP and adaptive SMP with the dependent variable performance. Regression analysis provides a means of examining the magnitude and direction of the relationship between the dependent and independent variables (Hair, et al., 1998). The results displayed in table 5 indicate a significant positive relationship in both cases. The minimum R^2 that can be found statistically significant with a power of .80, a significance level of 0.01 and n=477, is 0.03 (Hair, et al., 1998). The results in table 5 are therefore significant and hypothesis 2c is accepted and hypothesis 3a rejected.

Table 5: Regression analysis

Independent Variables	Performance (dependent variable)			
	b	R^2	p	Regression
Participative SMP	.232	.054	0.000	Y=139.925+11.48x
Adaptive SMP	.269	.072	0.000	Y=139.925+11.22x

To summarise, hypotheses 2c and 3b are accepted, and hypotheses 2a, 2b and 3a are rejected. The meaning of these results is discussed in the subsequent section.

DISCUSSION AND CONCLUSIONS

This paper identifies five approaches to strategy-making that may be of relevance to SMEs. These are the rational, adaptive, entrepreneurial, participative and symbolic modes of strategy-making. One mode of strategy-making, namely entrepreneurial strategy-making, was identified in the literature section of this paper as the approach that shows the most similarities with the dimensions of strategy-making in SMEs, although dimensions of the adaptive and participative approaches to strategy-making also reoccurred as a theme. An investigation of the literature on the possible relationship between all five of these approaches to strategy-making and high performance in previous studies suggests that the rational, entrepreneurial and participative approaches are more likely to be associated with high performance in SMEs. The results of an empirical study of 477 SMEs in New Zealand only provided partial support for these suggestions.

Firstly, factor-analysis indicated that the rational and symbolic modes of strategy-making are not independent constructs that exist in these firms. Similar to the results of Dess, Lumpkin and Covin (1997) another mode, namely the simplistic mode of strategy-making, was found. This mode exhibits some dimensions of both the rational and symbolic modes of strategy-making, but in such a manner that it indicates a very limited, simplified approach which is largely driven by the owner/manager of the firm and is based on the previous strategy of the firm. This simplistic mode exhibits little/no analysis of the environment or possible future strategies. As expected, this approach did not correlate strongly with performance.

Secondly, factor-analysis found the adaptive, entrepreneurial and participative approaches to strategy-making to be valid modes of strategy-making in New Zealand SMEs. These three modes exhibit similar, although not identical, dimensions to those found in the literature review. The entrepreneurial mode is one driven by risk-taking, experimentation and dynamic behaviour. The adaptive mode shows that its adaptive behaviour is driven by the firm's responsiveness to its stakeholders. The firms that exhibit this mode therefore adapt to suggestions from for example, customers and suppliers, and this then becomes the strategy of the firm. This paper therefore deems the name "adaptive participative mode" as more descriptive of this mode of strategy-making. The participative mode shows a very idyllic picture of a firm in which a large amount of cooperation, teamwork and values drive the strategy-making process. This indicates a slight deviation from the suggested participation mode of strategy-making from the literature review. Rather than being driven by coercive politics, this mode is driven by values or culture. This result is surprising and differs from the suggestion of Mintzberg, et al. (1998) that suggests that participation is usually coupled with political behaviour. This paper suggests that this may be a result of the small size of the firms included in this study and terms this approach the "internal participative mode".

Lastly, the correlation and regression analyses suggested that only two of the proposed modes of strategy-making can be associated with high performance. These are the internal and adaptive participative modes of strategy-making. A relationship between the adaptive participative mode and performance has not been suggested in the literature before. It may, however, be that this is a result of the willingness of the SMEs to listen to their stakeholders and to take their suggestions on board to improve their businesses, something that may be very valuable to a SME. Although a relationship between performance and participative strategy-making was hypothesized, the participative mode was somewhat different as explained before. In this case it is therefore suggested that a strong culture, emphasis on team-work and a long-term orientation may underlie the success of this mode of strategy-making.

The results of this study have several implications for both researchers and practitioners. Firstly, it provides an empirically derived taxonomy for the future investigation of strategy-making in SMEs to researchers. This taxonomy consists of the adaptive participative, entrepreneurial, internally participative and simplistic modes of strategy-making. Secondly, it suggests to practitioners that the pre-occupation of academics with rational mode of strategy-making may not necessarily be relevant to owners/managers of SMEs. Instead, these firms should choose to concentrate on exploiting the advantages that stem from their small size, such as a close relationship with stakeholders; the ability to generate a positive organisational culture and employ this in the strategy-making process; the ability to communicate and work well as a team; and the ability to adapt quickly to changes in the environment. Lastly, it is important to note that these results are viewed in isolation from the contextual factors that may impact on it, such as firm size, organisational structure, industry life cycle and hostility of the environment. This information was collected and will be explored in future papers.

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NEW FAMILY CONCEPTIONS AND THE IMPACT IN THE CONCEPT OF FAMILY BUSINESS

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Most of the studies about family business were developed considering the patriarchal family as panorama of investigation. Then, a similar logic of performance was found in the patriarchal family and in some companies, obeying the same distribution of power and status, because it is difficult to establish separation between these two roles. This is the stage of several studies in the context of the family business. However, cultural, economical and social transformations have been taking to a new demography, as well as to different family arrangements, which probably have also extended in the ambit of the companies. In this sense, to give some examples, first it is important to mention the case of families constituted by just one of the parents and secondly, several marriages give family another structure. From these changes emerges the following question: What is, in fact, the concept of family business? The aim of this paper is to point new horizons for the concept of family business. So, this study tried to search in the Sociology and Anthropology the elements that have been provoking transformations in the contemporary family structures and how they have implications to well understand family business.

INTRODUCTION

The organizations are living in the social, political and economical dynamics where they act, and simultaneously influence the environment and need to adapt to changes. Therefore, to study them it is necessary to consider the reality where they exist.
In that perspective, to conceive a family company, it is indispensable to have the notion of what is the family in the contemporary world. It is from the family arrangements that the notion of family organizations can emerge. This organisation's type maintains an interaction with the family, as Chua et al (2003, p.331) point out: " for a business to be sustainable as a family firm in the highly competitive global market of the twenty-first century, there must be a synergistic and symbiotic relationship between the family and the business. The business must perform in a way that creates value for the family and the family must add value to the business in a manner that is impossible without family involvement ".

The current social structure, from the point of view of family configurations, is more complex than it was two decades ago, when the notion of patriarchal family was the same that the structure of that socialisation nucleus. The transformations that happened in the contemporary western family, with the decline of the patriarchal family (CASTELLS, 1999), caused impacts in family companies. In fact, now it is possible to exist a type of family company which starts from a family with only one parent, where mother and daughter, for instance, work together. In spite of this fact, a considerable number of studies has been developed, focalizing family company and patriarchal family. It is important to point out that this type of family structure didn't stop existing, but it doesn't correspond, integrally, to the

family representation. In this sense, the increase of the complexity is not only about the difficulty in understanding the new family arrangements, but also because of different types of structures that coexist in a same culture.

Although some studies already consider the family transformations and adopt an extended optics than the related to the patriarchal family (CAMPBELL, 2002; DANES and OLSON, 2003; GILDING, 2000; GALBRAITH, 2003), it is necessary to have a discussion regarding the transformations in the family and the notion of family business, so that the studies and the statistics of that segment reveal a conformity with the social reality.

Therefore, the aim of this paper is to present a reflection about the report of the transformations in the family structure and the impact in the concept of family business. For the attainment of that purpose, some considerations about the transformations in the contemporary family are exposed and, soon after, the possible reports between those changes and the perception and administration of family companies are discussed.

The family and recent transformations

In agreement with the definition of the Oxford dictionary, family " is a group consisting of parents and their children ", or, in a wider sense, also including close relatives (1989, p.437). This concept corresponds to the notion of nuclear family or extended family in a traditional perspective, but the family, from the 90's have another dimension. For Todd (1985), the family concept is inserted in a wider ideological system, at the same time that develops and reproduces a system of own values. However, Belardinelli (2003) points out that in the contemporary society, religion, politics, law, morality and the family become separate systems.

According to Castells (1999, p.169), the main transformation that is happening in the family is the end of the patriarchy, which " is characterized by the authority, imposed institutionally by the men on women and children in the family's ambit. This system, according to the author, is rooted in the civilization, because of its historical and cultural perpetuity, determining relationships that extrapolate the limits of the family.

One of the main features, in the perspective of Castells (1999), that determined that change is women's insert in the job market. From the 80's, at the same time that the economy was spreading, the women's inclination to work was generalized. Another factor is due to technological transformations, providing controls on human reproduction. In third place, according to the author, is the feminist movement, with impact in the sphere of work and in the elimination of any oppression way or inequality of power. Beyond those things, the author mentions the diffusion of an idea of global culture, in which the notion of a new feminine identity is inserted.

That context of transformations is followed by new ways of conceiving the family life, including, besides all that, "the gay families" (CASTELLS, 1999, p.172). This movement creates a crisis of the patriarchal family, which is about the " weakness of the family model based on the continuous authority/domination exercised by the man, as head of the couple, on the whole family " (CASTELLS, 1999, p. 173). The dissolution of the marriages brings the formation of bachelors' homes or homes with just one of the parents, then the patriarchal authority on the family is interrupted. The author also says that the formation's postponement of couples, derived from the difficulty of marriage's compatibility with work and prived life, as well as the formation of relationships without legalized marriage contributes to weaken the patriarchal authority, institutional and psychologically.

Finally, discussing the transformations the author points out that " those tendencies indicate the end of the family as we know it up to now: not just the nuclear family, but the one based on the patriarchal domain, which has been prevailing for ages". (CASTELLS,1999, P. 174)

In the same way, Gomes and Paiva (2003) discussing about the marriage and family in the XXI century, refer to a new configuration of the marriage concept, because: " the families are being constituted in a wider way, including the new partners (mother's husband/father's wife) and the children and the stepbrothers. Substantially, the father loses the traditional illustration and function based on the great number of families constituted only by the maternal images (p.5).

To Fonseca (2002), there is not an homogeneous and hegemonic model when we try to understand the predominant family forms in the current society. The author affirms that the current model is an extension of the family ideal commended in the modernity, which emphasized the romantic love, the ideal marriage and the affection as bases of the family life. By the time that those values were incorporated to the matrimonial life, the relationships became open to negotiation, allowing the legitimation of family ways that were not socially accepted, for instance the one of partners from the same sex, to whom it was given an important space in this new context, where the affection is the true base of the relationship.

Besides, the impact of those changes happens, for instance, in the increase of the number of children born out of the marriage, establishing a disconnection among elements that historically were interlinked: couple, marriage and family. If in old times the tradition was transmitted by family values, from one generation to another, with emphasis in the consanguineous family, in the contemporary social relationships the emphasis is in the present, in the welfare of the moment, with low emphasis to the solidity or to the past.

Dias and Lopes (2003) consider that in the traditional conceptions of family the identities of men, women, parents and children were based on the structure of dominant patriarchal power, but that same structure was modified gradually, although it has not disappeared. The family that appears in the eighties is more equalitarian, and its members are seen as equals**,** with similar rights, in spite of their sexual and age differences. New roles have been insert in the family scenery, for instance the one of the stepfather or stepmother (FONSECA, 2002). On the other hand, Belardinelli (2003) comments that the increase of the individualism in the family's relationships contributes a lot to a decrease of trust among its members.

Those alterations in the family structures reveal that what is about to happen " is not the disappearance of the family, but your deep diversification and the change of your system of power ", as the patriarchal family represents a minority in the social context of several places (CASTELLS, 1999, p.259).

Considering the alterations in the contemporary family, even the consanguineous family can be understood from different perspectives, such as:

a) the consanguineous, that corresponds to the legal, nuclear family, not specifically the patriarchal family. It can be constituted by two people, for instance, father and son.

b) multiple, when several consanguineous marriages divide and multiply the base nucleus. The succession right becomes diffuse and dispersed in different groups;

c) consanguineous-discontinues, when grandparents look after and educate grandchildren as children, assuming the paternity formally. That situation can be determinated by the parents' death or even by a legal determination;

d) consanguineous-disperses, when there are children out of the marriage. That situation, in the Brazilian legislation, interferes in the succession right, because every son is a legitimate inheritor.

So, the family notion involves a complexity nowadays, as different forms coexist in the same culture, representing a differentiated composition when comparing to the traditional and patriarchal nuclear family. There are different members, redefinition of family roles, and also new distribution of power.

In a simplified way, the discussed points contribute to the nowadays family notion and starting from that synthesis of the main transformations, it's necessary to understand the implications of all this in the family companies.

Family and family company in the contemporary context

Amman (in VERSTRAETE, 2000) remarks the difficulty in defining family business. In a traditional perspective, the family company is considered like this if the control of the property is in an individual's hands or with the members of the same family. Join to those points, the management of the company and the proprietor's will of transmitting the company for the next generation can also configure a company as family. In general, the studies on family companies (WESTHEAD and COWLING, 1998) consider that the property, the administration and the succession or the intention of passing the stick define a company as family.

When looking for a definition of family company starting from the family concept, it is verified that the complexity of the family arrangements, presents at the present time, contemplates directly in that family business concept. For instance, when studying family companies, Chua and Christman (1999) found diversified proprietors, such as:

a) an individual;
b) two people linked by blood ties;
c) two people linked by the marriage;
d) nuclear family;
e) more than a nuclear family;
f) extended family;

That reality presented by the authors show how the family transformations exercise an impact in understanding family business, because traditionally the nuclear family is the one that used to prevail and, most of the time, it was the patriarch of the family who represented the main role. If we consider the family company as the one that has the family in the control and administration of the property, this understanding becomes possible from the moment that the family is clearly defined. Therefore, from the juridical point of view, the family is a juridical institution, and for the study of family companies this is a scientific subject that cannot be neglected, because the principal obstacles for the definition of family company are related to the different cultural conceptions of family, as

Stewart (2003) points out and to the difficulty in defining what the family is in fact (DYER, 2003).

Allouche and Amann (1999) make questions about the understanding of family company's concept they consider this kind of company:

a) when the involvement happens with a nuclear family or a concept of extended family;
b) when there are blood ties between the company owners or when they are married.

It is possible that this kind of doubt had not interfered in the way of think the family business two decades ago, however, nowadays, the number of companies that are initiate and driven by couples is more and more larger and as far as consanguineous situations as marriage are also considered to understand family business (DYER, 2003). In the same way, the involvement of the nuclear family or of the extended family becomes an important subject for the family business, mainly if the extended family is seen as the one which is also formed by successive marriages.

Another feature that Gilding (2000) and Bernardinelli (2003) pointed as important is the increase of the individualism in the family relationships in these days, which creates an impact on the way of negotiation and communication inside family business.

Taking into account the transformations in the family structure, discussed in the previous section, it was important to try a more detailed analysis to discuss the association of those changes with family companies, specifically in the items presented in the sequence.

Family's size

One of the transformations in the contemporary family is the size of the families, reduced because of the small number of children. Sitautions as the women's entrance in the job market, the levels' reduction of income or even the prevalence of the individualism might have contributed to the reduction of family's size.

From the point of view of the family company it is verified, obviously, that the number of potentials successors was also reduced. According to Malinen (2001) the bigger the family is the more interested the potential successors are. Nowadays, are not rare cases where family business have just one successor and this one decide to sell the enterprise because he or she have not the intention to go on with the business.

On the other hand, if we consider the extended family the one derived from successive marriages, it is not difficult to find situations in which the family company is the working place for the first marriage children, as well as the one of the second marriage, enlarging the family involvement excessively in the company.

The ambiguity of those situations illustrates the increase of family business' complexity. In other words, the family was reduced in many cases, but at the same time enlarged in other. In the ambit of the family company that transformation causes an impact directly in the succession's processes of power and communication's distribution.

Distance between generations

Another differentiated aspect in the current family arrangements is the distance's increase of age between generations, as a consequence of the fact that people have children when they are in more advanced age than it used to happen in previous generations. The principal factor that determines that decision is, certainly, the job market.

When the impact of that demographic transformation is analyzed in the family company, it is verified that the children born when their parents were 30 years old or plus, these group will face the job market when the parents are close to 60 years old, in other words, close of the retirement. The conviviality between successor and the father or mother becomes shorter and the distance of age is larger, which can interfere in the transition process and continuity of those organizations, as the conflict between generations is one of the delicate questions of succession (MALINEN, 2001).

It is also important to point out that the youths get in the job market with more advanced age and that the conviviality between generations presents modified, mainly with the intensification of the coexistence between grandparents and grandchildren, much larger than between parents and children in several situations.

Family's composition and Power's distribution

As it was previously discussed, Castells (1999) points that the new distribution of power is one of the main aspects of the family transformation, derived of patriarchal structure's collapse. Therefore, changes happened in the family features of the contemporary western societies, such as the individual autonomy and the equality between genders and they affect the family organizations (GILDING, 2000).

In spite of that, the focus of many family studies are still predominantly centered in the entrepreneur as a paternal illustration, although the alterations in the family indicate the need to include the gender perspective in their agenda (BROCKHAUS, 1994; DUMAS in SHARMAN, 1996 and GOFFEE, 1996).

Recent researches indicate that there are resistances in family business to accept women in the succession of these companies (STAVROU,1999; VIDIGAL, 2000) and that they are only considered possible successors when there are not successors of the masculine sex, and the women's performance in family companies is sometimes allowed only in an invisible way (CURIMBABA, 2002; ROWE and HONG, 2000). Restrictions of cultural order limit the women's entrance in the succession of family companies, just as Vidigal (2000, p.68) found among Brazilian family companies, of Italian imigrants, where there is the “habit of not allowing the daughters to become partners of the company.”

Rodrigues (1991, p.37) points out that the family company, most of the time is still “business for men.” There is a difference between the social reality and the successors' social representation, which it is in general associated to the masculine image. In a study, developed with 549 Canadian families, Gasse (apud VERY and RAYTCHEVA, 2002) verified that 39,7% of the people involved in those companies judged that the sons were the most competent people to assume the companies, and only 9,6% pointed the daughters. Before them, there were the partners (20,6%) and even people that were not part of the company (16,9%). Besides, as the studies on the family companies are, in most

of cases, about organizations created and managed by men (HANDLER apud CADIEUX et al, 2000), the contributions concerning the succession's process of companies created and managed by women are rare (CADIEUX et al, 2000).

The successors' preparation, which was in general centered in children and parents' relationship, today has multiple relationships as possibilities, involving: mother and daughter (s); mother and son (s); father and son (s); father and daughter (s). Considering the different natures of these relationships, the possibilities should be included in the researches, in order to better understand the contemporary family companies (GOFFEE, 1996). In this perspective, Dyer (2003) points out the importance of studies that characterize family relationships like: father-son, father-daughter, mother-son, mother-daughter, uncle-nephew, and so forth. The author still points out the importance of developing studies on family groups, because for him a group of a father and his four sons would likely behave differently than a group of four sisters who are managing a business together.

In this way, qualitative studies can supply elements that facilitate the understanding of the new social reality in those companies. That phenomenon's vision contributes to a concept of family company that is more adapted to the contemporary family dynamics and the distribution of effective power in the group. An example is the study conduced by Campbell (2002), in companies where mothers and daughters act. She pointed as positive points in the successors' preparation the following ones:

- learning easiness, when the mother is the mentor;
- the respect to the mother's role, because she represents the source of force and wisdom;
- interdependence and mutual support;
- the daughter feels like an allied one and not a subordinate.

Those results found by Campbell (2002) contribute to reinforce the recommendations of Dyer (2003), but don't coincide with studies developed between father and successors children, where the conflict is frequent (MALINEN, 2001).

Another point related to transformations in families is presented by Galbraith (2003), investigating the relationship between divorce and financial performance, the author identified what he usually calls "ïn spouse " and " out spouse ", to characterize the current wife and the previous, demonstrating that the loyalty was established in a shared way among employees and the two members of the family (previous and current). In spite of the predominant focus on cases of entrepreneurs' divorce, the study constitutes an exclusive contribution to illustrate how the dissolution of the marriage interferes in the process of administration of the family business.

Although there are not many examples, it is possible to notice that there is a new dimension of family company, defined starting from the transformations that are happening in the family, discussed previously. For that reason, the family notion while primary nucleus of the individuals' socialization does not correspond to a group situation that spreads in a collectivity. What really exist are different group forms that settle down as family and seek their own legitimation, in other words, it is not possible to think about an unique form of the family. It implicates directly in the conception of family company as that resultant of the multiples possible family arrangements. On one hand, that reality indicates that there is a real need to reformulate concepts and premises that usually guide the study

of family organizations, on another hand, it reinforces the need of a studies' field to analyse that type of companies.

Finally, if previously there was a difficulty in understanding the family business concept, because this one used to vary in agreement with the culture, the challenge of the moment is inside the same culture, where different family arrangements coexist. Perhaps, from the point of view of the family business, it is necessary to establish a demography of family companies, which includes, for instance enterprising couples, women and men entrepreneur with their respective nuclear or extended families.

FINAL REMARKS

In general, when the metaphor of the "family" is applied in a company, the family notion seems clear between its members, paradoxically, that notion for the family business comes in a more complex way.

When we discuss the transformations in the family structure, starting from family's sociological, anthropological and psychological approaches, it is verified that a new dimension of this emerges mainly in the western world. There is not only a family notion, but multiple arrangements that constitute possibilities of family representations. Transposing the reflection to the field of family business, it was verified that an enlarged focus of the phenomenon is necessary, which considers the new possibilities of family arrangements, presented in organizations. Indeed, there is not a conception of family company, but multiple possibilities.

Although the number of studies that approach companies not only considering patriarchal family is still small, it can be already noticed that the types of relationships between their members and the possibilities of family succession are different from the ones that the literature usually approaches for family companies, most of time delineated based on the patriarchal structure.

So, the discussion about family transformations and family business is necessary as the social representations about family in the atmosphere of businesses are still intensely related to the logic of the patriarchal family, and this one represents a small part of the family structures nowadays.

On the other hand, there is no doubt that this social scenery still brings as consequence a complexity level larger in the concept of family company, whose generalization has already as obstacle the fact of existing different family arrangements in agreement with the culture. In these days, in the same culture there are many different groups coexisting, which composes a new family idea. Though, this reality contributes to become studies dynamic, and that emerges from the need of reformulating concepts to explain the phenomenon in a different context.

Some studies were mentioned to try to make the concept of family company more flexible. It was still verified that the acceptance of the marriage or of the consanguineous family, pointed by Dyer (2003), represents a progress for the field pointing out, however, that even on the consanguineous family different arrangements can exist.

Finally, longitudinal studies could contribute to better understand the impact of changes in family related to the enterprise, mainly about the composition and distribution of power.

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A TRACER STUDY OF FEMALE ENTREPRENEURS IN NEW ZEALAND

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INTRODUCTION

The Ministry of Women's Affairs (MWA) influences New Zealand government policy on issues concerning women with the objective of improving their economic autonomy. Women make an increasingly significant contribution to the workforce and their general wellbeing has a direct impact on the country's economic growth. Economic and social policy integrates across government agencies to improve female's equity. Women meet their aspirations for a balance between work, family and community commitments through entrepreneurship within small and medium sized enterprises (SMEs). Many of these women have had minimal education and seek support from mentors to understand in particular more about business systems, marketing, and management issues.

Business in the Community Ltd (BITC) is the largest mentor organisation in New Zealand. Currently only corporate sponsors fund it. Mentor organisations such as BITC act as an intermediary between government agencies and the business to assist all parties meet their objectives. BITC's database of their SME client businesses has been used for this research.

With economic and welfare objectives at stake, local and central government use considerable resources to provide access to mentor and other services. These organisations are accountable to the aims of government and to the business owners to assist them start, survive and grow.

LITERATURE

Assisting Female Entrepreneurs and Managers

New Zealand was the first country in the world when in 1893 it granted all women the vote and a chance to influence society. Female representation has been higher in New Zealand than in other countries with similar sorts of electoral systems. Out of over 180 countries, New Zealand is one of only twelve currently headed by a woman. It is ranked fourteenth equal in the world for female representation in Parliament. Women have led both major political parties, National and Labour. Women hold four key constitutional positions, Governor-General, Prime-Minister, General Attorney and Chief Justice (MWA,2002).

The Centre for Women and Leadership established in 1998 promotes leadership opportunities. It focuses on women in management and business, women in self-employment, women as directors, women in the workforce, and women as leaders in central and local government, and in community organizations (DESA, 1998). The number of women in senior positions has increased from 25 percent in 1993 to 40 percent (MWA, 2003b).

After the 1984 election government shifted its focus from intervention to identifying points of market failure. Government policies or programmes could not be seen to interfere with initiatives being taken in the market. Government distanced itself from the financial sector which was left entirely in the hands of the market.

During the 1990s government increased is presence through supplying services such as training to SME owners. Industry New Zealand offers programmes such as its Investment Ready Scheme, BIZ Training and enterprise awards aimed at improving business access to appropriate forms of finance. BIZ programmes specifically target female and Maori business owners.

The Ministry of Women's Affair's (MWA) opened in 1986, is the government's primary provider of gender-specific advice. Its purpose is to contribute to and support the achievement of the government's goals for women of equity by taking into consideration the differences in women's and men's lives and recognising that different approaches may be needed to achieve equality of outcomes for men and women.

MWA in its Directory (MWA, 2001) identifies contacts and addresses for government, national and local organisations for Maori and women's groups.

The MWA is currently carrying out extensive consultation on the development of an Action Plan for New Zealand women. Broad programme areas proposed by MWA include economic growth through female entrepreneurship. This work is still in progress.

Women are 47 percent of all employees, earning 84.3 percent of the hourly earnings of men. The pay gaps for Maori and Pasifika women compared with men are larger still. Together with various government departments MWA initiated Te Ara Kaipakihi, *Your Business Journey,* to focus on the needs of Maori business women in particular and to foster self employment (MWA, 2003a).

Approximately 54 percent of New Zealand's Official Development Assistance (NZODA) is "fully gender integrated" although it intends to achieve a 50/50 male/female ratio. Specific female-focused activities include support for organisations and activities that encourage women's economic and business development.

New Zealand Trade and Enterprise believes in a strong enterprise culture among New Zealanders. It intends to foster an entrepreneurial spirit since it realises this is vital in achieving the government's target of returning this country's real per capita income to the top half of the OECD. It provides funds for initiatives, and through the promotion of programmes such as the Ernst & Young Entrepreneur of the Year Award.

Industry New Zealand assists entrepreneurs by funding entrepreneurial clusters with the objective of helping people grow their businesses into significant revenue earners for the country. The new board replacing the merger of Industry New Zealand and Trade New

Zealand plans to promote the development of technology and creative industries in particular (Staff, 2003).

Academic and government interest in SMEs and entrepreneurship has increased since they realised that the means of achieving economic growth is through them and not large corporations. This has led to alliances and the creation of 16 business incubators. The benefits from linking the entrepreneurs, academic staff and mentors with each other is recognised (GEM, 2002).

Independent mentor organisations such as BITC mobilise resources, business skills, experience and information of successful businesses for the benefit of struggling and growing enterprises. The free assistance they offer SMEs stimulates business, improves survival and growth and contributes to employment generation in New Zealand.

Women acknowledge that mentors and role models are crucial to their confidence in pursuing non-traditional career options (Staff, 2003). Women in Business, Women in Technology and the Association of Women Scientists are some of the organisations that assist female entrepreneurs with resourcing and encouragement.
Carter and Rosa (1998, in Massey & Lewis, 2003) believe women could benefit from a training programme targeting the weaker position of women in terms of their attitude and experience. However, some women are dismissive of gender targeting. and quite a few women avoid women-only services and organisations (Still & Timms 2000, in Massey & Lewis, 2003).

A number of organisations provide micro-finance to women. They are primarily non-government and/or menbership based. Some sources are specifically for women and are detailed in publications. They offer guidance and suggestions. The Ministry of Economic Development is currently reviewing SME access to finance. If gender issues become apparent they will be addressed (Massey & Lewis, 2003).

There has been little research by agencies and the academic community on gender-specific finance requirements for female entrepreneurs in business. Research undertaken has approached women as a minority or disadvantaged group in self-employment and focus has been on alleviation rather than development strategies. This focus influences studies to evaluate whether assistance is effective or efficient. Research is dated and insufficient to be able to provide targeted financial assistance through policy development to assist women in business (Massey & Lewis, 2003).

Industry New Zealand's *Business and Enterprise Culture Project* (Bonnaire, Kalafatelis, Anso, & Waldron, 2002) was commissioned to determine public opinion on busines, business enterprise and entrepreneurial activity. Its objective is to create a positive and supportive environment in order to increase the level of entrepreneurial activity. Conclusions in the report indicate that generally business and the economy is not of interest to most New Zealanders or that the interest taken in business is usually with a negative attitude, except for socially-oriented businesses. Few respondents realised what brought about economic success.

Industry New Zealand and other agencies will focus their initiatives on three segments that were found to exist targeting them with specific objectives through key messages to achieve primary benefits. Through their own actions and others working in the area, including the media and other opinion formers, they are determined to affect a positive change in New Zealand's business enterprise culture. They have set short-term and long

term targets to improve awareness and knowledge, improve attitudes and finally improve behaviours such as increased participation in business.

Female Entrepreneurs and Managers

Female entrepreneurs make up 5 percent of the female population (GEM, 2002). Between the ages of 18-24 they are rated more entrepreneurial than their male counterparts (Staff, 2003). However, females have a lower ego, or desire to make a difference, according to the GEM report (2002) and have a lower sense of perception of their ability to start a business (55 percent), than men (71 percent).
Kirkwood & Brown (2001) found that females employ considerably fewer staff in their businesses than men. In part they attribute this to lower sales. Females have sales of less than $50,000 in 19 percent of business compared with 7 percent of men. Only 19 percent of females had sales exceeding $1 million, compared with 39 percent of men.
Carter & Allen (1997, in Massey & Lewis, 2003, p.13) found when researching size determinants of female owned businesses that a "lack of financial resources, more than any deliberate or socially induced choice on the part of female, appears to be the primary deterrent to growth". Fay and Williams (1993a & 1993b, in Massey & Lewis, 2003) found that females might lack the skills and knowledge on how to approach the banks for loans or understand the needs of lenders and investors. Business plans are an essential component of loan applications yet few only 39 percent of businesses wrote one (Massey & Lewis, 2003).

The GEM report comments generally on entrepreneurial activity and states that it has identified New Zealand as having one of the highest rates of total entrepreneurial activity in the OECD. However its productivity is 24 out of 29 countries and new business often fails to grow, expand and create new wealth. Business owners seek a rounded lifestyle. They are weak at measuring performance and evidence also points to risk aversion, both here and overseas, possibly as a consequence of 11 September (GEM, 2002).

"Pull" motivation appears to be the dominant reasons for starting a business. The pull is associated with "having a dream" or wanting to "be my own boss" (Jodyanne Kirkwood & Brown, 2001, p.22). "Pull" factors are typically associated with "entrepreneurs who want to create and innovate, to build something of recognised value around perceived opportunities". Frederick (2003) believes these people are the real entrepreneurs.

Kirkwood (2003) studied habitual entrepreneurs, those who after starting a first business, may purchase, set up or participate in the start-up of another business. Habitual entrepreneurs "see" business opportunities (2003, p.27). Both women and men mainly founded their own businesses. She found women had on average slightly fewer total businesses (3. 5), than men (4). Fewer women had merged their business with another (16 percent) compared with men (26 percent). More women had sold a previous business (63 precent) compared to men (58 percent). Kirkwood (2003) suggests that since the majority of female businesses are in the service sector this could be a cause for lower sales volumes as against men being in manufacturing which is labour intensive and mor able to get higher dollar sales.

Access to finance and banking by 22 percent of females was similarly identified in the Kirkwood & Brown (2001) survey. This reasonably low figure may result from savings providing finance at the start-up stage since 48 percent of respondents in their survey indicate they used their own savings. Haynes & Haynes (1993, in Massey & Lewis, 2003, p.13) found "there was a higher probability that women would borrow from family and

friends and use non-traditional or non-institutional lenders". As an example of this, an angel fund provided by a charity in Christchurch offers women access to interest free start-up money (Harvey, 2003).

RESEARCH SAMPLE

A questionnaire with two postings sent to all BITC's 5327 client businesses resulted in 1207 valid responses, a response rate of over 25 percent. Respondents are small and medium businesses throughout New Zealand who applied to BITC to join their mentor assistance programme during the period from December 2000 to February 2002. They are a self-selected and have prior expectations of the service (Chalmers, 2002).

BITC has 22 branches throughout the country and its database is representative of regional proportions of SMEs in New Zealand, defined by the number of people employed (Commerce, 2000). The current research sample figures conform with national statistics of 84 percent of businesses employing five or fewer full-time people and 96 percent of businesses employing fewer than 20. As well, national statistics show females make up 38 percent of entrepreneurs (GEM, 2002), a figure which is matched in this research. This sample reasonably approximates national statistics on female entrepreneurs in New Zealand.

SURVEY RESULTS

Manager-Owner Descriptors

Females make up 38 percent and men 62 percent of BITC's clients. Both are primarily aged 41-50 (females 33 percent and males 39 percent). Second rankings show 30 percent of females being 31-41 and 26 percent of males in 51-60 category. Third ranks are almost equal in the 51-61 category (females 25 percent and males 26 percent).

The majority of BITCs business owners have only secondary school qualifications - females (28 percent) and males (31 percent). There are three female and four male business owners with only primary qualifications. A diploma qualification is second ranked for females at 20 percent (13 percent for males) as against a Trade Certificate for females (7 percent) and for males (23.4 percent). Third ranked for females is a professional certificate (18 percent, 11 percent for males) and for males a degree (14 percent). Females hold an equal 14 percent, but a fourth rank. More females (11 percent) hold a post-graduate certificate than males (7 percent).

Over 71 percent of females owners work full time in their business as compared with 84 percent males.

Females (34 percent) have owned another business as compared with 45 percent of males.

The majority of females and males had more than 5 years (47-48 percent) experience as an employee. Their experience as an employee in another business for all periods is remarkably close, including the percentage for no experience, both at 29 percent.

The prime reason for going into business is a desire for independence (females 46 percent, males 43 percent). Both males and females show personal ambition as a second rank (26 percent). Third rank is exploiting a commercial opportunity (females 7 percent) and avoiding unemployment (7 percent) for men. Combining avoiding unemployment and job dissatisfaction accounts for 5 percent of females and 8 percent of males. .The combined scores for desire to innovate and exploit a commercial opportunity are females 13 percent and males 7 percent.

Business Descriptors

BITC's client businesses are situated in the largest North Island city, Auckland (females 21 percent, males 22 percent), with the largest South Island city, Christchurch second (females 17 percent, males 15 percent). Wellington, the capital city, ranks third (females 10 percent, and males 7 percent equal with North Shore and Hamilton, satellite cities of Auckland). Businesses of females and males spread reasonably evenly throughout the remainder of the regions of New Zealand, but trend downwards in line with the population.

Females (38 percent) predominantly operate their businesses in their local area, a marginal second rank for males (26 percent). Operating nationally is second ranked for females (23 percent) and first ranked for males (27 percent). International operations are a third rank of almost equal percentages, females 17 percent and males 18 percent.

Most females (34 percent) and males (22 percent) identify their business activities as being within the wholesale, retail and hospitality sectors. However, second ranked for females is community, social and personal services (23 percent) and for males is manufacturing (22 percent). The third ranked industry for females is manufacturing (16 percent), and for males building and construction (14 percent). Both have a fourth ranked of business services, finance, insurance and real estate (females 11 percent, males 13 percent).

Business Form, Age, and Growth

The main form of ownership is sole proprietor (females 38 percent, second ranked for males at 23 percent). Most businesses take the form of private company for males (58 percent), second ranked for females (35 percent). Partnerships are third ranked for females (23 percent) and males (17 percent).

More females (25 percent) than males (17 percent) have owned their current business for up to 1-2 years. In the 3-5 year period ownership is identical for females and males (29 percent). Ownership for over five years show females at 41 percent and males at 50 percent.

Generally, females (39 percent) did not employ any staff or had only 1-4 employees (38 percent) although 12 percent did employ between 5-9 staff. The majority of males (46 percent) employed 1-4 staff. Only 26 percent had no staff and 18 percent had between 21-30 staff.

The majority of females (54 percent) and males (49 percent) did not envisage employing staff within the next 12 months. However, females (26 percent) and males (27 percent) did consider a one-member staff increase was likely. A two staff member increase was possibility (females 10 percent and males 11 percent) and greater than two were almost equal possibilities for both females (8 percent) and males (11 percent).

Management Issues and Needs

Lack of market knowledge was the first ranked business impediment (females 25 percent and males 23 percent). Lack of finance/difficult bankers ranked an equal second (females and males 20 percent). Lack of management expertise is third ranked for females (12 percent) whereas lack of right mix of employee skills is third ranked for males (15 percent). This is fourth ranked for females (9 percent), and ranks equally with inadequate business systems, and lack of innovation – new markets. The latter is fourth ranked for males (10 percent).

Advice from mentor's experience was the prime reason to approach the mentor organisation (females 44 percent and males 49 percent). Both females and males ranked second the importance of the mentor acting as a sounding board (34 percent equally).

Owner-managers identified whether obtaining assistance from the mentor organisation helped them bring about positive changes to their business. Although these responses are specific to this mentor organisation it is interesting to note that the perceptions of both females and males were almost identical.

1. Opportunity to reflect on business development (females 59 percent, males 56 percent).
2. Opportunity to reflect on management issues (51 percent for both).
3. Better understanding of the business (48 percent females, 45 percent males).
4. Implemented new processes or systems (37 percent females and 34 percent males).
5. Developed business or marketing plans (35 percent females, 34 percent males).
6. Improved turnover (32 percent females and males)
7. Improved financial management (27 percent females, 28 percent males)
8. Increased profitability (28 percent females, 27 percent males)
9. Encouraged them to undertake training (females 25 percent, males 17 percent)
10. Networked with other businesses (22 percent females, 19 percent males)
11. Improved use of technology (16 percent females, 19 percent males)
12. Joined an industry association or chamber of commerce (12 percent females and males)
13. Improved access to suppliers (10 percent females, males 12 percent)
14. Accessed finance - bank or grants (9 percent females, 10 percent males)
15. Changed location (6 percent both female and males)
16. Improved relationship with council (4 percent females, 5 percent males)
17. Started exporting (4 percent both females and males).

DISCUSSION AND CONCLUSIONS

New Zealand's culture has continued to move towards proactively supporting women since the opportunities provided through their right to vote and have a say in the nation.

Legislation continues to specifically address their social and equity needs. The key constitutional positions held by women provide role models of female capability and leadership. In ten years the affirmative movement has gone a long way towards closing the gap in the number of females employed in senior positions.

The increased attention and assistance being given to SMEs is on the whole non gender-specific. From the data collected in this research there is high significance in the closeness of female and male percentages and rankings to most questions asked. The reasons for this would be the focus of further study. It is highly likely that social changes, the role of women in society, and the legal support provided have contributed to enabling female entrepreneurs.

Fewer female entrepreneurs set up as a company and are more likely to operate as a sole trader in their local area. This links closely to the predominant differences in service sector involvement and in particular female involvement in community and social services and hospitality.

The low and almost matched percentages of anticipated staff increases for females and males revealed in this research appear to endorse Frederick's (2003) assertion that on the whole New Zealand's entrepreneurs lack the urgency to grow and create wealth and instead favour a balanced lifestyle.

This research sample is weighted towards the "pull" factors for starting a business (Jodyanne Kirkwood & Brown, 2001). These entrepreneurs want to be independent, they have personal ambition and seek to exploit an opportunity. Push factors such as negative work conditions were of low significance in this survey and are not the main motivators for starting up a business.

Eight percent more female than male owners are under the age of forty and thirteen percent fewer females are full time workers. This indicates that younger women could be combining family commitments with their business.

Seventy percent of female owners and seventy nine percent of male owners had been in business for more than three years. They were proactive in seeking assistance from the mentor organisation and equally rated being keen to hear advice from a mentor's experience. It is not surprising that both male and female owners rate their business impediments of market knowledge and finance/difficult bankers almost identically. These impediments indicate a cycle stage of their business and could imply a desire to grow it, or save it from new entrants to their market and falling sales. This could be a further area for study.

Most impediments for the business owners wer not significantly different. The greatest gender distinction in impediments were noticeable in the third rankings. Females lacked management expertise a 4 percent difference, whereas whereas males lacked the right mix of employee skills, a 5 percent difference.

The labour intensive nature of the service sector compared with the capital intensive manufacturing sector is referred to by Kirkwood (2003). She sees female entrepreneurs' involvement in services as against manufacturing as being responsible for females' lower sales volumes. The six percent difference between females and males in manufacturing is not as high as could be anticipated from her analysis. The main distinction between males and females is in community and social services where there is a 15 per cent difference.

This certainly provides a reason for the high zero employment figures for females and low their sales. They would be more involved in low paid, individual services such as cleaning.

Little research has been carried out on gender-specific requirements for female entrepreneurs in business. Of particular interest is the almost identical responses given for all mentor assistance categories. This research shows that the mentor assistance was equally beneficial for male and female entrepreneurs in almost all categories surveyed but especially in management and marketing which were the areas that both genders identified as the major impediments to their businesses.

The action plans of Industry New Zealand to bring about a positive business culture in the country, of the MWA to encourage women's entrepreneurship, incubators associated with universities, Industry New Zealand clusters, and assistance agencies for businesses all point to the building of a supportive environment for female entrepreneurship.

Gaps are closing in the female/male statistics, but they are still there. Some women do not feel the need to be targeted for special treatment and are happy with their access to non-gender specific assistance. Women are succeeding academically and politically and the independence business offers is enticing for female entrepreneurs. Systems which integrate advice, support, mentoring, and training in specific areas to develop these women and meet their needs will enable an intending female entrepreneur to maximise her potential.

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MANAGING WORK / PERSONAL LIFE INTERFACE WITHIN FAMILY BUSINESSES

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ABSTRACT

The growth in the importance of non-standard forms of employment at the labour markets has, for its part, complicated the question of work/personal life interface. The emerging situation at the labour markets concerns also those working in their own businesses and in family businesses. This group has to large extent, been largely if not fully forgotten in in the public policy and governmental policy discussions dealing with work/personal life interface. The same concern is true also for research within work/family -interface. Research done in the field of work/family balance within business activities, specifically within family business, has been scarce. The underlying assumption seems to be that work and family balance is seen as related only to paid employment relationships, thus being a policy targeted specifically towards employers, and secondly, mainly to women. It could be argued that in family business the work/life balance question concerns every member of the family, and cannot thus be targeted towards women only, even if the question itself remains gendered. In addition, in family businesses work and family cannot be separated as in the case of employees since the same people are functioning both at work and at home. The family/work relationship could be assumed to cause frictions or problems, when the issues of family vis à vis business become confronted with each other. However, the general assumption does not necessarily have to hold true.

In the following paper, we will present an overall view to the discussion and some of the main empirical results obtained. The research analyses the unexplored field of how and in what way balancing of work/family in family businesses is realized. The study is based on a nationally representative survey among Finnish family businesses, the focus has been to study how and in what ways the work and family are combined. Secondly, the aim was to explore the dynamics between family activities and business activities. Results suggest that issues related to work/family interaction are mainly well organized in Finnish family businesses. There was no evidence of treatment of business and family as opposites, nor as conflicting, but reckognised as being part of the same continuum. In this study the

situation is described as a scale of balance where the coexistence of business and family prevails.

INTRODUCTION

Even if the idea and meaning of a family firm varies both culturally and economically, it should be noted that worldwide, three-quarters of all companies are family firms (for example Reynolds, Bygrave, and Cox 2002). The importance of families as the cornerstone of the economies has thus been acknowledged, also at the policy level. At the European level, the recent "Green Paper on Entrepreneurship" by the European supranational EU Commission, launched in spring 2003, takes up the key issue of family businesses as a vital element in economies. The importance and significance of family businesses to national economies as a major source of growth and employment and as an incubator for new business ideas has gradually been understood (for example Kets de Vries 1996) also in business studies and research. Economy is not only about big businesses but also, and in many cases more vitally, about economic activities rooted at the family life and originating from family-based business activities. Of the small and medium-sized firms, family businesses are a dominating form of entrepreneurship worldwide and the economic structure of many nations remains dominated by family firms (Chrisman, Chua, and Sharma 2003). Their domestic ownership makes their importance to national economies especially pronounced. It can be assumed, that crises originating from the family might have strong impact on the business within family enterprises.

General academic interest towards family businesses is recent but rapidly growing (Brockhaus 1994). Still most of the writing regarding the family business comes from Anglo-Saxon culture, particularly from USA (PRIMA 2002). And yet, in many studies, the family and its vital role in the family business has not been fully acknowledged until recently. Researchers have given different roles and positions for the family in the family business, ranging from *operational* definitions to *embeddedness* definitions, where the business is an integral part of the family activities. We do not aim to adopt one perspective over another beforehand, but aim to analyze, whether these two systems, family systems and business systems, are seen as separate, competing or necessary for each other. Our specific interest lies in the question of how work in the own business – as being different to paid employment – is combined with family activities in the family businesses.

The need to find a balance between work and family, and the growing need for increased flexibility has achieved a lot of attention in publicity, mass media and both national and supranational economic, governmental and working life programs during the recent years. "The Year of The Family", launched originally by UN in 1994 emphasized the importance of family also in the economic issues in a broad sense. In US, the Office of Work/Life Programs (OWLP) has for a longer time developed and issued policy and guidance programs that deal with work/life and wellness issues that enable US Federal employees to balance both their work and family responsibilities (OPM 2003). Similarly, many corporations have developed alternative work arrangements, family care absence and leave arrangements, created through a time bank, for example, that create flexibility in time and place of employment such as flextime, job sharing, work at home, part time work and compressed workweeks, to attract the attention of workers. All these models are targeted for employees, and pursuing better and more flexible integration of working life and family life. In Europe, similar programs both at the corporation level and at the national

level can be found, effective either through legistation or through individual corporation culture adjustments.

The change in corporation culture has not taken place easily: the need to create flexibility by balancing the employment and caring responsibilities has been notified relatively slowly in the working life practices (Felstead, Jewson, Phizacklea, and Walters 2002). Overall, models such as described above put emphasis on the idea of nuclear family, on effectiveness of the labour renewal at home, and on the role of women in this labour renewal process. Even legislation that puts specific emphasis on equality, most often targets women employees. Employers, when self being in a position of integration of work and family, are supposed to manage it without other mechanisms than the ones offered by the legislation universally to all citizens.

The Invisibility of Entrepreneurship in Work/life Studies

As mentioned above, presently the research of the interaction of work, family and personal life focuses mostly on paid work, problems related to that, and possibilities to increase flexibility in the organizational and in the work-place solutions. One obvious explanation for this is the fact that vast majority of the work force is still in paid employment contracts. However, as the working life is changing, there is growing need to acknowledge and explore these new situations, where employees no longer are in paid employment, but are to be found in a variety of contracts such as self-employed, contract employees, subcontracting, etc. What we find extremely interesting is that the majority of the studies concerning the combination of work and family have been geared either towards employees and their possibilities for balance, their reactions and attitudes, or alternatively, towards family-friendly policies and practices of large organizations and corporations.

Research done within the field of work/life balance within business activities, specifically within family business, has been scarce, and the topic has been nonexistent in the public policy and governmental policy discussions, where the dominance of discussion has fell into the domains of work-life balance programs and their implementation. Even if there has been a call for research related to the family and business interface (Hoy, and Verser 1994), large survey data and policy measurements are still missing for family businesses. In similar vein, the visibility among researchers on work/life interface is lacking. The lack of interest – both theoretically and politically – and/or knowledge, to the lives of those who are not within the policy programs of large corporations, but who juggle with everyday life of business activities render the research into one field only.

We argue that the underlying assumption is that work and family balance is seen as related only to employees, thus being a policy targeted towards employers, and secondly, mainly to women. However, in family businesses work and family cannot be separated as in the case of employees since the same people are functioning both at work and at home (Cromie, Adams, Dunn, and Reid 1998). The questions of work/life activities are strongly gendered, both at the individual level (work-personal life integration), and at the organizational, and socio-political level (family-friendly policies and culture). It could be argued that in family business the work/life balance question concerns every member of the family, and should not thus be targeted towards women only, as it often is at the company level policy practices, if not in documents (Hearn, Kovalainen, and Tallberg 2002).

In research about combining work and family paid employees are the most common research subject, which has partially ruled out from the theoretical standpoints the questions that are relevant when combining work and family in an entrepreneur family. The questions concerning combining work and family are different within entrepreneur families than they are in employee families. On one hand, they are very concrete questions such as the possibilities and costs of parental leave and transfer of business activities from one generation to another. On the other hand, they have implications for the possibilities of developing and growing the business, and possible individual choices between the family and the business. The question of combining work and family has its own special significance when a family business is concerned, when spouses, or even different generations are involved in the business activity. How are work and family combined when work and family meet both at home and at a family business? Family and business are not separate worlds that have significance to each other only on special occasions, and not separate in time and place as in the case of employee families.

Work and Family as Life Spheres

Both time budget studies and surveys on the attitudes towards the importance of work in life give evidence to the idea that entrepreneurs place work before family more often than employees (Cromie, Adams, Dunn, and Reid 1998; Reid, Dunn, Cromie, and Adams 1998). What is interesting is that a “family-business family” might actually spend more time together than an “employee family” who are working regular hours, and their work is intertwined with the time they spend together. A business family may spend inordinate amounts of time together, in fact; whereas an employee family’s is together only during leisure time. In family businesses, the time becomes practically interwoven in comparison to employee families.

At the more general level, it has been noted that work/life balance is partly a phenomenon of the modern society where work is detached to a separate life sphere. Paid work is acknowledged as one of the most effective ways to prevent social marginalization and injustice; on the other hand long hours and stressful work have detrimental impact on employee’s physical and mental health and family life (Felstead, Jewson, Phizacklea, and Walters 2002). The significance of work and family as life spheres has been mainly researched within time and quality of working life studies. A family as a sphere of life has been studied mainly within family studies. The work has gained more significance in today’s society in building one’s identity as familial relationships have been replaced by working skills (Sennett 1998). The discrepancy between values and reality is visible in the results of the studies concerning the value systems in modern society: Even though people value family more than anything else in their lives, family has to give way to work. Work and family can also be seen as compatible but in recent years they have become rivals, they are seen as competing with each other (Russel Hochschild 1997).

Combining work and family has been seen as a source of conflict for the entrepreneur but in several studies it has been shown that the role of the family can actually be very positive for the business (Dyer, and Handler 1994). Since the entrepreunial career and work are demanding balancing of the needs in both areas is not easy (Baines, and Wheelock 2000). Therefore, the argument most often is that the immanent conflict between family and business lies at the heart of family businesses’ problems (Kets de Vries 1996). The problem is often considered to be psychological in nature and the solution to the conflict therefore comes from the sense of duty towards the business existing within the family (Donnelley 1964). Another argument most often existing in the family business litterature is

that the family business is seen as a very good way for combining work and family flexibly (Dyer, and Handler 1994). Members of the family are not just part of the family, they are also individuals, having separate, yet interwoven past, presence and perhaps even future. In the case of divorce, the family business is often targeted in many ways and at various levels. Again, when compared to employee families, the assumed effect of the divorce usually is at the personal level only, not at work at all.

The gender is present in a family business research in many ways: Work and family balance is more often mentioned when women entrepreneurs are being studied. Women are more likely to mention a work-family balance as a reason to start a business (Baines, and Wheelock 2000; Javefors Grauers 1999; Kovalainen 1995). A family business can be seen as a meeting point of the traditionally masculine public sphere and the traditionally feminine private sphere; and this relationship should be made visible (Javefors Grauers 1999; Karlsson Stider 2000). It could be assumed that the impact of gender does not sum up in a comparison between women and men but internal dynamics of family business has an impact on what position the gender as a predictor of attitudes gets in combining work and family. Also, assumptions of the ways gendering takes place within the family and at work, does have impact: In Finland for example men seldom take parental leave, even if they are entitled to it through legislation. The work family interface thus in fact affects more women than men, and only few corporations encourage men to participate family life in their family policies. Gender does become visible in several ways: in gendered patterns of behaviour, in gendered policy instruments, but also in the ways families solve their work/family interface.

In What Ways Has the Family Impacted on Family Business Studies?

It is crucial to acknowledge that family businesses are not a homogeneous group (Birley 2001), similar everywhere, irrespective of the cultural and societal differences between countries. A dominant view has prevailed in family business literature that family businesses differ from other businesses regarding the impact of the family (Baines, and Wheelock 2000). Family businesses have similar features only if families have similar features. It is not, however, sensible to assume that families would be more homogeneous than businesses when it comes to structure, culture and nature of activities (Coffee 1996). The changes in the family structure in the Western societies put under consideration the question if family businesses are at all different from other businesses. Do we even unnecessarily make a distinction between these two, in order to emphasise the rational nature of the business logic and irrational, emotional nature of the family logic? We will come back to this question in the end of our paper. Empirically, the difference between the family activities and business activities exists, and there is no reason to expect that they would be similar or even resemble each other, even if the rethorics often parallels in business and in family.

It is clear that a family has an impact on the business activity but it is important to ponder if this impact is analytically distinctive enough a feature to have an influence of its own. A family is certainly not a feature that would define the business activity deterministically and create a homogeneous business group, as sometimes believed. The family as a social base of the business cannot as such diminish or change the significance of the business competence in business. But in a family business the role of the family has to be pondered in many ways in different phases of business. This study will focus on ways the family and business activities are seen in relation to each other in a nation-wide survey done in Finland.

RESEARCH

The fact that attention has to be paid to the definition of a family business and the generalizability of results has repeatedly been emphasized in recent international family business studies. A national sample has rarely been used in family business studies, and where small local samples have been collected the generalizability is limited (Winter, Fitzgerald, Heck, Haynes, and Danes 1998). The data for this study was gathered within a national research project on family businesses. The data used in this paper consists of a representative sample of Finnish small and medium sized enterprises and thus fullfills all those criteria set to national data sets. The data analyzed in this study consists only of the family businesses.

The firm was defined as a family business if the answer to any of the following questions was positive: 1. Do you think your business is a family business? 2. Has anyone of your immediate family or relatives (spouse, children, parents, siblings or their children) ownership in the business or has anyone of them invested their money on the business for example as a loan? 3. Does anyone of them work in the firm as a paid employee? The firm was not regarded as a family business if a) it was a question of a one person firm, that is the respondent acts alone but defines himself/herself as a family business b) it was a question of “we are a big family” thinking, that is there is no family connection between owners and employees.

A family business is generally defined by some combination of characterizing features such as the subjective view of an owner-manager, the presence of a family, ownership, management and generations. In this study the definition was based on the subjective view and the presence of a family. Tight definitions that are based on ownership, management and generations are not necessarily useful when trying to understand the business/family perspective defined primarily by the owner-manager (PRIMA 2002), therefore the tightest criteria were not used in this family business study. A broad definition is used here since when studying this area it is enough that a business has some features of a family business. Instead of the definition the aim is to focus on how the family is actually perceived at work.

The 26 attitude statements regarding the interaction between family and business were analysed. The attitude statements covered a variety of issues concerning the family business activities. These statements were originally grouped in six question areas: Business and family matters, Division of labor and skills, Business goals and development, Communication and human relations, Remuneration and commitment, and Ownership. The analysis of the data was exploratory, as the attitude patterns were not tested beforehand, and no formal hypothesis were set. Multimethod analysis (factor analysis, cluster analysis, crosstabs and chi-square tests) was used to analyse the data. Relationships with the most interesting background variables were also exlored.

RESULTS

Even though the starting point of the study was exploratory, the results were following neatly the theoretical dimensions discussed earlier. The variables were grouped in the analysis in three dimensions: the business logic, the family logic and the dilemmas of the

family business. On the basis of the descriptive statistics and further analysis, it can be argued that there is a strong agreement in Finnish family businesses about issues related to combining business and family. Our study also reinforces the outlook that combining work and family has an impact on the success of the business. And when things go badly for the business a conflict with the family can arise as well.

There is a strong agreement of the overall nature of the business logic in family businesses. The dimensions related the business logic are business goals that is the way business is run, the importance of professionalism and the share and the spread of ownership & power. It falls rather naturally that family businesses cannot afford to differ from other businesses of similar size and sector when it comes to business principles and practices. According to Kelly, Athananissou, and Crittenden (2000) the most harmonious family businesses are those with clear and unanimous vision. The results concerning the Finnish family businesses strengthen this result.

These are very relevant and interesting findings as they challenge the view that family businesses have specific problems in these areas, due to the family. Especially ownership has often found to cause troubles in international family business studies. Family businesses are often small since along with growth the ownership base often has to be broadened in order to secure the access to capital. Family businesses in general want to keep the ownership within the family (Cromie, Adams, Dunn, and Reid 1998). Ownership is probably more personified in family businesses so reacting between ownership and economic situation is quicker and more direct: The willingness to change the ownership when things go badly shows the importance of ownership relations.

As for the family logic, in the research sample dimensions related to human relations & contradictions and trust are in order. Only emotions seem to complicate the business activity somewhat as a significant part of the respondents feel that the feellings are involved too often in the business activity. Strong feelings and the externalization of feelings are indeed found to be typical for family businesses (Kets de Vries 1996). Feelings can make it more difficult to evaluate relatives' words or actions objectively (Tagiuri, and Davis 1996). Except for the item of feelings, our results challenge the outlook that human relations would complicate the family business activities. On the other hand, the idea of trust and good communication as strengths of a family business (for example Kets de Vries 1996; Lansberg 1983) is confirmed in our results.

Other problems of a family business most often mentioned in research litterature related to the monetary issues are the unfair rewarding system and the unbalanced relationship between contribution and compensation: most often there is a question of overcompensation or undercompensation (Kets de Vries 1996) The view about fairness seems to differ within the family and the business (Lansberg 1983). Our results do not give much emphasis on this dilemma, as most of the family businesses do not see these issues as problems – contrary to what a lot of previous literature suggests.

In this study, biggest differences among the family businesses are caused by dimensions related to relatives vs. outsiders and work & leisure time. The first dilemma of the family businesses includes attitudes towards employing relatives and the need for stronger external expert involvement. Nepotism and lack of professionalism are often said to be the most difficult problems of a family business but there have been studies that have found not much evidence of this (for example Poutziouris, and Chittenden 1996). In this study the respondents found the management (in part, their own) of the business to be professional.

However, a significant part of the respodents is willing to give work to all willing relatives and an equally significant part recognizes a need for more outside involvement.

Work & leisure time, related to the family logic, revealed to represent the second dilemma of the Finnish family businesses. In many studies most family businesses have placed business before family (Cromie, Adams, Dunn, and Reid 1998; Reid, Dunn, Cromie, and Adams 1998); although Finnish respondents have typically put family first more often (Birley 2001, PRIMA 2002). There is some evidence of a systematic business orientation in this study: First, this becomes visible in reporting the use of time since the majority of the family businesses recognize lack of leisure time. Secondly, this becomes visible in reporting the overwhelming nature of business, as a substantial portion of the respondents experience arguments on business matters at home or even feel that business is their entire life. This supports the view that family, work and leisure time are interrelated in family businesses. This complexity does not however naturally mean complicated nature of the relationship, on the contrary, the swift dynamics between different 'ends' of the continuum refers to the strength of the family businesses in Finland.

DISCUSSION AND CONCLUSIONS

Considering the empirical results in our study from the national survey on Finnish family businesses and the analysis presented above we can conclude that the issues related to balancing work and family are mainly well functioning and conveniently organized without bigger contradictions in Finnish family businesses. This result is interesting for several reasons. First, it suggests that family businesses are basically effective and rational in their activities: the family does not seem to present a big problem, 'irrationality', source for endless problems or even a threat to business activity – contrary to the claims often made in the research literature. The family is often argued to be both a resource and a restraint for the business (Miller, Fitzgerald, Winter, and Paul 1999). It is sometimes seen as a separate and contradictory element in the business because of its logic of activity is seen as compromising and deviating from rationality that business has to be run. In this study there was not much evidence of the negative impacts of the family towards the business. In the following we closer analyse the reasons for the assumptions such as the one described earlier.

The assumption of the distance between family and business may stem from the stereotypical idea of business activities being strongly attached to rational, logical, and autonomous decision making processes where issues such as emotionality, feelings etc. have no place, while family is often seen strongly attached to private sphere, 'emotional haven' in the ruthless world, uncapable of functioning according to the business logic. This basic assumption is most often reflected in the research litterature, reflecting only the strong division created in the thinking of the economic realm represented by the business, and emotional realm represented by the family. Our empirical results do not, however, give support to these stereotypical images of the distinctiveness and oppositional nature of families and businesses.

The role of the family has been found also elsewhere to be a more significant factor for the success of the business than many so called traditional elements (Dyer, and Handler 1994). The commitment of the family to the business activities can be a huge resource in the process of founding growing business. Having a family has proved to increase

enjoying work and the positive impacts are bigger than negative. In family businesses there is an emotional element involved in the activities, which is lacking from other businesses (Reid, Dunn, Cromie, and Adams 1998); and an effective management style is based on understanding human relations, not on denying them (Donnelley 1964). The results put the question of the role of the family in the family business into consideration. It has implications for the role of the family in other kinds of businesses as well, as we have shown earlier in the discussion in this paper.

Second, the empirical results challenge the view of the family as an opposite to the business. We suggest, based on our empirical findings, that not only theoretically but also empirically family and business are intertwined and should be placed in a continuum rather than treated as separate and opposites to each other. In the family business literature a dominating theme has been the idea of two separate fields: business and family (for example Karlsson Stider 2000). The assumptions concerning the two systems, family and business, are often presented as fully contradictory, which is then seen to lead to an easy conflict. The systemic approach that proposes setting clear boundaries is not always possible but rather there is a spillover effect from one system to another (Miller, Fitzgerald, Winter, and Paul 1999). The two dimensions, work and family, are intertwined though they are analytically often kept separate (Coffee 1996).

We suggest that the dimensions found in our data-analysis mean that family and business could be set to a family/business continuum interlinked and intertwined with each other. In the analysis it became evident that some of the family businesses are more attached to the business logic and some of them to the family logic. The situation can be described as a scale of balance where at the other end weighs the business logic and at the other end the family logic. In the scale different elements can be seen as separate dimensions but they form an dynamic entity. We suggest futhermore that it is probable that no family business stays statically in one place at the continuum but moves dynamically over time. The family and the business are intertwined, which does not exclude the idea that they can also be conflicting regarding some factors. It is therefore not very fruitful for future research to think the business and the family as “two entirely separate worlds”.

A question could be asked whether business and family are really seen as opposite elements in an individual’s life or is there an entity of life where a continuum exists instead of separate elements. The difference between family and business might be partly produced and reproduced by the research and not through the reality prevailing in the respondents’ life. An alternative to the system approach could be the field theory where individuals have positions in field and they are trying to maintain a dynamic balance (Miller, Fitzgerald, Winter, and Paul 1999). Family and business have overlapping fields among which there is competition on resources. The family business is an interesting research subject precicely because of the dynamic interaction of business and family in a continuum that is not based on unchanging balance, but on the variation of the importance of family and business in the continuum.

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PUBLIC POLICY, PRIVATE REALITIES: AN ASSESSMENT OF THE CONTRIBUTION OF THE WASHINGTON CONSENSUS TO SMALL BUSINESS DEVELOPMENT IN ZAMBIA

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ABSTRACT

This paper examines the role of government and public policy as it affects small business in Zambia.

Zambia's privatisation programme, as part of its broader macroeconomic reform programme, should have created an environment much more conducive to small business growth and proliferation as a large part of the economy moved out of state control. This paper seeks to examine to what extent this has been the case.

Using a combination of desk top and interview-based research, the paper examines recent Zambian political and economic history, considers some of the outcomes, and looks in some detail at the current regulatory environment for small business. In doing so it touches on the informal economy, formal and informal employment, and costs of borrowing.

The conclusion of this paper is that the recent reforms are a necessary but insufficient precondition for the establishment of a small business-friendly environment in Zambia, and that small business remains hampered by a relatively unfriendly regulatory regime, as well as a range of other challenges including high interest rates.

Recommendations concentrate on some realistic and quite specific policy options available to the Zambian government to create a more enabling environment for small business growth and proliferation.

ACKNOWLEDGEMENTS

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INTRODUCTION

This paper examines the impact of macroeconomic policy (in particular the implementation of the Washington Consensus[1]) on the environment for small business in Zambia.

Zambia is an important case study because it is a developing country with high unemployment, a country where a thriving small business sector could make a dramatic difference to the lives of those who live there. It is also important because in 1991 it began to quite vigorously implement most, if not all of the macroeconomic requirements of the Washington Consensus. However, it has conspicuously failed to experience the growth that was anticipated, not least in the arena of small and medium business.

This has been deeply disappointing to many. Zambia's privatisation programme, as part of its broader macroeconomic reform programme, should have created an environment much more conducive to small business growth and proliferation as a large part of the economy moved out of state control and foreign direct investment flowed in.

THE STORY SO FAR

Let us begin with a brief background to some of the global and Zambian developments that have brought us to the current situation.

In 1989 an economist named John Wilkinson outlined a set of economic policies which were believed to be a formula for promoting growth. Although Wilkinson has said that he was specifically addressing the situation in Latin America,[1] his ideas became widely accepted amongst the highly influential foreign donor community (notably the World Bank and IMF) as being appropriate to the developing world more generally.

In Zambia they were to have a powerful impact, as the following outline of recent political and economic developments in Zambia illustrates.

From October 1964 when Zambia gained independence from Britain until 1991 it was governed by the United National Independence Party (UNIP) led by Dr Kenneth Kaunda. Zambia's political environment was initially pluralist, changing in 1972 into a one party state. In late 1990 in response to a range of pressures President Kaunda accepted the re-introduction of multi-party politics. The Movement for Multiparty Democracy (MMD) won those elections by a landslide and in October 1991 formed a new government led by Frederick Chiluba.

The economy that they inherited faced a number of challenges. UNIP had subscribed to a state led development model, financed mainly by revenues from copper (and also cobalt)

[1] The 'Washington consensus' were a set of policies designed in the early 1990's which were believed to be the formula for promoting economic growth in the developing world. These policies called for free trade, fiscal austerity, and reduced government intervention in the economy. Source: online dictionary http://www.onelook.com

exports and, crucially, World Bank and IMF loans secured against expected future revenues. (It must be noted that at least initially this was entirely in line with much of the development orthodoxy of the time).

As a result many social and economic indicators showed remarkable improvements in the years immediately after independence. However, the copper price has steadily declined in real terms since 1970.[2] The effects of this were exacerbated by the increase in oil price in 1973. In many ways these two shocks precipitated what became long term socio-economic decline.

Zambian annual per capita income had dropped from US$700 at independence to US$290 in 1989. While Zambia's performance on social indicators such as school enrolment and infant mortality was good in the 1960s and 1970s, "economic decline saw improvements falter".[2] Primary school enrolment rates dropped after 1985.[3] Infant mortality (which had fallen from 147 per 1000 live births in 1969 to 79 in 1977-8), actually rose to 107 during 1987-91; and a higher percentage of children under 5 years of age were stunted or wasted in 1990/91 than in 1970/71.[4]

In 1991 over 250 State Owned Enterprises made up over 80% of GDP (as against fourteen SOEs making up some 14% of GDP at independence).[5] Zambia's external debt had risen from US$623 million in 1970 to over US$ 7 billion in 1990.[6] GDP was around two-thirds of the level of the late 1960s.[7] The rate of inflation was over 90%.[8] Scheduled debt servicing used up some 61% of export earnings.[9] To all intents and purposes the state was bankrupt and government's role in providing social services had been weakened and sidelined.

The answer was the imposition of a set of Washington Consensus reforms. This was supported both internally and externally in Zambia. Internally in that the new MMD government's view on the private sector was quite different to that of its predecessor. It noted that "the government restricts itself to rehabilitate and build socio-economic infrastructure with a small public sector in the midst of a basically private enterprise economy".[10] Privatisation in particular was envisaged to be extensive, the MMD noting that "the government will not engage in business"[11].

This might seem surprising since the MMD grew out of the Zambia Congress of Trade Unions of which Frederick Chiluba was Chairman General from 1974 to 1991.[12] However, the ZCTU was dissatisfied with the manifest failings of state ownership, which was seen to impact negatively on workers health and safety as well as more general economic decline. The failure of state ownership and direction of the economy had been apparent for some time. Simwinga argues that as early as 1977 there were indications that government would, in the interests of national development, tread "more of a capitalist path of development than it has done since 1968"[13] while in 1989 Turok reported that

the system is presently not inducing the development of the productive forces which is leading to stagnation in the state sector and hence to a questioning of the state's leading role in the economy and of its legitimacy generally.[14]

[2] Though it shows recent signs of picking up as demand from China increases.

Also, when the MMD was officially launched in December 1990 it received support from Zambia's small private sector, which was keen to see more of the economy under private sector management and ownership.

The MMD was thus able to articulate and push for a policy of privatisation both despite and because of its strong labour credentials. Having said that, it must be noted that international pressure was a factor of some significance. For example, the IMF's Rights Accumulation Programme[15] attached the following conditionality:

(i) ceilings on reserve money and domestic credit creation;
(ii) compliance with various fiscal indicators, including reduction in debt arrears; and,
(iii) policy changes to liberalise the foreign exchange and credit markets.[16]

(The programme, which enabled Zambia to reschedule its debts to the IMF[17], commenced in April 1991 – *before* the MMD accession to power – was a result of the resumption of regular relations with the World Bank[3] in March.)

The reform programme that the MMD embarked on had four main components: privatisation; macroeconomic stabilisation; agricultural reform; and reform of trade and industrial policy.[18] Within this framework, austerity measures introduced included cost sharing for medical and education services; privatisation of nearly every state owned company (notable exceptions thus far include Zamtel, Zesco and ZNBC[4]); restriction of money supply through a cash budgeting system (whereby government only made payments if it had the cash available); liberalisation of trade; "stringent" revenue collection; and the introduction of Value Added Tax (VAT).[19] (It must be noted that the reduction in the size of the public sector has focused more on the state owned enterprise sector than the civil service.)

This gives us an idea of some of the broad changes that Zambia has undergone since 1991. What is crucial to consider is its impact on the environment for small business. As we shall elucidate, the impacts have not been as positive as many would have hoped.

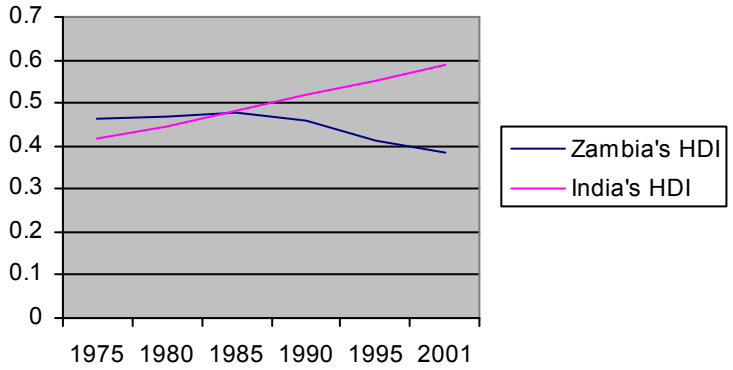
BUT SOMETHING WENT WRONG

This process of macroeconomic stabilisation and liberalisation was designed to stimulate growth and development. Shifting the economy from public to private management was intended to make it more efficient and lead to growth.

In fact it hasn't. Very few of Zambia's economic or social indicators have shown much improvement since 1991. Zambia's Human Development Index, for example, showed its most marked decline *after* 1990 as the following graph indicates.

[3] A Structural Adjustment Programme was first in fact attempted in Zambia during 1983-1985. However, in May 1987 in response to extreme political discontent and food riots in Lusaka and the Copperbelt at the end of 1986 (most specifically in response to dramatic increases in the price of maize) the agreement was abandoned.
[4] The state telecommunications company, electricity utility, and broadcasting company respectively.

Figure 1: Zambia's Human Development Index trend (India used as comparator)



Source: UNDP Human Development Indicators 2003, Table 2, Human development index trends, pp 243-244

Since 1991 Zambia has also seen a significant decline in the number of formal sector jobs. This is disconcerting as it may point to a decline in conditions for small business (though, as we discuss shortly, many may be operating in the informal sector).

Today there are some 470,000 formal jobs in Zambia. Some 10.9 per cent of total labour force of 4.3 million (in a population of 10.3 million) is formally employed.[20] This is a significant decline on the situation in 1991 when there were roughly 544,000 jobs, meaning that 17 per cent of the labour force of 3.2 million[21] was formally employed.

In part this is due to privatisation. In early 2003 a study produced by the Zambian Privatisation Agency noted that Zambia's privatisation programme has resulted in the loss of more than 105,000 formal sector jobs over ten years.[22] Although, one would have hoped that this would have been offset by an increase in private sector employment this does not seem to have been the case. To use the railway privatisation as an example, those who have been involved from a union perspective have noted that, almost without exception, those workers who have been retrenched are now not working and in a situation of poverty.[5]

As Table 1 shows, the overwhelming majority of the labour force (75.5%) is informally employed, mostly in the agricultural sector. Clearly this hides very high levels of under- and un- employment (an official unemployment figure of 14.5% must be dismissed as being laughably inaccurate). Having said that, it would be a "mistake, however, to believe that all informal sector operators are underemployed. Some do have gainful employment, and the big challenge is to expand that group of informal sector entrepreneurs."[23]

[5] Personal interview with Kelly Kazika, General Secretary, Zambia Railway Workers Union, Lusaka, Thursday 11th December 2003

Table 1: 1998 Employment Structure

	Number	*% of total labour force*	*% of total employed*	*% of total informal sector employed*
Size of labour force	4,712,500	100.0%		
Unemployed	681,500	14.5%		
Total employed	4,032,00	85.5%	100.0%	
--- of which:				
Formal sector employment	465,00	10.0%	11.5%	
Informal sector employment	3,566,00	75.5%	88.5%	100.0%
--- of which:				
Informal sector agriculture	2,807,00	59.6%	69.6%	79.0%
Informal sector non-agriculture	795,00	16.9%	19.7%	21.0%

Source: Ministry of Finance and Economic Development, cited by Jacaranda Consult[24]

What is significant about these figures is that despite some three quarters (75.5%) of Zambia's labour force being informally employed, World Bank data indicates that half (48.9%) of Zambia's national income comes from the informal economy.[25] This disparity would seem to indicate that a significant level of economic activity is taking place in the informal sector.

Of course we are assuming that most small business owners, presuming that they are engaged in legitimate enterprise, would wish to operate formally. The reason for this assumption is that operating formally is a *sine qua non* for those wishing to supply goods or services to large companies; obtain bank loans; achieve formal debt recovery, to mention just some of the host of other benefits to the entrepreneur.

However, it is common cause that the costs of regulation (especially inappropriate regulation) are disproportionately high for small businesses because of their limited administrative resources and uncertain cash flows. Likewise, regulations that are difficult and expensive to comply with typically cause many small businesses to respond by keeping out of the formal economy.

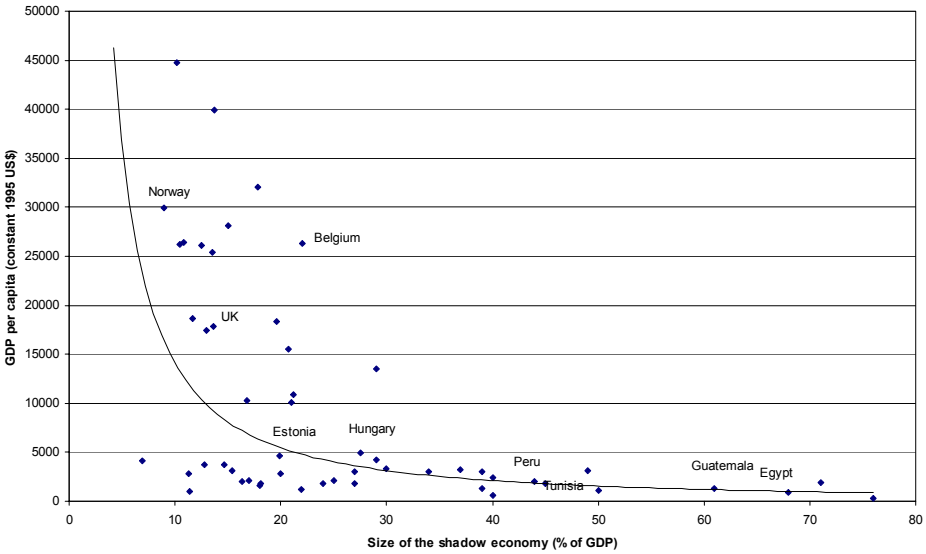
We are therefore obliged to conclude that at least one reason such a large sector of the Zambian economy remains informal is that the policy environment is creating barriers to entry into the informal economy – in short, it's cheaper to remain informal. Of course this means that the environment is not conducive to the growth and proliferation of small businesses.

However, a real problem is that having a large sector of one's economy in the informal sector implies a range of social and economic costs. The World Bank's *Doing Business in 2004* report argues that in the informal economy workers have no protection, they enjoy no social benefits, cannot use pension plans and school funds for their children, and they have no paid vacations or maternity leave.[26] Of importance to small business, entrepreneurs live in fear of the taxman and the police and thus keep their operations below efficient production size, thus reducing the number of productive jobs and severely diminishing the opportunities for lifting people out of poverty.[27] Likewise, businesses that do not pay taxes reduce the resources available to government for the delivery of social services and infrastructure. Companies in the informal economy also tend to apply little or no product quality control, with potential negative consequences for consumers.

Despite all of the problems associated with operating in the informal sector, and despite the regulatory barriers to moving into the formal sector, surveys show that in Africa micro and small enterprises employ more than 40% of all new entrants to the labour force.[28] Research also indicated that under optimal circumstances just around 5% of these enterprises grow to employ 10 or more people.[29] These figures would seem to indicate that significant potential for job creation exists if barriers could be removed.

That a large informal economy tends to have significant developmental costs is illustrated by the chart below, which links size of the informal sector (shadow economy) to economic development.

Figure 1: GDP per capita and the size of the shadow economy[30]



Bad regulation therefore actually acts as a barrier to development by keeping a large proportion of the population out of the formal economy. That this is so is highlighted by considering the counterfactual, namely that if one removes these obstacles to moving into the formal sector, the benefits can be remarkable. Peruvian economist Hernando de Soto reported that

[W]e…cut dramatically the costs of the red tape to enrol small businesses. By 1994 Peru had the world's highest growth rate of about 13% per annum. It was a huge shock… All we had to do was make sure the costs of operating legally were below those of surviving in the extralegal sector, facilitate the paperwork for legislation, make a strong effort to communicate the advantages of the programme, and then watch hundreds of thousands of entrepreneurs happily quit the underground.[31]

One of the goals of the current Zambian administration is to increase the number of jobs to one million. At a 13% growth rate (assuming that the number of jobs increased at the same rate as GDP), this would be achieved in a period of five years. (If it could be sustained for ten years, it would double again the number of jobs to 1.8 million).

As a comparator, at the current growth rate of around 3%, again assuming the increase in number of jobs is the same as the increase in GDP, it will take twenty three years to increase the number of jobs in the country from 500,000 to one million.

Thus indications are that, despite the admitted gains in macroeconomic stability, the environment for small business in Zambia remains a retardant to growth. Let us now turn to look at the environment for small business.

SO WHAT *IS* THE ENVIRONMENT LIKE TODAY?

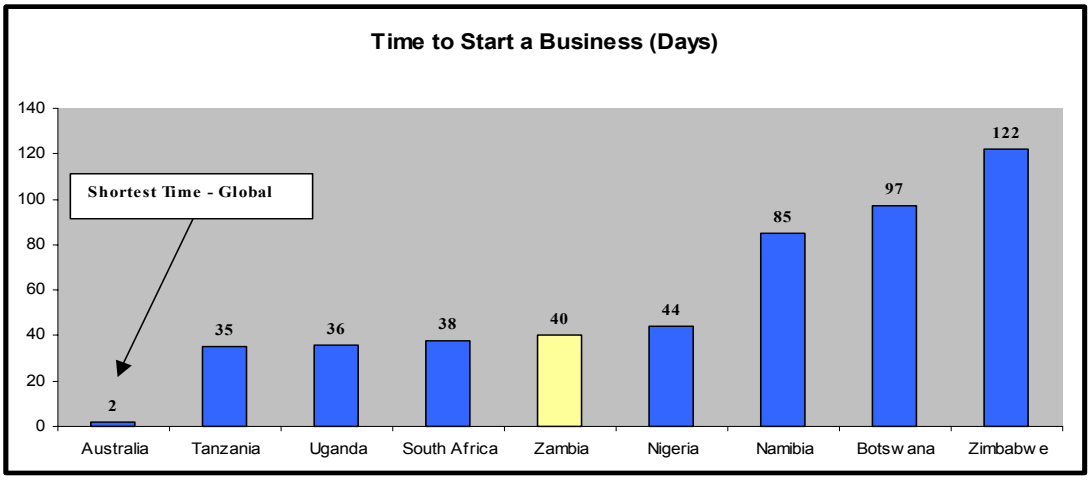
One of the more useful recent sources of information is the World Bank's "Doing Business in 2004" survey.[32] We begin with the costs of starting a business, and examine some of entry regulations. On the surface, it seems that starting a business in Zambia is relatively easy, as Table 1 illustrates.

Table 1, Zambia entry regulations

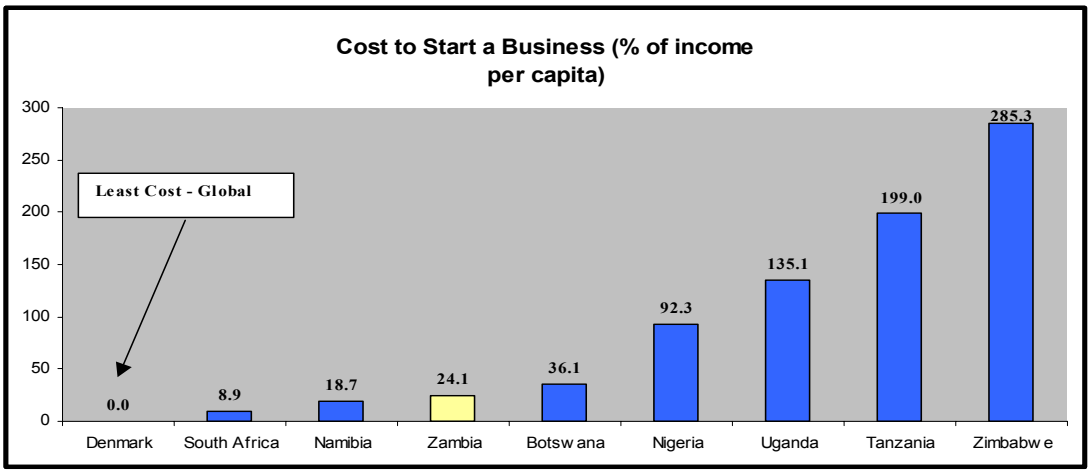
Number of procedures	**6**
Time (days)	**40**
Cost (as a % of income per capita)	**24.1**
Minimum capital (as a% of income per capita)	**137.8**

Source: Doing Business in 2004 Zambia Country Profile

When benchmarking the time and costs of starting a business in Zambia against its neighbours it also seems that the hurdles are not unduly insurmountable.

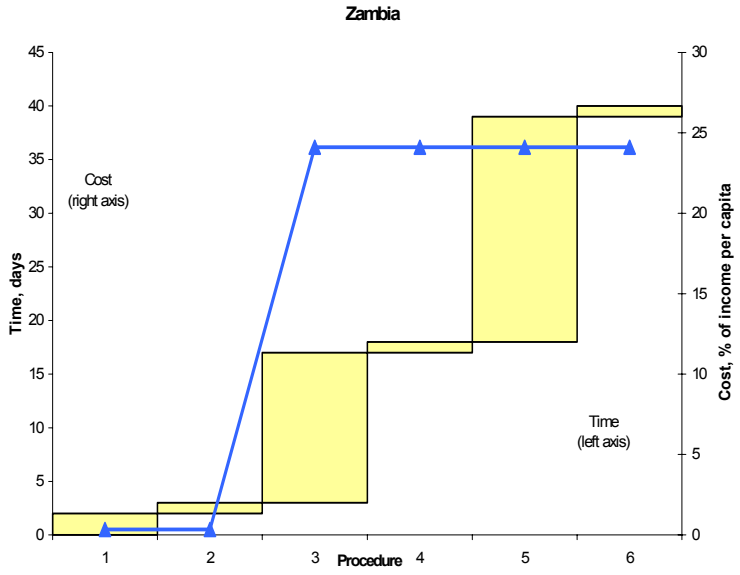


Source: Doing Business in 2004 Zambia Country Profile
Source: Doing Business in 2004 Zambia Country Profile



However, the following chart illustrates that there is room for improvement.

Zambia business entry regulations



1. Obtain pre-approval of name
2. Open a bank account
3. Register company
4. Register with ZRA
5. Register for VAT
6. Register with social security

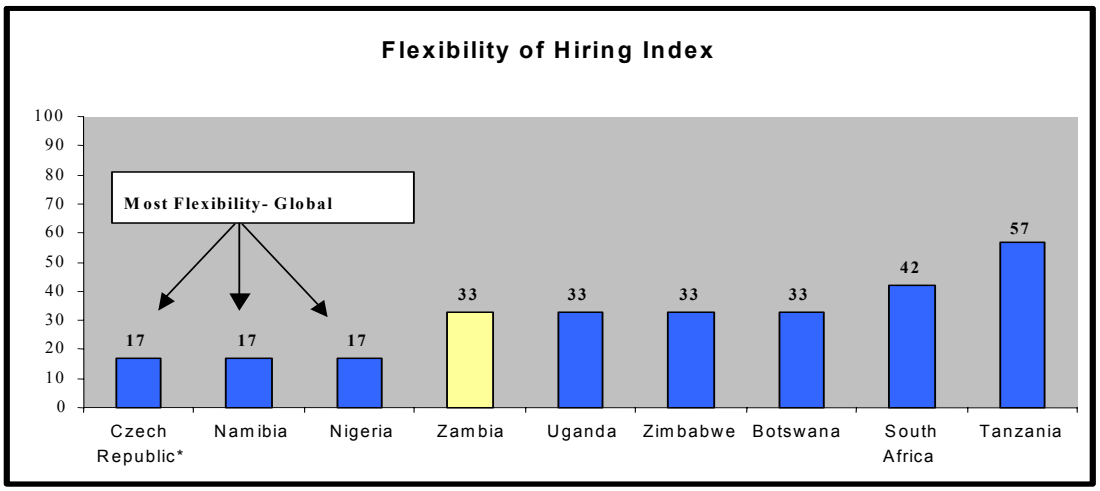
Source: Doing Business in 2004 Zambia Country Profile

This shows quite clearly that two of the most time consuming and expensive elements of starting a business are company registration (procedure 3 above) and VAT registration (procedure 5 above). Simply by concentrating on these two aspects of the entry regulations many informal businesses could possibly be encouraged to move into the formal sector, with the attendant social and economic benefits that this move entails.

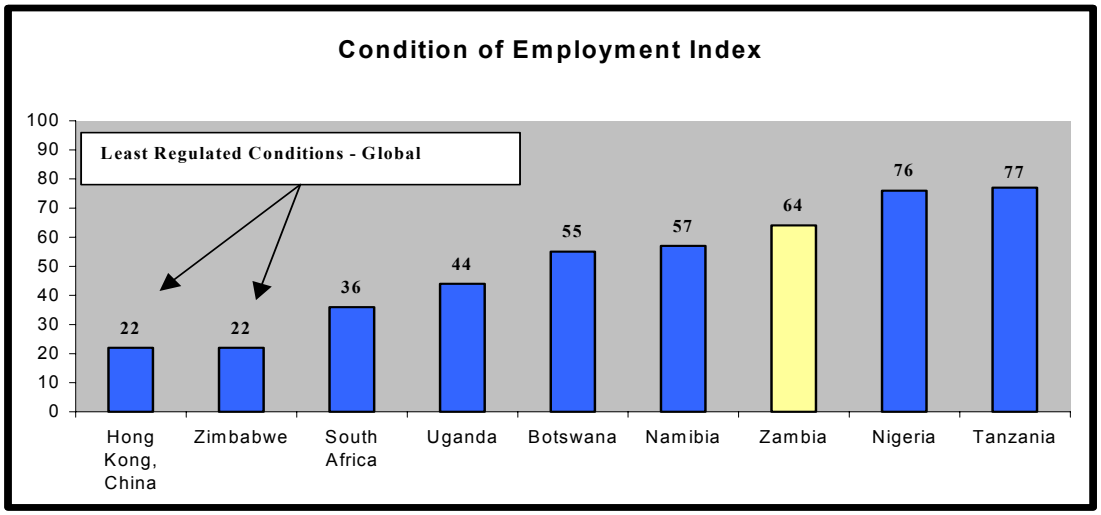
This is important. The evidence shows that "burdensome entry regulations do not increase the quality of products, make work safer, or reduce pollution. They hold back private investment, push more people into the informal economy, increase consumer prices and fuel corruption."[33]

Hiring and firing workers: employment regulations

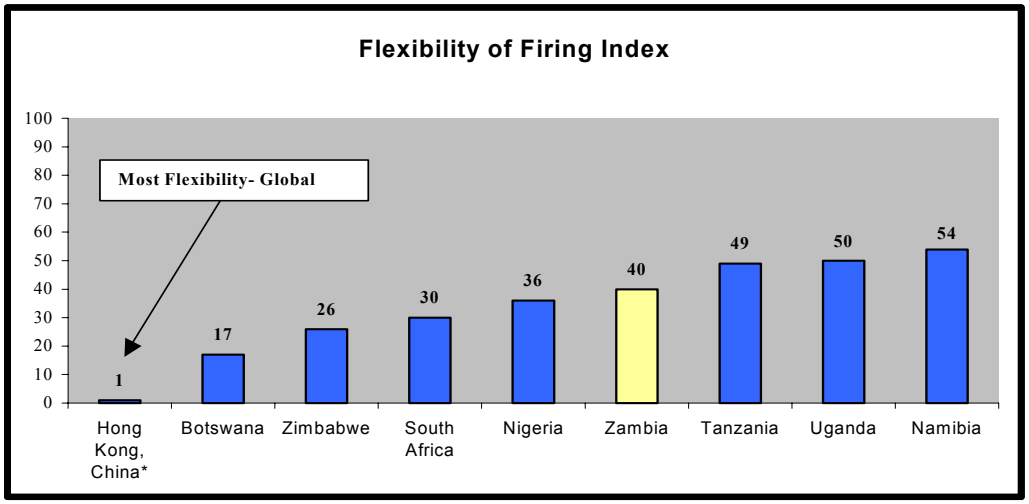
Another important contributor to the costs of doing business in any country is employment regulation. Workers rights, and in particular rights of those people dismissed from employment has, been a politically significant issue in Zambia, particularly jobs lost due to privatisation or foreign companies closing down. However, the World Bank argues that disadvantages of "strict regulatory intervention" include: less job creation; longer unemployment spells (and the related skill obsolescence of workers); reduced investment in R&D investment; and smaller company size. "And with fewer job opportunities in the formal economy, the expansion of an unofficial sector becomes inevitable."[34]



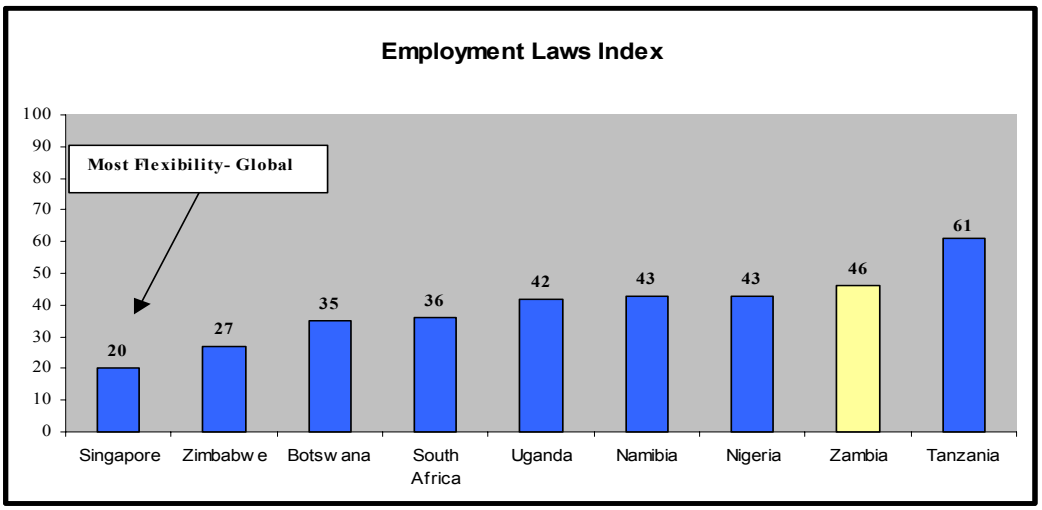
** Other countries that offer the most flexibility globally include China and Papua New Guinea.*
Source: Doing Business in 2004 Zambia Country Profile



Source: Doing Business in 2004 Zambia Country Profile



** Singapore is another country that offers most flexibility globally*
Source: Doing Business in 2004 Zambia Country Profile



Source: Doing Business in 2004 Zambia Country Profile

HIRING & FIRING WORKERS – ZAMBIA

Flexibility of Hiring		
Part-time contracts	Part-time employment is prohibited	No
	Part-time workers are not exempt from mandatory benefits of full-time workers	Yes
	It is not easier or less costly to terminate part-time workers than full-time workers	Yes
Fixed-term contracts	Fixed-term contracts are only allowed for fixed-term tasks	No
	What is the maximum duration of fixed-term contracts (in months)?	0
Conditions of Employment		
Hours of work	What is the mandatory minimum daily rest?	0
	What is the maximum number of hours in a workweek?	48
	What is the premium for overtime work?	0.5
	There are restrictions on night work	No
	There are restrictions on "weekly holiday" work	Yes
Leave	Days of annual leave with pay in manufacturing?	24
	Paid time off for holidays is mandatory	Yes
Minimum Wage	There a mandatory minimum wage	Yes
	Conditions of employment in the constitution	Yes, mentioned generally
Flexibility of Firing		
Grounds for firing	It is unfair to terminate the employment contract without Cause	Yes
	The law establishes a public policy list of "fair" grounds for dismissal	No
	Redundancy is not considered a "fair" ground for dismissal	No
Firing procedures	The employer must notify a third party before dismissing one redundant employee	Yes
	The employer needs the approval of a third party to dismiss one redundant worker	No
	The employer must notify a third party prior to a collective dismissal	Yes
	The employer needs the approval of a third party prior to a collective dismissal	No
	The law mandates retraining or replacement prior to dismissal	Yes
	There are priority rules applying to dismissal or lay-offs	Yes
	There are priority rules applying to re-employment	No
Notice and severance Payment	Legally mandated notice period (in weeks) after twenty years	4
	Severance pay as number of months for which full wages are payable after covered employment of twenty years.	40
Right to job security in the constitution	Right to job security in the constitution	No

Source: Doing Business in 2004 Zambia Country Profile

Enforcing a contract: court efficiency

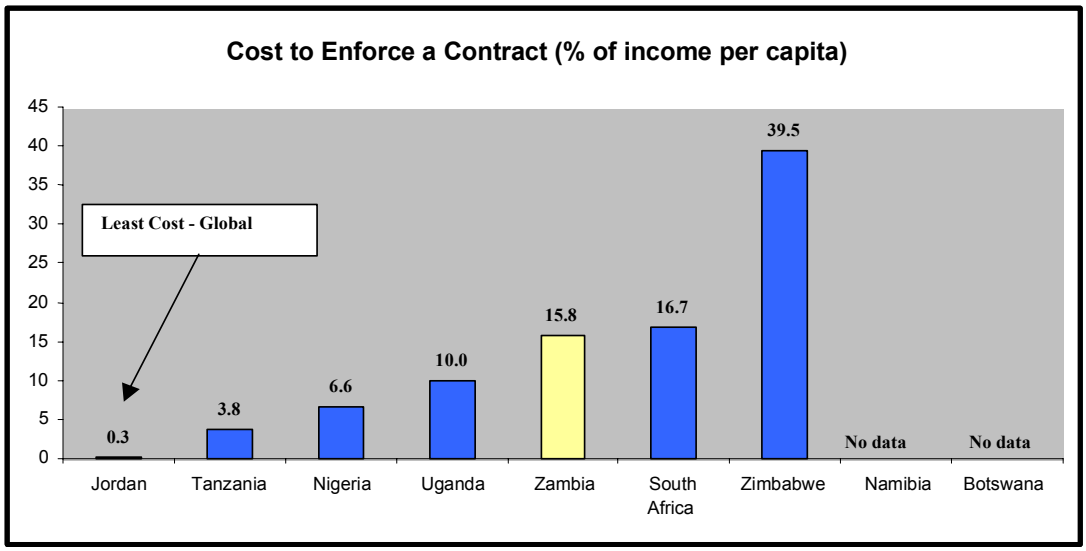
Clearly court efficiency is another important element of the costs of doing business in any country. Without swift and cost-effective contract enforcement, businessmen and women tend to only do business with people they know and trust, shying away from potentially lucrative and job-creating business opportunities.

So how does Zambia stack up? The table and two charts below indicate that while the *cost* of contract enforcement seems reasonable, the *length of time* it involves is significant.

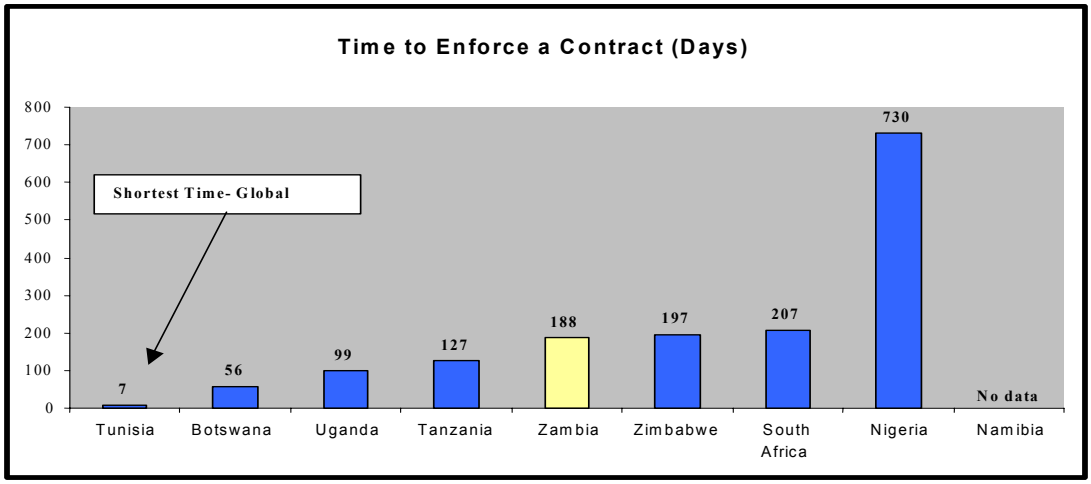
Table 2, Zambian contract enforcement

Number of procedures	16
Duration (in days)	188
Cost (as a % of per capita GNI)	15.8%

Source: Doing Business in 2004 Zambia Country Profile



Source: Doing Business in 2004 Zambia Country Profile



Source: Doing Business in 2004 Zambia Country Profile

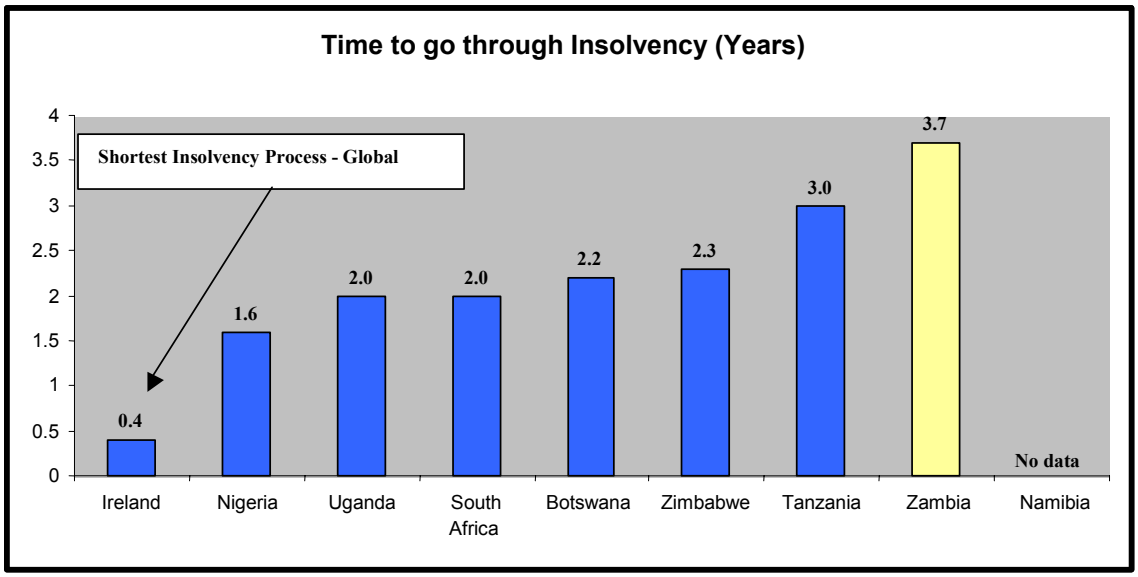
Getting credit: creditor rights and credit information

One of the key ways in which business expands, and thus creates new jobs, is through borrowing. Incidentally this is a key area where macroeconomic policy links to microeconomic policy. If interest rates are high or unstable, it makes borrowing very expensive, so business becomes less inclined to borrow. One of the key institutions in any effective environment for this is credit registries. Zambia does not have a credit registry, which means that it is harder to borrow, particularly for individuals and small businesses with limited collateral.

Closing a business: bankruptcy

One of the less pleasant but no less important aspects of business regulation concerns corporate bankruptcy. It is important that this process happens swiftly and efficiently, allowing for both prompt repayment settlements for creditors, and possibly an opportunity for entrepreneurs to try again.

The following chart illustrates that in Zambia it takes a significant amount of time to go through insolvency.



Source: Doing Business in 2004 Zambia Country Profile

The administrative costs of doing business outlined above are encapsulated well by the table below which show that in terms of simply running a business, some governments require too much of the owner or manager's time.

Table 3: Percentage of senior management's time is spent with officials negotiating or obtaining licenses, regulations, permits or tax assessments?

Lesotho	24.56 %
Tanzania	14.4 %
Mozambique	14.12 %
Zambia	13.92 %
Zimbabwe	9.76 %
Mauritius	9.58 %
Malawi	7.89 %
South Africa	7.63 %
Namibia	7.56 %
Botswana	5.82 %
Swaziland	3.41 %

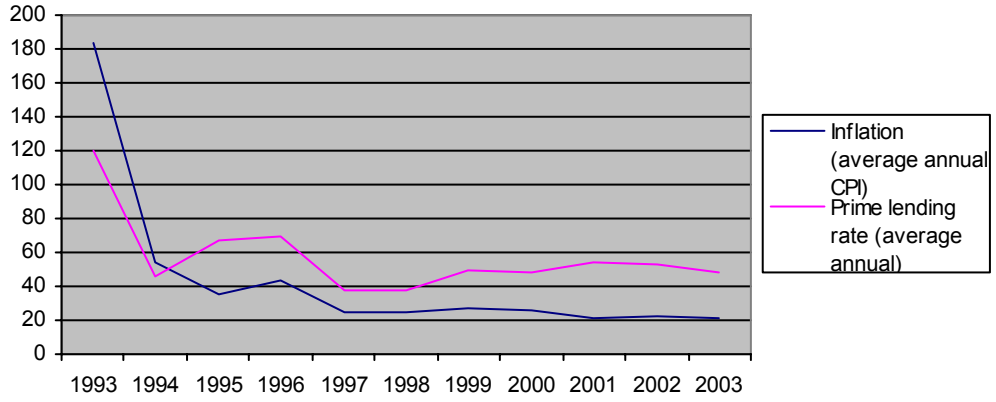
Source: World Economic Forum, Africa Competitiveness Report 2000/01

In Zambia, a little over one working day in seven of senior management's time is spent dealing with government officials (their colleagues in South Africa and Malawi by comparison spend one working day in thirteen on government liaison). This makes it very difficult for businessmen to concentrate on their business.

Cost of borrowing

In Zambia, despite the implementation of many of the macroeconomic reforms, the cost of capital remains high. Despite a reduction in the overall inflation rate to 17.2% in December of 2003 (down from 26.7% in December the previous year)[35], interest rates remain high at 38% for the average lending base rate and 45.6% for the average lending rate (though these are down from 42.5% and 50% at the end of 2002).[36]

The following figure captures the high costs of borrowing in relation to the rate of inflation.



Source: Stanbic Bank

Dataset:

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Inflation (CPI - annual average)	183.3	54.6	34.9	43.1	24.4	24.5	26.8	25.9	21.7	22.2	21.5
Prime lending rate (annual average)	119.6	45.8	66.7	69	37.2	37.4	49.22	47.9	54.35	53.14	48.33

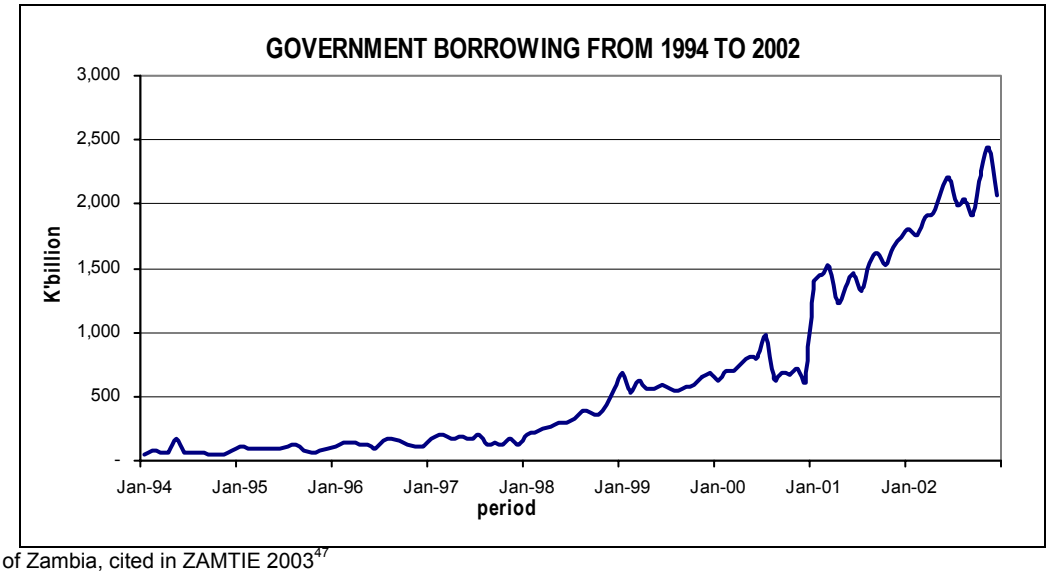
Research points to two primary causes for this: high levels of government borrowing, and the Statutory Reserve Ratio requirements on commercial lenders. As figure 2 illustrates government borrowing remains high, which is contributing to the high costs of lending and seems to have 'crowded out' private sector borrowing.[37] Continued budget overruns and the apparent "recurring inability of the government to adhere to budgeted projections"[38] has had significant adverse consequences for Zambia: in 2003 the IMF withheld financial support due to overruns (of some 19%[39]) which also puts adverse pressure on inflation, interest rates and currency. An important consequence was that Zambia missed a completion point under the Highly Indebted Poor Country (HIPC) which would have "helped to reduce its unsustainable external debt stock of US$6.5 billion by US$3.8 billion." [40] (The HIPC completion point has been postponed to the end of 2004 and President Mwanawasa's administration has publicly committed to meeting it). A local banking analyst noted that "Domestic borrowing to finance the fiscal deficit is of fundamental concern. The stock of domestic debt rose by nearly 29%. In 2003 domestic debt amounted to 5% of GDP against the budgeted 1.5%."[41]

A second contributor to the high costs of borrowing seems to be the Bank of Zambia's Statutory Reserve Ratio requirement on commercial lenders.[42] The Bank of Zambia enforces minimum

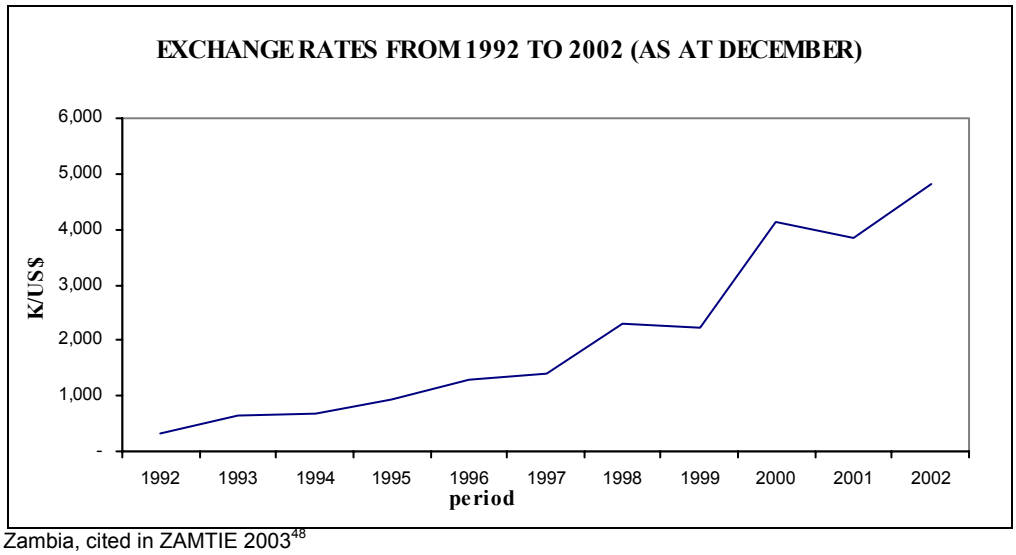
Liquidity Ratios at 35% of the total public liabilities or deposits that must be held in liquid form; and, Reserve Ratios at 14.0% of both the total Kwacha and foreign denominated public liabilities that must be kept in a sterile account with BOZ. The study established that CBs not only consistently met the Statutory Reserve ratios but, maintained their core liquid assets with BOZ at levels that were appreciably higher than the regulatory level of 35%. This was partly as a result of the attractiveness of the interest rates offered on government securities that are risk free and involve very little administrative costs as opposed to commercial lending. [43]

However, "in practice…these regulatory ratios effectively lead to the "quarantine" of more than 42% of CB deposits that are placed in both sterile and interest earning accounts at BOZ. This leaves CBs with an insufficient amount of deposits that they can retain for lending to private borrowers."[44]

A positive recent development is that this has been reduced from 17.5% to 14%[45], which was done "with a view to improving availability of loanable funds in the banking system".[46] Thus although the situation is improving, in real terms borrowing remains unaffordable to most businesses.



Source: Bank of Zambia, cited in ZAMTIE 2003[47]



Source: Bank of Zambia, cited in ZAMTIE 2003[48]

CONCLUSION

There are many other factors not covered in this report which contribute to the challenging environment for small business in Zambia. Education and, more precisely, relative paucity of skilled people are a factor, as is AIDS, which is affecting work forces and the teacher corps. This paper has barely touched on the agricultural sector Tax compliance costs have not been discussed fully (though fortunately the small business sector received tax relief on the 2004 budget with the introduction of a "presumptive tax of 3% on small companies with a turnover of K200 million per year or less, thus exempting them from company tax. This measure was introduced to reduce tax administration costs."[49]) To borrow a Bushism, it is important not to 'misunderestimate' the impact of these factors on the costs of doing business and in particular how heavily they weigh on small business.

Nevertheless, it is very clear that the regulatory environment is a factor of some significance. Hernando de Soto's anecdote about Peru was illuminating. It is particularly significant because of all the factors impacting on the environment for small business, regulatory costs are arguably the easiest to change and have a rapid impact.

We are forced to conclude that the macroeconomic reforms are a necessary but insufficient contributor to an environment conducive to small business growth, and that the relative absence of business-friendly (especially small business – friendly) regulation in Zambia, underpinned by principles of RBP, has been a significant factor affecting the environment for small business, and thereby on employment and pro-poor growth.

A WAY FORWARD?

Zambia faces a choice. It has made some courageous and necessary steps, yet in many ways is still paying the price for nearly three decades of state-led development. It can build on successes and move towards a genuinely business-friendly regulatory environment or it can retreat and try again to regulate and direct development.

Unfortunately, recent trends indicate that the country is pursuing the latter option. Three pieces of legislation are particularly concerning: the Investment Act, the Labour Act, and the Hospitality Bill. These propose to increasingly regulate businesses with a foreign shareholding (which would affect at least half of all operating companies in Zambia) and dramatically increase the rights of contract and casual labourers. This legislation, while protecting existing workers, will almost certainly impact negatively on the numbers of people hired and result in smaller company size, and, as the World Bank notes, "with fewer job opportunities in the formal economy, the expansion of an unofficial sector becomes inevitable."[50]

Yet there are also encouraging signs: a business coalition, the Zambian Business Forum has been formed and is engaging government regularly on issues affecting the private sector. Also the Minister of Commerce, Trade and Industry Dipak Patel has launched a comprehensive Private Sector Development Plan which includes reforms on many of the subjects touched on in this paper and more. However, there remains substantial opposition within the Cabinet and the MMD. Those who are passionate about private enterprise and small business will observe future developments with great interest.

NOTES:

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[4] McCulloch, Neil, Baulch, Bob, and Cherel-Robson, Milasoa (2001) *Poverty, Inequality and Growth in Zambia during the 1990s*, WIDER Discussion Paper No. 2001/123, p 3
[5] Cruickshank, Stuart (2002) Lessons to be learnt from the Zambian privatisation experience paper prepared for the *Restructuring of State Owned Enterprises* conference organised by Marcus Evans held 18-20 September 2002 in Johannesburg.
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[14] Turok, Ben (1989) Mixed economy in focus: Zambia London: Institute for African Alternatives, p 57
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[16] McCulloch, Neil , Baulch, Bob, and Cherel-Robson, Milasoa (2001) *Poverty, Inequality and Growth in Zambia during the 1990s*, WIDER Discussion Paper No. 2001/123, p 7
[17] McCulloch, Neil , Baulch, Bob, and Cherel-Robson, Milasoa (2001) *Poverty, Inequality and Growth in Zambia during the 1990s*, WIDER Discussion Paper No. 2001/123, p 2
[18] McCulloch, Neil , Baulch, Bob, and Cherel-Robson, Milasoa (2001) *Poverty, Inequality and Growth in Zambia during the 1990s*, WIDER Discussion Paper No. 2001/123, p 7
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[28] Hudson, J (2002) SME Alert: An enabling environment for private sector growth: Lessons from international experience Johannesburg: Small Business Project
[29] Hudson, J (2002) SME Alert: An enabling environment for private sector growth: Lessons from international experience Johannesburg: Small Business Project
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[40] Duvenage, Jan (2004) Market Insight: Zambia's 2004 budget, Stanbic Bank Economics Division, p 1
[41] Duvenage, Jan (2004) Market Insight: Zambia's 2004 budget, Stanbic Bank Economics Division, p 1
[42] ZAMTIE (2003) Review of factors affecting levels of Interest rates in Zambia, Prepared by IMCS Limited, p 5
[43] ZAMTIE (2003) Review of factors affecting levels of Interest rates in Zambia, Prepared by IMCS Limited, p 3
[44] ZAMTIE (2003) Review of factors affecting levels of Interest rates in Zambia, Prepared by IMCS Limited, p 3
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Sean Willis is Managing Director of Johannesburg based business media company Terrapinn Limited. He wrote this paper while a Programme Officer with the Johannesburg-based NGO the Small Business Project. For the last eighteen months he has also been working on a study of the political and economic implications of the privatisation of Zambia Railways.

FORGING NEW LINKS FOR NEPAD SMMES. ADVANCEMENT WITH FRENCH BUSINESS PROSPECT & DEVELOPMENT AND WITH FRENCH-EUROPEAN ADMINISTRATIVE REGIONS ABROAD.

Emmanuel. F .ARGO
International Consultant.
Specializing in Corporate Strategy
and Small Business Development.

Chairperson, ladies and gentlemen,

It is an honour and a privilege for me to have been invited for the first time before this esteemed gathering to share this conference and make a contribution in this marvellous season in South Africa that I started to appreciate from over 10 years.
I do wish to extend my warm congratulations to your country for been chosen for the Soccer World Cup 2010

And not enough young to be a Champion de France player in the next Soccer World Cup. Alas!

Chairperson,

I am here essentially with you, to focus both on southern-African Small Business in NEPAD (New Partnership for Africa's Development) and private sector business opportunities in France and its French-European administrative regions abroad.

I am delighted to see that representatives from institutions, enterprises, business decisions-makers, Academics are present

Forging new links for NEPAD SMMEs. And a key component of that is of course mutual interests.

Why? Because we are going to link in business especially, Anglophone, Lusophone, countries with partners in France. It is quite normal, as obviously in different cultures that SMMEs sector is playing a critical role in penetrating new markets and expanding the economy in creative and innovative ways.
Between France and southern Africa, there is an enormous potential.

- First, France as an investment destination offers its mainland and trans-border market and infrastructure projects in a new enlargement Europe of 25 countries.
- Second, given its gateways; and bridges abroad, France offers access to facilitate greater trade with Brazil and in a largest South America / Mercosur area

The republic of France has a population of 60 million inhabitants. The country is divided into 26 regions. All of these regions are administrated by France and apply European Union legislation.

The European Union includes a number of regions which, geographically, distant are close in terms of the exercise of rights and obligations and are very important in terms of territorial integrity.

This is the case with most remote French-European administrative regions overseas, such as Guadeloupe, Martinique, Guyane and La Réunion.

As an inherent part of the European Union and by in terms of the Treaty of Amsterdam, their distinctive characteristics qualify them for additional special treatment notably in economic, commercial and business sectors.

For myself, this terms will reassure business partners and pave the way for developing secure markets NEPAD Small Business based in the European.

Ladies and Gentlemen,

In France, the Small business sector is very diverse, with differentiation between various categories; there is a main distinction between:

Small . Medium . Micro - enterprises.
91.6 % of the 2 300 000 French companies are very small enterprises (less than 10 employees.)
1 200 000 of them having no wage-earners.
SMEs 10 – 499 wage-earners represent 8.3% of the French companies and big companies only 0.1%.
However, their weight on the economy differ strongly:
46% of the jobs are in SMEs, 35% in big companies, and only 19% in very small companies.
SMEs managers are on average in 40 employee- companies, mainly in the three sectors:
Industry, services and business.
So the companies can be manage by :

- the “ homo-economicus ” interested in the economic and financial results of the company;
- the “ homo-politicus ” seeks to reinforce his/her power in the company, or at least to conserve it;
- the “ pater familias ” wants to help his children taking back his patrimony.

Participation and profit-sharing received by employees in 2002 amounted to 1% and 3% respectively in small companies in comparison with 61% and 36% in medium-size and big companies.

As regards Foreign Trade, there are more than 7927 Enterprises all over the country, which have imported goods and services.

SMALL- enterprises.

Is the basis of the pyramidal established businesses. They are usually managed by owner or directly controlled by owner- community, with a staff between 19 and 249*.

They generally operate from business premises call “ Zones artisanales ”. They are likely tax-registered and meet other formal registration requirements as such, business licence, VAT registration and with a minimum inco or shareholding , 1824 have imported in the year 2002.

MEDIUM- enterprises.

The staff is generally between 250 and 1999, rarely beyond.
“ Société à Responsabilité Limitée ”, Limited company, Limited liability Company or Company limited by shares, cooperative society are also established businesses more formal , more complex than the Small category and 469 have imported.
They have to face more constraints, as subject to special fiscal laws, obliged to keep accounting records They operate from semi- or industrial premises.

MICRO- enterprises

These are companies, the owner, his or her close family with a maximum of two or three paid employees. They are a very small business with a limited capital base and also with a minimum of fiscal constraints. The decisions are more flexible.
During 2002. 5634 Micro-enterprises imported goods and services.

As in Southern Africa, Small Business sector plays an important role in economic and social development.
At government level, a Secretary of Sate is responsible for this sector.
It is not my role here, to oppose big and small business. But it is there that for small enterprises have enhance innovation, productivity and stimulated internationally the French economy and its reputation abroad.

In this context, may we talk about Development through Small Enterprises and partnership.

Various remarks which I have recently overheard spring to mind, and in particular the following question :Is there a future for Southern African Small Enterprises and business ? Can they really develop ?
Where the replies to this question have been polite and generally positive, there has been no attempt to position SMMEs within clearly defined time limits.
Elsewhere, others have suggested that this particular business sector is not even at the start of the world development race.

For my own part, I may be allowed to challenge this rather pessimistic view of Southern African Small business.
This I propos with the support of reliable private decision- makers to promote strategies and international partnership abroad.

Which can secure.

In all of our countries, States and Institutions are very close- -weather we are individual or national targets groups - to support Small Business.
In order to extend the facilities and capacities of Small business sector , NEPAD is very active.

They has been substantial and important interaction in policy-making from the last G8 Summit where close attention was given to the NEPAD under the auspices of the French presidency at Evian .

Initiated by Professor Weiseman Nkhulu, Chairperson of the NEPAD Steering Committee, this conference has taken place at the highest levels, where to facilitate and attract private investment including for Small Business.
Recently after the inauguration of President Thabo Mbeki, during a bilateral meeting with Minister of Foreign Affairs Madame Nkosazana Dlamini-Zuma, French Foreign Affairs Minister Michel Barnier has hailed NEPAD's intentions to bring development and stability in the African continent

I have for myself, to pay my respects to the African diplomats in France who play a noble role in the promotion of NEPAD
For this reason, Chairperson, could you allow me to thank in particular, Madame Thuthukile Skweyiya former Ambassador of South Africa in France for what she done, as well Mister Enrico Kemp, currently Chargé d'Affaires at the South African Embassy in Paris

The significance of this interaction is welcome, as it is for developing and supporting Small Business in private economic and adequate structures close to each of us.
I believe there was real vision there . Part of NEPAD's vision is also to enable African SMMEs "to manage the challenge of globalisation and to adapt progressively to new conditions of international Trade."

This challenge of trying to adapt to economic change and bring about sustainable development is not new in Africa.
It is a challenge that most of shared in the Lomé Convention, long before Cotonou Agreement was signed.

The NEPAD, with the aim of promoting integration of the Small Business into the world economy, and thereby contribution to sustainable business development is a necessary mechanism.
I am not oblivious to the pitfalls and difficulties that already exist or may occur in your projects and decisions.
They cannot drive on a linear process. That is the reason we can together share the solutions, because improved market access is not just an issue of tariffs and sometimes quotas, but also non tariffs measures and capacity is required in both the public and the private sector. And not often exclude external expertises to make the best use of the opportunities provided of offered.

What can secure our reciprocal interests ?

One legal aspect among others could be considers: credit-guarantee schemes, subcontracting within a wealthy and diversified experience.
All of us know, the power and contribution of the Small Business sector in our respective countries, is the dynamo for growth, improved income distribution, job creation including management personnel and also pride.
That is the reason, despite the fact of policy-making, it is important to ensure that the initiative is strongly support also by Small Business persons themselves that Enterprises take advantage of these huge economic opportunities.

Access into a French continental mainland market and new enlargement Europe.
Just to illustrate:

It is already the case for Southern African fruits or agricultural products sold during the winter season in Europe.
You might also extend there, other businesses or franchising all over France. The idea can be potentially replicable for Small business in various sectors.
It also can be the same process of business opportunities from France where NEPAD joint venture business and partnership can also reach the 10 new E.U members states countries.

Access into foreign markets via French-European administrative regions abroad.

Is France fortunate to have French-European overseas regions? These regions offer commercial bridges and other part of the world for example:

To the three economic zones of the Atlantic with Guadeloupe, Martinique in the Caribbean, Guyane and Saint Pierre et Miquelon;

to the Indian Ocean with la Réunion and Mayotte;

to the Pacific with New Caledonia, Wallis and Futuna and French Polynesia.

If these racially and culturally and diverse regions are not very visible within the public arena in France, they are a great advantage in building up globalisation of different kind, which is not restricted to their local markets and economies.
From them, it should be organising and facilitating dialogue between Southern African Small business and enterprises interested to access via these cross borders and huge markets like Brazil or the L.A.C. (33, Latin America and Caribbean countries . Last 3 rd Summit in Guadalajara/ Mexico 28 May 2004 with 25 European countries)

How can we follow up ?

Many trade agreements exist between Europe and Africa. The best known is the former A.C.P (Africa. Caribbean. Pacific.) Lomé Convention, transformed into Cotonou Agreement.
This is an oldest and most used opportunity, where in the current case via these French-European regions, commercial exchanges and business can also be done.

During this conference, we will have the possibility to meet, with the support of the Chairperson of the Conference, Dr Baloyi, and other experts, the main institutions which promote sustainable development in Southern Africa .

We are going to see how on both sides, enterprises can rely on adequate services and a supportive existing environment to compete in these external markets.
This project has to be put in place also, within the education sector so that universities, business schools, technikons and people upgrading there skilsl could recognised the benefits of having a career within the international small business sector.

These services will put Small business on a more equal footing , and , as such, it is a powerful instrument to fight exclusion in a rapidly globalizing market and to propose realistic and productive solutions.

On non exhaustive basis, what it will be discussing here ?

We can envisage starting projects, by focussing on programmes such as:

Trade capacities, particularly in the following sectors.
Agro-processing, agribusiness, textiles & clothing.
Business and franchise services.
Small builders contractors.
Transport –sector: Taxis, and Tours operators for the next Soccer World Cup in South Africa.
Co-ordination on flexible private networks and strategic business partners.
Package advices and solutions to:

- international obstacles
- upgrade skill level/ French-European Business schools, Institutes, Universities & Technikons.

Training in top Business companies.

Together, lets build an efficient network and achieve a leap in Small business performance and market impact.

I wish us all a very successful conference.
Thank you for your patience and your kind attention.

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VALUE FOR MONEY SOFT SUPPORTS FOR SMES

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EXECUTIVE SUMMARY

Many countries provide direct financial support by way of grants and low cost loans to small companies, but increasingly many state organisations are moving to replace direct financial assistance with targeted 'soft – support'. This paper reviews the current practice of soft support provision to Small and Medium sized Enterprises (SMEs) in Ireland, with specific reference to the provision of non-directive mentoring and advice, and focuses specifically on a high value for money programme.

Soft supports, for the purpose of this paper, are any non-direct financial support offered to a company by a state backed agency. Typically this support will fall under one of the three main categories of Training, Mentoring and Advice, and will either be provided free of charge or at a greatly subsidised fee. This paper reviews the support provided by the Plato programme over its ten years of operation in Ireland. This programme provides non-directive mentoring and support directly to the owner/manager of SMEs via a network of volunteer large company senior managers and consultants. By drawing upon the goodwill of volunteer mentors, the programme is extremely cost effective and is consequently able to provide very focused support to a huge number of owner managers at very little cost to the participants and the state agencies that fund the programme. The 'bang for the buck' is extremely high.

The paper briefly outlines the history and operation of the programme over the past ten years of successful provision of high-quality low-cost support. For example, the paper will detail the support delivered to over 2000 SMEs to-date, how 12 staff can deliver focused management support to 650 SMEs in one year alone, how high-quality training can be made available to owner/managers for $30 per day and how 108 hours of management development training can be delivered for less than $1,000 per year.

The paper will also provide a roadmap, implementation project plan and budget prediction to business support organisations that wish to develop and implement a low-cost/high-quality SME training and development network in their region.

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The Irish Economy and Enterprise Development - Background

There are a number of factors that have contributed to Ireland's economic success over the last decades. These include favourable government policies, low business tax rates, geographic location and a well-educated and highly skilled workforce. These key drivers have positioned Ireland to receive large-scale international investment and allowed the Irish economy to achieve extraordinary growth since the 1960's. From a predominantly farming and textile based economy Ireland has emerged as a world leading manufacturer and exporter of software, pharmaceuticals and ICT equipment. Much of the engine of this growth has come through the decisions of multinational corporations to establish European and worldwide manufacturing operations in Ireland – products as diverse as Microsoft Windows™, Intel Pentium™ chips and Pfizer Viagra™ are routinely shipped in vast quantities from state of the art manufacturing facilities in Ireland to a world-wide customer base.

Alongside the large foreign owned manufacturing operations a significant number of indigenous SMEs were established to provide manufacturing and service supports to their larger neighbours. This practice was actively encouraged at government level through the establishment of the Department of Enterprise sponsored National Linkage Programme in 1995 which provided a frame work for the direct co-operation between large multinational companies and their SME neighbours. A significant recent element in the transformation of the Irish economic landscape has been the growth of the indigenous SME sector. In the past ten years alone the number of SMEs in Ireland has seen an almost 50% growth, from 140,000 companies to 207,000 in 2002. Many of these companies were formed either as a direct sub-contracting spin-off or as sub-suppliers to large multinational organisations. While multinational companies continue to form an important part of the industrial landscape the indigenous sector is stronger and more competitive. SMEs now form the core of the economy.

One of the core objectives for national industrial policy over the next decade involves a shift in development agency assistance from 'capacity' support for employment creation and fixed asset investment to 'capability' support in the areas of human resource development, research & development, marketing and market development. (Enterprise 2010 – New Strategies for the Promotion of Enterprise in Ireland in the 21st century Forfas 2000). This effectively means a shift from direct 'grant giving' to the provision of soft supports. Furthermore the National Economic and Social Council (NESC) (NESC 1993) suggested that state support for individual companies in intangible areas such as management, marketing, innovation, technology and design would be ineffective unless it was integrated within a wider programme of support which included interventions at the intermediate level of the industry, sector or region. This supported a main provision of the Culliton report that advocated industrial policy should aim to develop clusters of related industries, building upon the sources of competitive advantage.

One long-standing business support initiative that successfully addresses the changing priorities in government funded SME supports is the Plato programme. This programme harnesses the resources and talents of the multinational companies and marries them to the needs and experiences of the individual SME owner/manager to deliver high quality, low cost business support across a wide network of progressive and dynamic small companies.

The next chapter details the operation of the network.

PLATO – Business Support Network

Through a unique partnership with large "parent" companies, Plato provides SMEs with facilitated group learning, specialist expertise and advice, networking opportunities, business development training, and cross border activities. In large companies there is a huge, relatively untapped, supply of management expertise and business experience that could be very useful to SMEs, but is rarely used. Since its formation in 1988, PLATO has been working very successfully to harness this critical business development resource for the benefit of the owner manager of growth oriented SMEs. PLATO networks have now been established in over ten European countries, and the number of regions continues to grow. In one country alone over 4000 small companies have benefited from membership of the PLATO network.

The Plato Approach

Plato is the business support forum for owner managers of small and medium enterprises (SMEs) facing the challenges of today's business world. The PLATO approach is based on regional small business networks that are established to facilitate the development of managerial competence in SMEs. The networks are based on group learning, owner-managers learning by interaction with one another and large well-established companies. The two-year SME development programme is aimed at helping owner managers develop the broad range of management skills, business linkages and strategic vision necessary to develop their companies.

It is based on a network principle whereby large locally based companies (mostly local branches of multi-national corporations), known as parent companies, help and support small companies in their local area. The small companies work together in groups over a two-year period utilising their shared pool of knowledge, skill and experience. In essence the concept is based on a pooling of expertise of and for SME owner managers through structured networking combined with the specialist knowledge gained from the “parenting” with large companies.

History and Development of Plato

The PLATO programme was developed in 1988 in Belgium as an initiative to strengthen and deepen the managerial expertise of the local SME population. In this programme large companies were invited to provide voluntary specialist support to SMEs in all aspects of management and business development. This support could be provided collectively or on an individual basis. Most chose to provide the support on a collective basis, and consequently groups of SMEs were formed. More than 800 SMEs in Kempen have benefited from participation in the PLATO project since 1988 and they have been enthusiastic about the results.

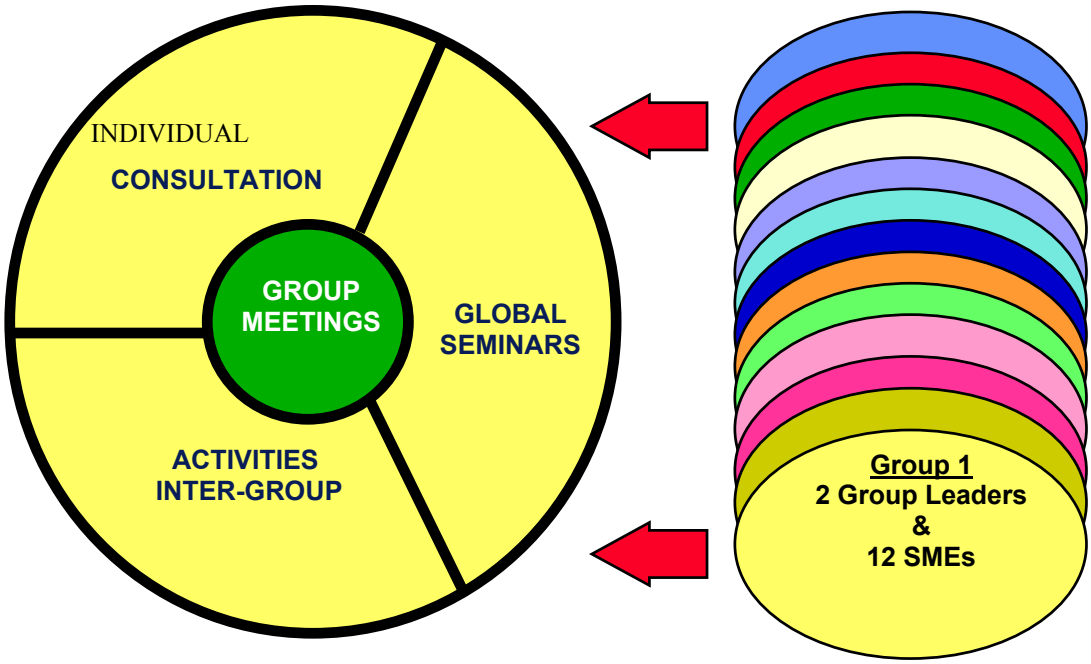
The process was refined and systemised to the point where it could be exported to other regions of Belgium, and indeed to neighbouring countries. Since its inception in 1988 Plato has spread to nine other European countries covering over forty regions and a dynamic and growing network of over 8500 SMEs and 500 parent companies have been part of the process. This rapidly expanding international network offers exciting opportunities to SMEs

across the continent of Europe. When transferring to other countries, the PLATO programme has been adjusted and modified to suit national and local conditions in the different countries. The most recent addition to the PLATO family is the Wessex region in the southern United Kingdom.

When transferring to other countries, the PLATO programme has been adjusted and modified to suit national and local conditions in the different countries. Each region and country manages its own individual networks, under the guidance of the general Plato process and principles.

Operation of a Plato Network

Learning by doing and experience is fundamental to the PLATO process. SME owner-managers interact with each other and share their knowledge and competencies. The network is designed to provide practical advice to help solve their immediate problems. The process is centred on the PLATO groups comprising 10-15 SME owner/managers and two volunteer facilitators per group from the large companies. Each group meets once a month to address a wide range of management issues and to consult with each other. Guest speakers provide specialist support and technical information. Group meetings are complemented by counselling on an individual basis by the facilitators or their colleagues.



Apart from the "formal" PLATO activities, complementary activities and initiatives often take place, e.g. company visits, social events, group training etc.

Within the PLATO network, SME managers have an excellent opportunity to share experiences and learn from one another, have access to advice and assistance from specialists in large companies, and broaden their views through invited speakers and by participating in the seminars. As the relationships grow in the PLATO network, so does the range of commercial opportunities that arise from business linkages. There are many opportunities for the participants to share e.g. information, resources, premises or equipment and to acquire new customers and suppliers or pursue joint ventures. As a

result, many PLATO companies have developed new business relationships through the network.

Also the large companies and their facilitators have experienced benefits from their participation. They have outstanding opportunities over a fairly long time to gain insight into the SMEs more entrepreneurial patterns and their organisational structures, and thereby acquire an entrepreneurial experience with which they may contribute more effectively to the development of their own large organisation.

Detailed Support Delivered to 2000 Irish SMEs in 10 Years.

The pilot programme in Ireland was launched in the early 1990's in Dublin and quickly spread through the rest of the country. Currently there are seven Plato regions operating and thriving throughout the island. This chapter details the activities undertaken and describes the evolution of the network activities in that time.

The earliest programme concentrated on developing the core programme of monthly group meetings. These meetings consisted primarily of local experts giving a short talk on an item of interest, followed by group interactive sessions to discuss the topic. Topics in early core programmes typically included

Taxation Business Planning Sales Forecasting Insurance Analysing Accounts Advertising Promotion Lobbying	Selling Techniques Health & Safety Statements Recruitment Employment Contracts Computer Systems Quality Control ISO 9000 Stress Control	Strategic Analysis Strategic Planning Dealing with banks Cash flow Debt Collection/Credit Control Sources of Finance Letters of Credit

Table 1: Core Programme Topics

The pilot programme ran for an initial 18 months and had 53 owner/managers members. Three results were quickly apparent (Ref: Goodbody):

1) There was a demand for further programme in the pilot area
2) There was demand in other industrial centres for similar programmes
3) There was demand for most specialised training.

Based on the very favourable results in the pilot programme the decision was made to formalise the programme and roll it out to other regions in the country. Currently there are seven independent Plato regions operating in Ireland, and over 2000 companies have joined the programme. The numbers have steadily grown over the years, and the following table shows the number of owner managers who have participated in Plato programmes since the pilot scheme was initiated.

Participants Numbers	1994	1996	1998	2000	2002	2003	TOT
Participants in Core Programme	53	431	776	577	507	540	2,884
Participants in Post Core Programme	0	25	42	311	341	240	959
Total Participants in PLATO Activities	**53**	**456**	**818**	**888**	**848**	**780**	**3843**

Table 2: Number of SMEs and Participants in Core Programme, Follow on and Special Activity Groups

Responding to needs of members the range of services being offered has also expanded. Specialised training courses have been developed and implemented that address specific areas of concern to owner/managers. Bespoke course have been delivered in areas such as:

- Creative Marketing
- Financial Management
- Human Resource management
- Family Business Succession
- General Management Development
- Strategic Management
- Managing for Growth
- Etc.

These 'extra curricular' activities are held weekly, usually over a period of 6 to 10 weeks, and are designed to provide the owner/manager with in-depth training in the specialised area.

Combined with these activities many of the Group Leaders and Regional Managers provide direct One-to-One counselling and support for to the regional managers on an as-needed basis. The following table (Table 3) details the support delivered to owner managers since the programme was extended nationwide:

No. of SME companies in:	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
Core Programme	367	751	656	391	463	298	443	460	**3829**
Continue Programme-Forum	25	0	42	113	140	134	182	188	**824**
Specialised Programme	0	0	0	0	161	121	111	85	**478**
Total No. of SME Companies	***392***	***751***	***698***	***504***	***764***	***553***	***736***	***733***	***5131***
No. of participants in:									
Core Programme	431	854	776	459	577	345	507	551	**4500**
Continue Programme-Forum	25	0	42	120	150	143	230	240	**950**
SpecialisedProgramme	0	0	0	0	161	121	111	0	**393**
Total No. of Participants	***456***	***854***	***818***	***579***	***888***	***609***	***848***	***791***	***5843***
No. of groups	41	62	52	42	60	38	48	51	**394**
No. of group leaders	82	146	117	71	93	63	90	96	**758**
No. of group meetings	308	634	574	380	527	383	425	497	**3728**
No. of guest speakers	189	326	310	187	230	146	173	243	**1804**
No. of hours spent on 1 to 1's (by group leaders)	620	960	790	920	1050	872	994	1114	**7320**
No. of hours spent on 1 to 1's (by regional managers)	940	1484	1064	1279	1854	1530	1975	1849	**11975**

Table 3: Statistics of Participation in PLATO Activities 1993 – 2003

While the individual totals are somewhat irrelevant, the table shows the extent of support being offered to an ever-growing client base.

Roadmap To Implement a PLATO Programme

The steps to develop a PLATO network in a region are well developed and have been refined through various implementations in different countries throughout Europe. While every country and region has their own particular refinements to suit local conditions and business practices, the core steps to be followed are standard throughout all implementations.

Three major supports are available to any group attempting to start a PLATO group in their country, and these are:

- Licensing procedures for the PLATO trademark and concept are simple and straightforward. There is a desire to spread the PLATO concept and ensure the network grows as wide as possible, and consequently any serious request to operate a PLATO region under license is greeted with enthusiasm.
- A PLATO operating manual has been developed. This manual is designed for the PLATO project Manager, and includes details on all aspects of setting up and running a PLATO region. (Ref: PLATO Manual).
- The Network of PLATO Regional Managers is available to support the establishment and development of the new region. There exists a 'missionary zeal' among PLATO managers to spread the word and ensure that the network is as wide and strong as possible. In every case the network of Regional Managers provide direct support to the new region.

After the granting of a license to operate a new PLATO region typically there is a start-up phase of six months before the launch of a new programme, and the following key steps must be undertaken in that time:

1. Business and State agencies in the area briefed on the project
2. A Regional Manager and Administrator appointed and trained
3. Steering committee established
4. Recruitment of Large Company supporters
5. Selection of Group Leaders from Large Company
6. Training of Group Leaders
7. Recruitment of 100 SMEs to the programme

Details on all aspects of the above are available in the PLATO manual, which is made available when the license has been awarded.

Annual Budget

The following is a minimum operating budget to run a Plato programme for 12 months.
The following assumptions are made, and are in line with the situation applying in Ireland and other European countries:

- The programme requires one full time manager and a part-time administrative assistant.

- 100 companies join the programme
- Monthly group meetings are hosted by parent companies, at no cost to Plato
- Group leaders are provided by the parent companies at no cost.
- Programme is co-located with Chamber of Commerce, Development agency etc)
- One specialised training seminar is held every quarter.

ITEM	DESCRIPTION	COST	ANNUAL TOTAL (€ - Euros)
1	Manager Salary	50,000	50,000
2	Administrative Support	15,000	15,000
3	Group Facilitator Training	10,000	10,000
4	Overhead cost contribution (rent, communications etc.)	5,000	5,000
5	Seminar Costs (speaker, equipment rental, promotion, venue rental etc.)	1,000	4,000
TOTAL			**84,000**

Table 4: Annual cost to run a PLATO Programme

Table 4 shows that if 100 companies are recruited to the network, then the annual fee for participation should be €840 (€84,000/100). This is close to the average being charged to SME members in Western Europe at the current time, and members consider this to be excellent value for money.

The above budget is a minimum operating budget for a programme in Western Europe. Many PLATO programmes receive significant outside funding from regional or national bodies, and this additional funding is used to provide more specialised training and development to the client companies. However all PLATO regions operate on a Not-For-Profit basis and consequently all funding is used to increase services or to reduce the membership subscription.

Typical Development Hours Delivered

On an annual basis the following is the average direct 'contact-hours' for a participant on the programme.

DESCRIPTION	#HOURS	ANNUAL HOURS
Monthly Group Meeting	4	48
Specialised Seminars	4	16
Networking Events	6	24
One-One with Group Leader	2	8
One-One with Manager	3	12
TOTAL		**108**

Table 5: Direct Development Hours per Member

Many members develop their own contacts within the various groups and of course the above numbers do not reflect this 'extra-curricular' activity.

For many owner/managers this 108 hours is the only management development training that they undertake during the year, and is a vital part of the development of their business.

PLATO Quantitative Benefits

Several studies have been undertaken that show the significant quantitative benefits that accrue from membership of the PLATO Network. These benefits accrue not only to the individual company but also to the wider economy in the region. In June 1997 the European Commissioner for Regional Policy and Cohesion, Monika Wulf Mathiese launched the "European Job Challenge", a competition designed to identify projects that have been most successful in creating jobs in declining industrial areas (known as Objective 2 areas). The competition was open to all projects supported since 1989 by either the European Regional Development fund or the European Social fund, which helped inject new life into industrial areas thus creating employment. A jury of six independent experts short-listed ten projects for awards. The PLATO Network was one of the projects selected.

The most recent major study of the PLATO Programme commissioned by the Belgian Government and conducted by the Vlerick Management School for the MBA programme of the Universities of Leuven and Genk (published May 2001) studied the results of over 2400 companies over the period 1995 to 1999. Half of the companies were PLATO members and the other half comprised a control group. The primary source of information was the statutory financial reports of the individual companies. The major finding showed that turnover and employee growth were significantly higher amongst PLATO companies when compared with non-members. PLATO also has an SME failure rate of below 3%, which compares very favourably with the historic national average.

Summary of Plato Supports and Offerings to the Business Community

Seminars

A total of 566 PLATO business seminars have been held to date. These have been either minimum half-day, full day to specialist 10-day events which frequently used a workshop format. Attendances at the seminars totalled 19,810 SMEs.

Continued/ Advance/ Forum Groups

Owner/Managers who previously completed a PLATO Core Programme can become involved in the PLATO advance programmes. Altogether 1,343 SMEs participants have been involved in advanced programmes.

Networking Events

Networking on a Regional, National and International Level has been a feature of PLATO Ireland Programmes.

Specialist Courses

Specialist courses (Marketing, HRD, Finance, IT etc.) have been delivered to a total of 393 Owner/Managers.

ISO 9000 Certification

A total of 196 SMEs to date have achieved certification through PLATO Group Schemes.

Benchmarking

PLATO has been instrumental in introducing Benchmarking techniques to 495 companies.

PLATO Business Planning

The Business Planning Module was developed specifically for PLATO SMEs. It has been extensively used by PLATO companies and now forms a key element of all PLATO Group Programmes.

Mentoring and Individual Consultations

A total of 19,295 hours of one to one meetings with Owner Managers have taken place. Of these 7,320 hours have been voluntarily given by Group Leaders or Senior Managers from Parent Companies.

Guest Speaker Database

PLATO is most fortunate in having been able to develop a comprehensive database of highly qualified and experienced business experts and consultants who act as guest speakers. To date 1,804 presenters mostly from Parent Companies have given their services on a voluntary basis.

The PLATO Business Park

The first PLATO Business Park was opened in October 2002. The development totalling 13,0,00 square metres is shared by 11 PLATO SME investors. Similar PLATO Business Parks are planned for other regions.

The PLATO Ireland Membership Directory

The directory was launched in June 2004 and can be accessed on the website. It is also available on CD ROM and hardcopy. The directory contains comprehensive details on over 1,400 PLATO Companies. Its primary purpose is to promote networking between both PLATO participants and Parent companies alike.

The PLATO Ireland website (www.PLATO.ie)

The site first launched in December 1998 has been updated on a regularly basis since then. It provides comprehensive information on PLATO Ireland, all regional events and activities, the membership directory, a discussion forum, expert advice on selected business topics, linkages to PLATO partners and support organisations etc.

PLATO'S PLACE WITHIN ENTERPRISE SUPPORT

Plato has evolved within the overall enterprise support and development arena to provide focused support to owner/managers in the following niche areas:

- PLATO provides business support organisations with a capacity to support business development in the indigenous SME sector.
- PLATO has a clear understanding of the entrepreneurial personality and the skills of the owner-manager
- PLATO itself is configured in an entrepreneurial manner giving it great credibility with owner-managers
- PLATO seeks to meet the challenges faced by SMEs in the context of the resources, experience and skills set of the owner-manager
- PLATO undertakes insightful needs analysis of the SME
- PLATO is a permanent source of management expertise for the owner managers
- PLATO provides good examples, case studies and critical incidents (for use of teaching)
- Overall there are relatively few centres of expertise in Irish small business management development. PLATO works closely with a number of colleges to develop appropriate pedagogies to match the learning styles of entrepreneurs
- PLATO concentrates upon developing innovative methods of building the management capability of owner-managers
- PLATO builds management development programmes much more on experience exchange than traditional teaching models
- PLATO endeavours to ensure that a focused range of problem solving techniques are central to group activities
- PLATO focuses on developing group management development schemes
- PLATO as an established network is there to support SMEs in difficult times
- PLATO has a clear focus on supporting emerging, established and mature businesses.
- PLATO is a unique interface between large businesses and the indigenous sector. The importance of a strong SME supply base to large business is an essential element in vibrant economies.
- PLATO has an overwhelming success rate of growing businesses. The number of network businesses that have ceased to trade is miniscule.

SUMMARY

As more governments move from direct financial support to SMEs to providing soft-supports, agencies charged with delivering these interventions must re-evaluate their delivery methods. The PLATO model has been successfully implemented across Western Europe over the last fifteen years. This business support forum for owner managers continues to expand and deliver cost effective management development and training to SMEs in all areas of business activities. The principle of harnessing the talent available in large multinational corporations to deliver much needed management skills to small companies is proving to be very popular both with the SMEs and the economic development organisations who support the network.

PLATO has proven to be a very cost effective model for providing the support that owner/managers need, and can easily be adapted to suit the prevailing economic conditions in any region

The author welcomes any expressions of interest from development organisations that wish to explore the setting up of a PLATO programme in their area.

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HOW DOES OPPORTUNITY RECOGNITION CONNECT WITH ENTREPRENEURIAL LEARNING?

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ABSTRACT

This paper aims to connect understanding of the processes of opportunity recognition with those of entrepreneurial learning at a theoretical and practical level. The thesis is that the activities of opportunity discovery, decision-making and enaction, which are seen as central to entrepreneurial behaviour, can be conceptualised as social learning activities.

It is proposed that opportunity recognition is a learning process which arises from participation in social and cultural networks. A series of structured interviews was used to explore how entrepreneurs became aware of business opportunities; how these related to their existing context and activity; what decision making processes and criteria they used to select potential high value opportunities; what actions they took and outcomes resulted; and their reflection on their learning . The interview material was interpreted through discourse analysis and personal construct theory to identify the decision making criteria used in relation to opportunity assessment. A model of opportunity recognition is proposed, based on six clusters including a total of thirty constructs.

The paper proposes that opportunity recognition can be seen as a central learning process in entrepreneurial activity and that a model of the constructs used in opportunity selection can be of value to researchers, educators and practitioners. A case study is used to illustrate the proposed framework for opportunity recognition. The scope for further research to enhance the model is proposed.

The broader implications of this model in entrepreneurship education, support for nascent entrepreneurs within and beyond universities, and in entrepreneurial practice, are outlined. The model can be adopted as a learning framework to assist new entrepreneurs and students to identify the decision making constructs they can use in investigating business opportunities. This may lead to improved quality and effectiveness in opportunity selection and in risk reduction, as well as enhancing awareness of opportunity recognition criteria and skills.

Keywords: entrepreneurship, opportunity recognition, learning

INTRODUCTION

Opportunity has become a central concept in the study of entrepreneurial work, and the discovery, exploration and exploitation of opportunities are recognised as fundamentally important processes in entrepreneurial activity (Stevenson & Jarillo: 1990). Until recently economic theories have dominated this field, however a purely economic approach limits understanding of human behaviour, and alternative perspectives from social sciences have started to provide important new insights (Gartner, Carter and Hills: 2003).

Entrepreneurial learning has also become a focus of recent research, and this paper aims to explore the connection between the processes of opportunity recognition and learning in entrepreneurial activity. A number of writers have proposed theoretical connections between opportunity recognition and learning, but there has been surprisingly little exploration of how this takes place in practice (Kirzner: 1973; 1997; Corbett: 2002; Shane: 2003). Based on a study of how entrepreneurs recognise and select opportunities, this paper proposes that opportunity recognition is a learning process and that a model of the constructs used in opportunity selection can be of value to researchers, educators and practitioners.

Opportunity recognition as an area of study has been illuminated by Hills (1995) and Hills & Shrader (1998). These studies of successful US entrepreneurs suggested that they identified many opportunities, showing a self-perception of high alertness and sensitivity to opportunity. The opportunities they selected were mainly problem and solution rather than market-driven; their identification of opportunity was a multi-step process rather than a single event, and that opportunities are often inter-related and sequential. They concluded that opportunity recognition often stemmed from prior experience and immersion in an industry, with long term exposure to markets and customers.

Other writers have proposed a range of theories and models of opportunity recognition. Vesper (1980) suggested a systematic search effort, Long & McMullen (1984) proposed a four stage process of opportunity identification, and more recently Kaplan (2003) suggested a five step model; however these appear to be rational conceptions of how the entrepreneur should operate, rather than being based on study of how people actually work on opportunities. Bhidé (1999) proposed that the decision to create a new venture depends on assessment of its viability and attractiveness, with viability being based on low capital requirements, high margin for error, significant pay-offs, low exit costs, and multiple exit options, with creativity and capacity to execute being critical to success, and attractiveness being based on the fit between the entrepreneurs motivation and capability.

Gartner, Carter and Hills (2003) summarised the debate concerning the dominant view from an economic perspective, in which opportunities are held to exist objectively and be discovered (Kirzner: 1997). They compared this with enaction theory (Weick: 1979; 1995) in which individuals make sense of their world through scanning, interpretation and action, and termed this the enactment perspective: 'opportunities would be the result of what individuals do, rather than….of what they see'. Corbett (2002) suggested that individual learning modes were significant in determining whether or not individuals were able to recognise opportunities in a high technology industry. Both this work, Hills (op. cit) and Shane & Venkataraman (2000) indicate the importance of individual prior knowledge and experience in an industry, and the contribution this makes to the ability to recognise opportunities.

Conceptual framework

Let us accept that an opportunity can be defined as a gap or discontinuity between current, perceived reality and future possibility. This may include, for example, an unmet market need; a mismatch between supply and demand; the potential for applying a solution to a problem, the introduction of a new technology, or transferring a product or process from one situation to another. These require the imagination or perception of 'what could be' and the enaction to realise the possibility. If opportunities do not 'exist' as objective facts, but rather are recognised and created by people in their subjective perceptions, then they form part of that person's learning process. Opportunities start off as individual perceptions even if, coincidentally, different people who are quite unconnected recognise the same opportunity. The same opportunities are not apparent to everyone because of the myriad of differences in context, experience, and perception; some people will perceive the same opportunity more quickly than others through imagination and foresight. Kirzner (1973) asserted from an economic perspective that this was the result of superior learning ability. The importance of creativity and foresight in entrepreneurship has been recognised by many writers including Kaplan (2003) and Hills et al (1997).

Entrepreneurial learning has been explored by a number of researchers including Young & Sexton (1997), Deakins & Freel (1998), Cope & Watts (2000), and Rae & Carswell (2001). The activity has been defined by the writer as 'the process of learning to create, recognise and act on opportunities' (Rae: 2003). This study of entrepreneurs in the creative media industry in the United Kingdom led to the development of a triadic model of entrepreneurial learning, consisting of three major themes of personal and social emergence; contextual learning; and negotiated enterprise together with 11 sub-themes. Contextual learning includes the sub-theme of opportunity recognition through social participation, in which entrepreneurs, by being active within social and industry networks, recognise and enact opportunities for venture creation. The current study builds on this work by seeking to explore how entrepreneurs recognise and make choices between opportunities, and to investigate what constructs are actually used by entrepreneurs in their decision making.

In previous work the writer proposed a five dimensional model for opportunity assessment, which included the constructs of: the level of investment; the degree of risk; the anticipated rate of return; the degree of change caused through innovation; and the timescale of the opportunity (Rae: 1999). An assessment tool based on this model has been used extensively in entrepreneurship teaching and with entrepreneurs in new venture planning for several years. Users have found this useful but criticised the absence of a dimension which evaluates the people aspects of the opportunity, such as team and management capability and prior learning. The current study seeks to explore the basis for a more effective instrument.

Field research

The target group of the study was individuals with ongoing roles in opportunity decision making. A total of 17 people were interviewed, the composition of this group being international (10 North American, 5 United Kingdom, 1 Malaysian and 1 German), including practising and experienced entrepreneurs running independent businesses (11), and a smaller group of senior managers and professionals actively engaged in corporate venturing (6). The independent entrepreneurs were running technology based businesses (5), knowledge-based business service companies (3), media companies (2) and a new business model for equipment sales (1). The corporates included aerospace, bioscience, chemicals and energy. The composition was intentionally broad in order to gain a

heterogeneity of perspectives across national groups and to enable responses from autonomous entrepreneurs to be compared with those from corporate venturers. The actual number was small as the intention is to pilot the method and to evaluate whether this can usefully be enlarged.

The research was undertaken by means of interviews in the UK East Midlands and Boston, Massachusetts in the US. Interviews took place using the following series of questions:

1. Can you think of 3 business opportunities which you have identified, at least one of which you acted on and one you did not act on?
2. How did you become aware of each of these opportunities?
3. Were they connected with existing activities or contacts, if so in what ways?
4. How did you decide on which to act and on which not to act?

This question was used to elicit decision making constructs using personal construct theory methods.

5. Which constructs were most important in your deciding whether to act on opportunities?
6. What action did you take on the selected opportunities?
7. What was the outcome?
8. What have you learned in relation to recognising and acting on opportunities?

Personal construct theory (PCT) was used as a method to elicit the decision making constructs which individuals recollected using in relation to opportunities, and the administration of the method was informed by key texts on the subject. PCT and the associated repertory grid method provide considerable flexibility in use and interpretation and in this case the approach was used at a comparatively simple level (Kelly: 1963; Stewart: 1997; Jankowitz: 2003; Fransella, Bell & Banister: 2003). The elements in each interview were the opportunities people recalled and the constructs were the decision making criteria elicited. The opportunities included the recognition of market gaps for specific products or services, the application of technology to solve a problem or meet a need in an innovative way, and the identification of potential major customers.

From the interviews, a total of 161 individual decision making constructs were elicited. The number of constructs elicited from each person ranged between 5 and 12 with the mode being 11. The constructs were analysed by grouping into categories of related constructs which were formed from coding and comparing through discourse analysis the subject matter of the construct. In total 27 categories were created with a range between 2 and 16 constructs in each. It became apparent during this analysis, and from the related interviews, that there were connections and similarities between certain categories which enabled them to be grouped together and which differentiated them from other categories. They were grouped into 6 major clusters, consisting of the market; innovation; strategy; people; investment; and learning. These are shown in table 1 below which includes the number of constructs in each category (and total number in each cluster).

Market 11 (total 36)	**Innovation** 10 (total 39)
Customers 16	Technology 9
Suppliers & partners 5	Intellectual property 6
Competition 4	Application 6
	Timescale 4
Investment 12 (total 27)	Implementation & feasibility 4
Risk 7	
Viability 3	**Strategy** 9 (total 24)
Investor attractiveness 5	Value proposition 8
	Business model & pricing 7
Learning 3 (total 16)	
Control & independence 6	**People** 2 (total 19)
Personal achievement 3	CEO leadership 3
Intuition 2	Management team capability 5
Ethics 2	Prior industry knowledge 5
	Experienced staff available 4

Table 1: Clusters of opportunity recognition constructs

The categories of constructs were edited twice, firstly to combine those constructs which were very similar and had been repeated by several respondents, and then to emphasise those which respondents had indicated were most significant (higher order) in their decision making, and to eliminate those which related only to one specific type of opportunity and did not appear to have a more general application. In this way the constructs were reduced to 30 in number.

The constructs elicited from each person are a product of their learning; that is to say, they suggest, through language, how the person has learnt to 'construe' or make sense of the world around them. Whether this learning has resulted from direct experience, from social learning through engagement with other people, or from some other source such as teaching, cannot be determined. So if a person has learned to discriminate between opportunities in which there is a rapid return, for example, and those where they are not repaid quickly, then the construct 'speed of return' is a product of their learning. Where the same or similar constructs are elicited from different people, the repetition suggests that several people use similar constructs in their decision making and they may be of more general application. The analysis process has grouped together and combined the individual decision making constructs which were elicited in the fieldwork into a collective product of entrepreneurial learning. These are included in the model of opportunity recognition which is described below.

It became apparent during the analysis that there were differences in the constructs elicited from autonomous entrepreneurs when compared with those elicited from corporate venturers, and that these were more significant than those between respondents from different nationalities – for example, between US and UK entrepreneurs. The entrepreneurs as a group made more use of market-related dimensions in their decision making. Market position, customer reliance and interaction, and the role of partnering and networks were especially emphasised. However they showed less consideration of strategic issues, with explicit consideration of learning and people also scoring low, but higher than the corporate venturers rated the same categories.

The corporate venturers as a group emphasised more the investment and strategy factors, especially the value creation potential of the business to the corporate organisation, and

the strategic fit between the venture and corporate business. They reported the use of formal, structured decision-making frameworks and processes in opportunity evaluation, but also many difficulties in applying these in relation to corporate culture. Both groups featured innovation and investment strongly in their decision making. Owing to the small sample sizes, undue importance should not be placed on small percentage differences between the categories and groups, however the interviews suggested that these disparities arose from the corporate venturers evaluating the business opportunities as extrinsic investment decisions in relation to corporate strategy and in comparison with other opportunities, whereas the autonomous entrepreneurs recognised the market and customer-related aspects of the business venture more intensely, and also considered the personal factors of their experience and commitment more relevant to the potential success of the venture.

The table below shows the relative importance which the autonomous entrepreneurs and corporate venturers reported in their decision making in each of the six categories.

Entrepreneurs	**Corporate venturers**
Market 31%	Innovation 25%
Innovation 22%	Investment 21%
Investment 17%	Strategy 20%
Learning 14%	Market 18%
People 8%	People 14%
Strategy 8%	Learning 2%

Table 2 Relative importance of factors in opportunity recognition

A model of opportunity recognition

In this section an overview is given of the model, which is included in full as an annex to the paper. The model is based on the constructs elicited from the participants, analysed and combined as described above. It aims to distinguish between high value opportunities which are worthy of exploration and possible exploitation, compared with low value opportunities less likely to be worth pursuing. Each construct is named, and describes at its poles the characteristics of the construct. It is important to note that each cluster is relevant to every opportunity; however it is likely that not every construct is applicable or of equal weight in relation to every opportunity. The issue is therefore the selection and application of the relevant constructs to the situation. Since learning is contextual and situational, one application of learning to opportunity recognition lies in selecting and adapting the most useful constructs to the situation.

Market

This cluster includes six constructs related to assessment of market opportunities. These are:

1. Market growth – ability to access markets of growing size and value
2. Customer base – extent of known, identifiable customers in defined markets
3. Customer reliance – degree of customer reliance on the product
4. Customer interaction - quality and compatibility of customer relationships
5. Partnering– strength of supplier and technology networks
6. Competition - advantages and strengths in relation to competitors

Innovation

This cluster includes six constructs related to the role of innovation in opportunities. These are:

1. Innovation leadership – use of prior experience to lead the market
2. Innovation providing a solution to a customer-defined problem
3. Use of differentiated technology providing performance and cost benefits
4. Strength of intellectual property protection; vulnerability to copying
5. Speed and likelihood of being first to market
6. Feasibility of implementation; extent of challenges to be overcome

Strategy

This cluster includes four constructs used to assess the strategic potential of opportunities. These are:

1. Business growth – purpose, scope and strategy to create and grow a business
2. Strategic options – single or multiple options for strategy and exit
3. Value creation - profit margin and cash generation
4. Innovative business model - superiority to existing models

People

This cluster includes four constructs used to assess the effectiveness of people resources in relation to opportunities, noting that they may include the decision maker as one of the people related to the business. These are:

1. Chief executive officer (CEO) - ability to show leadership and innovation
2. Management team effectiveness – skills, compatibility and motivation
3. Contextual experience - ability to use prior experience and knowledge of industry (including the entrepreneur/decision maker's own experience)
4. Staff capability - ability to recruit experienced people from the industry

Investment

This cluster includes five constructs used in judging the investment, risk and return presented by opportunities. These are:

1. Investment-reward: financial return and profitability in relation to investment
2. Investor attraction: based on projected increase in equity value
3. Risk: acceptability of loss in worst case scenario
4. Commercial viability, breakeven and predictability of cash flow
5. Timescale: short-long term income stream and exit strategy

Learning

This cluster includes five constructs which feature the entrepreneur's own personal learning in relation to opportunities, and which have not been included in the five preceding clusters (noting that prior contextual experience is included in cluster 4). These

constructs will inevitably vary between individuals, and those included here should be seen as illustrative.

1. Independent control of business direction
2. Personal vision & confidence in business potential
3. Incremental learning – being able to reduce margin between success and failure
4. Intuition - knowing it is the right thing to do
5. Ethics - ability to practice ethical framework and values

In reading the constructs outlined in each cluster and detailed in the model, one interpretation is that they may seem 'obvious' and the type of factor one would expect a business decision maker to consider, and therefore they do not advance the boundaries of existing knowledge. We should not be surprised that the constructs tell us, to some extent, what we already know, because they report the decision making factors which entrepreneurs and corporate venturers say they actually use, and we would expect this to be informed by existing practices. However the model does provide a means of mapping the constructs which people actually use in relation to the six clusters, and of comparing individuals' decision making constructs. The following example illustrates the use of constructs from each of the six clusters gained from an interview with one of the participants.

Case study - Nanotite

The entrepreneur is Guy, the CEO of a small high technology company called Nanotite which is pioneering the application of nano-electrical switch technology. Nanotite has innovation leadership in a highly competitive field and is aiming to be first to market by managing implementation speedily and overcoming technical challenges 'so that competitors become customers'. The business is creating and exploiting a strong base of intellectual property which is legally and technically hard to copy and which will be applied in a series of follow-on products. This innovation is clearly focused onto solving an industry problem through differentiated technology, making it easy to sell to customers by offering an optimal combination of performance and cost benefits.

Nanotite has selected a large market showing potential for exponential revenue growth. If successful it will create long term customer reliance and convergence, and is entering partnerships to licence the technology to major manufacturers. Strategically, it has set out to create a high value, high margin product from the various options available. This is expected to provide a high financial return on investment over a long timescale, which is attractive to investors and in which the risks are well defined and acceptable.

Guy's background in starting two previous technology based companies have provided important prior learning and enabled him to develop skills in leading an innovative business with an effective management team. Nanotite has set out to recruit the best people in a young industry with a limited talent pool of expertise, creating a further entry barrier to competitors.

CONCLUSION: IMPLICATIONS FOR ACADEMIC THEORY, EDUCATION AND PRACTICE

There are three observations to be made in connection with the research process and its contribution to existing knowledge. Firstly, the constructs elicited were those which respondents recalled using in describing specific instances which they conceptualised as opportunities. We cannot know for certain whether they actually used some or all of those constructs, or whether on different occasions other constructs were used, because the research is dependent on their retrospective descriptions. Since construing is contextual, the constructs used are likely to have been formed in a reflexive and interactive relationship with the economic, social, and cultural surroundings of the participant and their experience of the opportunity. Removing the construct from its context and including it in a generic model may result in a loss of some of its meaning.

Secondly, since the study was derived from the experiences of a comparatively small number of entrepreneurs within a limited range of environments, it is not complete or definitive, as there may well be other important and useful opportunity recognition constructs which did not arise, but which are used by other entrepreneurs in different economic and social contexts. The respondents used a range of different constructs in their decision making, and whilst there is not a consensus and not all individuals used constructs in all of the six clusters, by drawing the results together a potentially useful model of the constructs which people do use is created. It suggests that autonomous entrepreneurs pay especial concern to market, innovation, and investment factors in considering opportunities. The model builds on previous research in opportunity recognition by indicating the range of decision making constructs which practitioners use in evaluating opportunities, and in creating insight into their decision making as an entrepreneurial learning process.

Finally, the research process should be seen as an interpretive study in which the researcher is using PCT as a method to gather and analyse speech material across a small, heterogeneous group of respondents in different contexts who were recalling differing types of opportunities. This research process is reflexive and subjective, the outcomes being influenced by the researcher's own perspective and focus. The model should therefore be seen as a propositional way of gaining insight into entrepreneurial decision making, and of connecting this with entrepreneurial learning. It has experimented with the use of PCT in this field and this is capable of being refined through further research to include larger groups of participants from different backgrounds, and by more advanced analysis which will enable the model to be enhanced. This could identify the most significant constructs used in relation to specific types of opportunities and investigate further the differences between opportunity recognition in corporate and autonomous venturing.

The model can make a useful contribution to education and to entrepreneurial practice. Within entrepreneurship education and new venture training programmes it can be adopted as a learning framework to assist learners to identify the decision making constructs they can best use in investigating business opportunities, and to ensure that constructs in all the relevant clusters are applied. This may lead to an improved quality and effectiveness in decision making on specific opportunities, as well as enhancing learners' conscious awareness of their opportunity recognition criteria and skills, as part of an action-centred learning process. More experienced entrepreneurs and corporate venturers may also gain both from the model and from the research process. Participants commented that the thinking process prompted by the seven research questions was

useful in heightening their awareness of their own decision making, and that they would find it useful to see how their criteria compared with those used by others. If the model contributes to improving the opportunity recognition awareness and capability of entrepreneurial practitioners, it will be worthwhile. Possibly it has other applications? Now there's an opportunity to investigate!

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OPPORTUNITY RECOGNITION MODEL

High value opportunity	**MARKET**	Low value opportunity		High value opportunity	**INNOVATION**	Low value opportunity
Able to access market of growing size & value	Market growth	Limited growth potential in smaller markets		Able to lead the market using prior experience	Innovation leadership	Learn as you go along to catch up
Known, identifiable customers in defined market sector	Customer base	Limited or non-specific customer base		Application solves a problem informed by customers needs	Innovation related to customer needs	Application does not solve customers real problem
Customer reliance on product increasing over time	Customer reliance & convergence	Customers not reliant on product, divergent from their needs		Differentiated technology - optimal performance & cost benefits	Technology differentiation	Undifferentiated technology - marginal performance & cost improvement
Trust & open relationships with clients; compatible practices	Customer Interaction	Adversarial customer relationships; lack of fit		Strong IP protection with clear ownership & control, hard to copy	Intellectual property	Weak or no IP protection - can be copied
Long term partnerships within strong supplier & technology networks	Partnering & networks	One-off relationships within weak networks		Opportunity to be first to market	Speed to market	Unlikely to be first to market
Unique advantages & strengths apparent in relation to competitors	Competition	Undifferentiated from competitors, forced to compete on price		Implementation feasible; challenges can be overcome	Feasibility of implementation	Difficult to implement with many obstacles

High value opportunity	**STRATEGY**	Low value opportunity		High value opportunity	**PEOPLE**	Low value opportunity
Have a strategy to create & grow business	Business growth	Limited purpose and scope to build a business		CEO able to show leadership & innovation	CEO leadership	CEO not an innovative leader
Create multiple options for strategy & exit	Strategic options	Single or limited exploitation options		Management team skilled, compatible & motivated to achieve	Management team effectiveness	Team lack management skills, fit & motivation
High value creation from high profit margin & cash generation	Value creation	Low perceived value & profit margin		Able to use prior experience & knowledge of industry	Contextual experience	No pre-knowledge of industries or technology
Superior business model	Innovative business model	Similar to existing business models		Able to recruit experienced people from within industry	Staff capability	Suitably experienced & capable staff not available
High value opportunity	**INVESTMENT**	Low value opportunity		High value opportunity	**LEARNING**	Low value opportunity
High return & profitability in relation to investment	Investment-reward	Low financial return for investment		Independent control of business direction	Independent control	Not in full control of the business
Attractive to potential investors with growing equity value	Investor attraction	Unattractive to investors offering limited increase in equity value		Personal vision & confidence in business potential	Personal vision	Self doubt & lack of scope to succeed
Acceptable risk of loss in worst case scenario	Risk	Unacceptably high downside risk		Able to reduce margin between success & failure	Incremental learning	Unable to reduce margin of effectiveness

Commercially viable with predictable breakeven & cash flow	Viability & cash flow	Unpredictable cash flow, unable to achieve viability		Intuition, knowing it is the right thing to do	Intuition	Does not feel right - bad past experience
Long term opportunity & income stream	Timescale	Short term timeframe & rapid exit strategy		Able to practice ethical framework & values	Ethics	Non-ethical exploitation

GLOBALIZATION: ENHANCING COMPETITIVENESS OF THE SMALL AND MEDIUM INDUSTRIES THROUGH PRODUCTIVITY GROWTH – THE CASE OF SARAWAK, MALAYSIA

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ABSTRACT

Survival and growth of the small and medium industries (SMIs) today are largely influenced by their capabilities to stay competitive in the global market. With increasing globalisation and the integration of the world economy, SMIs are facing daunting tasks to stay competitive against larger enterprises. Even in the domestic front, SMIs are increasingly being sidelined by the larger enterprises in favour of the more efficient foreign-based suppliers. In view of this, it is imperative that SMIs should measure productivity and implement productivity initiative programmes in order to improve their performances and competitiveness.

This paper analyses the total factor productivity growth (TFPG) of SMIs from 1991 to 2000 in twenty, three-digit manufacturing sub-sectors using the Standard Growth Accounting model in Sarawak. The objective is to look at factor contributions to the output growth in SMIs, which consists of the physical inputs - capital (K) and labour (L) and the quality of inputs i.e. TFP. The results of the study indicate that the primary source of growth for the SMIs sector is derived from capital. TFP growth rate was found to be low during the study period. This low TFP growth rate shows that growth in SMIs is input driven rather than productivity driven. It also reflects low production efficiencies and productivity of the Sarawak's SMIs.

Consequently, there is an urgent need to step up the productivity growth performance and hence the level of competitiveness of SMIs. This paper suggests several strategic thrusts that include among others, human resource development (HRD), R&D and technological development, cluster based development and enhanced marketing efficiency towards this end.

INTRODUCTION

Small and Medium Industries (SMIs) have been recognised in both the developed and developing economies for their capabilities in creating employment opportunities, maintaining social economic equality and price stability as well as for their contributions to growth,

productivity, innovations, competitions and foreign exchange generation. The contributions of SMIs to a nation's economy as well as to the global economy will continue to be important under globalisation and trade liberalization. According to Asundi (1996), SMIs account for an increasing amount of the world trade. In 2002, it was estimated that SMIs around the world accounted for between 20 to 25 per cent of the total world trade (World Bank, 2003). As SMIs are operating in a highly dynamic and competitive global socio-economic environment today, there is a need to increase their level of productivity and competitiveness to enable them to play a more effective role in the economic growth of nations.

According to the U.S. Presidential Commission on Industrial Competitiveness, international competitiveness is the ability of a country to produce goods and services that meet the test of international markets, while simultaneously maintaining and expanding the real income of its citizens (Irfan ul Haque, 1991). Therefore, based on this premise**,** 'competitiveness' is a multidimensional concept that engenders several parameters such as a country's ability to exports, the efficient use of factors of production, and increasing productivity that ensures rising living standards of a nation (Porter, 1990). The World Competitiveness Yearbook (2002) identified eight factors that contributed to a nation competitiveness level namely domestic economy, internationalisation, government, finance infrastructure, management, science and technology and people. Due to data limitations, this paper only confine the discussion to productivity growth as a basis to stimulate competitiveness among the SMIs.

The influence of productivity on competitiveness has been stressed in many literature (Porter, 1990 and DRI, McGraw-Hill, 1993). Porter (1990:9), stressed that productivity is the prime determinants of a nation's long-run standard of living and hence its' per capita income. DRI, McGraw-Hill, (1993) also reported that productivity is the core determinant of competitiveness of nation. The main conclusions that can be drawn from these studies is that a highly productive manufacturing establishments (and also a nation) would greatly benefit and possesses more competitive edge through cost cuttings, economies of scale and bulk purchases something that most nations and firms are unable to do. Thus, the more productive firms or business establishments will be lean, cost-effective and more quality-driven than merely input or factor-driven. Quality outputs will ensure that the manufacturing establishments especially the SMIs are able to forge ahead of other competitors in the fields. In retrospect, therefore, the survival and growth of the small and medium industries (SMIs) today are largely influenced by their capabilities to stay competitive in the globalised world. Hence, in meeting these challenges, most countries have embarked on programmes to enhance productivity among their business establishments particularly among the manufacturing establishments as productivity is the core thrusts of maintaining their competitive edge in international markets.

In Malaysia, productivity has become a major policy issue and national agenda in its quest towards achieving a developed nation status by the year 2020. Both the Seventh and Eighth Malaysia Plans have stressed the need to shift from input-driven growth to a productivity-driven growth through total factor productivity growth (TFP). As the former Prime Minister of Malaysia, Datuk Seri Dr. Mahathir Mohamad (1996) puts it:

> "Our primary challenge will be that of transforming the economy from one that is investment-driven to one that is productivity and quality-driven through enhancing the efficiency of labour and capital, skills upgrading, capital deepening and improving management and entrepreneurship."

In Malaysia, SMIs are assuming an increasingly important role in the development of the country's economy. In year 2000, they constituted about 90 per cent of the total manufacturing establishments, contributed 26.2 per cent to total manufacturing value added (MVA), and provided employment opportunities to 38.9 per cent of the total workforce in the manufacturing sector. In year 2003, SMIs in the country exported about 20.0 per cent of their output. It is expected that total export from SMIs would increase quite significantly in the near future.

The objective of this paper is to assess the TFP growth and to determine the sources of growth of SMIs in Sarawak. Several strategies for the development of SMIs are proposed with the intention to modernise and enhance the competitiveness of the manufacturing sector through productivity growth. In this paper, the definition of SMIs is adopted from the State's Ministry of Industrial Development (MID) where SMI is defined as those manufacturing establishments that have a paid up capital of RM2.5 million and less, or have full time employees not exceeding 75. This definition is adopted by the State government to suit local business conditions

PRODUCTIVITY MEASURES

Concept and measurement of Total Factor Productivity growth

Productivity is generally defined in terms of the efficiency with which inputs are transformed into outputs in the production process. It can be expressed as the ratio of real output over total input. The most widely used method to analyse productivity growth is based on a single input pioneered by Solow (1957). In this method, partial factor productivity or labour productivity is expressed as the ratio of output over some measure of input, mainly labour. This method, while relatively easy to compute, fails to segregate the effects of other factors apart from labour such as capital, intermediate inputs and technological change on productivity growth. Many writers have considered TFPG as a better measure of productivity growth than partial factor productivity (Maison Abdullah, 1992; Helmut. F., et. al. 2002). For instance, Helmut F., et al (2002) indicates, "TFP allows for a decomposition of productivity increase into its major components and thus provides empirical evidence of its main sources of growth."

Jorgenson, et al (1987) modified the Solow's approach and decomposed the rate of growth of output into the contributions of the rates of growth of the various inputs and a residual term, which is total factor productivity (TFP). In this approach, TFP is computed as the difference between the rate of growth of output and the weighted average of the growth inputs. The weights used are the respective shares of each input in the gross value of output of each industry. This would be discussed further in the section below.

A review of cross country TFP studies indicate that many recent works adopted the Gollop-Jorgenson Model in TFP analysis in determining the growth of productivity
(World Bank 1993, Abimanyu and Xie 1994). All these studies seem to reach a general consensus that capital accumulation is an important factor that has contributed to growth in

the manufacturing sector though there are varying opinions concerning the relative contributions of productivity growth. For instance, Tsao, (1980) based on a comprehensive study on TFP in Singapore revealed that capital contribution to growth was significantly higher than that of labour between 1970 and 1979. Abimanyu and Xie (1994) also indicated that in Indonesia, capital stock was a more important source of growth than labour between 1985 and 1990.

In Malaysia, TFP studies seem to centre on time series analysis of productivity growth in the manufacturing sector (Maison and Arshad 1992, Kawai 1994, Tham 1995). Tham (1995) used the Gollop-Jorgenson Model to determine the contributions of the growth of factors that include capital, energy, non-energy, and labour, and TFP to the growth of output for the manufacturing sector in Malaysia between 1971 and 1987. Her study revealed that capital was the crucial contributor to the growth in the manufacturing sector, contributing 104 per cent to growth in output while labour contributed only 18 per cent. She found out that TFPG was an unimportant source of growth contributing 0.3 per cent during the period of study.

Maison Abdullah and Arshad Marsidi (1992) estimated the TFP growth levels in forty-three five-digit Malaysian resource based industries between 1973 and 1993. Their estimates show generally low TFPG levels for Malaysian resource based industries during the period of study as compared to TFPG levels in South Korea, Japan and Turkey. This study also revealed that consumer good industries, export oriented industries and downstream activities tend to experience relatively higher TFP growth levels than capital intensive industries and heavily protected industries.

Many studies analysed the contribution of TFP to economic growth but few studies have related it to SMIs specifically. The purpose of this paper is to estimate the TFPG growth of the SMIs in Sarawak using the Jorgenson Gollop Model.

THEORETICAL FRAMEWORK

TFP growth is determined by a host of factors that interact with one another in several ways. According to the Productvity Report prepared by the National Productivity Corporation (NPC), the key causal factors that have significant influence on TFP growth include the availability of capital funds (K), Labour (L) input, the level of technical progress as in the advancement in knowledge and deployment of new production techniques, the availability and quality of materials inputs, the quality of the working environment, the Management Styles adopted by the establishments, the organization set up, and a functional set of Systems and Procedures.

To identify the sources of growth of the State's manufacturing sector, the standard growth accounting framework developed by Jorgenson and Gollop (1987) is used to determine the relative contributions of growth of inputs and TFP towards growth of output. In essence, this framework decomposes the average growth rate of output into the growth of inputs and a residual category associated with TFP. Due to data limitations, tests are only carried out on the capital and labour inputs.

Following the Gollop- Jorgenson model, a production function is expressed as: -

$$Xt = f(Kt, Lt) \qquad (1)$$

where Xt = output during period t

Kt, Lt = capital and labour inputs during period t

Differentiating the production function with respect to time yields the following equation.

$$\frac{d\ln x}{dt} = \frac{\delta \ln x}{\delta \ln k} \cdot \frac{\delta \ln k}{\delta t} + \frac{\delta Ln\, x}{\delta \ln L} \cdot \frac{\delta \ln L}{\delta t} + \frac{\delta \ln x}{\delta t} \qquad (2)$$

where

$\frac{\delta \ln x}{\delta t}$ is the residual growth or TFP

Following the Gollop- Jorgenson model and employing a discrete version of the Divisia Index, Equation 2 is expressed as: -

$$[\ln Xt - \ln Xt\text{-}1] = SK[\ln Kt - \ln Kt\text{-}1] + SL[\ln Lt - \ln Lt\text{-}1] + ST \qquad (3)$$

where

X stands for output
SK stands for elasticity of output to
Physical capital
K stands for capital input
L stands for labour input
SL stands for elasticity of output to labour input
ST stands for growth rate in TFP

And
SK and SL are obtained as follows:-
SK = ½ (SKt + SK T-1)
SL = ½ (SLt + SLt-1)

Assuming constant returns to scale, a Hicks-neutral technological progress production function and perfect competition, SK and SL are the respective shares of each input in total output. For the purpose of this study, equation 3 is used to measure TFP performance of the State's manufacturing sector.

SOURCES OF DATA AND MEASUREMENT OF VARIABLES

The data required for this study are obtained from the Manufacturing Industries Surveys conducted by the Department of Statistics of Sarawak, covering 10 years from 1990 to 2000. As no survey was conducted for the year 1998, an approximation was made using the average of the previous year (1997) and the following year (1999) as proxy. Capital inputs, K

are measured using the value of fixed assets at year-end and labour inputs, L are analysed based on the number of paid employees at year-end. Both values of fixed asset and value added are analysed based on current market prices. It should be noted here that results for the growth in TFP obtained in this study might be underestimated since capital stock was used rather than the flow of capital services. This is due to data limitations for the State economy. SMIs are categorised into 20 sub sectors and the TFP analysis is conducted based on the ISIC 3-digit level. The choice was due to the technical reasons as some sub sectors were too few and insignificant when broken down to five-digit level. The selection of these sub-sectors is based on their relatively higher contributions to the growth of the manufacturing sector in Sarawak either in terms of employment, value added and number of establishments.

Productivity Growth Of The SMIs In Sarawak

An Overview Of The Development Of SMI In Sarawak

According to the census conducted by the Department of Statistics, in the year 2000, there were 1,853 manufacturing establishments in Sarawak, out of which SMIs constituted the majority of 89.6 per cent, with those firms employing less than 50 employees (SSI) formed the bulk of such establishments (86.0 %) (Table1). The large industries (LIs) only represented 10.4 per cent in all the manufacturing establishments surveyed in 2000.

Despite their numerical preponderance, SMIs accounted for a much smaller proportion of total output, value added and total employment when compared to the LIs. In 2000, SMIs contributed 8.7 per cent to total output (RM 2360.25 million), and 5.5 per cent to the total manufacturing value added (MVA) (RM12,514.60 million) while the LIs contributed the bulk of 91.3 per cent and 94.5 per cent respectively. In terms of capital investment on fixed assets, the SMIs are lagging far behind when compared to the LIs. The SMIs invested RM1,123.87 million on fixed assets, which is only 8.5 per cent of the industry's total whereas the LIs invested 91.5 per cent. The SMIs employed only 19,114 workers or about 25 per cent of the total surveyed enterprises' workforce, the bulk of the workforce (75 %) are being absorbed in the LIs.

It is also noted that during the period 1990-2000, the performance of SMIs has deteriorated while that of the LIs has improved. Table 1 indicated that while the total numbers of SMIs have risen by 5.3 per cent during this period, their contributions to total output and MVA have dropped by 4.7 per cent and 4 per cent respectively. In addition, their contributions to total employment and investment in fixed asset have also dwindled by 13 per cent and 0.4 per cent respectively. On the other hand, during this period, though there was a drop in the total number of establishments for the LIs by 5.3 per cent, their contributions to total output, MVA and total employment have appreciated by 4.5 per cent, 4.0 per cent, 13 per cent respectively. All this tends to suggest that there exists a large disparity between the SMIs and the LIs in Sarawak.

Differences in performance can also be seen among the various sub-sectors in SMIs. Table 2 indicates the distribution of SMIs establishments in the State in 2000. The largest concentration of SMIs in the State were found in four sub sectors; textile, wearing apparel and leather industries (19.7 %), food manufacturing (18.7 %), manufacture of fabricated

metal (16.4 %), and wood and wood products including furniture (18.5 %). These four sub-sectors dominated more than 70 per cent of SMIs. They were also the largest employers as well, accounting for more than 60 per cent of the total employment of SMIs. The five top contributors to MVA were food manufacturing at 24.4 per cent, other chemical product at 14 per cent, fabricated metal product at 9.1 per cent, transport equipment at 6.5 per cent, and wood and wood products at 8.7 per cent. These are the niche sectors of Sarawak that have potentials for further development. The establishments with the highest investment in fixed assets were Food manufacturing (23.2 %), Non metallic mineral (18.9 %) and the fabricated metal and other chemical product (both invested the same proportion of 7.7%).

It is useful to benchmark performance of SMIs in the State with those at both the national and the international levels in order to gauge the relative position of the former. Table 3 indicates that SMIs in the State are more labour intensive in nature as compared to the national level. In 1996, the SMIs in Sarawak employed on the average 40.1 workers per establishment. This is about 1.4 times higher than the number of workers per establishment at the national level (29.74). Despite their relatively larger employment size, SMIs in Sarawak are less productive as they generated only about 90 per cent of the value added at the national level. Sarawak's SMIs invested a much lower value in fixed asset as compared to that of the national level. In 1996, their total investments in fixed asset were three quarters that of the national level. They also paid less wage as compared to the national level. This is because wage rate in the State is generally lower than that of Peninsular Malaysia.

Table 4 depicts the scenario of SMIs in the State with that of the international level. SMIs in most countries export their products, with the amount ranging from a low 4.66 per cent in Singapore to a high 55.92 per cent in Taiwan. However, SMIs in Sarawak are domestic oriented. The amount exported is negligible. These indicators reveal that performance of SMIs in Sarawak are far less than satisfactory as compared to their counterparts in Peninsular Malaysia as well as those in the more developed countries.

Performance Of SMIs Based On Selected Partial Productivity Indicators

Performance of SMIs based on selected partial productivity indicators is shown in Table 5. In 2000, the labour productivity, or Value added per employee (the ratio of value added over total employment) of small-scale firms (SSI) is about two-third compared to medium scale firms (MSI) and one-twelfth that of LIs. This indicates that labour productivity of the manufacturing sector, tends to increase with firm size. As indicated by the high K/L ratio (total fixed assets over total employment) of RM 211,237, the LIs are capital intensive in nature. SMIs on the other hand, are labour intensive in nature. Its K/L ratio is about one-fifth that of LIs. In 2000, the capital productivity (value added generated per Ringgit of fixed assets invested) of SMIs was 63 per cent compared to that of LIs. This indicates that capital utilization is much more efficient in LIs than the SMIs. The labour cost competitiveness of SMIs is analysed based on two indicators, namely labour cost per employee (W/L) and value added per labour cost index (VA/W). The wage rate paid by SMIs, as indicated by the labour cost per employee ratio, is 92 per cent that of LIs. This indicates that the LIs pay higher wage rate as compared to SMIs. Value added per labour cost index is also computed to reflect labour cost in relation to value added creation. This ratio gives an indication of the real worth of labour to the organisation. This indicates that on the average RM1 spent on labour gives a value added of RM 3.84 in SMIs. The corresponding value for LIs is RM 18.55, which is about 5 times higher.

Table 1
Sarawak: Relative changes in percentage contribution of SMIs and LIs, 1991, 1995 and 2000

Number of firms	Contribution by Sector (Percentage)			Percentage change 1991-2000
	1991	1995	2000	
SSI	76.7	73.7	86.0	9.3
MSI	7.6	8.2	3.6	4.0
SMIs	84.3	81.9	89.6	5.3
LIs	15.7	9.1	10.4	-5.3
Total output				-5.0
SSI	10.0	8.6	5.0	0.3
MSI	3.4	5.2	3.7	-4.7
SMIS	13.4	13.8	8.7	4.5
LIs	86.6	86.2	91.3	
Total value added				-4.4
SSI	7.3	8.0	2.9	0.4
MSI	2.2	4.3	2.6	-4.0
SMIS	9.5	12.3	5.5	4.0
LIs	90.5	87.7	94.5	
Total employment				-8.3
SSI	27.7	22.4	19.4	-4.7
MSI	10.2	5.0	5.5	-13.0
SMIS	37.9	27.4	24.9	13.0
LIs	62.1	72.6	75.1	
Total fixed assets				-2.1
SSI	6.2	3.0	4.1	1.7
MSI	2.7	1.7	4.4	-0.4
SMIS	8.9	4.7	8.5	-0.4
LIs	91.9	95.3	91.5	

Note: SSI refers to Small-scale industry (Less than 50 workers)
MSI refers to Medium scale industry (between 50 to 75 workers)
SMIs refers to Small and medium scale industry (Less than or equal to 75 workers)
LIs refers to large scale industry (More than 75 workers)
Source: Compiled from the Department of Statistics, Sarawak

Table 2
Sarawak: Principal Statistics of SMIs by Industry, 2000.

Industries	No of establishments No	per cent	Value added (RM m)	per cent	Total employment No.	per cent	Fixed asset (RM m)	per cent
Food	310	18.7	167.63	24.4	4,390	23.0	260.39	23.2
Beverages	24	1.4	18.18	2.6	569	3.0	50.36	4.5
Textiles & Apparel	328	19.7	11.94	1.7	1139	6.0	9.92	0.9
Wood & Cork Products	129	7.8	41.21	6.0	2,225	11.6	65.65	5.8
Furniture & Fixtures	177	10.7	18.85	2.7	1,422	7.4	19.38	1.7
Paper & Paper Products	15	0.9	11.46	1.7	404	2.1	23.71	2.1
Printing & Publishing	70	4.2	17.46	2.5	1,007	5.3	16.12	1.4
Industrial Chemical	7	0.4	23.13	3.4	178	0.9	54.71	4.9
Other Chemical Prod.	11	0.7	96.32	14.0	411	2.2	86.92	7.7
Petroleum Refineries	3	0.2	67.87	9.9	89	0.5	8.67	0.8
Rubber Products	20	1.2	4.25	0.6	194	1.0	8.31	0.7
Plastic Products	29	1.7	20.92	3.0	506	2.6	27.61	2.5
Pottery & Glass Prod.	11	0.7	821	0.1	142	0.7	10.71	1.0
Non Metallic Minerals	77	4.6	46.88	6.8	1,454	7.6	212.76	18.9
Basic Metal	7	0.4	16.22	2.4	304	1.6	81.90	7.3
Fabricated Metal Prod.	273	16.4	62.62	9.1	2,636	13.8	86.77	7.7
Machinery	3	0.2	0.48	0.1	31	0.2	0.10	0.0
Electrical & Electronic	6	0.4	7.69	1.1	144	0.8	13.96	1.2
Transport Equipment	48	2.9	44.406	6.5	1,282	6.7	78.21	7.0
Other Manufacturing Ind.	113	6.8	9.52	1.4	587	3.1	7.73	0.7
TOTAL	1661	100.0	687.86	100.0	19114	100.0	1,123.87	100.0

Source : Compiled from Department of Statistics, Sarawak

Table 3
Malaysia and Sarawak: Employment, value added, fixed asset, salaries and wages per SMI, 1996

Particulars	Sarawak		Malaysia	
	SMIs	LIs	SMIs	LIs
Employment per est. (Number)	40.1	473.42	29.74	706.01
Value added per est. (RMMillion)	0.90	37.65	0.98	42.27
Salaries & wages per est. (RM Million)	0.29	4.70	0.33	10.2
Fixed asset per est. (RM million)	1.24	116.00	1.64	65.14

Source: Computed from Statistics Department of Sarawak

Table 4
Comparison of relative importance of SMIs by Selected Countries (%)

Country/State (year)	No of est.	Total employment	Export
Sarawak (2000)	**89.6**	**24.9**	*
Malaysia (2000)	92.00	31.20	20.00
Japan (1997)	99.10	79.20	13.00
Singapore (1997)	91.40	44.00	4.66
Hong Kong (1993)	97.95	63.00	-
Taiwan (1997)	96.77	68.63	55.92
Australia (1997)	95.00	50.60	10.00
USA (1997)	99.00	53.67	29.00
Philippines (1997)	98.70	50.00	26.30

Note: * refers to a negligible amount

Table 5
Sarawak: Productivity indicators by size of industries, 2000.

Employment Size group	Value added /Labour (VA/L)	Capital/ Labour (K/L)	Value added /fixed asset (VA/K)	Wage/ Labour (W/L)	Value added/ Wage (VA/W)
Small (SSI)	24,655	36,624	0.67	8,616	2.86
Medium (MSI)	35,987	136,726	0.55	12,369	2.86
SMIs	**37,203**	**58,798**	**0.61**	**10,675**	**3.84**
LIs	205,332	211,237	0.97	11,605	18.55
Total	163,137	173,255	0.94	11,607	14.74

Source: Computed from Statistics Department of Sarawak

Findings of Total Factor Productivity performance of SMIs in Sarawak

Results of Regression Analyses of SMIs

Table 6 Shows the result of the multiple regression analysis using the ordinary least square (OLS) method based on the Gollop-Jorgenson model. The problems of serial autocorrelations in the respective sub-sectors are corrected using the First Difference method. In this method, a lag of one year is taken to correct any serial autocorrelations in the respective subsectors. Generally, the autocorrelation problems appear to be less serious after taking a one-year lag. This can be seen by inspecting the Durbin-Watson statistics from Table 6 below.

The value of the adjusted R2 ranges from 0.521 or 52.1 per cent to a high of 0.975 or 97.5 per cent. High adjusted R^2 values of greater than 0.90 were observed in eight out of the twenty SMIs subgroups indicating that the independent variables explain more than 90.0 per cent in the variation of the dependent variables respectively. These industries are food industries, beverage industries, textile and apparel, printing and publishing industries, rubber products, fabricated metals and those classified under the other manufacturing category.

The regression results show that both capital and labour inputs are significant determinants to output or productivity in more than half of the SMIs subsectors in Sarawak. Negatives t-values were observed in some sectors due to incomplete or negative growth in some sectors and the data limitations. Some subsectors were not big enough to be disaggregated to be meaningfully analysed in this manner.

Table 7 depicts the average annual growth rates of value added (VA), capital (K), labour (L) and total factor productivity growth (TFPG) of the various sub-sectors from 1991-2000. During the period 1991-2000, MVA of SMIs grew rapidly (though slower than that of LIs at 29.52 per cent) with an average of 26.15 per cent per annum. All the 20 sub-sectors registered positive growth rates in MVA with the highest rate recorded in the transport equipment (0.5231 or 52.31 %), followed by industrial chemical (39.33 %), textile and apparel (38.59 %) subsectors. Others that grew at a high rate of above 30.0 per cent in value added between 1991-2000 include beverage industries, paper and paper products, other chemical products, plastic products, pottery and glass products, basic metal products, machinery and other manufacturing industries sub-sectors.

Table 6
Sarawak: Results of Total of Output Regression Analyses in Manufacturing Sector, 1991- 2000.

Industry	ISIC Codes	Intercept	Ln K	Ln L	Adj. R^2	D.W.
Food Industries	311 & 312	4.510 (1.850)	-1.848 (3.121)*	-1.986 (-1.835)	0.942	2.119
Beverage industries	313	3.125 (2.867)*	.227 (2.285)*	.688 (2.145)*	0.921	2.635
Textile & apparel	321 / 322 / 323	2.134 (4.227)*	.189 (1.430)	1.986 (8.537)*	0.923	1.893
Wood & cork products	331	.673	.859	.534	0.762	1.726

		(.038)	(1.679)	(1.687)		
Furniture & fixtures	332	2.740 (1.806)	1.568 (4.893)*	1.177 (1.531)	0.812	2.124
Paper & paper products	341	1.149 (.720)	.985 (2.890)*	1.494 (1.087)	0.826	2.113
Printing & publishing industries	342	2.906 (3.031)*	.648 (2.952)*	.489 (2.271)*	0.921	2.342
Industrial chemicals	351	7.675 (13.301)*	1.346 (1.235)	.848 (2.965)*	0.765	2.245
Other Chemical products	352	-1.445 (-.721)	-.216 (-.349)	2.553 (2.479)*	0.820	1.953
Petroleum refineries	353 / 354	7.337 (9.338)*	1.009 (2.889)*	1.056 (4.233)*	0.737	2.011
Rubber products	355	6.671 (5.897)*	.824 (2.190)*	.349 (.189)	0.912	2.196
Plastic products	356	-1.942 (-1.231)	1.451 (4.912)**	.385 (1.613)	.875	2.149
Pottery and glass products	361 / 362	-1.123 (-.311)	.436 (1.798)	2.743 (2.637)*	.784	2.156
Non metallic products	369	1.640 (.761)	.265 (3.858)	1.109 (2.703)*	.744	2.450
Basic metal industries	371 / 372	7.757 (2.667)*	.247 (1.215)	-.179 (-.227)	.521	2.712
Fabricated metal products	381	3.438 (6.148)*	.115 (.648)	.804 (3.191)*	.952	2.788
Machinery except electrical	382	.3.561 (4.584)	1.102 (1.378)	.605 (3.731)*	.692	2.409
Electric and electronic	383	2.382 (1.494)	.291 (3.166)*	.771 (2.042)*	.653	2.547
Transport equipment	384 / 385	3.131 (.658)	2.348 (2.850)*	2.53 (3.037)*	.651	2.527
Other manufacturing industries	390	1.547 (2.345)*	.292 (1.187)	.766 (2.915*	.975	1.964
Total SMIs		1.570 (1.132)	.630 (8.592)**	.714 (1.666)	.971	1.217
Total LIs		2.738 (.794)	.434 (.496)	.522 (1.666)	.712	.588
Total Industry		1.689 (.794)	.478 (1.554)	-.544 (.313)	.545	.551

Notes: Figures in parentheses are t-values.
** significant at 1 per cent level
* significant at 5 per cent level

The rapid growth in MVA of SMIs was fuelled by the rapid growth in capital at 27.32 per cent (LIs achieved a higher rate of 29.18 %). The growth in capital denotes the injection of fresh capital to replace the existing plants or machineries in order to upgrade and modernise their operations. The highest growth in capital investment is recorded for ten out of twenty (above

31.0%) subsectors namely, beverage industries, textile and apparel, paper and paper products, pottery and glass products (the highest at 41.83%), non-metallic products, basic metal industries, electric and electronic, other chemicals, transport equipment and other manufacturing sub sectors. Capital growth in the other ten sub sectors was generally lower at below than 30.0 per cent for the period 1991-2000.

Labour, as measured by the number of full time paid employee grew at a slightly slower rate of 25.63 per cent during the period under study. The lower annual growth rate of labour as compared to that of value added and capital in both SMIs and LIs indicate low labour productivity in the State-manufacturing sector. Only five subsectors have labour growth exceeding 30.0 per cent. These subsectors were textile and apparel (35.87%), paper and paper products (37.69%), industrial chemical (92.44 %), machinery (34.81%), and the other manufacturing industries subsectors (30.82%).

During the reference period, SMIs registered the lowest TFP growth of a mere 1.33 per cent while the large industries (LIs) and the overall manufacturing sector recorded TFP growth rates of 6.1 per cent and 7.44 per cent respectively. Analysis of TFP growth in SMIs by sub-sectors indicated that most of the sub-sectors recorded negative TFP growth rates between 1991 and 2000. However, positive TFP growth rates were recorded in nine sub-sectors namely transport equipment, rubber products, textile & apparel, basic metal products, petroleum refineries, beverage industries, pottery & glass, wood & cork industries, and plastic products. With the exception of beverage industries, all of these sub-sectors achieved higher average annual growth in capital than labour. This could probably be due to higher efficiency in the utilization of capital than labour in the State.

Table 7
Sarawak: Average Annual Growth of Output, Capital and Labour in SMI by sub-sectors, 1991- 2000.

Industry	ISIC Code	Value Added (VA)	Capital (K)	Labour (L)	TFP
Food Industries	311 & 312	0.2958	0.2918	0.2624	-0.4616
Beverage industries	313	0.3289	0.3853	0.2595	0.1347
Textile & apparel	321 & 322 & 323	0.3859	0.3616	0.3587	0.2448
Wood & cork products	331	0.2711	0.2524	0.2467	0.0347
Furniture & fixtures	332	0.2669	0.2901	0.2805	-0.0944
Paper & paper products	341	0.3377	0.3769	0.3769	-0.0158
Printing & publishing industries	342	0.2501	0.2652	0.2490	-0.0074
Industrial chemical	351	0.3933	0.2492	0.9244	-0.0819
Other Chemical products	352	0.3344	0.3146	0.2763	-0.0811
Petroleum refineries	353/354	0.2609	0.3007	0.2594	0.1509
Rubber products	355	0.2512	0.2736	0.2438	0.1900
Plastic products	356	0.3096	0.2809	0.2494	0.03948
Pottery and glass products	361/362	0.3088	0.4183	0.2627	0.0638
Non metallic products	369	0.2847	0.3513	0.2526	-0.0162
Basic metal industries	371/372	0.3396	0.3500	0.2722	0.2129
Fabricated metal products	381	0.2714	0.2975	0.2769	-0.0040
Machinery except electrical	382	0.3119	0.2567	0.3481	-0.0388
Electric and electronic	383	0.2724	0.3451	0.2492	-0.0934
Transport equipment	384 & 385	0.5231	0.3303	0.2744	0.3824
Other manufacturing industries	390	0.3088	0.3195	0.3082	-0.0033
Total SMIs		0.2615	0.2732	0.2563	0.0133
Total LIs		0.2952	0.2918	0.27704	0.0610
Total Industry		0.2875	0.2849	0.2664	0.0744

Source: 1. Computed from Department of Statistics, Sarawak: Annual Manufacturing Surveys, (1991-2000).
2. Ministry of Industrial Development, (2003), A Study on the Productivity of Small and Medium Industries in Sarawak. Table 4.1, p. 83.

Sources Of Growth Of SMIs In Sarawak

The primary source of growth for the SMIs sector as a whole is derived from the growth of capital (Table 8). During 1991-2000, capital played a crucial role in the growth process, contributing 87.03 per cent to the growth. Labour and TFP were unimportant sources of growth as they contributed only 8.0 per cent and 4.9 per cent to growth respectively. The low TFP value shows that growth in SMIs is input-driven rather than productivity-driven. For the manufacturing industry as a whole, capital was a more important source of growth contributing 70.65 per cent to growth while labour and TFP contributions were rather unimportant at 3.47 per cent and 25.89 per cent respectively. The higher TFP values in the overall manufacturing sector in contrast to SMIs indicate higher production efficiency in the former in contrast to the latter.

Between 1991 and 2000, the contributions of TFPG were found to be positive in nine out of the twenty sub sectors for SMIs namely, beverage industries, textile and apparel, wood and cork products, petroleum refineries, rubber products, plastic products, pottery and glass products, basic metals industries and transport equipments. In most of these industries, capital was found to be a more important source of growth than labour. The exceptions were the textile & apparel and wood & cork industries, which had low levels of capital intensity. The positive contributions of TFP to growth in these two sub-sectors may be attributed to better management techniques and capitalization on the low labour costs. Negative contributions of TFPGs were recorded in eleven SMIs sub-sectors namely, food industries, furniture & fixtures, paper & paper products, printing & publishing industries, industrial chemical, other chemical products, non metallic products, fabricated metal products, machinery except electrical, electrical and electronics and other manufacturing industries. The contributions of TFPG were negative in these sub-sectors despite their high capital intensities. This indicated that TFPG in Sarawak is dependent not only on capital intensity alone but also on the choice of technology and quality of workforce. Thus, high capital intensity is not a sufficient condition for a high TFP growth.

Capital was an important source of growth in 12 sub sectors namely, food industries, beverage, paper and paper products, printing and publishing petroleum refineries among others. These are generally the more capital-intensive industries. Therefore, capital inputs contributions seem to dominate the more capital-intensive industries. Labour was a more important source of growth in six industries - textile and apparel, wood & cork products, rubber products, fabricated metal products, transport equipment, and machinery except electrical. These are more labour intensive industries.

A few reasons could have given rise to the low TFP growth in the State's SMIs. Firstly, the State's SMIs have low production efficiencies and productivity. The low productivity of the State's SMIs has also been reported by studies conducted by Iris Syawe et al, (1990); Ibrahim Abu Shah, et. al, (1995) and Yap Yin & Nicholas Amin, (1995). For example, Ibrahim Abu Shah, et. al, 1995 indicated that SMIs in Sarawak suffered from low productivities because they utilize traditional production techniques, which are manual and ineffective.

Secondly, *the* growth and development of SMIs in Sarawak are constrained by the lack of skilled workers. In 2001, Sarawak had a labour force of 943,400 out of a population of about 2.2 million. The educational profile of the labour force is shown in Table 9. During the 1990-2001 period, the percentage of workers in the labour force having no formal education has declined from 23.8 per cent in 1990 to 12 per cent in 2000, while the percentage of workers having either college or university education increased from 3.7 per cent to 11 per cent during this period. However, the overall scenario is still not satisfactory. Recent interviews with some SMIs establishments and association representatives revealed that many workers among SMIs are found to be largely unskilled or at best semi-skilled. Some are not able to follow basic instructions in the operation process and are often hampered by their illiteracy. The low training culture, which is predominant among SMIs entrepreneurs, negates any effort by the government to enhance productivity. Most gave reasons that they have to meet tight production schedules, fear of losing workers, and regarded training as unimportant for the workers to perform their job functions.

Table 8
Sarawak: Sources of Growth for the Manufacturing Sector, 1991- 2000

Industry	ISIC Codes	Capital	Labour	TFP
Food Industries	311 & 312	0.8361	0.7821	-0.6182
Beverage industries	313	0.3771	0.2852	0.3377
Textile & apparel	321, 322& 323	0.1341	0.3455	0.5204
Wood & cork products	331	0.3878	0.4898	0.1204
Furniture & fixtures	332	1.002	0.3810	-0.3830
Paper & paper products	341	0.7488	0.2979	-0.0468
Printing & publishing industries	342	0.9348	0.0946	-0.0007
Industrial chemical	351	0.8022	0.2859	-0.0.881
Other Chemical products	352	1.1628	0.0149	-0.1872
Petroleum refineries	353/354	0.5942	-0.1729	0.5787
Rubber products	355	0.1171	0.1266	0.7563
Plastic products	356	0.6687	.2038	0.1275
Pottery and glass products	361/362	0.4889	0.3061	0.2065
Non metallic products	369	0.8279	0.2289	-0.0568
Basic metal industries	371/372	0.4937	-0.1206	0.6269
Fabricated metal products	381	0.1633	0.8514	-0.0147
Machinery except electrical	382	-0.1045	1.2289	-0.1243

Electric and electronic	383	0.7745	0.5684	-03429
Transport equipment	384 & 385	0.1322	0.1887	0.67791
Other manufacturing industries	390	0.6502	0.5114	-0.1616
Total SMIs		0.8703	0.0803	0.0493
Total LIs		0.5012	0.2921	0.2067
Total Industry		0.7065	0.0347	0.2589

Table 9
Percentage Distribution of Labour Force by Educational Level, 1990 & 2000

Educational Level	Total	
	1990 (%)	2001 (%)
No Formal Education	23.8	12.0
Primary	31.8	29.6
Lower Secondary/ Upper Secondary/ Form Six	40.7	47.4
College/University	3.7	11.0
Total	100.0	100.0
Base Number	(741,585)	(915,000)

Source: Statistical Bulletins, 1993, 2001

Thirdly, the majority of SMIs in Sarawak are plagued by inefficiencies arising from the utilization of inadequate management technique and outmoded technology. The level of technology involved in their daily operations are outdated and outmoded which have direct effect on their productivity and quality of their outputs. The use of modern technology or new methods of managements such as materials resource planning (MRP), enterprise resource planning (ERP), customer relationship management (CRM) and information and communication technology (ICT) is low or non-existent. Thus, these SMIs cannot access the benefits of modernisation. Most SMIs are also financially constrained to undertake any major production upgrading. According to a survey carried out by Ibrahim A. Shah et al. in 1995, about 86 per cent of the SMIs in the State utilized intermediate level of technology or partially mechanized method of production. Further more, more than half of the establishments surveyed had used their machinery for more than 7 years. All these could affect the quality of products of SMIs and their level of competitiveness capabilities in the market.

Strategic thrusts towards enhancing productivity growth in Sarawak

Despite past efforts to develop SMI through tax exemptions and other incentives, their contributions to the State economy are unsatisfactory. Though the large enterprises are more efficient, they are few in numbers and mostly owned by the multinationals. Future

developemnt of the industrial sector would depend on our abilities to upgrade the performance of the SMIs. This calls for the need to improve the competitiveness of SMI through productivity improvement.

This study proposes six major strategies namely, human resource development (HRD), research and development (R&D) and technological development including information and communication technology (ICT), cluster-based development, and programmes towards enhancing marketing efficiency of SMIs to enhance productivity growth in Sarawak.

The quality and quantity of work force is an important factor in enhancing the productivity of an enterprise or a business firm. A highly skilled workforce is more trainable, and is able to innovate, follow instructions, and provide the necessary impetus for change and leadership in the work place. Toward this end, HRD is crucial in ensuring productivity growth through training and development. The key to the success of SMIs in Sarawak, therefore, is to increase the pool of skilled and capable workers through diverse training programmes based on the needs of specific industries. The government, through the Industrial and technical Assistance Funds (ITAF) Scheme for example, provides several incentives for training and HRD and the number of takers should also be increased. Public delivery system through the universities, technical colleges need to be streamlined to the type of skills needed by the industries. For the SMIs to forge ahead there must be a 'critical mass' of skilled workers that can form the backbone of the elite and capable workforce in the State and the country as well.

The use of technology especially in the production process must also be updated and enhanced to meet the quality standards and conformance of the market needs or requirements if the SMIs were to remain competitive. Technological usage and application including Research and Development (R&D), Science and Technology (S&T) and ICT must be actively utilized and deployed in the operations of SMIs. Most SMIs in Sarawak employed equipments that may not have the right technological capabilities and capacities. ICT should be used more effectively in production management, e-commerce or B2B. At the same time the government should also invest in ICT infrastructure development and reduce the rates for Internet access for companies. Some of the proposed plan of actions in the technology and ICT framework cover the university-industry linkage to develop indigenous technologies that meet the local needs, construction of technology part and industrial estates specifically for the SMIs and develop and maintain technological information database and service centre in order to expedite current information to the SMIs.

Cluster-based approach can be promoted as a suitable strategy to enhance the productivity and consequently the competitiveness of the SMIs in Sarawak. Clusters are essentially concentrations of interconnected companies and institutions in a particular area or field. This concentration will benefit from the external economies for all inter-related manufacturing establishments in the industry. Further studies should be made to identify and relocate certain industries to be within a particular cluster to enable them to operate most efficiently. Through this clusters, linkages (both vertical and horizontal) between firms may be further enhanced through a maze of networking between the industries and the supporting institutions such as financial institutions, related government agencies, training institutions and a host of others. Through the clusters, it is hoped that the development of new business, increased productivity of manufacturing establishments or business firms based in the area will be promoted. Similarly, proper management and supervision and control of industrial activities can be made

and be coordinated by the various supporting government agencies that are responsible for SMIs or the manufacturing sector in general.

Marketing problems have been indicated by most SMIs in Sarawak as a major hindrance to exporting their products (Ibrahim Abu Shah, et. al 1995). Towards this end it is proposed that the government with the assistance of the local Chamber of commerce or trade associations to assist SMIs to penetrate the international market. Besides holding trade fairs and exhibitions of which may be expensive affairs for the SMIs, home markets need to be develop and further expand. This involved new products development, pricing policies, broadening the product range and also the quality enhancements of the products. Assistance must be provided for product research and also product branding scheme. Sarawak SMIs can be producers for international halal food hub in the region through collaborative efforts of the federal government.

CONCLUDING REMARKS

Despite their inherent weaknesses, the developments of SMIs are crucial for the overall growth of the manufacturing sector in Sarawak. Results from the analyses of TFP growth during 1991-2000 indicates that capital is the main source of growth for the State's SMIs while labour and TFP were unimportant sources of growth. The main reasons for low TFP growth include lack of skilled workers, production inefficiencies, and the utilization of inefficient production techniques. In the face of changing business environments and stiff challenges resulting from the globalised market, the need to improve productivity and competitiveness is even more pressing now than ever before.

In conclusion, Sarawak needs to develop the capacity for TFP growth for instance by being more innovative, developing higher technological capability, improving quality of human capital, promoting more Research and Development (R&D) initiatives, strengthening the marketing network and adoption of the Cluster-based approach within the State's economy. In addition, SMIs need to establish stronger linkages with the large industries or MNCs or multinationals to ensure that they remain competitive and progressive in the long run.

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BUSINESS OPPORTUNITIES FOR SMALL AND MEDIUM SIZED ENTERPRISES (SMES) IN THE COMMONWEALTH OF INDEPENDENT STATES (CIS) REGION: LESSONS FROM THE INDIAN SME PERSPECTIVE

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ABSTRACT

The objective of this paper is twofold. Economic reforms, and industrial and technological development varied widely across CIS countries giving rise to two opposite trends – Integration Vs Disintegration. How is the economic integration possible in the CIS region? The paper addresses the issue of economic transformation and integration in CIS economies in the period of independence. The paper then highlights the role of SME sector, business opportunities for SMEs in CIS countries, SME development vis-à-vis regional economic integration in these economies.

The paper draws a multidimensional picture of the small and medium-sized enterprise (SME) sector in CIS countries. Different subjects of economic and political life have different expectations connected with development of the SME sector. Potentially, the sector may become the major catalyst of economic development of in the whole region. The CIS countries are in a search for the optimal model of SME development, however no universal recipe could be formulated for all transition economies, especially in the area of entrepreneurship development—sensitive to historical and other cultural factors. The Indian example of the SME existence and growth in the era of industrial liberalization serves the right role model for CIS countries.

Finally, the paper looks at SME development issues from a regional perspective. In this context, the focus shifts from a national framework to the regional one, where development of SMEs has to be implemented parallel to acceleration of the regional integration processes.

INTRODUCTION

The Commonwealth of Independent States (CIS) was founded in 1991 after the dissolution of the Soviet Union. The collapse of the Soviet Union gave rise to a community of independent nations formerly established by a treaty signed at Minsk, Belarus on December 8, 1991 by the heads of state of Russia, Belarus and Ukraine. Within the next three weeks the original three

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were joined by Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan. When Georgia joined in 1993 all of the former republics of the USSR except the Baltic States had become members of the Commonwealth of Independent States (CIS), with its current headquarters in Minsk.

The CIS was conceived as the successor to the USSR in its role of coordinating the foreign and economic policies of its member nations. The treaty recognized current borders and each republic's independence, sovereignty, and equality, and established a free-market ruble zone embracing the republics interdependent economies and a joint defense force for participating republics. The republics' level of receptivity to integration with Russia has varied. All CIS nations now have their own currency, and most members have had occasion to criticize Russia for slow implementation of CIS agreements.

Ukraine had a prolonged disagreement with Russia over the disposition of the Black Sea and remains wary of Russian power. Azerbaijan's oil reserves has freed it from dependence on Russia while Moldova's insurgency in the Russian-dominated Trans-Dniester region have kept them relatively inactive in the alliance. Georgia, with its separatist movement in the region of Abkhazia, and Tajikistan, torn by a persistent civil war, Uzbekistan with its limited natural resources, and Armenia, surrounded by the Muslim nations of Azerbaijan, Iran, and Turkey, have all accepted Russia's protection under a joint defense system, although Georgia is seeking the ultimate removal of Russian forces from its soil. In 1995 the CIS established a joint air-defense system but not all CIS nations are members. An eventual customs union, which will eliminate trade restriction and eventually unite currencies, is planned. Belarus and Russia have created supranational bodies to effect such changes but actual progress toward integration has been slow. Kazakhstan and Kyrgyzstan have joined in the agreement to pursue economic integration without customs restrictions.

The process of transformation in the CIS countries has a number of major unique features distinguishing it from the international stream. To a large extent, the nature and direction of the modern reform policy and actual activities in the former Union of Soviet Socialist Republics (USSR) were formed in the 1980s on the basis of socialist *perestroika* ideas, and after the USSR collapse, the trend towards application of extensive world experience in developing countries reformation has become more obvious. The need for a new national State system creation and for a drastic change in the peoples' social and cultural mentality formed during the USSR period became indispensable for the economic transformation in the CIS countries. None of the countries undergoing reforms had encountered such a great number of problems before.

The formation in 1991 of CIS was designed to ensure a painless transition from a single united State to a system of independent national entities, and to help them establish new relations based on the principles of political, economic and social community. The lowered efficiency of trade and economic relations among the CIS countries in 1992-1993 gave an impetus to the signing of another integration agreement—the Treaty on Economic Union. In 1994-1995, a number of agreements on setting up the Payment and Customs Unions were signed. The key role in the formation of a common free market zone of the CIS countries was given to the Inter-State Economic Committee of the Economic Union (IEC) set up in 1994.

In the first few years following the acquisition of independence by the former Soviet republics and the formation of CIS, two trends were observed in the relations among the CIS countries,

i.e. the integration trend, which represented the desire to restore the broken ties, and the disintegration trend, which acted towards strengthening the national sovereignty of the CIS countries through isolationist economic measures. As a result, despite the formation of new integration structures (the Economic and Customs Unions, IEC etc.), the absence of coordination in the economic policy of the CIS countries, the introduction of national currencies and different payment mechanisms, as well as customs barriers and other factors, separated the economies of the CIS countries and considerably limited their traditional sales markets.

ECONOMIC INTEGRATION AND INDUSTRIAL DEVELOPMENT IN CIS

Globalization of the world economy suggests deepening and expansion of integration spheres. Especially active in this field are social and economic reforms, which, starting from the late 1980s, early 1990s, have been accepted and called for in the CIS countries, which formerly had centralized planned economies. Although the CIS countries have their own peculiarities as regards the national reformative mentality and political practice, a connection with the global trends in the field of social and economic reforms is obvious.

A common feature of the economic reform in the CIS countries is that these reforms are related to the solution of strategic problems of a greater scope than just restructuring of the economic relations on the basis of market principles. These reforms in the CIS countries serve as an active means of the sovereignty confirmation, national state formation and establishment of independent internal and external economic policy. While having similar reform objectives, each of the CIS countries chooses its own model scenarios, priorities and sequence of reforms and limits of the social price of political and economic transformations. Scenario and models differences have caused eventually lack of consistency in reform rates and economy liberalization scope and different state mechanisms for economic regulation.

Economic reforms are distinguished by consistency, depending on the current situation, considered as a means of political consolidation and stability in the countries where exacerbation of internal political struggle did not allow to start or forced to suspend the reformation processes (Azerbaijan, Georgia, Tajikistan). Similarities and differences in conducting economic reforms in the CIS countries have given them a multi-pole configuration. The CIS countries have reached and will stay on different stages of economic reforms and new market mechanisms formation.

Despite the similarity of the reform objectives and of the stages of economic reforms in each CIS country, the process of reforming is characterized by various national, political, geographical and economic peculiarities and differences. Each of the CIS countries made its choice on the basis of its understanding and evaluation of possibilities of the national economy and interests of major social groups of the population and national elites, reasonableness of hopes for external financial and technical assistance and potentially risky political, social and economic destabilization, unavoidable in any reform process. An analysis of the industrial development results of the CIS countries in 1992-2003 shows that certain positive aspects of the CIS countries' economic development are still not based on a solid

foundation that will result in their irreversibility. Macroeconomic stabilization, to a certain extent, is reached in many countries due to external loans and foreign investments. Issues of cooperation in integration processes are a very important component of economic and industrial development of the CIS countries in the current situation. The establishment of new economic relations in compliance with equal partnership principles, reaching a new level, is one of the most important conditions of mutually beneficial collaboration in the potential development of production technology in the CIS countries.

Science, new equipment and high technologies should become key priorities of the CIS social and economic development. Within the framework of national support programmes for scientific and innovation activities in CIS countries, support of non-governmental investments (like crediting, leasing, investments in securities of science and innovation organizations etc.) is playing a more and more important role.

Formation of an economic union is a strategic objective of the CIS external economic policy, the first step in this direction being the creation of free trade zones. The massive influx of transnational corporations and international investors into the CIS countries is restrained by the underdevelopment of these States, high risks, an inadequate investment climate and absence of information transparency of the stock market. In the framework of financial and investment globalization trends, CIS still remains a “closed” zone, a periphery of the global financial market.

The inefficiency of the CIS and the decreased Russian role on the southern CIS borders has brought about stronger cooperation between central Asian countries and their southern neighbours. This trend was reflected in the creation and functioning of the Economic Cooperation Organization (ECO), which includes, beside all the five CIS central Asian States, Afghanistan, Azerbaijan, Iran, Iraq, Pakistan and Turkey. The members of this organization regard the development of a transport and communication infrastructure, power engineering branch and a transnational pipeline network in the region as their primary objective.

The key role for the restoration of a common free-market zone in the CIS framework belongs to micro-level market integration, creation of joint ventures, inter-state financial-industrial groups and other transnational production, commercial and financial structures. It is in this way, using the interests and actual activities of manufacturers, businessmen and financiers that a promising high-technology industry and high-technology enterprises can be saved both in the Russian Federation and other CIS countries. It is only in this way that traditional markets can be restored and such market pillars as small- and medium-scale enterprises can be strengthened.

SMALL AND MEDIUM ENTERPRISES (SMEs) IN CIS: THE REALITIES

Economic theory has brought a revival of the Schumpeterian approach (importance of the “gifted few” who can innovate and dismantle traditional, routine structures, “the entrepreneur as the persona causa of economic development”) and schools of business around the world have been thriving on the cult of entrepreneurship. Theory of firm has become divided into

static and a dynamic one. Static theory of firm proves that large firms are efficient because they focus on the status quo; the dynamic theory suggests that small firms are efficient since they focus on change. New, small start-ups introduce change into the economy. The implications for the public policy has become therefore to implement policies that encourage the entry of new firms, support their survival, and promote their growth.

The SME sector in CIS countries is very much blurred and comparisons among countries are difficult, as generally the statistics of the sector are rather poor and unreliable. Long-term trends and comparisons among countries are difficult to define since definitions of SMEs are adopted and changed at different points of time. Primary information on SME entities is gathered in various government institutions, particular departments of statistical offices have adequate insights only into selected segments of information and a synthetic picture is not always available. These facts alone technically complicate collection of data, but more important is probably the fact that official information available is often fundamentally misleading. It includes companies that are only registered, but do not operate; at the same time it excludes those which actually operate, create demand and jobs, however only within the unofficial sector—the parallel economy.

An example from Kazakhstan gives some insights into the scope of the problem: as of 1 October 1997, there were 16,066 SMEs registered, including 7,385 legal entities. A required reporting was supposed to be submitted by 3,797 organizations, out of which only 692 (18 per cent) implemented the task, 2,299 (60 per cent) did not indicate current activity, and the remaining 806 units (22 per cent) did not complete the tasks for various reasons. Some specialists claim that this is one of the reasons why good diagnoses of SME development are rather rare; usually they are carried out in a formal and superficial manner.

Some small enterprises are registered for reasons, which reflect general weaknesses of economic systems (e.g. as a second, or third job of underpaid civil servants, or for tax reasons) and, contrary to expectations, are not in fact creating additional jobs in the country. Many existing SME development problems are presented and publicly discussed in a superficial manner, since some of the problems, such as e.g. corruption, are of delicate and political nature.

Often, SME development suffers from pressures stemming from current budget needs and influential Ministries of Finance. In the absence of strong counterbalancing government institutions that would promote long-term growth (and create a long-term vision-strategy as in case of Indian SSI Industry) of SME sector, the current income from taxes seems to be more important than all multiplier effects involved and an eventual increase in the country's wealth.

As the SME-related problems are similar in CIS countries, particular government's initiatives are mutually closely watched and most of the solutions applied or emulated, it seems appropriate that technical assistance in this area expanded more and more into a regional dimension. A good regional SME project could be more justified than several national projects, which would deal with same issues in each country separately. The regional project could generate some economies of scale, strengthen integration processes and help better use of available resources.

In Uzbekistan, SME development has now become one of the highest priorities in the development strategy of Uzbekistan. It is progressing upon a background of macro policies,

which strongly underline social aspects of development and avoid rapid and radical change. These policies—adhering to the basic principles of economic transition and development by President I. Karimov—have often been criticized and generally considered controversial by most of western experts. The country however has been developing recently at the rate of 4-5 per cent (according to the Centre For Economic Research, Tashkent) faster than many of its neighbours. The next stage of important regulatory reforms (including introduction of pro-export policies, progress in the mechanisms of convertibility and changes in the banking system) has been launched. Most of the steps undertaken aim at unfettering of the flexibility of the system and at promotion of entrepreneurial behaviour.

In Kyrgyzstan, the main task of determining SME policy was given to the Ministry of Industry and Foreign Trade; however, until present significant policy inputs are still being provided by the State Fund for SME support, the key Government organization in this area until 1998, which operates a domestic, soft credit line for SMEs. Recently, new organizational structures that deal with SME development support have been established at the central and local levels. This includes units set up at the Prime Minister's Office and in practically all of the ministries (both sector ministries, as well as the functional ones, such as the Ministry of Finance), in the Anti-monopoly Committee at the office of the President, as well as at the level of local administration. Therefore, this component of the model has become largely complex and the Government authority dispersed. The financial and banking network consist of the domestic and foreign components (domestic, soft-term credit line supervised by the State Fund for SME Support at the Government of Kyrgyzstan; domestic commercial sources: SME credits available in several leading commercial banks; foreign credit sources include German credit lines from the Kreditanstalt fuer Wiederaufbau executed and supervised in cooperation with Kyrgyz Goskom-invest, the EBRD credit line, World Bank credit lines; credit lines of the USAID, and other donor organizations). Already in the second half of the 1990s, several bilateral donors dealt with technical assistance to SMEs in Kyrgyzstan. The leading role was played by the governments of Germany, Israel, Switzerland, Turkey and the United States. Multilateral donors were represented by the UNDP and the World Bank. The latter has become the leading institution in the area of financing of small business development in the agricultural sector.

The donor community can play an important role in the process of improvement of government SME development policies and formulation of new, long-term SME development strategies. A more exposed role of donors and their more efficient activity in the field of technical assistance and financing require however a better coordination of activities among particular donors, improved dialogue with the Government and more flexible supply of various forms of technical assistance to cover existing gaps.

In some countries of the region, the ties between particular donor organizations have already been strengthened. In Kyrgyzstan, representatives of SME donor organizations meet once a month in order to exchange information, coordinate plans and discuss current activities. A spirit of better understanding of country's needs has been created, as well as more realistic assessment of own possibilities.

The specific, economic development dichotomy of the transition, known from other economies of other regions, is noticeable also in CIS. On the one hand, we may identify in each country a considerable amount of strategically important (in traditional economic terms), large enterprises that continue, rarely successfully, to struggle with the restructuring problem and

with adjustment to the new market situation. On the other hand, a large number of micro to small enterprises has emerged, e.g. in the area of trade and other services, whose presence is crucial for needs of the social and human aspects of development. Their presence increases dramatically the capacity to create new jobs and in general it addresses a broad spectrum combating poverty issues. It responds to many important social needs and expectations, including the ones that have already been created under transition. Their presence is however only beginning to change the internal production and distribution structure. Their weight is not sufficient yet to improve particular country's position in its economic environment and is rarely leading to an emergence of new generations of internationally competitive products.

INDIAN SMALL SCALE INDUSTRY (SSI) EXPERIENCE: AN INSIGHT

The Small Scale Industry (SSI) sector has been contributing significantly to the overall industrial and social development in India, as in most of the other developing and developed countries, and it is expected to continue to be of significance in the Indian economy in future, although, requirements and operational details may vary with time. This sector accounts for about 95% of the industrial units and is contributing about 40% of value addition in the manufacturing sector, 80% of manufacturing employment and about 35% of exports (both direct and indirect). More than 3.2 million (32 lakh) units are spread all over the country producing over 7,500 items and providing employment to more than 178.8 million (1788 lakh) persons.

The SSI sector in India not only plays a crucial role in providing large scale employment opportunities generally at lower capital cost than large scale industries, but also help in industrialization of rural and backward areas, thereby reducing regional imbalance, sharing more equitable distribution of national income and wealth. SSI units are supplementing and complementing to large and medium scale units as ancillary units.

The SSI sector, has grown under a protected environment till 1990. With the liberalizing policies and globalizing of economies, exports, international competitiveness, quality and cost etc. started assuming greater significance for industrial manufacturing systems and services including SSIs. The relative advantages of SSIs in terms of local raw materials, capital investment, lower scales of production, use of low-end technologies and production methods, started disappearing because of development of new and sophisticated technologies, applications of computers and information technology, and internationalisation of production and many other factors resulting from globalization.

The emerging trends in international trade policies including the birth of WTO in 1995, have posed new challenges and constraints in terms of finances, infrastructural and intellectual resources etc. The local and domestic markets themselves became international markets, and hence the SSI sector has to compete with international products even in domestic markets, and also with products being produced by large manufacturers. At the same time, the Indian SSI sector seems to be gearing up with the new market realities.

A new class of entrepreneurs which are more dynamic, forward looking and technology friendly, specially in technology intensive sectors such as information technology, computer software, drugs and pharmaceuticals, auto components, design and engineering and so on, have been appearing on the scene, although they generally lack the adequate financial resources and risk taking capacities. The traditional small scale businesses specially the new generation enterprises, have also been realizing the need to equip themselves with modern tools, though they need government support in various forms including the loans for capital investments and working capital, and other support from the government including access to information and up gradation of skills as well as market promotion.

Recognizing the need and importance of SSI sector, the government has been taking various policy initiatives and setting up institutional mechanisms of different kinds to encourage and support the SSI sector, from time to time. The Government of India has set up several committees and study groups in the past including a group of ministers in July 2000 under the chairmanship of Union Home Minister. The final report of this study prepared by the Planning Commission in March, 2001 made several policy recommendations and suggested various measures to support and encourage the development of SSI sector. Some of the recommendations include the following:

- There is a need for bringing awareness in small scale sector about the WTO implications and its impact on SSI sector,

- For infrastructural development, a corpus of Rs. 2000 crore has been recommended,

- FDI should be encouraged in SSI sector for better technology transfer (within a permitted ceiling of equity participation by large scale units in the equity of SSI units), FDI ceiling is presently 24%,

- A larger FDI can be considered on case-to-case basis. An enhanced database for the SSI sector and measures to develop human resources which included training, skill upgradation, new management practices, technology transfer, acquisition and development, and simplification of procedures and rules etc. need to be implemented,

- Finally, there is a strong need to redefine Indian SSI sector and introduce medium sector.

Indian SSI sector growth and development can be used as a case study by CIS countries and appropriate actions and measures can be taken by these economies to strengthen SMEs in their respective regions for economic integration and development of CIS region as a whole.

CONCLUSION

The countries of CIS have been facing the challenge of not only building individual, sound market economies, but also the challenge of using market mechanism for the purpose of the development of the whole region. Their integration has to be perceived in the context of a

common transition of the region to a fully-fledged market economy, of building together a regional investment potential and international competitiveness.

For strengthening SMEs in the CIS region, it is possible to think about common solutions e.g. simplifying the tax and licensing systems, unifying basic regulations for SMEs (e.g. common definitions and basic principles) and abolishing barriers (including custom duties for goods and services, as well as factors of production—capital and labour) without waiting for the creation of a monetary or economic union in future. In this regard, India can serve as a best example for strengthening SMEs for economic development of the country.

True economic and political integration has never been easy in CIS and always required a lot of time and efforts. However, the stakes are high; the SME sector, under market conditions, could become one of the decisive factors as far as the economic future of the whole region is concerned: from the amount of new jobs created, to development of cross-border trade and technology transfer, to developing important economic multiplier effects. Development of this sector, through creation of the middle class and its prosperity, could become one of the most efficient tools to provide social and political stability within and beyond national boundaries.

The integration processes could be further strengthened by new regional technical assistance programmes and projects that reach beyond national borders, just as the integration processes do. An example of good practices in this area was the UNDP/ UNIDO Regional SME programme with the centre in Bratislava, unfortunately interrupted at present. Such an idea could be further developed and fine-tuned to the needs of the CIS countries, whose SME Coordination Committee (at the semi-annual meeting in Kiev, June 2000) expressed officially an interest in such a programme.

There is ample room for a better exchange of knowledge and experience in SME development in the narrow Central Asian region (Uzbekistan, Kazakhstan and Kyrgyzstan) and broader (CIS) region and for intensifying the collection and sharing of business information from around the world.

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SYNERGIES BETWEEN CORPORATE AND PRIVATE BANKING: MARKET OPPORTUNITIES IN THE RELATIONSHIP BETWEEN THE OWNER FAMILY AND THE OWNED FIRM.

by Stefano Caselli

INTRODUCTION

The research developed in the previous chapters has examined the complex nature of the distinctive and structural features of the family owning one or more businesses as well as the map of the financial requirements emerging from the combined evaluation of the enterprise and the owner family. In particular, the last study has allowed us to outline a logical reference framework in order to proceed with the verification and the correspondence between the system of requirements and that of the financial services. From this point of view, the explanatory scope of the above approach develops irrespective of the strategic and organizational choices made by financial intermediaries as it appears only subsequently as a general criterion for product positioning. This results in the further necessity to understand the mechanisms and the logics which enable financial intermediaries to define their own positioning by considering the specificity of the family/firm relationship as well as to organically exploit the business opportunity resulting from the family/firm connection.

This overall necessity leads to tackle two different issues that are connected and sequential.

The first issue regards the financial and the assets connections between the family and the firm. This allows us not only to clearly analyze the target functions of the two actors and to re-connect the different areas of requirements to quantitative parameters but also to establish whether the distinctive features of the same financial and assets connections represent an element of interaction potentially useful for the financial intermediary.

The second issue regards the financial operations which, due to their own nature or their being consistent with financial and assets connections, are bound to trigger important synergies between the systems of products typically designed for the corporate and the private area. In other words, the critical aspect of the intermediary's positioning choice is solved as long as the scope and the nature of the operations are synergetic and comprehensive of the corporate and the private area.

THE RELATIONSHIP BETWEEN THE OWNER FAMILY AND THE OWNED FIRM: GENERAL PRESCRIPTIONS.

The financial structure of family business, which has been analyzed in the first chapter of the research, presents a distinctive character that reflects both size-specific and country-specific factors. If the former are intrinsic in the concept of small and medium size, the latter depend on the financial and industrial organization of the respective country. This means that the structure of corporate liabilities is characterized by an aspect common to any economic system, though showing some differences from country to country which can be gathered into a homogeneous reference path.

From the analytical point of view, the high volume of bank debts characterizing average corporate liabilities - above all for SMEs - finds a reference in the prescriptive logic of corporate finance so that the ratio between debt and equity is established on the basis of the compared evaluation between failure costs and the fiscal advantages deriving from opening different financing channels. If this applies to any typology of firms, in the specific instance of small and medium-sized enterprises both the notion of failure costs and that of fiscal advantages may be broadened so that on the one hand their strictly economic meaning is even strengthened and on the other the value of mutual interdependency connections between the owner family and the owned firm can be included.

Failure costs resulting from the direct relation between the financial leverage increase and the funding average rate increase applied by lenders - once the "market" acceptability threshold of the business risk has been exceeded[1] - must include also the costs deriving from the owner's loss of business control. Despite the difficult measurement of such costs, the notion of family failure assumes a strong operating value as the change in the family-firm direct relation may generate drawbacks not only in terms of future missing profits but above all in terms of explicit and social costs resulting from the failure or from breaking the existing relationships within the family. The above costs are referred, for example, to forms of dramatic and unexpected subdivisions of the family wealth due to the exit of one or more family members as a result of the changed ownership and the entry of external partners.

As for fiscal advantages, the distribution of the tax shield established by the policy maker affects directly the net rate of financing sources and the cash-flow distribution upon tax payment. This means that the firm's allocation of liabilities and its mid-term financial planning are strongly conditioned by the rules on deductible expenses and the fixing of

[1] *The growth of the firm debt relation may lead to exceed a psychological and functional threshold, beyond which the firm stakeholder system judges risk intolerable. This step does not necessarily lead the firm to failure, but it may generate additional costs due to the exit of some financiers, to the growth of the cost of money applied by other lenders, to possible reactions on the part of suppliers and customers. On this issue see Bradley M., Jarrel A.G., Kim E.H., "On the Existence of an Optimal Capital Structure: Theory and Evidence", in "The Journal of Finance", n. 3, July 1984 e Kane A., Marcus J.A., Mc Donald L.R., "How Big is the Tax Advantage to Debt", in "The Journal of Finance", n. 3, July 1984.*

incentives or selective criteria. The differentiation of rules is not limited to the distinction between debt and equity, but also to debt distinctions as to the origins of the debt or to contractual forms[2].Moreover the incidence of the fiscal advantage can be rated in relation to the bank debt, the market debt and the different forms of fund raising among partners as well as to the length of financing and the distinction between leasing and debt. In any case the distribution of the tax shield does not exhaust the comprehension of fiscal advantages as the analysis should be extended to the performance of the family assets and thus to the relative impact of fiscal variables. This is necessary as family members allocate their financial resources according to whether they aim at the capital, at financing the firm or at investing their assets. Therefore the comprehensive review of tax variables requires a process of joint maximization of the fiscal advantage for both the firm and the family.

The general relation which opposes failure costs and fiscal advantages can be formally expressed, considering the above mentioned interactions between the family and the firm. Hence we can write

$$Kf_{firm} - Kf_{family} >=< \Delta taxshield(Debt - Equity)$$

where *Kffirm* indicates the firm's failure costs and *Kffamily* those of the family. The above relation can be expressed more correctly by describing a series of elements. In the first place, the concept of tax shield should be suitably analyzed on the basis of quantitative and time parameters in order to have it effectively quantified. This can be obtained by means of the concept of debt weighted average cost and equity cost after taxes. So doing, not only can the tax shield be financially evaluated but the same variable relating to the pricing of financial resources as expressed by the capital market is thus included in the evaluation of the allocation of corporate liabilities. In addition the identification of the above parameters is not sufficient when we turn from financing to the investment of resources which becomes binding when the firm and the family dimensions are joint. Here, the debt after tax weighted average cost must be bound to the after tax average return lenders would obtain if they decided to invest in debt but in a different form [3]. Equally, the equity after tax cost must be bound to the after tax return lenders would obtain if they made another investment in equity. The bound must be interpreted as the enter and exit condition of the owner family on both equity and debt. In the first case, if the owners expect higher returns from investing in debt not related to the owned firm but to the market as a whole, debt fund raising will develop outside the family. In the second case, if the

[2] *For a description and exhaustive evaluation of the different forms of impact of fiscal variables on the structure of firm liabilities see Dessy A., "Capitale di debito e sviluppo delle imprese", Egea, Milano, 2001.*

[3] *A significant example in this respect can be the comparison between the cost of capital obtained through the form of shareholders' financing and the return on the investment in bonds. In both instances, the legal form consists in investing and raising debt funds, but due to the presence of different fiscal rules, the investor's profitability may turn out to be different at a parity of conditions. See Tagliavini G., "Costo del capitale, analisi finanziaria e corporate banking", Egea, Milano, 1999.*

owners expect higher returns from investing in equity not related to the owned firm but to the market as a whole, equity fund raising will tend to develop theoretically outside the family on condition that the cost of fund raising is lower than the cost of debt.

In the second place, family failure costs must be analyzed by considering the different components characterizing their nature. Then the three identified components have a development dynamic that is a dependent variable of the variations in the firm's equity.

The first component is the expected loss of returns due to the owner family's non-participation in the business capital. This loss is considered both in strictly monetary terms, (i.e. loss of future dividends) and in broader terms (i.e. loss of possible influence on the distribution of the same)[4]. This means that the above variable is directly correlated to the growth of equity in the presence of the family more profitable investments in other bonds. In this case, the absence of profitable investments in the firm deters any further re-investment of resources and the growth of equity can be guaranteed only by subjects outside the ownership. Therefore, the renunciation to the equity growth is the only means to reduce the expected losses due to the non-participation in the business capital.

The second component regards the costs of portfolio re-allocation as a result of the changes in the firm ownership. The different weights and balances within the family resulting from the changes in the assets invested in the firm or from the entry of new partners may produce transaction costs because of the necessity to re-establish the lost balances. Anyway, the definition of new balances produces both explicit costs and losses due to the unexpected disinvestment of assets.

The third component regards the "social" costs that may have a direct or indirect monetary impact. This component is an extension and somehow a completion of the second one as it emphasizes the expenses borne by the family as a result of the changed social relations among the various members of the family. The growth of equity generates imbalances which have not only immediate monetary but also relational consequences, which may reveal different economic effects in the course of time. Quite often such effects are lower profits for the firm due to the non-exploitation of business opportunities because of the presence of latent or actual conflicts within the family. Yet, the amount of social costs is a direct function of the complexity of the family, that is of the number of generations and the number of people directly involved in the business management system. The presence of multiple family nuclei does in fact extend the size of potential conflicts and the amount of transaction costs to be faced to solve the same.

As a result of the three variables, the previously mentioned formula changes as follows:

[4] *It is worth noticing that if family failure costs include expected losses due to non-participation to business capital, by symmetry firm failure costs must also include the firm missing profits due to the investment of debt rather than equity. This happens when the presence of ambitious development plans requires a massive employment of "patient" capital so as to guarantee the risk of the same plans and the uncertainty of cash-flows dedicated to the repayment of lenders. Although this approach is theoretically correct, in the practice it is difficult to identify in advance the category of "ambitious plans" and its formalization in terms of non-profits.*

$$Kf_{firm} - (EL + K_p + K_s) >=< r_d - r_e$$

where *Kffirm* indicates the amount of the firm's failure costs, *EL* the expected loss due to non-participation in business capital, *Kp* the amount of portfolio re-allocation costs, *Ks* the amount of "social" costs, *rd* the after tax cost of debt and *re* the after tax cost of equity.

The relation reveals the arbitrary nature of the choices regarding the structure of the business capital in the presence of family ownership. This leads to the fact that the growth of capitalization can be justified either by system fiscal policy factors so that the second part of the relation generates a differential that is favorable to equity and higher than that of the first part of the relation or by family corporate governance factors, which significantly reduce the cost component *Kffamily* relative to the first part of the relation. In addition, SMEs' size profile makes the presence of any governance capacity unlikely both in terms of business and social relations between the family and the firm as well as within the family itself, so that family failure costs are considerably reduced. Moreover, the absolutely low capitalization, which is produced by the presence of family failure costs and at parity of differential between *rd* and *re*, makes *EL*, *Kp* and *Ks* components more sensitive to the changes in equity. As a result, a sort of vicious circle is likely to be activated so that the limited amount of equity tends to direct the choices regarding the structure of business capital toward the area of debt.

The relevance of debt, which is characterized by size-specific and family-specific factors, is nevertheless further strengthened in Italy by a fiscal policy structurally favorable to debt with reference to the second part of the relation. From the functional point of view of the system, this is consistent with the remarkable development of bank financing circuits as reference structures for the support of corporate investment choices.

The consistency between firms' selection criteria of financing sources and the development path of the financial system produces a series of important drawbacks in the approach modes adopted by financial intermediaries in the attempt to meet the requirements of small and medium-sized enterprises. In this context there are a number of prescriptions which enable us to understand and compare positioning choices as lending represents the corporate reference product – which is strengthened by the action of a non-neutral fiscal policy – as long as it feeds the process of fund raising and guarantees the achievement of a dynamic balance between capital structure and ownership relations. Prescriptions can be summarized as follows:

- the importance of the credit function makes credit underwriting the financial intermediary's access key to firm financial requirements and family-firm relations;
- the importance for the firm to have financing sources available makes credit underwriting the tool leading to the firm's "contractual capture", thus leaving some areas for cross selling and origination in relation to non-credit products;
- credit becomes the "balance beam" of family corporate governance and gives the financial intermediary the possibility to develop a deep knowledge of the corporate system and therefore of its risks.

The specificity of the three components described above points out that within the financial system banks have a competitive advantage with corporate customers which makes them different from the other subjects as their own organizational and structural characteristics guarantee *ex ante* a stronger control of the credit function. This can be observed under three different aspects. First of all, irrespective of the counter-position and of the choice between the specialized and the generalized model of supply, the institutional specialization of the credit function gives the bank stronger incisiveness in corporate financing as a result of the monetary value of the services provided. The financing monetary profile not only allows the bank to play *a priori* the insider role of corporate financial flows, but it also becomes SMEs' instrument for reducing the complexity – in terms of knowledge and costs – and the information asymmetries of the financial system. Secondly, the monetary function potentially allows conveying cross-selling policies which multiply the areas for the identification of more and more complex requirements. The ability to understand these areas is of major importance for financial intermediaries to extend their range of services. The control of the monetary function gives banks a potential asset that gives them the chance to increase their volumes and margins on a constant basis in the course of time. Thirdly, the actual geographical distribution of banks allows them to better penetrate local economies and better monitor local enterprises. If this aspect is less relevant for big firms, for small and medium-sized enterprises the bank's "local distribution" represents a key factor for the creation and the development of market relations. The local nature of the divided bank contains the latent power of originating the entire range of financial operations. This can be exploited by the bank as the element triggering an all finance supply process which is typical of the "pure" universal bank or it can be exchanged with external economies in terms of creation and development of a network of specialists who, according to their product competencies, re-compose the internal complexity of the all finance supply in the market.

The relationship between the owner family and the owned firm: the nature of assets and financial connections.

Distinctive aspects.

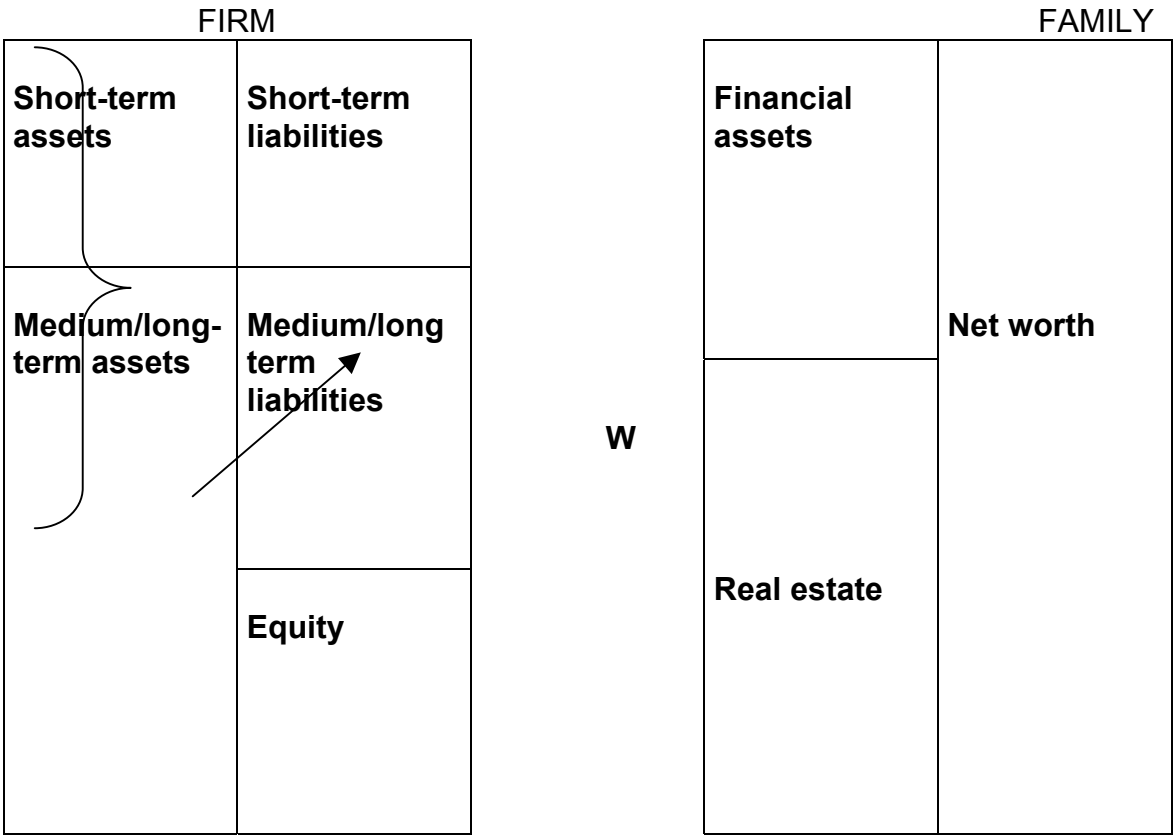
The system of assets and financial connections which develops between the owner family and the owned firm moves from a substantially simple reference frame (see table 1): the matching of the firm/s assets statement/s and that of the family shows that if, on the one hand, the firm represents one of the financial assets in the family portfolio, on the other hand the firm liabilities need to be backed in the fund raising process and the family can meet this requirement by using its own financial resources in the form of debt or equity.[5]. This means that if in the first case the family-firm connection is on the level of assets and

[5] *As a matter of fact, for the purpose of a more accurate and exhaustive review of cases, the allocation of real assets in the form of capital increase should be included among the various financial operations characterized by the allocation of resources to the firm.*

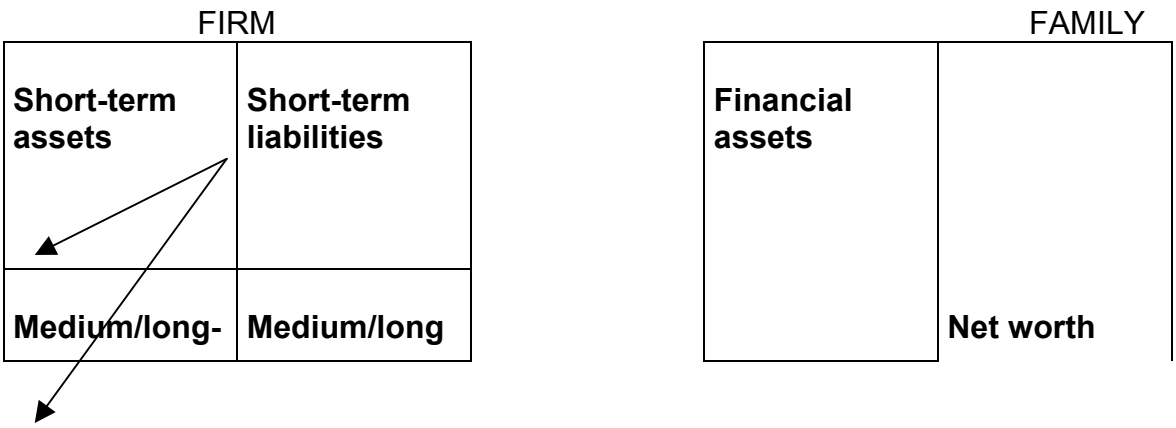
thus assumes the value of maximum aggregation, in the second case the family-firm connection is financial and thus assumes the value of family individual investment operations.

Table 1
The family-firm connection system: the assets and the financial perspectives

The assets perspective



The financial perspective



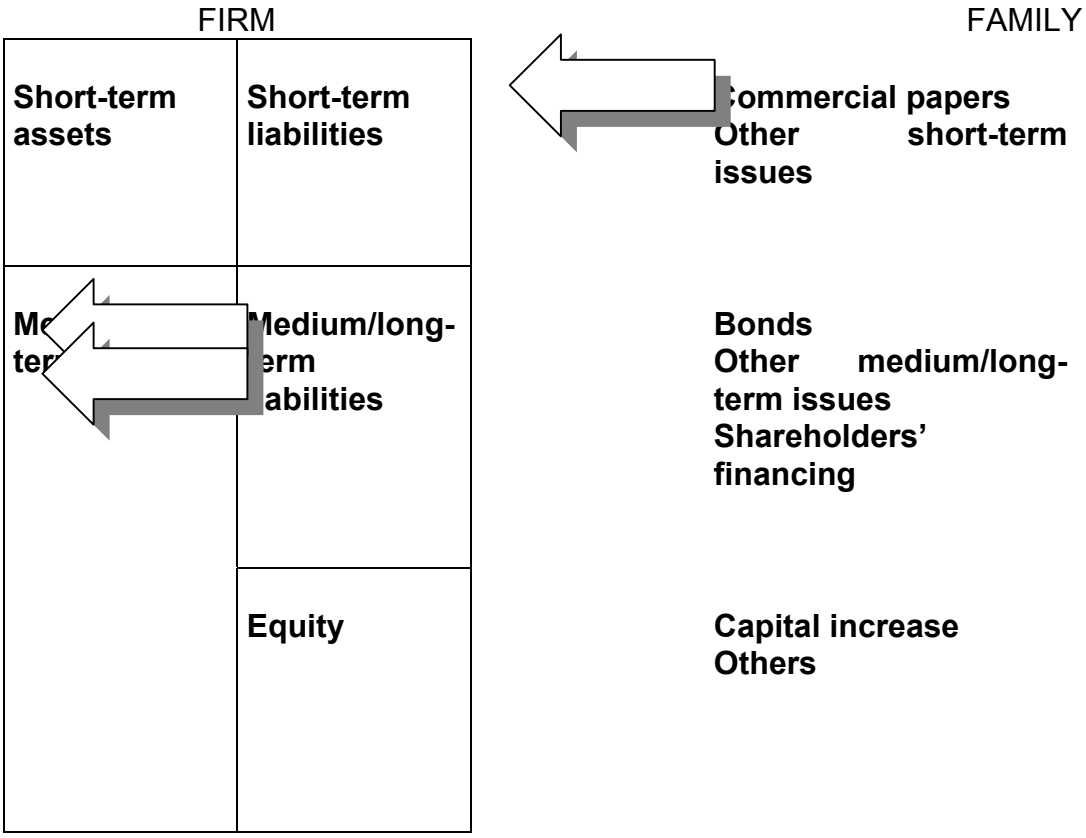
The reference to the financial and assets perspectives obviously serves to clearly identify the different criteria which connect the corporate and the family system. Yet, two important elements should be focused in order to better explain this mode of interpretation.

In the first place, the financial and assets perspectives tend to interweave, as the firm's financing choices affect its value at a parity of risk. This means that a specific financing strategy developed by the family for the firm necessarily generates an induced effect consisting in the growth of the firm value and therefore of the family net worth. This is true irrespective of the returns profile of the specific financing choice and of its contribution to the development of the family financial assets.

In the second place, within the financial perspective, the possible forms of lending financial resources to the firm are highly differentiated. This depends on the different destination of financial resources (short-term liabilities versus consolidated liabilities) and on the different contractual forms which, in that specific time and legislative context, can be actually used[6]. This means there is a direct correspondence between the firm requirement areas and the family allocation criteria of financial resources, whose joint profitability will need evaluating in the course of time (table 2).

Table 2
The family allocation criteria of financial resources

[6] *It should be noted that, irrespective of the specificity of the family different direct financing tools, it is possible to employ indirect or triangular forms of financing, where the family provides its own guarantees to a third party financing the firm. This scheme can be used with any contractual form of financing*



Taking for granted the natural overlapping of financing processes and wealth creation processes in general terms, the specificity of the assets and financial profiles requires a deeper analysis of the internal rules which characterize, on the one hand, the family selection of financing operations within the firm financing process and, on the other, the investment of the value produced within the family assets portfolio.

The relationship between the owner family and the owned firm: the financial perspective.

The financial connection between the owner family and the owned firm can be fully understood by analyzing two distinguished and sequential elements:

- the modes of development of the firm external financial requirements;
- the impact of fiscal variables on the economic area in relation to the firm-family exchange of financial resources.

The actual development of the family financing operation implies the verification of two different conditions.

The first is that the firm financial profile should be, at that specific time, consistent with the specifications of the family portfolio strategy in terms of size, length and risk. If not so, the necessary requisites for the exchange would be missing, except for the hypotheses of

necessity and extra-ordinariness that are sometimes connected with the impossibility for the firm to raise additional funds from financial markets and banks. In this case, the phenomena of credit rationing or the firm structural difficulty would increase both the risks and the costs of "firm failure" (*Kffirm)* – as identified in the previous paragraph –, thus urging the family to make a financial exchange with the firm. On the contrary, should there be neither the requisites for the exchange nor a particular tension for *Kffirm*, the company would try to raise funds outside the family system.

The second condition – if the first one takes place – is the profitability of the exchange for the firm and the family. This means that the more asymmetrical the impact of fiscal variables on the borrower and lender's profiles the larger the optimization areas for the family-firm exchange in terms of after tax return on the investment as well as of after tax cost of financing. Therefore an ideal continuum could be traced: at one end the maximum economic area for the exchange and on the opposite end the absolute absence of economic area. The maximization of the economic area is characterized by the presence of a fiscal system according to which any financing operation is able to produce a fiscal advantage equal to the expenses incurred and, correspondingly, no taxes on the lender returns. Vice-versa the economic area is absent when no financing operation is able to produce any firm fiscal advantages and, at the same time, produces taxes on the lender returns. It is evident that the reality of facts falls somewhere in between the two ends in a different way, in the course of time, from country to country, depending on the financial means and the fiscal strategies followed by policy makers.

The specific analysis of the modes of development of external financial requirement (FFE) moves from the traditional interpretation model, according to which the dynamics of the firm internal sources and investments can be connected effectively with its development path in the course of time. This is according to the analytical relation referred to the *t* - *t-1* time interval:

$$FFE_t = V_t \left[\left(\frac{CI}{V_{t-1}} * \frac{\Delta V}{V_{t-1}} \right) - \frac{CF_t}{V_{t-1}} \right]$$

where *FFE* indicates the firm external financial requirements referred to the time interval *t* and *t-1*, *CI* is the capital utilized to produce the turnover and *CF* is the cash flow produced by the firm in the same time interval. The study of this relation allows us to identify the firm different stages of development (start up, introduction, development, maturity, saturation, decline or recovery) and to outline the corresponding trend of the formula variables so as to find the size and the trend of the firm FFE[7]. Such stages of development fall within the

[7] *For a deep analysis of the relations between FFE dynamics, the variables included in the formula for determining FFE and the trend of the firm development cycle, see relative literature (Mottura P., "Condizioni di equilibrio finanziario della strategia d'impresa", in Finanza, Marketing e Produzione, n. 1, marzo 1987 e Caselli S., Gatti S., "Il corporate lending", Bancaria Editrice, Roma, 2003).*

mapping of requirements by firm “contextual situations”, which have already been examined in the previous chapter.

Although the approach is correct, and often utilized in corporate valuation practices above all at start up and introduction stages, in order to understand the financial profile of the family-firm relationship, two additional complexity elements must be introduced. In the first place, the owner family – except for small scope situations – confronts itself with not just one but a portfolio of firms and corporate projects, sometimes branched by groups according to different criteria. In the second place, the logical criteria of “start up” and “introduction” must be suitably analyzed on the basis of the concepts of sector or undertaking, considering the owner’s degree of knowledge of the same.

With reference to the first critical aspect, the presence of more FFEs generated by different firms and by individual projects within the firms is likely to produce a logical unbalance between the aggregate FFE and the family ability to meet a relevant portion of such requirements. If this is true in statistical and absolute terms, at a dynamic level the phenomena characterizing the management of the different FFEs lead to a partial internal compensation. This develops through market transfer policies or organizational and partnership solutions which, by exploiting the centralized treasury, the pool or of the group structure, lead to the re-distribution of credits and debits among the owned firms. As a result, the aggregate FFE becomes a net rather than gross total and allows the family to measure more effectively the scope of its commitment as well as to better design the relationship between the set of firms and that of external lenders. In addition, the determination of a net FFE must not lead to neglect the causes of the financial phenomena, that is the asynchrony, the size and the risk of the different stages of development achieved by the different firms being considered since these phenomena establish the profile of actual repayment of financing sources.

With reference to the second critical aspect, the different stages of development experienced by the family-owned firm or firms represent the indispensable support for the analysis and interpretation of the risk generated by any choice of FFE financing and, as a result, of financing choice in general. A specific evaluation in this direction requires the introduction of additional parameters, which make the valuation of the different stages more accurate as they are related to the typology of the firm sector and to the relationship between the firm and the sector itself (table 3).

More specifically, at start up and initial stage of development, the risk profile of the undertaking and the resulting verification of compatibility with the family portfolio of financial assets is closely connected with the different hypotheses of entry into the competitive arena. In this sense, the three different hypotheses illustrated in table 3 correspond to decreasing risk profiles at parity of conditions. In the first hypothesis, the family may decide to undertake a sector start up with one of its enterprises, thus tackling high risk levels. This requires the massive investment of family resources, which can be sided by the presence of other investors if the interest in the start up is considerable and if the entrepreneur’s reputation is capital-capturing. The strong unbalance of the family portfolio on the risk-side requires a careful re-allocation of not only financial but also real asset classes, if the size of the investment is liable to affect the family asset-side to a remarkable extent. In the second hypothesis, the family may decide to enter an already

existing but not known sector, with a new enterprises. In this case, the risk profile of the undertaking is more closely connected with the lack of experience in the sector and only partially with the sector dynamics. As a result, financial resources do not come necessarily from the family, but also from the financial system, in the form of traditional debt. In the third hypothesis the family may decide to enter an already existing and known sector with a new enterprise. This usually results in a substantial risk reduction – at a parity of sector profile – and may encourage the family to make radically different financing choices, which range from the full exploitation of the financial leverage to the massive investment – in debt or equity – in an undertaking where the characteristics and the rules of the competitive dynamics are well known.

Table 3
The relationship between the firm different stages of development, external financial requirements and the impact of family investment choices

Firm development stages	**Possible relations between firm and sector**			**FFE profile**	**Risk profile**	**Compatibility with family financial portfolio**
	Hypothesis A: new firm and new sector	**Hypothesis B new firm in unknown sector**	**Hypothesis C: new firm in known sector**			
Start up	Entrepreneur enters sector start up with one of his firms.	Entrepreneur enters an already existing sector for the first time.	Entrepreneur enters a known sector.	Always positive depending on intensity of capital required by sector commodity.	Potentially high, depending on size and length of positive FFE area. Risk degree decreases when moving from hypothesis A to hypothesis C.	The risk-return combination is usually set at high risks and high expected returns. Such relation tends to moderate when moving from hypothesis A to hypothesis C.

Development	Firm and sector start up produces first positive results, depending on revenue growth.	Firm through phase of revenue increase in an unknown sector.	Firm through phase of revenue increase in a known sector.	Positive but decreasing. The size of operating FFE depending on revenue increase speed.	Potentially decreasing depending on positive FFE reduction and on firm capacity of cash-flow creation. Risk profiles of three hypotheses are closer.	Gradual risk level decrease may push the family to introduce additional capital.
Consolidation and maturity	Differences among three hypotheses are less marked. Consolidation choices may push the firm to make acquisitions, develop holding structure, internationalize or to establish final and physiological dimension.			FFE becomes negative in relations to current activity. New financial requirements may result from consolidation choices.	Risk is no longer connected with financial structure and expected fund repayment but with industrial management and consolidation choices.	If necessary, family receives flows of repayment and/or return on invested resources. Participation is highly compatible with management of financial portfolio. Possible additional investments depending on consolidation choices.

Re-structuring	Firm activity is no longer aligned with sector dynamics or sector shows signs of saturation or potential decline.	FFE may become positive again.	Risk increase depending on reasons for re-structuring. .	Re-structuring stage urges family to invest new resources also as virtuous signal to financial system..
Decline and crisis	Firm is no longer able to compete in the sector or the sector is facing crisis or structural decline.	FFE is positive.	Risk is high and drives to radical choices, such as market exit or firm liquidation.	Crisis may need the family to employ new resources and a to make definite choice on participatio n role.

The analysis of the economic area is instead focused, at a parity of evaluation, on the size and the risk of FFE financing choice, on the family-firm profitability profile in making a financial transaction. In this sense, the criterion of the economic area must be considered a general guide for making choices, with the physiological and recurrent possibility of making sub-optimal choices in front of necessities and obligations resulting from the firm financing requirements and from the family investment choices. The determination of the economic area must be based on the analysis of the body of fiscal rules locally enforced regarding the criteria of cost deductibility for the borrower and the taxation of returns for the lender. In Italy, the above regulations show a quite steady and well outlined configuration (table 4).

Table 4
The borrower's and lender's tax profiles in the Italian tax system as of 30.06.2003.

The borrower's fiscal profile

Financing sources	Reference taxes		
	IRPEG or IRPEF[8]	**IRAP**	**VAT**
Debt	Interest rates and charges fully deductible.	Interest rates fully non-deductible. Charges fully deductible.	Not applicable.
Leasing	"Average rental" and charges fully deductible if lease maturity is at least equal to half the period of ordinary depreciation allowance of the asset. Real estate is an exception as leasing maturity is at least 8 years.	Only value of the asset and charges fully deductible if leasing maturity is at keast equal to half the period of ordinary depreciation allowance of the asset. Real estate is an exception as leasing maturity is at least 8 years.	All the contract components are VAT taxable.
Equity	The fiscal effect is established according to equity variations occurred between 30.9.1996 and 30.06.2001, through the DIT mechanism.	No effect.	Not applicable.

The lender's fiscal profile

Investment modes	Recipient's legal status for purposes of IRPEG or IRPEF taxation on financial profits	
	Individual person	**Corporate body**
Debt	12.50% final tax rate or 27% if annual return is 2/3 higher than BOT annual average return.	Taxation upon income tax return.

[8] *The indistinctive reference to IRPEG and IRPEF intends to show that tax deductibility rules relating to the three areas of financing sources, for which a different fiscal treatment is provided, are identical. As a result, however, the impact on the fiscal income statement will be different depending on IRPEF average rate for partnerships.*

Equity	12.50% final tax rate or taxation upon income tax return and use of tax credit .	Taxation upon income tax return and use of tax credit.

With reference to the borrower, the fiscal policy maker distinguishes three forms of financing sources, i.e. debt, leasing and equity[9]. The debt component benefits from a net fiscal effect equal to 29.75% (that is 34% of IRPEG after 4.25% of IRAP) whereas leasing shows a fiscal structure that cannot be defined *a priori* but is dependent on different factors such as the typology of asset, the borrower's VAT profile and the maturity month of the operation. As a result, according to the different cases, the fiscal profile of leasing is definitely better or definitely worse than the debt. Finally, equity scarcely and partially benefits from the effects resulting from the DIT in the 1996-2001 period. This means that, up to now, the investment of equity does not produce any fiscal advantages for the firm and thus, at parity of conditions, it represents the most costly strategy.

In this connection, it should be underlined that although the reference context of the fiscal variables is characterized in the Italian system by high volatility, regulations governing the deductibility of interest rates for financing sources and the three categories of "debt, leasing and shareholders' equity" have remained quite stable in the course of time. In addition, it is necessary to verify the possible introduction, starting from 2004, of a mechanism of thin capitalization aimed at, on the one hand, reducing debt relative profitability starting from a given level of the financial leverage employed by the firm and, on the other, at re-directing the investment of financial resources from the debt logic to that of equity.

With reference to the lender, the fiscal system distinguishes rules on the basis of the recipient's legal status (individual person or corporate body). In the case of the corporate body, the taxation criterion seems more unfavorable as returns on the investment of resources fall into the corporate income formation and therefore are subject to IRPEG or IRPEF taxation of the corporate body. This means that the family investment of dedicated vehicles for financing its firm/s is discouraged. On the contrary, the allocation of resources as individual person leads to final tax rates of 12.50% and 27% in the case of debt. In this sense, if the percipient shows a high IRPEF rate, there is a partial area of benefit as the taxation of financial returns is lower than the personal one and therefore the withdrawal of assets becomes facilitated. On the contrary, in the case of equity, the taxation of dividends upon income tax return facilitates the withdrawal of assets owned by individuals with a low personal IRPEF rate.

[9] *For an accurate and exhaustive review of fiscal effects on corporate lending choices, see Caselli S., Gatti S., "Il corporate lending", Bancaria Editrice, Roma, 2003.*

The combined analysis of the lender's and borrower's profiles enables us to draw a map of possible exchange behaviors between the firm and the family, by taking into account the fiscal asymmetries developing in each profile.

The first consideration regards exclusively the asset borrower. The presence of three reference categories – four in perspective with thin capitalization – produces interesting areas for investment changes and financial planning, above all as to the confrontation between medium-term debt and leasing. Vice versa, such areas do not appear in the short term and once again the lack of profitability is confirmed for equity investment as it is connected with no kind of fiscal advantages.

The second consideration regards instead the asset lender. The possibility to finally tax debt returns on the basis of two rates, which are largely lower that the maximum IRPEF rate, actually creates a kind of "profitability aisle" in the investment of resources. However, it is necessary to check whether these profits can be effectively spent for the purpose of making an exchange with the owned firm, by moving the reference context from the short to the medium term.

In terms of short-term financing choices, the family source is in competition with any other financing source in the market. This means that the objective functions of the firm and of the family are radically different, as the firm aims at the lowest rate and the family at the highest within the monetary system. It is therefore difficult to match the different requirements, apart from the case where carry out strategies, that is when the family utilizes the debt lever to obtain dividends at a lower rate. In this instance, the allocation of resources in the form of debt becomes a tool of family financial strategy rather than a corporate financing tool as capital allocations and withdrawals are a kind of "vehicle" to produce profits which represent deductible costs for the firm – differently from dividends – as well as income taxed at a fixed rate for the percipients. Therefore, the intensity and the usage of the criterion described must take into account the more general restriction of a risk of elusion which can potentially occur if the amount of profits is not on line with the "reasonability" of the market rates[10].

In terms of medium-term financing choices, although the family source is always in competition with the other financing sources in the market, the nature and the different degree of the commitment as against a short-term operation can reduce the interest conflict of the rate. This means that the family may well diminish the pressure on the return target if a short-term debt represents a tool for creating corporate value. Finally, the profitability of the family-firm exchange may vanish if leasing can actually produce remarkably higher fiscal advantages in comparison to those of debt.

The third consideration is finally more general. The comparison between the structure of financing sources and the investments modes from the fiscal point of view acquires the

[10] *The use of thin capitalization aims at preventing partners' non-physiological and non-reasonable use of debt.*

described profile only if exchange criteria are referred to the domestic context. This means that the quest of fiscal asymmetries can extend the exchange reference context by creating dedicated vehicles which, from the part of either the borrower or the lender or of both, allow carrying our asset transfers characterized by lower profit taxation and higher expense deductibility. The design of a structured operation must obviously produce advantages that are steadily higher than transaction costs, by taking into account risks connected with the volatility of the relative fiscal provisions.

The relationship between the owner family and the owned firm: the assets perspective

The understanding of the family-firm relationship is based on the simple observation that shareholding is one of the family's portfolio components, where all its financial and real assets are allocated[11]. This means that, irrespective of the different degree of "affection" and "commitment", shareholding has the same value as any asset class from the point of view of risk and return as well as of its capacity to contribute to the growth of the wealth in the course of time. If this is absolutely true from the point of view of the form, from that of the substance the position of shareholding within the wider context of family assets is based on a prior analysis of its distinctive and differentiating elements in comparison with other forms of alternative investment.

The understanding and the precise collocation of shareholding within the family portfolio is based on four fundamental rules which characterize its dynamics in the course of time:

- the controlled enterprise/s is/are characterized by a specific risk profile and above all by a specific trend which is related to the trend of its/their own sector cycle. As a result, correct asset allocation must act on the other components of the family portfolio by carefully checking (or removing) any possible cycle synchronies with shareholding. This is carried out to reduce dangerous synergies in terms of risk and, in a broader financial and assets planning, to establish which parts of the financial portfolio might be specifically dedicated to meeting the firm FFE;
- shareholding creates a powerful induced effect which is connected, on the one hand, with the possibility to invest other portfolio components in order to proceed to financial transactions for the enterprise in the form of debt or equity (portfolio expansion effect) and, on the other, with the possible investment/commitment of financial or real assets in the form of a guarantee backing the growth of corporate lending (portfolio compression effect);
- shareholding tends to produce a strong "hostage effect" because of which a large part of family energies and attentions are prevailingly directed to corporate management rather than to the management of financial or assets portfolio;

[11] *Reference is obviously made to shareholdings that require the family direct commitment from the operating, affective and ethical point of view. Vice versa, shareholding without such characteristics are just investments in financial assets. This distinction is clear in the presence of a quite limited number of firms. If the family assets are of quite relevant dimensions and the shareholding system has international and branching features, this distinction becomes more confused and more arbitrary.*

- shareholding is nevertheless aimed at producing value in the course of time and at increasing family wealth.

The combined analysis of the above aspects is decisive to assess the scope of the assets connection between the family and the firm and to evaluate the structural diversity of shareholding in comparison to the other classes of investment. From this point of view, two main points should be underlined.

In the first place, the family-firm connection with the development cycle highlighted in the context of the financial perspective must be extended to the assets variables relating to the firm corporate value and guarantees. This is because FFE trend and the relative financing choices directly condition the corporate value in the same way as the relative support to the debt strategy stimulates the investment of a share of assets to support the settlement of the relative obligations. Therefore, rather than establish strict relations between the above measures, it is necessary to verify constantly and case by case how relations develop between the family and the firm dynamics in relation to the different development stages of the firm itself (table 5).

Table 5
The relation between the firm different development stages and the assets perspective of the family-firm relationship

DEVELOPMENT STAGES	**FIRM**		**FAMILY**	
	FFEs	**DEBT/EQUITY**	**VALUE**	**GUARANTEES**
Start up (hypotheses A, B, C)				
Development (hypotheses A, B, C)				
Consolidation and maturity				
Restructuring				
Decline and crisis				

In the second place, the shareholding value increase must be properly analyzed on the basis of the family objectives. This means that, differently from the other classes of investment, the meaning of the shareholding value changes in relation to the utilization function required by the family. In other words, the meaning of value and wealth is provided with usability according to the targets of the family assets management. Therefore, two macro-situations are to be distinguished: the former regards the meaning of value in a narrow sense, the latter regards the meaning of value in a broad sense.

In the first case, the concept of value refers to the measurement of the present value of future income flows, in the typical logic of a market oriented evaluation. Although the above approach is correct and can always be used to control portfolio assets evolution, it does not bear a specific meaning of usability in the “continuity” life stages of the family and the firm. Vice versa in the “discontinuity” life stages of the family and the firm, the meaning of value mentioned above has a clear and specific aspect of usability and necessity. In particular, in the context of family “discontinuity”, the meaning of value in a narrow sense becomes necessary as the firm must be evaluated. This occurs in situations relating to succession, turn-around and transfer of property. In these instances, wealth must necessarily have a marketable meaning as it may be exchanged and utilized. Obviously, the criteria for value measurement will be conditioned by and take into account all the different contextual situations urging for such evaluation. In the case of firm discontinuity, the meaning of value in a narrow sense is that of a signaling instrument for the financial system. In the stages of start up, strong development, consolidation through acquisitions or of re-structuring and crisis, the need to involve external lenders – in the perspective of lending and equity – requires the profile of the firm to be completely and organically evaluated. This means that the value measurement in a narrow sense represents the typical and necessary means.

In the second case, the concept of value refers to the spendability and utilization of the assets produced by the firm. Here the condition of continuity in the development stage of the firm and the family moves the meaning of usability onto the firm capacity of producing assets that can be used by the family in the course of time for the most different purposes: consumption, expenses, investment in financial assets, investment in real assets. Obviously, this is true if the firm is able to produce additional income and the family is interested in withdrawing the same income. The utilization process of firm assets can occur in quite different ways, partially influenced once again by the relative fiscal variables.

The first mode is based on the *carry out* logic in the form of interest receivables or dividends, according to the size and the characteristics of the economic area emerging from the firm and the family. The second mode is based, instead, on the transfer of typically family expenses into the firm, so as to benefit from cost deductibility. This obviously depends on the type of expenses and on the type of business purpose characterizing the family firm/s. The third mode is finally based on the transfer of family investments into the firm, so as to benefit from the tax advantage resulting from the depreciation of investments that have been carried out. The second and the third modes share the aspect of the *carry in* logic, that is the utilization of the corporate vehicle to benefit from the fiscal leverage as a supporting instrument in the family expense and investment processes.

SYNERGY PRODUCING OPERATIONS BETWEEN CORPORATE AND PRIVATE BANKING

The identification of the typology of relationships developing between the family and the firm in the financial and assets perspectives represents an important scheme of analysis to

establish the necessary conditions for the implementation of the supply on the part of financial intermediaries. In other words, the understanding of the mechanisms governing the financial transfers between the firm and the family as well as the firm's contribution to the growth of the family wealth are the necessary conditions for the supply of dedicated services to the family business.

The logic link separating the available financial and assets perspectives from positioning financial requirements in the map consists in the identification of the financial operations and situations which are characterized by remarkable synergies and overlapping between corporate banking and private banking designed services, irrespective of the positioning choice and the nature of the financial intermediary willing to approach the family business.

The research of synergies and overlapping areas requires a direct link between the specific aspects of financial and assets connections and the specific aspects of both the family and firm financial requirements. This is necessary to clearly identify the "playing ground", that is the map of business areas the financial intermediary can successfully enter. The map can be classified on the basis of two different parameters (table 6):

- the typology of investment in the overall family portfolio (asset class);
- the typology of the subject interested in the investment (owner class).

As for the asset class parameter, the observations made in the previous paragraph about the "diversity" characterizing firm investment lead us to distinguish family assets into two macro-areas: one regards the firm as such and the other the portfolio after investments in the controlled firm/s. The portfolio must be then divided into sub-areas according to the following:

- investment in financial assets;
- investments in real estate;
- investments in other profit business (arts, precious metals, commodities, jewels);
- investments in instrumental goods (cars, airplanes, ships, other transports);
- investments in non-profit business (charity, social services, etc…).

With reference to the owner class, the identification of the family as the generic, but correct, holder of property interests and rights must be divided into two different categories: on the one hand the family, that is as a coalition of individuals headed by one leader or by a restricted number of members with acknowledged charisma, and on the other the individual members of the family, that is the holders of specific rights and interests, irrespective of the assets structure of the family as a whole. It is apparent that such distinction becomes more important as the number of family members and generations increase.

Table 6
Reference scheme for the identification of synergies between corporate banking and private banking

		OWNER CLASS	
		FAMILY COALITION	**FAMILY MEMBERS**
	FIRM	Family wealth invested in firm, in the various possible forms	Wealth of family individual members invested in one member's owned firm, in the various possible forms
ASSET CLASS	**PORTFOLIO**	Family wealth invested and collectively utilized in financial assets, real estate, instrumental goods and in profit and non-profit business	Wealth of family individual members invested and individually utilized in financial assets, real estate, instrumental goods and in profit and non-profit business.

The analysis of the asset class/owner class matrix offers not only a comprehensive perspective of the internal aspects of the family-firm relationship but above all allows specifying that the nature of synergic operations relies on the capacity of wealth transfer inside the four sections of the matrix, with the final goal to increase the overall wealth or to achieve its more effective internal allocation. This is apart from *technicalities,* which are specific of the single partial aspects of the overall portfolio (financial asset management, real estate management, advisory on art investments, etc.). From this point of view, strongly synergic operations can be grouped into three main categories:

- leasing on real estate and instrumental goods;
- advisory on family discontinuity management;
- corporate finance operations connected with assets transfer requirements.

The specificity of leasing operations, as the synergy-creating tool in wealth transfer, is its fiscal asymmetry in the depreciation process[12]. This means that, at a parity of conditions,

[12] *For an exhaustive review of leasing operations see Caselli S., "La valutazione del costo", in Carretta A., De Laurentis G., "Il Manuale del leasing", Egea, Milano, 1998.*

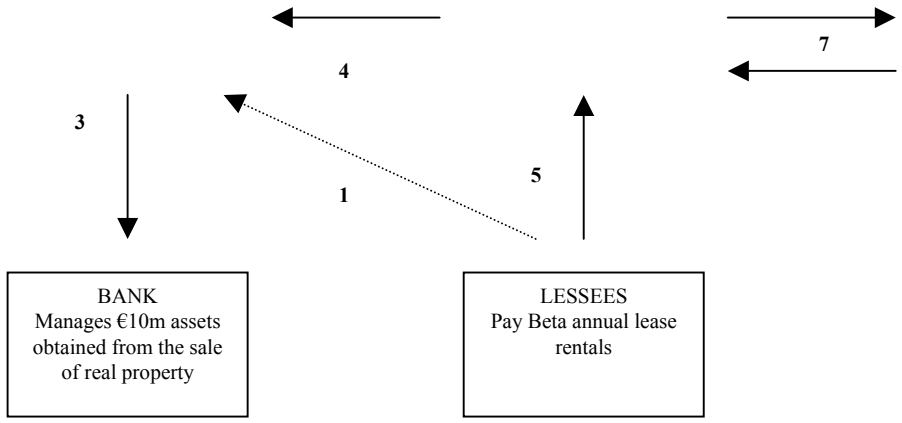
the passage from the status of owner to that of lessee reduces costs significantly. The lower the asset depreciation rate, the stronger the effect. As for real estate, apart from the lowest depreciation rate in the Italian fiscal system (13%), there is the lease eight-year minimum life. If the potential lessee's income allows him to pay leasing rentals, for example by renting the same real estate, or he has a sufficient critical mass under the profile of taxable income, the transfer of the family real property into the firm represents a powerful wealth creating tool[13]. In this respect, the situation proposed in table 7 is a useful exemplification as it shows how real estate leasing allows the owner-family to increase the returns of the real assets owned by individual persons.

The reference to advisory for the management of family "discontinuity" cannot be directly associated to just one contract and one operation. It rather indicates the capacity of the financial intermediary to grasp and gather all the different and deep effects that may result from the occurrence of a relevant event in the life of the owner family. Succession, turn-around and transfer of property are the emblematic situations in this respect. Apart from the individual financial operations that may be employed on the part of both the family and the firm – as outlined in the mapping of requirements in the previous chapter – the distinctive element for synergy-creation is the counterpart's commitment, that is his ability to propose himself as the partner who, at the same time, is the "transaction third party", the "confidential reference" and "privacy guarantor". This allows the advisor to have a central role among the actors and the financial, legal and fiscal operations that are performed in relation to the customer' needs.

The functions characterizing the advisor's role are multiple and cannot be listed in an exhaustive manner. Yet, some specific tasks certainly stand out and are more recurrent : write the "family agreement", which defines social and property relationships within the family in order to preserve its prosperity and identity; establish corporate governance connected with the event of discontinuity; establish fiscal governance connected with the event of discontinuity; identify counterparts in the event of business transfer and entrance of new partners; identify the management in case the structure is opened to members outside the family; develop mentoring and tutoring for younger family members who are about to enter the firm.

Table 7
Rea- estate leasing for value creation within the family-firm relationship: an example

[13] *For a more detailed analysis of the various organization hypotheses of real-estate leasing operations, see Caselli S., Gatti S., "La finanza strutturata in Italia", Newfin, Università Bocconi, in corso di pubblicazione.*



Family Alpha owns a large real estate (about €10m). The estate includes housing and office premises, which are leased to third parties. The rentals flow is equal to €600,000 per year (1). The family pays IRPEF on this flow at the highest marginal rate and has no chances to deduct various expenses resulting from the management of the real estate. Therefore, the investment net return is about 2.40%/year, without considering risks and charges resulting from possible extraordinary maintenance. A leasing operation becomes possible as one of the family businesses has real estate management included in its business purpose. Family Alpha transfers its real estate to firm Beta (2) for a value of €10m. Family Alpha has reached its first goal, that is have a financial mass to be allocated in more profitable investments compared to the initial 2.40% (3). To face capital outflow, firm BETA sells the acquired real estate to a bank (4) and at the same time stipulates an eight-year leasing contract for a total amount of 10m. The resulting effect on Beta is particularly interesting: in the first place lease rentals collected by Beta (5) are channeled to the bank and thus employed to pay a relevant share of leasing rentals (6); in the second place, the high acceleration of the leasing contract produces a relevant mass of deductible expenses, thus reducing significantly Beta's fiscal drag; thirdly , Beta's real estate management costs become deductible. At the end of the leasing contract, Beta becomes the owner of the property (7) and continues to collect leasing rentals (5). Family Alpha achieves a second goal: real estate management costs are now deductible and Beta value increases as a result of the fiscal drag reduction and of the purchase of the real estate. The overall financial evaluation of the operation leads us to observe that in the course of the leasing contract, family Alpha has at least doubled its assets as it has financial assets available (€10m) and the ownership of real estate for an overall value of €10m.

Corporate finance operations show a hybrid nature in multiple operations: they involve exclusively corporate financial aspects as well as family assets management and governance profiles. This has already been focused in the previous chapter, where several requirements areas of the family and the firm have highlighted the need to resort to corporate finance operations. Owing to the great variety of cases and technicalities of single operations, the next chapter will be dedicated to a more specific and exhaustive review. Here it is worth remembering that also in this case the synergy element is given by the presence of wealth transfer flows within the "asset class-owner class" matrix.

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ARE VENTURE CAPITALISTS CONSUMMATE ENTREPRENEURS? SIMILARITIES AND DIFFERENCES IN THEIR OPPORTUNITY RECOGNITION PERCEPTIONS AND BEHAVIORS

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ABSTRACT

Opportunity recognition (OR) is at the centre of the entrepreneurial process and a defining feature of the entrepreneurship domain. However, despite contributions made in generating knowledge about the sensitivity of entrepreneurs to opportunities and the cognitive processes they use, there is still much to learn, particularly about how venture capitalists (VCs) perceive OR as distinct from entrepreneurs. It is clear that understanding OR is essential to VC survival. Whereas entrepreneurs need to be able to recognize and commit to at least one opportunity (their current business venture(s)) to ensure success; VCs need to be able to recognize multiple investment opportunities to ensure the success of their current portfolio as well as to ensure financial support for their being able to

establish future VC funds. However, although VCs need to act like consummate entrepreneurs in recognizing opportunities, a comprehensive conceptualization of similarities and differences between the two groups is absent. In this research, we examine the OR behavior of VCs and entrepreneurs and use a conceptual framework developed by Hills (1995) that highlights core structures and proactive management decision processes.

The research makes a contribution in a number of ways. First, it bridges a gap in the literature by providing an entrepreneurial framework against which VC behavior can be contrasted. Second, the framework is endorsed as being useful for identifying conceptual and operational strengths and limitations evident in the two groups. Third, the research provides practical insights into the design of training programs aimed at imparting knowledge about the OR process and idealized behaviors.

The results indicate both similarities and differences in OR behavior between VCs and entrepreneurs. Both groups demonstrated similar distinctive general OR behavior types in terms of: self perceived alertness to opportunities; underlying causes of opportunities; importance of venture ideas, individualism, creativity, and sources; OR processes, deliberate search, spin-offs, and immersion; and evaluation of business opportunities. However, there were significant differences between the two groups on each of these dimensions.

Are Venture Capitalists Consummate Entrepreneurs? Similarities and Differences in their Opportunity Recognition Perceptions and Behaviors

INTRODUCTION

Opportunity recognition (OR) is a key component of the entrepreneurship process (Schumpeter, 1971; Kirzner, 1979; Shane & Venkataraman, 2000) and has critical theoretical importance (Lumpkin, Hills, and Shrader, 2001). Substantial research has been undertaken in the area of opportunity evaluation. OR, however, has received less attention (Hills, 1995) until only more recently (Venkataraman, 1997). As a result, less is known about how entrepreneurs recognize opportunities (Hills, Shrader, Baltrusaityte, and Izberk-Bilgin, 2002) and the literature that exists is fragmented and often appears contradictory (Lumpkin, Hills, and Shrader, 2001).

Even less, however, is known about venture capitalist (VC) OR behavior. VCs are professional investors that raise funds from others (typically financial institutions such as pension funds, insurance companies, etc.) and invest these funds in growth oriented business. “Very little is known about the sensitivity of venture capitalists to opportunities and the cognitive processes they use to identify opportunities” (Lindsay, 2004, p.1). Some insight may be gained from examining the behavior of entrepreneurs since there is evidence to suggest that VCs demonstrate an entrepreneurial orientation (Lindsay, 2004a). In addition, there may be similar OR behavior types between entrepreneurs and private equity financiers such as VCs (Lindsay & Craig, 2002).

Motivation for this research, therefore, is driven by a need to address a gap in the literature by building upon our understanding of OR for entrepreneurs and to extend this

to VCs. In so doing, we can better understand more about how VCs recognize opportunities and whether there are similarities and differences with entrepreneurs on this construct. Thus, the aim of this research is to compare and contrast OR behaviors of VCs and entrepreneurs with a view to better understanding VC OR behavior. In doing so, the research makes a contribution to the literature by contributing to entrepreneurship theory. In addition, it benefits practitioners (such as consultants and trainers) by providing insights into VC behaviors that may be useful in developing training programs for them.

THEORY AND HYPOTHESES

Considerable effort has been devoted to developing an understanding of the fundamental OR behaviors of entrepreneurs (Hills, 1995; Hills, Lumpkin, and Singh, 1997; and Hills and Shrader, 1988) and to providing insights into the OR process as being inherently creative (Hills, Shrader, and Lumpkin, 1999; Lumpkin, Shrader, and Hills, 2001). There are a number of behaviors that underlie OR (Hills, 1995; Hills, Lumpkin, and Singh, 1997; and Hills and Shrader, 1988). These include: self perceived alertness to opportunities; underlying causes of opportunities; importance of venture ideas, individualism, creativity, and sources; OR processes, deliberate search, spin-offs, and immersion; and evaluation of business opportunities.

The following discussion builds upon the findings of Hills (1995), Hills, Lumpkin, and Singh (1997), and Hills and Shrader (1988) who focused on OR for entrepreneurs. From this, hypotheses are developed that focus on OR behavior similarities and differences between entrepreneurs and VCs.

As there is support to suggest that VCs may act in an entrepreneurial manner (Lindsay, 2004, 2004a), it is expected that VCs will also demonstrate OR behavior types similar to those identified in entrepreneurs (Hills, 1995; Hills, Lumpkin, and Singh, 1997; Hills and Shrader, 1988). As such,

H_1: VCs will demonstrate similar OR behavior types as entrepreneurs.

Self perceived alertness: Entrepreneurs see themselves as being alert to opportunities. They believe that it is natural for them to identify opportunities and that they enjoy thinking of opportunities (Hills, 1995; Hills, Lumpkin, and Singh, 1997; and Hills and Shrader, 1988). Venture capitalists also need to be alert to opportunities. They are professional investors. They are in the business of recognizing opportunities. As such, because this is what venture capitalists do, they will have a perception that they are opportunity aware and that they have an innate ability to recognize opportunities. Because VCs spend their work life looking for and evaluating opportunities, they will have a greater perception that they are better at recognizing opportunities than to entrepreneurs. As such,

H_2: There will be differences between VCs and entrepreneurs in terms of self perceived alertness to opportunities behavior.

Opportunity causes: Experienced entrepreneurs appreciate that opportunities are grounded in adversity and problems that people face and that they also arise through market changes and customers and, to a lesser extent, through technology (Hills, 1995; Hills, Lumpkin, and Singh, 1997; and Hills and Shrader, 1988).

VCs see many deals. Most of them they do not invest in for a range of reasons including not being investment ready and not being suitable for VC investment. VCs do not always "pick winners". Sometimes they invest when they should not have. Lindsay (2004, 2004a) refers to this as Type I error. Through experiential learning in picking winners and losers, VCs develop an appreciation of what causes opportunities and what does not. Because they have more experience of this than entrepreneurs, they will be better skilled at understanding opportunity causes. As such,

H_3: There will be differences between VCs and entrepreneurs in terms of opportunity causes behavior.

Ideas, individualism, and creativity: Many entrepreneurs appreciate that ideas are not the same as opportunities and that value needs to be created in ideas to turn them into opportunities. This is where creativity plays a role and many entrepreneurs see themselves as being creative. Some entrepreneurs, however, believe that getting capital and other necessary resources is more important than the idea itself.

In terms of the latter point, VCs appreciate that there is an abundance of finance for entrepreneurial firms. This is not the problem. What they believe is lacking is a suitable stream of investment ready entrepreneurial firms (Mason and Harrison, 2001). As such,

H_4: There will be differences between VCs and entrepreneurs in terms of ideas, individualism, and creativity behavior.

Processes, deliberate search, spin-offs, and immersion: OR is a process comprised of a number of steps. Many entrepreneurs engage in a deliberate search strategy for opportunities but appreciate that one opportunity can lead to another. In addition, they appreciate that although undertaking market research is important, there is no substitute for immersion in the market.

Although there will be similarities between VCs and entrepreneurs on this behavior, there will also be a major difference. Although VCs engage in a deliberate search process for opportunities; their opportunity search approach is different than for entrepreneurs. VCs tend to be sought by entrepreneurs looking for finance – some entrepreneurial opportunities are presented to VCs. This will not preclude VCs from scanning the environment for opportunities and/or utilizing their networks; however, they will demonstrate a different opportunity search behavior than entrepreneurs. As such,

H_5: There will be differences between VCs and entrepreneurs in terms of processes, deliberate search, spin-offs, and immersion behavior.

Opportunity evaluation: Entrepreneurs consider gut feel to be an important part of evaluating opportunities. Although VCs will also believe in gut feel, they will more likely be inclined to back their gut feel up with formal research into the viability of the product/technology, market, and commercial operations of the business. As such,

H_6: There will be differences between VCs and entrepreneurs in terms of opportunity evaluation behavior.

RESEARCH DESIGN

Participants

Both groups of participants (venture capitalists and entrepreneurs) were from Australia. Venture capitalist participants in the survey were identified using a venture capitalist directory as well as by accessing industry contacts to identify firms not appearing in the directory. Firms were contacted and their permission sought for decision makers in these firms to participate in the study. Responses were received from 39 Australian participants which represented a 31% response rate.

A list of potential entrepreneur respondents was developed through a database that identified firms with high growth. The entrepreneurs behind these firms were contacted. The research team contacted participants to gauge their willingness to participate in the survey. For those participants that were slow in responding, a subsequent follow up was made. In total, there were 129 entrepreneur participants which represented a 26% response rate. Demographics on the participants appear in Table 1.

Table 1 - Respondent Demographics

Details		**Entrepreneur Frequency**	**Entrepreneur %**	**Venture Capitalist Frequency**	**Venture Capitalist %**
Gender	Male	89	69%	39	93%
	Female	40	31%	3	7%
Age	30 years or less	42	33%	5	12%
	31 years to 40 years	37	28%	23	55%
	41 years to 50 years	32	25%	4	9%
	51 years to 60 years	18	14%	10	24%
Highest Education Achieved	Primary School	1	1%	0	0%
	Secondary School	45	35%	2	5%
	Technical Qualification	26	20%	1	2%
	Undergraduate Degree	45	35%	9	21%
	Postgraduate Degree	10	8%	30	72%
	Other Qualification	2	1%	0	0%
Have you ever started your own business previously?	Yes	46	36%	19	45%
	No	81	63%	23	55%
	Missing Data	2	2%	0	0%

Were you a founder of the firm?	Yes	38	30%	22	52%
	No	89	69%	20	48%
	Missing Data	2	2%	0	0%

MEASURES

A questionnaire was used to gather information from participants. The questionnaire asked participants for demographic information including personal information and business-related activities. It contained several sections including measures for opportunity recognition.

The instrument adopted in the research used a modified version of a questionnaire originally developed by Hills (1995). Versions of the questionnaire have been used by others (for example, Hills, Lumpkin, and Singh (1997) and Hills and Shrader (1998)). It has been extensively pre-tested and modified where appropriate (Hills & Shrader, 1998). The instrument identifies a number of underlying dimensions associated with OR. These were adopted in this research: self perceived alertness to opportunities ($\alpha_{entrepreneurs}$ = 0.766 and $\alpha_{Venture\ Capitalists}$ = 0.744); underlying causes of opportunities ($\alpha_{entrepreneurs}$ = 0.734 and $\alpha_{Venture\ Capitalists}$ = 0.732); importance of venture ideas, individualism, creativity, and sources ($\alpha_{entrepreneurs}$ = 0.820 and $\alpha_{Venture\ Capitalists}$ = 0.702); OR processes, deliberate search, spin-offs, and immersion ($\alpha_{entrepreneurs}$ = 0.845 and $\alpha_{Venture\ Capitalists}$ = 0.705); and evaluation of business opportunities ($\alpha_{entrepreneurs}$ = 0.867 and $\alpha_{Venture\ Capitalists}$ = 0.701). Each of these items is scored on a 5 point Likert scale ranging from “1 = Strongly Agree” to “5 = Strongly Disagree”.

RESULTS

Tables 2 and 3 provide the results of the entrepreneur and venture capitalist participant self perceived OR behaviors. These are defined in terms of the frequencies associated with participant responses on the 5-point Likert scale for each OR behavior. VCs adopted similar OR behavior types as entrepreneurs (that is, they demonstrated the following OR behaviors: self perceived alertness to opportunities; underlying causes of opportunities; importance of venture ideas, individualism, creativity, and sources; OR processes, deliberate search, spin-offs, and immersion; and evaluation of business opportunities). As such, H_1 was confirmed.

In addition, an independent samples t-test was conducted to compare the OR behaviors of each group. Significant OR differences between each group were found on all OR behaviors: alertness ($t(169) = 1.971$, $p = 0.050$); causes ($t(169) = 4.055$, $p = 0.000$); ideas ($t(169) = 2.068$, $p = 0.040$); search ($t(169) = 1.958$, $p = 0.052$); evaluation ($t(169) = 2.134$, $p = 0.034$). As such, H_2 to H_6 were confirmed.

Table 2 - Frequencies: Entrepreneurs

Measure	Mean (s.d.)	1 SA	2	3	4	5 SD
Alertness	2.31 (1.03)	27 21%	40 31%	41 32%	15 12%	6 5%
Causes	2.61 (0.704)	5 4%	50 38%	56 44%	17 13%	1 1%
Ideas	2.92 (0.814)	2 2%	30 23%	79 61%%	7 6%	11 8%
Search	2.95 (0.826)	3 2%	32 25%	70 54%	13 10%	11 9%
Evaluation	2.98 (0.980)	1 1%	38 29%	64 50%	6 5%	20 15%

Table 3 - Frequencies: Venture Capitalists

Measure	Mean (s.d.)	1 SA	2	3	4	5 SD
Alertness	1.95 (0.942)	11 26%	19 45%	8 19%	2 5%	2 5%
Causes	2.11 (0.683)	7 17%	22 52%	11 26%	1 2%	1 2%
Ideas	2.64 (0.609)	0 0%	16 38%	22 52%	4 10%	0 0%
Search	2.67 (0.642)	2 5%	16 38%	21 50%	3 7%	0 0%
Evaluation	2.63 (0.730)	4 10%	8 19%	26 62%	4 9%	0 0%

DISCUSSION

The results suggest that in terms of recognizing opportunities, VCs demonstrate behaviors similar to entrepreneurs. However, although demonstrating OR behaviors, they demonstrate significant differences within behavior types in terms of the means or weightings placed on these behaviors as compared to entrepreneurs.

One possible explanation for this is that whereas entrepreneurs need to be able to recognize and commit to at least one opportunity (their current business venture(s)) to ensure success; VCs need to be able to recognize multiple investment opportunities to ensure the success of their current portfolio as well as to ensure financial support for their being able to establish future VC funds. Thus, VCs become more experienced in OR than entrepreneurs because they undertake OR more frequently than entrepreneurs. Entrepreneurs may see a range of potential opportunities but they may not necessarily have the time, inclination, or resources to invest in these. VCs on the other hand are in the business of OR. They must recognize opportunities and invest in them if they are to satisfy their investors that they are doing their job. As such, not only do VCs get to practice at recognizing opportunities, they also are required to back their decisions with hard cash. Because VCs tend to use investor's money in their investments, they do not have an emotional attachment to the funds they invest in. As such, they may be more objective in learning from their investment decisions than entrepreneurs who will have personal assets at stake.

IMPLICATIONS

OR is not only fundamental to the entrepreneurship process, it also is fundamental to the VC investment process. Critical to VC success is whether VCs can successfully recognize opportunities. From the OR behavior perspective, VCs need to be consummate entrepreneurs. However, VCs do not always get it "right". Sometimes they invest in deals they should not have (Type I error). Other times they may reject deals they should have invested in (Type II error). No matter how good VCs are in picking winners, with the dynamic environments they operate within, there is room for ongoing development in the OR area at the individual VC level. This can be achieved through continuing professional development courses. In terms of developing these courses, the framework developed by Hills (1995) appears to provide a good foundation.

RESEARCH LIMITATIONS

There are a few limitations associated with this research. These include the following. First, only "successful" VCs were examined in the research (that is, those that were operating). There is a need in future research to examine OR behavior of non-successful firms and to determine whether OR behavior is different in these firms. Second, the sample size for VCs was relatively small; however, this is a reflection of the venture capitalist population in Australia. Third, most VC funds are closed funds (that is, they have a limited life – usually 10 years). However, some funds are open (they theoretically have an indefinite life). Future research may benefit from comparing the VC OR behaviors in closed funds versus open funds to determine to what extent organizational factors influence the OR process. Fourth, Australian VCs and entrepreneurs were used in the research. Care needs to be exercised in generalizing the results to other western countries such as the USA and the UK and to Asia.

SUMMARY

This research examined the similarities and differences in OR behaviors between entrepreneurs and VCs. VCs demonstrate similar types of OR behaviors as entrepreneurs – they act like entrepreneurs in that they emulate entrepreneur OR behavior types. However, there are significant differences in the means of these OR behaviors between VCs and entrepreneurs. These differences may be explained through the skill set, knowledge, and experience that VCs acquire or develop through their entrepreneurial business dealings.

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WHAT IS A FAMILY BUSINESS? EXISTENCE OF THE FAMILY DYNAMIC IN FIRST GENERATION FAMILY OWNED FRANCHISEE BUSINESSES

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ABSTRACT

Family business is considered to be a unique form of business because of a layer of complexity that overlays the bounded rationality that is associated with non-family business: the family dynamic. The family dynamic is the influence of family values, family traditions, family culture, etc. over business decisions that can modify the outcome of those decisions; for example, decisions about the entrepreneurial pursuit of opportunities and/or the entrepreneurial orientation of the business itself. Family businesses are said to be the most complex form of business requiring special consideration by governments when framing and implementing policy initiatives. To argue their case, family business associations exist around the world to provide a united family business voice in particular regions/countries.

There is, however, no universal definition of what constitutes a family business. Some definitions of family business are all encompassing (e.g., any business that is owned or controlled by one or more families including first generation family members where there may not necessarily be an intent to pass on the business to a second generation). Other definitions are more restrictive (for example, a family business is a business where at least the second generation of a family owns the equity in, or controls, the business and there is intent to pass on equity in the business to subsequent family generations).

The definition issue is not inconsequential. If a broader family business definition is adopted, family business is considered to be the most prevalent form of business globally. This has significant implications for government policy designed to support family business with related economy wide resource consequences. Thus, it becomes an important issue to ask whether the broader family business definitions are relevant. Specifically, should businesses that are owned by first generation family members be considered to be "family businesses"? Are these businesses any different from non-family businesses? These questions motivate this research. The aim of the research is to investigate differences and similarities between first generation family owned businesses and non-family owned businesses that are franchisees. This is done in terms of examining the entrepreneurial orientation (EO) of these firms.

The research identified no major differences between family and non-family franchisees. This suggests that first generation franchisee businesses are from the same population as non-family franchisee businesses. Thus, the family dynamic that has been found to exist in multi-generational family businesses may not exist in first generational franchisee businesses. As such, it may be improper to define first generational franchisee businesses as "family businesses".

INTRODUCTION

The fields of family business and entrepreneurship consist of separate and distinct yet overlapping domains (Hoy & Verser, 1994). The interaction of these domains provides a unique perspective from which to examine the dynamics of how the family interacts with and/or influences the entrepreneurship process. Yet, there is a lack of integrated theory that helps us to better understand the complex and changing relationships between entrepreneurs and their families over time (Dyer & Handler, 1994).

A family business differs from a non-family business in that it is owned, managed, and/or controlled by family. Ownership and management are inextricably intertwined (Hoy & Verser, 1994; Neubauer & Lank, 1998). As a result, family businesses often function in confusing and clandestine ways that are not evident in non-family businesses (Litz, 1997).

Family businesses are complicated (Lansberg, Perrow, & Rogolsky, 1988; Neubauer & Lank, 1998) and are considered to be the most complex forms of business (Neubauer & Lank, 1998). This complexity is due in part to family business being a culmination of two interacting systems: the family and the business (Davis, 1983; Lansberg, 1983).

In a family business, the “family dynamic” (family values, family traditions, family culture, family philosophy, the emotional attachment to family assets, etc.) permeates the business and influences decision making behavior and business activities with a view to ensuring the business’ survival beyond the current generation (Craig & Lindsay, 2002; Neubauer & Lank, 1998; Davis & Harveston, 1998). What may be a good decision for the business may not necessarily fit with the family dynamic. The notion that efficiency considerations and bureaucratic rationality "… should predominate in the workplace often leads researchers to ignore how the family dynamics of the owners influence managerial behavior" (Lansberg, Perrow, & Rogolsky, 1988, p.4).

However, although researchers, practitioners, government policy makers, etc. talk about family business, there is no universal definition of what constitutes a “family business”. Some definitions of family business are all encompassing (e.g., a family business is a business that is owned or controlled by one or more families including first generation family members where there may not necessarily be an intent to pass on the business to a second generation). Other definitions are more restrictive (for example, a family business is a business where at least the second generation of a family owns the equity in, or controls, the business and there is intent to pass on equity in the business to subsequent family generations). Table 1 provides some examples of family business definitions.

Exhibit 1 - Examples of Family Business Definitions

Researchers generally agree that family involvement in the business is what makes the family business "different" (Miller & Rice, 1967). Researchers, however, cannot agree as to what family involvement in a business means (see, for example, Churchill & Hatten, 1987; Handler, 1989; Brockhaus, 1994). This has implications for defining "family business". Family business definitions are wide ranging. In these definitions, family involvement can mean any or all of the following (Neubauer & Lank, 1998, p5):

- the percentage of share capital owned by a family
- the employment of the owning family in executive or other positions
- the extent to which the intention is to maintain family involvement in the business in the future
- the number of families involved in the business
- whether (only) the founder’s direct descendants have control of the business
- whether the family ultimately controls the business, and/or
- the number of generations of the family involved in the business (ranging from an inclusion of the first family generation - the founders - to including subsequent generations.

This list is by no means exhaustive or mutually exclusive. There are a multitude of definitions.

The definition issue is not inconsequential. Family business has been said to be the most prevalent form of business. It is thought to contribute considerable wealth to economies, employ the majority of the workforce, create most new jobs, and generate a significant proportion of GDP (Shanker & Astrachan, 1996).

The validity of these statements, however, depends upon how family business is defined. If a broader family business definition is adopted, family business is the most prevalent form of business. However, are the broader family business definitions relevant? Specifically, should businesses that are owned or controlled by first generation family members be considered to be “family businesses”? In other words, are first generation businesses any different from non-family businesses?

Government policy makers, researchers, educators, consultants, etc. need to clearly understand what is "family business" when framing appropriate policies, conducting research, and/or providing advice that affect family business. For example, there are significant implications for government policy designed to support family business with related economy wide resource consequences.

This research, therefore, is motivated by a perceived need to contribute toward a definition of family business. The aim of the research is to investigate differences and similarities between first generation family owned businesses and non-family owned businesses. This is achieved by examining the entrepreneurial orientation (EO) of these firms. Franchisees were used as participants in this research since many franchisee businesses are owned by first generation family members. In addition, franchise systems help to provide homogeneity across individuals and groups.

The research makes a contribution by refining the definition of family business. Currently, it is suggested that the range of family business definitions is too encompassing and far reaching. This definition set needs to be reduced to provide greater clarity for family business researchers, government policy makers, educators, and consultants.

THEORY AND HYPOTHESES

This section examines relevant theory and generates hypotheses. Discussion pertaining to the variables and relevant hypotheses appears below. The focus of this research is at the firm level whereby the franchisee firm is regarded as an extension of the individual (see, for example, Covin and Slevin, 1991; Lumpkin and Dess, 1996).

Franchisees

Franchisees join franchise systems for a variety of reasons including affiliation with a trademark or trade name (Knight, 1986; Stanworth, 1977), franchisor support ((Hough, 1986), proven business format (Withane, 1991), and/or established name, lower development costs, and/or training (Peterson & Dant, 1990. Franchising can assume at least two forms (Kaufmann & Stanworth, 1995). One form involves a manufacturer creating a contractual channel of distribution for one or more of its products/services. This is called product franchising. The other form involves a retailer licensing the right to replicate its business concept in another location. This is referred to as business format franchising. This research focuses on business format franchising. Business format franchising fits many of the diverse criteria for defining entrepreneurship (Low & MacMillan, 1988).

Entrepreneurial Orientation

EO refers to the organizational processes, methods, styles, practices, and decision-making activities employed by entrepreneurs that lead to new entry (Stevenson & Jarillo, 1990; Lumpkin & Dess, 1996, 2001). New entry involves launching a new venture either via a startup firm, via an existing firm, or internally within a larger

corporation (Burgelman, 1993). New entry can be accomplished by entering new or established markets with new or existing goods or services (Lumpkin & Dess, 1996).

An EO-performance relationship exists in entrepreneurial firms (Miller, 1983; Covin & Slevin, 1989) contingent on environmental and organizational factors (Lumpkin & Dess, 1996). "Entrepreneurial firms engage in product-market innovation, undertake somewhat risky ventures, and are first to come up with proactive innovations, beating competitors to the punch". (Miller, 1983, p.771) In contrast, "non-entrepreneurial firms innovate very little, are highly risk averse, and imitate the moves of competitors instead of leading the way" (Miller, 1983, 771).

EO measures include proactiveness, risk taking, and innovativeness (Miller, 1983; Covin and Slevin, 1989; Lumpkin and Dess, 1996; Wiklund, 1999). *Proactiveness* is an opportunity-seeking, forward-looking perspective that involves introducing new products/services and acting in anticipation of future demand" (Lumpkin and Dess, 1996). *Innovativeness* represents a "…basic willingness to depart from existing technologies or practices and venture beyond the current state of the art" (Lumpkin and Dess, 1996, p.142). *Risk taking* involves a tendency to take bold actions, such as venturing into unknown new markets, committing a large portion of resources to firms with uncertain outcomes, and/or borrowing heavily (Lumpkin and Dess, 1996). These three dimensions make unique contributions to a firm's overall level of entrepreneurial orientation (Miller, 1983; Miller and Friesen, 1984; Covin and Slevin, 1989). These dimensions vary independently of each other depending on specific organizational and environmental contexts (Miller, 1988; Lumpkin and Dess, 1996, 2001). Environmental and organizational factors "influence how an entrepreneurial orientation will be configured to achieve high performance" (Lumpkin and Dess, 1996, p.151) and the extent to which the underlying EO dimensions vary independently in influencing the EO-performance relationship (Lumpkin and Dess, 1996). All, or only some, of these dimensions may influence performance when a firm engages in new entry – contingent upon specific environmental and organizational contextual factors present (Lumpkin & Dess, 1996).

Lindsay and McStay (2004) established that franchisees exhibit an EO, that the EO dimensions varied independently, and that an EO-performance relationship exists with franchisees contingent upon environmental and organizational factors. They argued that franchisees operate in dynamic environments and adopt organic structures. In dynamic environments, organic structures are appropriate (Burns & Stalker, 1961; Miller, 1983) to deal with the uncertainty and change. As such, it is expected that within the franchisee environmental and organizational context:

> H_1: Both first generation family business franchisees and non-family business franchisees will demonstrate an EO.
>
> H_2: Both first generation family business franchisees and non-family business franchisees will demonstrate an EO-performance relationship.

It is established that family businesses are complex and that the family dynamic that pervades these businesses influences decisions and activities of the firm. As such, the family dynamic may affect firm performance. In addition, because of the emotional attachment to family assets and the influence of family values, family culture, etc., it is expected that the family dynamic will influence proactiveness, innovativeness, and risk taking in the business and, thus, its overall EO. Thus, these EO dimensions will be

significantly different in family businesses than non-family businesses because of the family dynamic. In businesses operated by first generation families, however, it is expected that the family dynamic will not have manifested. The family dynamic needs to be incubated so that it permeates the business and it is expected that the incubation period will be insufficient in businesses operated by first generation families. As such:

> H_3: There will be no significant differences in the EO dimension, proactiveness, between first generation family business franchisees and non-family business franchisees.
>
> H_4: There will be no significant differences in the EO dimension, innovativeness, between first generation family business franchisees and non-family business franchisees.
>
> H_5: There will be no significant differences in the EO dimension, risk taking, between first generation family business franchisees and non-family business franchisees.

RESEARCH DESIGN

Participants

A number of business format franchisors were contacted and their permissions asked to use franchisees in their franchise group. The research team then either contacted individual business format franchisees in person or by telephone to gauge their willingness to participate in the survey and their preferred survey method (i.e., email, mail, telephone, fax, or a personal visit).

In all, there were 114 participants (37 first generation franchisees and 77 non-family franchisees). Demographics on these individuals appear in Table 1. To determine if a franchisee was a family business, participants were asked the question "Is your franchise a family business (that is, does your family work in or own/control the franchise you are involved in)?"

Table 1 - Respondent Demographics

Details		**1st Gen FB Frequency**	**1st Gen FB %**	**Non-FB Frequency**	**Non FB %**
Gender	Male	11	30%	24	31%
	Female	26	70%	53	69%
Age	30 years or less	7	19%	28	36%
	31 years to 40 years	12	32%	23	30%
	41 years to 50 years	9	24%	22	29%
	51 years to 60 years	9	24%	4	5%

Highest Education Achieved	Primary School	1	3%	0	0%
	Secondary School	9	24%	27	35%
	Technical Qualification	11	30%	13	17%
	Undergraduate Degree	11	30%	30	39%
	Postgraduate Degree	3	8%	7	9%
	Other Qualification	2	5%	0	
Have you ever started your own non-franchise business previously?	Yes	19	51%	23	30%
	No	18	49%	52	68%
	Missing Data	0	0%	2	2%
Do you own more than one franchisee outlet?	1 outlet	24	65%	48	62%
	2 outlets	4	11%	15	20%
	3 outlets	9	24%	14	18%
No. years involved in franchising	5 or less years	20	54%	41	52%
	6 years to 10 years	9	24%	22	30%
	11 years or more	8	22%	14	18%

MEASURES

The questionnaire asked participants for demographic information including personal information and business-related activities. It contained several sections including measures for EO and performance metrics.

Entrepreneurial Orientation: A review of the entrepreneurship literature was conducted and Miller's (1983) original dimensions (proactiveness, risk taking, and innovativeness) were used to measure EO (e.g., Covin & Slevin, 1989; Khandwalla, 1977; Miller & Friesen, 1984). These three dimensions were measured using a seven point scale. Other additional EO dimensions have been identified including competitive aggressiveness and autonomy (Lumpkin and Dess, 1996; Dess, Lumpkin, and Covin, 1997). These have not necessarily been adopted by other researchers (e.g., Kreiser, Marino, and Weaver, 2002).

Performance: There is no consensus on the appropriate measures of performance for small firms. Performance is multidimensional and there is support for measuring different dimensions of firm performance (e.g., Lumpkin & Dess, 1996; Wiklund, 1999). Growth is advocated as the most important firm measure and measures of financial performance and performance relative to competitors should also be included (see, for example, Chandler & Hanks, 1993; Wiklund, 1999). "Performance measures testing EO dimension propositions should include multiple measures …" (Lumpkin & Dess, 1996, p.153).

This research used two perceptual scales to measure performance. It was considered that objective measures of performance may be difficult to obtain. A

variety of studies suggest that perceptual measures can be reasonable proxies for objective measures (Chandler & Hanks, 1993).

The first performance scale was based on Zou, Taylor, & Osland's (1998) items. This scale includes six 5-point items to measure statements such as "the franchise has been successful", "the performance of our franchise has been satisfactory", and "the franchise has achieved rapid growth". These items were averaged into an internal *success performance scale*.

The second performance scale was based on the approach adopted by Li & Calantone (1998). Respondents were asked to assess the net profit and return on investment of their franchises relative to similar franchisees operating in the same market. These items were averaged to create a *competitor relative performance scale*.

RESULTS

Tables 2 and 3 provide the descriptive statistics, reliabilities, and correlations for first generation family businesses and non-family businesses respectively. The results are discussed below.

Table 2
Descriptive Statistics, Reliabilities, and Correlations: First generation family business franchisees

Measure	**Mean (s.d.)**	**1**	**2**	**3**	**4**	**5**
Proactiveness	4.80 (1.4)	***0.76***				
Innovativeness	3.97 (1.38)	0.359*	***0.71***			
Risk Taking	3.78 (1.36)	0.470**	0.415*	***0.81***		
Success Performance	3.75 ().79)	0.450**	0.531**	0.564**	***0.81***	
Competitor Relative Performance	3.77 (0.86)	0.486**	0.339*	0.419**	0.610**	***0.76***

Reliability coefficients (Cronbach alphas) are on the diagonal in italics
** p <0.05; ** p < 0.01*

Table 3
Descriptive Statistics, Reliabilities, and Correlations: Non-family business franchisees

Measure	**Mean (s.d.)**	**1**	**2**	**3**	**4**	**5**
Proactiveness	4.71 (1.19)	***0.69***				
Innovativeness	4.07 (1.12)	0.442**	***0.76***			
Risk Taking	4.08	0.660**	0.348**	***0.70***		

	(1.07)					
Success Performance	3.79 (0.74)	0.277*	0.274*	0.185	***0.81***	
Competitor Relative Performance	3.36 (0..65)	0.241*	0.280*	0.198		***0.70***

Reliability coefficients (Cronbach alphas) are on the diagonal
** p <0.05; ** p < 0.01*

There were five hypotheses. The idea that franchisees demonstrate an EO and that there is an EO-performance relationship contingent upon environmental and organisational factors is supported in this research. There were no significant differences between the two groups.

H_1 hypothesizes that both first generation family business franchisees and non-family business franchisees will demonstrate an EO. This hypothesis was confirmed.

H_2 hypothesizes that both first generation family business franchisees and non-family business franchisees will demonstrate an EO-performance relationship.

This was partially confirmed. All three EO dimensions were significantly related to both success and competitor relative performance measures for first generation family business franchisees. However, only two dimensions (proactiveness and innovativeness) were significantly related to success and competitor relative performance measures for non- family business franchisees (risk taking was not significantly related to either).

For Hypotheses $_{3-5}$, an independent samples t-test was conducted to compare the EO dimensions of each group. There were no significant EO differences between the two groups on any of the three dimensions: proactiveness ($t(112) = 0.130$, $p = 0.897$); innovativeness ($t(112) = -0.433$, $p = 0.666$); and risk taking ($t(112) = -1.285$, $p = 0.201$). As such, Hypotheses $_{3-5}$ were confirmed.

DISCUSSION

At a macro level, the results demonstrate that franchisee firms are capable of demonstrating an EO and that a beneficial EO-performance relationship is possible regardless of whether the franchisee is a first generation family business or a non-family business. This is consistent with Lindsay and McStay (2004). They found that franchisees demonstrated an EO, that EO dimensions varied independently, and that there was an EO-performance relationship contingent upon environmental and organizational factors. This was despite the “standardization” imposed by franchise systems on franchisees. Of note, Lindsay and McStay (2004) found a relationship between proactiveness and performance and risk taking and performance. There was no relationship between innovativeness and performance. Their results differ from the results of this research. One explanation for this is that different franchisors permit differing levels of freedom to innovate within their franchise systems. In those franchise systems that permit greater freedom to innovate, there may be a relationship between innovativeness and performance. Thus, for franchisees, environmental factors need to incorporate “franchisee freedom” as an underlying dimension.

No significant differences between first generation family business franchisees and non-family business franchisees were found across any of the EO dimensions. Thus, both groups displayed a similar level of EO. One explanation for this is that the "family businesses" used in this research were really not "family businesses". There is no consensus of what is a family business. There are numerous definitions of family business. The profile of the family businesses included in this research was that they were businesses owned, controlled, and/or operated by first generational family founders (they were the principals). This profile is not inconsistent with *some* definitions of family business (see, for example, Neubauer & Lank, 1998). However, the complexity due to the family dynamic may not be as strong in first generation family businesses as it is in subsequent generational family businesses. Family values, family politics, family culture, family philosophy, family traditions, and the "family way of doing things" may not have had time to develop in first generation family businesses to the extent that they exist in subsequent generational family businesses. As such, first generational family businesses appear not to be dissimilar to non-family businesses. Any development of the family dynamic may occur only in subsequent generational family businesses. As a result, businesses where the first generation family founders are the principals of the business should be excluded from being termed a "family business".

IMPLICATIONS

The implications of these findings include the following. At a practical level, government policies aimed at assisting family businesses should be directed at multi-generational family businesses where there is at least the second generation of the family involved. Family business complexity and the family dynamic that is mooted by researchers and practitioners may not exist in first generation family founded businesses. These businesses appear to be no different than "non-family" businesses.

Family businesses are said to be the most prevalent businesses in the world and contribute significant economic wealth and employment (Shanker & Astrachan, 1996). If first generation family businesses are excluded from the definition of family business, then this may not be the case. The significant economic wealth of economies attributed to being generated by family businesses may, in fact, be generated by "non-family" businesses (some of which will have founding families working in them).

At the theoretical level, researchers undertaking family business research should be wary of including in their studies businesses where only the first generation of the family is involved in the business. These businesses may create noise in the interpretation of results and may adversely affect family business theory building.

RESEARCH LIMITATIONS

There are a number of limitations associated with this research. First, the sample was not selected randomly. As such, extrapolation of the results to the franchisee population should be done with caution. Although franchise systems help to promote

homogeneity across franchisees within particular franchise systems, franchisees are a heterogeneous group and future studies should control for different franchisee segment types. Second, the research did not include multi-generational franchisees in the study. Future research needs to compare the EO and EO-performance relationship between businesses owned, controlled, and/or operated by first generation family founders with second and subsequent generation family businesses. Third, only successful franchisees were examined (those that were still operating). There is a need in future research to examine the EO-performance relationship in less successful firms.

SUMMARY

The purpose of this research was to contribute toward developing a universally accepted definition of family business. The research started with the premise that family businesses are more complex than non-family businesses and that business decision processes, decision outcomes, and business success and performance will be different for family businesses as compared to non-family businesses. The research used first generation franchisee family businesses as one of the groups to represent "family business" in the research design. No major differences were found between the two groups (first generation family and non-family businesses). As such, it was recommended that those businesses where the first generation family founders are involved in the business (and there are no subsequent family generations involved in those businesses) should be excluded from being defined as "family businesses". This has important considerations at the applied and theory levels. Further research, however, needs to be undertaken to explore this line of thinking further.

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EASTERN AND WESTERN VENTURE CAPITALIST ENTREPRENEURIAL ORIENTATIONS AND THEIR PERFORMANCE RELATIONSHIPS

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ABSTRACT

This research examines the entrepreneurial orientation (EO) and the EO-performance relationship of eastern and western venture capitalists. EO is measured in terms of proactiveness, innovativeness, and risk taking. EO is a determinant of performance contingent upon contextual variables such as environmental types (e.g. the volatility and dynamism of environments) and organizational types (e.g., organically versus simply structured firms). Many people would agree that eastern and western cultures have significant differences. These cultural differences are reflected in differing thought processes between eastern and western decision makers. Westerners typically think in terms of categories, pay attention to focal objects, and prefer abstract universal principles. Asians typically think in terms of the overall surroundings, the relationships between objects and their surroundings, and rules appropriate to particular situations.

A substantial portion of entrepreneurship research published in the major international journals uses data collected from western countries. As such, the results of many of these studies may be more generalizable to western than Asian countries. This research makes a contribution to the literature by examining similarities and differences between venture capitalists from eastern and western cultures. Cognitive differences exist between these two cultures and these are expected to be reflected in the EO construct and the EO-performance relationship. In addition, this research makes a

contribution by extending EO research that has primarily focused on firms established and driven by entrepreneurs to firms of venture capitalists.

The research results identified both similarities and differences between the two groups in terms of the EO construct and the EO-performance relationship. One possible explanation for this may be found in the cognitive differences reflected in the two cultures. Westerners tend to focus on "actors"; easterners focus more on surroundings. As such, with eastern venture capitalists, contextual variables and their relationships may play a more significant role in the investment decision process and the strategies they employ than for western venture capitalists. In other words, contextual variables may influence the EO dimensions that drive venture capitalist investment performance more with eastern than with western venture capitalists. In addition, the venture capitalist EO-performance relationship may not only be contingent upon contextual variables such as how environments and organizations are structured, the relationship may also be contingent upon cultural differences that influence fundamental venture capitalist cognitive processes. As such, the "traditional" understanding of contextual variables in EO research may need to be expanded to accommodate cultural differences.

Eastern and Western Venture Capitalist Entrepreneurial Orientations and their Performance Relationships

INTRODUCTION

Entrepreneurial orientation (EO) has been the subject of a number of studies that have examined the underlying dimensions of the EO construct and its relationship to the performance of entrepreneurial firms (e.g., Covin & Slevin, 1991; Smart & Conant, 1994; Lumpkin & Dess, 2001). EO refers to the processes, practices, and decision-making activities employed by entrepreneurs that lead to new entry (Stevenson & Jarillo, 1990; Lumpkin & Dess, 1996).

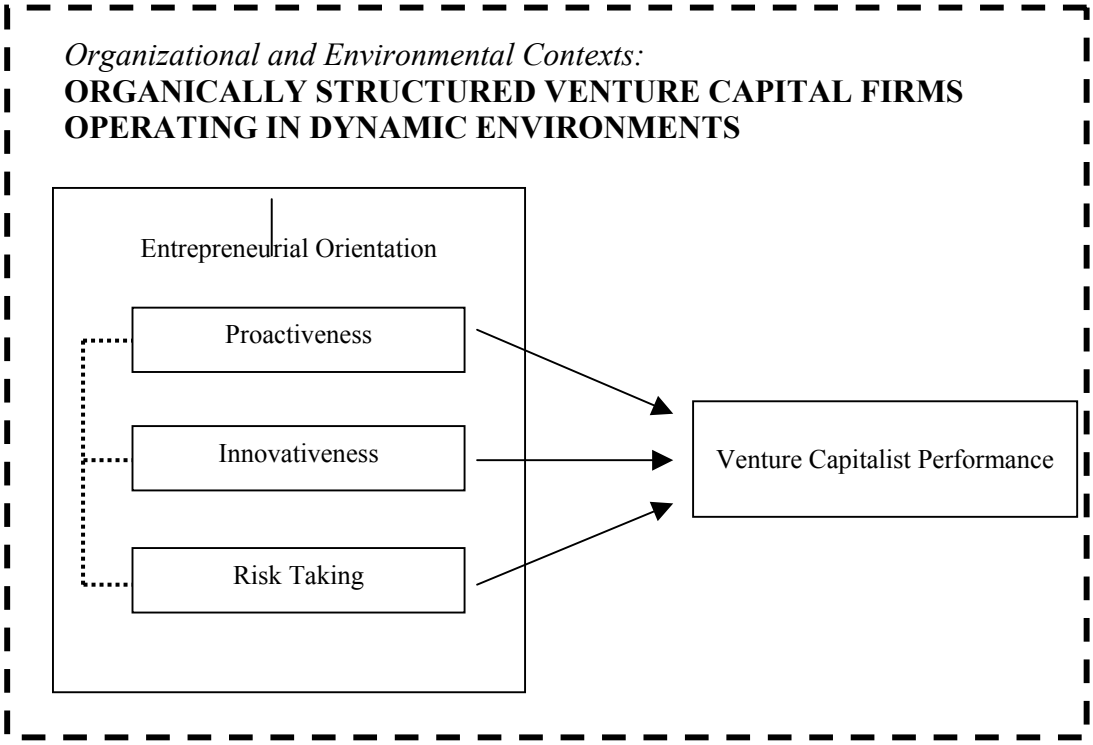
While previous EO research primarily focused on entrepreneurial firms, Lindsay (2004) extended the application of the EO construct to business angels. Business angels are private equity investors that tend to use their own money to invest in early stage entrepreneurial firms with an expectation of returns commensurate with the risks involved. Lindsay (2004) found that business angels act like "consummate entrepreneurs" in that they demonstrate an EO and have an EO-performance relationship contingent upon the dynamic environmental and organically structured organizational contexts they operate within.

This research takes the EO construct research a stage further and examines its relevance to another type of private equity investor - venture capitalists (VCs). In addition, the research examines similarities and differences between VCs in Australia and Japan. There is support for differences in cognitive processing and management styles of decision makers in the East and the West due to cultural differences (Nisbett, 2003). By investigating the EO construct simultaneously in two different cultural environments, additional insights are provided about the construct and the EO-performance relationship as well as the nature of the VCs operating in those environments.

THEORY AND HYPOTHESES

The following section examines relevant theory. The focus of the research is at the firm level; that is, EO and the EO-performance relationship is at the VC firm level. Figure 1 presents an hypothesized model for reviewing those EO dimensions (independent variables) that relate to VC firm performance (dependent variable). Details pertaining to this model appear below.

Figure 1 - Hypothesized Model of EO Dimensions that relate to Venture Capitalist Firm Performance



Venture Capitalists: Organizational and Environmental Contextual Issues

VCs are professional investors that raise money from the market (typically larger financial institutions such as pension funds, life assurance companies, banks, and government financial institutions) and manage these funds for investment in growth oriented entrepreneurial businesses with an expectation of obtaining high returns commensurate with the risks involved. They tend to be structured in terms of an investment management entity that manages the one or more funds under their control (Golis, 2002). Potential investments tend to be reviewed by an investment committee before being recommended to the board of the investment manager where the final decision to invest or not is made.

VC firms tend to be built around a relatively small number of team members with a variety of skills, experiences, and expertise. Their structures tend to be organic in that they lean toward being decentralized, relatively informal (knowledge is distributed to the

key decision makers throughout the organizations more or less equally - open communication), and "flat" in that they emphasize lateral interaction among decision makers (e.g., Burns & Stalker, 1961, p. 119).

VCs tend to operate in environments where there is a degree of dynamism and uncertainty due to the nature of their businesses in trying to identify successful investments that will be growth oriented and that will provide them with above normal returns. Dynamic and uncertain environments tend to necessitate organic firm structures (Burns & Stalker, 1961; Lawrence & Lorsch, 1967) and require innovation and marketing differentiation (Miller, 1988, p. 282). Dynamic and uncertain environments reflect ongoing changes in customer tastes, product-service technologies, and competitive weapons (Miller, 1983, P. 775).

Entrepreneurial Orientation

EO is an essential feature of high performing firms (Lumpkin & Dess, 1996) and is concerned with the discovery and exploitation of profitable opportunities (Shane & Venkataraman, 2000). Measures of a firm's EO have evolved over the last two decades and include proactiveness, risk taking, and innovativeness (Miller, 1983; Covin & Slevin, 1989). Researchers also have identified other possible elements of EO including competitive aggressiveness and autonomy (Lumpkin and Dess, 1996; Dess, Lumpkin, and Covin, 1997). These dimensions, however, have not necessarily been adopted by other researchers (e.g., Kreiser, Marino, and Weaver, 2002).

This research uses proactiveness, innovativeness, and risk taking as measures of EO (Miller, 1983; Covin and Slevin, 1989). These three dimensions make unique contributions to a firm's overall level of EO (Miller, 1983; Miller and Friesen, 1984; Covin and Slevin, 1989). The dimensions may vary independently of each other depending on specific organizational and environmental contexts (Miller, 1988; Lumpkin and Dess, 1996, 2001). In other words, environmental and organizational factors "influence how an entrepreneurial orientation will be configured to achieve high performance" (Lumpkin and Dess, 1996, p.151); they influence the extent to which the underlying EO dimensions vary independently in influencing the EO-performance relationship (Lumpkin and Dess, 1996).

Underpinning this research is the premise that VCs need to act in an entrepreneurial manner since there are parallels between what entrepreneurs do and what VCs do (they both identify opportunities and put together the necessary resources to develop those opportunities). As such, since entrepreneurial firms demonstrate an EO (e.g., Miller, 1983), it is expected that VCs also will demonstrate an EO. As such,

H_1: Australian and Japanese VCs will demonstrate an EO.

Proactiveness

Proactiveness is an opportunity-seeking, forward-looking perspective that involves introducing new products/services and acting in anticipation of future demand (though it does not necessarily mean "first to market") (Lumpkin & Dess, 1996, pp.146-147; Lumpkin, 2002, p.8). Proactiveness is an essential component of the new entry decision. It involves developing a vision for a new business idea and determining ways to combine previously unidentified components to capitalize on a perceived business opportunity (Bird, 1989; Schumpeter, 1954).

VCs demonstrate proactiveness in a number of ways. This includes the way they source investments via their deal flow, how they manage investments, and by their exit strategies.

VCs tend to be protective of their deal flows. They look for exceptional opportunities that they can review before their counterparts become aware of them. By getting in early, they get to identify, and have the opportunity to invest in the more exceptional deals (before their VC counterparts see them). This results in improved firm performance for the more proactive VCs.

Once VCs invest in a business, they tend to prefer to have strategic rather than operational input in the business. VCs tend to invest in entrepreneurial teams but they carefully monitor their investments through maintaining open communications with entrepreneurial team members and by regularly reviewing the performance of their investments. If any of their investments experiences difficulties, VCs will not hesitate to adopt a more proactive operational role in the business to protect their investment. Thus, VC proactiveness is pervasiveness when investments are performing as well as when they are not performing.

Finally, most VC funds are structured as "closed funds" (Golis, 2002). Closed funds have a predefined time (usually 10 years) as to when those funds will be wound up and the monies in those funds returned to investors. As such, VCs have planned strategies as to when they expect to exit their investments (as well as a particular fund). This is not to say that everything does not go according to plan; however, VCs consider exit strategies in their investments when they invest in those investments and work toward implementing those strategies. By proactively developing and implementing exit strategies, capital gain returns on individual investments and the portfolio will be enhanced. As such,

> H_2: There will be a positive relationship between proactiveness and firm performance for Australian and Japanese VCs.

Innovativeness

Innovativeness is defined in terms of a firm's efforts to introduce newness and novelty through experimentation and creative processes aimed at developing new products and services as well as new processes (Lumpkin, 2002, p.5). It represents a willingness to depart from existing technologies or practices (Lumpkin & Dess, 1996, p.142). Innovativeness is associated with creativity; that is, seeing the same objects as others but thinking about them differently. Harnessing creativity leads to innovation. This can involve combining different objects in different ways to produce new products and discovering new purposes for products (cf., Shumpeter, 1954).

VCs themselves do not tend to produce anything new. However, VCs help others to develop and market innovative technologies by providing the necessary finance to allow them to achieve this. However, providing entrepreneurial finance is not all that VCs do. When VCs invest in entrepreneurial firms, they provide another important resource – intellectual capital. Because VCs are professional investors, they have a wide range of backgrounds, skills, knowledge, and experiences, they see many types of business models – good and bad, and have extensive networks that they can call upon to help their investees. Thus, VC innovativeness is reflected in the "know-how", "know-who", and mentoring that they can impart to investees. This is in the interests of VCs. By

helping investees develop innovative business and financing strategies that enhance their performance, VCs enhance their performance as well. Thus,

> H_3: There will be a positive relationship between innovativeness and firm performance for Australian and Japanese VCs.

Risk Taking

Risk taking involves a tendency to take bold actions, such as venturing into unknown new markets, committing a large portion of resources to firms with uncertain outcomes, and/or borrowing heavily (Lumpkin & Dess, 1996, pp.144-145). It involves deciding and acting without certain knowledge of probable outcomes (Lumpkin, 2002, p.7) or substantial variance in important outcomes (MacCrimmon & Wehrung, 1986; Yates & Stone, 1992). It is the likelihood that an individual will forego a safe alternative with a known outcome in favor of a more attractive choice with a more uncertain reward (Brockhaus, 1980).

Both entrepreneurs and VCs are concerned about risk. Ultimately, this will be manifested in backing a venture that fails. VCs, however, accept that some of their investments will fail. As such, VCs adopt a portfolio approach to help reduce their exposure.

As professional private equity investors, it is expected that VCs will be concerned about risk and that associated particularly with Type I error. Type I error is the risk of investing in an opportunity and the investor should not have since the investment fails to perform (see, for example, Lindsay, 2004). Type I error is what has the greater negative impact on VC firm performance since Type I error investments significantly reduce portfolio performance. Type II error also will negatively affect VC firm performance but only in terms of opportunity costs and benefits. These types of errors are fundamental to all types of private equity investment decision making globally.

VCs learn to manage these risks. Type I error is managed through having good quality deal flow and by carefully reviewing each deal. Most deals are rejected because the VCs perceive them as not meeting their investment criteria (they see them as potential investments but are not currently investment ready or are not VC type opportunities). Of course, by reducing Type I error, Type II error is increased. Sometimes, deals are rejected that should have been accepted. The aim of course is to strive toward managing both error types by “picking winners every time” as this will have the best result on firm performance. As such,

> H_4: There will be a positive relationship between risk taking and firm performance for Australian and Japanese VCs.

VC Differences

Because of globalisation, travel, dissemination of knowledge, conference attendance, ongoing professional development, and ease of communication through technology, EO similarities at a broad level will be demonstrated by all VCs. This is because the nature of the VC business model is very much the same globally. This involves raising money from investors, forming a VC fund, managing that fund, looking for business opportunities, investing in the more exceptional business opportunities, and exiting those opportunities all with a view to making above normal returns for investors (and, of

course, the VCs as well). As such, VCs globally will demonstrate an EO and an EO-performance relationship contingent upon environmental and oganizational factors.

At a lower level, however, it is expected that cultural differences between countries will modify the levels of EO displayed by VCs as well as the strength of the relationships between EO and performance. This is because the EO-performance relationship is contingent upon environmental and organizational contextual variables. Although VCs tend to operate in dynamic environments and respond by adopting organic structures, country specific cultural differences will affect environments and consequently the organicness of structures adopted by VCs to varying degrees.

Many people would agree that eastern and western cultures have significant differences (see, for example, Nisbett, 2003). These cultural differences are reflected in differing thought processes between eastern and western decision makers. Westerners typically think in terms of categories, pay attention to focal objects, and prefer abstract universal principles. Asians typically think in terms of the overall surroundings, the relationships between objects and their surroundings, and rules appropriate to particular situations. As such, these cognitive differences are expected to be reflected in the EO construct and the EO-performance relationship. Thus, while the dimensions underlying EO and the EO-performance relationship will be present across all VCs, the weightings attributed to those dimensions and relationships may differ due to cultural differences. As such,

> H_5: There will be significant differences between EO dimensions (proactiveness, innovativeness, and risk taking) between Australian and Japanese VCs.
> H_6: There will be significant differences in the EO dimensional weightings that firm performance of Australian and Japanese VCs.

RESEARCH DESIGN

Participants

In both Australia and Japan, participants were identified using directories of VCs as well as by accessing industry contacts to identify firms not appearing in the directory. Participants were contacted by telephone or by mail to determine their willingness to participate in the survey and their preferred data collection method (e.g., email, mail, fax, or personal visit). Participant demographics appear in Table 1.

Table 1
Respondent Demographics

Details		Australian Frequency	Australian %	Japanese Frequency	Japanese %
Gender	Male Female	36 4	90% 10%	76 7	92% 8%
Age	30 years or less 31 years to 40 years	4 21	10% 53%	2 40	3% 48%

	41 years to 50 years	6	15%	25	30%
	51 years to 60 years	9	23%	5	6%
	61 years or more	0	0%	11	13%
Highest Education Achieved	Secondary School	2	5%	1	1%
	Technical Qualification	1	3%	1	1%
	Undergraduate Degree	10	25%	54	65%
	Postgraduate Degree	27	67%	27	33%
Have you ever started your own business previously?	Yes	18	45%	10	12%
	No	22	55%	73	88%
Background before becoming involved in venture capital	Accountant	8	20%	7	8%
	Banker	2	5%	14	17%
	Lawyer	1	3%	5	6%
	Entrepreneur	5	12%	7	8%
	Stockbroker	7	18%	12	15%
	Other	17	42%	38	46%
No. years involved in venture capital	5 or less years	22	55%	29	35%
	6 years to 10 years	10	25%	24	29%
	11 years or more	8	20%	30	36%
No. investments you have made	5 or less investments	5	13%	7	8%
	>5 investments	45	87%	76	92%
Current internal rate of return on your investments	< 5%	0	0%	0	0%
	6% – 10%	0	0%	8	10%
	11% – 15%	1	3%	29	35%
	16% - 20%	26	65%	29	35%
	> 20%	13	32%	17	20%
Do your funds have a limited life?	Closed funds	17	43%	68	82%
	Open funds	16	40%	10	12%
	Other	7	17%	5	6%

In Australia, there were 49 responses. Of these, 40 responses were useable representing a 37% response rate. In Japan, there were 89 responses. Of these, 83 responses were useable representing a 31% response rate. For the Japanese part of the study, the questionnaire was converted to Japanese. The instrument then was converted back to English and checked against the original to ensure its integrity.

MEASURES

The questionnaire asked participants for demographic information including personal information and business-related activities. It contained several sections including measures for EO and performance metrics.

Entrepreneurial orientation. A review of the entrepreneurship literature was conducted and Miller's (1983) original dimensions (proactiveness, risk taking, and innovativeness) were used to measure EO (e.g., Covin & Slevin, 1989; Khandwalla, 1977; Miller & Friesen, 1984). For the Australian study, details are as follows: proactiveness (mean = 5.24, s.d. = 0.90, α = 0.80); innovativeness (mean = 5.23, s.d. = 1.20, α = 0.79); and risk-taking (mean = 5.61, s.d. = 0.87, α = 0.77). For the Japanese study, details are: proactiveness (mean = 4.55, s.d. = 0.94, α = 0.84); innovativeness (mean = 4.71, s.d. = 0.97, α = 0.75).risk-taking (mean = 5.06, s.d. = 0.84, α = 0.85).

Venture capitalist performance. The study used three approaches to measure performance. All approaches used perceptual measures as proxies for objective measures because it was considered that objective measures of performance may be difficult to obtain. A variety of studies suggest that perceptual measures can be reasonable proxies for objective measures (Chandler & Hanks, 1993).

The first measure was based on Zou, Taylor, & Osland's (1998) items. This scale includes six 5-point items ("1 = strongly disagree" to "5 = strongly agree") to measure statements such as "we have been very profitable" and "we have achieved rapid growth". These items were averaged into an internally focused performance scale. For the Australian study, mean = 1.85, s.d. = 0.54, α = 0.82); for the Japanese study, mean = 2.57, s.d. = 0.56, α = 0.82).

The second measure was based on items proposed by Li & Calantone (1998). Two 5-point items were used. Respondents were asked to assess their before tax profits and internal rates of return on their investments relative to other firms ("1 = much lower than other firms" to "5 = much higher than others". These items were averaged into an externally focused, competitor relative performance scale. For the Australian study, mean = 4.0, s.d. = 0.641, α = 0.70); for the Japanese study, mean = 3.39, s.d. = 0.785, α = 0.80).

The third measure used was the internal rate of return (IRR). IRR is the standard measure of performance in the venture capital industry (Mason & Harrison, 2002). Respondents were asked to rate the IRR of the entire portfolio of their investments in absolute terms ("1 = less than 5%" to "5 = over 20%"). This was referred to as the IRR performance scale. For the Australian study, mean = 4.3, s.d. = 0.516); for the Japanese study, mean = 3.66, s.d. = 0.914).

RESULTS

The analyses used to evaluate the hypotheses included correlation analysis, independent samples t-tests, and multiple regression analysis. The performance scales

served as dependent variables; the independent variables were the EO dimensions (proactiveness, innovativeness, and risk taking).

Tables 2 and 3 provide correlation coefficients for the constructs for Australian and Japanese VCs respectively.

Table 2
Correlation Coefficients: Australian Venture Capitalists

Measure	1	2	3	4	5	6
1. Proactiveness						
2.`Innovativeness	0.600**					
3. Risk taking	0.440**	0.340*				
4. Internal Performance	0.326*	0.510**	0.361*			
5. Competitor Relative Performance	0.393*	0.526**	0.420**	0.555**		
6. IRR Performance	0.329*	0.458**	0.514**	0.626**	0.504**	

** p < 0.05; ** p < 0.01*

Table 3
Correlation Coefficients: Japanese Venture Capitalists

Measure	1	2	3	4	5	6
1. Proactiveness						
2.`Innovativeness	0.619**					
3. Risk taking	0.446**	0.433**				
4. Internal Performance	0.222*	0.369**	0.243*			
5. Competitor Relative Performance	0.226*	0.234*	0.291*	0.160		
6. IRR Performance	0.322*	0.400**	0.410**	0.195	0.314*	

** p < 0.05; ** p < 0.01*

There were six hypotheses relating to VC entrepreneurial orientation. In summary, the idea that VCs demonstrate an EO, that proactiveness, innovativeness, and risk taking are important dimensions of entrepreneurial orientation (Das & Teng, 1997; Lee & Peterson, 2000), and that there is an EO-performance link for both Australian and Japanese VCs is supported in this research. However, differences exist across the EO dimensions for the two groups as well as the weightings attributed to those dimensions in terms of being performance drivers.

H_1 hypothesizes that VCs demonstrate an entrepreneurial orientation. This was confirmed for both Australian and Japanese VCs.

H_2 hypothesizes that VC proactiveness will be related to firm performance. A relationship between proactiveness all three performance scales was confirmed for both

Australian and Japanese VCs. Proactiveness is positively related to internal, competitor relative, and IRR performance.

H_3 hypothesizes that VC innovativeness will be related to firm performance. A relationship between innovativeness and the three performance scales was confirmed for both Australian and Japanese VCs.

H_4 hypothesizes a relationship between VC risk taking and firm performance. A relationship between risk taking and all three performance scales was confirmed for both Australian and Japanese VCs.

H_5 hypothesizes EO differences between Australian VCs and Japanese VCs. An independent samples t-test was conducted to compare the EO dimensions of each group. Significant EO differences on all three dimensions were confirmed: proactiveness ($t(121) = 3.85$, $p = 0.000$); innovativeness ($t(121) = 2.59$, $p = 0.011$); and risk taking ($t(121) = 3.62$, $p = 0.000$).

H_6 hypothesizes differences in EO dimensional weightings as drivers of performance between Australian VCs and Japanese VCs. Standard multiple regression analysis was used to indicate how well the EO dimensions (proactiveness, innovativeness, and risk taking) are able to predict VC performance. In this analysis, IRR was used as the dependent variable since it is regarded as a standard measure of VC performance. Significant weighting differences were recorded in the regression equation for Australian and Japanese VCs. As such, H_6 was confirmed. Details appear in Table 4.

Table 4
Results of Multiple Regression Analysis for Australian and Japanese Venture Capitalists

Model Summary

Country	R	R Square	Adjusted R Square	Std. Error of the Estimate
Australian	.598(a)	.358	.304	.431
Japanese	.479(a)	.229	.200	.818

Predictors: (Constant), Risk Taking, Innovativeness, Proactiveness
Dependent Variable: IRR Performance

ANOVA

Country		Sum of Squares	df	Mean Square	F	Sig.
Australian	Regression	3.720	3	1.240	6.684	.001(a)
	Residual	6.680	36	.186		
	Total	10.400	39			
Japanese	Regression	15.727	3	5.242	7.839	.000(a)
	Residual	52.828	79	.669		
	Total	68.554	82			

Predictors: (Constant), Risk Taking, Innovativeness, Proactiveness
Dependent Variable: IRR Performance

Coefficients

Country		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Australian	(Constant)	2.294	.507		4.523	.000
	TEOPROAC	-.041	.101	-.072	-.408	.686
	TEOINNOV	.154	.072	.357	2.125	.040
	TEORISK	.253	.089	.424	2.835	.007
Japanese	(Constant)	.805	.607		1.326	.189
	TEOPROAC	.038	.126	.039	.301	.764
	TEOINNOV	.239	.122	.253	1.961	.053
	TEORISK	.308	.124	.283	2.496	.015

Dependent Variable: IRR Performance

DISCUSSION

Numerous studies have established an EO-performance relationship of entrepreneurial firms– contingent upon organizational and environmental contexts. Far fewer EO studies have occurred in the private equity area although business angels have been found to “act like consummate entrepreneurs” and to demonstrate an EO and an EO-performance relationship – contingent upon the angel investors adopting organic structures while operating in dynamic environments (Lindsay, 2004). Empirical research that examines EO and the EO-performance relationship for VCs is not well developed. This study models and tests this relationship in order to gain a better understanding of the EO of VCs and their performance.

VC EO Similarities: The results show that the proactiveness, innovativeness, and risk taking dimensions of EO are present and that there is an EO-performance relationship with both Australian and Japanese VCs. Contingent upon the presence of the organic organizational structures adopted by VCs and the dynamic environmental contexts they operate within, those who are more proactive and innovative and who can evaluate and/or manage risk perform better than those who are less proactive and innovative and who are less successful in evaluating and/or managing risk. As such, there is tentative support to suggest that there are similarities between entrepreneurs and VCs, whether they are from Australia or Japan, in terms of EO and the EO-performance relationship.

This result is of interest considering only 45% of Australian VCs and only 12% of Japanese VCs indicated that they had started a business previously. In addition, only 12% of the Australian VCs and only 8% of the Japanese VCs regarded themselves as having an entrepreneur background prior to becoming a VC (refer to Table 1). Having said this, most participants in the study had considerable experience in investing (87% of Australian VCs and 92% of Japanese VCs had made more than five investments) and had considerable experience in the venture capital industry.

Interestingly although there was an EO-performance relationship, the IRRs reported by most of the Australian and Japanese VCs appeared to fall short of the 50% or more IRRs reported by Mason and Harrison (2002). This may have been a reflection of the economic climate at the time.

VC EO Differences: Although there was an EO and an EO-performance relationship in existence for both Australian and Japanese VCs, significant differences existed between the two groups in terms of the specific EO dimensional levels of each group and the magnitude of their respective influence on performance. It was previously mentioned that at one level, globalization, travel, the ease of communication, etc. among VCs may act as a "leveler" in terms of the distribution of tacit VC knowledge among nations (you would expect experienced venture capitalists in Australia to have a similar understanding of the basic attributes of successful business opportunities and the investment readiness of investees as their counterparts in Japan) since the basic business model remains the same. Cultural influences, however, may be responsible for influencing the cognitive weightings of such attributes in terms of their levels of importance when VCs evaluate deals. In addition, cultural influences may affect organizational and environmental contexts which, in turn, influence "how business is done". These possible explanations – although speculative – provide a basis for understanding and debate about EO and EO-performance differences between Australian and Japanese VCs.

However, there was one difference (which was not significant) that was perplexing. This related to the negative effect proactiveness had on performance for Australian VCs (this was positive for Japanese VCs). No plausible possible explanation for this has been forthcoming.

Managerial Implications

Although VCs are professional private equity investors, they do not necessarily "get it right" every time. If it was so easy to pick "winners", everybody would be doing it. The fact is that venture capitalists do not always get it right every time. It is a "numbers game" … you win some, you lose some. As professionals, VCs are only too aware of this. To stay in the VC game, however, investors in VC funds want winners that will provide them with the above normal returns they expect commensurate with the risk present. The ability to raise subsequent VC funds will be contingent upon a range of factors including VC performance to date in previous funds. Since EO appears to be related to VC performance, it would appear that training VCs to better understand the entrepreneurial process and the determinants of proactiveness, innovativeness, and risk taking would be beneficial to them. In addition, by enhancing their EO, they may be better positioned to mentor their entrepreneurial investments which, in turn, may result in improved performance of those investments.

Research Limitations

There are a number of limitations associated with this research which may influence the generalizability of results. First, the research did not include entrepreneurs from Australia and Japan against which meaningful comparisons could be undertaken. Second, the sample response was biased. Although the population of VCs is relatively small and defined, VCs tend to be concentrated in geographic regions and the bulk of responses came from these regions. Third, only successful venture capitalists were

examined (those that were still operating). There is a need in future research to examine the EO-performance relationship in less successful VC firms.

SUMMARY

This research developed a model of the EO-performance relationship for Australian and Japanese VCs. In so doing, the research addressed a number of questions. At a general level, these included: Are VCs consummate entrepreneurs? … Do they demonstrate an EO? If so, does an EO-performance relationship exist? At a more specific level, research questions included are there EO differences between Australian and Japanese VCs in terms of the underlying EO dimensions and do these influence VC performance differently? In each case, the answer to these questions was "yes". The results demonstrated general support for the model. In terms of the EO construct, results suggest that VCs may be similar to entrepreneurs – contingent upon specified organizational and environmental contexts. In addition, EO differences between the two groups suggest that country specific cultural differences may need to be taken into consideration in defining environmental context – not only for VCs but also for entrepreneurs. Further research needs to be undertaken in this area. Overall, however, the research makes a contribution to the literature by extending our understanding of the nature of EO generally and in extending the construct to venture capitalists.

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CONFIGURATIONS OF SMALL AND MICRO BUSINESSES IN ZIMBABWE AND SUCCESS: STRATEGIES, THE FIRM, AND THE ENVIRONMENT

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ABSTRACT

Diversity in the small business sector and the large number of factors impacting business success has led entrepreneurship researchers to question the value of investigating universal success relations. In this study we propose a configurational individual level approach to the understanding of success in small businesses, modeling success as the fit between multiple components relevant to entrepreneurship. In cluster analyses of n = 102 Zimbabwean business owners we found four distinct coherent groups of business owners who demonstrated different levels of success depending on patterns of owner strategy use, characteristics of the firm and the environment. Findings demonstrate the usefulness of a configurational approach to the understanding of business success.

EXECUTIVE SUMMARY

Researchers and practitioners take an obvious interest in better understanding success of small and micro business owners in Africa. Previous efforts have typically been devoted to the identification of success relations that hold across all businesses. The small business sector, however, is represented by a large variety of owners and their firms. Success in these businesses is the result of a large number of interacting variables producing contingencies and configurations. We therefore propose a configurational taxonomic approach to the understanding of success of African small business owners. Success will be modeled as the fit between multiple components relevant to entrepreneurship.

Assuming a psychological individual perspective we examined small and micro businesses for underlying patterns of owner strategy use, characteristics of the internal firm environment created by the owner, and characteristics of the external

environment as perceived by the owner. We assume the existence of distinct coherent groups of business owners and their internal and external business environment. Depending on variable configurations, groups should vary with regard to success. Finally, as an important notion inherent in configuration research and predicted by open system theory, equifinality, the assumption of different but equivalent success routes, will be investigated. Owners with a proactive strategic stance should be equally successful.

The sample comprises n = 102 indigenous Zimbabwean business owners who had been operating for at least two years. Measurement instruments included structured interviews and questionnaires. Variables that required an evaluation by the interviewer were additionally rated by an independent judge yielding good inter-rater reliabilities.

Testing our assumption of *distinct coherent groups of business owners* we applied cluster analysis techniques to sort business owners into homogeneous groups according to their characteristics of strategy use, characteristics of their firm and their external business environment. Cluster analysis aims at grouping the examined objects according to their similarity allowing maximisation of internal homogeneity within and external heterogeneity between clusters. Several steps were taken to assess distinctiveness and validity of resulting clusters. To test the notion of *equifinality* in configurations with a predominant proactive strategic mode, we examined resulting clusters for their ability to achieve success as measured by growth, size, an overall interviewer evaluation as well as an independent external evaluation.

The study confirms that there is no average in African entrepreneurship. Four different coherent clusters of business owners emerged from the analysis: *The reactive business owner in hostile environment, the opportunistic business owner in friendly environment, the highly reactive business owner in friendly environment,* and *the entrepreneurially oriented planning business owner*. Depending on configurations of owners' strategy use, their internal and their external business environment, clusters differed significantly with regard to success. Only clusters with a proactive strategic posture, represented by the opportunistic and planning business owners demonstrated substantial levels of success. Whereas the entrepreneurially oriented planning business owner emerged as the most successful cluster, the opportunistic business owner in friendly environment revealed an alternative route to achieve success. This route appears especially suitable for owners in the less viable informal business sector. Results partly support the assumption of equifinality.

The taxonomy can be used to highlight distinct variable relations between groups of business owners – a major advantage of the configurational perspective. Results can be used to formulate and test hypothesis derived from the classification scheme. The taxonomy is relevant for practitioners dealing with the entrepreneurs, such as training institutions, regional policy makers or credit givers. For the owner himself, the taxonomy represents a powerful tool for self-assessment. Business owners may reconsider their actions, how they evaluate and respond to their business surroundings, and how their business is set up internally.

INTRODUCTION

Entrepreneurship research has widely acknowledged that the small business sector is represented by a large variety of business owners and firms differing with regard to strategy, firm characteristics and the environment (cf. Gartner, Mitchell, & Vesper, 1989; Sanchez, 1993; Miner, 1997, Smith, 1967; Frank, Korunka, & Lueger, 1999). In its attempt to understand and predict entrepreneurial success, research has preferred to investigate relations that hold across all organizations. The value of such findings, however, is restricted to the extent to which other variables internal and external to the firms affect these relationships to produce contingencies or configurations (Sanchez, 1993; Lumpkin & Dess, 1996).

The configurational approach extends the contingency perspective in that relevant variables forming a constellation, or a configuration, are analysed (Chell, Haworth, & Brearly; Frank et al., 1999). Dess, Lumpkin & Covin (1997) and more recently Wiklund and Shepard (in press) have demonstrated the usefulness of the configurational approach to the explanation of firm performance by uncovering three-way interactions between variables of strategy use and environmental characteristics.

However, approaches on a corrleational level of analysis also pose certain limitations to a configurational understanding of success. First, opposed to the holistic stance of configuration research, only a limited number of variables can be analysed simultaneously with regard to success. Second, nonlinearity may not be discovered. Finally, equifinality - the open systems concept accommodated by the configurational approach - predicting that different configurations may be equally successful, can not be tested (Meyer, Tsui & Hinings, 1993).

A different configurational approach to the understanding of business success is to uncover distinct, internally consistent sets of firms and their environment and to subsequently relate emerging patterns to business success. Such approaches have generated a number of typologies and taxonomies and have typically been conducted at the organizational level of analysis (e.g. Miles & Snow, 1978; Mintzberg, 1979). Meyer et al. (1993) argue that the configurational perspective should also be used at other levels of analysis. Following the argument, that small enterprises will not achieve success without the actions of the founders and managers (Frese, 2000a) this research takes the configurational approach to the individual psychological level of analysis. We will examine small and micro enterprises in Zimbabwe for underlying patterns of owner strategy use, characteristics of the firm as created by the owner, and characteristics of the environment as perceived by the owner. To encompass complexity of small businesses we will use a comprehensive set of variables taking an empiricist stance to identify configurations (Mc Kelvey, 1982; Ketchen et al, 1997).

Entrepreneurship in Zimbabwe represents a unique opportunity for configurational analysis. With the coexistence of highly developed formal businesses and a strong informal sector it can reasonably be argued that entrepreneurship in Zimbabwe as a

developing country is spread over an even larger spectrum than its counterpart in the West.
The study extends previous research in at least two important ways. First, the study applies the configurational approach to the individual level of analysis. Emphasising the psychological nature of entrepreneurship, groups of business owners will be analysed for their different use of psychological strategy characteristics in the context of their internal and external business environment. Second, research has neither explicitly examined diversity in African entrepreneurship nor has the question of different successful types of small business owners in Africa been addressed. To our knowledge, the study represents the first taxonomy of small business owners in Africa.

CONFIGURATION RESEARCH AT THE INDIVIDUAL LEVEL OF ANALYSIS

Meyer, Tsui and Hinings (1993, p. 1175) define organizational configurations as "multidimensional constellations of conceptually distinct characteristics that commonly occur together". A recent meta-analysis of organizational configurations showed that almost 30% of the variance of success can be explained by specific variable configurations (Ketchen et al., 1997). Configuration theories assume a holistic perspective analysing the entrepreneurial act in its context. Constructs are expected to correlate in a complex way forming a net of reciprocal and dynamic dependencies. Success in configuration research is modelled as the fit between multiple components relevant to entrepreneurship. Fit can be achieved through a number of variable constellations. This important assumption in configuration theories has been termed equifinality and is one of the main issues of this study. The concept in its origin goes back to von Bertalanffy (1950) and his biological experiments and is embraced in open system theory to organizations (Katz & Kahn, 1978). Equifinality denotes that a system can reach the same final state from various initial conditions and by differing paths. Configuration research, too, treats organizations as open systems. Both, configuration research and open system theory emphasise the contingent character of organizations and the interdependence of its elements.

In our study, the notions of fit and equifinality inherent in configuration research and predicted by open system theory (Katz & Kahn, 1978) will be transferred to the individual level of analysis assuming congruence between a set of individual attributes and characteristics of the internal and external firm environment.

Recent psychological individual approaches to the study of entrepreneurial success have emphasised the importance of the actions of the business owner and more proximal (Kanfer, 1992) constructs to the entrepreneurial task and behaviour in general (Frese, 2000a, Krauss, & Frese, 2004). According to psychological field theory (Lewin, 1951) behaviour is a function of the person and the environment: behaviour = f (P, E). To understand behaviour one has to consider the specific constellations of variables related to the person and the environment. In this sense, Lewin is a predecessor of configurational theorizing at the individual level of analysis.

Behaviour in small businesses takes place in the context of the internal environment (the firm) and the external business environment. Both, the firm and the external business environment represent behaviour settings and are at the same time subject to change through the actions of the owner.

Applying the configurational approach to the individual level of analysis, our main focus is on characteristics of entrepreneurial action strategies which are assumed to interact with characteristics of the firm and the environment of the business. The first hypothesis derived from configuration theory (Meyer et al., 1993) which guided this research proposes that the complex constellation of variables within small and micro businesses in Zimbabwe can be reduced to a few distinct types of owner strategy characteristics, their firms, and the environment.

Hypothesis 1: Small businesses in Zimbabwe vary in action strategies of the owner, characteristics of the firm and the external business environment.

In line with configurational theorizing, a second assumption states that groups of businesses vary significantly with regard to desired business outcomes

Hypothesis 2: Depending on constellations businesses vary with regard to success.

Finally, we test the notion of equifinality. We assume minimal prerequisites to exist to make configurations successful. Since successful entrepreneurship essentially has to do with the discovery and exploitation of opportunities (Shane & Venkataraman, 2000) and requires business owners to act on their environments we assume business owners with a proactive strategic posture to be successful (cf. Krauss et al., Frese, van Gelderen, & Ombach, 2000).

Hypothesis 3: Different configurations that include a proactive mode - entrepreneurially oriented and pursuing a proactive psychological process strategy - may all be successful.

In the following, we will describe the characteristics of behaviour settings for African small business owners and entrepreneurial action strategies taking place in these settings. Variable dimensions and single variables falling into the respective categories are derived deductively and with regard to their contingent character. Some variables have received attention especially in the African context and are selected on the grounds of their presumed importance for small enterprises in Africa (Frese, Krauss, & Friedrich, 2000). Specific patterns of small business owners along the selected variables will be derived inductively from empirical data.

Entrepreneurial Action Strategies

Strategy from a psychological point of view is defined as a sequence of actions to achieve a goal (Miller, Galanter, & Pribram, 1960). Such a definition is in line with economists emphasizing the dynamic action oriented aspects of strategy, referring to the concept as “a pattern in a stream of decisions” (Mintzberg, 1978, p. 935). We

distinguish between entrepreneurial orientation and strategy characteristics. Entrepreneurial orientation is composed of personal orientations that relate to the daily tasks of a business owner and fit with the contextual requirements (Krauss, Frese, & Friedrich., 2004a). Strategy characteristics are action templates (van Gelderen, Frese & Thurik, 2000) determining how entrepreneurial activities are carried out (Krauss & Frese, 2004).

Psychological Process Strategies

The process of strategy includes the way in which entrepreneurs try to achieve their goals. In the pursuit of strategic contents business owners differ with regard to the amount of planning and proactiveness involved (Frese & de Kruif, 2000). Along the two dimensions Frese and de Kruif (2000) distinguished four psychological process strategies: Comprehensive planning, critical point, opportunistic, and reactive strategy. A *comprehensive planning strategy* involves proactiveness and planning on the part of the business owner. A person using this strategy proactively structures the business situation, specifies single steps to be taken, and develops back-up plans in case something goes wrong. In contrast, a *critical point strategy* represents a form of localized planning. Only one critical point is planned. Once this point is solved, the next critical issue is addressed. An *opportunistic strategy* is proactive, but hardly involves any form of planning. Business owners using this strategy actively scan their environment watching out for business opportunities. A reactive strategy neither involves planning nor proactiveness. Actions by the owner using this strategy are mainly driven by situational demands.

Results of studies in Europe and Africa suggest that the proactive strategies of comprehensive planning, critical point, and opportunistic strategy are positively related to success (Frese, Krauss, Escher, Grabarkiewicz, & Friedrich, 2003 in prep.; Frese, Brantjes, Hoorn, 2002; Frese, van Gelderen, & Ombach, 2000; Frese, 2000a) A reactive strategy was negatively related to success in these studies.

Entrepreneurial Orientation

Entrepreneurial orientation (EO) is related to values, beliefs, and general orientations of the business owner (Frese & de Kruif, 2000) and explains why certain actions are taken.

According to Lumpkin & Dess (1996) entrepreneurial orientation consists of autonomy orientation, competitive aggressiveness, innovative orientation, risk-taking orientation, and proactiveness. Krauss, Frese, and Friedrich (2004a) extended entrepreneurial orientation to incorporate learning orientation and achievement orientation.and demonstrated the usefulness of a unitary individual level entrepreneurial orientation construct.

A number of studies have reported positive relationships between entrepreneurial orientation and success (e.g. Zarah & Covin, 1995, Krauss et al., 2004a). However, increasing evidence suggest that the relationship between entrepreneurial orientation and success is moderated by a number of variables, such as hostility of the environment (e.g. Covin & Slevin, 1989), access to capital or the orchestrating effects of both, characteristics internal and external to the firm (Wiklund & Shephard, 2004).

The Business Environment

The configurational approach argues that success in organizations results from the alignment of strategic, organizational, and environmental factors (Meyer, et al., 1993). Certain strategies work best in certain environments (Frese, 2000b). To be successful, action strategies have to be aligned with a given business environment (Lumpkin & Dess, 1996; Frese & Rauch, 1998). The environment of a business has been described along the following dimensions: Munificence vs. hostility, dynamism vs. stability, and complexity vs. simplicity (Rauch & Frese, 2000; Mintzberg, 1983). Covin and Slevin (1989) defined hostility as being characterized by intense competition, a complex business climate, and a lack of exploitable business opportunities.

This research emphasizes hostility as the main dimension of the business environment. First, we argue that hostility already includes aspects of the other two dimensions. Second, hostility in Zimbabwean business environments is particularly high due to a high degree of competition (McPherson, 1991). Hence, the study of hostility appears to be especially relevant in a Zimbabwean setting.

On an operational level the business environment can be divided into a subjective environment as perceived by the owner and an objective environment based on objectively measurable statistics. A psychological perspective emphasizes the environment as being perceived (cf. Lewin, 1951) by the individual business owner. It is argued, that ultimately the way owners perceive their environment is what impacts their actions and strategies (Mathews & Scott, 1995). Indirect effects of the environment on success are assumed to exist because certain strategies work best in certain environments (Frese, 2000b).

Characteristics of the Firm

Firm characteristics form an internal environment for the business owners and like the external environment, represent a behaviour setting. Business owners may arrange their firms internally in many different ways. Such aspects of the firm represent important factors in the entrepreneurial process, interacting with strategy and the environment. We propose that groups of small enterprises differ in a meaningful way along the following characteristics: Formal vs. informal sector, existence of active partners, employment of family members, obligation to kinship, age of business, use of loans, and the membership in clubs or societies.

With regard to the dominance of informal businesses in Africa some attention has been given to the *legal background* of small businesses (Lubell, 1991; Harrison, 2000). Informal businesses are firms which are not officially registered and do not pay taxes. Typically such businesses are described as substance oriented and have been demonstrated to be significantly less successful then formal businesses (Frese, 2000b). However, a majority of those who eventually become formal originally started their businesses with an informal status (Neshamba, 1997). Excessive regulations and bureaucracy in Zimbabwe discourage entrepreneurs to cross the formalization barrier. The process is tiresome and costly. Harrison (2000) and Krauss, Frese, and Friedrich (2004b) argue that, nevertheless, registration is a key to business success.

The main question in this study is whether a business belongs to the formal or the informal sector.

Another important firm characteristic concerns the owner- and leadership of the business: The existence or non-existence of other *active partners* (Smith, 1967; Woo, Cooper & Dunkelberg, 1991). The existence of another partner in the business means additional human resources and brings with it the possibility to share business tasks according to the specific strengths of the individuals. It may also reduce emotional stress via shared responsibilities. Working alongside another partner creates a qualitatively different social working environment for the business owner with important implications for business strategies.

Business owners also have to decide whether or not to employ *family members*. Pressure on the entrepreneur to do so is high in Africa (Wild, 1994). Generally, the employment of family members should lead to less success, because they are usually not sufficiently qualified for the job. Findings in Africa, however, suggest that this is not the case (Frese, 2000b). The relationship between success and the employment of family members may thus have to be seen together with the owner's general tendency and motivation to deal with them – his *obligation towards kinship*[1] (Inkeles & Smith, 1974). A high kinship obligation may be a mechanism working against the business interests and leading to less success. In a study in Nigeria, Gebert and Steinkamp (1992) showed that the more owners attended to their family members` needs the less economic success they achieved. Frese (2000b) also argued that a firm's life cycle moderates the success relationship. Smaller firms in earlier stages may benefit from the employment of family members and their loyalty to the firm whereas it may be detrimental during later stages, when demands of those employed become higher.

An important indicator of a firm's life cycle is the *age of business* (Chell, Haworth, & Brearley, 1991). Business owners are encountered with specific problems demanding consequential behaviour in different stages of their firms. Moreover, population ecology theorists proposed that younger businesses carry a liability of newness (Preisendoerfer & Voss, 1990, Mead & Leadholm, 1998). Younger firms should thus be less successful than older ones. Data from research in Africa, however, have not supported this view (Frese, 2000b).

Lack of capital is reported to be a common problem of African small businesses (Frese, 2000a; Gray et al., 1996). As a consequence many business owners seek to borrow money from the banks or other credit givers. Surprisingly, Frese (2000b) found no relationships between *receiving a loan* and being successful in the southern regions of Africa. Using loans might thus only be beneficial to certain groups of business owners (e.g. those who engage in planning) or in certain situations (e.g. strong social networks, later business stages). Wiklund and Shephard (2004) report interactions of access to capital, entrepreneurial orientation and dynamism of the environment.

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[1] Although a motivational resource in nature, kinship obligation is reported together with characteristics of the firm to emphasize the relevance of the variable in context with the employment of family members.

Finally, social networks have been viewed as an important constituent of the entrepreneurial context (e.g. Ostgaard & Birley, 1996; Dubini & Aldrich, 1991). They provide entrepreneurs with support, contact, and credibility (Ostgaard et al., 1996). A network helps business owners acquiring new customers and obtaining resources in terms of supply, capital, and work-force. Network affiliation, defined as contacts and membership in organizations, has been found to be positively related to success (Lerner, Brush, & Hisrich, 1997). Affiliation to networks will be considered broadly in this research as the *membership in clubs or societies* that help the owner to do business.

Other firm characteristics reported in the literature were not considered in the process of identifying common patterns of small business owners and their internal and external environment. Size, often mentioned as a basic characteristic of the firm (Baker & Cullen, 1993) will be treated as an outcome variable and related to emerging patterns later in the analysis. Similarly, line of business as a contextual factor was omitted from the primary analysis, but will be considered, once distinct configurations of business owners in Africa have been identified. In the following, we will describe the study sample, the process of data collection, and the procedures applied to identify patterns of African small and micro business owners along entrepreneurial actions strategies, firm characteristics, and the environment.

METHOD

Sample

The sample comprises N = 102 indigenous Zimbabwean business owners. All participants had established their business themselves, had been operating for at least two years and had at least one and no more than 50 employees. Owners received US $5 for their participation. Characteristics of the study sample are displayed in table 1. Data were collected in different regions of Zimbabwe: Harare (70.0%), Mashonaland East (6.0%), and Matabeleland (24.0 %). The rejection rate to participate was low (n = 5).

The great majority of the sample were members of the majority ethnic group in the country, the Shona culture (80.4%); 17.5% belonged to the Ndebele culture, 2.1% to other African cultures. On average the owner was 38.8 years old when interviewed. Multiple answers being possible, most of the businesses operated in the manufacturing sector (56.9%) followed by retail/trade and services (each 43.1%). Other industries were gastronomy (9.8%), and construction (3.9%). Almost two thirds (64.6%) were officially registered or paid tax and were thus assigned to the formal business sector. On average businesses had been operating for 8.13 years (MD = 7). Most of them had between 1 and 4 employees (54%). The average starting capital converted to US$ was 18 782 (MD = 1 809). During the year before the second interview was conducted almost half of the businesses had a turnover below US$ 10 000 (M = 152 958; MD = 11 372).

TABLE 1 Sample description (N = 102)

Variables		N	Percentage	Cumulated %
Business Owner				
Gender	male	84	82.4	82.4
	female	18	17.6	100.0
Age	22 – 30 years	21	20.6	20.6
	31 – 40 years	40	39.2	59.8
	41 – 50 years	33	32.4	92.2
	> 50 years	8	7.8	100.0
Ethnic background	Shona	78	80.4	80.4
	Ndbele	17	17.5	97.9
	other African	2	2.1	100.0
Years of education	< 10 years	28	28.6	28.6
	10 – 14 years	51	52.0	80.6
	≥ 15 years	21	21.4	100.0
Highest degree of education	no degree or grade seven	15	14.7	14.7
	ZJC, O-levels or A-levels	47	46.1	60.8
	Polytech, bachelor or masters	21	20.6	81.4
	other	18	17.6	100.0
Business				
Province	Harare	70	70.0	70.0
	Matabeleland	24	24.0	94.0
	Mashonaland East	6	6.0	100.0
Rural/urban	rural	7	7.0	7.0
	urban	93	93.0	100.0
Year of establishment	before 1990	22	21.6	21.6
	1990 – 1994	37	36.3	57.9
	1995 – 1999	43	42.1	100.0
Formal/informal	formal	64	64.6	64.6
	informal	35	35.4	100.0
Number of current employees	0 – 2 employees	28	27.4	27.4
	3 – 10 employees	52	51.0	78.4
	> 10 employees	22	21.6	100.0
Starting capital in US$	0 – 1 000	36	37.5	37.5
	1 001 – 10 000	41	42.7	80.2
	≥ 10 000	19	19.8	100.0
Line of business [a]	manufacturing	58	56.9	
	- textiles	5	4.9	
	- wood	16	15.7	
	- metal	13	12.7	
	- other	24	23.5	
	construction	10	9.8	
	retail/trade	44	43.1	
	restaurants, hotels, bars	4	3.9	
	service	44	43.1	
	other	4	3.9	

[a] multiple answers possible

Procedure

Various forms and techniques were applied for collection of the data: a structured interview with the business owner, including behavioural event interview techniques based on Spencer and Spencer (1993), a questionnaire, an interviewer evaluation and an external success evaluation. The structured interview represented the main measurement instrument. As shown in different meta-analyses the criterion validity of structured interviews is high (e.g., .60, Wiesner & Cronshaw, 1988).

Interviews took place at the owners' workshops and lasted between 1.5 and 3 hours. Whenever communication difficulties arose, a translation in Shona or Ndebele was provided by a trained local interviewer. After completion of the interview, participants filled in the questionnaires. Meanwhile interviewers wrote down their impression of the business and the owner in the interviewer evaluation form using 5-point Likert scales.

During the interview, subjects' answers were written down in a protocol as verbatim as possible. The protocol served as the basis for two ratings. Inter-rater reliabilities for the main variables were computed as intraclass-coefficients (Shrout & Fleiss, 1978; McGraw & Wong, 1996). The scores varied between .64 and 1.00.

Operationalization

Characteristics of scales, indices, and variables used for further analyses are presented in table 2. The table presents the number of items, number of subjects, Cronbach's alpha (for scales), Pearson correlations for indices (measures composed of two variables), inter-rater reliabilities, range, M and SD.

Entrepreneurial Orientation
Entrepreneurial orientation consists of the following single dimensions: Innovative orientation, learning orientation, competitive aggressiveness, autonomy orientation, achievement orientation, risk-taking orientation, and personal initiative (Krauss et al. 2004a). The measure was based on interviewer evaluations, questionnaire data, and owner's answers rated after the interview. As shown by Krauss et al. (2004a) in confirmatory factor analysis, all seven dimensions combine into a single factor entrepreneurial orientation construct. The reliability of the scale in this study was α = .77.

TABLE 2 Strategies, context, success: Characteristics of scales, indices, and variables

	n items	N	Cronbach's alpha	r	Inter-rater reliability	Range
Process Characteristics:						
Entrepreneurial Orientation	7	97	.77	—	—	-1.52—1.39
Psychological Strategy Characteristics						
Complete planning	2	102	—	.69**	—	1.00—4.75
Critical point planning	2	102	—	.48**	—	1.00—4.25

Opportunistic strategy	2	102	—	.58**	—	1.00—4.25
Reactive strategy	2	102	—	.79**	—	1.00—5.00
Context:						
External Environment:						
Hostility	6	100	.69	—	—	1.50—7.00
Number of competitors	1	100	—	—	1.00	0—1 500
Firm Characteristics:						
Age of business	1	100	—	—	—	2—47
Formal/informal: yes/no	1	99	—	—	—	0/1
Use of loans: yes/no	1	102	—	—	.96	0/1
Active partner: yes/no	1	102	—	—	—	0/1
No. of employed family members	1	100	—	—	1.00	0/1
Kinship Obligation	3	102	.63	—	—	1.00—3.67
Club or Society member	1	100	—	—	.98	0/1
Success:						
Growth [z]	6	102	.80	—	—	-2.03—3.96
Size [z]	3	102	.78	—	—	-0.56—5.29
Success/interviewer [z]	1	102	—	—	.88	-1.44—1.98
Success/external [z]	2	90	—	.49**	—	-1.97—1.69

[z] z-standardized data
* for p < .05
** for p < .01

Psychological Strategy Characteristics

We used a procedure described by Frese et al. (2003), by asking participants for their personal business goals and how they wanted to achieve the two most important goals, what they had already done in the past and what they intended to do in the future. On the basis of the type-written protocol the strength of the following strategies was rated using 5-point Likert scales: *Comprehensive planning, critical point planning, opportunistic strategy, reactive strategy*. Anchors in the coding scheme helped interviewer and second rater to decide how strong a strategy had been applied.

Characteristics of the Firm

Seven internal firm characteristics were measured in this research. *the use of loans* (Frese, Krauss, & Friedrich, 2000), *belonging to the formal or informal sector* (Harrison, 2000), *number of employed members from the immediate or extended family* (Wild, 1994), three items taken from Inkeles and Smith (1974) measuring the owner's *obligation towards kinship* (α = .63), *membership of clubs or societies* which the owners thought was helpful in running their businesses, *age of business,* and *existence of active partners.*

The Business Environment

Hostility of the environment was measured in the questionnaire as a subjective perception by the owner. Six 7-point-Likert items by Khandwalla (1977) were used to build a scale (α = .69). This measure had been used previously in studies on entrepreneurship in Africa (Escher, 2000; Frese, 2000a). We also asked the owner for the number of his *immediate competitors*. Whereas hostility is explicitly conceptualised as a subjective perception by the owner, the number of competitors is a more objective indicator for the harshness of the environment.

Success
To receive a differentiated picture of business outcomes we measured different facets of success (Table 2). *Growth* (α = .80) included interview-based data on the development of profit, customers, and sales growth during the year before the interview was conducted (measured in percent), increased or decreased number of employees over the last 2 years, the development of profits over the last 3 years, and the average annual growth of the business overall equipment value (computed from the owner's estimate of equipments' current value, prime costs and the age of the business). *Size* (α = .78) included: Sales during the last year (McPherson, 1998), current value of overall business equipment as estimated by the owner, and the current number of employees. *External success evaluation* asked a third person who knew the business in question to give us an estimate of the performance of the business relative to direct competitors (usually an employee). In the interviewer evaluation form the *interviewer* gave an *overall impression* of the business. Besides extensive information from the interview, first-hand observations and impressions e.g. of the business itself, the premises, the workload for employees, professionalism and the correspondence of business appearance and figures were considered to assess the business overall performance.

METHOD OF ANALYSIS

We applied cluster analysis techniques to identify naturally occurring configurations (cf. Frank et al., 1999; Woo, et al.,1991; Gartner et al., 1989; Ketchen et al., 1993; Lafuente & Salas; 1989). Cluster analysis aims at grouping the examined objects according to their similarity allowing maximisation of internal homogeneity within and external heterogeneity between resulting groups. Quality standards for the application of cluster analyses in the area of configuration-research have been proposed by Ketchen & Shook (1996). Along with recommendations by Hair, Anderson, Tatham, and Black (1998) these standards have guided the clustering procedures in this research. Ward`s method, a conservative hierarchical procedure (Backhaus et al., 2000), was chosen, because it yields accurate solutions (Blashfield and Aldenderfer, 1988; Milligan, 1981, Bergs, 1981). Similarity between objects was computed as squared Euclidean distances. The initial cluster solution produced by Ward`s method was further optimised by applying K-means partitioning method (Mac Queen, 1967). A combination of hierarchical and partitioning procedures has been recommended by a number of researchers (e.g. Moosbrugger & Frank, 1992; Bortz, 1993; Hair et al., 1998; Backhaus, Erichson, Plinke, & Weiber, 2000).

A number of tests were performed to assess the validity of our solution: stability of the cluster solutions (Cohen's kappa) for cluster compositions produced by Ward`s and K-means method (Eckes and Rossbach, 1980), significance of mean differences along variables used for clustering, the H-statistic by Tyron and Bailey (1970), a measure evaluating cluster homogeneity (by computing cluster within variance relative to the total variance with values below 1 indicating homogeneity of the cluster solution along the specified dimension), a discriminant analysis on the basis of

active variables to determine discriminant functions and test for correct classification of objects based on these functions (Steinhausen, 1977).

Equifinality was tested by comparing the means of resulting clusters along the different measures of success.

RESULTS

Our first hypothesis postulated that Zimbabwean enterprises can be classified into distinct and meaningful groups according to strategy characteristics of the owner, aspects of the firm and the external environment. Cluster analysis was performed to identify homogenous groups of business owners in context. In a second step we examined the cluster-success relationship.

Configurations of Strategy, the Firm, and the Environment

Examining psychological characteristics of the owner, firm characteristics, and aspects of the firm environment Ward`s clustering method suggested an initial cluster solution of four distinct groups of business owners. For each of the four clusters, we computed cluster seed-points which served as the basis for the non-hierarchical procedure. Both solutions, the initial cluster composition based on Ward's method and the optimized solution according to the K-means technique showed very high correspondence of the cluster compositions. Cohen's Kappa was .92. Of the whole sample 94.3% were assigned to the same clusters. Table 3 presents cluster profiles along the analysed variables. F-values were smaller than one for the great majority of variables indicating that clusters were sufficiently homogenous. Significant mean differences between the 4 clusters were found for 12 out of 14 variable dimensions; thus there is true distinctiveness of the clusters. In addition we applied discriminant analysis to further test the distinctiveness of the cluster solution. Based on the differences in the variables used for clustering, all subjects were correctly assigned to the original clusters. All three discriminant functions were statistically significant.

TABLE 3 Clustering variable profiles [a]

Clustering variables	*Reactive Business Owner in Hostile Environment*	*Opportunistic Business Owner in Friendly Environment*	*Highly Reactive Business Owner in Friendly Environment*	*Entrepreneurially Oriented Planning Business Owner*
1. Entrepreneurial orientation	-	○	--	++
2. Comprehensive planning	-	+	--	++
3. Critical point planning	-	+	--	+
4. Opportunistic strategy	-	++	--	+
5. Reactive strategy	+	--	++	--
6. Environment hostility	++	-	--	○
7. Number of competitors	++	-	-	-
8. Age of business	++	-	-	-
9. Formal/informal	+	-	--	++
10. Use of loans	--	--	-	++
11. Active partner	(-)[b]	(+)	(-)	(+)
12. No. empl. fam. Members	(-)	(+)	(-)	(+)
13. Kinship obligation	-	+	+	-
14. Club member	○	--	-	++

[a] -- very low, - low, ○ medium, + high, ++ very high
[b] parentheses indicate insignificant differences across the clusters

Based on particularly large mean differences across the groups, clusters were labelled *reactive business owner in hostile environment, opportunistic business owner in friendly environment, highly reactive business owner in friendly environment* and *entrepreneurially oriented planning business owner*. Demographic variables were examined to complement the picture of the different groups of business owners and their environment.

The Reactive Business Owner in Hostile Environment

The owner in this group used a reactive strategy as the dominant strategy to achieve business goals. The level of entrepreneurial orientation was low. The most distinctive characteristic regarding the business context was the owner's perception of the business environment as hostile and the number of direct competitors as high (46 on average). Business owners and their firms in this cluster were labelled *reactive business owner in hostile environment*.

The cluster included the oldest firms and also contained the oldest group of owners (M = 45 years). Firms tended to be in the formal sector. The cluster could be seen as representing a relatively mature and established group of business owners. Business operations did not typically involve other active partners. Instead, membership in clubs or societies that helped the owner to do business was more common. All lines of businesses were present in this group, although the wood manufacturing sector was more strongly represented compared to other firms in the study.

The Opportunistic Business Owner in Friendly Environment

The owners in this cluster of enterprises used the opportunistic strategy as the dominant mode to achieve their goals. The level of the opportunistic strategy was shown to be the highest among the four groups. Owners also displayed some levels of complete and critical point planning, however, to a lesser extent than the opportunistic strategy. The environment of the business was perceived as friendly and the number of competitors was comparatively small (17 on average). Based on these findings, members in this group were termed *opportunistic business owner in friendly environment*.

Owners in the group showed an average level of entrepreneurial orientation, In the operation of the opportunistic enterprise, an active partner frequently existed. Owners did not belong to clubs or societies, loans were not used and businesses were relatively common in the informal sector. Retail/trade was the predominant line of business.

The Highly Reactive Business Owner in Friendly Environment
Most characteristic of this group of owners was a low level of entrepreneurial orientation, the strong use of a reactive strategy and the simultaneous absence of planning and opportunism in the pursuit of business goals. The use of the reactive strategy was much stronger than in any of the other groups. Owners perceived their business environment, as very little hostile. The level of perceived hostility was the lowest for the four groups. Correspondingly, the number of competitors was low (14 on average). Based on these findings this type of business was termed the *highly reactive business owner in friendly environment*.

Low entrepreneurial orientation indicates that the owners were hardly achievement oriented, applied low levels of innovativeness and competitive aggressiveness, and avoided risk-taking activities. In accordance with the predominant reactive strategy, owners showed low levels of personal initiative, a sub-dimension of entrepreneurial orientation.

Owners usually operated in the informal sector. Most frequently, the business operation involved the manufacturing of wood or other products. Membership in clubs or societies was rare. The level of education was low (10 years on average).

The Entrepreneurially Oriented Planning Business Owner
Business owners in this cluster showed the highest level of entrepreneurial orientation and planning. Comprehensive planning was the dominant strategy, the highest across all cluster. Owners also used the opportunistic strategy to achieve business goals, but to a lesser extent than the strategies of complete and critical point planning. None of the owners used the reactive strategy as the dominant way to reach business goals. The business environment in this cluster was perceived as moderately friendly with a relatively small number of competitors (15 on average). With regard to the owners high entrepreneurial orientation and planning this type of business was labelled the *entrepreneurially oriented planning business owner.*

Most businesses of this type were still young. The great majority of the firms were registered and paid taxes. Typically, the business owner made use of loans. Active partners were relatively common and the great majority were members of clubs or societies. The least common business sector in this cluster as well as between the

clusters was wood manufacturing. No further difference between the clusters occurred with regard to the line of business. Typically, the business owner of the entrepreneurially oriented planning business owner was well educated (14 years on average).

The Configuration-Success Link

To test the assumption of equifinality among proactive business owners, the four emerging clusters of owners and their firms were examined for business success (cf. Table 4). Comparisons across the clusters yielded significant mean differences for all the success indicators: Interviewer evaluation, growth, size, and the external evaluation. The results confirm hypothesis 2, which postulated success differences across the groups depending on distinct patterns of variable constellations.

Of the four business types *the reactive business owner in hostile environment* showed the lowest rate of growth. Below average scores on the other success criteria also point to the fact that this type of enterprise was not successful. *The opportunistic business owner* operating *in friendly environment* was seen by the interviewer as being medium successful. The group was particularly able to achieve success in terms of growth. The business was still small in size, but was also estimated as successful by the external judge. *The highly reactive business owner in friendly environment* was not able to produce subsequent success. The business was small in size and it hardly grew. Interviewers as well as external raters estimated the business as not successful. *The entrepreneurially oriented planning business owner* represents a very successful group of Zimbabwean small businesses. Enterprises in this group were estimated as successful by the interviewer and in the external success evaluation. They were large in size and showed substantial growth.
The findings yield some support for hypothesis 3, which assumed equifinality among enterprises with a proactive strategic stance. The opportunistic business owner in friendly environment and the entrepreneurially oriented planning business owner were both successful. However, differences existed with regard to success defined as business size and the interviewer estimate. On the other hand, similar positive outcomes were found for growth and the external evaluation of success.

Through means of cluster analysis two groups of business owners applying a reactive strategy were identified: the reactive business owner in hostile environment and the highly reactive business owner in friendly environment. Both groups demonstrated little or no evidence of success. In contrast the entrepreneurially oriented planning business owner and the opportunistic business owner in friendly environment were both successful.

TABLE 4 Success in the four configurations of strategy, the firm, and the environment [a]

Success measures	*Reactive Business Owner in Hostile Environment*	*Opportunistic Business Owner in Friendly Environment*	*Highly Reactive Business Owner in Friendly Environment*	*Entrepreneurially Oriented Planning Business Owner*
Success interviewer	-	○	--	++
Success growth	--	+	-	+
Success size	-	○	--	++
Success external	-	+	--	+

[a] -- very low, - l ow, ○ medium, + high, ++ very high

DISCUSSION

This research is based on the premise that there is no single type of business owners and their firms. We expected complex interactions between single variables to give rise to meaningful configurations of business owners and their firms. A more holistic view of entrepreneurship was suggested, describing the phenomenon across three major dimensions: Entrepreneurial action strategies, the firm-set-up, and the environment as perceived by the owner.

Four different coherent groups of business owners emerged from the analysis. As was hypothesized, groups differed across strategy characteristics, firm characteristics, the environment, and important indicators of business performance.

Equifinality as an important notion within the configurational approach was tested. We hypothesized owners with a proactive strategic posture to be successful. The entrepreneurially oriented planning business owner and the opportunistic business owner in friendly environment emerged as viable constellations of owners` strategy characteristics, their firms, and their environment. Overall, owners in both groups displayed a proactive strategic posture with regard to their business operation. The assumption of different success routes reflected in the alignment of process characteristics, the firm, and the environment can be seen as confirmed to the extent that both enterprises achieved substantial growth and were evaluated as successful by the external rater.
The analysis also identified two configurations with little success. Owners in these businesses applied a reactive strategy as the dominant mode to achieve business goals and demonstrated low levels of entrepreneurial orientation. For the reactive business owner in hostile environment the reactive strategy appeared to be a direct response to the perception of the business surroundings as very hostile. For the second group, the highly reactive business owner in friendly environment, reactivity of the owners was not linked to a hostile environment suggesting it more strongly resided within the person of the business owner himself.

The comparison of the four configurations and their ability to achieve success can be used to categorize single variables into **desirable and necessary characteristics for business success.** Overall, psychological process characteristics appear to be crucial for subsequent success. They also contributed most to the formation of the four groups. *Entrepreneurial orientation* was low in the groups of non-successful business owners and medium and high in the successful groups. Some degree of entrepreneurial orientation will thus be indispensable in order to achieve success. Similarly, only *proactive psychological strategies* were positively associated with success. The two successful groups of entrepreneurs both made use of proactive process strategies while the groups of non-successful businesses applied a reactive strategy. Proactiveness can therefore be seen as positive and reactiveness as negative for success regardless of firm characteristics and the environment. However, in the group of opportunistic business owners in friendly environment, it

can be assumed that opportunism – to be successful – had to be coupled with a certain amount of planning as was indeed displayed in the use of the planning strategies. Owners who have seized an opportunity will need goal orientation and some planning for implementation. Escher (2000) reports evidence for this assertion in South African businesses. Similarly, success of an opportunistic strategy may further depend on the owner`s level of entrepreneurial orientation; the higher entrepreneurial orientation, the less effective an opportunistic strategy (Krauss & Frese, 2003). High entrepreneurial orientation without a strong focus may easily result in misdirected investments. The opportunistic business owner in friendly environments therefore represents a well aligned configuration of entrepreneurial orientation, opportunistic action, and planning.

Whereas an overall proactive stance appears to be necessary for success, specific firm characteristics seem to be better classified under desirable rather than necessary success factors. Of the four groups, only the entrepreneurially oriented planning business owner made extensive *use of loans*. The opportunistic business owner in friendly environment, however, achieved substantial levels of success despite the fact that loans were not used. Opportunities were still sought and realized despite possible lack of capital. Similar to the use of loans, the two successful groups of enterprises differed with respect to their *membership in clubs or societies*. Membership in clubs was characteristic of the entrepreneurially oriented planning business owner and found to be rare in the group of opportunistic businesses. Club membership and the use of loans were both strongly positively associated with size and a belonging to the formal sector. With a larger proportion found in the formal sector the non-successful reactive business owner in hostile environment frequently joint clubs or societies. We therefore suggest that not club membership alone is positive for success, but rather the active use of networks in these clubs. A project carried out in Zambia currently tests this assumption (Kiel, in preperation). Finally, a *formal business status* seemed to be positively related to success. As the most successful group the entrepreneurially oriented planning business owner typically operated in the formal sector. Once again, however, the opportunistic business owner in friendly environment demonstrated that owners can also achieve success in the informal sector corresponding with a different overall pattern of strategy use and environmental characteristics.

The taxonomy can further be used to highlight distinct variable relations between groups of entrepreneurs – a major advantage of the configurational perspective (Meyer et al., 1993). Within the overall constellation of variables strong differences across the groups existed in their **relation between strategies and the perception of environmental hostility.** For the reactive business owner in hostile environment, high reactivity corresponded with a perception of the environment as very hostile. In the second group of reactive owners, the highly reactive business owner in friendly environment, the opposite was the case. In this group, high use of a reactive strategy (still higher than in the other group) corresponded with a perception of the environment as particularly friendly (in fact the least hostile across all groups).

Compared to the entrepreneurially oriented planning business owner, the opportunistic business owner in friendly environment perceived the business environment as more favorable. Such a perception may also have an impact on the use of strategies in that it encourages opportunism. Detecting business opportunities

on the other hand may once again strengthen the perception of the environment as favourable.
The taxonomy of small business owners and their firms proposed in this research raises a number of other important questions. How often do business owners change their belonging to one of the four identified groups? What factors encourage or hinder such developments? Can the taxonomy be extended into a theory of business stages? Such issues as well as the clarification of causality could only be addressed within a longitudinal research design.

As one of the first taxonomies describing small businesses on a psychological individual level, the taxonomy shows **similarities with other organization-based classifications**. Miles and Snow (1978) in their typology of organizational strategy, structure, and process distinguish between reactors, prospectors, analysers, and defenders. Operating in a "response mode" (Miles & Snow, 1978, p. 93), the reactor shares key characteristics with the two reactive types of business owners found in this research. Prospectors in contrast are described as emphasizing flexibility and seizing opportunities thereby resembling the opportunistic business owner in friendly environment. The analyser, engaging in high degrees of planning, controlling, and coordination can be seen as corresponding with the entrepreneurially oriented planning business owner. No equivalence exists for the defender. As in our taxonomy, the reactor-type in the Miles and Snow typology represents the least successful group (Miles & Snow, 1978; Doty, Glick, & Huber. 1993). Similarities also exist between the present taxonomy and a classification by Covin (1991), who describes a continuum of entrepreneurial and conservative firms. According to Covin (1991), conservative firms are risk-averse, non-innovative, and reactive. Entrepreneurial firms in contrast are risk-taking, innovative, and proactive. With regard to their strategic posture the two reactive business owners identified in this research resemble the conservative firm as described by Covin (1991). The strategic pattern of the opportunistic business owner in friendly environment on the other hand is much closer to the characteristics attributed to entrepreneurial firms whereas the entrepreneurial oriented planning business owner clearly represents an entrepreneurial firm. Covin (1991) also found significant performance differences between the groups of firms. Entrepreneurial firms were more likely to be successful than conservative firms. Similar relationships between different strategic postures and success are also reported by Bantel (1998) in a classification of technology-based firms. Whereas firms with proactive characteristics were shown to be successful the opposite was true for firms with a lack of a clear strategic profile. The latter, with a strong resemblance to the reactive business owners in this study, are described by Bantel as being "much clearer on what they are *not* pursuing strategically than what they *are*" (Bantel, 1998, p. 221 – emphasis added). Overall, there seems to be some consensus between researchers concerning the distinction between reactive and proactive, entrepreneurial firms. Strong agreement appears to exist that proactive types of enterprises will outperform enterprises with a reactive strategic stance. The present study adds to such findings within the configurational approach by introducing an individual level of analysis and explicitly emphasising strategy process rather than content.

LIMITATIONS

Limitations of this study concern size and composition of the sample. First, the insufficient sample size made impossible the application of other statistical validity checks of the cluster solution. It would have been desirable to further test stability by applying procedures such as double cross validation (Bortz, 1993) or other split sample methods. All quality checks we applied in this study, however, point to a stable classification scheme. Second, findings are limited to a restricted group of Zimbabwean small enterprises. Only businesses which were self established, had been operating for one year and more, and had at least one full time employee at study one, were included in the sample. This restriction of the sample, however, was deliberate. Businesses of the analysed type are believed to represent a qualitatively different group of entrepreneurs from those without employees or who had taken over the business without knowing the risks involved in the foundation process. Participants of the study had to deal with different levels of responsibility and challenges in the day-to-day operation of their firms. More important with regard to the generalisation of the results is therefore the weak representation of the informal sector. Informal enterprises, the predominant form of businesses in Zimbabwe (Harrison, 2000) were underrepresented relative to the whole population of business owners. Another shortcoming concerns the possibility of common method variance as interviewers who assessed the majority of variables also evaluated business success. We addressed this problem by thoroughly training interviewers on the effects of rating mistakes and how to prevent them, the use of an elaborate coding scheme, and regular quality checks. The fact that success measures not dependent upon interviewers' judgment yielded very similar results indicates that common method variance was not a major issue. It shall also be noted that this research mainly dealt with groups of entrepreneurs. Hypotheses concerning resulting groups of business owners were not known to the interviewers.

CONCLUSION

The taxonomy has important theoretical and practical implications. Results can be used to formulate and test hypothesis derived from the classification scheme. The taxonomy is relevant for practitioners dealing with the entrepreneurs, such as training institutions, regional policy makers or credit givers. For the practitioner, the taxonomy represents a tool for self-assessment. Entrepreneurs can reconsider their actions, how they evaluate and respond to their business environment, and how the business is set up internally.

To the authors knowledge this work represents the first attempt to study *groups* of small businesses along psychological strategy characteristics and to propose a taxonomy of small business owners and their firms in the developing world. The study showed there is no average in entrepreneurship. Success, after all, results from the constellation of a number of variables. The study underlines the relevance of the configurational approach in understanding complex, multilevel phenomena like entrepreneurship.

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CORPORATE ENTITIES IN SOUTH AFRICA

In order to elucidate the OTC environment it was necessary to define what types of companies could trade in their own shares. Discussions with many people, including accountants and attorneys, showed a distinct lack of knowledge with respect to the difference in structure of the corporate entities available in South Africa. The process of changing from a closed corporation to a proprietary limited, and then to a limited company was simply administrative although some technicalities were involved. In the USA, in 2001, a private company was not listed, but a public company was listed on a registered exchange. In South Africa, however, a private company was not listed but a public company could be unlisted and trade OTC, or be listed on the JSE.

The main difference between a sole proprieter and partnership, and those mentioned below was the issue of limited liability. "It is this seperation of legal rights which admits the principle of limited liability whereby a member (one legal person) contracts with the company (another legal person) to advance a certain limited amount of money as that member's share of the capital required by that company" (Hartley, Firer & Ford, 1991:41).

A closed corporation resembled a company in having a legal personality separate from its members, but differed in having unlimited contractual capacity. In 1984 the Close Corporation Act No. 69 of 1984 was promulgated. The Companies Act (1973) had become too complicated for relevance to small companies and the implementation was costly and time consuming. A close corporation enjoyed the status of a juristic person distinct from its members. Any one or more up to a maximum of 10 could form a close corporation by registering a founding statement. The closed corporation needed to include the abbreviation 'CC' after the name to denote that the company was registered as a closed corporation (Beuthin, 1984).

Some advantages of a closed corporation compared with a company included its relative ease of formation and administration. Regular returns to the Registrar were not required, annual duty was not payable, audit procedures were less onerous, and the corporation could acquire the interest of a member and provide financial assistance to enable a person to acquire an interest. A member, without authority could bind the corporation in transactions with third parties; this was one of the disadvantages. In certain circumstances a member could lose the protection of limited liability. A closed corporation could not be a shareholder of a company or a member of a corporation. It was limited to 10 members which limited the tradability of its shareholding or members' interest (Beuthin, 1984).

The words 'member' and 'shareholder' are used synonymously in this report although technically a closed corporation has members and a company has shareholders.

The Companies Act (1973) provides for two basic types of companies: public companies and private companies

The Public Company having a share capital

Any public company was a separate legal entity with a legal persona that was distinct from that of its members. Assets belonged to the company and not to its individual members, and the creditor of a company generally had no claim on the individual members of that company. A company potentially had a perpetual existence even though its membership might change over time provided that it complied with the Companies Act (1973).

Some of the issues presented by the Companies Act (1973) are mentioned below due to their relevance to the OTC environment.

- The name of the company had to end with the word 'Limited'. This immediately informed the public that it was a public company and might or might not market its own shares or be listed on the JSE.
- It must have at least seven associated members for any lawful purpose. Generally no restriction was made regarding the maximum number of its members.
- Members needed not be natural persons, and companies themselves could become members of other companies
- Members of the public could be invited to subscribe for shares and debentures.
- It did not have to be listed on a formal exchange to allow trading in shares of the company

The Private Company

A private company could be formed by two or more persons. It was defined as a private company. According to its its articles:

- the right to transfer its shares was restricted,
- the number of its members was limited to 50, excluding those who were employees and ex-employees who continued to be members;
- prohibited any offer to the public for the subscription of its shares and debentures
- the name of a private company had to end with the words: 'Proprietary Limited'.

Further differences between private and public companies included the following.

A private company was exempt from a public company's obligations to send
to the registrar, a certified copy of the annual financial statements and group annual financial statements, if any; and of the annual financial statements of every private company which was its subsidiary. It was exempted from the requirement to send to its members and debentures holders half yearly interim reports fairly presenting its business and operations, and that of its subsidiaries, and copies of its own and its subsidiaries' provisional annual financial statements in the event of it having failed to issue copies of its annual financial statements within three months of the end of its financial year (Hahlo,1991; Beuthin, 1984).

Further differences in the requirements of the Act related to the minimum liability of directors for the debts and liabilities of a private company. The voting rights of a public company were largely determined by the provisions of the Companies Act (1973) whilst the voting rights of a private company must be determined by the company's articles of association (Companies Act, 1973).

Other differences included the requirement that a public company had to have two directors whereas a private company needed only one. A public company could appoint proxies and could issue share warrants to bearer (Beuthin, 1984).

Rationale behind Listing

There is an abundance of literature on the subject of Initial Public Offerings (IPO's). Its relevance to this report is that a company that is in the process of deciding on its capital structure and is considering equity capital that can be traded, the Companies Act (1973) required certain provisions that had to be met prior to the company being allowed to do so. Under Section 145 of the Companies Act (1973), no person could make an offer for the subscription of shares to the public unless it was accompanied by a prospectus complying with the requirements of the Act and registered in the Companies Registration Office. The rationale for this discussion was to consider why companies would consider going public rather than the technicalities involved. The critical question concerned whether they would trade OTC or on a regulated exchange.

Pagano, Panetta & Zingales (1995) analysed the determinants of an IPO and the consequences of this decision on a company's investment and financial policy. They mentioned two companies, United Parcel Services and Bechtel, that in 1992, would both have easily met the criteria for a listing but chose not to do so, the question of why they did not do so was considered to be of interest.

Chemmanur & Fulghieri (1999) argued that there were three essential differences between private and public firms[1]. One concerned the dispersion of share ownership. In a public firm, a large shareholder base owns the shares, whereas in a private firm the original entrepreneurs and one or two others may hold the shares. The advantage of a public company in this regard, was that the shareholders could be well diversified, whereas this would be less likely in a private firm. Shareholders in a private firm would have far more bargaining power than those in a public firm with many shareholders. This was particularly relevant in the OTC environment. Secondly there was a need to convince a much larger group of investors that its projects were worth investing in. An example of this would be a private firm whose management wished to expand its plant facilities. The shareholders need only discuss together the merits or demerits of the project, and take a decision. Where the same decision was required but would have a significant effect on a public firm, a much larger group of investors would need to be convinced of the viability of the project. The cost of this evaluation would be to the firm, in the form of a higher/ or lower share price. Finally a publicly observable share price in a public company would always be available and the company could be valued according to the share price. It is much more difficult to evaluate a private company (Chemmanur & Fulghieri, 1999).

Pagano *et al* (1995) discussed the benefits to a company that goes public. The first is to overcome borrowing constraints. Pagano *et al* (1995) found that the cost of bank credit decreased after the IPO, and that these firms borrowed from a larger number of banks to reduce the concentration of their borrowing. An IPO is also an alternative to bank credit as a

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[1] The authors do not define the difference between a private and a public company. I am going to assume for the purposes of this paper that private means unlisted and public means listed on an exchange.

source of capital. The portfolio diversification theory was considered to be a benefit although there was no evidence to support this (Pagano *et al*, 1995). Pagano *et al* (1995:4) indicated "when an independent company undertakes an IPO the initial owners divest only 6 percent of their holdings at that date and three percent more in the subsequent three years". Liquidity was also discussed as a benefit to an IPO (Pagano *et al*, 1995). The authors note that in a private company it is very difficult to sell a tranche of shares, as these need to be valued in some way. Methods may be used such as discounted cash flow, price:earnings multiple, or net asset value. These methods were subjective, however, and might not offer a true value of the company at the time; the valuation might depend on the person who prepared it. A public company though, that was traded, and therefore the sale or purchase of shares is easier.

Once the decision for an IPO was made, the next decision would be where to list. In South Africa the JSE is the only place to list shares. Ellingsen & Rydqvist (1997) questioned the necessity for a stock exchange, and postulated that the abolition of the stock exchange would increase overall welfare. According to their model the existence of stock exchanges had a potentially harmful effect in diverting trade through direct sales towards the costlier stock exchange. This was an interesting argument in terms of a proposed OTC environment in South Africa. Costs would still pertain regarding participation with the exchange as a company and to the trader when buying or selling, albeit indirect costs. Outside South Africa the decision regarding whether to list impacted on where to list.

Corporate Governance

The term 'corporate governance' was coined in the English language in 1980 (Zingales, 1997). Since then, corporate governance became an issue identified with take-overs, financial restructuring and institutional investors' activism. Zingales (1997) considered the conditions in which a governance system was required: "The word 'governance' is synonymous with the exercise of authority, direction and control" (Zingales, 1997:2). Whether a free market economy requires a system with a reference to the words mentioned above was questionable.

The Fraser Institute (2000) highlighted the essence of corporate governance and the role of the stock market in the system. They noted "the tensions inherent in corporate governance arise among people, owners on the one hand and managers on the other, and controlling owners versus minority owners. The stock market acts as a dispassionate referee in this conflict, providing a vehicle (the market place for shares) through which parties can express their opinions about the way in which a corporation should be run (The Fraser Institute, 2000:6).

Black (2000) reasoned that there were two essential prerequisites for a strong stock market. A country's laws and related institutions needed to ensure the following to minority shareholders: good information about the value of a company's business; and confidence that the company's insiders (that is, its managers and controlling shareholders) would not cheat investors out of most or all of the value of their investment (Black, 2000:1).

The King Commission on Corporate Governance in South Africa was formed by the Institute of Directors and supported by the South African Chamber of Business and the JSE, amongst others. The task of the commission was to draft corporate governance guidelines that would aid South Africa to re-enter the international community, and to address the emergence of

previously disadvantaged communities into the business community. The commission issued a report.

The report recommended that the JSE should adopt a listing rule that required companies to disclose in their annual financial statements the extent of their compliance with the Code of Corporate Practices and Conduct. These recommendations were included in the listing requirements of the JSE. A number of recommendations in the King Report that advocated changes to the Companies Act (1973) were being processed as law.

Corporate governance may dictate the success or failure of both the stock market and the companies listed on it. If companies and the exchange did not adhere to the system of corporate governance, then investors would not invest on that exchange or in the shares of a company that was listed on the exchange; and thus a vicious circle was created.

Essence of International Markets

A small cap market, sometimes known as a Parallel Market, provides an exchange facility where the listed securities of small and midsize companies can be traded efficiently and competitively. Historically, investors recognise a high correlation between company size and market risk. The smaller a company, the higher the risk (higher standard deviation for rate of return) and the larger a company, the lower the risk (lower standard deviation for rate of return).

Traditionally, many exchanges have not encouraged the listing of small caps on their main market because they did not want to seem to denigrate the value of the main market by:

- Introducing extra volatility in to the main market
- Eroding the value of exclusivity maintained by main market listings
- Altering the main market to suit the special needs of Small cap companies

Nonetheless, the value that small caps contribute to the domestic and international economy is significant, and many of today's small caps will be tomorrow's market leaders. Therefore, the establishment of either a separate or integrated market that promotes small cap company development is fundamental to the healthy development of capital markets. A small cap market, like any securities market, performs three basic economic functions:

- Individual wealth allocation
- Firm resource allocation
- Source of information

How small cap markets are defined:

A small cap market is a public, regulated stock exchange for small and medium size companies that may:

- Grow quickly, provide a high return on investment, and eventually move to the main market
- Grow steadily and do relatively well during economic downturns and times of uncertainty

Therefore, a small cap market may have multiple objectives:

- Provide a nursing ground for small companies to expand until they are large enough for the main market – this will increase new listings for the main market
- Maintain its own commercial viability in order to survive long term economic and market cycles – this will allow businesses to raise capital continuously, see their shares traded, and increase their commerce and notoriety
- Stimulate the regional economy by creating new paths for capital intermediation – this will motivate individuals and institutions to invest in the local economy and increase their interest in those markets

Transform the local economy by giving local businesses the stimulus for growth and the larger perspective that comes from managing a public company – this will not only open the economy and enhance the efficiency of capital transfers within the private business sector, but also cause local businesses and investors to think and behave more actively and globally

EXPLORING THE SEQUENCE AND DURATION OF NASCENT ENTREPRENEURS' START-UP ACTIVITIES: AN EMPIRICAL STUDY

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EXPLORING THE SEQUENCE AND DURATION OF CANADIAN NASCENT ENTREPRENEURS' START-UP ACTIVITIES: AN EMPIRICAL STUDY[1]

The research reported in this paper addresses the void in our knowledge of the new venture creation process by focusing on the nature, sequencing and timing of activities individuals engage in to bring their venture to fruition. It is part of the Entrepreneurial Research Consortium (ERC), an international group of over 111 scholars associated with 32 different organizations from around the world who are engaged in finding answers to questions about nascent entrepreneurs[2]. Using the standardized methods developed by the ERC, this study tracks Canadian nascent entrepreneurs over a three year period following the initial interview. Results document considerable volatility in the outcomes reported from year to year. Moreover, the findings indicate that nascent entrepreneurs who bring their venture to fruition and sustain it as an operating venture engage in different activities than those whose efforts eventually result in a non-operating undertaking. In addition to analyzing and discussing the sequence and timing of activities by outcome status, the paper also discusses the implications for policy and practice.

[1] The authors are most grateful for the generous financial support of the Social Sciences and Humanities Research Council of Canada and Industry Canada.
[2] The term nascent entrepreneur is used to refer to those individuals who are involved in activities aimed at starting a business.

INTRODUCTION

Finding more effective ways to stimulate entrepreneurship[3] is an issue of growing interest, globally, among policymakers (Stevenson and Lundstrőm 2002; Glasson 1992). For example, a key policy objective in Canada is to build a more "entrepreneurial economy" (Government of Canada 2002). Yet, with very little known about how new ventures emerge (Van de Ven and Engleman 2004; Reynolds 2000), a rationale for policy initiatives is difficult to discern. Indeed, Savoie (1992) noted the failure to explicitly link development initiatives with theoretical frameworks over a decade ago. As governments are being called upon to be more accountable for their actions, clearly there is a pressing need for research.

The lack of "real time" study of the start-up process has been a major stumbling block to acquiring more knowledge of business formation. Currently, the Entrepreneurial Research Consortium (ERC) – comprised of researchers in nine countries - is addressing this issue (For further details on the consortium see Reynolds 2000). With members of the ERC beginning to report the results of their investigations, already we have gained some insight into the prevalence of nascent entrepreneurship in various countries. For example, nascent entrepreneurs between the ages of 18 and 65 were identified in 1.8% of Canadian households (Diochon et al. 2001), whereas in the United States 3.8% of the working-age population were similarly attuned (Reynolds 2000). In other countries, the rate of activity is somewhere between these two figures: Sweden 2.0% (Delmar and Davidson 2000), Germany 2.1% (Welter 2000) and the Netherlands 3.8% (EIM 2000).

Within Canada, this means that on average, efforts are being made to launch approximately 284,000 businesses at any one point in time. This begs the obvious question - how many of these start-up efforts become operational? In addition to providing insight into the outcomes of Canadian nascent entrepreneurs' efforts, the paper aims to shed light on the start-up process by focusing on the activities undertaken. Specifically the paper examines whether the nature, number, duration and sequence of activities pursued by Canadian nascent entrepreneurs who bring their business to fruition differ from the activities of those whose efforts are "unsuccessful". Indeed, as Reynolds (2000) points out, very little is known about these aspects of the entrepreneurial process. In addition, by replicating the methods used in an earlier study by Carter et al. (1996) in the United States, we aim to compare the activities of nascent entrepreneurs in Canada and the United States to identify national similarities and differences. Therefore, this research should be of benefit to researchers as well as policymakers, training and support providers, and of course, aspiring entrepreneurs.

The paper begins by reviewing what is known about the start-up process and developing a series of propositions from this discussion. Next it presents the methodology used, followed by the results. Finally, it concludes with a discussion of the implications, limitations and suggestions for future research.

[3] Within this research, entrepreneurship is defined as new business creation, a meaning that has been adopted by others (see, for example, Aldrich 1992, Low and MacMillan 1988, Venkataraman 1997).

The Process of New Venture Formation

There has been no shortage of attempts to model the entrepreneurial process in the literature (see, for example, Kuratko, Hornsby, and Naffziger 1997; Bygrave 1993; Herron and Sapienza 1992; Manning, Birley, and Norburn, 1989; Gartner 1985). However, many of the theoretical frameworks have been admonished for assuming the process of new venture creation is linear (Manning et al., 1989) and ignoring both the dynamics and time dimension (for further discussion of these criticisms see Pettigrew 1992). Why have these dimensions been overlooked?

Generally, scholars have adopted differing views of process that, in turn, influence the theories developed, the questions asked, the methods used and the contributions made (Van de Ven 1992). Van de Ven and Engleman (2004) identify two definitions of process commonly used in the literature: a category of concepts or variables that pertain to actions and activities; and a description of how things develop and change.

Accordingly, a "variance theory" (Mohr 1982) of process ensues from adoption of the first definition. Poole et al. (2000) attribute the slow progress in developing theories to explain and predict organizational and entrepreneurial dynamics to the fact that scholars continue to conceptualize process issues in variance terms. While research emanating from variance theory can deal with the "what" issues associated with process, its reliance on cross-sectional, retrospective data is inadequate in addressing "how" new ventures emerge, since the timing and pacing of activities are not dealt.

Arguably, for the start-up process to be better understood, action, dynamism, time, development and outcomes are important concerns in the development of a conceptual framework (Pettigrew 1992). A new venture is not created instantaneously; it comes about through the completion of a number of activities over time. Addressing these issues requires a focus on the second meaning of process.

Indeed, the need to view process as a sequence of events or activities that describes how things change over time has been noted by several scholars (Van de Ven and Engleman 2004; Aldrich 2001; Davidsson and Wiklund 2001; Sztompka 1991; Low and MacMillan 1988). As so aptly put by Pettigrew (1992: 5-6) "questions posed in the language of becoming rather than of being demand detailed, comparative and longitudinal data covering long periods of time." However, progress has been slow. With few development-driven explanations of process within the entrepreneurial literature it is not surprising that empirical research is scant and inadequate. For example, Chandler and Lyon's (2001) literature review of top-tier academic journals (1989-1999) found only 2.7 percent (8 out of 291) of the empirical studies involved longitudinal real-time data on the entrepreneurial process.

Generally, an evolutionary perspective - whereby variation, selection and retention logic is drawn upon - predominates explanations of how new ventures form and develop (Murmann et al. 2003). The central focus of "developmental" process models is on progressions (ie the nature, sequence and timing) of activities or events that an organizational entity undergoes (Van de Ven 1992 171). Activities, then, are the units of social process. Explanations are built forward, from observed or recorded activities to outcomes. Explanations are "loose" in that only the pattern or form that arranges activities in space or time is specified (Van de Ven and Engleman 2004). Therefore, amidst a general process pattern or scheme, specific sequences may differ. In order to conceptualize the pattern, activities must first be identified. Accordingly, since activities are

chosen a priori (Aldrich 2001), we turn to the extant literature as a first step in conceptual development.

The set of activities used by Carter, Gartner and Reynolds (1996) in exploring activities undertaken by nascent entrepreneurs has subsequently been incorporated by others in the study of entrepreneurial emergence (Delmar and Shane 2004; Reynolds 2000). It includes: organizing a team, preparing a business plan, buying or renting facilities/equipment, looking for facilities, investing own money, seeking financial support, getting financial support, developing a model or prototype, devoting full time to business, applying for a license/patent, forming a legal entity, hiring employees, and saving money to invest.

Arguably, these activities can be classified according to three conceptual categories: *commitment* (preparing a business plan, devoting full time to the business, saving money to invest in business, investing own money, developing a product/service, purchasing raw materials, inventory, supplies, or components), *connection* (organizing a team, marketing, seeking financing, talking to customers), and *control* (applying for or obtaining a patent/trademark, getting financing, hiring employees, purchasing, leasing or renting raw materials/major items). Such a conceptualization is consistent with three offshoots of evolutionary theory used by others (Delmar and Shane 2004; Murmann et al. 2003) to explain how activities enhance new venture survival: institutional theory (activities that increase legitimacy by making new ventures appear more reliable and accountable), social relationship theory (activities that establish relationships with external stakeholders to overcome the liability of underdeveloped social ties between new ventures and their external stakeholders), and resource-based theory (activities that focus on gaining control over and recombining resources in a way superior to that of established organizations).

We argue that the activities associated with starting a business are embedded in social relations (Granovetter 1985). Since the process of starting a business is inherently uncertain, this would suggest that personal social relations become a key factor in coping with that uncertainty (Salancik and Pfeffer 1978). Fundamentally, gaining control over the resources required involves interaction with others. Ultimately, engagement in start-up activities involves decisions concerning how long will be devoted to these efforts. Indeed, timing is a critical dimension of venture formation (Delmar and Shane 2004). It involves both pacing (the number of events in a given amount of time) and duration (the amount of time elapsed for a given event). Variations in pacing reflect the operation of cultural norms in evolutionary processes (Aldrich 2001 p 7). Arguably, the idea of socially expected duration (Merton 1949) - whereby an individual's decision is based upon how long (s)he thinks a particular relationship or event will last – is an important issue to explore.

At any one point in time, there are four outcomes of start-up efforts that previous studies have identified (Reynolds, 2000):

- an operating business – the start-up has become an "infant" business
- an active start-up – continued efforts to start a new firm
- a dormant/inactive start-up – no current efforts to implement a new firm
- an abandoned start-up/ no longer worked on by anyone – not successful and no further efforts are expected

In terms of sequencing, empirical evidence (Carter et al. 1996) indicates that the most common first event of new venture formation consists of a personal commitment. However, very little is known about the extent to which belonging to a particular outcome status grouping implies that certain activities are initiated or completed in a particular

sequence at particular points in time (Delmar and Shane 2004). Research by Carter et al. (1996) found operating businesses were most likely to have bought facilities or equipment and to have obtained financial support; active start-ups were found to be least likely to get financial support or to buy facilities or equipment; and abandoned/inactive start-ups (these two categories were grouped together) were most likely to develop models and obtain financial support. More recently, Delmar and Shane (2004) provided evidence to suggest that operating businesses are associated with initiating or completing commitment activities before others.

In terms of timing, the findings of Carter et al. (1996) indicate that operating firms engage in more activities than other outcome groups. Moreover, while those who eventually gave up were similar in their rate of activity to those who brought their venture to fruition through the first year, their rate of initiation tapered off subsequently.

Fundamentally, the key issue is not simply bringing the venture to fruition but sustaining it over time. This is an issue we know very little about. As a starting point in building our knowledge of the start-up process, our aim is to explore whether those ventures that are brought to fruition and sustained over time (hitherto referred to as "operating") involve a different set and sequence of start-up activities than those ventures that either never become operational or cease operations (hitherto referred to as "nonoperating").

Based on the previous discussion, we propose the following propositions:

P^1 Operating businesses will be associated with engaging in a different set of start-up activities than non-operating ones.
P^2 Operating businesses will be associated with engaging in more connecting activities than non-operating ones
P^3 Operating businesses will be associated with engaging in a greater number of activities than non-operating ones.
P^4 Operating businesses will be associated with a higher rate of activity over time than non-operating ones.
P^5 Operating businesses will be associated with a longer expected duration for bringing a venture to fruition than non-operating ones.

METHODOLOGY

Research Design

The research upon which this paper is based was designed by members of the ERC (for further details on this design, see Reynolds 2000). The main elements of the design that provide a capacity to deal with the issues being addressed here are twofold: standardized procedures (for selecting a representative sample and for developing systematic descriptions of the entrepreneurial process) and longitudinal design (to track the process). Indeed, longitudinal real-time research overcomes the research biases associated with variance driven studies (Aldrich 2001). Additionally, tracking the start-ups over time provides more accurate information on, for instance, whether a business "birth" is sustained.

Sample and Data Collection

In accordance with the procedures established by the ERC, we engaged SOM, a national polling firm, to select a representative sample of people engaged in the start-up process (nascent entrepreneurs) in Canada during the winter of 2000. During the initial screening interview, the respondent was asked: “Among the adults living your household, is there anyone who, alone or with others, is now trying to start a new venture?” If (s)he answered yes, (s)he was asked if “Will you be an owner, in part or in whole of this company or venture that you are trying to launch, alone or with others for your own business or that of your employer?”. “During the last 12 months, have you done anything to help start this new business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, saving money, or any other activity that would help launch a business?”

The completed screening interviews produced a sample of 593 as some households had multiple nascent entrepreneurs. Out of these, 463 qualified for the longer telephone interview by answering affirmatively to all three questions outlined above. Of these, 416 agreed to participate in a follow-up interview.

In June 2000 detailed data collection began, using phone and mail survey instruments, covering a wide range of topics (which are detailed in Reynolds 2000). If a start-up was found to have a positive monthly cash flow that covered expenses and the owner-manager salaries for more than three months, the effort was considered an operating business. Approximately one fifth (19 percent) of the respondents were dropped at this stage as they were too far advanced to be considered in the gestation phase of the entrepreneurial process. Among the remaining respondents, it was not possible to locate and contact about 24 (percent). Another 17 percent of the remaining group would not or could not complete the phone interview.

151 verified and accessible nascent entrepreneurs completed the initial telephone interview. This represents a 59 percent response rate of those that could be contacted and were eligible. Follow-up interviews were completed at 12 month intervals - 2001 (n=132), 2002 (n=119) and 2003 (n=104) - to provide more information on the process as well as the outcome of efforts to launch a new business.

Measures and Analysis

The following sections describe the measurement of activities pertaining to organizational emergence, including how they unfold over time. Essentially, the methods replicate those used by Carter et al. (1996).

Start-up Activities. Nascent entrepreneurs were asked a series of questions about activities associated with the start-up process during the initial phone interview and subsequent follow-up interviews. The activities and their inter-correlations are displayed in Table 1.

Table 1: Pearson Product Correlation Coefficients for Activities Initiated or Completed within Five Years of Initiating First Start-up Behaviour

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Purchased major items																		
Got financing from others	.147																	
Developed product/service model	.000	.020																
Organized start-up team	.191	.097	-.039															
Devoted full-time	.222	-.002	.181	.064														
Asked for funding	-.086	-.019	.154	-.077	.225													
Invested own money	.009	.485	.235	.119	.155	.004												
Applied for patent	-.019	.123	.029	.169	-.002	.050	.057											
Holds copyright	.074	.070	.128	.064	.112	.079	.013	.329										
Saving money to invest	.190	.267	-.250	-.159	-.263	-.148	.092	-.193	-.276									
Completed business plan	-110	.056	.070	.224	-.027	.074	-.140	.126	.171	.190								
Determined legal status	.193	.057	-.029	.181	.184	-.050	.192	.039	-.119	.019	-.126							
Hired employees	.171	.029	.105	.062	.433	.284	-.051	.161	.061	-.145	.076	.076						
Began marketing/promotion	-.067	.083	.094	.104	.102	-.021	-.015	-.085	.113	-.067	.161	.274	.110					
Purchased materials, inventory, supplies	.326	.411	.135	-.017	.130	-.045	.427	-.114	.051	.056	-.148	.114	.060	.276				
Talked to customers	-038	.254	.160	-.033	-.228	.018	.069	.093	.035	-.038	.020	-.093	-.046	.163	.248			
Prepared financial statements	-110	.117	.087	.164	.186	.255	.104	.023	.251	-.052	.344	-.023	.181	-.065	-.118	.196		
Arranged child care	.052	-.057	.096	.025	.043	-.032	-.231	.099	.154	-.165	.094	.118	.257	.171	.027	.034	.037	
Took classes	.073	.020	-069	-.019	-.015	.026	-.198	.044	-.041	.073	.202	-.044	-.170	.050	-.119	.137	.170	-.122

For each activity, respondents indicated whether the activity was initiated, completed, not initiated or not relevant. Each activity was then coded on a set of dichotomous variables, which reflect its presences/absence or occurrence/non-occurrence. An activity was considered to be present/have occurred if the entrepreneur reported that (s)he had initiated or completed the activity. If the activity had been initiated or completed (s)he wase asked to indicate the month and year of initiation and/or completion. Information gathered on when activities were initiated and completed was used to measure pacing and duration.

From the dates associated with the initiation of activities, a time frame of firm development was created. Each activity was categorized according to the length of time separating its initiation or completion from that of the earliest reported activity. The time scale was separated into categories beginning with the first month of activity and progressing by quarter through the fourth year. For example, a value of 1 corresponded to activities that were initiated during the first month of the venture's development, a value of 2 to activities within the first quarter, and 3 to activities undertaken during the 2nd quarter, and so on. A value of 17 represented activities initiated in the fourth quarter of the fourth year and 18 represented activities undertaken in the 5th year (or longer). All activities commencing in the fifth or subsequent years were grouped together. This measure was used to examine the sequencing of the start-up activities.

From the time scale, two other measures were developed. First, each activity was dummy coded to indicate whether it was undertaken or not (1=yes; 0=no). This data was used in determining what activities were engaged in during start-up. Second, the total number of activities undertaken were counted (the range is from 0 to 15). This measure was used to determine pace.

Start-up Status. During each of the three follow-up phone interviews, the respondents were asked to indicate the status of the start-up. A categorical variable was used to classify respondents according to whether their start-up was: operating, active, inactive, no longer worked on by anyone, or something else.

Given our focus on better understanding firm births that are sustainable over time, we collapsed the outcome status categories as follows: ventures that were reported to be operating in each of the three years of follow-up (n=23) were considered operating while those ventures reported to be not operating (n=69) at the time of the third follow-up (2003) were categorized as non-operating.

Analysis. Discriminant analysis and an independent sample t-test were used to test whether there were significant differences among the two outcome categories. Since preliminary analysis, based on the relationship between the discriminant variables (activities) and status outcomes identified by Carter et al. (1996), did not identify any statistically significant relationships, subsequent discriminant analysis was conducted by entering activities stepwise according to the Wilks' lamba criterion. Additionally, descriptive statistics were used to illustrate sequencing of the start-up activities.

RESULTS

Table 2 provides insight into the outcomes of Canadian nascent entrepreneurs' start-up efforts for the three years following the initial interview. The percentage reporting an operating business is fairly consistent at approximately 33 percent of the sample interviewed at each follow-up. While almost 40 percent of nascent entrepreneurs were still actively trying to launch their venture at the time of the first year follow-up, only 8 percent were still trying to do so two years later. Relatively speaking, the percentage of inactive start-ups was fairly consistent, ranging between 12 and 16 percent over the three years. However, while only 15 percent of start-ups had been abandoned at the time of the first year follow-up, two years later 46 percent had given up on their ventures.

Table 2: Outcome Status at Time of Annual Follow-up (2001-2003)

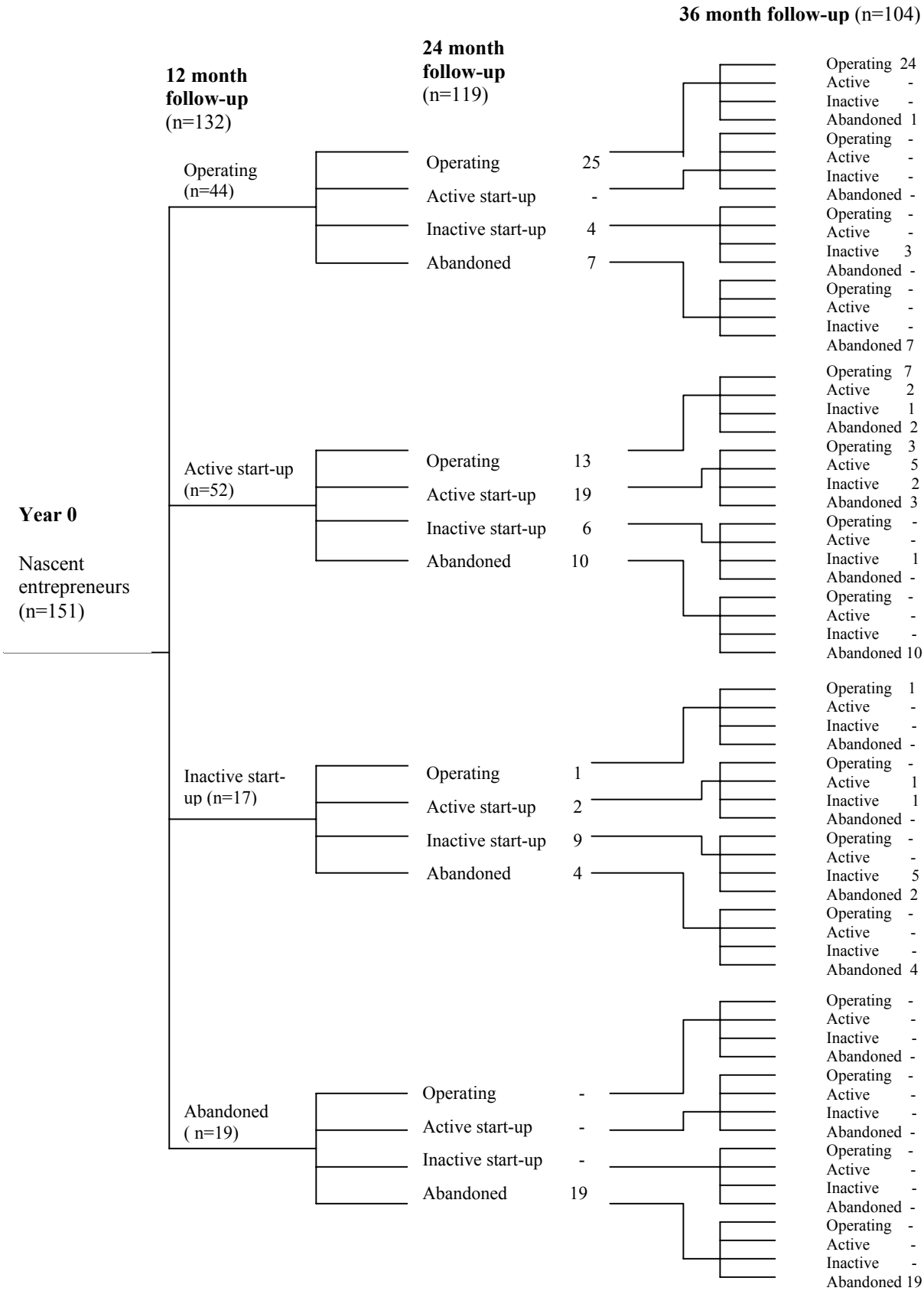
	2001		2002		2003	
Start-up Status	n	%	n	%	n	%
Operating	44	33	39	33	35	34
Active Start-up	52	39	21	18	8	8
Inactive Start-up	17	13	19	16	13	12
Abandoned	19	15	40	33	48	46
Total	132	100	119	100	104	100

Yet, aggregate numbers can be deceiving, as they fail to capture the dynamics associated with new venture formation. For example, the high rate of failure among new businesses is well documented. The data reported in Table 2 suggest two factors have contributed to the consistency in the percentage of nascent entrepreneurs reporting an operating venture: active efforts became operational and operating efforts became non-operational. Exhibit 1 confirms this. It tracks each venture's status from the time of the first follow-up interview, thereby providing a far more complete picture of the churning involved. Indeed, Exhibit 1 shows that 52 percent (n=23) of the ventures reported to be operating in 2001 were still operating in 2003, a fact that would not be uncovered through summary data alone. These results underscore the need, value and importance of tracking start-up efforts over time if we are to better understand the start-up process.

Based on this evidence, the value of follow-up over a shorter time frame is called into question. Nevertheless, since the study by Carter et al. (1996) is the only one that reports any follow-up (only one year), it provides some basis for comparison, albeit limited. Indeed, when we compare the one-year follow-up findings, quite distinct new venture formation patterns are evident between US and Canadian nascent entrepreneurs. Among the 71 respondents in the US sample, 48 percent (n=34) reported having an operating business during the follow-up interview, 30 percent (n=21) were still actively trying to start a firm and 22 percent (n=16) had abandoned their efforts. Among the 132 Canadian nascent entrepreneurs interviewed at a comparable point in time, a much smaller percentage had established an operating business (33 percent) while a far larger percentage were still trying to do so (39 percent). With the evidence indicating that Canadian start-up efforts are brought to fruition more slowly than those in the US, it suggests that Canadian nascent entrepreneurs are more conservative/far less aggressive in their efforts to start a business than their American counterparts, especially since fewer efforts were abandoned by Canadian nascent entrepreneurs at this point in time.

Knowledge of "what" happens is useful in building our understanding of new firm emergence. Yet, it is also important to learn more about "how" this is accomplished. Toward that end, Table 3 summarizes the results of the stepwise discriminant analysis that was used in examining whether the types of activities engaged in varied by outcome status. The results show the discriminant function had an eigenvalue of 0.393, with a canonical correlation of 0.531 and is significant (p <0.007). The overall classification accuracy for the analysis sample was 80.5 percent.

Exhibit 1: Status of Start-up Efforts Over Time



Essentially, this analysis indicates that operating ventures are associated with different activities than non-operating ones, thereby supporting our first proposition. Although each of the eight variables listed in Table 3 are significant, the pooled within-groups correlations between discriminating variables and the standardized canonical discriminant function indicate that the four variables providing the greatest contribution to the function are: devoting full time hours (>35 per week), making child care arrangements, getting financing from others and putting together a start-up team. This means that nascent entrepreneurs with operating businesses were more likely to devote themselves full time to the venture, to have made arrangements for child care, to have received financing from others and to have initiated or formed the start-up team. In light of this evidence, our second proposition is partially supported.

It is interesting to note that many activities typically associated with providing a solid foundation for starting a business such as preparing a business plan or financial statements were not significant in this study. Such findings may mean that nascent entrepreneurs, generally, are more aware of the importance of planning and therefore, this activity does not discriminate between operating and non-operating ventures.

Table 3: Results of Discriminant Analysis: Activities Initiated within Five Years of First Activity

Variable	Function 1
Canonical discriminant functions evaluated at group means (centroids)	
Operating business	1.050
Nonoperating business	-.363
Standardized discriminant function coefficients	
Devoted full time hours (35 or more per week)	.750
Arranged for child care	.640
Saving money to invest in the business	.424
Put together a start-up team	.370
Asked others for money	.301
Got financing from others	.280
Determined legal status	-.405
Hired employees	-.489
Canonical correlation	.531
Wilks' λ	.718
χ^2	21.203
Significance	.007
Correctly classified: 80.5 percent	

Table 4 profiles the kinds of activities initiated by nascent entrepreneurs who brought their venture to fruition as compared to the activities initiated by those whose ventures were classified as non-operating. Interestingly, among those activities that did not statistically discriminate between the groups, over 70 percent of all entrepreneurs in the study reported having talked to customers, developed a product or service model, purchased materials and determined the venture's legal form. A very similar pattern is evident among the start-up indicators used by others (Carter et al. 1996), with very little difference between the two groups. Indeed, over 70 percent of the non-operating ventures reported having income from sales.

Table 4: Percentage of Activities Initiated within Five Years of First Behaviour

	Operating (n=23)	Non-Operating (n=69)
Discriminating activities		
Devoted full-time	57	35
Arranged for child care	35	16
Got financial support	78	51
Organized start-up team	62	43
Asked for funding	48	27
Saved money to invest	57	42
Determined legal status of business	96	97
Hired employees	22	13
Other start-up activities		
Prepared business plan	65	63
Prepared financial statements	55	44
Purchased major items	61	47
Purchased materials, supplies, inventory	87	71
Have copyright	22	22
Applied for patent	9	3
Invested own money	96	78
Began marketing/promotion	76	65
Developed product/service model	100	87
Talked to potential customers	74	75

A t-test was used to examine whether the total number of activities initiated varied across the two groups. As proposed earlier, the results reported in Table 5 indicate that the average total number of activities initiated by nascent entrepreneurs with an operating venture (mean=8.00) are significantly greater than the number initiated by those whose ventures were non operational (mean =6.49).

Table 5: Operating vs Non-operating Ventures: Differences in the Total Number of Activities Undertaken

	t-statistic	ρ	Means	Standard Deviations
Number of activities initiated	2.502	0.014	8.00	2.045
			6.49	2.633

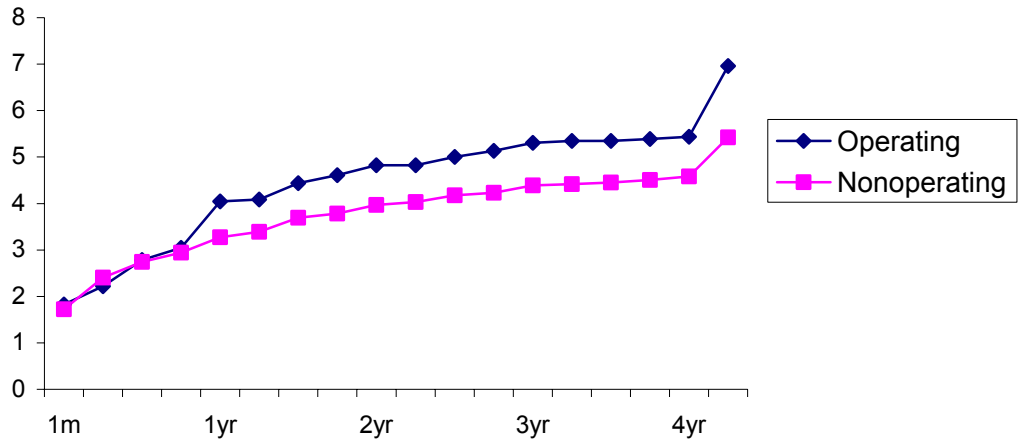
Because Levene's F was not significant, the equal variances assumed t was used.

Exhibit 2 plots the initiation of activities across the time scale. It indicates that all nascent entrepreneurs had a similar rate of activity during the first year of start-up efforts. Subsequently, entrepreneurs who brought their venture to fruition initiated significantly more activities and then maintained that rate as compared with those who eventually became classified as non-operating. (The surge of activity at the end of the time scale among both groups reflects the agglomeration of all activities initiated or completed five years or more into one category). Therefore, our fourth proposition is not supported as

aside from that small spike in the rate of activity by operating ventures, both groups had a fairly similar pace of activity.

Exhibit 2

Number of Activities Initiated Since First Start-up



Behaviour

To facilitate further analysis, the scores plotted in Exhibit 2 were recalculated as a percentage of total activities initiated by each group. The results indicate that by the end of the first year, over two thirds of all activities initiated by each group already had been undertaken. Using median values, we then explored whether the sequencing of activities initiated during the first year varied by outcome status. The results are provided in Table 6.

Table 6 : Sequencing of Startup Activities

Year 1	Operating (n=23)	Non-operating (n=69)
1st month		Developed product/service model
1st quarter	Developed product/service model	
2nd quarter	Devoted full time	Devoted full time Hired employees
3rd quarter	Talked to potential customers/gathered information about the competition	Made purchases of raw materials, supplies, inventory Organized start-up team Prepared business plan
4th quarter	Organized start-up team Prepared financial statements Asked for funding	Prepared financial statements Purchased/leased or rented major items like equipment, facilities or property

	Talked to potential customers
	Started marketing/promotion

The results of this analysis indicate that those with non-operating ventures were far more active in attempting to bring their business to fruition within the first year. This suggests that they have a shorter expected duration for bringing a venture to fruition and supports our final proposition. Indeed, it is possible that they may have decided the venture would not meet their expectations. For example, according to self reports, the three main reasons given when asked why start-up efforts were given up included: 1) working too hard or too many hours, 2) wanting to achieve a better balance between work and other parts of his or her life, and 3) looking for or taking a job with another company.

DISCUSSION AND CONCLUSION

Although exploratory, the results reported here highlight the dynamic nature of the start-up process. As the first real time longitudinal study of this nature undertaken in Canada, it provides considerable insight into the start-up process that Canadian nascent entrepreneurs' engage in. As the results of more longitudinal study of the start-up process become available, we will be able to build on this research through comparative analysis of national differences and similarities.

This examination of the start-up process indicates that the formation (and continuation) of an operating business implies a different sequencing of business start-up activities. The findings suggest that a personal *commitment* to bringing the venture to fruition (ie devoting full-time) underpins efforts to pursue activities associated with *connecting* to others. Since those reporting a non-operating venture appear to engage in activities more quickly than those reporting an operating venture, this may mean that members of that group perceives a larger gap between their expectations and reality and respond accordingly. The evidence suggests that it may not be appropriate to equate a non-operational venture with failure. Moreover, it suggests a need for more research in this regard. As well, it would be useful to further investigate the issue of expected duration.

This research has a number of implications. For aspiring entrepreneurs, these results indicate that starting a sustainable venture takes time and effort. However, it can be fairly quickly determined whether the venture will live up to expectations. For those providing business support and advice these findings indicate that planning activities are not a key driver among nascent entrepreneurs. Indeed, in the early stages of business start-up, the nature and speed at which activities are undertaken should not be misconstrued. For policymakers, this research suggests that it may take time for initiatives to bear fruit. While evidence indicates some degree of planning by nascent entrepreneurs, planning and action need to be integrated if a venture is to become a reality. This suggests a greater need for programs that will encourage individuals to achieve a better balance between planning and "doing".

One limitation of this research is the fact that it does not consider the impact of the context or individual factors on process and outcomes. Moreover, the impact of moderating variables is not addressed. These issues await further analysis. Finally, the research might have gained more insight by subdividing the non-operating ventures into those that were never brought to fruition and those that had been operational but subsequently were abandoned. Unfortunately, this was not possible due to the size of our sample.

With results indicating that outcome status implies a different nature, sequencing and timing of start-up activities, the findings can be used as a foundation for improving our capacity to more accurately identify the activities that foster sustainable new venture creation. In future, it would be useful to develop and test a conceptual model of start-up activities. Indeed, the differences in the nature of activities initiated between the two groups suggest that while *commitment* activities are important, engaging in activities that *connect* the nascent entrepreneur with others (ie asking for funding, organizing a start-up team) are the fulcrum for *controlling* the resources needed to establish a sustainable venture.

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CORPORATE FINANCE AND CORPORATE FINANCIAL ADVISORY FOR FAMILY BUSINESS (*)

Stefano Gatti

INTRODUCTION

Wealth management services for clients who are entrepreneurs or hold quotas or shares in family-owned firms (private companies) have some very particular features as regards *investment* or *asset management*. As a matter of fact, wealth management providers have to take into consideration two aspects of this type of clientele. On the one hand, an entrepreneur and his/her family or an entrepreneurial family are considered to be individuals with their own assets and annual income flows which must be optimized according to the established principles of asset management. On the other hand, however, the source of the income flows is closely linked to the management of the company and a large part of the entrepreneur's wealth is invested in the company itself. These characteristics raise particular problems in terms of optimizing the client's wealth.

This particular aspect has always had and continues to have considerable influence on those providing advisory services to entrepreneurs and entrepreneurial families. When financial intermediaries realized that this type of clientele presented some rather unusual features they began to gradually change their private banking activities. Although these activities initially focused mainly on managing the financial assets of high or very high net worth individuals, irrespective of the source of their wealth, they gradually turned into highly personalized services. This involved switching from an approach based on "financial" private banking to a broader one based on the management of the client's overall assets i.e. "wealth management". The search for a new role also meant segmenting the high or very high net worth clients even more and identifying groups of clients – including entrepreneurs and their respective families – with diversified needs due to the different source of their income or assets portfolio.

Moreover, the entrepreneur clientele often requires services involving deal planning, deal structuring and funding special transactions for companies in which the entrepreneur or his/her family hold equity stakes. Therefore, in the competitive arena, it is common to find not only operators traditionally associated with finance (mainly banks and private bankers) but also those associated with management or financial consulting.

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This chapter focuses on the relationship between personal and company asset management. Since a considerable part of the family assets are tied up in running the company, it is necessary to examine how corporate finance and corporate financial advisory services are integrated within the overall personalized management services. It is also necessary to precisely define what kinds of services can be offered, when they can be offered and who can provide these types of services and the kinds of business models they have developed.

The chapter is divided in the following way. Paragraph 2 describes the position of corporate finance in the more general framework of the management of the entrepreneur's wealth. Paragraph 3 evaluates the consequences in terms of the services requested to optimize the personal wealth of the entrepreneur and his family. This paragraph aims to describe, in a prescriptive way, the services that an operator should provide in order to be considered a credible partner in the wealth management business. Based on the different kinds of services required, paragraph 4 describes the effects on the offering and the prevailing business models. As regards the first point, we explain the links between *private banking*, *corporate finance* and the advisory services offered to entrepreneurs or entrepreneurial families; as regards the second point, we illustrate the business models adopted by large integrated banking groups and consulting firms traditionally associated with management consulting and corporate finance. We also describe developing trends in wealth management services for family businesses that are empirically observable at the international level.

CORPORATE FINANCE OPERATIONS AND WEALTH MANAGEMENT SERVICES FOR THE ENTREPRENEUR AND HIS/HER FAMILY

Corporate finance and corporate finance advisory services in the area of family business – often referred to as M&A services – have one thing in common: what changes hands in a transaction is represented by a firm or part of a firm. Corporate finance advisory usually deals with shares or quotas representing companies or company divisions. If physical assets are to be bought or sold, they are usually incorporated separately from the original firm (parent company) by means of an equity carve-out or a spin-off before the sale takes place.
As regards integrated wealth management services for entrepreneurs, there are two kinds of operations, depending on the owner's objective:

entry and exit business operations;
operations aiming at the organizational and managerial rationalization of the existing businesses or the reorganization of the existing ownership structure.

The first group of operations involves the acquisition of assets or company equity stakes (even by resorting to highly leveraged financial structures) and those involving the sale of

an entire business or business divisions to industrial partners, financial operators (*private equity)* or through listings on the Stock Exchange.[1]

The second group involves a different approach. In the first place, it can involve modifying the company assets so that the organization and management structure best suits the company profile and the separation between company wealth and personal wealth is sharper.[2] A company is likely to request these services when it has reached a more mature stage in its life cycle. By that time, its turnover is so high and management structure so complex that major changes in management have to be introduced. In this connection, particularly useful operations include equity carve-outs of firm divisions, creating group structures or even going offshore to set up holding companies in tax havens. This group of operations also includes reorganizing the company ownership structure in order to resolve succession issues through donations, acquisitions/intrafamily sale of shares, spin-offs or mergers.
This is shown in Figure 1. The matrix is made up of two dimensions.

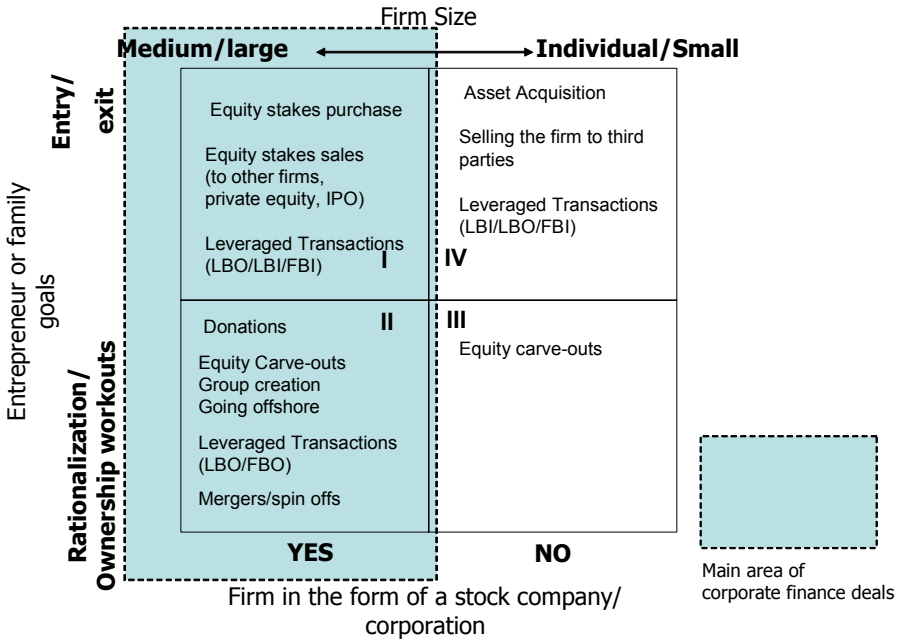
The first, shown on the horizontal axis, indicates the presence of equity stakes in the entrepreneur's assets. When the company is small, the legal form of the firm is likely to be an individual firm (a firm entirely owned by a single person) or a partnership. However, it has been empirically demonstrated that when companies become larger, there is a tendency to make a sharper separation between personal/family wealth and company wealth by creating independent legal structures and concentrating equity stakes in the hands of the entrepreneur. However, transforming physical assets (the firm) into financial activities (equity stakes) affects both asset management – the acquision or sale of companies takes place through the acquisition or sale of equity stakes – and the tax system. As a matter of fact, in many tax systems, the gains derived from the acquisition or sale of a company are liable to taxation just like corporate income. However, the capital gains derived from the sale of equity stakes by a physical person (the entrepreneur) are subject to a tax regime which is different from ordinary income taxes.[3]

Figure 1
Corporate finance operations in the management of family assets

[1] *Berger and Udell (1998) point out that during their life cyle, small family-owned firms are characterized by very different financial structures. The role of private equity is statistically more important when the business is at a more advanced stage of development and when the company is rather large. See also Fenn e Liang (1998). As regards exit from the business through IPOs, Bitler, Moskowitz e Vissing-Jorgensen (2001) empirically demonstrate that the percentage sold by the entrepreneurs has a negative impact on the subsequent valuation of the firm. This confirms the literature on market signaling (the sale of a small quota should indicate that the entrepreneur has a good opinion of the company and values it highly).*

[2] *Ang, Wuh Lin and Tyler (1995).*

[3] *The organizational variables are important in separating private wealth from corporate wealth. Avery, Bostic and Samolyk (1998) demonstrate that the organizational structure (corporate vs non-corporate) directly affects the wealth of the entrepreneur since, in the case of unincorporated structures, he/she has to commit a larger share of his/her personal wealth in order to obtain credit (and therefore to expand the business). As Lel and Udell (2002) also empirically demonstrate, personal wealth is involved when starting up a small business. Bento, White (2001) also consider the importance of the organizational structure of small businesses.*



As we can see, corporate finance operations are more commonly found on the left of the matrix. In fact, operations regarding the management and rationalization of family assets invested in entrepreneurial activities become more rapid, efficient and less costly when the assets themselves are represented by equity stakes. When this is not the case, it is preferable to first carry out carve-outs or spinoffs and subsequently corporate finance operations on equity stakes representing companies or company divisions.

The second dimension of the matrix – the vertical one – focuses on the objectives pursued by the entrepreneur through corporate finance operations in the area of family business. These objectives include the entry into a new business, the total or partial exit from a business or the rationalization of the corporate structure and reorganization of the positions of the family members. It should be pointed out that it is sometimes impossible to distinguish between these two objectives. For example, there might be a single company with one or more business divisions from which the entrepreneur wants to withdraw by selling to third parties. In this case, simply selling the individual company (Box IV) is unfeasible since the business area or areas for sale must first be separated through spin-off/carve-out (Box III) and the equity stakes corresponding to these areas subsequently sold (Box I). A similar procedure is followed when the entrepreneur assigns business areas to family members in order to prevent them from participating in the same company (Box II).

If the two dimensions cross, we obtain four boxes illustrating the different kinds of corporate finance operations.

Box I includes corporate finance operations regarding equity stakes on the entry or exit from a business. These operations involve the acquisition of equity stakes by third parties or the sale of equity stakes to non-family members. The acquisitions can also involve a considerable use of debt (leveraged transactions in the form of LBO/LBI or FBI). As

regards the type of sale, the difference lies in the party making the acquisition: if the negotiations are private, the sale might be made to another entrepreneur/family or to a financial partner through private equity operations (with or without an agreement to buy back at a certain date). The second possibility is going public through an offer for sale of the company shares.[4]

Box II includes corporate operations regarding equity stakes aiming at rationalizing the assets used by the company or reorganizing the positions of the family members. This box differs from Box I in that the entrepreneur invests/disinvests by acquiring/selling more or less considerable parts of assets from/to third parties who are not family members. Instead, in Box II, investments or disinvestments are absent or limited to family members only. Box II includes:

- donations to ensure family succession;
- mergers and spin-offs: the first might be necessary to simplify the group structure and the subsequent chain of command, the second might be useful to separate company areas/physical assets and the respective equity stakes to assign to the different family members or to the successors of the business (especially if the company spin off is not proportional);
- equity carve-outs and creation of groups: this involves first reorganizing the company assets so as to separate the operational activities (usually in the hands of professional managers) from those involving the management of the equity portfolio concentrated in a holding controlled by the entrepreneur. Moreover, creating group structures can be accompanied by the entry of new members in minority positions (with the aim of enlarging the group dimensions with no need for the controller to invest more money) or locating holdings in countries with a low rate of taxation on dividends;
- leveraged transactions: this also involves LBO/FBO operations which, from the standpoint of the individual seller (acquirer), fall in Box I but from the standpoint of the extended family, can represent a way of reallocating the wealth and liquidity among the different family members. Take the case of two siblings who agree to carry out an LBO operation in which one acquires the shares of the other by creating a highly leveraged company.

Boxes III e IV have many of the same operations carried out in Box I and II. The difference lies in the fact that in these cases the companies are not corporations with issued shares and they are not usually large. This leads us to make the following important observations:

- the number of corporate finance operations that can be carried out are considerably reduced and limited to raising cash through the sale or acquisition of firms and (much more rarely) the realization of leveraged acquisitions/buyouts;

[4] *In Box I, we only include the possibility of sale through IPO even if the Italian OPVS (offer for sale of already issued shares accompanied by the issuance of new shares to be underwritten by new shareholders)represents a feasible model. In this case, exit is certainly not definitive: in these cases, the entrepreneur might convert part of the equity stake into cash, thus reducing his/her financial commitment to the company by diluting the control quota determined by the underwritten tranche. Moreover, in these cases, the entrepreneur continues to maintain his/her ties with the company subject to IPO since he/she remains a member of the Board of Directors.*

- when corporate finance operations have to be carried out to reorganize corporate assets, it is necessary to resort to the activities in Box III (as a preventive measure, companies or business areas are separately incorporated in ad hoc legal entities) and then proceed to carry out the operations in Box II or I.

CORPORATE FINANCE OPERATIONS: LINKS WITH ENTREPRENEURIAL ASSETS AND CONSEQUENCES IN TERMS OF REQUIRED SERVICES

The above-mentioned corporate finance operations obviously affect the personal wealth of the entrepreneur and his/her family and provide important information in terms of the services required by entrepreneurs to satisfy their personal needs.

Keeping in mind that the company is only one of the assets included in the entrepreneur's portfolio, an integrated approach to wealth management has to provide assistance in the following areas:
succession planning services;
legal and taxation services;
asset management services or retirement planning services;
company valuation and corporate finance services.
These services will now be described in detail.

Succession planning services

When an entrepreneur decides to definitely leave the business or wants to reorganize his/her equity holdings and still continue to participate in the company, it is necessary to obtain advisory assistance in devising a suitable succession plan.

Wealth managers usually develop relationships with entrepreneurs in this area of activity when unusual events occur in the life of an entrepreneur: events in the entrepreneur's personal life (children ready to enter the firm, the death of key collaborators, accidents leading to disability or injuries) or external circumstances seriously affecting the firm (reorganizing the business due to a sharp increase in turnover or business decline, a change in the tax system etc.).[5]

When these events occur, entrpreneurs need assistance to help them identify the objectives they want to reach when planning their succession. In fact, these objectives can be very different and include maintaining their economic independence after leaving the

[5] *Rutherford and Oswald (1999) indicate that successful companies resort to strategic planning to deal with problems instead of ignoring them or facing them when they occur. In these cases of excellence, the presence of a highly-trained entrepreneur with considerable professional experience is a constant factor highlighted by empirical evidence.*

business completely or in part, ensuring the firm and his successors long-term success even at the cost of personal sacrifice in terms of proceeds from the sale, minimizing tax on disinvestment capital gains, fair treatment of all the family members. These different objectives can significantly affect the kind of corporate financial advisory services offered.

Legal and tax advisory services

Corporate financial advisory always require specialized legal and taxation services. Assisting the entrepreneur during negotiations, evaluating the extent to which taxes affect the value of the company and the entrepreneur's wealth are very important elements that always recur in exit and disinvestments operations as well as in intra-family shares deals or reorganization of business, particularly in the case of organizing family holdings abroad.[6]

In this sense, deal structuring has the dual objective of minimizing the tax on the company and on family wealth or income. Wealth management must therefore possess specialized technical expertise in order to provide the client with the most effective solutions.

Asset management and retirement planning services

Corporate divestitures or equity transactions have an immediate impact on the personal wealth of the entrepreneur. The sale of an entire company or business division, the transfer of shares, a listing on the Stock Exchange obviously require strategic support and advice on the best way to invest the proceeds of disinvestment which are often quite high. Moreover, in the case of a definitive sale, these sums should ensure the seller and his/her family a suitable living standard in the medium-long term.

However, these services are also requested by entrepreneurs who, although not undertaking major divestitures, operate in mature businesses characterized by a strong cash flow generation potential. The flow of periodic returns and the various compensations received from the company might require an asset management or retirement plan that can guarantee an adequate return for the entrepreneur himself/herself.[7]

In this type of activity, wealth managers can suggest different strategies depending on their background.

[6] *Cavalluzzo and Geczy (2002) draw particular attention to the influence of the tax variable when choosing a particular organizational structure.With reference to the United States, empirical data show that taxation together with the problems of separating personal and corporate assets, the increased complexity of the ownership structure and specific sector factors clearly explain the decision to opt for a proprietorship (the firm is owned by a single physical person), partnership (limited partnership), S-Corporation or C-Corporation (joint-stock company). Moreover, organizing business activities in the form of a Corporation is advantageous in terms of capital cost with respect to the alternatives represented by the individual business and limited partnership.*

[7] *As regards the compensation methods of the owner-managers of a family-owned firm see Cavalluzzo and Sankaraguruswamy (2002). Although the context analysed is the U.S., the results also apply to Europe and Italy. In fact, the authors argue that the remuneration methods of the owner-manager of a small business derive not only from the profits but also from the compensation received as member of the Board of Directors or CEO and from the interest payments if the business is financed by the owner himself. The different compensation methods aim to optimize the entrepreneur's personal tax burden.*

In the case of wealth management developed in private banking, the services can cover the entire spectrum of the entrepreneur's needs:

defining the desired risk-return profile;
devising an investment plan;
allocating savings in the asset class proposed.

However, in the case of wealth managers with a management consulting or financial advisory background, the allocation of the sums based on the suggested investment plan is not directly feasible since these managers are not financial intermediaries. In these cases, the service includes the search for a suitable asset manager for the entrepreneur and also the continuous monitoring of the performances obtained.

Valuation and corporate finance services

The principal market actors providing these services include established operators in corporate and investment banking and financial advisory services.
Each M&A deal involving the whole or part of a firm is finalized after a detailed analysis and assessment is made. In fact, it is necessary to examine sector trends, evaluate a company's past and future strategy, determine the value of the firm/business division and the relative equity stakes, define the most suitable deal structuring and finally, in the case of an acquisition, find the necessary funding.

Even for these types of services the different background of the competitors has important consequences in terms of the services supplied. Financial advisors (but not always in the case of managers with a management consulting background) can provide these services directly. However, in the case of financial wealth managers (mainly banks and financial intermediaries), they might request some form of support from their own corporate finance or corporate and investment banking staffs or from external partners linked through network relations (accountants, business lawyers, financial consultants). The first option is actually very uncommon and limited mainly to large-size transactions.

A summary of the services offered according to the different types of M&A deals

By crossing the services analyzed in the preceding paragraph with the indications obtained from the matrix shown in Figure 1, we can see the different types of services related to M&A operations designed to manage the entrepreneur's family assets (see Figure 2).

Figure 2
Corporate finance operations in the management of family assets

Type of operation								
	Entry/Exit			Rationalization/Family Issues/Firm's or Group's Organisation Structure				
Type of service	**Acquisition**	**Divestiture**	**Leveraged Transactions**	**Donations**	**Split Offs**	**Merger Spin Offs**	**Leveraged Intrafamily Transactions**	**Going Offshore**
Succession Planning Services								
Legal and Tax Services								
Investment Mgmt Retirement Planning Services								
Company Valuation Corporate Finance								

The matrix is made up of columns – representing the different types of corporate finance operations provided for entrepreneurial families and corresponding to the different objectives of the entrepreneur/family – and rows representing the services required by the single operation or overall wealth management.

The boxes which are shaded indicate they are not active. However, the absence of services in these boxes does not mean that the entrepreneur does not require advisory services.
As a matter of fact, in the case of acquisitions and investment management/retirement planning services, if an entrepreneur acquires equity stakes, the problem of investing the proceeds does not arise; however disinvestment of part of his/her personal assets might be necessary as a preliminary measure before making an acquisition. In this case, the investment management service is provided before the M&A deal and is not directly linked to the realization of the operation. The same reasoning obviously holds true in the particular case of leveraged acquisitions.

If we cross donations with *investment management/retirement planning services*, donating shares or equity stakes can have serious repercussions on the donor's remaining assets. Therefore, it is necessary to evaluate whether the remaining assets ensure the entrepreneur a good standard of living. Therefore, investment management service is provided as a preventive measure before deciding to make a donation (often in connection with succession planning services which – as shown in the matrix in Figure 3 – are not shaded).

The remaining shaded boxes concern M&A deals carried out through mergers, spin-offs or offshore family holding incorporation. For these boxes, the same observations hold true as in the case of donations. In fact, the wealth of the entrepreneur is not affected by these operations except in the case of donations following spin-off operations which benefit other family members.

The other boxes of the matrix represent other services which can be offered by those administrating the entrepreneur's personal wealth. More precisely, succession planning services represent a common element underlying all the operations indicated in the column. Legal and tax services are necessary in order to minimize the tax burden (at the corporate and personal level) of corporate financial operations. Finally, company valuation and corporate finance services are requested for each deal which, as pointed out earlier, is based on the valuation of the company which is the object of the transaction.

Investment management services are instead required for disinvestments and leveraged intrafamily operations when the entrepreneur is selling his/her assets. In these cases, the cash flows derived from the disinvestment have to be suitably allocated in securities, real estate or pension fund investments

C*ORPORATE FINANCE* SERVICES IN THE WEALTH MANAGEMENT OF ENTREPRENEURS: EFFECTS ON THE OFFER AND PREVAILING BUSINESS MODELS

The preceding paragraphs show that entrepreneurs and their families are very special clients in the panorama of services offered to *high or very high net worth individuals*.

Since they are individuals possessing an income and assets they require advisory services which help them identify the most efficient asset allocations in order to reach their desired objectives. Generally, from the standpoint of the entrepreneur as an individual, the objectives are often centered on security, protection of the family members and discretion.

As entrepreneurs, the clients participate in the management of the company and the success of the company is a prerequisite for the achievement of family objectives. These objectives depend all the more on company success the greater the family's financial commitment, the less the firm is mature and the greater the investments required to reinforce the firm's market position.[8]

Optimizing the investment in the firm and consequently even the cash flows benefitting the entrepreneur and his/her family require services and expertise that – as shown in Figure 2 – are not usually found in traditional investment management which usually deals with the administration of assets made up of activities different from the entrepreneurial ones. The expertise required to perform the services described in the preceding paragraph are more

[8] *The close connection between the business risk and personal risk of the entrepreneur and his/her family was the subject of an empirical study carried out in the United States. In this connection, see the sample of 692 businesses analysed by Ang, Wuh Lin and Tyler (1995) and the findings of Haynes and Avery (1996) based on the NSSFBF (National Survey on Small Business Finance). The holding of a considerable equity stake by the entrepreneur or family members (and therefore the dependence of personal wealth on the success of the business) is also documented by Bitler, Moskowitz and Vissing-Jorgensen (2001). According to these authors, a considerable financial commitment by the entrepreneur and his/her participation in the firm increase corporate performance even considering the heterogeneity of the sample analysed.*

similar to those of strategic consulting, management consulting as well as corporate finance and financial advisory services. From the standpoint of a bank, the services are provided by the corporate and investment banking division rather than the private banking or asset management one.

Therefore, wealth management of a family business requires a multi-disciplinary approach comprising at least three types of services:

consultancy: as shown in the following paragraphs, consultancy concerns the personal or family profile of the entrepreneur (for example, succession planning, optimizing the tax structure, allocating the wealth derived from corporate assets) as well as his/her role as head of the firm (for example, strategic planning, management consultancy regarding the organization of the company or group).

investment management: the principles of allocating the available wealth and income of the entrepreneur and his/her family require expertise in finding the best risk-return combinations compatible with the client's investment profile. This concerns investments in both securities and real estate. These services are likely to be of crucial importance to those entrepreneurs whose firms have a steady free cash flow profile and low growth rates of the invested capital (cash cow firms).

corporate finance and investment banking: the management of an entrepreneur's wealth might entail adopting an integrated approach to the efficient management of part of the wealth represented by the company and the part invested in other assets. In this connection, structuring, funding as well as taxation and legal services are requested when carrying out corporate finance operations.

In short, satisfying the needs of the client in the area of family business depends on a *"client-centric vision"*[9] in which the three above-mentioned services aim to provide an integrated wealth management solution.

Competitors offering wealth management services to entrepreneurs and entrepreneurial families

The possibility of providing integrated *investment management*, consultancy and *corporate finance* services to a highly segmented clientele has made this market niche extremely competitive and selective.

This paragraph presents some models of service providers chosen among those examined at the international level. Based on empirical evidence, two types of potential competitors emerge:

large, integrated banking groups

[9] *As will be shown, UBS uses this term to describe their approach to wealth management services.*

consulting firms, especially those oriented towards corporate financial services

Large, integrated banking groups

In the case of large, international banking groups, the situation is not completely homogeneous in the approach to *wealth management services*. This applies to large European and American financial intermediaries.[10]

A common feature of these groups is that wealth management services are well established in the private banking divisions or in group-controlled companies providing private banking services. In fact, historically, all the large banks began by assaulting the private high income segment of their clientele and adopted a relatively undifferentiated approach, regardless of the specific needs of this clientele, and focused on asset management services (often management of securities portfolios).

In the end, however, this approach turned out to be quite inefficient both in commercial and strictly economic terms.[11] This led to a second stage in the development of private banking services in which asset management was accompanied each time by services focusing on the specific needs of the high or very high net worth segments of the clientele. In short, the strategies of the most trustworthy competitors began to shift towards the philosophy of the "global management" of the client's assets or wealth management and not just "financial" private banking.[12]

These services are offered by many foreign banks.

Deutsche Bank is the leading European banking group in terms of revenues and total assets. In October 2002, it began restructuring its PCAM (Private Clients and Asset Management) division in order to set up a special division devoted to *Private Wealth Management* closely integrated with SBB (*Small Business Banking*) activities. This integration is designed to enable the bank to provide an integrated offer in which the core services of private banking are heightened by those closer to *corporate and investment banking*: in addition to active advisory, portfolio management, alternative investment services (centered on hedge and real estate funds), "*Special Services"* include family office, financial planning and fiduciary services.

Since this integrated service is still in its early stages, the focus still tends to be on private banking services (see Figure 3).

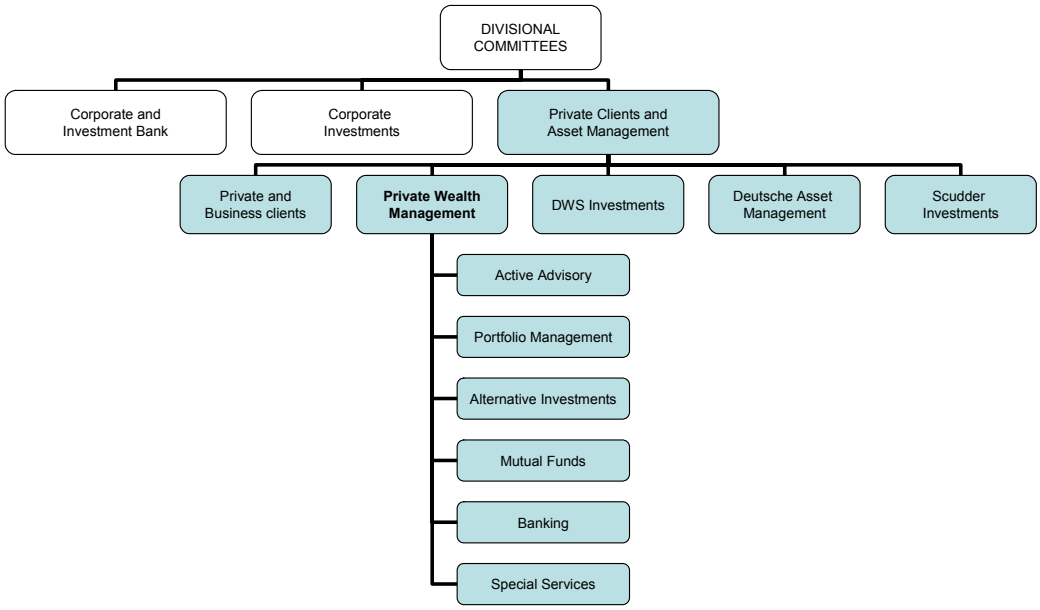
[10] *Since the business of wealth management is almost exclusively represented by large banking groups, the intermediaries we chose to analyse were taken from the available League Tables. The European intermediaries (Sourcee R&S – Mediobanca) and the American ones (Source: The Banker) rank among the top 10 by volume of revenues and total assets.*

[11] *"Unlike competitor banks, some of which reported losses ranging from 30 to 50% last year, the Citigroup Private Bank had earnings growth of 45% over the last two years". See Citigroup (2002).*

[12] *A more personalized approach was naturally accompanied by an increase in the access threshold to integrated wealth management services. The family office offered by Deutsche Bank, besides being available to only German or US-residents, has a minimum threshold of 30 million US dollars;those offered by Credit Suisse Trus, 50 million euros.*

Figure 3

The approach of Deutsche Bank to wealth management



Source: Deutsche Bank, Company Information, 2003.

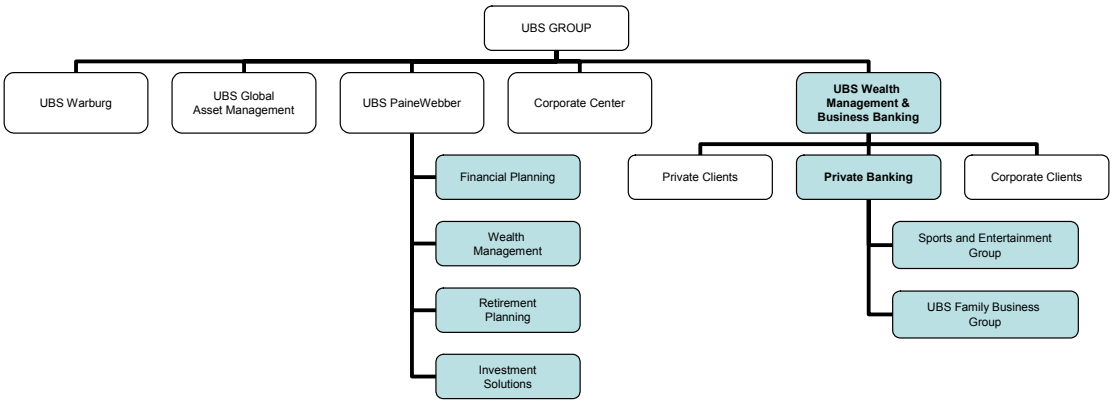
Services similar to those provided by Deutsche Bank are also provided by BNP Paribas to a high or very high net worth clientele through its Private Banking (Banque Privée) division. Even in this case, there is a tendency to integrate management and *personal financial planning* with corporate financial consulting services[13]. However, the latter are still handled at the local level by the Corporate and Investment Banking division through external partnerships with professionals and consultants specialized in corporate taxation and corporate finance.

The approach of UBS, focuses more on the small business and entrepreneur clientele segment. In fact, for some time, the Wealth Management and Business Banking division has adopted a very segmented approach to its private clients: in addition to the "Sports and Entertainment Group", there is also a "Family Business Group" division devoted to entrepreneurs and entrepreneurial families. UBS PaineWebber (see Figure 3) also tends to offer personalized wealth services.

Figure 3

[13] *In addition to the traditional asset management consulting services and the investment funds and securities services, BNP Paribas Private Bank also offers the so-called "Personalized services" in the areas of art advisory, real estate management, prestige land and country estates, luxury properties transactions (the last 2 managed directly by the Paris headquarters), trust and family holdings. It is obvious that, except for the last consulting service for the group structure, the BNP approach still tends to be mainly oriented towards private banking and personal financial planning services .*

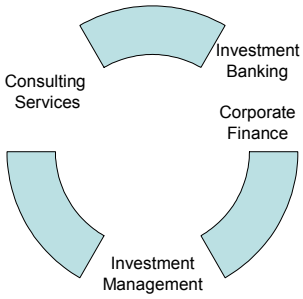
The approach to wealth management of UBS



Source: UBS, Company Information, 2003.

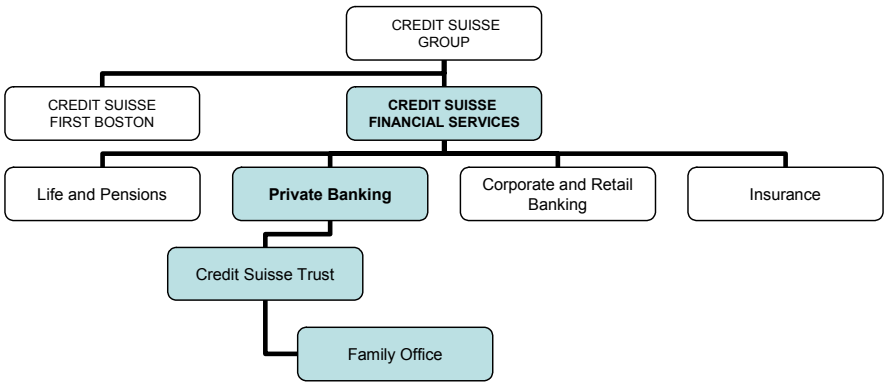
The approach to clients adopted by the Family Business Group included in the broader activities of *private banking* tends to be a "client centric solution" shown in Figure 4:

Figure 4
UBS: the "client centric solution" approach to family business



Source: UBS, UBS Family Business Group, 2003.
Credit Suisse is also trying to focus more on the entrepreneur clientele by introducing its Credit Suisse Trust in its Private Banking Division in order to offer integrated wealth management services for *very high net worth individuals*. The fact that the bank is also planning to create a family office is a clear indication of the Group's strategy (Figure 5).

Figure 5
The approach to wealth management of the Credit Suisse Group



Source: Credit Suisse Group, Company information, 2003.

As regards the American banks, following the wave of mergers between commercial and investment banks which characterized the late '90s, banks have recently begun to change their approach to private wealth management services. Due to their strong position at the international level and the expertise they acquired by integrating investment banking structures, the large American banks are adopting a very aggressive strategy of highly personalized services.
Citigroup, for example, the leading American bank in terms of total assets, opened a specialized Citigroup Private Bank division in May 2002. This division has become the commercial vehicle offering private clients all the bank services including the traditional private banking services and – in the case of entrepreneurs and entrepreneurial families – corporate and investment banking. The underlying idea is to demonstrate that Citigroup is not a private banker but a "private partner".[14]

The model represented by JP Morgan-Chase and Bank of America are quite similar since they have concentrated their wealth management services in their respective Private Bank divisions. In addition to asset management these divisions offer the following services:
tax planning
charitable planning
estate planning
private company advisory services.

Consultants

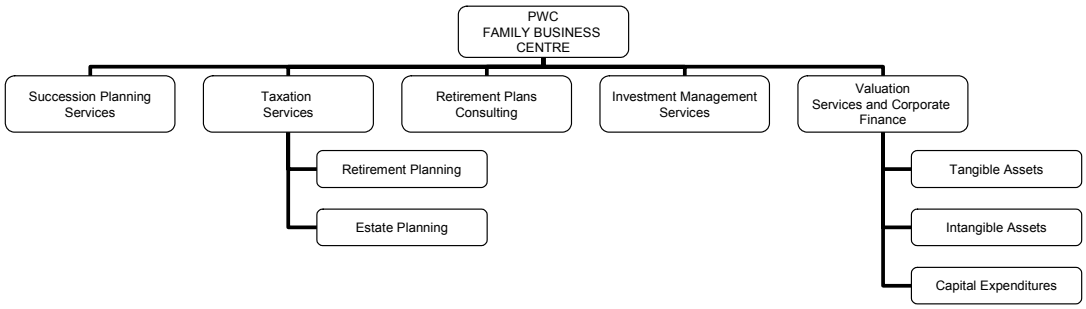
The second group of actors providing *wealth management* services to entrepreneurs is made up of consultants in the areas of strategic and financial planning.

[14] *"The Citigroup Private Bank quickly began to transform itself from the classic private banking model into a new paradigm: It evolved to become an entry point to the breadth of financial and investment resources of Citigroup for its ultra-affluent clients around the world…The Private Bank works with the wealthiest families in the world. As a result, we are always leveraging the best investment opportunities of Citigroup in order to increase our share of their portfolios". See Citigroup (2002).*

The phenomenon should not be surprising since a considerable part of the personal financial planning of entrepreneurial wealth requires the professional services already provided to companies by management consultants or by experts in corporate finance.

Among the financial consultants, the Price Waterhouse Coopers Small Business Centre provides highly segmented solutions to entrepreneurial families. This business unit was set up to replace traditional “corporate” services with “corporate and individual” or “corporate and family” based services (see Figure 6).

Figura 6
The approach to wealth management in Price Waterhouse Coopers Small Business Centre



Source: Price Waterhouse Small Business Centre, Company Information, 2003.

The approach of Grant Thornton and its People and Relationship Isssues in Management (PRIMA) Service is similar to the approach of Price Waterhouse Coopers. The strategic consulting services focus on the relationship between the individuals who manage the business and the consulting services offered to the company :

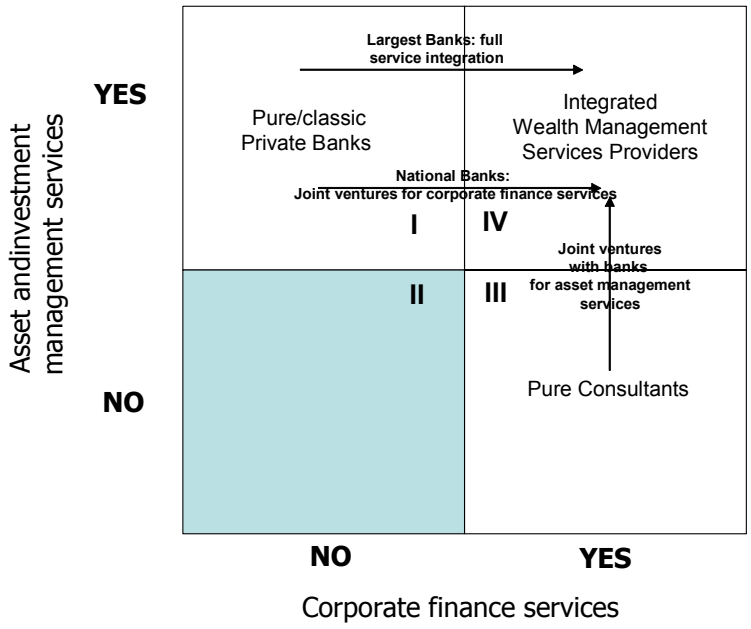
“As well as dealing with the business needs in terms of audit, tax compliance and other services traditionally associated with business and financial advisers, we have been

working with business owners for many years and recognise the unique challenge they face […] (We) are able to provide a valuable insight into the crucial relationship issues surrounding business management, and the financial and commercial options that are available to help resolve internal conflict".[15]

A summary of the market trends of wealth management services

The current situation of the offer of wealth management services is summarized in the following matrix (see Figure 7).

Figure 7
Strategic groupings and forecast trends in the wealth management of entrepreneurial families and entrepreneurs.



The market trend shows a gradual shift towards Box IV in which the strategic grouping of integrated wealth management service providers is prevalent with respect to specialized operators. With the rare exceptions of some European and American banks, the cases

[15] *See Grant Thornton (2001).*

empirically found to be more numerous are concentrated in Box I and III. The first is made up of banks still oriented towards an undifferentiated private banking service and the third is made up of management and corportate financial consultants who are organizing special groups or centres to provide services to entrepreneus or their families.

It is likely that in the future a completely integrated wealth management service will be provided only by the large multinational intermediaries since only they can provide independent commercial banking, investment banking and consulting services regarding asset management and corporate finance issues.

Smaller, national banks and consultants will tend to make outside alliances and partnerships to deliver the services they cannot provide because of operative and regulatory constraints (for example, in Europe, asset management services are by law the domain of investment companies) or constraints regarding the available human and financial resources. The banks will look for legal, tax and, in part, corporate financial consulting services abroad, as is now the case. The consultants will tend to directly carry out the activities of wealth management, legal and tax optimization and corporate finance by stipulating "portage" agreements with the banks in order to offer their clients asset management services or finance services for entrepreneurial families.

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BUSINESS SKILLS OF SMALL BUSINESSES IN THE PERI-URBAN AREAS OF NORTHERN TSHWANE

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INTRODUCTION

Peter Drucker stated in 1993 that in the knowledge society, knowledge is eclipsing the traditional factors of production such as land and capital. Thriving and growing in this changing business environment implies that the small business of today must leverage the skills and intellect of their employee base[1]. It has furthermore been stated that small businesses are seen as one of the most important factors to generate ways for growth and employment in South Africa[2].

Of concern is the fact that up to 80% of all South African small businesses fail in the first five years of their existence[3]. It is estimated that the South African economy lost more than R68 million over the period 1997 to 2000 because of the failure of 117 246 small businesses[4]. A study in Canada indicates that 68% of small and medium enterprises (SMEs), with fewer than five employees, failed within the first five years[5]. Reasons for this occurrence include

- a lack of adequate working capital
- a rapidly changing business environment
- a poor market selection
- a lack of essential business and management skills[6]

The lack of business skills in small businesses forms the backdrop to this paper. First, existing research on the business skills of small businesses will be reviewed. Thereafter the empirical research undertaken will be discussed, and finally, deductions made and conclusions drawn.

REVIEW OF RESEARCH ON BUSINESS SKILLS IN SMALL BUSINESSES

The problem of a lack of business and management skills is a worldwide malaise in both developed and developing countries. A developed country such as the UK is struggling with a workforce without basic reading and writing skills. Studies in the UK have found that at least 23% of all adults have inadequate numeracy skills which impacts negatively on the growth of small businesses. The same problem applies to a lesser extent to Europe where at least 10% of its workforce is having problems related to poor numeracy skills. As in South Africa, job creation in Europe is at the higher end of the market – that is, growth on the highly skilled side of the workforce with a growing number of workers being

unemployable, owing to the lack of essential skills. Of particular interest is the fact that the smaller businesses in the UK (defined as employing fewer than 20 workers) are suffering most severely with the problem of a lack of literacy and numerical skills[7].

In Canada the lack of management skills is seen as the prime reason why small businesses fail, and it is speculated that there is a general lack of awareness of management processes and tools in the small business sector. Nine problems were identified that need to be addressed to make Canadian small businesses more successful. These are[8]

- the lack of a clear approach to the definition of business skills
- the lack of awareness of particular needs for business skills
- the lack of knowledge of skills required to prosper
- the lack of awareness of particular needs for business skills
- the misdiagnosis of needs or problem areas in small businesses
- a lack of critical information about the performance impacts of investment in business skills development
- a lack of awareness of sources of information on skills
- limited time for training
- limited financial resources to hire professional advisors/mentors
- a lack of a continuous learning philosophy for small businesses

Similar problems have been identified in the USA with the US National Association of Business Economists stating that 58 percent of reporting companies have a shortage of skilled workers. According to the Council of Competitiveness, this acute skills shortage threatens the foundation of competitiveness in the USA.[9] The workplace deficiencies listed include:

- a lack of sound work habits
- poor people skills
- poor cognitive skills specific to the workplace
- poor technical knowledge

Training is regarded as imperative to rectify the problem in the USA. Traditionally, training and development were not seen as an activity that creates value and helps an organisation to be competitive. It is in small businesses in particular that training is not really encouraged for reasons such as financial constraints and a lack of support from management. Research in the USA has found that less than 19% of small businesses include formal training programmes for new employees compared with 44% for larger organisations[10]. This view is slowly changing and special interest is shown in trying to determine the needs of small businesses. In research undertaken on the customer base of the Small Business Development Centres in the USA the following training needs were identified by the owners/managers of small businesses for their workers (in order of priority)[11]:

- how to increase sales
- how to promote the business
- how to research the market
- how to conduct financial analysis and control
- how to obtain capital
- how to obtain government contracts

Additional training needs that were mentioned include

- computer systems training
- accounting and record keeping
- international trade knowledge
- managing the inventory
- managing personnel

On the specific area of management training the owners/managers mentioned the following training needs for themselves (in order of priority)[12]:

- time management
- basic business and financial skills
- updates on tax laws
- conflict management and problem solving
- quality management
- improved interpersonal communications
- training employees
- providing career development for employees

Lastly, looking at the situation in South Africa, a study published by the Global Entrepreneurship Monitor (GEM) in 2001 reported an overall lack of entrepreneurial elements in the culture of South Africa[13]. The GEM report of 2003 indicated that if black entrepreneurs' new ventures were as successful as those of their white counterparts in South Africa, this would create 500 000 new jobs[14]. The entrepreneurs referred to obviously include numerous small businesses. A programme is proposed to empower black entrepreneurs and increase the survival rate of newly established black businesses. This programme should be focused on the development of business skills. In the study it was found that South African entrepreneurs feel that they have half the business skills to start a new business compared with their foreign counterparts, which indicates, inter alia, that more needs to be done at secondary school level because most of these entrepreneurs are young unemployed people. Another area in which help is needed is in existing black SMEs. Here research has shown that basic financial management skills are a major problem and that businesses that adhere to basic financial and accounting practices have three times less chance of encountering cash flow problems.

Other South African research confirms that entrepreneurial training forms the cornerstone of an enabling environment to initiate and grow small businesses[15]. One study indicated that problems encountered by South African small businesses in the three metropoles of Nelson Mandela, Cape Town and Egoli can be categorised into the following areas (in order of priority):

- macro-environmental problems which refer to economic and social problems such as unemployment, crime and HIV/AIDS
- marketing problems, such as a lack of knowledge of the market, and more specifically, the target market, a lack of knowledge about competitors and ineffective marketing practices
- management problems, inter alia, a lack of management experience, knowledge and skills

- social problems which relate to long working days, family and social pressures and ill health due to business pressures
- human resource problems, referring to procurement problems in not finding suitable staff, poorly trained workers and poor labour relations practices
- financial problems, inter alia, the acquisition, allocation and management of capital as well as insufficient knowledge of bookkeeping

Having briefly summarised the state of business skills of small businesses in a few countries it is time to focus on the empirical research undertaken on this issue.

PURPOSE OF THE RESEARCH

The current study forms part of a larger study completed in 2003 by the Bureau of Market Research at Unisa in collaboration with the Joint Education Trust (JET) and the National Productivity Institute (NPI)[16]. The peri-urban areas of Northern Tswane formed part of the old Bantustan of Bophutatswana and the subsidies provided by the government to businesses in this area was discontinued after the establishment of the new democratic government in 1994. This impacted negatively on the economic well-being of small businesses in these areas and led to increased unemployment and poverty (it is estimated that about 20 000 jobs were lost during this period). In order to obtain a turnaround in this area, a skills audit was done to determine the skills base available among small businesses in this area. This formed part of a broader initiative to develop a regional development plan for this area which, inter alia, forms part of the national skills strategy of South Africa with a view to broadening the skills base of previously disadvantaged individuals and increasing overall labour productivity.

This research therefore focused on identifying the current business skills as well as the future business skills required by small businesses in this area.

METHODOLOGY

Selected peri-urban areas of Northern Tswane formed the survey area of this research. For the purposes of this study, peri-urban areas are defined as the lower-density developments on the city periphery of Tshwane and include the following areas: Temba, Dilopye, Majaneng, Marakolong, Nuwe Eersterus, Ramotse, Sekampaneng, Suurman, Stinkwater and Hammanskraal.

Sample units

The sample units for the survey were all small business establishments functioning in the above-mentioned selected areas. These small businesses operated under the same ownership or management with a complement of 20 or fewer employees. Based on the nature of the local economy in Northern Tswane it was decided to survey the manufacturing, retail, service and agricultural sectors, because these sectors were responsible for more than 66 percent of the employment in this area.

According to Ntsika, the small business sector can be subdivided into three basic groups, namely survivalist establishments with no employees, only the owner/entrepreneur, micro establishments with one to 20 employees and very small establishments with between five and twenty employees. The survivalist and micro establishments usually operate in the informal sector and are not registered for the payment of VAT. The very small business establishments normally form part of the formal market[17].

Sample elements

The sample elements were defined as the owners or managers of small businesses as described above in the survey area. Four main survey areas were demarcated using SA Explorer[18], and the corresponding population figures by municipal ward are depicted in table 1 below.

Table 1: Survey areas and population figures by municipal ward

Main survey area	Municipal ward	Ward number	Population	% of total population
Western	Eersterus Stinkwater	13 14	18 946 25 151	24,5
Central Western	Dilopye/Sekampaneng Suurman/Majaneng	8 76	27 822 19 922	26,5
Central Eastern	Temba/Leboneng	74 &75	41 986	23,3
Eastern	Ramotse/Marakolong Hammanskraal	73 49	22 425 23 713	25,7
Total			**179 965**	**100,0**

The information depicted in table 1 was used as a guideline to determine the sample size distribution by survey area. Table 1 indicates that each survey area represents roughly 25% of the total population of 179 965 for this area.

Sample size

Owing to the fact that an ideal sample frame was not available (ie, there was no full list of small businesses), probability sampling could not be used. Non-probability sampling methodology was followed, using a judgmental selection procedure in which the Joint Education Trust, the National Productivity Institute and local residents, used as interviewers, provided inputs on the determination of the sample.

These interviewers were trained to conduct a route sample of small businesses across all four sectors areas as indicated in table 1. The sample size was based on the population estimates as depicted in table 1. The sample size per area is depicted in table 2 below.

Table 2: Sample size by main survey area

Main survey area	Number of questionnaires
Western	40
Central Western	42
Central Eastern	37
Eastern	41
Total	**160**

Data collection

The data were collected by means of a structured research instrument (questionnaire) in which personal face-to-face interviews were used. All the interviews were conducted on the business premises of the owner/manager. The research themes covered in the questionnaire consisted of

- the location, registration status and activities of the small businesses
- their employment profile
- their skills profile
- their skills training and development needs

In total, 14 residents of this area were recruited and trained, using sound recruitment and training principles. A field training approach was followed in which each interviewer had to complete one questionnaire in the survey area. On completion of this questionnaire, all the fieldwork was critically evaluated and additional training and advice provided to ensure even better responses. Questionnaires that failed to meet the sample requirements were returned for correction and about 20% of the questionnaires were followed up telephonically. This follow-up also helped to measure the quality of the fieldwork.

The number and percentage of questionnaires returned by business type are shown in table 3 below.

Table 3: Questionnaires returned

Business type	N	%
Survivalist	53	32,9
Micro	72	44,7
Very small	36	22,4
Total	**161**	**100,0**

Validity

Regarding the validity of the questionnaire, it can be surmised that the face and content validity of the questionnaire is relatively high since various experts in the field in collaboration with JET and the NPI developed the questionnaire collectively.

RESULTS AND ANALYSIS

Number of years in business

The number of years that the small businesses were in operation is indicated in table 4 below.

Table 4: Number of years in business

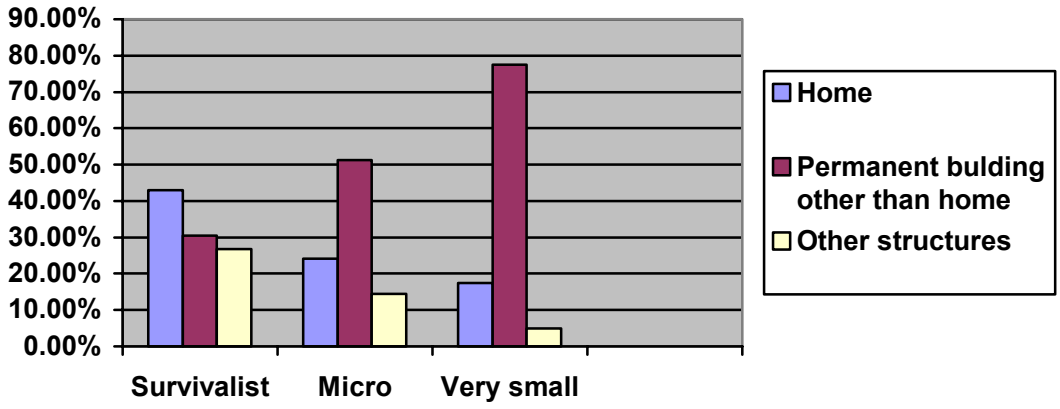
Type of business	Less than a year	One and less than two years	Two years and less than five years	Five years and less than 10 years	More than 10 years
Survivalist	15,1	22,6	15,1	22,6	24,5
Micro	15,3	27,8	19,4	23,6	13,9
Very small	13,9	13,9	36,1	16,7	19,4
Average	**14,9**	**23,0**	**21,7**	**21,7**	**18,6**

On average, the majority of the respondents were in the category one to less than two years in business. What is interesting is that the survivalist category had nearly 25% respondents who had been in business for more than 10 years – showing no progression or growth in terms of employment (moving into next small business category).

Business location

The physical location from which these businesses operate per type of establishment is depicted in figure 1.

Figure 1: Business location



The survivalist establishments operate mostly from home, although there is a surprisingly large number (just over 34%) that operates from a permanent structure other than home, whilst nearly 18% used other structures. The micro and very small businesses operate as expected, mostly from a permanent building other than home, showing more of the characteristics of the formal business sector.

Employment profile

Regarding the employment profile of these institutions, the following information was obtained on gender and qualifications. Figure 2 below indicates the qualification levels of full-time workers (including owners/managers) per business type.

Figure 2: Full-time workers by qualification and business type

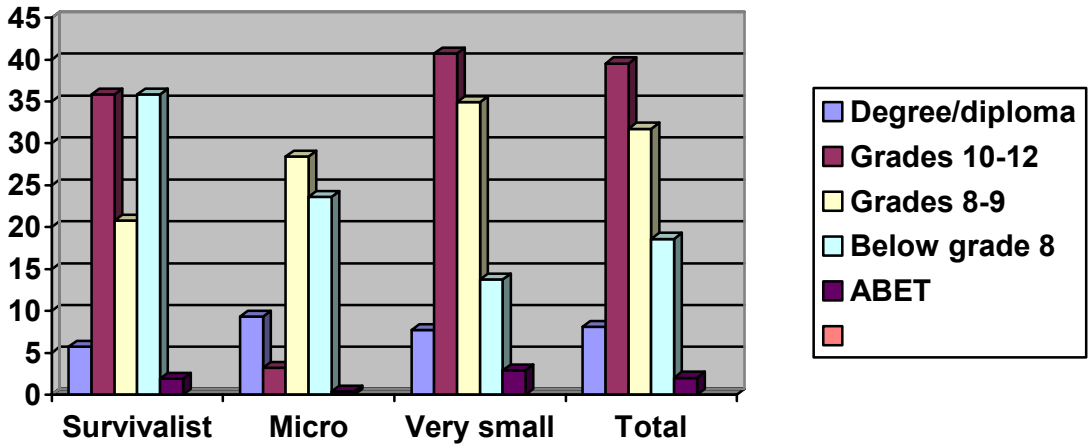


Figure 2 indicates the direct correlation between business type and qualification level. At the higher levels of qualifications, the larger business types have an increased representation, whilst at the lower qualification levels the survivalist type has the largest representation (35,85%). Of the total survey population, only 8,1% have a degree, with 39,54% having a qualification between Grades 10 and 12. It is also important to note that just more than a third of the owners/managers of survivalist establishments lack a basic education (defined as passing grade 9) and functional literacy (defined as passed grade 7)[19]. This obviously has implications for the long-term survival and prosperity of these establishments.

The average number of full-time and part-time workers by gender and business type is shown in table 5 below.

Table 5: Average number of full-time and part-time workers by gender and business type

Workers	Business type			
	Survivalist	Micro	Very small	Total
	Average	Average	Average	Average
Full-time owners/managers:				
Male	0,55	0,92	0,94	0,80
Female	0,45	0,31	0,42	0,38
Full-time employees:				
Male	No employees	1,26	6,31	1,98
Female	No employees	0,64	3,86	1,15

Total full-time workers	1,00	3,13	11,53	4,30
Part-time employees: Male Female	 0,28 0,18	 0,14 0,04	 0,91 0,42	 0,36 0,17
Contract/seasonal workers: Male Female	 None None	 None None	 0,16 0,06	 0,04 0,01

Table 5 indicates the dominance of male workers employed by the three business types. It also indicates the skewed distribution towards smaller business types in the survey (most respondents were in the micro business type category).

Generic and vocational skills

Generic skills are defined as those skills that are universal and apply across a variety of jobs/occupational groups. There is no consensus on what these skills are, but they generally include communication, problem solving, information technology and teamwork skills[20]. For research purposes, financial and accounting skills and general business skills besides communication were perceived to be generic skills for these small business establishments.

Vocational skills are defined as those specific skills needed to work within the specified occupation. Thus, for example, an establishment in the textile business would need specific skills such as sewing, embroidering, etc, to be successful. Similarly, the current needs of an establishment in the agricultural business would be, say, vegetable-growing skills.

First, the owner/managers of these establishments were asked to rate their generic skills on a three-point scale where 1 = no skills, 2 = limited skills and 3 = adequate skills. The list of generic skills included the following:

- interpersonal/teamwork skills
- computer skills
- problem-solving skills
- technical skills, other than computer
- basic mathematical
- basic reading skills

Indices were developed where all adequate skills were allocated a weight of 2, and all limited skills a weight of 1. Those small businesses claiming to have none of the listed skills were allocated a weight of zero (0). The weighted total of each skill was calculated by multiplying the incidence of the skill by the respective weights. The skill with the highest weighted total was equated to 100, and the remaining skills calculated in accordance with the above, using the formula b/a, where b = the weighted total of the skill under consideration and a = the weighted total of the most predominant skill. The trends are depicted in table 6 below.

Table 6: Generic business skills of workers employed (indices and percentages)

Generic skills	Sur-vivor	Micro	Very small	Total	Adequate skills				Limited skills				No skills			
					%				%				%			
	Index	Index	Index	Index	S	M	VS	Tot	S	M	VS	Tot	S	M	VS	Tot

The highest level of adequate skills is basic reading skills (64,6%) and basic mathematical skills (53,4%). The three most problematic areas are lack of computer skills (10,6%) and technical skills other than computer skills (23,0%), problem-solving skills (34,8%) and interpersonal skills (40,4%). This trend is discernable across all business types but is more notable among the survivalist and micro establishments.

Current and future skills of owner/managers

The last point to be surveyed was to ask the owner/managers and employees what financial/accounting, information technology and business skills they have, and what skills they will need in the near future. The results are shown in tables 7 and 8 below.

Table 7: Current and future skills of owners/managers

Skills category	**Current skills**				**Future skills**			
Financial/ accounting skills	Survivor	Micro	Very small	Total	Survivor	Micro	Very small	Total
	Recording of and accounting for cash transactions	Recording of and accounting for cash transactions	Recording of and accounting for cash transactions	Recording of and accounting for cash transactions	Recording of and accounting for cash transactions	Data processing/ storing, retrieving and supplying information	Computerised bookkeeping system	Computerised bookkeeping system
	Data processing/ storing, retrieving and supplying information	Recording of and accounting for credit transactions	Recording of and accounting for credit transactions	Recording of and accounting for credit transactions	Recording of and accounting for credit transactions	Implementing audit procedures/ cost accounting	Data processing/ storing, retrieving and supplying information	Recording of and accounting for credit transactions
	Recording of and accounting for credit transactions	Recording payroll transactions	Recording payroll transactions	Data processing/ storing, retrieving and supplying information	Maintaining financial records and accounts	Operating cash/credit management system and analysis/ interpretation of financial statements	Preparing financial reports	Data processing/ storing, retrieving and supplying information
Information technology skills	Typing and keyboard skills	Typing and keyboard skills	Typing and keyboard skills	Typing and keyboard skills	Basic Internet and e-mail skills	Basic Internet and e-mail skills	Basic Internet and e-mail skills	Basic Internet and e-mail skills
		Basic Internet and e-mail skills	Basic Internet and e-mail skills	Basic Internet and e-mail skills	Computer programming skills	Computer programming skills	Computer programming skills	Computer programming skills
					Information communication technology skills	Information communication technology skills	Information communication technology skills	Information communication technology skills

						Website development skills		
Business skills	Customer care	Basic business management skills	Basic business management skills	Basic business management skills	Basic business management skills	Public relations skills	Public relations skills	Public relations skills
	Basic business management skills	Customer care	Customer care	Customer care	Marketing/ communication skills	Marketing/ communication skills	Labour relations skills	Marketing/com-munication skills
	Merchandise/selling skills	Stock control	Stock control	Stock control	Merchandise/ selling skills	Merchandise/selling skills	Marketing/ communication skills	Labour relations skills
					Labour relations skills			Merchandise/ selling skills

Table 8: Current and future skills of full-time employees

Skills category	Current skills				Future skills			
Financial/ accounting skills	**Survivor**	**Micro**	**Very small**	**Total**	**Survivor**	**Micro**	**Very small**	**Total**
	No employees	Recording of and accounting for cash transactions	Recording of and accounting for cash transactions	Recording of and accounting for cash transactions	No employees	Recording of and accounting for cash transactions	Data processing/ storing, retrieving and supplying information	Recording of and accounting for cash transactions
		Recording of and accounting for credit transactions	Recording of and accounting for credit transactions	Recording of and accounting for credit transactions		Using information technology	Using information technology	Using information technology
		Maintaining financial records and accounts	Recording payroll transactions	Recording payroll transactions		Drafting of financial statements	Basic analysis and interpretation of financial results	Data processing/ storing, retrieving and supplying information

Information technology skills	No employees	Typing and keyboard skills	Typing and keyboard skills	Typing and keyboard skills	No employees	Computer programming	Basic Internet and e-mail skills	Basic Internet and e-mail skills
		Basic Internet and e-mail skills	Basic Internet and e-mail skills	Basic Internet and e-mail skills		Typing and keyboard skills	Typing and keyboard skills	Computer programming skills
						Computer equipment operation skills	Computer programming	Computer assistance
							Information communication technology skills	
Business skills	No employees	Customer care	Customer care	Customer care	No employees	Stock control	Labour relations skills	Stock control
		Merchandise/ selling skills	Stock control	Merchandise/ selling skills		Marketing/ communi-cation skills	Stock control	Labour relations skills
		Marketing/ communca-tion skills		Stock control		Labour relations skills	Public relations skills	Marketing/ communication skills
						Business management skills		

The need for information technology skills appears to be the highest. However, the fact that some of the required future financial/accounting and business skills correlate closely with the current skills of the owners/managers, shows that some of these skills are not being adequately addressed. This is further substantiated by the fact that for the highest incidence of current skills per skills category, only 41,6%, 20,5% and 47,4% respectively of full-time managers indicated that they have the specific financial/accounting, information technology and business skills. For the full-time workers, the highest incidence of current financial/ accounting, information technology and business skills are only 5,4%, 3,2% and 7,9% respectively. Based on tables 7 and 8, the future skills of owners/ managers and employees can be summarised as follows:

- senior management skills (eg oral and written communication, decision-making, conflict management and group/team management skills)
- general management skills (eg recruiting, training and financial skills)
- operations management skills (eg customer services and safety and security skills)

Besides specific managerial skills shortages, the owners/managers interviewed also listed shortages of certain clerical skills prevalent in their businesses, such as

- clerical office skills (eg typing, basic computer and keyboard skills)
- clerical stock skills (eg numeracy skills such as addition and subtraction, clerical and administrative, inventory control, basic mathematical and customer service skills)
- clerical accounting/bookkeeping skills (eg basic computer, organisational, communication, basic mathematical, basic filing and automated and manual bookkeeping skills)
- clerical operations skills (eg administrative, customer service and machine/equipment skills such as those in calculator and personal computer skills)

SUMMARY

The analysis of the generic skills types clearly indicates the importance of financial/accounting, information technology and business skills for the effective functioning of small business. It is clear that owners/managers regard these skills as critical to the effective management and operation of a small business establishment. Consequently, the medium- to long-term survival rate of small business establishments that lack these skills is in jeopardy, and it is therefore imperative to rectify these skills problems as soon as possible. It would be beneficial to design skills programmes to promote training opportunities for owners/managers and employees of small business establishments in the peri-urban areas of Northern Tshwane. Ensuring the possibility of economic regeneration via the small business sector will require continual enhancement of worker skills. Such an approach requires sound planning and strategising by government, private business and the community. In support of this endeavour, this paper provides valuable information on the available and future skills that need to be broadened and further developed in order to improve the efficiency and competitiveness of small businesses. Greater efficiency and competitiveness of small business establishments will increase the potential of this sector to generate higher output and employment, which, in turn, could contribute to economic growth. Better prospects for community development

and social upliftment will therefore flow from increased and sustained economic growth via the small business sector.

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APPLICATION OF STAKEHOLDER THEORY TO INVESTIGATE SMALL ENTERPRISE CORPORATE SOCIAL RESPONSIBILITY.

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ABSTRACT

While economic aspects of small enterprises (SE) have been extensively researched, there appears to be limited research on community roles, particularly SE corporate social responsibility (CSR). This research provides insight into behaviour of stakeholders (SE owners, employees, customers, suppliers, community groups, governments) and suggests strategies to improve stakeholder performance. It is hypothesized SE's are able to identify salient stakeholders; stakeholder salience influences form and extent of CSR participation; and SE CSR participation is influenced by stakeholders' location and SE performance.

A review of the limited literature available on SE CSR provided a framework to investigate SE CSR. This framework guided a qualitative case study methodology involving SE's chosen by theoretical replication. Each SE was interviewed using a semi-structured face-to-face instrument. Interview questions comprised qualitative, open-ended questions, and quantitative closed questions using a Likert scale, for the collection of data. The following paragraphs present principal findings and conclusions of the research.

SE's were able to identify and classify stakeholders by attributes and thereby determine stakeholder salience. Despite relatively high levels of salience for employees, customers, and suppliers, it was found SE's focused CSR participation on stakeholders with lower levels of salience. SE CSR participation with community stakeholders was economically significant ($4900 per enterprise per annum), and principally stock and cash.

Motivations for CSR participation ranged along a continuum from strategic, profit oriented activities at one end, usually expressed through marketing activities, to reactive at the other end, based on altruistic motives. Motivations measured along this continuum varied between stakeholders, with motivations for CSR towards community stakeholders determined by a common core of motivations; altruism, marketing, enterprise reputation, and needs of recipients.

Ability for SE's to participate in CSR was influenced by common factors; low enterprise profitability, lower than anticipated sales, and higher than anticipated enterprise expenses. CSR participation with community stakeholders, for example, was influenced by these factors as well as a history of engaging in CSR participation with community stakeholders.

Keywords

Stakeholders, corporate social responsibility, small enterprise, Australia

INTRODUCTION

Meredith (1977) argued small enterprises are multi-faceted, comprising economic and social aspects. While there exists extensive research into the economic significance and effects of small enterprises (Small Business in Australia 1999, 2000; Report of the Committee on Small Business, 1971), community and sociological contributions of small enterprises are scarcely acknowledged and remain unexplored (Reynolds, Williams, and Savage, 2000; Alizadeh, 1996; McMahon, Holmes, Hutchinson, and Forsaith, 1993; Meredith, 1977; Stanworth and Curran, 1976).

An aspect of SE interaction with the community is CSR whose modern foundations derive from Berle and Means (1932) who documented separation of ownership and control in large enterprises. Formal writing on CSR focused on roles of managers and responsibility of enterprises to communities (stakeholders) that became an important area of scholarship and research focused in the United States of America (USA). CSR literature has been related almost exclusively to large enterprises and demonstrates a presence of CSR with diversity as regards its form, motivation and impact on communities (Kedia and Kuntz, 1991). A similar recognition of small enterprise CSR has not been documented, evidenced by few empirical studies, the latest being Thompson, Smith, and Hood (1993) that addressed charitable contributions by small enterprises in the USA.

Small enterprises in Australia operate pluralistically in society, interacting with groups (stakeholders) economically and socially in a largely unknown manner, possibly with CSR participation in similar magnitudes to large enterprises, yet small enterprises have received little research attention. This exploratory study provides insights into small enterprise CSR within an Australian context.

LITERATURE REVIEW

A framework for this research is provided by three literature sets; stakeholder, corporate social responsibility (CSR), and small enterprises (SE). Specifically, stakeholder theory provides a mechanism to analyse CSR participation within the Australian small enterprises.

A context for this small enterprise research is provided by the adoption of the current Australian Bureau of Statistics definition which embodied qualitative characteristics described in Wiltshire Committee (1971: p.11): 'one or two persons are required to make all the critical management decisions… with specific knowledge in only one or two functional areas,' and defines a small retail enterprise in terms of number of employees (Small Business in Australia 1999, 2000: p.2): '… a businesses employing less than 20 people…'

Stakeholder theory was pioneered by Freeman (1984) in *Strategic Management: A Stakeholder Approach,* who (1984: p.48) stated; 'The stakeholder approach is about groups and individuals who can effect the organization, and is about managerial behaviour taken in response to those groups and individuals.' Stakeholder theory implies heterogeneous stakeholders whose attributes can be analysed in terms of stakeholder attributes. A broad definition of stakeholders was adopted for this research; specifically that proposed by Freeman (1984: p.46): 'A stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organizations objectives.'

Consistent with an objective to employ a broad concept of stakeholders, a stakeholder model developed by Mitchell et al. (1997) was chosen, as it provided multiple stakeholder categories with a mechanism to accommodate changed stakeholder relationships as a consequence of changes to enterprise environments. Mitchell et al. (1997) developed a broad-based stakeholder model linked to concepts of power, legitimacy, and urgency.

Stakeholders may be identified by attributes that depend on prior knowledge, expectations, immediate context, and capacity of owners to discern stakeholders and give an appropriate response. Stakeholder attributes - power, legitimacy, and urgency that exist independently of each other. For example, stakeholders' power to influence behaviour of an enterprise is perceived to be without regard to legitimacy. Stakeholders possess legitimacy when enterprises perceive stakeholder actions or claims based on legal rights or moral interest based on harms and/or benefits of actions of an enterprise. Power and legitimacy are core attributes expected to affect stakeholder salience and when combined, equate to legitimate power, termed authority. Stakeholders possess urgency when their claims on organizational attention are time sensitive and critical to operations of an enterprise.

A second major plank underpinning this research is corporate social responsibility (CSR): 'The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time' (Carroll, 1979: p.500). Alternatively, 'obligations to constituent groups in society other than stockholders and beyond that prescribed by law and union contract' (Jones, 1980: p.59-60). Davis (1973) generalizes stakeholders and states mere compliance, fulfilling minimum requirements in one or more of either economically, socially, or legally, does not constitute CSR: 'social responsibility begins where the law ends.' Whether to respond to CSR is part of an enterprise's strategic plans that proactively integrates CSR into planning activities in recognizing that failure to do so may adversely impact on enterprise performance in that customers may, in due course, patronize other enterprises.

Carroll (1991: p.40) stated: 'For CSR to be accepted by the conscientious business owner, it should be framed in such a way that the entire range of business responsibilities is embraced. It was argued four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid.' Economic and legal responsibilities have been acknowledged by enterprises: to make a profit, obey the law, be ethical, and be a good corporate citizen. Carroll (1991) argued that only in recent years had ethical and philanthropic functions taken a significant place that coincided with a change in nomenclature, with 'discretionary component' becoming 'philanthropic' and embracing 'corporate citizenship.'

Carroll's (1991) placement of the economic category as the base, a fundamental upon which legal, ethical, and philanthropic depends, supports the neoclassical paradigm: 'the business of business is business.' Fulfillment of responsibilities are not undertaken in a sequential manner, that is economic followed by legal, ethical, and philanthropic but coincidentally, at the same time, fulfilling multiple objectives of an enterprise despite responsibilities being differently ranked.

Although stakeholder theory and CSR literature developed independently, they have complemented and enhanced each other. Stakeholder theory provides a structure which puts 'names and faces' via an orderly classification of economic, legal, ethical, and philanthropic responsibilities as well as strategies and actions to address these responsibilities. While stakeholder theory has not been previously employed in small enterprise CSR research, there is significant support for its application. Carroll (1991), a prolific writer on CSR, endorsed stakeholder theory as providing a language and a conceptual framework for diagnosing, analyzing, and prioritizing an organization's relationships and strategies. Carroll (1991: p.43) argued: 'There is a natural fit between the idea of corporate social responsibility and an organization's stakeholders.' Carroll (1993) argued that the term 'social' in CSR is vague, lacking specificity as to which enterprises are responsible but argued stakeholder concepts specified groups or persons: puts 'names and faces' on society members or groups who are most important to enterprises and to whom enterprises are to respond. An affirmation of stakeholder theory was given by Wood and Jones (1995: p.230) who viewed stakeholder theory to be 'the most relevant theoretical framework for assessing corporate social performance.' Consequently, an integration of small enterprise stakeholders and stakeholder classifications provided a framework to investigate small enterprise stakeholder CSR.

RESEARCH METHODOLOGY

This research employs an interpretivist ontology with a realist epistemology to access a 'hidden slice of reality,' and to facilitate an understanding of managerial perceptions where meanings are socially constructed rather than being value-free. Case research methodology was viewed as appropriate at a pre-paradigmatic stage (Perry, Alizedah and Riege, 1997) when 'investigating contemporary phenomena within real-life contexts when the boundaries between phenomenon and context are not clearly evident' (Yin 1994: p.13). Theoretical replication was used to purposefully select 10 cases that were chosen with the assistance of the Hunter Business Chamber, Australia. Cases were descriptively named, Butcherco is a retail butcher and Floristco is a retail florist. A semi-structured face-to-face interview was undertaken, after obtaining informed consent of interviewees, using

a research instrument comprising eight questions: qualitative, open-ended questions, and quantitative closed questions using a Likert scale. Qualitative data, words or groups of words, was analyzed within a context of a research problem and research questions with computer software used for axial coding while a need to remain 'close' to the data precluded the use of computer software for selective coding.

RESULTS

Small enterprises listed and ranked stakeholders and on doing so, facilitated development of an aggregate ranking of stakeholders. Stakeholders were analysed in terms of attributes and based on Mitchell et al. (1997) classified according to stakeholder salience (Table 1). Employees and customers, for example exhibit stakeholder claims of power and legitimacy and classified as dominant stakeholders. On the other hand, community charities possess only legitimacy and are deemed discretionary stakeholders. Stakeholders were also analysed in terms of enterprise responsibilities according to Carroll (1991) that presented a pyramid of enterprise responsibilities. Employees and customers, for example, elicited economic/legal enterprise responsibilities while at the other end of the spectrum, community charities, for example, illustrated ethical / philanthropic responsibilities.

Rank order of stakeholders was determined using a method outlined by Zikmund (1997) that multiplied the frequency times the stakeholder ranked to develop a scale. For each interviewee, the first stakeholder was given a score of 1 while stakeholder five given a score of 5, those outside the top five rankings given a loading of 6, and aggregated across interviewees to determine an overall ranking of stakeholders.

Small enterprise owners consistently identified employees, customers, and suppliers to be of prime importance to their enterprises. Community stakeholders, although eliciting some variations due to enterprise location and preferences of small enterprise owners, were commonly identified as stakeholders, frequently ranking fourth or fifth by individual small enterprises. Aggregate ranking of stakeholders in large measure reflected individual rankings with primacy given to operational stakeholders, namely employees, customers and suppliers. Stakeholder rankings were viewed by small enterprises as remaining constant through time.

Table 1 Stakeholder salience and enterprise responsibilities

Ranked Stakeholders	Mitchell et al. (1997) Stakeholder attributes	Stakeholder salience	Carroll (1991) Enterprise responsibilities
Employees	Power/legitimacy	Dominant	Economic/legal
Customers	Power/legitimacy	Dominant	Economic/legal
Suppliers	Power/legitimacy	Dominant	Economic/legal
Community - charities	Legitimacy Discretionary		Ethical/philanthropic
Community – schools	Nil Discretionary/	potential	Ethical/philanthropic
Community –	Nil		Ethical/philanthropic

general	Discretionary/ potential	

Employees, customers, and suppliers were chosen and consistently ranked first, second, and third respectively by small enterprise owners as being of prime importance with community stakeholders (community-charities, community-schools and community-general) ranked fourth, fifth and sixth respectively. A rank order that placed employees, customers and suppliers (dominant stakeholders) fulfilling economic/legal responsibilities ahead of community stakeholders (discretionary and/or potential) fulfilling ethical/philanthropic is consistent with a strategic enterprise orientation. In doing so, interviewees illustrated a strategic enterprise focus by assignment of priorities to operational stakeholders that addressed economic and legal responsibilities of enterprise operations ranked before communities that may be classified and fulfilling ethical/philanthropic responsibilities.

Small enterprise owners had an intimate knowledge of their enterprises and, as a result, demonstrated little propensity to formally express enterprise objectives and policies. However, a lack of documentation need not imply small enterprises were devoid of either direction or strategic orientation. Interviewee comments suggested an expressed intention to be 'close' to operational stakeholders, such as employees, suppliers, and customers, and designed strategies and policies that addressed present and future needs of these enterprise stakeholders. Consequently, small enterprises were strategically oriented as seen in ranking of stakeholders and multiple enterprise objectives such as profit maximization, marketing activities and networking with local markets including community stakeholders.

Table 2 presents stakeholder CSR participation in monetary terms by type of participation with percentage calculations, horizontally and vertically, based on monetary CSR participation.

Table 2 Stakeholder form and extent of CSR participation

	Stock $	Gift vouchers $	Cash $	Discounts $	Time $	Total $
Employees $					2400 (100%) (39%)	2400 (100%) (5%)
Customers $						
Suppliers $						
Community - Charities $	13900 (65%) (50%)	190 (1%) (19%)	4700 (22%) (45%)	250 (1%) (7%)	2200 (11%) (36%)	21240 (100%) (43%)
Community - Schools $	6960 (77%) (25%)	760 (8%) (74%)	150 (2%) (1%)	950 (11%) (26%)	200 (2%) (3%)	9020 (100%) (19%)
Community	6900 (42%)	80 (1%)	5620 (34%)	2450	1300 (8%)	16350

- General $	(25%)	(7%)	(54%)	(15%) (67%)	(22%)	(100%) (33%)
Total $	27760 (57%) (100%)	1030 (2%) (100%)	10470 (21%) (100%)	3650 (7%) (100%)	6100 (13%) (100%)	49010(100 %) (100%)

CSR participation was directed towards community-charities ($21240, 43%), community-general that was predominantly sporting groups ($16350, 33%), community-schools ($9020, 19%) and employees ($2400, 5%). Components of stakeholder participation included stock ($27760, 57%), cash ($10470, 21%), time costed at $40 per hour ($6100, 13%), discounts ($3650, 7%), and gift vouchers ($1030, 2%). Stock provided the highest percentage participation for each community stakeholder, namely community-charities ($13900, 65%), community-schools ($6960, 77%) and community-general ($6900, 42%). Cash participation was approximately equally distributed between community-charities ($4700, 45%) and community-general ($5620, 54%). Schools received cash ($150, 1%) and majority participation in gift vouchers ($760, 74%).

Community-charities participated with stock ($13900, 65%), cash ($4700, 22%), time ($2200, 11%) and minute amounts of gift vouchers ($250, 1%) and discounts ($190, 1%). Community-general reflected a similar spread of participation particularly in terms of stock ($6900, 42%) and cash ($5620, 34%), discounts ($2450, 15%), time ($1300, 8%), and gift vouchers ($80, 1%). Community-schools likewise included a predominance of stock ($6960, 77%), similar amounts of discounts ($950, 11%) and gift vouchers ($760, 8%), a modest participations of cash ($150, 2%), and time ($200, 2%). Stock and cash were major aspects of participation for community-charities and community-general while gift vouchers were the major component for community-schools with time relatively evenly spread between employees, community-charities, and community-general.

Composition of stakeholder CSR participation reflected small enterprise ease of participation and attributes of recipient stakeholders. Stock and cash, for example, are based on stakeholder attributes, a preferred means of participation by community-charities and community-general while at the same time, a relatively easy means for small enterprises to participate with stakeholders. On the other hand, community-schools would also have a preference for CSR participation via stock and cash, but primarily received gift vouchers, suggesting a marketing orientation by CSR participating small enterprises.

Stakeholder salience provided a framework to analyze stakeholder CSR participation. Community stakeholders, discretionary and/or potential stakeholders, possessing relatively little stakeholder salience, were the primary participants in enterprise CSR participation. (F3.2). Despite a significant amount of enterprise expenditure on employees, customers, and suppliers (dominant stakeholders) interviewees were not able to assign monetary values to CSR participation. There is a strong suggestion that contributions to employees, customers, and suppliers was not CSR participation but a market-driven response from competitive pressures to match provisions by other enterprises and, as such, does not constitute CSR participation. In summary, a decision to question an existence of CSR participation with employees, customers, and suppliers was not based on a qualitative-quantitative dichotomy of data but whether contributions were in excess of what was required economically and/or legally: a crux of CSR participation.

Stakeholder CSR participation took place with discretionary and/or potential stakeholders: community-charities, community-schools, and community- general. CSR participation

reflected stakeholder attributes as well as small enterprise preferences emphasizing stock and cash CSR participation. Participation ranged from a modest $450 to in excess of $14000 per annum with a mean enterprise participation of $4900. Significant variations between levels of enterprise CSR participation suggest differences in motivations to undertake CSR.

Small enterprises operate with a strategic orientation, and it was further found small enterprises were able to differentiate between community stakeholders (community-charity, community-schools, community-general) and assign different CSR motivations to respective community stakeholders (Table 4.18, p.165). The relative importance of a motivation was therefore responsive to enterprise considerations and/or attributes of stakeholders. At an enterprise level, marketing, for example, was relatively important for Musico and less important for Statco while, at a stakeholder level, marketing was relatively unimportant for community-charities compared to community- schools and community-general.

Motivations to participate with stakeholders in CSR emphasized the prefix 'local.' Local occurred in conjunction with schools, charities, clubs, sporting groups and general communities being described *as the locals.* 'Locals' in turn participated, *a service for the locals* (Bakerco) and goods, donations, and enterprise vouchers. CSR participation with local affiliations was, with the exception of Musico and Butcherco, neither strategic, nor random, but appropriately described as structured CSR participation. Requests for participation were evaluated in a considered and structured manner: Clothesco, *we support local schools, they're your customers;* Jewelerco*, we'd prefer to make it somewhere where it goes to the clients who generate our income … We prioritise or give priority to things that are local;* and Statco, who participates based on altruism have similar criterion in that requests from outside the local area receive negative replies because *they have nothing to do with us.*

Musico CSR participation with community stakeholders was an extension of marketing activities. Floristco and Butcherco were structured and deliberate with stakeholder CSR participation giving credence to a suggestion that community stakeholder CSR participation, at least for Musico, Floristco, and Butcherco, is not a random mix of stakeholders but part of an overall strategic enterprise plan. Interviewees did not view communities as an amorphous, undifferentiated stakeholders but discerned stakeholder differences as illustrated by selective participation between and within stakeholders and assignment of different stakeholder motivations for CSR participation.

A common core of five influences (policy on CSR, higher than anticipated enterprise expenses, lower than sales, low enterprise profitability, and opportunity costs-life style and time), as would be expected, accounted for 84% of influences for community-charities, 83% of influences for community-schools, and 84% of influences for community-general (F5.4: F5.6).

Stakeholder influences on CSR participation were related to small enterprise motivations to participate in CSR (Section 4.3.4.1, p.156). Certain aspects including, a non-existence of formal policies on stakeholder CSR participation and a local orientation of CSR participation, applied equally to stakeholder motivations and stakeholder influences on CSR participation (F5.5).

No enterprise had a formal written policy on stakeholder CSR participation and also, without exception, enterprise illustrated an implicit theme underlying stakeholder

influences on CSR participation centered on enterprise location, a 'localness' and, being 'in touch' with local environments. For example, Jewelerco, *We have a definite criterion. We prioritize or give priority to things that are local:* Pharmco, *…if it's not within three or four kilometers radius, I do say no:* and Clothesco, *we support local schools, they're your customers.* Customers suggested elements of marketing, a view included by Musico who commented:

- *I recognise my customers, I know most of my customers so if someone approaches me for something or for some help in any way, I judge for myself the rewards that I think I can offer them.*

Butcherco who treated CSR participation as a cost of doing business, an expense, supported a marketing orientation: *it's the same as advertising.* Alternatively, an influence at the other end of a marketing-altruism continuum (Section 4.3.4.1, p.156, particularly Figure 4.4 p.166), Giftco had *no expectation of return,… a labour of love,* towards stakeholder CSR participation.

CSR participation, derived from an analysis of quantitative data, was influenced by enterprise-level factors that included: by low enterprise profitability, lower than anticipated sales, and higher than anticipated enterprise expenses. In addition, CSR participation influences, derived from an analysis of qualitative data, applied only to community stakeholders (community-charities, community-schools, community-general) included: enterprise policy on CSR, opportunity costs-lifestyle and time, low enterprise profitability, lower than anticipated sales, and higher than anticipated enterprise expenses. Community stakeholder influences illustrated a considerable degree of consistency but with minor percentage variations applicable to community-charities, community-schools, and community-general (F5.5). Consequently, community CSR participation is affected by enterprise influences as well as influences that directly affect community CSR participation.

CONCLUSIONS AND IMPLICATIONS

It was found SE CSR participation was conducted consistently across all ten case studies, with SE's differentiating between stakeholders and targeting CSR participation at those stakeholders with lower perceived salience. The findings and conclusions presented implications for stakeholders and further research. SE's identified who was important to their enterprise: operational stakeholders and community stakeholders. CSR participation highlighted SE's needed to be cognizant of the roles and impacts of stakeholders, particularly community stakeholders, into strategic SE planning processes. Enterprises tended to overlook operational stakeholders (employees, customers, and suppliers) and like community stakeholders, there may be a need to explicitly include operational stakeholders into CSR participation strategies.

This research raises the possibilities of further research either in different locations, industries, within or across areas of literature, or research methodologies. A case research methodology and coding procedures, for example, may be used as a basis to replicate other SE CSR in other locations including non-regional areas where research has indicated SE's operate differently compared to urban SE's.

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FAMILY BACKGROUND AND ENTREPRENEURIAL CAPACITY

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ABSTRACT

The survey clarifies the components of entrepreneurship capacity to understand the entrepreneurial readiness of different kinds of people in terms of family background. Often it can be heard that the entrepreneurial family background is most unfavorable for starting up own business because the members of an entrepreneurial family have that negative experiences of endless and economically precarious entrepreneurial work. It is proposed here that there are large background variations in entrepreneurial capacity in terms of family background. In this paper, entrepreneurship capacity and entrepreneurial intentions in regard to family background will be analyzed. The basic question is, do the family background matter in terms of entrepreneurial capacity. The common negative assumption will be proved untrue.

INTRODUCTION

The rapid changes in industry structure, globalization, technological development, and increasing unemployment require more self-employment end entrepreneurship. In order to develop entrepreneurial activity in any country and region, the entrepreneurial readiness of different kinds of people in terms of the components of entrepreneurship capacity should be identified. For example, a disputable assumption is that the family background, i.e. occupational family context favors or unfavors starting up a business. Often it can be heard that the entrepreneurial family background is most unfavorable for starting up a business because the members of an entrepreneurial family have that negative experiences of endless and economically unsecure entrepreneurial work. Correspondingly, different, untestified assumptions concern the entrepreneurial attitudes and capabilities of those coming from wage earner families in public or private sector, or from decreasing agriculture sector. It is proposed here that there are large background variations in entrepreneurial capacity in terms of family background. In this paper, entrepreneurship capacity and entrepreneurial intentions in regard to family background will be analyzed. The basic question is, does the family background matter in terms of entrepreneurial capacity.

It is assumed that positive attitudes to entrepreneurship, entrepreneurship qualities, and certain entrepreneurship ideals correlate positively with entrepreneurial intentions. Entrepreneurial intentions correlate with starting up a business, although this relationship is not strong. According to pilot surveys (e.g. Routamaa 2001), however, entrepreneurial attitudes correlate slightly with entrepreneurial intentions whereas motivation correlates more significantly with entrepreneurial intentions. Positive attitudes form the basis and favourable climate for entrepreneurship but are rarely the basic reason or motive for it. That is, only

improving attitudes toward entrepreneurship is not enough but the whole scale of entrepreneurial capacity must be taken into account. In order to really increase entrepreneurial activity and start ups, strong efforts to improve entrepreneurial qualities and especially motivation should be done.

EARLIER STUDIES

Discussion has addressed numerous background factors linked to entrepreneurship, for example, previous employment (Ronstadt, 1988) and gender (Buttner and Rosen, 1989; Kolvereid, Shane and Westhead, 1993). Unfortunately, only few studies have been concentrated in family background (Crant, 1996; Gray, 2001), which in this paper is hypothesized to have an impact on entrepreneurship.

Students with entrepreneurial parents reported higher entrepreneurial intentions than those without such role models (Crant, 1996). Miettinen (2001) has studied children's images of entrepreneurial requirements and according to him, children coming from entrepreneurial families appeared to be more positive and realistic in their view about entrepreneurial prerequisites. Gray (2001) suggests that people from strongly supportive families are already starting with resources and capabilities that will stand them in good stead if they wish to pursue a career as an entrepreneur.

Havusela (1999) found that the wage earner culture of a municipality unfavor and agrarian culture favour entrepreneurship in the region. It is true that farmers' entrepreneurial attitudes are quite positive but their entrepreneurial qualities are lower compared to other professional groups (Jokinen, Routamaa and Vesalainen 2000a, 2000b). In general, Jokinen et al. (2000a, 2000b) have found a more positive relationship between entrepreneurial family background and entrepreneurial capabilities compared to farming, private or public sector backgrounds. The transition from wage earner culture to entrepreneurial culture requires boosting the entrepreneurial capabilities in general. For example, Jordaan (2001: 292) concluded that 'the changing nature of agriculture in South Africa provides both 'push' and 'pull' dynamics for agriculturist to engage in entrepreneurial activities...A shift in focus from agricultural producer to agricultural entrepreneur is imperative.' In these circumstances, more knowledge of entrepreneurial capacity and prerequisites is needed in order to arrange appropriate, measures, education and training.

Of course, there are many other background variables as mentioned above associated with entrepreneurial capabilities (see e.g. Routamaa 2001; Routamaa, Rissanen & Hautala 2004) that must be taken into account in efforts to develop entrepreneurial activities. Entrepreneurs are not a homogeneous group (see e.g. Routamaa & Varamäki 1998) but their capability training must be taken care of (see Routamaa 1999, 2000a). In all, the personality of a potential entrepreneur is a key issue in developing entrepreneurship (see e.g. Routamaa 2000b; Routamaa & Rissanen 2004). In a global context, local cultures should be also taken into account (cf. e.g. Ginn 2000; Hautala & Routamaa 2001; Routamaa & Pollari 1998). The basic poverty of entrepreneurial development efforts is a constricted view of the phenomenon (see e.g. Routamaa 2003), due to lack of a wholistic, systemic approach (e.g. Routamaa 1999, 2000b).

RESEARCH METHODOLOGY

Sample. The sample consisted of 9 158 people of which 51 % were females and were 47 % males. The sex of 2 % of respondents was unknown. The sample represented a working age between 18 and 55 years from different parts of Finland. Most of the respondents (15 %) were 41-45 years old and least (10 %) were between 26 and 30 years. The most common educational background of the male respondents was vocational school (42 %) and for female respondents it was institute (29 %), while and the most uncommon educational background for both genders was postgraduate studies, licentiate or doctor (0,7 %). During the time the research was accomplished, the most of the respondents had a full-day job (50 %), while only 5 % of females and 10 % of males were working as entrepreneurs. Considering the family background, the parents of the most respondents had agriculture or forestry as their main livelihood source (32 %). The parents of 28 % had been working on the private sector and 25 % on the public sector, while 15 % of the respondents game from entrepreneur-families.

Instrument. A survey of entrepreneurship capacity in terms of (1) attitudes towards entrepreneurship, (2) different entrepreneurship qualities, (3) entrepreneurial ideals, (4) entrepreneurship motivation, and (5) entrepreneurial intentions was performed as a part of entrepreneurial development program (see Routamaa 1999, 2000). A scale of five alternatives ranging from ‘strongly disagree’ to ‘strongly agree’ was applied when suitable. In addition to the dimensions above the barriers to entrepreneurship were inquired. The potential barriers concern economic risk, entrepreneurial role, the lack of business ideas or knowledge, social risk, resources, social support, and personal traits. Further, push-and-pull factors, i.e., dissatisfaction and opportunity factors were also inquired. Several background variables were asked about, too, for example, age, gender, education, work experience, current professional status, and family background in terms of the parents’ occupation.

Procedure. The *Attitudes Towards Entrepreneurship* were measured by six questions. All the six questions were loaded in one factor in factor analysis, and the loadings were varying between 0.533 and 0.685. This factor had high reliability (Alpha=0.7140).

The *Entrepreneurial Qualities* were measured by 14 questions, of which, five factors (Varimax) were obtained. One question measuring the fear of taking risks was removed because of double loading. The reliabilities (Alpha) of these factors were: Fear of Change 0.5727, Pleasing Others 0.6146, Opportunism 0.5387, Fatalism 0.6199 and Maverick 0.4149. The first quality, Fear of Change, is described in terms of "being slacken under lot of insecurity", "having doubts about new things and believing that changes create only new problems". The second quality, Pleasing Others, included items: "avoiding situations where have to give presentations", "keeping the craziest ideas in one's own mind" and "not wanting attention to one's different thoughts or ideas". The third quality, Opportunism, contains principles such as "succeeding requires not irritating other people", "pleasing those who have power" and "making sure that one's own plans fit to those of others before accomplishing them". Fatalism-quality is described in terms of "succeeding in life is a matter of destiny" and "things will be as they're meant to be". In the last quality, Maverick, topics were: "one's destiny depends on one's own actions" and "accomplishing ideas in spite of resistance of other people".

The *Entrepreneurial Ideals* were different entrepreneurial identities. Respondents could rate the ideal from the perspective that which will suit to him/her best, a personal interpretation about how one sees oneself as an entrepreneur. These ideals were for example; "net-marketer", "shopkeeper", "part-time-entrepreneur" etc., in all 19 ideals offered, see Table 1.

Efforts to Start up New Business were measured by items such as: "Looking for new business ideas", "seeking patent for invention" etc.

Entrepreneurial Intentions were measured by items such as: The question of entrepreneurial intentions consists of three dimensions which are: the intention of starting up a firm, the intention of preparing to start one up, and the intention of being educated for an entrepreneurial career. *Entrepreneurial Intentions* were measured by items such as: "Going to start up business myself within a year", "starting up with a partner", "buying a firm alone", "buying a firm with a partner", and "going to be a shareholder in a new enterprise but not work there within next year".

Push and Pull Factors were measured by five questions. Reliabilities of both factors were high (Push 0.8671, Pull 0.8653).

Needs that Could be Satisfied more likely in the career of entrepreneur than in the current career were measured by eleven questions, of which two factors were obtained: Motivation Factor (alpha= .8158) and Hygiene Factor (alpha=.8746). Hygiene Factor includes statements: Compared to wage labour, working as an entrepreneur... "I would get more respect in society", "I would be a team member and have better relations to co-workers", "I would have better earnings", "I would have higher status and more power", "I would more surely earn my livelihood" and "I would more certainly have enough free-time". Motivation factor is described in terms of: compared to wage labour, working as an entrepreneur... "I could develop and regenerate continuously", "I would be more autonomous and independent", "I could better decide my working-hours" and "I could better accomplish my innovativeness and creativity".

Finally, the *Obstacles for Becoming an Entrepreneur,* were measured by 26 items, from which six factors were obtained: Fear of Failure (alpha=0.8398), Wrong State of Life (alpha=0.7564), Lack of Knowledge (alpha=0.6945), Practical Obstacles (alpha=0.6845), Personal Characteristics (alpha=0.5880) and Lack of Support (alpha=0.8779). Four questions were removed because of low loadings, or loadings in several factors.

Factor *Fear of Failure* included items: Fear of.. "uncertainty of livelihood", "losing my property", "running into debt", "adequate demand", "becoming imprinted as unsuccessful" and "getting laughed at", Wrong State of Life included items: "Entrepreneurship ties too much", "entrepreneurship does not offer enough free-time", "entrepreneurship means loneliness", "current state of life is not suitable for being an entrepreneur" and "it's not profitable to change my current work to entrepreneurship", Lack of Knowledge included items: "Own knowledge is too narrow", "my expertise is difficult to commercialize" and "lack of business idea", Practical Obstacles included questions: "Not getting needed finance", "not finding suitable place" and "fear of lack of skilled labour", Personal Characteristics was formed of items: "Low tolerance of uncertainty", "lack of diligence" and "persistency and lack of service orientation", Lack of Support included questions: "I do not get support from people close to me" and "family does not support me.

RESULTS

Several significant differences were found between the family background and Entrepreneurial Attitudes, Qualities, Ideals, Efforts to Start Up New Business and Entrepreneurial Intentions as well as Entrepreneurial Prerequisites (see Table 1, 2 and 3).

Table1: The Relationships between Family Background and Entrepreneurial Attitudes, Qualities, and Ideals (One-Way Anova).

	Entrepreneur Background	Agriculture Background	Private Sector	Public sector	F-value
Attitudes	3.80	3.76	3.65	3.67	23.627 ***
Q1: Fear of change	3.57	3.35	3.56	3.46	36.549 ***
Q2: Invisible	3.45	3.07	3.30	3.32	61.011 ***
Q3: Opportunist	3.05	2.91	3.04	3.05	17.298 ***
Q4: Fatalist	3.44	3.34	3.46	3.34	9.400 ***
Q5: Maverick	3.69	3.53	3.62	3.60	14.378 ***
I1: Businessman	2.69	2.32	2.40	2.37	25.061 ***
I2: Innovator-entrepreneur	2.32	2.30	2.19	2.19	6.388 ***
I3: Manager-entrepreneur	2.89	2.45	2.53	2.57	34.216 ***
I4: Scientist-entrepreneur	2.05	1.88	1.91	2.01	10.220 ***
I5: Sole proprietor	3.25	3.07	3.06	3.10	5.904 ***
I6: Businessman in team	3.43	3.19	3.28	3.39	16.694 ***
I7: Part-time-entrepreneur	3.04	3.00	2.93	2.88	5.150 ***
I8: Subcontractor	2.97	2.89	2.87	2.75	8.781 ***
I9: Farmer/Forestry-entrepreneur	2.17	3.04	2.01	2.03	108.946 ***
I10: Franchising-entrepreneur	2.22	2.03	2.05	2.23	16.695 ***
I11: Co-operative entrepreneur	2.34	2.46	2.36	2.37	4.407 **

I12: Net-marketer	1.76	1.82	1.70	1.84	8.403 ***
I13: Handcraft-entrepreneur	2.95	3.05	2.89	2.85	10.151 ***
I14: Trainer/Consultant	2.90	2.51	2.69	2.70	26.407 ***
I15: Transportation/Machine contractor	2.27	2.29	2.05	1.97	29.248 ***
I16: Shopkeeper	2.96	2.62	2.71	2.73	16.669 ***
I17: Agent/Representative	2.23	2.07	2.04	2.11	6.896 ***
I18: Social service provider	2.64	2.63	2.42	2.76	22.194 ***
I19: Restaurant-entrepreneur	2.43	2.05	2.17	2.33	32.310 ***

Level of significance: *.05, **.01, ***.001

Table 2: The Relationships between Family Background and Efforts to Start Up New Business and Entrepreneurial Intentions (One-Way Anova).

E1: Looking for new business ideas	2.22	1.93	1.87	1.80	32.048 ***
E2: Trying to produce own product	1.91	1.89	1.68	1.70	22.517 ***
E3: Developing new product or service	2.04	1.90	1.76	1.74	22.697 ***
E4: Looking for co-operation partner	1.91	1.76	1.67	1.66	16.183 ***
E5: Seeking patent for invention	1.38	1.37	1.28	1.32	5.774 ***
E6: Learning business know-how	2.08	1.78	1.79	1.73	26.175 ***
E7: Starting studies of enterprising	1.82	1.56	1.57	1.61	19.609 ***
E8: Participating for a starting-up business education	1.78	1.61	1.58	1.62	10.379 ***
E9: Learning entrepreneurship by working for someone else	1.80	1.66	1.59	1.62	7.140 ***
Going to start up business by myself within a year	1.82	1.75	1.62	1.52	11.062 ***
Going to start up business together with a partner within a year	1.78	1.62	1.57	1.57	5.792 ***
Going to buy already existing firm /business by myself within a year	1.58	1.45	1.37	1.30	13.396 ***
Going to buy already existing enterprise/ business together with	1.55	1.44	1.38	1.40	4.646 **

a partner within a year					
Going to be a shareholder in a new enterprise but not work there within next year	1.55	1.50	1.42	1.39	5.204 ***

Level of significance: *.05, **.01, ***.001

Table 3: The Relationships between Family Background and push and pull factors, hygiene & motivation, and obstacles (One-Way Anova).

Push	2.8425	2.8961	2.9572	2.9151	1.932
Pull	2.4829	2.2924	2.1959	2.1160	21.351 ***
Hygiene factor	2.4922	2.4226	2.4611	2.5206	3.396 *
Motivation factor	3.3285	3.1141	3.2269	3.2176	9.985 ***
O1: fear of failure	2.4597	2.6609	2.5959	2.6344	14.500 ***
O2: wrong state of life	2.3160	2.4868	2.5356	2.5708	19.995 ***
O3: lack of knowledge	2.3179	2.5821	2.4804	2.5366	18.379 ***
O4: practical obstacles	1.9112	2.1018	2.0277	2.0845	13.403 ***
O5: personal characteristics	1.8185	1.9494	1.9129	1.9245	6.240 ***
O6: lack of support	1.7168	2.0300	1.8305	1.8018	26.228 ***

Level of significance: *.05, **.01, ***.001

Post-hoc test in Table 4 and in Table 5 shows the significant differences between groups. Every item had significant difference thus they are not separately reported. Only the basic lines are reported in the text below.

In *Attitudes* overall, the respondents from entrepreneur or agriculture families had higher ratings than respondents from private or public sector families.

Table 4: Comparison of different Family Backgrounds in case of Attitudes, Qualities, Ideals and Efforts. (Post-hoc test: Tukey HSD)

Attitudes towards entrepreneurship	Entrepreneur, Agriculture > Private sector, Public sector
Quality 1: Fear of change	Entrepreneur > Agriculture, Public Sector Private sector, Public sector > Agriculture

	Private sector > Public sector
Quality 2: Invisible	Entrepreneur > Agriculture, Private sector, Public sector Private sector, Public sector > Agriculture
Quality 3: Opportunist	Entrepreneur, Private sector, Public sector > Agriculture
Quality 4: Fatalist	Entrepreneur, Private sector > Agriculture, Public sector
Quality 5: Maverick	Entrepreneur > Agriculture, Private sector, Public sector Private sector, Public sector > Agriculture
Identity 1: Businessman	Entrepreneur > Agriculture, Private sector, Public sector
Identity 2: Innovator-entrepreneur	Entrepreneur, Agriculture > Private sector, Public sector
Identity 3: Manager-entrepreneur	Entrepreneur > Agriculture, Private sector, Public sector Public sector > Agriculture
Identity 4: Scientist-entrepreneur	Entrepreneur, Public sector > Agriculture, Private sector
Identity 5: Sole proprietor	Entrepreneur > Agriculture, Private sector, Public sector
Identity 6: Businessman in team	Entrepreneur, Public sector > Agriculture, Private sector Private sector > Agriculture
Identity 7: Part-time-entrepreneur	Entrepreneur, Agriculture > Public sector
Identity 8: Subcontractor	Entrepreneur, Agriculture, Private sector > Public sector
Identity 9: Farmer/Forestry-entrepreneur	Agriculture > Entrepreneur, Private sector, Public sector
Identity 10: Franchising-entrepreneur	Entrepreneur, Public sector > Agriculture, Private sector
Identity 11: Co-operative entrepreneur	Agriculture > Entrepreneur, Private sector
Identity 12: Net-marketer	Agriculture, Public sector > Private sector
Identity 13: Handcraft-entrepreneur	Agriculture > Private sector, Public sector
Identity 14: Trainer/Consultant	Entrepreneur > Agriculture, Private sector, Public sector Private sector, Public sector > Agriculture
Identity 15: Transportation/Machine contractor	Entrepreneur, Agriculture > Private sector, Public sector
Identity 16: Shopkeeper	Entrepreneur > Agriculture, Private sector, Public sector Public sector > Agriculture
Identity 17: Agent/Representative	Entrepreneur > Agriculture, Private sector, Public sector
Identity 18: Social services	Entrepreneur, Agriculture > Private sector

provider	Public sector > Agriculture, Private sector
Identity 19: Restaurant-entrepreneur	Entrepreneur, Public sector > Agriculture, Private sector Private sector > Agriculture
Effort 1: Looking for new business ideas	Entrepreneur > Agriculture, Private sector, Public sector Agriculture > Public sector
Effort 2: Trying to produce own product	Entrepreneur, Agriculture > Private sector, Public sector
Effort 3: Developing new product or service	Entrepreneur > Agriculture, Private sector, Public sector Agriculture > Private sector, Public sector
Effort 4: Looking for co-operation partner	Entrepreneur > Agriculture, Private sector, Public sector Agriculture > Private sector, Public sector
Effort 5: Seeking patent for invention	Entrepreneur, Agriculture > Private sector
Effort 6: Learning business know-how	Entrepreneur > Agriculture, Private sector, Public sector
Effort 7: Starting studies of entrepreneurship	Entrepreneur > Agriculture, Private sector, Public sector
Effort 8: Participating for a starting-up business education	Entrepreneur > Agriculture, Private sector, Public sector
Effort 9: Learning entrepreneurship by working for someone else	Entrepreneur > Agriculture, Private sector, Public sector

In *Pull factors* overall, respondents with entrepreneurial background had higher ratings than respondents from agricultural, private sector or public sector backgrounds. Furthermore, respondents from agricultural background had higher ratings than respondents with public sector background.

Respondents from public sectors' background appraised *Hygiene factors* overall higher than respondents with agricultural background.

In *Motivation factor* respondents from entrepreneurial background appraised these qualities higher than respondents with agricultural or public sectors background. Furthermore, respondents with background of private and public sectors had higher ratings than respondents with agricultural background.

Overall, when looking at the post-hoc table the respondents with entrepreneurial background had the most positive ratings towards entrepreneurship when compared to others. Respondents from public sectors seem to have most often less positive ratings towards entrepreneurship.

Table 5: Comparison of different Family Backgrounds in case of Intentions, Pull-factor, Motivation and Hygiene Factors, and Obstacles. (Post-hoc test: Tukey HSD)

Intention 1: Going to start up business by myself within a year	Entrepreneur, Agriculture > Private sector, Public sector
Intention 2: Going to start up business together with a partner within a year	Entrepreneur > Agriculture, Private sector, Public sector
Intention 3: Going to buy already existing enterprise/business by myself within a year	Entrepreneur > Agriculture, Private sector, Public sector Agriculture > Public sector
Pull-factor	Entrepreneur > Agriculture, Private sector, Public sector Agriculture > Public sector
Hygiene factor	Public sector > Agriculture
Motivation factor	Entrepreneur > Agriculture, Public sector Private sector, Public sector > Agriculture
Obstacle 1: fear of failure	Agriculture, Private sector, Public sector > Entrepreneur
Obstacle 2: wrong state of life	Agriculture, Private sector, Public sector > Entrepreneur Public sector > Agriculture
Obstacle 3: lack of knowhow	Agriculture, Private sector, Public sector > Entrepreneur Agriculture > Private sector
Obstacle 4: practical obstacles	Agriculture, Private sector, Public sector > Entrepreneur Agriculture > Private sector
Obstacle 5: personal characteristics	Agriculture, Private sector, Public sector > Entrepreneur
Obstacle 6: lack of support	Agriculture, Private sector > Entrepreneur Agriculture > Private sector, Public sector

CONCLUSIONS

Entrepreneurship qualities seem to be quite a decisive factor when an individual is faced with the choice of an entrepreneurial career. A clear-cut entrepreneurial identity makes it easier to choose an entrepreneurial career if one is in two minds about starting up a business. However, there is a gap between the 'ideal' and actualising it if the other entrepreneurial capacity factors are not favourable. Entrepreneurial motivation is quite decisive in the case of a free choice between an entrepreneur and a wage earner. All these factors form a chain, which can lead to an entrepreneurial career in the context of push-and-pull factors as well as

barriers to entrepreneurship. The more positive the dimensions of capacity in the chain, the more probable the entrepreneurial career. In Finland, the weakest link in the chain is entrepreneurial motivation; the security factor is the most important motive in general. This generally explains the weak position of entrepreneurship in Finland. This is largely due to the excessive social security and high taxes and labour costs. Enterprising is not experienced rewarding. Maybe also the strong uncertainty avoidance culture, typical of Finland is partly behind the dominating security factor (see e.g. Routamaa & Pollari 1998). It seems that family background also quite much predicts the entrepreneurial capacity. People originating from entrepreneurial family, farmer family, wage earner family in public sector, or wage earners in private sector quite much differentiate from each others.

POSSIBLE IMPLICATIONS

Based on the research results obtained here, it is possible to forecast entrepreneurial capacity and intentions of different people in terms of family background. Entrepreneurship profiles revealed, for example, what kind of facilities, ideals, barriers, and motives people have. This knowledge helps to direct the development efforts to promote entrepreneurship and to make it possible to carry out better planned 'specified development activities and training'.

In the light of these results, it seems that having a public sector background is a drag on when thinking about the career as entrepreneur, and also the background of private sector can be regarded as some kind of obstacle. Thus entrepreneurial education should be recommended especially to those people who are likely to have more negative attitudes and capacity towards entrepreneurship. Of course, aiming at fast results, those coming from entrepreneurial family are most thankful target group. After identifying the attitudes, push, pull and motivational factors of each person or group, the education or training for entrepreneurship can be modified so as to gain better results.

The politicians and educators should encourage people of different backgrounds to become entrepreneurs and remove disincentives to start-up decision (cf. Routamaa 2003). Transitions all over the world require more self-employment and intrapreneurship.

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THE APPLICATION OF SUPPLY CHAIN MANAGEMENT BEST PRACTICES BY SMALL BUSINESS SUPPLIERS

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ABSTRACT

In this paper a synopsis of the application of supply chain management practices by small and medium-sized businesses (SMEs) will be presented and the position of the SMEs in major supply chains highlighted. This paper endeavours in particular to provide a perspective on the following questions: (1) What are supply chains and supply chain management? (2) Can SMEs successfully apply the approach of supply chain management? (3) To what extent are SME suppliers involved in the supply chain management practices of large organisations (clients) in supply chains? (4) What is the relationship between SME suppliers and large clients in supply chains? The study, which is exploratory, found that the relationship between SME suppliers and large clients is to some extent characterised only by a long-term agreement, open communication and joint problem solving. Risk and benefit-sharing are not always part of the relationship. Other supply chain practices such as multi-organisational teams, integration of information systems and joint planning were neglected in the relationship between small suppliers and large clients. Small suppliers are therefore not afforded the opportunity to fully cooperate and contribute in the supply chain. The results of this study can promote insight into the role of SMEs in supply chains, which might be of interest to educators and consultants, when developing training programmes and advising organisations (large and small) in supply chains. SMEs must fully understand the supply chain management approach and their role. Large organisations, however must realise that, despite their size, SME suppliers are important partners who can contribute substantially to savings in the supply chain.

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INTRODUCTION

Globally, companies such as Wal-Mart, Proctor & Gamble, and Hewlett-Packard have saved millions of dollars in costs and decreased inventories while improving efficiency and customer satisfaction (Chapman, Lawrence & Helms, 2000, p. 31). Increasingly more large businesses in South Africa, implement or work towards implementing the strategic supply chain management approach and in South Africa, strategic supply chain management practices have resulted in cost savings of billions of ZAR (South African rand) (Raath & Van Kraayenberg, 2002, p. 1). This is a result of emerging trends such as intense global competition which demands businesses to be quick, agile and flexible; new technology available to any business willing to adopt it; and more advanced customer expectations. Management concepts that businesses adapt in their endeavour to implement the supply chain management approach include business process re-engineering, total cost of ownership, total quality management, just-in-time, electronic data interchange, e-business, global sourcing, multi-functional and multi-organisational purchasing teams and strategic partnerships.

The successes achieved by organisations that implement the strategic supply chain management approach will certainly have a positive impact on the popularity of the approach and a trend towards implementing the supply chain management approach by increasingly more organisations is to be expected. This trend will undoubtedly influence small and medium-sized businesses (SMEs). Many SMEs are already supplying materials, products and services to large organisations. Hence, the adoption of the strategic supply chain management approach by large organisations in supply chains will have a definite impact on them (SMEs).

OBJECTIVES OF THE PAPER

In this paper an endeavour was made to provide a perspective on the following questions:

- What are supply chains and supply chain management?
- Can SMEs successfully apply the approach of supply chain management?
- Do large clients fully utilise their SME suppliers as partners in their supply chains?
- What are the characteristics of the relationship between SME suppliers and large clients?

Approaches pertaining to supply chain management vary substantially from organisation to organisation and even from one manager to another (Fawcett & Magnan, 2001:7). It is therefore important to define the concepts of supply chain and supply chain management to highlight the angle taken on these concepts in this paper.

Defining a supply chain

According to Monczka, Trent and Handfield (2002:4), a supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage (extraction), through to end users, as well as the associated information flows both up and down the supply chain. It therefore comprises a physical element (the strategic partnering of various market-focused, responsive organisations involved in the transformation of

specific goods) and the information element (controlled sharing of business data and processes). A supply chain can therefore be viewed as the formation of a value chain network consisting of individual functional entities committed to the controlled sharing of business data and processes. Organisations in the supply chain focus on their core activities and outsource the remaining operations to other business partners (Lau & Lee, 2000:598). This results in strategic partnering of various segments of business.

Democker (2000:141) adds that supply chains consist of companies that build portals linking buyers and suppliers – providing a platform to exchange information about products, inventory, capacity, shipment and payment. This is achieved via the implementation of an efficient and effective information flow system – for the organisation and its business partners (Lau & Lee, 2000: 599).

Christiaanse and Kumar (2000:270) are of the opinion that in order to compete successfully, a supply chain needs to be responsive to the customer's demands, provide mass-individualised products or services at the lowest cost and response time at an acceptable level of quality.

Essentially, supply chains are series of linked suppliers and customers - every customer is in turn a supplier to the next downstream organisation until a finished product reaches the ultimate end user.

Defining supply chain management

Management of the supply chain, according to Gattorna (1998:18), has evolved over the last two decades from an emphasis on integrating logistics and lowering costs to providing better products and services to customers, quickly and cheaply. Handfield and Nichols (1999:1) agree to a certain extent, defining supply chain management as a dynamic enabler for organisations to realise the challenge of getting products to consumers when, where, how and in the quantity required in a cost-effective manner.

Monczka *et al* (2002:5) regard supply chain management as the integration of all activities associated with the flow of goods from the raw materials stage through to end users, as well as the associated information flows both up and down the supply chain. These activities include systems management, operation and assembly, purchasing, production scheduling, order processing, inventory management, transportation, warehousing and customer service.

Pooler and Pooler (1997:37) indicate that supply chain management focuses on control of the entire supply chain – placing strategic emphasis on value-added activities and total cost savings. Gattorna (1998:18) takes it a step further by suggesting that corporate and supply chain goals should be united, to improve profitability and growth – thereby increasing shareholder value.

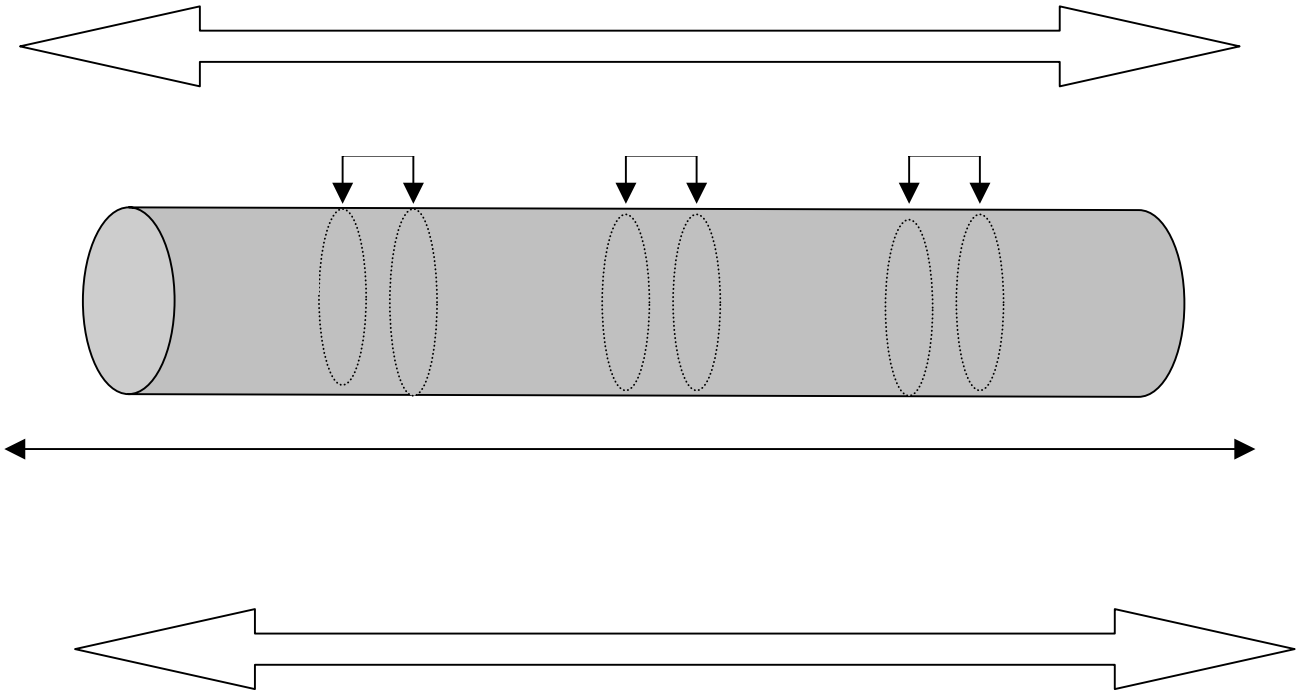
The increasing importance of supply chain management is forcing businesses to adopt the new management approach. Fawcett and Magnan (2001:7) studied the various definitions of the concept of supply chain management in depth. They concluded that to successfully implement supply chain management, businesses must possess the following characteristics:

- They must be relentlessly customer centric.
- They must be driven to improve asset efficiency.

- They must recognise inter-business collaboration as critical.
- They must focus on processes rather than functions.
- They must view open communication as a must.
- They must factor people into every decision.
- They must invest in information technology as an enabler.
- They must be obsessed with performance measurement.

Supply chain management, therefore enables organisations to identify formal processes to integrate all activities associated with the flow of goods from extraction to the final consumer by strategically establishing interbusiness collaboration and information sharing, with the emphasis on value-added activities and total cost savings – as illustrated in exhibit 1.

Exhibit 1 A supply chain model (Hugo, Van Rooyen & Badenhorst, 2002:29)



How SMEs can benefit from best supply chain management practices

Chapman et al (2000: 31) are of the opinion that SMEs can take advantage of the supply chain management strategy for various reasons:

- SMEs are critical links in many supply chains.
- SMEs are very flexible. Many SMEs are still young and developing and it is therefore easier for them to re-engineer existing business processes and adopt a supply chain management approach than for large organisations with a long-standing organisational structure and culture. The integrated approach is inherently part and parcel of SMEs.
- SMEs follow an integrated approach by nature. Various business functions are usually performed by one or a few persons working together.

- Computer software programmes are more SME friendly. IBM, for example, started the service Smart Start, which allows SMEs to use IBM's expertise with information systems along with their own business expertise to find and implement ERP system solutions that work for their business.
- SMEs can also benefit from global competition. Supply chain management provides a method of addressing the competitive challenges facing business today.

Small businesses are therefore already vital links in the supply chains in which they participate. By virtue of their size, flexibility and expertise they possess advantages that they can use to benefit their supply chain and strengthen their own businesses. Technology is increasingly affordable and available to help SMEs take advantage of supply chain strategies. Because of the competitive pressures facing small businesses it is critical for them to use supply chain perspectives and associated strategies to create synergies with supply chain partners in order to succeed in the global competitive environment (Chapman et al, 2002: 34). Despite the optimism of Chapman et al (2002: 31-34) there is reason to doubt the general implementation of the supply chain management approach and willingness and ability to implement the approach by small businesses.

Supply Chain Management: best practices and relationship issues identified

Various focus group workshops with two large multinational corporations and a literature research were conducted to identify supply chain "best practices" and supply chain relationship characteristics. The following synopsis of practices and relationship issues can be regarded as necessary for a supply chain to function properly (This cannot, however, be regarded as all the practices and relationship issues involved in the supply chain management approach):

- *Cross-organisational integration* focuses on the integration of supplier and customer network processes. The purpose is to create an optimised material flow pipeline, free of all obstruction and wasteful activities (Hugo, Badenhorst-Weiss & Van Biljon 2004: 70).
- Collaboration between supply chain partners will reduce risk and greatly improve the efficiency of the overall pipeline. Supply chain efficiency therefore relies heavily on successful *long-term relationships* (partnerships) where *information sharing*, *joint problem solving*, and *trust* are key success factors (Hugo, et al, 2004: 11).
- *EDI* makes it possible for different firms to *integrate their systems and databases* despite differences in compatibility. It is increasingly replaced by more flexible, cost effective e-commerce (and other web-based systems) (Hugo, et al, 2004: 81).
- *Total quality management* (TQM) and continuous improvement (CI) encompasses quality management of the entire supply chain and include all the suppliers and customers in the supply chain down to the final customer.
- The aim of *just-in-time* (JIT) is zero inventory and waste reduction. JIT aims to reduce inventory and waste to zero and will ultimately ensure that the objectives of supply chain management are met. A great deal of trust and cooperation in the various links between firms are required.
- *Supplier development* and the *evaluation of the supplier's performance* is the first issue of managing the supplier relationship. If the supplier's performance is perceived as inadequate, it should be assisted to enhance its performance by means of training and continuous improvement teams (Gadde & Håkansson, 2001: 145-152).

- Planning for the supply chain implies *planning collaboratively* with the external environment consisting of customers, suppliers and other role players in the supply chain (Hugo, et al, 2004: 16).
- Cost transparency, open-book negotiations and *risk and benefit sharing* are an integral part of the supply chain management approach and entail a two-way sharing of cost data. The more holistic approach of *total cost of ownership* (TCO) examines the cost associated with purchased goods and services throughout the supply chain. It considers cost all the way from the generation of a new idea to product development – typically a joint effort between supplier and customer (Hugo, et al, 2004: 80).

RESEARCH FINDINGS

In this section the research conducted amongst SME suppliers and large organisations in South Africa is explained after which the general business information and the nature of the relationships between these SMEs and large organisations in South Africa is revealed. Secondly, the supply chain management best practices that were identified in supply chains in the United Kingdom and the results of the study conducted in South Africa are compared.

The general background information of the research conducted in South Africa

A questionnaire was compiled after focus group workshops with two large multinational corporations were held and literature research was conducted to identify supply chain "best practices" and supply chain relationship characteristics. The questionnaire consisted of two sections. The purpose of section A was to solicit information from large corporations. In section B information was collected from these large organisations' SME suppliers that formed part of their supply chains. Section A of the questionnaire solicited information on (1) the nature of the business, (2) supply chain management practices that were used in the supply chain of the organisations and (3) various other elements that do not fall within the ambit of this paper. Section B solicited information on (1) the nature and scope of SME suppliers, (2) a number of relationship issues between SMEs and larger organisations and (3) the involvement of SME suppliers within the supply chain management practices of their large clients. This paper will report in particular on the findings of this part (section B) of the investigation.

A total of 451 (continuous education) students (employed in the supply field by large corporations which have either fully implemented the supply chain management approach or are progressing well with the implementation thereof) were given an assignment to *firstly* complete the first section (A) of the questionnaire dealing with the situation in their own company (large client), and *secondly,* to identify and interview, with the aid of section B of the questionnaire, a SME supplier who had been supplying materials and services to the core business processes of the company for a while. The sampling method can therefore be regarded as purposive. A total number of 257 questionnaires were received and 219 questionnaires could be used for analysis.

The nature and size of the business operations in South Africa

The majority of operations included in the research were in the manufacturing sector. More than thirty percent of the large organisations were in the manufacturing sector. The rest of the findings are indicated in table one. More than two thirds of the large organisations involved in the research had an annual spend of more than R100 million on purchases from suppliers. A further 11 percent of these organisations spent between R50 million and R100 million on purchases. It is therefore quite clear that the large organisations involved in this study were huge in South African terms.

Table 1: Large organisations- the core nature of the business

Industry/ sector	% of large organisations
Manufacturing	32
Services	23
Mining	16
Communication	10
Logistics	10
Other	9

Forty one percent of the SMEs interviewed were in the manufacturing business while thirty percent were in the services sector. These results are depicted in table two. In contrast with the large organisations twenty percent of the SMEs interviewed had an annual turnover of less than R1 million. Thirty percent of the SMEs had an annual turnover of between one and five million rand. Sixteen percent had an annual turnover of between five and ten million rand and the rest of the SMEs interviewed had a turnover of more than R10 million.

Table 2: SMEs- the core nature of the business

Industry/ sector	% of SMEs
Manufacturing	41
Services	30
Agents/ wholesalers	28
Other	1

The research also indicated that the majority of SMEs were not dependent on a sole large organisation. Seventy two percent of the SMEs interviewed indicated that they received less than 50 percent of their annual turnover from one large organisation. Only 10 percent of the SMEs received more than 80 percent of their annual turnover from one large organisation. Seventy percent of the SMEs interviewed stated that they were a supplier to the large organisation's core business. It would therefore be expected that these organizations would be included in the supply chain management best practices.

A comparison between the supply chain management best practices identified in the United Kingdom amongst SMEs and large organisations and the research conducted in South Africa

In this section of the paper a comparison is made between the supply chain management best practices identified in a research conducted by Jenner and Johnson (2002: 342-354)

in the United Kingdom and empirical research conducted in South Africa. A study by Jenner and Johnsen (2002: 342-354) in the UK indicated that SMEs find it difficult to implement supply chain management best practices, mainly because of lack of influence, resource commitment and knowledge. Regarding the implementation of best practices in supply chain management by SMEs, Jenner and Johnsen (2002: 345-350) report the following findings (which are highlighted in bold):

- **The business and supply chain strategies of SMEs and large organisations are not aligned.**
  In South Africa, this was not the finding. More than 60 percent of the SME suppliers stated that their business strategy was aligned with that of the supply chain. This was in contrast to the findings of the UK research. Further research will indicate the reasons for this finding. A possible reason could be that nearly 70 percent of the SME suppliers delivered a core product to the large organisation and that it was therefore important that the supply chain strategies be aligned.

- **It seems as though dominant supply chain partners may put pressure on small partners to share more benefits and take more risks. SMEs, however, did not regard this as a problem.**
  In the empirical research conducted in South Africa, 42,4 percent of the SMEs interviewed in the South Africa indicated that they were included in risk and benefit sharing. The extent to which the risks and benefits are shared will have to be determined with further research.

- **There was a restriction to openness and transparency with regards to communication between the SMEs and larger organisations.**
  The research in South Africa initially seems to have a different finding until it is investigated more closely. Nearly 85 percent of the SMEs interviewed indicated that there was open communication between them and the larger organisations. From this finding it would seem as though open communication is being applied within supply chains. However, only 34,6 percent of the SMEs indicated that there was an integration of operational, information and communication tools between themselves and the large organisations. Only 29,1 percent of the SMEs felt there was cost transparency and that the concept of total cost of ownership was being applied of which they were part.

- **According to this research joint problem solving was functioning well.**
  This was also the case as experienced by SMEs in South Africa, where 72,8 percent indicated that they were included in joint problem solving.

- **There was little evidence of a structured programme of assessing supplier performance.**
  In the South African research however, 57,6 percent of SMEs felt that supplier performance assessment was being implemented and 55,8 percent of the SMEs felt that there was an assessment of supplier relationships. Nearly 57 percent (56,9%) stated that they were involved with total quality management and continuous improvement that was applied by the large organisation. Nearly 46 percent of the SMEs indicated that the large organisations were involved with developing them.

- **JIT was not regarded as a realistic proposition by the respondents in the UK study.**
  Approximately 47 percent of the South African SMEs indicated that they were involved with JIT inventory management processes with the large organisations.

- **Multidisciplinary teams were used mainly for new product development.** These findings are similar to the findings of the research conducted in South Africa. Only 18,5 percent of SMEs felt that they were involved with cross-organisational process teams of large organisations. Nineteen percent stated that they were included in cross-organisational sourcing teams.

- **Although many SMEs are starting to use elements of e-commerce, it is clear that information technology can be regarded as a hurdle that SMEs will have to overcome to successfully participate in supply chains.**
  Important reasons for a lack of IT application in small businesses are limited funds, inadequate time to invest and lack of knowledge and skills (Caldwell et al, 2002: 123-134 & Wagner, Fillis and Johansson 2002: 721-733). The research indicated that only 20,8 percent of the SMEs in South Africa were involved with EDI and e-commerce with the large organisations.

The study of Jenner and Johnsen (2002) indicated that SMEs experience problems in the supply chain because of a lack of resources and influence over larger, more powerful suppliers and customers. The result is a "coping" approach rather than strategic control by SMEs. A final problem that was identified was the resistance to change culture throughout the supply chain. A lack of knowledge and experience may explain why some "best practices" are seen as less appropriate. The SMEs did not regard open communication between supply chain partners, risk and benefit sharing and joint problem solving as problems.

CONCLUSIONS

In this exploratory study, conducted in Southern Africa, it was found that large suppliers prefer long-term relationships with SME suppliers in supply chains. The large suppliers who have adapted the JIT approach expect and involve their small suppliers in this approach, in contrast to the findings of the other studies previously mentioned. According to the findings of this study, joint problem solving, open communication and timely information are an integral part of the relationship. Risk and benefit sharing and the integration of systems were seldom part of the relationship. Supplier performance assessment and relationship assessment were applied to some extent. SME suppliers experienced problems integrating their systems with those of large clients. These findings are therefore in line with the findings of the studies conducted in the United Kingdom.

On basis of the findings of this study it is suggested that an additional study be conducted with a more detailed questionnaire to make advanced statistical analysis possible. It is also suggested that focus group discussions be held in addition to the interviews to enhance the understanding of the underlying reasons for these findings.

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CREATION: THE EXPERIENCE OF KUWAIT SMALL PROJECTS DEVELOPMENT COMPANY

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HISTORICAL BACKGROUND:

Before the discovery of oil in the early 20th century, the economy of Kuwait was based on trading and traditional small-, micro businesses, and handicrafts to meet the basic needs of the locals and foreign traders. Shipbuilding, fishing, diving for pearls, construction are examples of the economic activities at that time. Kuwaiti entrepreneurs managed to supply the population with their basic needs and succeeded in setting up joint ventures in India and East African countries, the main regional trading partners during that period.

In 1934, many structural changes took place as a result of oil discovery which reshaped the existing economic activities. For examples, many small business owners expand their businesses and became large business owners, and many craftsmen left their jobs to work for the government. As a result, the contribution of the small businesses to the economy declined as the public sector and large industrial and financial businesses expanded remarkably.

Today, the economic structure continues to be dominated by large public and private businesses.

The Private Sector of Kuwait:

The private sector of Kuwait is very small. The total number of the private enterprises is around 25000 , of which 2700 or about 1% has around 10 employees, 60% have less than 30 employees, 15% have less than 50 employees, and 2.1% have more than 600 employees.

Enterprises with around 10 employees (SMEs) are highly concentrated in two sectors: wholesale/retail trade and hotels and restaurants (40% of SMEs), and construction industry (33% of SMEs). The remaining 27% of SMEs are distributed in finance, industry, and services.

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Employment figures on the private sector show that only around 5% of Kuwaitis are employed in the private sector, this percentage reaches 95% in the public sector, where the high wage and job security.

Kuwait Small Projects Development Company (KSPDC)

Due to the government need to correct the imbalance of the labor distribution stated earlier between the private and public sectors, a new policy was adopted in 1996 to encourage Kuwaitis to work in the private sector. A new National Investment Fund was established by Kuwait Investment Authority (a government institution responsible for managing oil revenues and the Kuwait reserves) with a capital of 100 million Kuwaiti Dinars (around US.$ 300 millions) to establish SMEs in Kuwait. A new company was founded in 1997 to carry out this mission on behalf of the Kuwait Investment Authority named Kuwait Small Projects Development Company (KSPDC).

KSPDC Objectives:

The establishment statue of KSPDC specified five objectives. They are as follows:

- Establishing or participating in SMEs to meet the needs of the industrial, commercial, professional, and handicrafts sectors;
- Assisting Kuwaitis to develop their skills and encourage them to enroll in the SMEs needed by the country;
- Assisting in creating job opportunities to fresh graduates from technology and industrial institutions;
- Assisting in developing handicraft and professional projects with the citizens; and
- Preparing studies to determine the feasible SMEs in the industry, commerce, crafts, professions sectors which are needed by the country and employ Kuwaitis, direct them toward these projects, and provide experts for guidance and advice.

KSPDC Conditions:

KSPDC is a venture capital firm. To participate in establishment of an SME, there are few conditions:

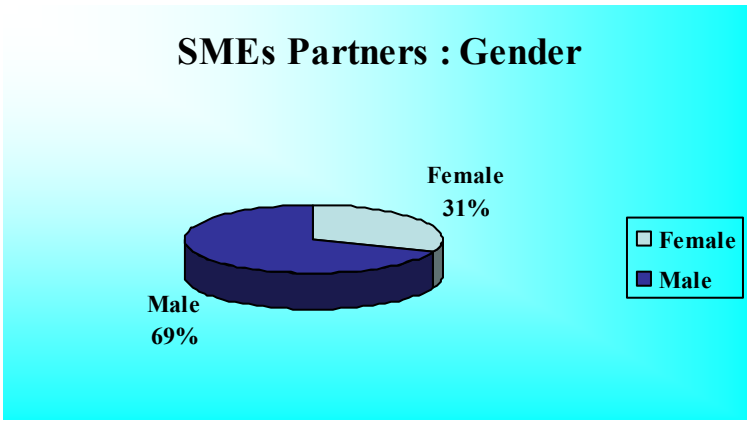
- The project owner should be a Kuwaiti national;
- Age between 21-42 year old;
- Full-time dedication to the project;
- Professional knowledge;
- Project capital should not exceed 500,000 Dinar (US $ 1.5 million);
- KSPDC's maximum equity particpation is 50% of the total cost of the project;
- Exit plan during five years; and
- Accepting the legal, fiscal, and the administrative conditions stated in the partnership agreement.

KSPDC Sectors:

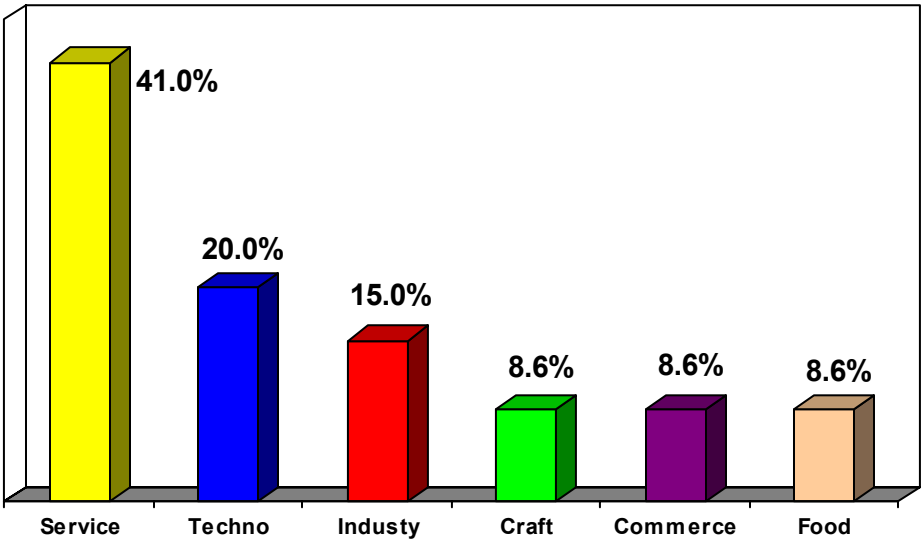
KSPDC can invest in all economic sectors except the real estate, financial brokerage, agriculture and agro-industry, public transportation,

KSPDC Record during 1997-2003

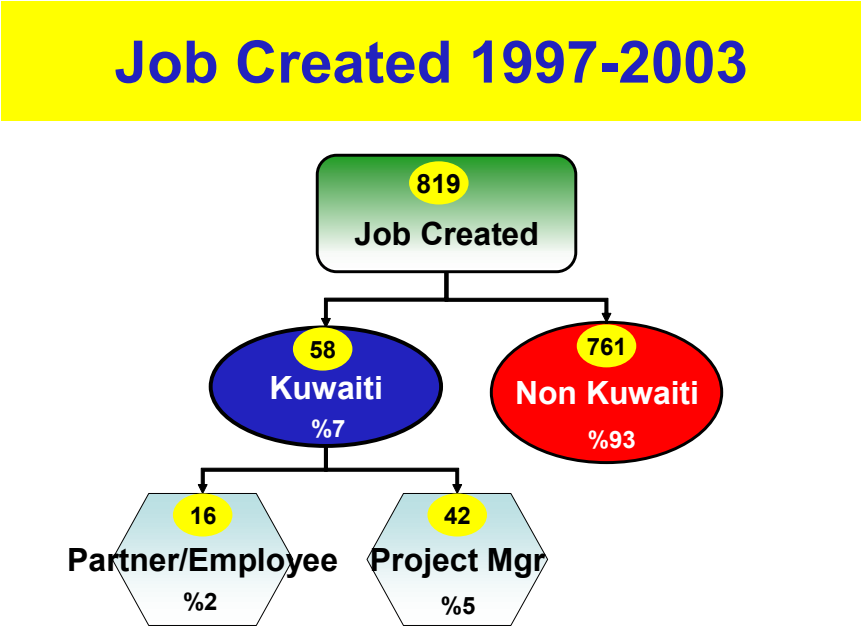
KSPDC established a total of 42 SMEs during 1997-2003. Their total capital was around US $24 millions. The KSPDC's contribution was about 48%. About 31 % of project owners are females, and 69% males, as shown on Chart (1):



The distribution percentage of the SMEs in various economic sectors is shown in chart (2):



As of end of year 2003, the employment statistics indicate that the total number of new jobs created is 819, of which 761 Non-Kuwaitis; and the remaining 58 are Kuwaitis, and of which only 16 employees and the remaining are are business owners. Therefore, of the total job creation, the percentage of Kuwaitis is about 7%, as show on the following diagram:



This employment record shows that there is a serious targeting problem: the company which was founded to create jobs for Kuwaitis, it created jobs for non-Kuwaitis. This was due to the cultural factors. From social and economic perspective, many young Kuwaitis do not like to be employed in low wage jobs, which were generated by the selected projects. Only low wage-foreign labor would accept such jobs. Therefore, there is a need to target the projects which generate socially and economically attractive jobs such as in the field of information technology and petroleum. Moreover, both education and incentives need to be provided to young Kuwaitis to encourage them to work in manual jobs, which are not acceptable to them from cultural and economic point of view.

The Obstacles Facing the Owners of SMEs

KSPDC conducted a survey to identify the obstacles facing the entrepreneurs on October 2003. The survey results show the following obstacles:

- Lack of capital
- Lack of data and information on the market
- Lack of expertise in the area of finance, marketing, accounting, and many technical aspects of the project.
- No hands-on training before and during the operation of the project
- Complicated and lengthy government procedures
- Not sufficient banking support
- Foreign import competition
- No government support for SMEs to win government contracts or subcontracts.
- No government support for SMEs exports
- 10) No legislation to support SMEs in Kuwait

The Future of KSPDC

KSPDC's past performance and its outreach has fallen short of expectations. Therefore a change was required in all aspects of KSPDC operation and investment activities. KSPDC has now new Board of Directors, and a new Managing Director. KSPDC is in process of reengineering its management and staff to ensure the future demand for its operations is meeting thru quality and timely services.

KSPDC's Board of Directors has approved the new strategy for the company to focus on the following:

- Partnership in businesses which yield higher value added to the economy and higher level of employment for Kuwaitis;
- Actively seeking partnership in business opportunities identified out of sector studies;
- Seeking to partner with successful foreign businesses to bring about investment and economic opportunities that would be rewarding for all partners;
- Support success of SMEs, by setting up or work with appropriate partners (private sector, Chamber of Commerce, and the Government agencies) to create an enabling environment, such as entrepreneur and SME information;
- Provide training to entrepreneurs and SMEs operators;
- Promote entrepreneurial culture in Kuwait; and
- Recruit and enhance quality of KSPDC staff

In order for KSPDC to deliver the above, KSPDC is taking proactive steps in reviewing its policies, procedures and processes and working with outside entities (private sector organizations, academic institutions, and the Government agencies) to introduce policies and programs in support of SMEs.

KSPDC would seek out investment opportunities thru equity investments by partnering with Kuwaitis and non-Kuwaitis companies in bringing about higher value added to the local economy and employment opportunities in identified economic sectors in Kuwait such as the energy sector (Petroleum services related business), and defense sector.

Challenges faced by KSPDC is enormous, but the cause is worthy of taking on these challenges.

INTERNATIONAL BUSINESS LINKAGES STUDY
PHASE II

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ACRONYMS AND ABBREVIATIONS

APDF	Africa Project Development Facility
BEE	Black Economic Empowerment
BIS	British Investment Scheme in South Africa Promotional Scheme
CABSA	Canadian Alliance for Business in South Africa
CIDA	Canadian International Development Agency
CTO	Commercial Trade Office
DANIDA	Danish International Development Agency
DFIDSA	UK's Department for International Development in South Africa
DTI	South African Department of Trade and Industry
EMIA	Export Marketing and Investment Assistance
FDI	Foreign Direct Investment
IBL	International Business Linkage
IBLP	International Business Linkage Programme
JV	Joint Venture
MOU	Memorandum of Understanding

NORAD	Norwegian Agency for Development Cooperation
NTSIKA	Ntsika Enterprise Promotion Agency
SAIBL	South African International Business Linkages
SBP	Small Business Project
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SSBF	Swedish South African Business Partnership Fund
TIDP	Trade and Investment Development Programme
TISA	Trade and Investment South Africa

EXECUTIVE SUMMARY

The British Council and the UK's Department for International Development initiated the International Business Linkage Joint Programme (IBLJP) Study in 2003. This study brings together eight different donor funded programmes in South Africa in an effort to identify common strategic issues, good practices and lessons learned.

Linkage programmes participating in this study have been designed to assist companies form business relationships between South African and foreign companies. The linkages supported include those related to trade, investment and the exchange of expertise and technology.

This report forms Phase 2 of the IBLJP Study and is based on secondary data and interviews with relevant key informants from public and private sector. The objective is to critique existing programme design and sustainability in the context of the market.

Key findings of the study are:

- Programmes typically are designed to promote economic growth and / or economic transformation, by encouraging trade and investment and black economic empowerment (respectively);
- The rationale for international business linkage programmes is not based on an assessment of the market and thus an understanding of the market problem; as a result, most programmes are supply rather than demand driven and seem to respond to symptoms rather than the underlying problem in the market;
- Unless programme objectives respond specifically to market failure, effectiveness in achieving IBLs is dubious at best and results in performance measurement which is unrelated to solving the problem in the market.
- Programmes are involved in providing and facilitating international business linkage (IBL) services which enable companies to form partnerships; these services are a subset of what are referred to as business development services (BDS);
- Provision of services by donor programmes have proven to be unsustainable, distort the market and lead to greater problems; therefore, programmes should facilitate rather than directly provide services;
- Analysis of programme achievements and costs has shown that programmes are not as effective as they could be because their interventions are focused at the level of the firm and not of the market;
- Analysis of programme achievements and bilateral economic relationships shows that programmes have had limited impact on the market;

- While linkage sustainability can be undermined by inappropriately subsidized services, none of the programmes even consider sustainability of the services market, indicating a lack of understanding of what the underlying problem is;

This report proposes a model which will significantly shift the role of IBL programmes from linkage facilitator to market developer increasing the likelihood of economic growth and transformation.

INTRODUCTION

Background

Since 1994, several donor funded programmes have emerged which focus on developing international business linkages (IBLs) as a way of reintegrating South Africa and / or black owned enterprises in particular, in to the global economy. The British Investment in South Africa Promotion Scheme (BIS), funded by the UK's Department for International Development (DfID), is one such scheme which aims to encourage new, long term business to business linkages – typically joint ventures - between South Africa and the UK. Started in 1994, BIS was scheduled to come to an end in December 2003. Part of its legacy has been to facilitate a process of learning on linkage and joint venture schemes for South African and foreign small and medium enterprises (SMEs). The forum for this has been mediated by the British Council, managing agency for BIS and has included both members of the donor community and of DTI (see Appendix 1).

Two studies have been commissioned by DfIDSA as an outcome of this process. The first was a study designed to review and document the full range of schemes currently available in South Africa, focusing on their mandates, types of transactions, operating models, process, support mechanisms and performance measurement. This has provided the foundation for a subsequent study to investigate the effectiveness, impacts, markets and sustainability of these IBL programmes.

Terms of reference

The purpose of this second study is to identify the design and sustainability of IBL programmes (IBLPs) and to reflect on good practice and / or lessons learned. To achieve this, objectives of BIS and similar programmes were examined as well as developmental outcomes assessed based on the principle that sustainability of markets should be the main objective.

Approach

The study was conducted over a ten day period in January 2004 by Luqman Ahmad (BDC) and Kirsten Kennedy (**ECI***Africa*). The process included the implementation /submission of

- 20 key informant interviews with members of the donor community, DTI and private sector (see Appendix 2);
- A workshop with representatives of DfIDSA, British Council, SBP and APDF to review findings;
- Final report submitted to British Council and DfIDSA; and

- Presentation of findings at dissemination workshop.

The Phase 2 Report considers the rationale behind IBLs and how these inform the programme objectives and approaches under review. It then assesses programme effectiveness in terms of cost, market impact and sustainability and proposes a model of developing the market of IBL services which can be used as the basis for improving programme design and market sustainability. Several interventions are suggested which reflect good practice in IBL market facilitation.

RATIONALE FOR INTERNATIONAL BUSINESS LINKAGES

All of the IBL programmes reviewed were launched post South Africa's transition to democracy in 1994 and in response to its isolation from the global economy and corresponding impact on growth (post sanctions) as well as the unequal participation in the economy by black business. Those agencies seeking to reduce poverty through economic development focused primarily on one of two approaches:

- Economic growth through promotion of trade and investment, and/or
- Economic transformation through black economic empowerment (BEE).

The former focus on growing efficiencies (e.g. through technology transfers), investment and market share - increasing the size of the market for goods and services for both South African and foreign owned companies - through promoting partnerships. CABSA, Norad, TIDP, BIS and the UK Partnership fall in to this category.

The latter focus on increasing access to markets by BEE companies and either increasing ownership of assets by BEE companies or increasing the BEE profile of companies. Typically, IBL programmes with this rationale focus on promoting exports, technology transfers and investment for BEE companies. SAIBL, Danida and SSBF in particular have this rationale built in to their programmes.

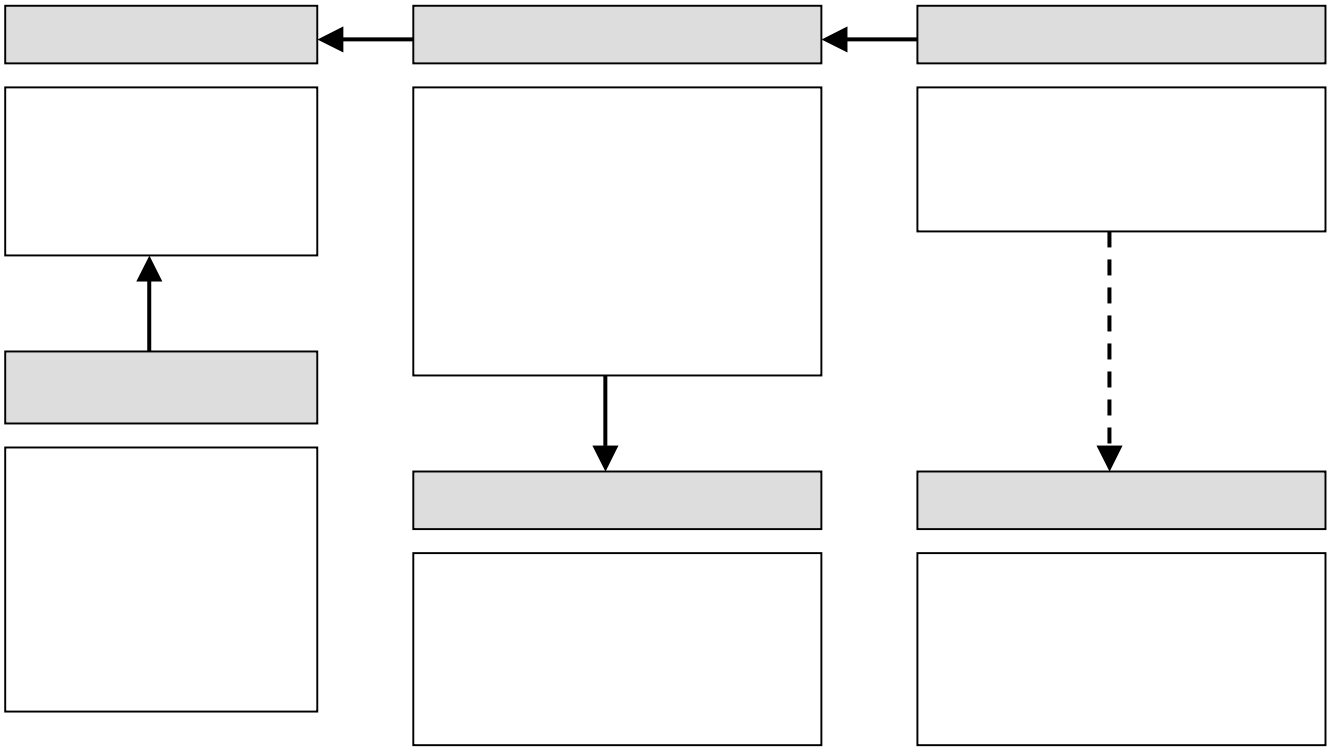
What is of note is that bilateral economic transactions (through international linkages) are but one means to facilitating economic development. Other approaches with the same rationale might prefer to focus on, *inter alia*, creating an enabling environment (through policy or regulatory reform), increasing industry or company competitiveness (through capacity building or training) or providing finance (through the creation of relevant financial mechanisms). The key questions in assessing programme design are:

- What problem are programmes designed to address, if at all? And if so, how have they understood the problem?
- How does their interpretation of the problem translate in to programme design or objectives? I.e. have programmes the "right" objectives? Do their objectives sufficiently address the problem?

The assumption is that good programme design responds to a particular need and in this respect, can be said to be "demand led". The second assumption is that programmes will be effective only to the extent that the problems which they respond to have been correctly understood.

The following framework provides a way of linking programme objectives to the perceived problem and is applied specifically to the context of post-apartheid South Africa and which the IBLs under review responded to.

Figure 1. FRAMEWORK FOR INTERPRETING THE PROBLEM IN THE MARKET.



Prior to '94, South Africa's isolation from the global market was due to sanctions, imposed because of its policy of apartheid, which, in turn, reinforced the development of a dual economy, biased against black owned businesses. The symptoms of poor economic growth, escalating unemployment and lack of participation in the formal economy by BEE companies were caused, in part, by constraints such as lack of access to markets, appropriate and affordable services and lack of capacity. IBL programmes then were designed to respond to the symptoms of economic exclusion and differential market access – at the initiative of donors and in response to the South African government's request to redress some of the problems inherited from apartheid.

With the transition to democracy, however, and the reintegration of South Africa in to the global community, lack of participation in the market by SMEs and BEE companies remains a symptom, caused predominantly by the inability of individual companies to effectively identify opportunities for international business linkages and to effectively attract skills and investment. Basically, many companies still do not know how to identify partners or to structure deals.

At a more systemic level, however, such problems are caused by several factors, such as lack of market information, a lack of IBL support services / service providers, or a lack of demand for IBL support services (as a result of distorted incentives). The distortion of supply and demand reflects the dysfunctional nature of the market and leads to a very different programme response *if* (the symptom is) understood in these terms.
From a range of possible interventions to address the constraints[1], IBLs were selected by these programme implementers as the best way to facilitate greater economic growth and

[1] E.g. training, capacity building, provision of finance

/ or transformation[2] and as such, were designed to respond to *donor/agent* imperatives rather than based on an assessment or understanding of the problem in the market. (See Appendix 3 and 4 for a map of type of transactions and support mechanisms offered by programmes). In this respect, it is true to say that the programmes reviewed are all supply rather than demand led although they may focus on stimulating demand by promoting bilateral trade and investment. Programmes justify their existence by focusing on the fact that they assist historically disadvantaged enterprises (SMEs or black owned enterprises). While not invalid in and of itself, the challenge is to address the failure in the market (in the *current* context) while balancing the objectives of transformation, growth and enhanced access to the South African market by foreign companies.[3]

IBL PROGRAMME OBJECTIVES

Of the eight programmes reviewed for this study, three gave their stated objective as economic transformation i.e. exclusively BEE focused; five are focused on broader economic development. All defined their objectives in terms of results they want to achieve rather than a problem they are attempting to address.

This raises the question of how programmes measure their performance i.e. what measures indicate whether they have achieved their programme objectives or not? In addition, it begs the question of how programmes assess their effectiveness and whether they are effective or not.

Arguably, programmes are effective if they meet objectives, however, if the objectives fall short of addressing the underlying problem and merely address the symptom, then programme effectiveness can be contested.

Effectiveness in this context is measured both in terms of programme cost, impact on the market and sustainability, all functions of programme design. These will be focused on in subsequent sections (see sections 6, 7 and 8). Given the above, however, it is important to decide whether IBLPs are in fact the most effective way to reach objectives or not or whether developing the market for IBLs would not be a more effective way of reaching the goal of growth and participation. Similarly, IBLP implementers need to determine the most appropriate approach (or programme design) if addressing market problems is the main objective.

Performance at this stage is defined in terms of programme achievements or results and can be measured at different levels, viz. outputs, outcomes and impact (short, medium and long term results respectively). An illustration of this is a memorandum of understanding (or MoU) which is a (short term) output of a process facilitating a deal. CABSA and Norad, for example, focus on the number of MoUs as a key indicator of their performance. Figure 2 shows a map of indicators used by the various programmes and illustrates where their primary focus lies.

By contrast, an MoU between two companies may lead in the medium term to an investment which would be regarded as an outcome of the transaction. Impact could then be measured by the number of jobs created and is most likely to be a longer term result of the initial transaction.

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[2] Although it should be noted that most of the programmes are focused on the former, rather than the latter

[3] Recognised and acknowledged as a legitimate and important objective of donors.

Figure 2. MAPPING PROGRAMMES WITH PERFORMANCE MEASUREMENT INDICATORS[4]

	No. Trade Trans.	Value of Trade	Increase Trade	Increase Profit Margins	No. of MOU's	No. of Incremental Deals	No. of JV's	Amount Invested	Grants	Jobs[5]
BIS										
CABSA										
DANIDA										
NORAD										
SAIBL										
Swed/SA Fund										
UK Partnership										
TISA (EMIA)										
Ntsika (TIDP)										
DTI (TEO)										

	1. Main area of activity
	2. Secondary focus
	3. Limited involvement
	4. Area of least involvement

Most of the programmes assessed focus on tracking outputs, with few effectively measuring impacts. The following figure (Figure 3) takes the above indicators and categorises them in to outputs, outcomes and impacts. In addition, it illustrates how programme results link back to their overall objectives. What is evident from the table below is that unless one is measuring impacts[6], it is not clear whether the programme is meeting the necessary objective … a case of "what you measure is what you get". It follows then that if one progresses to addressing a problem in the market, it is imperative to:

- define the objectives in terms of the market (see "potential objective" in Figure 1) and
- to measure performance in terms of impacts and not just outputs.

Figure 3. LOGICAL FRAMEWORK LINKING RESULTS TO OBJECTIVES.

Market problem	Programme objective	Transactions	Approach	Outputs (short term)	Outcomes (medium term)	Impact (long term)

[4] Taken from Inception Phase Report prepared by Luqman Ahmad, April 2003.
[5] Measuring jobs created and or jobs preserved
[6] Note that each level of performance measurement is not mutually exclusive

<table>
<tr><td>Market isolation / poor growth</td><td>Market growth</td><td>Regional trade
Int'l trade
VAR & distribution
Manufacturing & licences</td><td rowspan="2">Market information
Partner ID
MoU support
Business missions
Planning & studies
Technical assistance
Implementation support</td><td rowspan="2">MoU
Incremental deals
No. grants
No. companies assisted</td><td rowspan="2">JV
Value of investment
Value of trade
No. of transactions
Value of finance accessed</td><td>Jobs created
Growth in GDP
Market integration</td></tr>
<tr><td>Unequal access to markets</td><td>Market transformation</td><td>Domestic trade
Technical transfer</td><td>Greater market share for BEE companies</td></tr>
</table>

PROGRAMME APPROACH

In order to reach their objectives, IBL programmes are involved in supporting the development of business linkages. The outcome of these linkages range from straight trade to joint ventures and investment. The approach taken by most of the programmes has been to focus interventions on services associated with making the transaction between the South African and international companies occur. Typically, the services that IBL programmes are involved in include[7]:

- Market information
- Partner identification
- Deal brokering
- Business planning
- Feasibility studies
- Technical assistance
- Access to finance

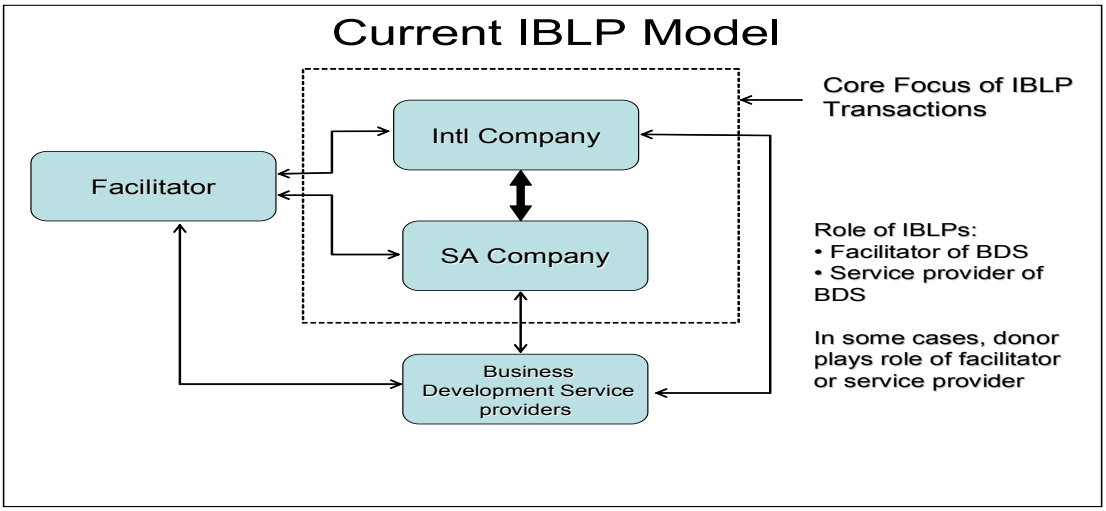
These international business linkage (IBL) associated services enable companies to form partnerships that result in outcomes sought by the programmes. IBL services form part of a broader family of business development services (BDS). In addition to IBL specific BDS, some programmes are also involved in financial services for linkage companies e.g. provision of loans and investment.

In developing partnerships or transactions, the players involved include facilitators and IBL services/BDS providers. A model depicting players, interactions and the focus of the IBL programmes can be found in figure 4.

BDS IS A WIDELY RECOGNISED TERM USED TO DESCRIBE NON-FINANCIAL SERVICES CRITICAL TO THE ENTRY, SURVIVAL, PRODUCTIVITY, COMPETITIVENESS AND GROWTH OF

[7] See Figure 3

Figure 4. CURRENT IBLP MODEL



With the focus of the interventions being on IBL services, the programme implementers typically act in one of the following ways:

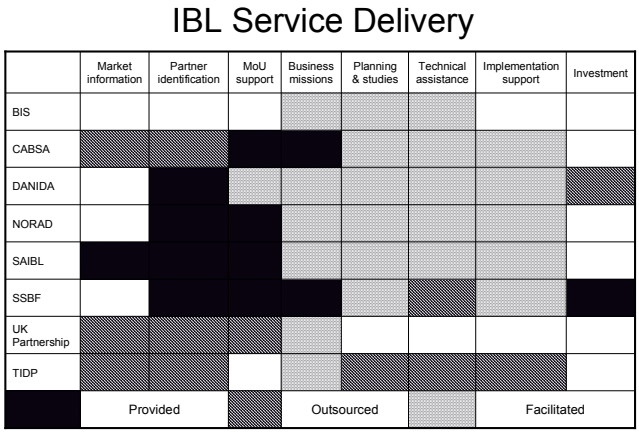
- **Providing Services**: where transaction takes place between IBL programme implementers and the potential linkage companies i.e. where the services are provided directly by the IBLP (e.g. SSBF providing equity finance);

- **Outsourcing Services**: where the transaction takes place between IBLP and the linking companies, however the services are delivered by providers external to the IBLP. From the perspective of the linking companies, the IBLP provided the services. (e.g. CABSA provided companies with market research, however, the research was conducted by external consultants and paid for by CABSA);

- **Facilitating Services**: where services (BDS & Finance) are provided directly to linking companies by private providers. The IBLP bring the service provider and linking company together and/or provide funding to stimulate transaction (e.g. SAIBL cost shares with BEE companies for ISO certification services, where these are provided by consultants).

Only in a few cases do donors actually implement programmes directly and as such play any role within the transaction itself. Figure 5 maps the various IBL programmes and the roles that each play within the associated service areas.

Figure 5: IBL SERVICE DELIVERY



In many cases, the IBLP's act as both service providers and facilitators. Generally, the programmes tend to provide services upstream from the linkage and facilitate services downstream.

Many programmes have traditionally considered gathering market information and partner identification as part of broader linkage facilitation. However, since both of these services are also provided on commercial terms by private providers, it is important that they be recognised as BDS.

Enterprise development experience has taught us that donor funded programmes should facilitate services rather than directly provide services. Not only have direct provision of services by donor programmes proven to be unsustainable, they often distort the market and lead to greater problems; in particular, they can crowd out other commercially driven (private) providers. There are many reasons why the programmes currently provide rather than facilitate services, many of which are based on the following assumptions:

- Lack of service providers
- Lack of appropriate services
- Companies can't afford available services[8].

Programmes facilitating IBL specific BDS often subsidise transactions between linkage firms and service providers, predominantly through cost sharing mechanisms. Subsidies have proven to be valuable in encouraging firms to transact where their perceived risks are higher than actual risk; in addition, they enable smaller firms to transact where they may not have been able to in the past, creating awareness of benefits and opportunities. While recognising the benefits of subsidies, it is also important to understand the potential negative effects they can have on the business linkage as well as the market in which they operate. Inappropriately applied subsidies can distort the market, creating unfair competition or reducing a company's incentive to be more efficient. In extreme situations they actually have led to partnerships being developed that were not viable and wouldn't have occurred if the parties were not given large incentives. Inevitably, these partnerships fail once subsidies are removed.

A good practise adopted by some programmes has been to diminish IBLP subsidies over time. At the company level, reducing subsidies encourages firms to be commercial and not dependent on the programme. At the programme level, reducing subsidies to the market over time prevents a large gap from developing once the programmes exit.

PROGRAMME EFFECTIVENESS

Donor funded IBLP's are a relatively new concept globally; within South Africa, the programmes have only been operating for an average of 6 years. Many of the programmes were developed without knowing exactly what they could achieve. Determining whether these programmes are effective is a fairly subjective exercise and dependent on what is expected of them. From the perspective of the donors only two of the eight programmes did not meet expectations; one can not conclude, however, that meeting expectations is a sufficient measure of whether objectives are relevant and have been effectively met or not.

[8] See "constraints" Figure 1

The programmes have different experiences, approaches, budget and measures of performance; as a result, one is not able to effectively compare programme cost effectiveness and determine benchmarks. It is estimated that over R 330 million has been spent on the eight IBLP's since 1994. When one collectively reviews the outcomes and impacts of these programmes it can be suggested that IBLP's are not the most cost effective way to simply grow or transform the South African economy. Generally IBLP transaction costs are high; one explanation may be the nature of international projects where travel and communication costs are high. If one does not place priority on the international or bilateral objectives of the programme, it is difficult to see how the programmes can be justified when one considers the cost and results one may be able to achieve through *domestic* based linkage and SME development programmes. Figure 6 captures some of the IBLP figures as they relate to primary objectives, duration and budgets.

Figure 6. IBL PROGRAMME DATA

Programme	Primary Objective	Years Operating	Est. avg. cost per year (million)	Future
BIS	Economic Growth	9	R 5.5 m	Closed
CABSA	Economic Growth	7	R 4.5 m	Closed
DANIDA	Transformation	7	R 18 m	Indefinite
NORAD	Economic Growth	5	R 1.3 m	2005
SAIBL	Transformation	5	R 4.6 m	2006
SSBF	Transformation	4	R 7.5 m	2009
TIDP	Economic Growth	7	R 8.35 m	Feb-04
UK-SA	Economic Growth	4	R 1.63 m	Mar-04

Of the eight IBLP's reviewed half will no longer be operational within the next six months. Based on this, future support for IBLP's seems to have diminished. Explanations for why the programmes are not continuing include:

- Limited impact and the difficulty in attributing impact to programme outputs.
- Poor cost effectiveness and high transaction costs.
- A change in donor strategy in which the current IBLP do not fit:
  - A shift towards programming that aims for broader systemic impact.
  - Increased focus on "pro-poor" programming, shifting from economic to social development.

Individual reviews have been carried out for many of the programmes and while the available reports have investigated how programmes are doing against their targets, very little has been written on whether the targets and approach are appropriate and on

effective ways in which to reach the broader objectives of economic growth and transformation.

IMPACT ON MARKETS

While cost-benefit and impact at the level of the firms are important considerations when reviewing the effects of IBLP, it is also necessary to understand the markets in which they operate and the impact they have on them. IBLP markets fall within two broad categories.

i. Markets defined by business linkages between South African and international companies. These then can be broken into specific markets between countries and then into segments that the programmes focus on developing. The two segments that IBLP's typically focus on are associated with SME's and/or black owned businesses.

ii. Markets associated with IBL services. These markets are composed of service providers in both South Africa and abroad, providers include:

- Commercial Trade Offices
- Investment Promotion Agencies
- Private Service Providers
- Internal to companies (typically large companies with international business development divisions)
- IBLP's (in the case where programmes directly provide services)

International Business Markets

The IBLP's each place different emphasis on developing bilateral economic relationships and therefore their importance needs to be considered relative to the core objectives of growth and transformation within South Africa. Taking a broader view of bilateral economic relations requires an investigation of two-way trade and investment. Figures 7 and 8 capture recent data gathered from the South African Reserve Bank.

Figure 7. Bilateral Trade Between South Africa And Selected Countries

Bilateral Relationships	*Imports into SA 2002 (R millions)*	*Percent of Total Imports*	*Exports from SA 2002 (R millions)*	*Percent of Total Exports*
Canada -SA	R 2,423	0.88%	R 1,809	0.58%
Denmark - SA	R 1,258	0.46%	R 698	0.22%
Norway - SA	R 342	0.12%	R 361	0.11%
Sweden - SA	R 3,337	1.22%	R 751	0.24%
UK - SA	R 25,117	9.17%	R 27,568	8.78%
USA - SA	R 31,981	11.67%	R 35,940	11.44%
TOTAL	R 64,458	23.53%	R 67,127	21.37%

Figure 8. Bilateral direct investment between South Africa and selected countries

Bilateral Relationships	Foreign Liabilities FDI into SA Dec 31, 2001 (R millions)	FDI into SA as % of total	Foreign Assets FDI from SA Dec 31, 2001 (R millions)	FDI from SA as % total
Canada -SA	R 2,069	0.56%	R 141	0.06%
Denmark - SA				
Norway - SA				
Sweden - SA	R 640	0.17%		
UK - SA	R 281,263	75.87%	R 74,609	32.24%
USA - SA	R 18,922	5.10%	R 14,101	6.09%
TOTAL	R 302,894	81.71%	R 88,851	38.39%

In order to better understand the impact IBLP's have had on these markets, one needs to analyse these figures over a period of time, from when specific IBLP's were initiated to a future date when impacts of recently facilitated linkages can be assessed. Additionally, since the programmes are focusing on market segments such as SME's and BEE companies the data would need to be disaggregated into SME and BEE terms in order to more fairly assess impact. Unfortunately, this data is not readily available and a more accurate conclusion can not be made.

Based on the information provided by IBLP's and an assessment of bilateral trade and investment figures, it is fair to conclude that the programmes have little impact on the bilateral markets. If viewed on relative terms, programmes developing relationships between already weak bilateral markets have a greater likelihood of affecting their specific market. In the case of the Nordic programmes, the degree of trade and investment is small enough for the programmes to have an effect. Approximately 80 Swedish companies operate in South Africa, 15 of which came into South Africa through the SSBF, demonstrating significant relative impact. At the other end of the spectrum, the UK has consistently been South Africa's largest investor (74% of all FDI) and is one of the top three traders. In this case, developing bilateral economic relationships should not have been an objective as they were already strong in 1994, and a weakness in the market did not exist i.e. there was no apparent problem. This however does not diminish the impact in real terms: R 200 million invested in South Africa is good regardless of where it originates from. Since the approach adopted by the programmes has been to operate at the level of individual businesses it is not likely that impact on markets was initially considered. If impact on international markets is important then IBLP's need to change their approach and start operating at the level of markets.

For the programmes that only work with BEE companies, their impact on broader transformations is also a relevant issue. Empowerment is a dynamic issue in South Africa and requires a flexible approach. The way in which transformation is measured has changed and many programmes have also adjusted how they view the issue. Typically the approach has been to work with black owned businesses and measure the impact at firm level. Measuring transformation at market level will require relevant market statistics; beyond stock exchange data it is difficult to assess the progress of transformation in South Africa. Theoretically, one could measure the impact on transformation in the following ways:

- Black owned companies' or BEE share of international trade and investment

- Change in BEE companies' contribution to GDP over time
- Growth in total BEE company revenue and profits over time
- Transformation of company profile over time (non-equity based criteria)
- BEE market share at sector and sub-sector level

Currently measuring impact on transformation is not possible as IBLP's do not have the resources to effectively measure their impact on transformation at the market level.

Reflecting upon 8-10 years of IBL experience with BEE does provide us with some interesting findings. Programmes working with BEE companies have found it difficult to identify BEE companies ready for international partnerships. Based on simply reviewing the outcomes of domestic BEE linkage programmes (ECI Africa and SBP) it can be suggested that IBL's are a more difficult way through which to achieve transformation objectives. International firms are relatively uninformed (compared to domestic companies) of the advantages of partnering with BEE companies, additionally there are fewer incentives for them to transact with BEE firms at the international level compared to the domestic market.

IBL Services Markets

Based on the scale of international business transactions occurring in South Africa, the market for services is assumed to be large relative to the IBLP's outreach. While the IBLP's have not been focused on developing IBL services markets they are part of them and therefore it is important to understand what effects they are having. A positive impact on the IBL services market (subset of BDS) would be the sustainable growth of supply and demand. In addition, BDS markets have proven to be more sustainable when they are commercially driven by the private sector.

As described earlier, the programmes providing services have made assumptions about the market that still need to be tested. An IBL services market assessment needs to be done to establish a baseline against which programmes measure. Without a clear understanding of these markets, programmes run the risk of either preventing the market from growing, or shrinking the existing market. It is important that IBLP's providing services recognise that they may be displacing other private providers and that their subsidies have potentially negative affects on the market.

Considering the potential market distortions resulting from current interventions and the estimated size of the IBL services market, it is unlikely that the IBLP's have undermined the market. If programmes are to develop sustainable IBL services markets, interventions need to be based on a clear understanding of what is preventing the IBL services market from growing and then designing interventions that address that problem.

SUSTAINABILITY

Sustainability in this context should be considered at three different levels, viz. sustainability of:

- International business linkages;
- Programmes; and
- The market (for BDS).

Linkage sustainability

As the inception phase report points out, "programmes have been designed with different performance measurement indicators and the exit strategies have generally been to achieve these within a certain amount of funding" (Ahmad: 2003; 18). Programmes have thus been limited to some degree by funding and time frame constraints rather than by exit strategies tied to performance of market related objectives. Since most programmes are interested in linkage sustainability, their interventions have also included *post* linkage support e.g. through ongoing assistance with planning, market studies, technical advice, implementation and investment[9]. Programme results suggest however, that this design is not sufficient to ensure formation of *effective* linkages; that the problem is, again, not with individual companies alone but with the weakness in the BDS market. This explains in part why such high investments have been made in trying to facilitate or develop individual business partnerships.

There are several barriers to linkage sustainability some of which are highlighted here. In some instances, ventures are supported which are not viable (and which would not be invested in by commercial BDS providers) however, the objective of promoting transformation and growth and of achieving outputs is such that it compromises IBLPs in who they target for assistance and in many instances, companies respond who are not export ready but who recognise and wish to take advantage of an opportunity for assistance.

A second barrier is that the most-often supply driven nature of services is such that they create artificial demand: companies may take advantage of their services because they are, in some way, heavily subsidised and not because this is what the company actually needs. One of the outcomes of this is that companies do not receive the type and quality of services which are most appropriate to their needs, nor do service providers learn to supply what companies really demand. (This is an illustration of incentive distortion – such transactions are not commercially based and therefore do not reflect "real" supply and demand. The outcome of such interventions is less likely to secure sustainable linkages than might otherwise be the case).

In addition to distorted incentives, it is found that overly subsidised transactions are difficult to exit from, creating dependency between client and provider. This accounts again for the high cost of developing such a linkage and of the unlikelihood of it being truly sustainable: unless based on real supply and demand, the linkage will not survive beyond the intervention or support of the provider.

Finally, many linkages are not sustainable because one of the two partners loses commitment to the process or is not truly committed in the first place. This happens often

[9] See Appendix 4

where the process is either deemed to be too slow or problematic or where the partner is deemed to be incapable of meeting their share of the bargain.

The learning from this is that (notwithstanding all that has been said about programme design) programmes would do well to respond to real market demand and to target companies which are export ready.

Programme sustainability

At the level of *programme* sustainability, both TIDP and SSBF, for example, are concerned with adapting their programmes to become more relevant and sustainable. These are the only two programmes concerned, however, with this level of sustainability. In the case of TIDP, programme sustainability is more of an imperative given the public nature of its status and function. Other programmes have focused less on this level of sustainability as they have been confined by funding constraints and have reached the end of their life span.

Programme sustainability is of relevance only where market services are being facilitated (and even then, a clear exit point needs to be defined), however, in general, programmes are not expected to be sustainable nor should they necessarily try to be. Rather, the focus should be on linkage sustainability. One question this raises is whether the provision of financial services by IBLPs is then an appropriate intervention or not; In the case of SSBF, investments of R1 – 2 million are made in South African ventures where partnerships with Swedish companies materialise. The problem with this is that the nature of the intervention depends on the existence of the fund so that programme sustainability is of concern, however, if the market were responsible for the investment, SSBF would merely play a facilitating role and thus could have a defined exit strategy.

A final challenge to IBLPs is to ensure transfer of knowledge to local institutions and organisations who are developing linkages; not only is their knowledge of the foreign market invaluable to other providers, but their experience can contribute to the lessons learned in the market place.

Market sustainability

None of the programmes reviewed were addressing market sustainability i.e. how to ensure the more effective and authentic supply and demand of IBL, or business development, services. Building these markets is more likely to address the problem in the market than simply tackling the symptom, however, it is our view that this will be addressed by the next generation of programme architects. For now, private sector IBL service providers are more likely to be sustainable than public ones because they operate within a market which requires their services and on a purely commercial basis. More will be said about this in the next section.

THE WAY FORWARD

Rationale

The rationale for a new model of international business linkages is based on an understanding of the problem in the market viz. that lack of growth and participation in the

current market context are caused by market problems, either through subsidies, unequal supply and demand or lack of information.

Programme objectives

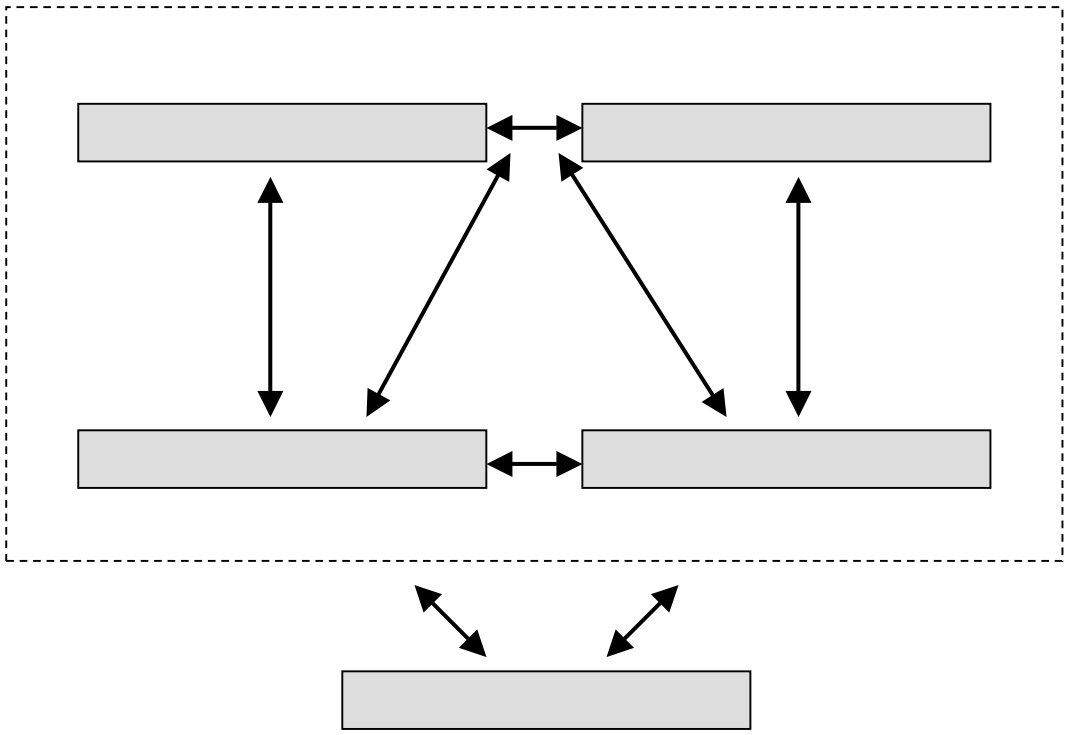
The programme objective thus becomes focused on addressing the problem at the level of the market rather than at the level of the firm. The objective may still be economic growth and / or transformation, but is achieved by developing the market rather than by developing international business linkages.

Programme approach

Figure 9 illustrates what the new model of the market looks like, compared to Figure 4.

In the old model, the focus was on the transaction between partner firms (foreign company and local SME). In the new model, the focus is on the entire market of providers and "consumers" of BDS and partner firms. The objective is still to achieve linkages in the market, but now the focus is on developing the market: rather than IBLPs targeting their intervention at the level of individual firms, interventions are targeted at the level of the market (e.g. how to stimulate supply and demand for IBL services).

Figure 9: POTENTIAL NEW MODEL OF THE IBL MARKET



The role of the IBLP facilitator is also different and shifts from direct facilitation of linkages to indirect facilitation of linkages by focusing rather on market development facilitation. Of necessity, this includes supporting private service providers. In addition, subsidies will be at best removed, at least reduced, to ensure minimal effects of distortion on the market.

The focus is thus wider and no longer dependent on what IBLPs do *for* individual consumers; instead the focus is on enabling firms (the market of providers and

consumers) to transact with each other i.e. the market makes IBLs happen rather than IBLPs making it happen.

Programme effectiveness

Given the rationale for this approach and the shift in objective, we would argue that this design is likely to be more effective: instead of investing in a few partner firms (as consumers of BDS), the investment might be in a few BDS providers, each of whom in turn can transact with multiple firms.

Impact on markets

This design has the potential to be effective – and have impact - at two levels (IBL services and international business linkages):

- The multiplier effect on the market i.e. developing a strong market of IBL services which enables more companies to access the kinds of services required for IBL transactions i.e. an output of this might be the number of SME or BEE firms participating in the market, whereas the long term impact would be market integration and greater market share for BEE or SME firms.; and
- The effect on the IBL market i.e. making the market of linkages work. An output of this may be many deals with potential impact of jobs created, growth in GDP, increased trade and investment.

Sustainability

If the market problem is addressed and distortions removed, the market will work more efficiently than it does at present; symptoms of exclusion and slow growth should then reduce over time. The assumption is that as the market moves closer to effective matching of supply and demand, it will become more sustainable. So, for example, BDS will meet consumer requirements and firms will themselves become more export ready and able to participate successfully in the market. Linkages will thus be based on effective demand and so will likewise be more sustainable.

Sustainability of programmes will thus be determined by their objective in the market. If the objective is to develop the market, the point at which programmes exit the market becomes more easily defined and measurable.

Practical Steps

Ideally new programmes would be designed around the principles of the new approach. This would be founded upon an assessment of the IBL services market, identifying constraints within the market and building interventions that address these problems. Typically service market constraints can be classified into four categories:

- Demand side problems (companies engaged or interested in an international linkage);
- Supply side problems (IBL service provider);
- Transaction problems;
- Market environment problems.

While new programmes have the benefit of flexibility, existing programmes already have an understanding of the market and can better prioritise which problems are more important to address.

In trying to develop markets of IBL services, interventions should be careful not to distort the market too heavily. An effective IBL services market would be where supply equals demand. The proposed approach builds upon what we currently know about BDS market development and since IBL services are a sub-set of BDS, it is important that implementers utilise identified BDS programming good practises.

IBLP's in South Africa can build upon existing programmes by starting to introduce the market development approach in incremental steps. Below are a series of practical steps that for consideration:

- Develop a directory of IBL service providers:
  - IBLP's in South Africa contribute to developing a database of credible providers.
  - Encourage CTO's in South Africa to put forward contact details of individual brokers and consultants servicing their clients.
  - Work with partner organisations in the foreign countries to start a similar process of creating an IBL service provider directory.

- Understand Demand:
  - Survey existing or past clients to determine what services they found valuable, as well as what their willingness and ability to pay is.

- Understand Supply:
  - Engage with IBL service providers to understand the problems they have in servicing the market; this could be done through a simple survey or focus group discussion.
  - Engage with BDS providers to inform them of the opportunities within IBL service market.

- Facilitate IBL service provider linkages:
  - Encourage local providers to engage and make contact with foreign providers, either through sponsored business missions or simply by providing directories.

- Encourage direct transactions:
  - Consider reshaping funding mechanisms such that they are consumer driven and enable a degree of flexibility e.g. make use of vouchers to stimulate demand.
  - Help facilitate transactions which use innovative payment methods e.g. incentive or results based. This will open new markets for providers while making it affordable to clients.

- Harmonise IBLP efforts:
  - Discuss and agree upon an acceptable level of subsidies so that one programme does not undermine the market development activities of another (i.e. free services vs. cost sharing).

  - Feedback to policy level:

- Help to create better understanding of the problems within the markets by providing information to the DTI and other relevant government organisations.

CONCLUSION

Forty years of enterprise development experience has led to the formulation of the market development approach. What this paper has offered is a critique of the current model of international business linkage programmes by applying recognised good practice in market and enterprise development. As a response, we propose a model which addresses both the systemic problems in the market and possible steps to transition from one model to the next.

Appendix 1. Participants In International Business Linkage Joint Programme Study

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Appendix 2. List Of Key Informant Interviews

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Swedish South African Business Partnership Fund (SSBF)
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Will Center

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NORAD's Matchmaking Programme South Africa
Knut Ringstad

DANIDA B-t-B
Torben Anderson

SBP
Chris Darroll

TISA
Riaan Leroux

ABSA International Trade Promotion Services
Aubrey Ellman

NTSIKA (TIDP)
Lefa Mallane

APDF
Jesper Kjaer

Appendix 3. Mapping Programmes With The Types Of Transactions.

	Domestic Trade	Regional Trade	International Trade	VAR & Distribution	Tech. Transfer	Man& Licences	Joint Venture[10]	Foreign Direct INV.
BIS								
CABSA								
DANIDA								
NORAD								
SAIBL								
Swed/SA Fund								
UK Partnership								
TISA (EMIA)								
Ntsika (TIDP)								
DTI (TEO)								

	1. Main area of activity
	2. Secondary focus
	3. Limited involvement
	4. Area of least involvement

[10] Commonly defined as a partnership between two companies, where both parties share risks and returns. Joint Ventures are newly formed businesses.

Appendix 4. Mapping Programmes Against Support Mechanism

	Market Info.	Partner Identification	MOU Support[11]	Business Missions	Planning & Studies	Technical Assistance	Imp. Support[12]	Investment
BIS								
CABSA								
DANIDA								
NORAD								
SAIBL								
Swed/SA Fund								
UK Partnership								
TISA (EMIA)								
Ntsika (TIDP)								
DTI (TEO)								

	1. Main area of activity
	2. Secondary focus
	3. Limited involvement
	4. Area of least involvement

[11] Support that is used for negotiating or finalising a Memorandum of Understanding agreement

[12] Once a partnership is formed, support that is designed to assist in the implementation of the business (operational)

“GLOBALIZATION AND THE IMPACT ON ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT IN THE DEVELOPING WORLD”

BY ERIC MCLAREN PHILLIPS

“ROLE OF GOVERNMENT AND PUBLIC POLICY”

Globalization is an irreversible process. Driven by the global process of Privatization and Democratisation ; underpinned by Capital Markets and Global Financial Institutions such as the IMF ; the increasing centrality of World Trade Organization in providing a common framework, Regionalization such as the European Union and the Free Trade of the Americas; the increasing interdependence of countries in the global economy ; and finally by political strategies and necessities…..Developing countries have few choices but to participate in this interdependency of “choice and coercion”.

The role of Government and Public Policy is therefore central to the sustainable growth of Small Businesses in Developing countries and especially so in multi ethnic, multi cultural, multi racial societies where historically one particular group, for one of a large variety of reasons, have dominated the political or economic landscape of that country.

Moreso what is needed is visionary leadership, aggressive interventionist Public Policies, a supportive legal framework to underpin policies, institutionalized financial architectures and the strategic selection of key individuals to implement these structures.

This case study looks at two Developing countries: South Africa and Guyana to illustrate why the above factors can and will determine whether Small Business Development and Entrepreneurship will be sustainable or not.

South Africa and Guyana are both recent democracies with multi ethnic, multi cultural, multi religious societies (six ethnic groups in Guyana, eleven in South Africa); both countries have histories of severe marginalisation (South Africa from centuries of colonisation and over 40 years of Apartheid; Guyana from 400 years of slavery, 132 years of colonisation and 38 years of neo colonization by the PNC and PPP ; large expatriate populations who have done extremely well overseas; rich in resources; and a Commonwealth heritage.

Yet, while South Africa is the darling of the Developing World with its leadership establishing the vision of an African Renaissance, the formation of the African Union and the New Partnership for African Development, Guyana even though it was instrumental in the formation of CARICOM and the Non Aligned Movement, is on the verge of becoming a “failed state”. South Africa is encouraging and nurturing Small Business Development while Guyana is a shrinking economy that encourages neither entrepreneurship nor Small Business Development.

Why are these two societies with so much in common so different in their future prospects and vision?

Leadership

In Developed Nations, political stability is critical element in creating an environment conducive to sustainable Small Business Development and Entrepreneurship. In Developing countries, it becomes significantly more important. In multi cultural, multi racial societies where there has been marginalization of sections of the population, political stability is a “sine qua non” and perhaps the most significant factor in sustainable Small Business Development.

South Africa and Guyana have taken very different paths in this critical area.

After over forty years of Apartheid, South Africa went to their first “one person, one vote” election between April 26-29 1994 under the auspices of a “government of National Unity,” a constitutionally-defined multi-Party government representing all Parties that won seats. After the elections, a new constitution and Bill of Rights took effect, and a new flag and national anthem were adopted. Nine new all-race provinces came into being. After years of terrible marginalization of the majority of the population, this negotiated process brought calm to South Africa.

The ANC won 62% of the votes. The incumbent National Party won 20 % of the vote. The Inkatha Freedom Party won 10.5% of the votes. Four other Parties also won votes.

From 1995 to 2002, the country established a Truth and Reconciliation Commission which examined the violence and abuses incurred by all sides during Apartheid.

After twenty eight years of autocratic rule by the People’s National Congress, a predominantly Black Party, Guyana, in October 1992 had its first internationally held free and fair elections since 1964. A predominantly Indian Party, the People’s Progressive Party with an historic Communist/Socialist philosophy came to power. Since that time, the next two elections have basically been an “ethnic census” in which the majority Indian population, at the behest of Hindu organisations and deliberate racial campaigning and intimidation, have elected the same government. In 2001, the predominantly Indian Party received 53% of the votes and the predominantly African Party receiving 46% of the votes.

Guyana has become a deeply divided racial society. The Indian led government has acted much like the African led government it succeeded in 1992. There have been many calls both locally and internationally for changing the Westminister style winner take all model to a Constitution of “shared governance”. The World Bank has even called Guyana a “failed state”. It has become a transhipment hub for drugs given its largely unprotected borders with Brazil, Venezuela and French Guyana. Guyana is the size of the United Kingdom but has a population of 750,000.

The fundamental reality in Guyana is that Indians do not want to be ruled by an African President and Africans do not want to be ruled by an Indian President. Africans, who arrived in Guyana as slaves 203 years before Indians (who came as Indentured Servants who received freeland or a passage back to India after serving their terms) feel that their marginalisation will continue even though the Party most of them support received 46% of the votes at the last elections in 2001.

Unlike South Africa, Guyana is unwilling to move to Reconciliation. Leadership with vision, leadership with a posture of reconciliation is absent. Racial lines harden and worsen everyday while the small resource based economy keeps shrinking.

Wheras South Africa's leadership and reconciliatory spirit has led to incredible opportunities for Small Business Development and Entrepreneurship through global events such as the Rugby World Cup, the Cricket World Cup, The Global Conference on Sustainable Development, The Global Conference on Racism and ongoing Africa Union/ NEPAD activities, the 2010 Soccer World Cup and other major activities that have also dramatically increased Tourism…..Guyana is currently struggling to be one of eight countries chosen as a venue for the 2007 Cricket World Cup (in which their bid was to "be the host of the Indian Team" and foreign investment has dried up because of political instability almost all foreign investors.

Just recently, Grant Thornton compiled a report on what the 2010 Soccer bid will do for South Africa. The report indicated that the event will lead to direct expenditure of R12.7 billion; will contribute R21.3 billion to GDP; will create 159,000 new employment opportunities; and will contribute an additional R7.2 billion to government in taxes. The significant infrastructure that will remain after the World Cup and the impact it will have on an already booming tourism industry immeasurable

Entrepreneurship and Small Business Development will flourish in this environment and over the next decade, Tourism, which has the singular potential to create the most jobs in South Africa will have a very sustainable platform.

Like South Africa, Tourism can become one of Guyana's largest job creating industries. Guyana (English speaking)is geographically South American, wedged between Venezuela (Spanish), Brazil (Portuguese) and Suriname (Dutch), but culturally and historically part of the Caribbean (West Indies), hundreds of miles to the north. It is the Caribbean's largest country--- at 215,000 square kilometres, nearly the size of Britain---but also the least densely populated, with under 750,000 inhabitants. And these people, with a dizzying mixture of East Indian, African, English, Dutch, Portuguese and Amerindian ancestries, for most part occupy just a narrow strip of low-lying coastal plain.

The vast interior---lush forest, cloud hidden mountains, and dry savannah---is the Caribbean's most pristine. This is a land of extraordinary natural wealth, with great deposits of gold and bauxite, situated in the middle of oil producing Venezuela and Trinidad and Tobago. Guyana also has many unique tourism features. For example, Kaieteur Falls, the world's highest continuous single-drop waterfall, five times the height of Niagara and twice the height of Victoria Falls, with water plunging 741 feet to the rocks below, then another 81 feet to the bottom of its gorge, its cloud of mist creating an eternal rainbow.

The lack of visionary political leadership has prevented these "economic" treasures from being harvested. Imagine the tourism "mecca" this could become and the associated thousands and thousands of jobs. Small businesses and Entrepreneurship would flourish under the right Leadership and Government policies.

In multi-cultural multi-ethnic societies, enlightened Government and Public policies are vital to economic growth. South Africa took the path of "healing". President Mbeki has gracefully and strategically pursued the path of reconciliation started by President Mandela and with determined brilliance and a competent team has carved out broad macro economic objectives for sustainable growth "with fairness". Guyana has not yet matured and does not want to heal.

AGGRESSIVE INTERVENTIONIST PUBLIC POLICIES

The South African government has spent tremendous political energy putting aggressive interventionist policies in place to promote Small Business Development and Entrepreneurship. One such activity has been the Black Economic Empowerment .

Industry-specific empowerment charters have so far been developed for three sectors in South Africa: mining, information and communications technology, and financial services. These are line with the government's black economic empowerment strategy to address the economic imbalances of the past, and lay out guidelines for building a racially inclusive economy.

The first charter is the MiningThe vision behind the country's **Mining Charter** is to achieve a globally competitive mining industry that can benefit all South Africans. It is an important development in a sector historically dominated by white capital and profiting off the cheap labour provided by a disempowered black majority

The stated goal of the charter is to "create an industry that will proudly reflect the promise of a non-racial South Africa". One of its key objectives is to achieve 26% ownership of mining companies by previously disadvantaged people within the next 10 years.

The charter provides a framework to help mining companies comply with the Mineral & Petroleum Resources Development Act, which obliges mining companies to promote BEE when applying for mineral rights or converting current rights.

A key component of the charter is the Mining Scorecard, which provides a framework for measuring the BEE process in the sector. The scorecard has three core elements: direct empowerment through ownership and control of enterprises and assets; human resource development and employment equity; and indirect empowerment through preferential procurement and enterprise development.

The second charter is the **Financial Sector Charter** .It has been developed by the sector as a whole, representing banks, insurers, black business, fund managers and brokerage firms. The charter is a voluntary commitment agreed on unanimously by 10 industry associations. Signatories to the charter believe it will be a key driver of sustainable growth, redressing social and economic inequities in the country and broadening the skills and asset base of the whole economy.

The charter provides for significant increases in black ownership, management and skills development over the next 10 years. It emphasises the need for procuring services from black businesses in the sector and fostering new and developing BEE firms through joint ventures, skills transferral and infrastructural support.

The charter constitutes a policy framework for the future development of the industry, and is expected to underpin sound business practices and maintain the strength and stability of the financial sector as a whole.

The third Charter is the **ICT Charter**. A working group formed by companies in South Africa's information and communications technology (ICT) sector has released its third draft of an empowerment charter for the industry. The third draft takes into account

extensive input from the country's ICT community, includes the much-anticipated targets for black economic empowerment (BEE) in the sector, and is one of last steps towards the finalisation of the charter, which is scheduled to be released in June 2004.

The World at Large may believe that these types of interventions will chase foreign investors away as the cost of doing business will become prohibitive. But the South African Government is more visionary in that it recognises that “free” markets are only partially free, and that national security, be it racially balanced future growth, job creation from within so that poverty is alleviated and people deprived of basic human rights…… the right to be free, to right to free speech, the right to go anywhere in South Africa…..security and national integration….are at this time more critical than anything else.

What does the implementation of these charters mean?

First of all, creation of incredible opportunities for previously disadvantaged people in South Africa. Positive procurement from government bodies and the enlightened Private sector will lead to a tremendous amount of new Small Businesses and the nurturing of countless Entrepreneurs. With the Financial Charter underpinning these Small Businesses and Entrepreneurs, the future looks bright especially given the 2010 Soccer World Cup.

Guyana is still preoccupied with its race war. It is fighting with itself instead of fighting for itself. In this type of environment, Small Business Development and Entrepreneurship have no space to grow.

The process of Globalisation is a cold blooded one. Nations protect their own “security” interests in many ways. Developing countries heavily subsidize their farmers for a wide variety of local reasons as all politics is ultimately local. Developing countries have been dictated to as cash, market and political power dominate. It is a dog eat dog world.

South Africa is acting to protect its own “security” with these aggressive charters. Were these not to be put in law, the few rich would get richer and the majority poor will get poorer.

SUMMARY

Globalisation is here to stay. Its impact on Entrepreneurship and Small Business Development in the Developing World is dramatic. Developing countries can strive or be destroyed by this process depending on the role their Governments play in setting and creating conditions necessary for sustainable **Small Business Development and in encouraging Entrepreneurship.**

Critical to their success or failure, and especially in multi-ethnic, multi-cultural societies which have endured long periods of marginalization, is a determine attempt to create fairness among all the citizens as this then allows the country to be at peace with itself. Having created political stability, then aggressive interventionist strategies to nurture Small Businesses and to encourage Entrepreneurship within the context of its national “security” envelope, will bode well for economic transformation and sustainable development.Guyana has failed miserable in this endeavour while South Africa flourishes

Joint Consultative Committee

for Small Business Development

"Empowering the Future"

ICSB 49th World Conference 2004

Small Business Assistance Programmes – quality enhancement through Monitoring and Evaluating the SME Service Providers sector

Peik R Bruhns, JCC - Namibia

Issues for presentation

- ✓ Background thoughts on the topic
- ✓ The value of sector wide Monitoring and Evaluation
- ✓ The Namibian Case
  - ➢ Survey information
  - ➢ Services offered
  - ➢ Staff engaged in SME support
  - ➢ Events recorded
- ✓ Lessons

Background thoughts

+ Monitoring – ‘to check the quality of’ (definition Random house Webster's dictionary)
+ Evaluation – ‘to determine the value, quality or significance’ (definition Random house Webster's dictionary)
+ SME sector - for the Namibian case study it is noteworthy that the SME sector is basically synonymous to local economy
+ M&E – ‘monitoring and evaluation’ is not merely a thermometer for achieved programme implementation; as a management tool it serves as barometer - reflecting on quality of programme impact, sustainability and efficiency
+ it is trendy to be demand driven; “How can demand guard quality?”

The value of sector wide M & E

+ Surveys reveal that SMEs constitute the largest sector by employment, providing employment to about 30% of the country's active workforce

+ Macro economic indicators are hugely important, for the SME Service Providers sector it is crucial to know how much has this sector contributed to the flourishing (or failure) of the SME sector

+ It is often observed that SME service providers design their products either according to donors requirements and suggestions or what is already being tested by others, however often the gap would be what SMEs need.

The Namibian Case
Survey information

+ the sent out questionnaires must be filled by a senior manager in the recipient organisation, but must not require more than 15 minutes to be filled in
+ Survey respondents: International Development agencies, National Government departments and Regional/Provincial offices, Local Authorities, NGO's, Parastatals and Private Sector
+ The survey was conducted country wide
+ This survey is carried out on a bi-annual basis to be able to analyse trends and developments
+ The most challenging exercise was to ensure SME service providers that this is not a policing tool imposed on them by donors or others, but potential a very valuable management and planning tool

Services offered

Service Categories	Number of organisations offering in the category			Percentage of total respondents		
	10/03	07/02	01/02	10/03	07/02	01/02
Training	31	28	22	62%	67%	66%
Finance	27	17	20	54%	40%	45%
Marketing	22	13	13	44%	31%	30%
Business support	22	17	2	44%	40%	5%
Sites/Premises provision	11	4	8	22%	10%	18%
Technology transfer	10	5	9	20%	22%	20%
Purchasing and sourcing	8	4	4	18%	10%	9%
Total organisations	48	42	44			

Staff engaged in SME support

Agency Type	Number of respondents			Number of staff directly engaged			Number of staff indirectly engaged		
	10/03	07/02	01/02	10/03	07/02	01/02	10/03	07/02	01/02
Local Authority	2	2	2	14	6	9	165	7	202
Private sector	11	13	11	112	74	89	121	138	54
Parastatals	4	3	2	15	6	5	25	8	9
NGO	18	16	19	77	74	72	89	60	95
International Development Agencies	4	6	5	9	7	12	9	6	17
Government	1	2	5	2	47	87	4	63	87
Totals	40	42	44	229	214	274	413	282	464
			Average	5.7	5.1	6.2	10.3	6.7	10.5

Training recorded

Training Services	Number of organisations listing events			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02
Business training	22	19	15	156	182	222
Vocational skills	12	13	6	81	119	438
Advocacy and capacity building	11	12	5	43	62	39
Organisational development	18	12	11	87	43	107
Other training services	8	3	6	44	9	
Human Resource management	8	8	6	23	25	71
Job search skills	3		4	8	1	438
Totals	31	28	22	442	441	1315

Finance activities recorded

Financial services	Number of organisations listing events			Value (where applicable) N$m			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02	10/03	07/02	01/02
Advice leading to loans	14	12	8				328	404	592
Loans	9	3	6	.254	0.008		231	2	112
Assistance to grant seekers	10	8	7				112	527	119
Grants from own sources	5	8	7	4.519	4.384		24	69	147
Accounting	8	5	2				98	54	35
Loan guarantees	4	2	3	4.021	3.000		91	100	272
Total	27	17	20	8.794	7.392	N/A	884	1156	1277

Marketing activities recorded

Marketing services	Number of organisations listing events			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02
Market research	11	9	3	56	26	21
Feasibility studies	5	6	4	10	23	22
Market research training/workshops	10	4	5	5	6	62
Market development	8	3	3	56	3	17
Market information and linkages	11	7	0	139	11	0
Trade, expo and publicity promotions	9	4	5	12	3	24
Information and access centres	8	3	3	16	93	15
Advertising	12	2	3	83	6	23
Totals	22	13	10	377	171	184

Technology activities recorded

Other Services	Number of organisations listing events			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02
Technology transfer						
Information technology transfer	5	8	6	23	5	19
Milling			1			10
Processing trials of local resources	2	2	2	14	2	3
Machinery development	1	3	1			
Computer aided design	2	1		13	1	
Equipment aid	1	5	4		21	30
Total technology transfer	**10**	**5**	**9**	**50**	**29**	**62**

Sites & premises activities recorded

Other Services	Number of organisations listing events			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02
Sites and premises						
New sites and premises for rent or sale	5	1		7	1	
New incubator units	2			2		
Existing sites and premises rented	5	4	7	233	217	2054
Existing incubator units rented	2		3			28
Packaging and business layout			1			15
Total sites and premises	**11**	**4**	**8**	**242**	**218**	**2097**

Purchasing and sourcing activities recorded

	Number of organisations listing events			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02
Purchasing and sourcing	**8**	**4**	**4**	**4**	**5**	**17**

Business Support activities recorded

Other Services	Number of organisations listing events			Number of events		
	10/03	07/02	01/02	10/03	07/02	01/02
Business support						
Writing business plans	15	9		138	41	
Business mentoring	12	10		166	124	
Skills placement programmes	7	6	1	164	9	1
Other	9	1		40	2	
Total business support	**22**	**17**	**2**	**508**	**176**	**1**

Lessons

+ Sector wide surveying is a brilliant tool to strengthen the case of SME service providers vis-à-vis National Government and international donors and corporate partners;
+ Sector wide surveying assists the individual role players in their gap analysis, prepares the actors for greater understanding of the competitiveness in the sector and creates a good understanding of the value of M&E;
+ the more simplified a survey the more likely the application;
+ response to survey can be rewarded;
+ since the introduction of this tool, the performance of commercially based (and often small) SME service providers appears to get better whilst NGO type organisations struggle more than ever.

LEARNING ABOUT THE UNKNOWN: HOW FAST DO ENTREPRENEURS ADJUST THEIR BELIEFS?

SIMON C. PARKER
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INTRODUCTION

To what extent do entrepreneurs rely on past experience when making decisions about their business ventures? And to what extent do they utilise new information about their venture's performance to learn about their true (but unknown) abilities and trading environment? These are empirical questions that we seek to address in the present paper. We do so by building a model in which entrepreneurs continually receive valuable noisy market signals, which they use to update their expectations as new information comes in. We embed a dynamic iterative formulation of this process into a model of optimal effort. This is analysed econometrically to estimate the extent to which entrepreneurs adjust their beliefs in the light of new information.

Knowing the extent to which entrepreneurs adjust their beliefs and so engage actively in learning is desirable for several reasons. First, such knowledge might help us to gauge how “alert” entrepreneurs are, in the sense of Kirzner's (1973, 1979) conception of an entrepreneur who observes the market and reacts alertly to opportunities she perceives. Second, if entrepreneurs ignore or respond sluggishly to new information then that might hinder venture performance and ultimately the vitality of the economy as a whole (Berry, 1996; Lybaert, 1998). Third, a belief that entrepreneurs are unresponsive to market signals might encourage governments to devise policy interventions such as entrepreneur education and awareness programs (Sexton *et al*, 1997). But, the suitability of such programmes presumably depends on the extent to which entrepreneurs actually do adjust their beliefs in practice - a parameter that therefore needs to be measured. Fourth, academics, practitioners and policy-makers might be interested in finding out whether particular entrepreneurial groups are more responsive than others are. That might be valuable for targeting support programs more effectively, for example. And fifth, empirical findings on this matter might improve our understanding of how rational entrepreneurs are, and thereby suggest whether it might be helpful for future theory development in entrepreneurship to incorporate models of bounded rationality, for example.

If entrepreneurs learn, *what* do they learn about? According to Minitti and Bygrave (2001), entrepreneurial decisions are a function of two types of knowledge. The first relates to market conditions, opportunities, technologies and/or new business ideas. The second relates to “how to be entrepreneurial”, or ability in entrepreneurship. In practice, entrepreneurs are rarely perfectly informed about either. For brevity, we refer to their joint impact on the entrepreneur's venture as “unobserved productivity”. We argue that, in practice, entrepreneurs obtain noisy signals about unobserved productivity, the noise deriving from stochastic variations such as macroeconomic or sector-specific shocks, or idiosyncratic luck. Entrepreneurs can update their beliefs about unobserved productivity using both the most recent noisy signal and the past history of previous signals.

It is important to be clear about *why* entrepreneurs adjust their beliefs and so engage in learning. In our view, a satisfactory model of this phenomenon should not only shed light on how entrepreneurs adjust their beliefs, but should also endogenise the incentives for doing so. It is, for example, empirically well established that entrepreneurial learning can add considerable value to business ventures: see, for example, Abetti (1997), Arrighetti and Vivarelli (1999) and Wesson and de Figueiredo (2001). There is therefore a need for a model that specifies how adjustments to entrepreneurs' beliefs affect their decisions and improve their subsequent performance. For example, an entrepreneur might only be willing to increase their input of costly effort to their venture if they have just perceived that more favourable market conditions are emerging. Thus a better understanding of entrepreneurial learning and expectations formation also implies a better understanding of what determines entrepreneurial effort (see also Cressy, 1992).[1]

Several previous researchers have suggested that the formation and development of ventures involves ongoing adjustment of original plans and beliefs, possibly through an iterative process of trial and error (e.g., Nicholls-Nixon *et al*, 2000). We conceptualise how entrepreneurs adjust their beliefs by imagining them comparing the latest noisy signals about their unobserved productivity with their prior expectation. Any divergence between the two conveys potentially valuable information that the entrepreneur can exploit. Like Minniti and Bygrave (2001), we contend that a learning approach based on ongoing adjustment is likely to describe entrepreneurs' actual behaviour better than an assumption of "rational expectations". Rational expectations imply that agents learn all there is to know immediately, making only unsystematic and unpredictable forecasting errors. We contend that this presumes a level of knowledge and awareness that few entrepreneurs are likely to possess in practice.

For these reasons, adaptive expectation adjustment forms the basis of our approach. We propose a framework that is theoretically and empirically tractable, and that avoids having to make strong assumptions about unobserved productivity, such as it being fixed at some constant level for all time, to which expectations converge.[2] An assumption of this sort will be unrealistic if underlying market conditions and entrepreneurial abilities change over time. For example, an entrepreneur's ability might improve as she gains experience from managing her venture; and new innovations might impact on an entrepreneur's venture in a profound and ongoing manner that she nevertheless does not fully comprehend at the time.

This paper makes three contributions, which to the best of our knowledge are new additions to the literature. First, we propose a joint model of entrepreneurial adjustment of beliefs, effort, and performance, which links all of these phenomena together in a unified way. Second, we provide an econometric formulation of the model that enables the researcher to estimate the extent to which entrepreneurs exploit new information when adjusting their expectations. A key aspect of the formulation is its simplicity and ease of application, placing relatively few demands on the researcher in terms of data requirements, and being amenable to estimation by simple regression analysis.[3] Third, we

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[1] Like Cressy (1992), Minitti and Bygrave (2001) and others, we treat the entrepreneurial venture as a single homogeneous unit. This is not to deny the influence of organisations on individual knowledge and learning, the implications of learning for organisational design, or social learning, which can of course all be very important in a range of different contexts.

[2] See, e.g., Jovanovic (1982), and Frank (1988), for models with this assumption.

[3] If unobserved productivity was in fact observable to the researcher, then one might measure entrepreneurs' expectations adjustment by interrogating a sample of them directly. But by its very

estimate the model using a sample of over 700 UK owner-managers interviewed in 1999 and 2000. Estimates are obtained of the extent to which entrepreneurs adjust their expectations in response to new information, and we go on to discuss the resulting policy implications.

THE MODEL

Consider a simple model in which an entrepreneur supplies a level of costly effort to her venture. The total costs and benefits of effort take time to emerge, and are only fully realised by the end of the period. Effort impacts on the venture's revenue via the entrepreneur's productivity. This productivity depends on the combined effect of market conditions and entrepreneurial ability, and evolves with an unpredictable stochastic (and possibly also an unknown deterministic) component. Its true underlying value is unknown, so we call it “unobserved productivity”. Only noisy signals about unobserved productivity are observed in any period. Therefore the entrepreneur does not know what the unobserved productivity of her effort will be in the next period. However, she can form an expectation about it. Her incentive to do so is that this helps her choose the correct new input of effort, where effort generates both benefits (via venture revenue and operating profits) and costs (e.g., of personal exertion).

How does the entrepreneur form and change her expectations about unobserved productivity? We assume that the entrepreneur updates her previous estimate of unobserved productivity by comparing the deviation between the latest noisy signal and her previous estimate. If the former is greater than the latter, the entrepreneur has grounds for increasing her estimate; if the former is less than the latter, she has grounds for decreasing it. The key parameter of interest is the extent to which entrepreneurs adjust their expectations in the light of new information.

This model is fully dynamic, because the entrepreneur's new expectation of unobserved productivity helps determine her new optimal choice of effort, which in turn affects revenue and operating profit next period when a new noisy signal of unobserved productivity is received. Then the entrepreneur once again updates her estimate in the manner described above. This process continues over time as entrepreneurs obtain more and more information as they continue in their venture. Our main focus of interest centres on the responsiveness of entrepreneurs to new information, rather than the path of the expectations themselves[4]Figure 1 illustrates the learning model. Effort is denoted by I ; the subscript i refers to an individual entrepreneur i, and a second subscript refers to a time period, e.g., t. First, the entrepreneur infers a noisy signal of unobserved productivity from their performance, measured by profit and denoted by Π. Performance by i at t depends in part on previous-period effort, $I_{i,t-1}$. Second, the signal is compared with the previous expectation of unobserved productivity according to an adaptive expectations scheme,

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nature the phenomenon is unobserved, ruling out that approach. It might seem that an alternative would be to set up an experimental design, in which the researcher supplies market information sequentially to entrepreneurs who make decisions that also receive feedback from the researcher. But such experiments are unlikely to replicate the real world business environment, learning about which is the topic of central interest in this paper.

[4] For a commanding analysis of the latter, see Minitti and Bygrave (2001), who analyse the quality of entrepreneurial choices in an iterative learning model, and derive the interesting result that entrepreneurs can make decisions that are self-reinforcing rather than optimal.

whose learning parameter is denoted by λ, with $0 \leq \lambda \leq 1$. The entrepreneur updates her belief at this stage. Third, the entrepreneur uses the new belief to re-optimise effort. This affects performance in the subsequent period, when a new signal of productivity is observed. The process continues in this manner, iterating forwards over time as indicated by the "loop-like" structure of Figure 1.Under some simplifying assumptions, it is possible to derive a simple econometric specification that enables the learning parameter, λ, to be estimated. The simplifying assumptions are:

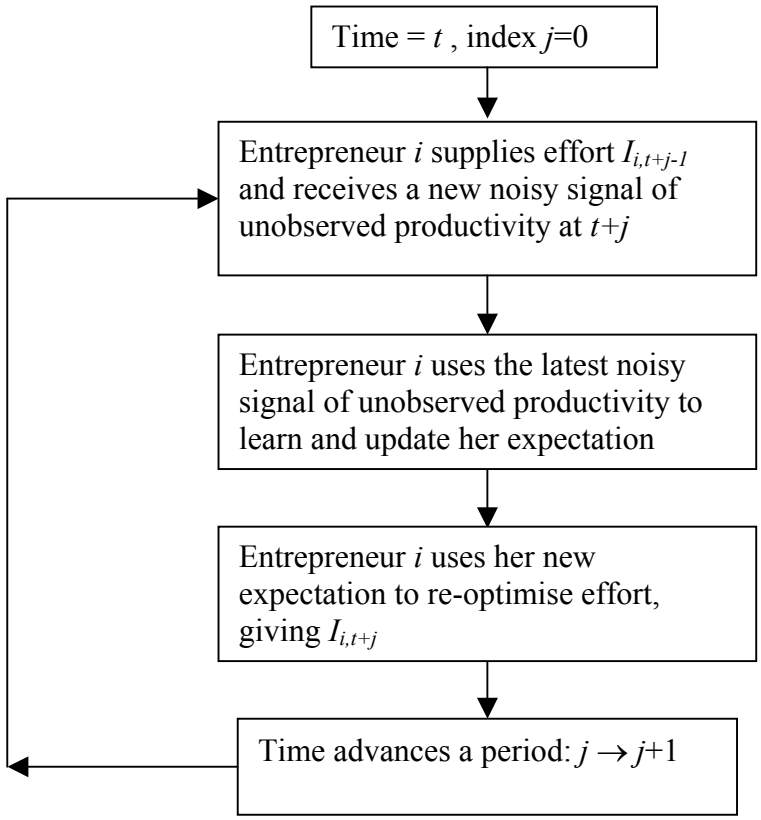
- Entrepreneurs' utility functions are separable in income and
- leisureUtility is linear in profits and quadratic in effort/leisure.
- There are constant returns to scale in the technology mapping effort into entrepreneurial performance

The simple specification is:

$$I_{i,t} = \alpha + (1-\lambda)\, I_{i,t-1} + \beta\, [\Pi_{i,t} / I_{i,t-1}] + u_{i,t}\,,$$

where $u_{i,t}$ is a white noise disturbance term. Details of the derivation of this dynamic effort equation are available from the author on request.

FIGURE 1
THE MODEL OF
ENTREPRENEURIAL LEARNING



The importance of the above equation is that it enables λ, i.e., the extent to which entrepreneurs exploit new information when updating their expectations, to be estimated. To do so, all the researcher needs is a sample of data on entrepreneurs' effort in two

contiguous years, and operating profit in the most recent of them. The equation can be estimated simply by ordinary least squares (OLS).

DATA

By way of an empirical application, we utilise data from the British Household Panel Survey (BHPS). The BHPS is a nationally representative random sample collected by the UK's Office of National Statistics, using face-to-face questionnaires. It is the most well established and widely used longitudinal data set in the UK. Each year, comprehensive data on a wide variety of individual and household characteristics are obtained from some 5500 British households, comprising almost 10000 individuals aged 16 and over, drawn from 250 different areas of Great Britain, who are interviewed every autumn. The BHPS includes data on business owner-managers (the self-employed), who are treated as empirical counterparts to entrepreneurs in our application. The same individuals are re-interviewed in successive years, making it a true longitudinal data set.

We utilise data from the BHPS from its two most recent publicly available waves, namely 1999 and 2000, for both male and female owner-managers. We define entrepreneurial effort, $l_{i,t}$, as hours normally worked per week in the venture. The BHPS contains information on this variable, on weekly net operating profit, $\Pi_{i,t}$, and on a host of other person- and venture-specific variables that were used as controls in a robustness check described below.

The sample characteristics were briefly as follows. Mean weekly work hours in 1999 and 2000 were 46.11 and 45.66, with standard deviations of 18.31 and 18.78, respectively. Mean weekly net profit in 2000 was £239.53, with a standard deviation of £340.74. Our final sample comprised 716 individuals, 28.49 per cent of which were female; 33.80 per cent of which employed outside labour; and 66.76 per cent of which were aged 40 or over. It is important to stress that, being a constant rate of adjustment, the parameter λ is invariant to the frequency of data that are used to estimate it. Nor is it the case that the use of annual data, say - as used here - should be taken to imply that entrepreneurs update their expectations and effort only once a year.

Table 1: Regression results

Estimates of

$$l_{it} = \alpha_0 + \alpha_1 D_{ikt} + \alpha_2 l_{it-1} + \alpha_3 [D_{ikt}.l_{it-1}] + \alpha_4 (\Pi_{it} / l_{it-1}) + \alpha_5 [D_{ikt}. (\Pi_{it} / l_{it-1})] + u_{it}$$

	α_0	α_1	α_2	α_3	α_4	F(1,710) α_5 =0	α_5	R^2
Pooled	6.382 § (1.216)		0.840 § (0.023)		0.088 ** (0.045)			0.659
Female	9.995 § (1.639)	-4.735** (2.227)	0.795 § (0.030)	- 0.004 (0.051)	0.069 (0.045)	0.001		0.671
Older	11.110 § (2.740)	- 0.098 * (0.052)	0.788 § (0.029)	0.073 ** (0.025)	0.083 * (0.045)	0.686		0. 663

Longer spell	6.445 § (1.447)	0.203 (2.350)	0.824 § (0.029)	0.033 (0.047)	0.085 * (0.045)	0.716		0.661
Employer	5.794 § (1.417)	2.764 (2.498)	0.850 § (0.029)	- 0.040 (0.048)	0.077 * (0.047)	0.544		0.659
Agriculture	6.328 § (1.265)	2.929 (4.533)	0.830 § (0.024)	0.001 (0.072)	0.095 ** (0.045)	4.814 **	1.067 ** (0.486)	0.668
Manufactur-ing	6.510 § (1.254)	- 1.989 (4.870)	0.841 § (0.024)	- 0.004 (0.097)	0.087 * (0.047)	0.002		0.660
Constructio n	6.168 § (1.268)	2.738 (3.861)	0.847 § (0.024)	- 0.066 (0.078)	0.089 * (0.046)	2.190		0.659
Distribution	5.937 § (1.329)	2.379 (3.091)	0.851 § (0.026)	- 0.047 (0.056)	0.088 * (0.046)	0.403		0.659
Banking/ Finance	6.386 § (1.267)	0.300 (3.940)	0.841 § (0.024)	- 0.016 (0.088)	0.090 ** (0.046)	2.459		0.659
Other Industries	8.206 § (1.534)	- 2.995 (2.346)	0.815 § (0.028)	0.003 (0.056)	0.089 ** (0.045)	1.171		0.662

Notes: Estimated standard errors in parentheses.

§ indicates significant at 1 per cent; ** at 5 per cent; and * at 10 per cent.

Number of observations: 716 for all regressions.

RESULTS

Using the data described above, we obtained the OLS estimates given in the first row of Table 1, under the heading “Pooled”. It is striking that even this simple regression can explain nearly two thirds of the variation in $I_{i,t}$, a goodness-of-fit statistic that compares very favourably with those commonly generated from large samples of micro-data. Of greater importance, however, is that this regression output implies that on average entrepreneurs adjust their expectations of unobserved productivity in the light of new information by around 16 per cent (=1-0.84). Furthermore, we infer this parameter to be significantly different from both 0 and 100 per cent: its 95 per cent confidence interval is [11.5, 20.5] per cent. The statistical significance of λ suggests that entrepreneurs *do* exploit new information, but that they give much more weight to past experience than to new information when updating their expectations.

Are there any benchmarks with which to compare these point and interval estimates of λ? According to classic work by Friedman, consumers adjust their expectations of unobserved `permanent income' in the light of new information by about one third—roughly double the above estimate (see Thomas, 1993). This might be taken to imply that entrepreneurial expectation adjustment is relatively slow. There might also be policy Implications arising from this finding, an issue that we discuss in the next section.[5]

[5] Aggregate estimates of how individuals adjust their occupational choice between entrepreneurship and non-entrepreneurship under uncertainty might also be pertinent. If individuals hold erroneous

Table 2: Estimates of the learning adjustment parameter, λ, by entrepreneurial group

	λ	Absolute t ratio	Significantly different?
Female	0.209	0.080	No
Male	0.205		
Over 40	0.140	2.920 **	Yes
Under 40	0.212		
Long spell	0.143	0.704	No
Short spell	0.176		
Employer	0.191	0.846	No
No employees	0.150		
Agriculture	0.169	0.021	No
Manufacturing	0.163	0.044	No
Construction	0.219	0.847	No
Distribution	0.196	0.836	No
Banking / Finance	0.175	0.180	No
Other Industries	0.182	0.060	No

Notes: The comparison group for Agriculture is "Non-Agriculture", for Manufacturing "Non-Manufacturing", etc.

Results derived from the regressions of Table 1.

expectations about the relative attractiveness of occupations, they can learn from these mistakes and change their behaviour (and occupation) next period. According to Parker (1996), the rate of this kind of error correction is about 20 per cent per annum in Great Britain.

The other rows of Table 1 explore whether entrepreneurs' rates of expectation adjustment differ by personal characteristics and the markets in which the entrepreneurs participate. We do this by allowing all of the structural coefficients in the model to vary by group. Thus in the header of Table 1, the variable D_{ikt} is a dummy variable taking the value one if entrepreneur *i* is a member of group *k* at time *t*, and zero otherwise. We defined groups as follows: "female", "older" (entrepreneurs aged 40 and over),"longer spell" (individuals with above-average spells in self-employment), and "employer" (if the individuals employed any other persons in the venture). We also checked for differences by industrial sector (Agriculture, Manufacturing, Construction, Distribution, Banking/Finance, and "Other" Industries).

The remaining rows of Table 1 summarise the results by disaggregating the sample in this way. Evidently, the extra terms in these regulations generate only modest improvements in goodness-of-fit over the pooled case considered earlier. For maximum clarity, the implied differences in λ are summarised separately in Table 2. Table 2 shows that there are few significant differences between entrepreneurial groups in terms of the extent to which they exploit new information to adjust their expectations. Whether the entrepreneur is male or female, an employer or non-employer, or working in a particular industrial sector, any differences are relatively small and not statistically significant. The only exception is age. Younger entrepreneurs adjust their expectations significantly faster in response to new information than older entrepreneurs do (λ=0.212 for younger, compared with λ=0.140 for older, entrepreneurs). What underpins this result? On one hand, it might reflect older entrepreneurs feeling they have "seen it all before" and so giving less weight to new information. To the extent that they do indeed know more about their innate entrepreneurial abilities than younger entrepreneurs do, they might be justified in holding such a view. On the other hand, older entrepreneurs might have grown lazy, tired or complacent, and unwilling to respond to new information that might nevertheless convey valuable news about the likely future performance of the venture. Then the finding of a low λ for members of this group might be a cause for concern. In fact, the "lazy, tired or complacent" explanation receives some limited support from the additional finding of Table 2 that entrepreneurs who have been in business for shorter spells do not appear to give *significantly* greater weight to new information than entrepreneurs who have been in business for longer. This points to an important distinction between age and experience. It would appear that something about ageing, other than greater experience specifically, leads older entrepreneurs to be less responsive to new information than their younger counterparts.

Finally, we tested for the possibility that the above results fail to control for other factors that might be conflated with the estimates of the learning parameter, λ. These factors included the length of the entrepreneur's spell in the venture, an indicator variable for whether the entrepreneur was located in the buoyant markets of London or the South East of England, and whether the ventures were essentially temporary in nature. These variables might capture the effects of previous learning by doing, demand conditions, and commitment (quality of effort), respectively. We also entered six industry for each of the sectors listed in Tables 1 and 2; and controlled for partner work hours, marital status, the number of children, and caring responsibilities. However, we were unable to reject the hypothesis that these variables were jointly insignificant.

DISCUSSION

Our empirical estimates have revealed that the rate of exploitation of new information by entrepreneurs is relatively modest, a finding that appears to hold across several entrepreneurial groups, apart from the youngest. Do these estimates suggest that there is a role for constructive policy intervention? The λ estimates are certainly not on the high side, though this is a subtle issue, and judgement is difficult, because it partly depends on the nature of the new information that arrives in each period. Consider, for example, an entrepreneur who has traded for many years in a relatively static market, in which unobserved productivity is quite stable. In this special case, an older entrepreneur might have built up a very reliable expectation about unobserved productivity, and therefore might be justified in discounting further signals (implying that their λ is close to zero). While in principle this might help explain why older entrepreneurs have significantly lower adjustment rates than their younger counterparts, we saw in the previous section that the evidence casts some doubt on this (experience-based) explanation. If older entrepreneurs are not justified in discounting new information so heavily, there might be a role to intervene to raise awareness among entrepreneurs who are most at risk from being swept away by changing market conditions.

On the other hand, should we care if entrepreneurs discount new information and are consequently displaced? A neo-classical economist would have a simple answer to this question. If an entrepreneur is well informed and generates no externalities or market failures, and if entry and exit are free, then their displacement due to a lack of entrepreneurial awareness has no adverse implications for economic efficiency. For example, an older entrepreneur might be contemplating retirement anyway, so the prospect of losing her market might not trouble her sufficiently to compensate for exerting greater effort. However, a limitation of the neo-classical analysis is that entrepreneurs are typically far from perfectly informed, an assumption on which that analysis (but not ours) is predicated. If entrepreneurs do not know what they do not know, then programs designed to raise their awareness can enable them to take superior decisions.

We suggest that the desirable features of any program designed to enhance entrepreneurs' sensitivity to new information are likely to include the following. First, they should be open to all entrepreneurs, given the evidence above about the ubiquity of relatively limited adjustment of entrepreneurial expectations. Second, programs should emphasise the need for continuous awareness and learning, and the importance of flexibility. Arguably, this kind of pedagogy can be expected to more successful when delivered in programs that *embody* as well as *teach* strategic awareness and iterative feedback, and that are grounded in an owner-manager environment (Hartshorn, 2002). What is likely to be less successful are prescriptive “top-down” programs - which might explain why smaller businesses often report finding programs derived from applications to larger companies non-beneficial (Gibb and Scott, 1985). Third, a suitable program might also usefully emphasise the need to understand and follow changing market conditions, sector-specific innovations, and best practices.[6] That might usefully complement the more conventional content of many existing entrepreneurship programs.
Finally, the implications for government are that provision of information, training and education along the lines described above are more likely to be effective at improving entrepreneurs' responsiveness than grants or subsidies would be. The latter do not

[6] For case study evidence of the value of information about market conditions, and the benefits of training and information assistance, see Gibb and Scott (1985).

address the problem of limited awareness directly, and if anything might permit business managers to persist with their current beliefs rather than exposing them to the salutary practice of having them challenged by the market.

CONCLUSION

This paper attempted to make three contributions to our understanding of entrepreneurs' use of information in shaping their business decisions. First, we proposed a joint model of entrepreneurial adjustment of beliefs, effort, and performance, which links all of these phenomena together in a unified way. Second, we provided an econometric formulation of the model that enables the researcher to estimate the extent to which entrepreneurs exploit new information when adjusting their expectations. Third, we estimated the model using data on UK business owners over 1999-2000. Estimates were obtained of the extent to which entrepreneurs adjust their expectations in response to new information, and the resulting policy implications were briefly discussed.

We found that on average entrepreneurs adjust their expectations of unobserved productivity in the light of new information by around 16 per cent. This suggests that entrepreneurs *do* exploit new information, but that they give much more weight to past experience when forming their expectations. Also, we found few differences in terms of expectation formation between males and females, employers and non-employers, and experienced and less experienced entrepreneurs. However, younger entrepreneurs appeared to respond significantly more sensitively to new information than older entrepreneurs, with adjustment rates of 21 per cent compared with 14 per cent, respectively. We went on to discuss some implications of these findings, and proposed several features of entrepreneur education programs that might help entrepreneurs improve this aspect of their business performance.

There are several ways that future research might take forward some of the issues addressed in this paper. For example, one might seek to enrich the model by allowing entrepreneurs to perform only partial (and possibly costly) observation of noisy signals. This line of enquiry holds out the promise of being able to analyse both learning processes and expectations formation simultaneously within a single framework. Another possibility is to try to model the true underlying process of unobserved productivity, to see whether one can measure how closely entrepreneurs' expectations track the true values. However, this approach would be prone to the criticism that the results will only be as good as the model of unobserved productivity, which by its nature is not amenable to direct empirical verification. A similar problem would be expected to bedevil attempts to disaggregate unobserved productivity into separate market conditions and entrepreneurial ability components.

Alternatively, it might be fruitful to extend the empirical side of the model. First, one could consider forms of costly investment other than personal effort, about which entrepreneurs also make decisions and form expectations. One example might be capital investment. In principle, this could reveal whether entrepreneurs adjust their expectations differently when the decision variable changes. A more general empirical framework might also allow entrepreneurs to choose effort and capital investment simultaneously. Second, future empirical work might seek to determine the *frequency* that entrepreneurs update their expectations, an issue that was not addressed in this paper. Third, one might sample entrepreneurs graduating from various entrepreneurship education programs and estimate

whether they differ systematically with respect to how they subsequently exploit new information in their ventures. It would then be interesting to ask whether there is any relationship between those differences and the nature of the programs themselves. Finally, it would be interesting to replicate the work performed here using data from other countries. Identifying national differences in expectation formation behaviour might highlight cultural differences that can shed further light on the phenomenon.

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BUSINESS SUPPORT SERVICES FOR SMALL FIRMS: HAVE THE PROVIDERS GOT IT RIGHT ?

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ABSTRACT

Many researchers and business practitioners have noted the high failure rate among small firms. Most small firms fail within the first 3 years of operation and of those that survive, very few grow to medium size. This is a clear challenge to the providers of business support services including staff from universities and consultants as their programmes are failing to deliver the desired results. This situation is exacerbated by the fact that little attention is often given to the role that the providers of business support play in enhancing business development services in small firms. Whilst the results of many studies indicate that business support services are worthwhile and represent a good investment of public funds, the success of mainstream institutions in successfully meeting the needs of small businesses, remains questionable. A high proportion of owners and managers of small businesses have reported that they do not see these support services as offering 'real' solutions to their problems.

The decision to take up business support services is conditioned by both *direct* and *indirect* factors in the small firm. Direct factors comprise of market positioning and prevailing economic conditions whereas indirect factors constitute the cost of the support service, trainee motivation, serendipity – that is whether the support service is being offered at the right time and at the right place. In the light of these arguments, this study evaluated support initiatives available to small firms in the UK and identified the factors which contribute towards low take-up of business support services by small business owner-managers and their employees.

This paper asserts that the major challenge is that of educating the stakeholders who deal with the small business sector. This situation has compelled this researcher to investigate whether the providers of business support services have got it right and who needs to learn – the owners and managers of small firms or the stakeholders who provide the various support services? The main argument advanced in this paper is that most

stakeholders do not understand that founders and managers of small businesses have their own behaviour and ways of learning. In other words, stakeholders should not dictate to the founder of the small firm on how they must operate since this may not be in the best interest of the firm.

Some interesting and important insights into the support services for small firms have been drawn from the review of various studies on what is currently known. The key issue that emerged from these studies is the need to put in place support services which improve the skills of the owner managers of small firms to learn better from their transactional relationships with customers, suppliers, bankers, internal staff and from experience of their peers through networking . In other words, there should be **greater intimacy** between small firms and providers of these services.

This study established the providers are not getting it right and indicated by the literature findings which point to the need for policy makers and business support providers to be sensitive to the needs of small firms. Policy makers can play a key role in disseminating information on the 'actual' needs of small businesses and in improving the functioning of the business support market for these firms in order to enhance the learning process. An independent review on the specific support needs of small firms should be undertaken as this can significantly improve their growth and competitiveness.

INTRODUCTION

The studies conducted in the last three decades show that while small businesses are seen as major creators of social wealth and jobs for most people in both the developing and industrialised countries. The firms also provide personal reward to the owners and tax revenues to the government. However the there is increasing evidence that most of these firms are short lived and have a high rate of attrition. Very few firms that survive achieve growth. This is a direct challenge to the providers of business support services as the firms are currently facing the challenges of increased competition and lack of growth. The key to their long term survival and growth lies in the use of business support services to enhance the managerial skills of the owner-managers and employees of these firms and yet very few of them participate in support services. Business support services are increasingly becoming a critical factor in the long term survival of small businesses.

Yet, in practice, the small business sector has a long standing reputation for low up-take of business support services. Thus business support services are not part of the culture of most small firms. Owner managers only participate in the services when the needs are immediate. The need to participate in the services is also influenced by other factors such as: the owner-managers' educational levels ; the age and size of the company ; the sector in which the company operates ; serendipity – whether the service is being offered at the right time and right place.

The probability of the services being purchased increases with the 'stages' in the life of the business. It was established in the literature that owner-managers of small firms exhibit very low rates of awareness, understanding and interest in the support services on offer. Specific needs of these firms should be assessed and fulfilled. Most owner-managers of small firms are 'innovators or have technical skills required to develop the products but do not necessarily have the managerial and marketing skills needed to run and develop the business. These skills are unlikely to be inherent in the same person. People who are

good at developing products or are innovators, are very unlikely to be poor at developing and managing businesses.

The introduction of new technologies and the internet, increases competition among small firms. Greater emphasis on product or service quality has made some small businesses to operate more efficiently in a constantly changing environment. In order to respond to such challenges, owners and managers of these firms require specific and transferable managerial and marketing skills which are critical in achieving growth and competitiveness among the small firms.

The main objective of this paper is to conduct a critical literature review in order to establish the extent of the knowledge on business support services for small firms. The paper is guided by the following broad questions :

- What motivates owner-managers of small businesses to participate in business support services ?
- Which of the available business support services or initiatives appear to be more successful and why ?
- What are the direct and indirect factors that influence the provision of business support services in small firms ?
- How can the providers of business support services improve the low take-up of these services in order to enhance the learning process and effectiveness ?
- What insights can be drawn from existing support services for small businesses ?

A REVIEW OF THE LITERATURE

The literature review is undertaken to establish what is known (and not known) about the factors affecting the provision of business support services in small firms. Using few but carefully selected papers, this research seeks to draw some insights into the providers of these services are getting it right and who needs to learn. In theory, small firms draw support services from a wide range of sources including such stakeholders as : bankers, chambers of commerce, trade associations, private-business support services institutions and consultancies, clients and suppliers of goods and services ; government-sponsored organizations. For example, government sponsored services in the UK included Industrial Business support services Organisations ; Investors in People ; Business Links ; Business support services and Local Enterprise Councils (TECs and LECs) ; National Council for Vocational Qualifications (NVQs); Teaching Company Schemes (Carter et al, 2000).

The above business support mechanisms have been the most common source of support for small firms in the UK and are often well resourced and benefit many businesses. In many countries, government-sponsored services are widely used by small firms especially those who would like to achieve growth and competitiveness. Table 1 shows the number of businesses and sizes in the UK

Table 1 : UK Businesses by Number and Sizes of Firms

Number	Classification	No. of Employees	% UK
7 000	Large	>250	0.2 %

25 000	Medium	50-250	0.7%
1.1 million	Micro/small	1- 49	29.5%
2.6 million	Sole trader	0	69.6%

Source : Barclays Bank SME Research Unit (2004)

In addition to the above, 99.1% of all UK businesses have less than 50 employees and comprise of one-person businesses and MSEs. It is also indicated in Table 1 that 69.6% of all UK businesses employ no one. A large proportion of British firms (large) are not British owned and comprise of large international firms such as BMW, Sony, Esso, IBM and many others.

According to Tacis (1999), in the UK in particular and the European Union in general, small firms represent over 99% of all businesses and account for over 68% of total employment and about 65% of overall business turnover. Furthermore, the average employment growth rate in small firms is greater that that of large firms. The increasing trend towards downsizing of large firm operations and contracting-out of marginal activities provides small businesses with challenges to upgrade their skills through business support services and new opportunities for growth and competitiveness as a result of the rapidly changing global business environment and internationalization of markets.

The recent study by Barclays Bank (2004) indicates that 67% of UK small businesses fail within the first 5 years of operation and that in a period of 10 years, 84% of the all business start-ups will have failed. Storey (1994) asserts that small businesses in the UK are failing to grow and that only very few become large firms. Most small business are growing to fail as only 17% survive beyond 10 years.

From the above statistics, it is not difficult to see why small firms deserve more attention and that current business support providers are failing to deliver the desired results, hence the 83% failure rate. It is widely believed that the up-take of business support services will confer a range of benefits to owner-managers and individual employees in these firms. After participating in support services, employers expect to recover their investment in such programmes to benefit significantly from increased productivity of their employees. At the same time, it should be noted that employees who participate in support services expect more pay and other benefits.

Factors affecting the provision of support services

Carter et al, (2000) have identified a number of *direct* and *indirect factors* which are generally associated with the provision of business support services for small firms. 'Direct' factors are considered to be of primary importance to small firms and include: market positioning, prevailing economic conditions and the availability of relevant business support services. The specific marketing orientation of a small firm, with its relatively narrow portfolio of products and its perceived positioning in relation to known competitors appears to determine the choice, quantity and quality of business support services. This means that small firms that focus on low-quality products and services rely mostly on *reactive strategies* and appear to have little need to train their workforce on a regular basis. Conversely, focusing on better quality products and services appears to involve a *proactive* business resource support approach and strategy.

Prevailing economic conditions also determine the provision of business support services. According to Carter et al (2000) and Marris et al (1971), on one hand, favourable

economic circumstances results in higher staff turnover rates and also increased growth-related business support services needs. On the other hand, unfavourable economic circumstances tend to stabilize staff turnover and increase the external pool of trained personnel.

'Indirect' factors include six interrelated constraints that can have a curtailing effect upon the actual provision of business support services in their firms. These six factors are : cost of business support services ; time constraints; lack of trainee cover; lack of in-house trainers ; lack of trainee motivation ; lack of trainee interest (Carter et al, 2000). Due to shortages of specific business support services, owner managers are forced to purchase either exorbitantly priced customized business support services or expensive, large firm solutions that may have limited use.

It is noted that one of the major handicaps to the growth and support of small businesses is the lack of good managerial skills and lack of business support services among the managers (McMullan et al, 1983, Neshamba, 1997; Brockhaus, 1982; Vyakarnam et al, 1999). The competence of owner-managers and their employees has a significant effect on the performance and growth of small businesses.

In the context of this paper, business support programme or business support services is defined as the packaging of information in order to stimulate the learning of a new skill. It is small bits of information which are organised in a way to stimulate learning a new skill (Tomecko, 1998). The purpose of these services is to facilitate a behavior change which should have a positive effect on the growth and support of small businesses.

The study by Neshamba, (1997) shows that the roots of any business support services should be firmly embedded in the combination of practical experience and research. The study indicates that in general, small businesses would like business support services that will help them to achieve the following objectives

- improve in working capital and financial stability of the firm ;
- increase the capacity of owners and managers to grow their businesses ;
- share business experience with other owner-managers which in turn leads to creating networks and contacts ;
- improve marketing skills to achieve growth ;
- focus on action-oriented aspects of business development ;

Spring (1998), pointed out that business support services should not be aimed at providing general prescriptions for all small businesses but should offer specific services which are targeted at particular businesses (perhaps in a cluster) at specific level of support. According to Spring, throughout each programme, participants should be encouraged to be innovative, to learn by doing and to try new ideas out in their businesses. At the end of the Programme, all delegates are not only asked about the outcome of the programme but should be asked to develop a business plan for their businesses (on an individual basis) which incorporates their own ideas and specific needs for business support services. Thus the motivation to participate in the services should be needs-driven although serendipity plays a key factor in joining.

Other authors (Cannon, 1987; Bird, 1989) have suggested that prior to the delivery of a programme, an awareness seminar should be conducted not only for marketing a particular programme but to determine the specific needs of the businesses owner-

managers. The awareness seminars should be followed by interviews with owner-managers which may help in determining what their needs are.

While small and medium-size enterprises (SMEs) form the overwhelming majority of firms and account for large shares of employment and GDP of all countries, they are still underserved in terms of management skills. This literature review is conducted to find out the extent of any previous research on the value and benefits of business support among SMEs. This area appears to be severely under-researched and the literature exploring the value and benefits of business support services is not very extensive and yet the need to develop owners and managers of SMEs in future business needs and growth, remain critical.

Whereas Vyakarnam and Adams (1999), assert that there is a positive relationship between business support services and entrepreneurial business performance, Storey (1994) has argued that it is not possible to make direct links between business support services and business performance. This leaves us with a need to establish (through research) what motivates SMEs to participate in business support services and the value and real benefits of such services..

Some authors indicate that support and business support services needs differ according to the firms' stage of support (Vyakarnam and Adams, 1999). The two authors suggest that the propensity to purchase business support services is a function of a number of indicators. These are :

- the age of the company **–** likelihood of purchase increased with age ;
- the relative size of the company – likelihood of purchase increases with size ;
- the sector in which a company operates – manufacturing are more likely to purchase than service companies ;
- ownership type – professional managers are more likely to purchase than owner-managers ;
- the educational attainment of the decision-maker – likelihood of purchase increases with educational attainment.

Identifying Business Support Service Needs

Some important insights on business support services can be gained from Storey (1994) who suggest that business support services in the small business sector differs significantly from that provided by large firms. He argues that business support services in small firms are more likely to convey informal work skills and knowledge. In contrast, the skills and knowledge in large firms is based on formal qualifications leading to an award. The author found no evidence of well conducted research which clearly and consistently linked business support services provision to enhanced business performance (Storey, 1994).

Other authors point out that all good business support services should satisfy an important and immediate need in the business (Tomecko, 1998; ; Cromie, 1987; Marris et al, 1971). Motivation is always linked to the achievement of a need. This need is also a key motivator among small firms. As stated in Maslow's Hierarchy of Needs, (Maslow, 1943), these needs can range from the very basic ones of survival to the more sophisticated needs of self-fulfillment – with self-actualisation being at the highest level of the hierarchy. For

business support services to be beneficial, they must satisfy or meet the needs of the owner-managers.

Tomecko (1998) asserts that some business support services may not be effective because both the *timing* and *context* are not right. For these services to be effective, he identified three basic conditions which should exist prior to take-up of business support services. These are:

- The small business should be facing an 'intense' business situation which could be either a problem or an opportunity ;
- The owner/manager should be aware of or recognise the changes that are happening or will happen in the business within a short space of time ;
- The owner/manager or his staff should be willing to seek help and be open to the possibility of learning a new skill in order to minimise the problem or capitalise on the opportunity.

Two prospects of business support services have been identified by Hurmerinta-Perltomaki et al (1998). These are: the 'reactive' and the 'transitional' models. The '*reactive'* model suggests that business support services are not part of the culture of most small firms but tend to be a response to immediate external pressures. In other words, business support services tend to be oriented towards short-term operational issues rather than long-term strategic planning for the growth of the firm. The *'transitional'* model also advocated by Hurmerinta-Perltomaki et al, shows that the probability of participating in business support services increases between various stages in the life of a business.

The other argument advanced in the literature is that when attendance to business support services is a precondition to getting a loan, the results are not good. Business support has often been seen as an adjunct to credit (Cromie, 1987; Cooper and Gascon, 1992). The results of such services are often not helpful since it is the need for credit that is the main motivator and not the need to learn.

Business support services have been seen by some owner-managers as an 'imposition rather than an opportunity'. This means the providers of these services often impose them on the participants. Thus low motivation towards business support services often leads to poor transfer of knowledge and skills. If, on the other hand, the service is structured so that learning a new skill or competence improves the chance of obtaining a loan, then the motivation is strong to learn the new skill and therefore the transfer can be effective.

From the above discussion, it is assumed that older medium-size firms that operate in international markets and managed by highly educated and professional managers has the propensity of participating in business support services. In other words, start-ups and early growth businesses are less inclined to make use of business support services than mature firms led by professional managers. Thus business support services can be effectively used to contribute to the knowledge and competence of managers operating in medium to large firms.

Impact of business support services and enterprise growth

It is not yet established in the literature whether business support has a positive impact on enterprise growth. However, after evaluating the impact of business support services for small businesses in India, Gupta (1991) and Marlow (1998) linked the changes that take

place in the businesses (after business support services), to specific improvements in the business such as increases in sales, customer base and number of employees. These findings support the point made earlier in this paper that business support services do pay, even if they are introduced at early stages of support of the enterprise.

The willingness of owner-managers of small businesses to contribute towards the payment of their own business support services was suggested as the best acid test of whether or not a business support services are worthwhile. Henning (1992) and Timmons (1990), who looked at business support services for small businesses in the UK, 'cautiously' concluded that the overall impact was good and that it was valuable and beneficial to the participants, but that the *quality* varied considerably from one business service to the other. The general trend in the literature seems to confirm that these services is worthwhile and should be supported (Henning, 1992 ; McMullan et al, 1983) but most owner-managers of small firms do not see it that way!.

The motivation to participate in business support services

The key point which emerged from the literature is that business support services are both valuable and beneficial to the participants when the needs are more immediate. However, to train someone for situations that they may be experienced at some unknown time in the future is less effective than business support services someone who will apply the newly acquired competence at a clearly known time and place in the future. These findings are similar to those by Tomecko (1998) who points out that the greater the proximity of the learning situation to the need and the clearer the means-end relationship can be established between the newly learned competence and the need, then the more the motivation there is to acquire the knowledge.

It is also noted by Tomecko (1998) in his studies in Asia, that by far the largest portion of services that were offered to small businesses are 'supply-led' or 'product driven' rather than 'needs-based'. Thus business support services institutions offer what they have rather than conducting their own market research to determine what the *actual* needs of small firms, are.

Insights Drawn

The insights that can be drawn from this study are that the providers of business support services should be sensitive to needs of the owner-managers of small businesses. The public sector or government agents should develop policies which are aimed at making sure that suppliers of business support services are adequately informed about the needs of small businesses. The key issues that were identified that can contribute to effective delivery of business support services include : serendipity; reputations of the providers of the services; availability of sufficient information ; the need for evaluation research; methods of delivery and presentation style and finally who needs to learn.

<u>Serendipity:</u> The issue of serendipity was presented by Vyakarnam et al (1998) and Nafziger, (1988) as one of the critical factors in discussing business support services in small firms. Most small firms would like the services to come at a time when most needed – being at the right place and at the right time. While this aspect is considered vital among small firms, it is difficult for business support services providers to determine when is the best time for small firms to participate in the support services and to establish what type of support the firms require.

Reputation of the providers: It is indicated by Tomecko (1998) and Marlow (1998) that reputation of the individual service providers plays a key role in motivating owner-managers to participate in the business development programmes. This aspect is crucial if participants are drawn to the programme largely as a result of the profile of the presenters or the organisation providing the service. This calls for the need therefore for stakeholders to improve the skills and profile of their presenters.

Availability of information: Supplying small firms with sufficient information on the value and real benefits of the business service would improve the demand for these services. There is increasing evidence that most small firms are not provided with adequate information on business services available and how their services can be adapted to the meet the specific requirements of their firms. This can be achieved by conveying information to owner-managers of small businesses. According to Henning, (1992), due to the fact that many owner-managers of small firms have very little information about business support services available and the background of the providers, they consider investing their time and money on such services as risky. Similarly, **s**uppliers of business support services, may also not be adequately informed about business needs and wants of the small firms.

It is in the best interest of the small businesses for policy makers to disseminate information on support services available as a means of removing market distortions and creating a demand for a product that is often not well understood. Without adequate information on providers of business support services and the contents of the programmes, owners and managers of small businesses would be running considerable financial risk to pay for the support service

The Need for Evaluation Research

In view of the points indicated above, it appears there is a general lack of well documented research on business support services in the small business sector. There is a need for longitudinal and qualitative studies in evaluating the long-term benefits of business support services and business support in small firms, is long overdue. Storey (1994) suggests that control groups should be used in order to compare and contrast outcomes on firms that provide business support services and in those that choose to ignore such services. The author point out that multivariate statistical techniques should be utilized in order to establish the direction and strength of causal links between business support services provision and subsequent business performance.

Much of the research on small businesses appears to be quantitative with 'snapshot' studies which are usually generalized over a wide population. Well-conducted qualitative or longitudinal research is notably absent from the body of knowledge on business support services in the small business sector.

Methods of Delivery and Presentation Style

It is important for owner-managers to specify the type of business support services they require both in terms of the teaching formula and the course presenters. The study by Cromie, (1987) indicates that some services are too formal, theoretical and lecture-oriented. The number of participants involved in government-sponsored business support services services, in the view of Tomecko, 1998. Usually such services are designed to

meet the needs of everyone participating in the programme and not particular needs of the individual firms.

The study by Cromie (1987) asserts that owner-managers of small firms prefer a more interactive formula which allows them to ask questions and discuss various issues openly. The participants need practical case studies in combination with discussion workshops on specific business issues *with experienced entrepreneurs* who can be their role models. It is also suggested that the services should be oriented towards specific sectors, that is adopting a. sectoral approach.

Coaching and mentoring are also mentioned as *effective* teaching method. Mentors and business advisers should be appointed to support small firms in addressing specific business problems. The mentors and business advisors should include experienced entrepreneurs with experience in particular sectors or specialists in particular skills. Suggestions are also made for the use of videos containing testimonies of successful entrepreneurs. These were considered as sources of stimulation and information for the owner-managers (Henning, 1992).

The owner-managers should also be given the opportunity to what they learn, where they want to learn and how they want to learn, hence, any business support programme must fit the entrepreneurs' needs and time. It was also established that owner-managers of small firms tend to be *reactive* and *not pro-active* in their learning process. This means that they cannot plan in advance and always want specific information to solve a specific problem when it has already occurred and not general information (Tomecko, 1998).

Owner-managers of small firms want the business support services to be presented in the context of the environment in which they operate. They do not appreciate examples of foreign-owned companies who are usually subjected to completely different business environment. They want to learn from their own peers or from those who have experienced situation similar to theirs. Thus, they prefer to be trained by other entrepreneurs or their peers whom they can refer to as 'role models'.

Comment:

For business support services to be effective and beneficial to the clients, it is suggested in this paper that there is need to put in place support services which improve the skills of owner-managers of these firms to learn better from their transactional relationships with customers, suppliers, bankers, internal staff and from experience of their peers through networking. In other words, there should be greater intimacy between the owner-managers of small firms and the providers of these services.

CONCLUSION

This paper has provided some understanding on the business support service needs of small firms and established that the providers of these services are not getting it right ! A number of insights into business support services for owner-managers of small businesses, were drawn.

While the literature revealed that owner-managers of small firms view support services as a necessity, these services are only appreciated if they meet the needs of their businesses at a particular point in time. The participation of owner-managers in business support services is strongly influenced by a need to solve immediate needs. Many owners of small firms do not regard business support services as offering attractive and effective opportunities to improve the competitiveness and growth of their firms.

Due to the fact that most support services for small businesses are **not** 'needs-driven', business support services often receive a low value and priority in the estimation of the owner-managers of small firms.

In order to improve the effectiveness of business support services, this paper identified a number of issues that should be considered by both the owners and managers of small firms and the support service providers such as: serendipity; reputation of providers offering the services ; availability of information and methods of delivery and presentation style.

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A STUDY OF THE ADVANTAGEOUS STRATEGY CONSTRUCTION FOR COLLABORATION BETWEEN SMALL AND MEDIUM ENTERPRISES AND HIGHER TECHNOLOGICAL AND VOCATIONAL INSTITUTIONS BY PORTER'S DIAMOND THEORY IN TAIWAN, REPUBLIC OF CHINA

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ABSTRACT

This study based on Porter's Diamond Theory aims to develop advantageous strategies for the collaboration between small and medium-sized enterprises (SMEs) and higher technological institutions in the globalization and information technology age. The subjects consisted of 44 SMEs received the National Innovation and Research Award from 1993 to 2002, and 60 higher technological and vocational institutions in Taiwan. The data was collected through expert interview, survey method and triangulation method to explore the collaboration between SMEs and institutions and the potential strategies for the collaboration. This study developed a systemic model and series of strategies for the collaboration between institutions and SMEs to contribute to Taiwanese competitiveness.

Keywords: small and medium enterprises, higher technological and vocational institutions, advantageous strategies for collaboration

INTRODUCTION

In knowledge-based economy, the fundamental element of an enterprise's competitiveness has shifted from labor power to brain power. Businesses should transform, apply and make

use of their knowledge to improve their competitiveness (Kao, 2000). In order to respond the market demands, small and medium enterprises (SMEs) should adopt the innovative view in the business management to acquire more resources from the academic institutions. Taiwan's participation in World Trade Organization (WTO) has resulted in an open market for foreign products and therefore caused more pressure on Small and Medium Enterprises (SMEs).

Facing the external environment changes, the managers of SMEs in Taiwan start to find out ways for improving research and development (R&D) performance in their companies. One of the possible ways might be cooperation with academic institutions. The role of business in the process of corporation with the academic institutions will transform from a passive receiver into an active role. Business should cooperate with academic institutions to construct an effective framework to improve the performance of R&D, and to get access to more resources from both sides.

Porter's Diamond Theory is often used for analyzing the industry competitiveness and constructing advantageous strategies. In this study, we adopt Porter' s Diamond Theory to explore the essences of collaboration between SMEs and schools. At the end of this paper, we will develop advantageous strategies for collaboration.

The Development of SMEs in Taiwan, R. O. C.

SMEs in Taiwan originated in the age of oligopoly by national industries and private syndicates in the 1960s. It has not only led to the further reconstructing of Taiwan's industries, but also been accounting for 97.7 % of enterprises in Taiwan (Minister of Economics Affair in Taiwan, 2003). The common obstacles for business management in SMEs in Taiwan are (Lai, 2001; Li, 1998; Minister of Economic in Taiwan, 2003): (1) excluded from the autonomy of the fundamental product-parts; (2) the products are highly homogeneous, and the price is decreasing; (3) lack of man power in R&D; (4) the limited demands of the internal market which are disadvantaged SMEs' to produce, and more convenient for SMEs is to produce low-technology products; (5) forwarding to establish the system of brand assurance; (6) the marketing approach is deformed. The weakness of SMEs prompted us to construct the advantageous strategies for them to strengthen the competitiveness of SMEs' in Taiwan.

Collaboration

Collaboration between business and schools means that businesses and schools build a mutual-beneficial framework without breaking laws or causing harms to a nation. The common forms and details for collaboration are (Hsiao, 1997; Zeng, 1999; Dai, 2000; Dornfeld, 2001; Business-Higher Education Forum, 2001): (1) general sponsorship; (2) collaborative sponsorship; (3) transfer of knowledge; (4) transfer of techniques; (5) unofficial collaborative research; and (6) alliance mode.

The Minister of Education in Taiwan established the Interdepartmental Planning Guiding Committee for Collaboration in Higher Technological and Vocational Institutions in 2002. The committee is involved 50% business representatives, National Science Council, and Minister of Economics Affairs, which involved. The committee selected 6 institutions which are considered the field of study, and geography position of the regional industries demand in R&D. The mission of the six institutions is to integrate the resources among government, industries and schools, and to help regional sectors operate the collaborative project (Minister of Education in Taiwan, 2003).

Diamond Theory

Porter (1990) extended the framework of competition to address the challenges of international competition, and develop the Diamond Theory which interprets a nation's competitive advantage. The diamond model is comprised of six components, with four major determinants residing at each face of the diamond, which function individually and as a system. The two factors located outside the diamond are those of chance and government. Bosh & Proijen (1992) criticized Porter's Diamond Model, arguing that Porter's framework should also covered the factor of culture. They emphasized the importance of culture when analyzing the international competitive advantages. With the theoretical framework modified from Porter's six determinants and Bosh & Proijen's culture element, Chen&Tarn (2000) analyzed the competitiveness of Taiwan's industries. Table 1 shows the definition of these seven components.

Table 1 Components of Porter's Diamond Theory

Components	Definition
1. Production	The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
2. Demand	The nature of home demand for the industry's product or service.
3. Related and supporting industries	The presence or absence in the nation of supplies and related industries that are internationally competitive.
4. Strategy, structure and rivalry	The conditions in the nation governing how companies is created, organized, and managed, and the nature of domestic rivalry.
5.Chance	Opportunities play their role partly by altering condition in the diamond, and the events are occurrences as the act of pure invention, major technological discontinuities significant shifts in world financial markets or exchange rates, surges of world or regional demands etc.
6.Government	Government can influence (and be influenced by) each of the four diamond determinants either positively and negatively.
7. Culture	Behavior and artifacts; Beliefs and values; Basic assumptions as time-orientation, relations between the group and the environment, and relations among members of the group.

Note. Modified from Porter, 1990 and Bosh & Proijen (1992)

RESEARCH METHODOLOGY

This study uses statistical analysis, expert interview, and literature reviews to cross-examine the phenomenon of essences of collaboration between businesses and schools. After the data analyzing, this study develops the advantageous strategies for collaboration between both sides.

Sample

This study surveyed 44 SMEs that received the National Innovation and Research Awards from 1993 to 2002, and 60 higher technological and vocational institutions in Taiwan. We also interviewed one expert of governmental research institution, 2 business executives, and 5 chief of higher technological and vocational universities. The chief who served in the Office of Research and Development, The Center of Collaboration or The Center of Businesses Incubation which business are related to the collaboration.

Analysis Methodology

This study utilizes several approaches: it uses descriptive statistics to describe the distribution of collection data; it uses t-test and one-way ANOVA to exam the differences between the background variables of samples and the Diamond Model; and it uses the Pearson Product-moment Correlation to test the relations between businesses and schools on the seven dimensions of Porter's Diamond Model. Content analysis is used to explore the successfully experiences of the collaborative project from results of expert interview. Finally, this study compares the phenomena from statistical analysis and content analysis to construct the advantageous strategies for collaboration.

Research Instrument

Instruments are based on the theoretical framework of Porter' s Diamond Theory and related literature, for examples Chen & Tarn (2000) and Bosh & Proijen (1992), which are included the semi-structure interviews and the questionnaires. The questionnaires included seven dimension: (1) Factor conditions: the resources providing level; (2) Condition factors: the purposes of sectors motivate the collaborative project; (3) Related and supporting industries: the supporting rules, policies, and the carrot approach of the sector in the collaborative project; (4) Organizational strategy, structure and rivalry: the organizational strategies which are reflected on the collaborative contract, and the cooperative structure; (5) Organizational culture: the extent of mutual trust, involvement, and careens about the collaborative project; (6)Government: Examination of the existing policies of government; (7) Chance: the multi-sector collaboration based on the high-tech oriented and regional government supporting local of the cooperative project.

Semi-structure interviews and questionnaires are of two kinds: for schools and for businesses. Questionnaires are pre-tested on samples of 28 SMEs and 36 higher technological and vocational institutions, and expert examination to maintain the reliability and validity. The pre-test analysis consists of the item analysis and Cronbach α test which are deleted while both have a probability < .05 of the correlation coefficient and Critical Ratio (CR) for keeping the reliability and validity (Table 2 shows the values of Cronbach α). After reviews of literature and analyses of pre-test data, the questionnaires are constructed in this study to survey 28 SMEs and 60 higher technological and vocational schools. All of

the dimensions was measured by five-point Likert scale item rating perceived form from 1 (totally disagree) to 5 (totally agree).

Table 2 Cronbach α

Dimensions	Cronbach α	
	Businesses	Schools
1. Factor Conditions	.7398	.6035
2. Demand factor	.7981	.7600
3. Related and Supporting Intuitions	.9056	.8671
4. Strategies and Structure	.9257	.8645
5. Organizational Culture	.8746	.8776
6. Government	.8659	.7839
7. Chances	.7613	.8112
Total	.9572	.9532

Descriptive Statistics

The profiles of collecting data are presented in following Table 3 and table 4.

Table 3 Business profiles

Business Profiles		Percentage (%)
1.Age	30 or under	11.4
	31-40	31.8
	41-50	27.3
	Over 50	29.5
2.Education	Junior college or under	43.2
	undergraduate	29.5
	Graduate (Master's degree)	22.7
	Graduate (Ph.D)	4.5
3.Work experience	5 years or less	25.0
	5-10	20.5
	11-15	18.2
	over 15	34.1
n=44		

Table 4 School profiles

Schools Profiles		Percentage (%)
1.Age	30 or under	3.3
	31-40	20
	41-50	60
	Over 50	16.7
2.Education	Junior college or under	8.3
	undergraduate	3.3
	Graduate (Master's degree)	21.7
	Graduate (Ph.D)	66.7
3.School type	Public	35.0
	Private	65.0
4.Experience	5 years or less	25.0
	5-10	23.3
	11-15	15.0
	Over 15	36.7
n=60		

Table 3 Business profiles (continued)

Business Profiles		Percentage (%)
4.Teaching experience	No experience	9.1
	Under 3	72.7
	4-6	13.6
	7-10	2.3
	Over 10	2.3
5.Collaborative experience	Under 3	81.8
	4-6	9.1
	7-10	6.8
	Over 10	2.3
6.Firms age	Under 10	20.5
	11-20	47.7
	21-30	27.3
	Over 30	4.5
7.Firms capital (New Taiwan Dollars)	Under 500 million	54.5
	500 million-1000million	11.4
	1000million-1500million	13.6
	1500million-2000million	2.3
	Over 2000 million	18.2

n=44

Table 4 School profiles (continued)

Schools Profiles		Percentage (%)
5.Business experience	No experience	16.7
	Under 3	31.7
	4-6	26.7
	7-10	13.3
	Over 10	11.7
6.Collaborative experience	None experience	21.7
	Under 3	38.3
	4-6	20.0
	7-10	13.3
	Over 10	6.7
7.School age	Under 10s	
	11s-20s	
	21s-30s	
	Over 30	

n=60

RESULTS AND DISCUSSION

The Differences Resulted from Background Variables of Business in the Dimensions of Diamond Model

The test results of executive's recognition in collaboration in the dimension of Diamond Model are shown as follows (see Table 5):

- There are significant differences between the executives' sexes and the dimension of chance.
- There are significant differences between the executives' work experience and the dimension of organizational culture.
- There are significant differences of business capital and the dimension of related supporting institutions.
- There are significant differences between the different business claims and the dimension of factor conditions.
- There are significant differences between the different business claims and the dimension of organizational strategy and structure.

The results show that the more work experiences of executives could execute the collaborative projects smoothly. The expections of different management style are different about the successfully collaborative fruits. The motivation of businesses to participate in the collaborative project would consider the provision level of resources and competencies in the R&D of schools.

Table 5 The Test Results of Executive's Recognition in Collaboration in The Dimension of Diamond Model

Variables	Dimension of Diamond Model							
	Factor Conditions	Demand factor	Related & Supporting Intuitions	Strategies & Structure	Organizational Culture	Government	Chances	Total
1. Executive Sex	1.351	1.462	.668	.724	1.239	1.804	2.410*	1.517
2. Executive Age	.281	1.054	.729	.193	.067	1.003	1.640	.317
3. Educational Degree	.152	1.373	.596	2.464	1.491	1.877	.250	1.628
4. Job Title	.563	.598	1.593	.572	1.162	1.021	2.025	.573
5. Work Experiences	1.541	.702	1.708	1.51	2.639*	1.370	2.045	1.735
6. Teaching Experiences	-.842	.242	-.545	-.349	-.340	-.312	-1.799	-.767
7. Collaborative Seniority	.872	.838	.743	1.187	1.773	1.097	.153	.779
8. Business Age	.638	.720	.940	.371	.105	1.887	.703	.577
9. Business Claims	3.945*	2.787	1.172	5.679*	2.559	.709	.259	3.082
10. Business Capital	.641	.960	2.923*	.906	1.501	1.440	.998	1.774

n=44, *p< .05

Schools

The test results of recognitions of school administers in the dimension of Diamond Model are shown as follows (see Table 6): presents the

- There are significant differences between the total scores of questionnaire and the dimension of related and supporting institution.
- There are significant differences between administers' education degree and the dimension of chances.
- There are significant differences between the private and public institutions and the he dimension of demand factor.

The results appear that the senior administers have more experience that helps organizations create better organized and supporting conditions. The senior education degree administers could be aware of the more innovative foresight in R&D, and the discrepancy between public and private schools in terms of available resources would affect school members' attitude in participating in the collaborative project.

Table 6 The significant difference of variables of schools

Variables	Dimensions							
	Factor Conditions	Demand factor	Related & Supporting Intuitions	Strategies & Structure	Organizational Culture	Government	Chances	Total
1. Sex	.505	.775	1.195	-.095	1.551	-1.371	.684	1.038
2. Age	1.417	1.317	3.660*	3.129	1.220	1.123	2.461	3.210*
3. Education	1.785	.642	.996	1.046	.383	1.140	2.78*	1.067
4. School type	1.531	2.121*	1.074	1.885	.717	1.002	.784	1.387
5. Experience	1.382	.824	1.325	.670	1.864	1.874	.639	1.106
6. Business experiences	1.448	1.040	.702	1.627	1.905	.596	1.275	1.758
7. Collaborative experiences	1.493	.512	.450	.218	.607	.832	1.195	.937
8. School	1.040	.702	1.627	1.905	.596	1.275	1.758	.707

n=60, *p< .05

The Relations of Recognitions between Businesses and Schools in the Dimension of Diamond Model

The test results of the correlation between businesses and schools in the Diamond Model are shown as follows (see Table 7):

- There is positive correlation of business in dimension of the factor conditions with the dimension of the government of schools.
- There is positive correlation of business in the dimension of the demand factors with the dimension of strategies and structures of schools.
- There is positive correlation of business in the dimension of the related and supporting institutions with the dimension of demand factors of schools, as well as the dimension of government of schools.

The results appear that the main purpose for businesses to collaborate with schools is school practice-oriented characteristics in teaching and learning. So far, businesses have been satisfied with the cooperative relation with higher technological and vocational institutions.

Table 7 The Relations of Recognitions between Businesses and Schools in the Dimension of Diamond Model

Schools	Business							
	Factor Conditions	Demand factor	Related & Supporting Intuitions	Strategies & Structure	Organizational Culture	Government	Chances	Total
Factor Conditions	0.58	.121	.067	.149	.150	-.039	.024	.096
Demand factor	.210	.005	.342*	.218	.265	-.035	.147	.239
Related and Supporting Intuitions	.294	.283	.186	.220	.254	.045	.999	.221
Strategies and Structure	.139	.352*	.105	.119	.136	-.030	.119	.130
Organizational Culture	.258	.164	.211	.165	.217	-.023	.068	.182
Government	.324*	.223	.300*	.261	.183	.022	.174	.258
Chances	.240	.162	.282	.203	.135	.066	.194	.225
Total	.286	.258	.261	.209	.243	-.013	.137	.230

*p< .05

Results from the Expert Interviews

This study interviews 3 businesses executives and 4 administrators of higher technological and vocational institutions whose businesses are related to collaboration. The motivation of schools to participate the collaborative project is to promote schools' reputation; but the motivation of business is derived from external marker pressure. Namely, businesses would not actively search schools to cooperate without external forces. An interesting finding that the opinion between schools and businesses are not consistent/is that schools and businesses have evaluated the chances factor differently. It appears that the one chance and the different interpretations between schools and businesses.

The Advantageous Strategies for Collaboration

This study constructs a systemic model and series of strategies for the collaboration between and SMEs and schools to. The strategies are categorized seven dimensions in the Diamond Model (see Figure 1).

Government: Taiwan's government actively constructs the infrastructure for businesses and schools. Continuously modifies the law to motivate sectors to participate in the collaborative projects, intensify the function of matching the collaborative project and integrate the related public sectors which businesses relate to the collaborative project.

Demand Factor: The purpose of business to cooperate with schools is their practiced-oriented in teaching and learning. Schools should continuously intensify the characteristics to gain more cooperative chances.

The Chances: Businesses integrate the sensitive competencies to the market demand with the practice-oriented trainings of schools to develop the products and mutual benefits.

Related Supporting Institutions: The internationalization and technological transformation of competitive rules and content, both businesses and schools should based on the viewpoint of mutual prosperity cooperate with each other. Businesses should adapt to the culture of cooperative school, and schools should attempt to satisfy business demand.

Organizational Culture: The knowledge-based economy shifts the rules of competition. In order to cooperate with each other, schools and business should be based on the mutual prosperity. On one hand, business should try to incorporate school's culture; on the other hand, schools should attempt to meet business demand.

Strategy and Structure: Through data analysis, this study drafts the snow-rolling model approach could provide for businesses and schools. The characteristic of the sketch is showed the third business or schools to be included. Schools actively outline the strategic alliance network for businesses. The networks are categorized into three stages:

The first stage: Internal collaboration. Schools inform businesses of the resources and provide consulting services of departments. Schools play an active matching role in this stage and extend their network to third businesses or schools.

***The second stage*:** External collaboration. Schools inform the cooperative business and the third business or the third schools of the expected role within the collaborative project.

***The third stage*:** Cross domestic collaboration. The cooperative partners should search for the international sectors to participate in the projects to raise experiences in the global network.

Factor Conditions: For their limited resources, the motivation of private schools to participate in the collaborative project is much more than public schools. Governments should bridge the gap between public and private schools to intensify both sides' motivation.

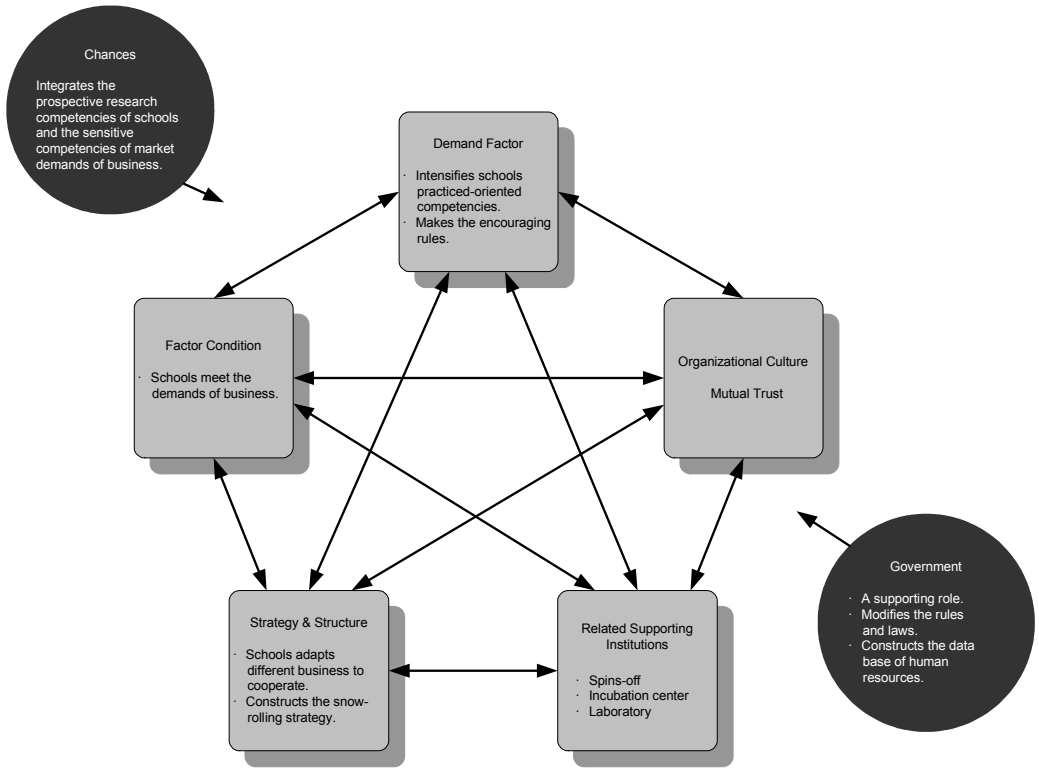

Figure 1 The Advantageous Strategies for Collaboration

Implication and Recommendation

This study found that a successful framework for collaboration for business and schools is to expand the to expand the scale of cooperation gradually when they are mutual trust. The role of government in the collaborative project, the role of government could play a director in the initial stage, and gradually decreases its dominant role to supporting role and the consultant in the long run. Four recommendations for Taiwan's government are as follows: (1) Continuously modify the rules and laws to encourage business and schools to cooperate; (2) Provides the matching service for business and schools; (3) Construct the database of human resources; (4) Integrate the departments business charged in the collaborative business into the unified portal for complete information.

The implication for business is actively to search for academic institutions to cooperate. Four recommendations for business are as follows: (1) Fund schools to research within the collaborative project; (2) Provide equipments for schools under the project; (3) Provide the human resources to serve in the schools temporally; (4) Share the intellectual property according to the contributive level

The implication for higher technological and vocational institutions is to base the advantage of practiced-oriented in teaching and learning to promote the successful case in collaboration for business. Six recommendations for schools are as follows: (1) Integrate with the regionally academic institutions; (2) Take into consideration about business demands in the products of R&D in order to arrange curriculum; (3) Train students to be a qualified employee in the business; (4) Provide the prospective information in the academic research for business; (6) Make the encouraging rules to motivate school member to take

part in the project.

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SMALL BUSINESS MANAGEMENT CONSULTING;

TALKING TO THE DEAF?

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INTRODUCTION

In many Small Business development policies an important role is foreseen for the knowledge transfer between knowledge institutes, like universities or consultants, and Small and Medium Enterprises (SMEs). Despite the importance of this knowledge transfer, little research has been done into the process of knowledge transfer. Which methods of transferring knowledge are most effective? What is the effect of the type of knowledge to be transferred? Etc. Many questions are still open. Questions that are of particular importance to Small Business Development policies in the Netherlands. The fact that the

Netherlands combines a highly educated population with relatively low knowledge transfer has become known as 'the Dutch paradox'. The Chair of Management Consulting at the University of Professional Education Utrecht performs an action research program aimed at better understanding the relationship between different ways and settings of knowledge transfer and the effectiveness of the knowledge transfer. In this program, students together with teachers, perform business-consulting assignments in SMEs.

Cooperation between SMEs and knowledge institutes

Many SMEs are not regular customers of consultants or knowledge institutes. In the Netherlands only 10% of the SMEs co-operate with a university. A non-commercial SME consultancy service is consulted by only 14% of the SMEs, whereas commercial consultants are consulted by no more than 20% (Blom, 2001). For large companies this number is over 70%. In these studies, the regular contact with a lawyer or accountant is not considered as management consulting. The reasons for the relatively low utilization of external expertise by SMEs are indicated as (Blom, 2001):

- High costs of a consultant (41,7%);
- No need for external knowledge (37,4%);
- Doubts about the practical usability of an external advice (10,8%);
- Does mot know / No answer (10,1%).

High costs

An often heard opinion about consultants is that they are expensive. This opinion is not exclusive to SMEs, also large companies complain about the cost of theur consultants. Partly the consultants themselves have created this complaint. In the hay-days of consultancy, in the second half of the nineties, 'consultants' emerged in every trade. A consultant could be anything between a locksmith or a boardroom advisor. In the information technology industry a nearly finished education was enough to start in the business. The length of the company car indicated the level of inexperience of these 'consultants'. Attempts to introduce a quality standard to the industry failed because the market was not interested. The quality of a consultant is probably too unclear and indefinable.

Another problem in consulting is that of the benefits of a consult. Quite often these benefits are difficult to quantify beforehand. The nature of 'consulting' may make this inevitable. After all, in the end the consultant does not make the decisions. However, in an era where 'Return on Investment' seems to rule this is a serious disadvantage.

Since the argument of high costs is not exclusive to SMEs, does it provide an explanation for the limited use of external expertise by SMEs? Could the profitability of SMEs be lower than that of large companies, causing fewer resources available? Research on profitability of SMEs compared to larger companied indeed show some differences. In most countries large companies are more profitable than SMEs. In the Netherlands however, the opposite is true (Campeer et al., 2003).

Another explanation could be that economies of scale in the process of consulting provide a disadvantage for SMEs. Despite of the lack of research into this topic, the argument is

supported by many consultancy companies that experience difficulties in ‘downsizing’ their methodologies to a realistic approach for SMEs.

All the possible explanations of the high cost argument however cannot explain the low penetration of subsidized ways of knowledge transfer as provided by universities and government programs.

No need

How should the fact that almost 40% of all SMEs indicate to see no need for external knowledge be interpreted? Following the familiar is the 'conscious - competence' learning model[1] typically the conscious – incompetent entrepreneur or manager will be looking for external expertise. These persons are aware of the existence and relevance of the knowledge they are lacking themselves. The unconscious – competent group does not really need advice, but might be looking for it for more certainty. The conscious – competent group is not looking for external expertise because this group is aware of their competence. The remaining groep, the unconscious – incompetent one, is also not searching external advice because they are not aware of their own lack of knowledge. The question arises whether the ‘no need’ argument results from conscious – competent SME managers or from unconscious – incompetent ones.

Given the diversity of entrepreneurs and managers of SMEs it can be assumed that they cover all four fields of the matrix. However the fact that most bankruptcies are resulting from ‘incompetent entrepreneurship’ (Blom, 2000) is should be alarming. In an increasingly complex business environment, because of developments in legislation, labour, information-technology, etc., it can be expected that the need for especially functional expertise is growing.

Practical usability

This argument raises the question whether business skills like marketing, finance and human resources management apply to SMEs differently than to large companies. If the answer to this question is based on the many book-titles indicating a special focus on small-business, e.g. small business marketing, small business logistics, etc., the impression arises that business skills indeed apply to SMEs differently. A closer look to the content of these books however learns that it is not so much the core-logic of these business skills that is different for SMEs, but the context of the application.

SME characteristics

The reasons as outlined above do not seem to provide a satisfactory explanation for the relatively low utilization of external expertise by SMEs. For a better understanding of the difficult relationship with SME entrepreneurs and managers and external knowledge providers, a closer look at the context of a SME should be taken.

[1] It is not clear who originated the conscious - competence learning model. As well as various modern authors, sources as old as Confucius and Socrates are cited as possible originators.

Characteristic 1: Number of employees

Their number of employees commonly defines SMEs. The boundaries of the definitions used can however differ by country. In most European countries define SMEs as companies with less than 100 employees. In these countries SMEs usually account for more than 95% of all companies. By far the most SMEs have 0 or 1 employee.

In understanding a company's role in society and economics its number of employees is not a very reliable indicator. In the Netherlands, airline KLM is one of the largest private employers. In the global airline business however, KLM's management was convinced the airline should merge in order to maintain competitive.

Characteristic 2: Industry sector

The formal definitions of SMEs normally exclude the public sector. Also the primary sectors, agriculture, fishing and hunting, are excluded. Regarding the managerial and business issues however many public and semi-public companies are comparable to SMEs.

Characteristic 3: Organization structure

Despite the fact that over 95% of all companies can be classified as an SME, most organizational theory is based on large enterprises. One of the 'godfathers' in this field, Henry Mintzberg, set the tone by introducing the 'Simple Structure' as the dominant model for the organization of SMEs (Mintzberg, 1979). In this 'Simple Structure' all employees report directly to the director, with little hierarchy. This structure probably applies to part of the SMEs, but as a general SME organization model it is a simplification. Meijaard (Meijaard et al., 2002) modifies this image and defines nine organizational models for SMEs. These models differ regarding the division of labor, division of power and coordination mechanisms.

Characteristic 4: Decision making structures

In studies into the decision-making structures in SMEs the role of the entrepreneur springs to the attention. Gibcus (Gibcus et al., 2003) points out that the logical steps of a decision making process itself does not differ much between SMEs and large companies. As could be expected, is this process in SMEs not the result of a regular strategic planning process. In the execution of the process, the dominant role of the SME entrepreneur or manager limits the objectivity of decision-making. Once an idea or a dream settles into the mind of the 'boss', he or she will subjectively filter most information in order to 'prove' the quality of their plans. External information or expertise that does not comply with the dream is discarded. This makes the rationality of decision making limited.

Characteristic 5: Lack of supporting staff

One of the most eminent qualitative characteristics of SMEs is their lack of supporting staff (Van der Wilde, 1987). The scale of the organization of most SMEs simply does not allow for specialist staff. Logically this creates a knowledge gap. For example, 67% of SMEs indicate to lack in-depth expertise of HRM and personnel issues, but a mere 4% can afford to hire a trained HR professional (Blom, 2001).

The lack of specialist expertise does not reflect in a high demand for external expertise. The combination of little expertise and little demand for it is alarming. Probably this illustrates the independent mind of many entrepreneurs, who like to be 'in-control' (Van Gelderen, 2003).

Characteristic 6: The person and role of the entrepreneur

As already mentioned before, the person of the entrepreneur or manager is an important factor in SMEs. Given this dominant role, also the personal characteristics of the entrepreneur/manager become an important influence. In the Netherlands, the personal profiles of these entrepreneurs and managers have been studied (Blom, 2001). Based upon this study it can be concluded that:

- almost 70% does not have higher or university education;.
- entrepreneurs/managers assess as their strong skills: marketing, customer-interaction, sales and professional skills;
- their weak skills are assessed as: strategic planning, policy making, information technology, organization, administration, fiscal and legal matters;
- over 70% does not attend any courses or seminars and an even larger percentage does not allow their staff members to attend courses or seminars.

It is not unthinkable that these personal characteristics, combined with the lack of supporting staff to compensate the weak skills, is an important factor in the difficult relationship between consultants / knowledge institutes and SMEs.

The impact of these characteristics on Small Business management consulting

How should the process of management consulting to SMEs be organized in order to establish an optimal knowledge exchange? Earlier we discussed the three main reasons, cost, need and usability, of SME owners/directors for not hiring consultants or knowledge institutes. Stimulation policies for SMEs are most often aimed at overcoming the first reason: high cost. Although, the multitude of stimulation arrangements and subsidies on European, national and regional level can be confusing and bureaucratic, the possibilities are huge. For the serious owner/director, the cost of external expertise can therefore hardly be the main issue.

Regarding the 'no-need' argument, the owner/director's self-assessment (Blom, 2001) and their lack of professional staff, strengthens the impression that a significant part of the SME entrepreneurs/managers must be considered 'unconscious – incompetent'. This implies that a 'pull' strategy of knowledge transfer is unlikely to be successful for these SMEs. Once the lack of awareness is overcome, also the 'no need' reason cannot be a main issue anymore.

The argument that the advice of an external consultant is generally not useful, raises the question whether the insights gained in business sciences only apply to large companies. This seemed unlikely. Given the characteristics of SMEs the difference is probably more the context in which the insights are applied than the content of the insights itself. From the analysis of the characteristics of SMEs the dominant influence of the person of the

owner/director appeared as an important factor in the difficult relationship between consultants / knowledge institutes and SMEs. Given the personal profiles of these owners/directors, the external knowledge providers should realize the 'three ways' in consulting. The first 'way' is the *way of thinking*, the business sciences. For many consultants and university researchers, the 'content' of the advice is at the 'top of the mind'. The advice has to be 'right', high quality. But a 'good' advice is not necessarily an effective knowledge transfer. Effectiveness requires acceptance and the acceptance of the advice is mostly influenced bay the other 'ways'. The second 'way', the *way of working*, represents for the way information is gathered and the entrepreneur and his staff is involved in the process of developing the advice. In this 'way' the consultant should allow for interaction and should make it fun for the participants. In this aspect, the process approach of consulting shows promising. The third 'way', the *way of communicating*, represents the way the knowledge is transferred from the advisor to the entrepreneur. In this 'way' it is crucial to acknowledge the different personal profiles of SME entrepreneurs and consultants and to adjust the communication accordingly.

Taking the 'three ways' into account, the conclusion could be that the transfer of knowledge should be more the 'sharing of experiences'.

The Chair of Management Consulting will adjust her activities to explore this insight further.

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THOTH'S BENEDICTION: AN EMPIRICAL STUDY OF KNOWLEDGE INTENSIVE SMALL FIRMS

Kshitij Chandra Jha* & Dr. Sudhir K. Jain**

Rohan and I had been exchanging e-mails daily for about a fortnight. The case study that Rohan had done for me had obviously got him excited. He had interviewed a firm in Pune at my request; and I myself had done two at Delhi. The similarities and differences were making us both analyze the situation from varied angles; however, we reached more or less the same conclusions. With his background in economics he was able to lend a tangible form to the abstract inferences that I had initially made. After checking with the wide literature available on the topic; mainly research after Sveiby and Risling's path breaking book on the topic, I more or less found a resonance in the discussions we had.

Analyzing the data with my guide also led me to trends that found justification in subsequent literature. I had expected the cultural and social background of my country to be a marked influence on my research; and produce deviations from the western work done. However, the deviations were never profound and agreement has been to an unexpected level. The reasons for this harmony amidst cultures may be attributed to two main causes. Firstly, the similarity in backgrounds between personnel in these firms across countries. They share formal education and a middle or higher middle class status in society. These lead to common traits, both organizational and personal. The personal traits of proclivity to autonomy, creativity, and flexibility lead to an organization that is informal, and collegial in structure. Second, the high levels of standards and quality required at these levels lead to uniformity in functioning.

Having been invited to do a case study at ComplexCode(pseudonym at request) ; I found myself exposed to a Bohemian order. ComplexCode gives code for embedded systems and other VLSI hardware. The book would deem the organization a failure, some of its practices sacrilegious. A small group of five was the core of the firm. They employed not more than five personnel. The core group took care of everything from coding to policy decisions. Rest was non-technical staff related with daily running of the firm. At any time I could see more people chatting in the coffee room adjacent to the lab. There were no fixed breaks and working hours were at the discretion of the core five. During most of my interview while I was talking to one of the core five, three chattered in the coffee room while one furiously hit the keyboard in the lab. I was being told that there was no fixed routine or practice that they followed. Sometimes, when a project required urgency they worked all night, at others they could take a break for days. But they had never been late for a deadline. Also, non-standard practices included scratching code on the tablecloth during discussion or delaying disliked jobs, mainly non-imaginative routine coding, till the last moment. Even though that meant a hurry to save the skin and burn the midnight oil.

At Neubauplan in Pune where they design complex high-speed machines and offer prototype making services, work culture is much more conventional. With a large library, state of the art software and computers, printers and scanners, it had personnel that were working in regular shifts. They divided their projects into parts and proceeded systematically to accomplish

them. According to the President and founder they were moving more and more towards routines and standard tasks to maximize efficiency.

Yet both of them had turnovers in multi crores, and gross margins in excess of 90%. They are examples of what are known as Knowledge Intensive Firms. Despite the obvious differences on the surface they have strategic and technical expertise at their core. Both enjoy monopoly in their respective fields and are the dominant, in some cases only provider of the services/ products they offer. It is this monopolistic advantage that accounts for longevity and high gross margins.

N=40.

THE KNOWLEDGE PARADIGM: DEFINING A KIF

As the Orwellian forecasts of a Big Brother watching, or the IBM 8:18 – 5:12 becomes increasingly redundant we are forced to take a look at the paradigm shift. Originating from capital and labor intensive labeling of firms, input is used as the parameter for these definitions. The advantage of using input is that it gives a good platform to assess the internal structure and operations, whereas the disadvantage lies in the obscuring of customers and distribution channels. However, there is a distinct over simplification in defining knowledge intensive firms in terms of human capital as opposed to financial or physical capital. Capital and labor can be gauged in terms of monetary units. These units give leverage to common values between firms; at best they show aspects that can be bartered in inter firm terms. They ignore or at least obfuscate idiosyncrasies of a firm and the routines followed in intra firm activities.

This ambiguity arises in part from the fact that knowledge itself is not so well defined. Most confuse it for information. But, “Knowledge is a stock of expertise not a flow of information” (Starbuck ’92). The best flow line that I came across is depicted as follows:

Defining knowledge is like defining value or importance. It assumes different values in different situations. Based on my study of literature and participation in a conference on the topic; I could find the following salient features of a KIF. They were justified in my empirical take on the topic:

1. *A KIF is different from an information intensive firm*: This would be clear from the flow chart process model above. Also, I realized this when during the middle of my study I made the mistake of classifying BPOs as knowledge intensive firms. As I went for an interview in one of those firms; and I processed data, it became increasingly clear that they were information intensive and differed from the firms I was studying. Processing is much faster in an information intensive firm. Also the ratio of experts to personnel is lower.

2. *Weighed emphasis on arcane knowledge*: Expertise of the Olympian niche dominates commonplace or widely shared knowledge. This might lead to stereotypes and make such firms look special. However, if we broaden the definition then reduction of stereotypes is at the cost of a generalization that might classify many firms as knowledge intensive.

3. *Knowledge of the KIF may not be in key personnel deemed as experts*: Machinery, assets, routines, and organizational structure/culture may be other knowledge properties acquired by the firm. Nelson and Winter ('82) treated Behavioral routines as the essence of an organization. They lead to logical results in abstruse situations. The personnel contribute to the routines and structure of the firm. Thus dependence on key experts might not always be sharp.

Keeping these in mind we defined an expert as someone who has formal education or experience equivalent to a doctoral degree. A KIF is defined a firm that has 20% or more of these experts.

THE INITIAL PHASES: TEETHING TROUBLES

Requests to fill in an html based interactive form were sent to over 500 firms taken from Indiayellowpages and Yahoo directory of small businesses. 55 replied of which 10 were classified as information intensive or not knowledge based. The remaining 45 forms the basis for all the data presented henceforth.

Respondents were asked to rate various factors on a 1-5 scale where 1 represented the least satisfaction or the least important and 5 the most. In the case of procuring seed capital people were asked to rate according to ease- 1 the hardest and 5 the easiest; the rest were satisfaction and importance ratings. This has been clarified since quite a few firms said that procuring investment was most difficult as also most important. Importance of capital is taken for granted; we are more interested in the ease of obtaining it.

These were the responses and ratings:

THE START UP PHASE

Factor	1	2	3	4	5	N R
Access to investment	4	7	19	5	7	3
Access to loans	6	3	22	4	7	3
Support of government	13	9	12	6	2	3
Satisfaction with the interest rate	16	9	15	1	1	3
Satisfaction with the infrastructure	7	5	20	8	2	3

MEAN SCORES AND RANKING OF FACTORS

Factor	Mean Score	Ranking
Access to investment	3.095	1
Access to loans	3.071	2
Support of government	2.404	4
Satisfaction with the interest rate	2.095	5
Satisfaction with the infrastructure	2.833	3

Also, the nature of seed capital was investigated. Most had generated the starting fund in more than one ways:

Note that the numbers do not add up to 45 since more than one option could be exercised. For the same reasons a pie chart was not possible.

It is notable that access to loans and investment is perceived not to be a hindrance; but the dissatisfaction with the interest rate is high. This leads to a high number of the respondents setting up the firm with the help of personal assets; although these occurred to the maximum extent in combination with one of the other two. The underlying fact is that money should be made cheaper.

The technopreneurs are also visibly unhappy with the role played by the government; the support and the infrastructure provided. There needs to be greater import in the policies of the government to make these people set up firms in the country. Most of the manufacturing based KIFs need imported machinery/equipment. These are examples where the expertise might be in non-human forms. This class is miniscule, high interest rate being a bane in such matters.

The following is a break up of firms into service and manufacturing units:

We can clearly discern a bias towards the service industry. The manufacturing KIFs tend to be technology intensive; which are more capital intensive than the average firm belonging to the knowledge class. Their low numbers hence are explainable as a correlation to the payback ease.

KNOWLEDGE CREATION: A LOOK INTO THE BEHAVIORAL, STRUCTURAL, AND ORGANIZATIONAL LINKS

THE EXPERT'S WORLD

The key to all knowledge creation lies in the hands of experts that form the heart of a KIF. It is imperative therefore to look into the work and behavioral aspects of an expert.

The work done by experts has been captured in the following model based on Starbuck's ('92) hypothesis. It is known as the CAP model (Creating, Applying, Preserving).

The performance of a KIF is closely linked with efficiency of expertise. This in turn is a measure of the environmental opportunities, and behavioral patterns of the experts- that has the organizational structure as a prime parameter. To understand the psyche of experts it is generally observed that they resist ideas; which is a paradox on the surface. This attitude is borne off constraints on time, limits of a specialist outlook, and image consciousness. Explicit learning has no immediate returns while cutting on the valuable, and paid for, time of the experts. The versatility and flexibility of analysis and perception are lost to an extent with specialization. These specialists might ignore even revolutionary concepts just outside the domain. Also, the willingness to learn might be seen as a deficiency. On the other hand, since knowledge creation accelerates social and technical changes, experts tend to find themselves in such spheres.

Since knowledge creation itself lacks a proper definition, there exists a weak, if any, correlation between knowledge intensity and creation. Adding more experts to a job that one expert can do will only delay the process by additional requirements of interaction, consultation, and protocol. Hence, it would entail a less effective use of experts.

There exist a symbiosis between organizational and expert learning. Organizational learning can be said to be a process wherein the personnel's expertise gets converted to the property of the organization. Three main classes of organizational property are recognized. They are physical capital, routines, and organizational learning. In addition a fourth intangible component of social capital might be considered.

Physical capital is the conversion of expertise and experience in concrete terms like software, databases, and defined processes.

Formation of routines represents a sort of dilemma for the KIF. A routine by nature is bureaucratic. Experts desist bureaucracy; they are people seeking autonomy, recognition of individuality, and classless environment. Quality is dependent on the other hand on consistency. Consistency across clients can be maintained only if there is personnel development and the roles occupied by these people are impersonal in nature. In other words it requires conceptual integrity, which is control by a few key people within the organization. The bigger firms are able to bureaucratize because they can balance out the opposing forces.

Organizational culture builds gradually and is a very delicate aspect. Bigger firms have to promote free communication to tolerate the bureaucratic dissatisfaction existing within. Smaller firms don't have such communication problems as the organization charts here are sketchy and environment is open, friendly, and informal. They respect the expert's desire for autonomy, and also gain in fluidity and ambiguity, which are a necessity to absorb the fluctuations in requirements.

Social capital is an amorphous concept. It measures the effectiveness of the organization in client relationships. There exists a differentiation even between experts in an organization. Some experts are more valuable as social capital for the firm, compared to others. These wok in conjunction with experts who are technically more adept. Over dependence on either would

spell trouble for a firm. One might lead to loss of clients while the other loss of expertise. Also, social capital makes service look exclusive, and adds personal touch, thus enhancing client satisfaction manifold.

The strategy adopted by firms for employee motivation, or in other words expert management policy of the firm is reflected in the following bar graph. All the firms replied N=45, and there was a large majority of the firms that chose others as an option:

PaWp: Personal Appreciation of Worker's Performance
AoT: Appreciation of Teams
MoAbv: Mix of Above.
NthgFml: Nothing Formal

Among the explanations for other strategies were statements like "an open environment", "remuneration as the prime source of motivation", et al. Within the options available we see that a hazy kind of format is most preferred. All these target the expert's yearning for autonomy and individuality. He is made to feel special through remuneration, and also absence of hierarchy or well-defined structure implies absence of control.

Formal reviews and routines were stated in 3 firms. It was notable that they were the biggest of the lot.

The dependence of market performance on product/service variables is depicted in the following response. It depicts the strength of a KIF

MARKET PERFORMANCE

Factor	1	2	3	4	5	N R
Originality of product	1	4	16	10	14	------
Quality of product	0	3	15	18	9	------
Cost of product	5	2	25	7	6	------
Service provided	1	4	15	20	5	------
Others	---	---	---	13	11	21

MEAN SCORES AND RANKING OF FACTORS

Factor	Mean Score	Ranking
Originality of product	3.711	2
Quality of product	3.733	1
Cost of product	3.155	4
Service Provided	3.533	3

There is a marginal difference between the originality and quality of the product as a marking factor in market competence. Consistent quality is essential to keep long-term clients or customers. Also innovation is the forte of experts. Hence originality, which imparts monopoly, is also a defining factor on par with quality.

Even in India, for KIFs cost is the least important factor. This is because these firms at present provide mainly value added or high-end services/products. Technology has not permeated to the level where cost would be a dominating concern. Service provided is a mid level factor in the performance, because it serves mainly to ease out customer dissatisfaction and maintain the bond.

The focus of the company relates to the kind of work experts do. The following table shows the responses of the firms:

FOCUS OF THE COMPANY

Factor	1	2	3	4	5
Marketing already developed product	10	3	10	5	17
Marketing new product	5	15	7	10	8
Developing new product	7	9	11	4	14

MEAN SCORES AND RANKING OF FACTORS

Factor	Mean Score	Ranking
Marketing already developed product	3.355	1
Marketing new product	3.022	3
Developing new product	3.200	2

Marketing and innovating are the focus of the company. Clearly, acquiring a product and marketing it as something recent is not high on the agenda of these firms. Though alliances make for such strategic possibilities. This is also discussed as In Licensing in areas of new focus; something the pharma companies are hitting at.

INNOVATION INCUBATION

The informal atmosphere is congenial for idea generation. To convert ideas to knowledge, it has to pass through an incubation stage. The lower the time required the more is the

emphasis on speed. Very low incubation times may be at the cost of knowledge accuracy. The following pie char demonstrates the kill for speed in the industry esp. so in KIFs that have a high number of innovations and a large number of competitors to tackle.

ALLIANCE FORMATION

Inter firm collaboration among knowledge intensive firms is on the upward swing due to three reasons put forward by Reid, Bussiere, and Greenaway('00) : accelerating competitions, falling regulatory barriers, and rising customer expectations.

Definition: An alliance is an understanding between two firms that allows for mutual sharing of resources in order to achieve a set of pre defined goals or agreed upon objectives. The stability of an alliance primarily depends upon mutual benefit. In the case of knowledge intensive firms, the sharing of knowledge as a resource may take three forms: explicit–explicit, explicit-tacit, tacit-tacit.

The following model may depict the lifecycle of an alliance:

Social environment is shown with broken lines, as it is a very abstract and not well-understood part of the organization. There is no direct correlation between it and the final output- it's not a causal variable. However, it is a secondary one wherein it influences the structure of the organization. In addition to the other effectual/causal/primary variables it affects the performance. The motivations for alliance formation in the first place may include gathering knowledge and effective usage of it, creating knowledge, to further dyad linkages to larger networks, which might prove synergistic, and to block rivals.

Out of 45 respondents 42 said they were in some sort of alliance/collaboration with other firms. The nature of the alliance is shown in the following bar graph.

Marketing tie-ups enjoy such popularity because they are required across all KIFs ; and are more universal in their character. Joint ventures or sharing of information depends on the intensity of knowledge/technology within firms. They are firm sensitive. However, it is felt that sharing of information is an under utilized activity, even in firms that could complement each other's databases towards more effective usage.

BUILDING UP THE KIF: STRATEGIC DEVELOPMENT

The following model represents the flow of knowledge inside a firm.

The model runs the risk of being simplistic, since prediction is difficult and coherence lacking.

DIVERSIFICATION

Diversification poses varying challenges to product and service based KIFs. For product based firms it is a matter of managing the product line as well as the number of customers it serves. For service based clients and areas of expertise are the equivalent fields. Too many or too less both have their dangers. Minimizing the number of products or the topical foci would result in a liability to perform superbly in those fields or maintaining relations with

customers at all costs. Broadening the reach and scope would be at the expense of either losing credibility or increasing customer dissatisfaction, even with the long-standing ones.

The mood of Indian KIFs as to diversification was not the most enthusiastic one. Out of 45, 27 were thinking of diversifying. The timeline pie chart for N=27 is as follows:

Considering the kind of expertise we possess, this reluctance to diversify is indeed surprising. All the same considering that with competition all around, the one product may crash or the service might lose its value or punch. This has happened time and again with China joining the arena. Diversification should be an option to be followed proactively, not as a fall back. We can also see that all plans are in the future, perhaps with the opening up and the array of options to choose from, multiple product/services companies will become more of a characteristic of KIFs. As of now, it certainly doesn't seem so:

EXPANSION

Diversification usually entails expansion. Multinationality presents difficulties that a KIF cannot deal with in the standard industrial approach of hierarchy or controls. It has to inculcate ethics in autonomous teams and individuals and rely on them to meet performance standards. This would necessitate cultural homogeneity. Also, more and more clients desire tailored solutions as opposed to standard ones. Tailoring would require experts to act differently with a complete understanding of the background in which the solution is to be tried. Interaction requires the same degree of comprehension on the part of the expert. Hiring of native is a trend gaining ground because of these factors. In addition, it also lends a much-required global image to the firm.

Multinationality here also extends to expanding to a different city in a heterogeneous society like India. When expanding outside Indian firms are often reluctant to hire foreign experts because of the high fees involved. However, thinking in terms of the long term vision of the firm, such hiring should be encouraged. They would make the firm's expansion effective.

The final step of expansion is the graduation of a company from one level to the other. We asked the firms how many were interested in growing out of the SME sector. The response was average:

SCENARIO AT LARGE

WORRIES AND OBSTRUCTIONS

The worries of competing and the obstructions of growth were both polled from the firms. These are the results we obtained:

MARKET COMPETITION (WORRYING FACTORS)

Factor	1	2	3	4	5
Low margins	17	8	15	3	2
Competition from	6	4	19	14	2

contemporaries					
Delay in distribution/delivery	13	10	13	6	3
Changing technology	2	6	16	12	9
Lot size problem	22	7	11	4	1

MEAN SCORES AND RANKING OF FACTORS

Factor	Mean Score	Ranking
Low margins	2.222	4
Competition from contemporaries	3.044	2
Delay in distribution/delivery	2.466	3
Changing technology	3.444	1
Lot size problem	2.000	5

Changing technology and competition from contemporaries are factors that hit at the strength of the KIF. Monopoly is the USP of this class, and any attempt to undermine it obviously causes worry. Producing goods in efficient quantities is not a major concern as production would be a fraction of the total overheads in such firms.

The obstructions faced as per growth were also tabulated. They are in the form of the bar graph below:

LoTKH= Lack of Technical Know How.

The capabilities or the technology is not what is stopping these firms from growing. Corruption , lack of government support are to blame. Also in the others; risks involved and opportunity cost as also lack of mature markets in India were primary reasons given.

We see the same trend when we investigated the reason for the small number of KIFs in India.

FACTORS RESPONSIBLE FOR THE SMALL NUMBER OF KIFs IN INDIA

Factor	1	2	3	4	5
Brain drain	2	8	10	16	9
Government's passive approach	5	7	14	17	2
Poor infrastructure	3	10	8	16	8
Bureaucracy	1	13	14	13	4
Technical know how	9	14	15	2	5
Difference in compensation	7	4	7	13	14

MEAN SCORES AND RANKING OF FACTORS

Factor	Mean Score	Ranking
Brain drain	3.488	2
Government's passive approach	3.088	5
Poor infrastructure	3.355	3
Bureaucracy	3.133	4
Technical know how	2.555	6
Difference in compensation	3.511	1

HELPFUL INITIATIVES:

Initiatives that found favor with firms can be seen in the table below:

Initiative	1	2	3	4	5
Science Park	3	10	17	9	5
Increase in Incubators	14	6	16	7	2
Industrial Areas	5	11	15	12	2
Technology Corridors	2	3	15	22	2

MEAN SCORES AND RANKING OF INITIATIVES

Initiative	Mean Score	Rank
Science Park	3.000	2
Increase in Incubators	2.488	4
Industrial Areas	2.888	3
Technology Corridors	3.355	1

Infrastructure as a problem is reflected here. Technology corridors are a viable solution. Collaboration with universities is not that much in favor.

AREAS OF FUTURE FOCUS

Midnight 31st December 2004 is a date that has aroused much speculation in the Indian industry circles. That is the day when India is committed to switch to the product patent regime from the earlier process patent one. Government had deliberately kept pharmaceuticals out of the orbit of product patent; but the long-standing empathy finally had to give way. The implications too are well known. Reverse engineered patented products permitted under the process patent regime and sold in India and the unregulated markets would find a closed market as per the new regulations.

The situation also throws in opportunities and encourages strategies. With increasing sophistication, knowledge intensity for one would be a gainer. Friendly manufacturers, supplying drugs with the approval of the holder of the patent would increase ad rebel ones manufacturing made copies of patented molecules dwindle. This would be because of higher margins, non-availability of developing markets post 2004 to rebel manufacturers going under the product patent regime, and India as a cheap destination of bulk drugs for US patented products that preferred Europe previously. New Chemical Entities (NCEs) are being manufactured by the SME sector in India on a contract basis from multinational firms. Also, Bottom Fishing, which involves small firms specializing in very few, at times just one, drugs to bring down the price of that product. They are the dominant manufacturers of these products, and monopoly as previously stated provides longevity and high profits. A marketing strategy is In Licensing where the imported drug has the label of the home country. Intricate marketing and manufacturing alliances need to be worked out. The there are firms going into super specialization for the advantages of monopoly. Steroids is one such segment. Contract manufacturing has small firms working for the R&D of big ones on a contract basis. It combines the complex synthesis capabilities of Indian chemists and the high degree of compliance with manufacturing practices (cGMP).

Midnight 31st December 2004 would also see the expiration of the three decade old quota regime. This has produced effects that find their parallel in the pharma industry. Textile machinery has registered unprecedented sale, consultants are being hired to raise the quality standards, and worker productivity levels are being improved by training programs. A labor-intensive firm is fast veering towards a technology intensive one. At least parts of it already are in the technology-dominated zone. All this with the interest of the world in India as a cheap sourcing destination, and the high level of exports expected post 2004.

The auto parts sector in India is rated high in terms of Quality of Supply, Design Capability, and Maturity of the Industry compared to its Asian counterparts. It falls in terms of Government Regulations and Price Competitiveness. It is learning the tricks of the trade in Design and Development. R&D is the next step in evolution. The components industry is going global and export turnover ratio is in the high 30%s on average. With more government support the perception of making it big in this sector is not unfounded.

Nanotechnology is a specialization where India has the wherewithal in terms of know how. There just aren't companies that are exploiting this super specialization. Most of the firms using it in drug release or smart garments are the big ones, or their subsidiaries. Yet, some of the small industries have evinced interest in the field. With expertise as a primary requirement, and monopoly a guarantee this is a sector that has been left largely unexploited.

LAST THOUGHTS

Rather than always looking for simplicities and generalizations, this study has teaches one to celebrate peculiarities. The insight into an expert's psyche as also the intricacies of strategies that leads anywhere from synergy to disaster is a study in contrasts in itself.

The knowledge era is to dawn in the developing nations in the next two decades. In light of that the unstinted growth of these firms requires government encouragement and support.

The future excitement of the three techs- info, bio and nano merging together will produce interesting permutations. We might just be seeing the tip of the iceberg.

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THE APPLICATION OF AN INTEGRATED DEMONSTRATION AND TRAINING BUSINESS INCUBATOR TO ENHANCE THE START-UP OF ENTREPRENEURIAL SMALL BUSINESSES IN RURAL COMMUNITIES

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SUMMARY

In many less developed and low-income countries, a substantial proportion of the population lives in rural areas where poverty presents a real challenge. Rural inhabitants often migrate to towns and cities in search of improved livelihoods, but end up being unemployed due to low education and skills levels. This adds to a growing portion of peri-urban dwellers trying to sustain a livelihood with limited means and in turn this creates communities in distress who live in poverty and experience a low quality of life. It is widely acknowledged that entrepreneurship and small business development can play an important role in the economic growth and social development of such communities. This paper reports on some issues relating to entrepreneurship training and small business development in a disadvantaged rural community in South Africa. Action research methodologies are employed to investigate if the conventional business incubation concept can be adapted and applied within the context of a disadvantaged rural community in order to enhance the start-up of entrepreneurial SME's. The use of a "demonstration and training business incubator" (DTBI) is explained, describing how entrepreneurship- and business training is integrated with hands-on demonstrations and actual participation in a small business operation in incubation. Preliminary results indicate that the DTBI can be applied with success in a rural setting and contribute to SME start-up through increased learning, entrepreneurial capacity development and exposure to the profitable operation and management of a business in incubation.

Keywords: entrepreneurship, small business, incubator, action research, rural community

INTRODUCTION

In South Africa, a large proportion of the rural and peri-urban inhabitants has a limited education, lives in poverty, and generally experiences a low quality of life (UNDP, 2003; May, 1998). Smallbone, North, Baldock & Ekanem (2002) state that poverty and low levels

of education present real barriers to development and should be addressed before the economy is to thrive. It is widely accepted and acknowledged that entrepreneurship and small business development plays an important role in economic growth and social development of countries across the world (Drucker, 1995; Gorman & Hanlon, 1997; Lalkaka, 1997; OECD, 1998; GEM, 2002). However, a study by Hübner (2000) on SME development in transition economies refers to aspects such as limited own resources, lack of market economy experience, limited possibilities to identify business opportunities and a general lack of understanding about modern business as barriers to entrepreneurship and SME development. In developing countries 37 % of existing entrepreneurs fall in the category of necessity entrepreneurs (GEM, 2002) and opportunities to progress beyond subsistence levels are remote, mainly due to limited education and entrepreneurial skills (Gibb, 1987; Rosa, Jayatilika & Kodithuwakku, 1997). Research shows however that entrepreneurship education and training can play an important role in enhancing the entrepreneurial propensity of individuals (Rabbior, 1990; Jack & Anderson, 1999; GEM, 2002).

This paper draws from experiences and results of a community outreach project in South Africa, jointly managed by an academic institution and a provincial government department. The purpose of the outreach project is to benefit communities in the greater Southern Cape area of South Africa by establishing and sustaining outreach programmes in the field of entrepreneurship education, rural SME development and technology transfer. Simultaneously, an attempt is made to develop the necessary institutional, staff and student capacities and capabilities of the academic institution in the field of community outreach.

The paper focuses specifically on the application of business incubation concepts in the context of a rural community. The background to the project is discussed first to provide some context, followed by a brief overview of the role of incubators in enterprise development. An explanation of the integrated demonstration and training business incubator (DTBI) and it's application in the rural context is provided, followed by preliminary findings and experiences based on action research methodology. The paper concludes with a critical reflection on the application of the DTBI.

Contextual background

In South Africa, 45 % of the population lives in rural areas where education levels are generally low and poverty presents a real challenge; over 20 % of the total population have no formal education and almost half (48.5%) the population of South Africa is living below the current poverty line of R 354 (US$ 50) per month (UNDP, 2003; May, 1998). Often, the only means of income is from government pensions and welfare payments. Many rural inhabitants migrate to towns and cities in search of improved livelihoods, but end up being unemployed due to low education and skills levels (GEM 2001; GEM 2002). This adds to the growing portion of peri-urban dwellers trying to sustain a livelihood with limited means. This in turn creates communities in distress, living in poverty, experiencing food insecurity and a low quality of life.

Agriculture forms a significant sector in the South African rural economy, and has the potential to contribute to reducing social and economic inequalities by increasing the income and employment opportunities of the poor, improve food security and aid the conservation of agricultural resources through sustainable resource use (Oosthuizen, 1998; Kydd, Dorward, Morrison & Cadisch, 2002; DFID, 2003).

The initial focus of the outreach programme is to provide educational courses for rural and peri-urban agricultural communities to encourage enterprise formation and enhance the entrepreneurial, business and marketing skills of existing agro-based entrepreneurs. In conjunction with the provincial Department of Agriculture of the Western Cape, the first community targeted for outreach was the land reform beneficiaries of the local Thembalethu agricultural community in the immediate vicinity of George. The main question was to determine an appropriate means to facilitate enterprise development and entrepreneurship education within the particular community context. As such, business incubation proved to be an option to investigate further.

Business incubation systems

Business incubation systems are reported in various studies as being innovative instruments to support entrepreneurship development and enterprise creation (Smilor & Gill, 1986; Bearse, 1993; Lalkaka, 1997; Erikson & Gjellan, 2003). Business incubation is generally regarded as a process of enterprise development where entrepreneurs with young enterprises are assisted and nurtured under controlled conditions to survive and grow during the vulnerable start-up phase (Smilor & Gill, 1986; Adkins, Sherman & Yost, 2001; NBIA, 2003). The main distinguishing characteristics of incubators include: providing managed work space for carefully selected start-up businesses, shared facilities, hands-on management assistance, an entrepreneurial learning environment, access to financing, exposure to business and technical support needs and access to mentors and investors (Bearse, 1993; Lalkaka, 1997; Schuyler, 1997; Cassim, 2001; UKBI, 2003). The real benefits are flourishing businesses that stimulate economic activity, equity growth and employment growth across the entire supply chain network (Greenwood, 1996; Matlock, 1996). A secondary effect of the incubator is the catalytic role it plays in developing entrepreneurial competencies and experiences. Entrepreneurship experience is regarded by Hart, Stevenson and Dial (1995) as a unique knowledge asset, which can be employed in the start-up of a business venture just like other business assets.

Various types of incubators, each with specific characteristics, objectives, services and approaches exist in practice (Sherman & Chappel, 1998; Lalkaka, 1997; ANZABI, 2003). In a seven-country study, Lalkaka and Bishop (1996) identify eight types of incubators, each with various objectives. Cassim (2001) provides a typology of South African incubators, confirming varying objectives for different types of incubators. A summary of the generic objectives of incubators is given in Table 1.

Table 1. Generic objectives of business incubators

primary objectives	*secondary objectives*
venture creation and growth	empowerment
enhancing entrepreneurial culture	diversify economic base of a region
employment creation	utilize existing/vacant facilities
economic development	generate income for the incubator
innovation	create goodwill in the community
commercialization of technology	technology transfer
	institutional collaboration

Source: Adapted from Allen & McLuskey, 1990; Bearse, 1993; Martin, 1997; Cassim, 2001

Although many of the above objectives are not easily quantifiable or measurable, the performance and impact of incubators can be assessed against their missions and objectives (Bearse, 1993; Lalkaka, 1997; Cassim 2001).

Lalkaka (1997) observes an increasing need for tailoring incubation programmes for specific needs and opportunities, blending advanced technologies with traditional processes to cater for early-stage entrepreneurs in rural settings. Although business incubation is widely accepted as a means to facilitate enterprise formation and entrepreneurship development, it is however not clear to what extent it can be applied in the particular context of a disadvantaged rural community and whether it will have the desired effect. In addition to incubation being a largely unknown concept in general, rural communities have unique characteristics, including poverty, a lack of infrastructure, low education, subsistence entrepreneurs, etc. This leads to the following research question:

RQ 1: *Can conventional business incubation systems be adapted and successfully applied within the context of a disadvantaged rural community?*

RESEARCH METHODOLOGY AND DESIGN

The study was designed to investigate two issues: firstly, whether a conventional business incubation system can be *adapted* to fit the rural context, and secondly, to determine if such an adapted incubator can be successfully *applied* in a rural setting.

The study was conducted at a site currently occupied by a Trust of thirty indigenous smallholder farmers. A vacant outbuilding has been used as a demonstration and training business incubator (DTBI) facility. The DTBI was designed as follows: a small broiler rearing operation of 200 chickens was established as a business in incubation. Five people from the community were able to “buy” into the business as “trainee entrepreneurs” by each paying R 120 (US$ 17). This entitled them to own 40 broiler chickens each in this operation and allowed them to participate in a training programme. The academic institution provided seed money in the form of an interest-free loan to the business, to be paid back at the end of each rearing cycle of eight weeks. The trainee entrepreneurs managed the operation as a team. At the end of the rearing cycle, each entrepreneur was to sell their birds and pay back their portion of the loan (the actual costs incurred, minus the initial fee of R 120). Entrepreneurs had the option of retaining their profits or to utilize it for re-investing in a new cycle. A maximum of five cycles (8 weeks each) is allowed before the entrepreneur should graduate from the incubator. During each cycle, hands-on demonstration and training took place. The main focus was on business and entrepreneurship training, practically simulating the whole business process in each cycle (from start-up when the day-old chickens are ordered, the day-to-day management of the operation, the marketing of the mature birds, assessing the profitability of the venture and finally, at the end of each 8-week cycle the “liquidation” of the operation when the seed money is to be repaid).

To address the question as to whether a business incubation system can be *adapted* to the rural context, an assessment was made of the extent to which the DTBI matched the characteristics and requirements of conventional incubators. To determine the successful *application* of the incubator concept in a rural setting, an assessment was made on three levels: firstly at the level of the incubator, determining the extent to which the DTBI satisfies the generic objectives of conventional incubator systems; secondly, at the level of the business in incubation, to assess the financial viability of the broiler operation; thirdly, at the level of the participants, to evaluate the entrepreneurial learning of the entrepreneurs.

The DTBI started with the broiler rearing operation in February 2003. To allow for community participation and flexibility in learning from the experiences as the project developed, action research methodologies were applied. Data collection was based on recording information extracted from informal discussions with community members, physical observation and the experiences and perceptions of the researchers during the project.

Dick (2000) describes action research as employing a family of research methodologies, having the dual aim of action and research: action is to bring about change in some situation; research is to increase the understanding of the researcher or the client. The two concepts work in unity in that action informs understanding and understanding assists in action. Action research involves a cyclic approach to investigation, starting with planning, followed by action, observation and then reflection or critically reviewing the results for input in the next cycle (Kemmis & McTaggart, 1988). Due to the cyclic nature and responsiveness of action research, it is often difficult to determine beforehand where an intervention will end and therefore precise research questions at the beginning of the project may be restrictive to the research. Action research therefore tends to be more qualitative in nature (Dick, 2000). The responsiveness of action research allows it to be used to develop new hypotheses as the research progresses, capitalizing on the understanding developed in earlier stages. Early cycles of investigation are used to decide how to conduct later cycles. In later cycles, the results or interpretations of early cycles can be challenged, tested or refined. Action research methodology is regarded as particularly suitable for investigative research and lends itself to be used in community settings (Smallbone *et al.*).

RESULTS AND DISCUSSION

Four 8-week cycles of broiler rearing have been completed in the DTBI. To assess if the business incubation system can be *adapted* to the rural context, the DTBI characteristics have been compared with those of conventional incubators. The extent to which the DTBI conformed to the characteristics of conventional incubators is presented in Table 2.

Table 2. Extent to which the DTBI fit the distinguishing characteristics of conventional incubators

Characteristics of conventional incubators	DTBI characteristics	Fit
1. **Provides managed work space and shared facilities**	1. A shared and managed work space is facilitated within easy reach of the community	+
2. **Start-up businesses are carefully selected**	2. Entrepreneurs not selected ; incubator prescribes type of business (broiler)	-
3. **Hands-on management assistance**	3. Management assistance is provided by academic institution and extension officer	+
4. **Entrepreneurial learning environment**	4. An environment conducive to experimentation is maintained; mistakes are allowed; training in entrepreneurship is provided	+
5. **Access to financing**	5. Seed money is provided for each cycle; no other access to financing is provided	+
6. **Exposure to business and technical support needs**	6. Business and technical support is given throughout each cycle by academic institution and extension officer of government Department of Agriculture	+
7. **Access to mentors**	7. Academic institution and extension officer initially	+

8. Access to investors	provide mentorship 8. No access to investors provided	-

+ DTBI characteristics fit requirements/characteristics of conventional incubator to a higher degree
- DTBI characteristics fit requirements/characteristics of conventional incubator to a lesser degree

With the exception of two characteristics, the DTBI fits the majority of the requirements and characteristics of conventional incubators. One of the most important characteristics of the incubator system, the careful selection of start-up businesses (and entrepreneurs), has not been practiced by the DTBI. The DTBI provides access to any individual or group, even without a business idea. The reason is that, in the early stage of the project, more emphasis is placed on the *training and development* of a *potential* entrepreneur, rather than on the *existing* entrepreneur's *business development*. At a later stage, when entrepreneurs have graduated from the incubator and have started a business, the focus could be broadened.

The other characteristic not present in the DTBI is the provision of access to investors. This is again due to the focus of the DTBI on training and development rather than on the start-up business itself. However, indirectly, the DTBI may enhance the potential of the entrepreneur to attract investment. With increased entrepreneurial and business management skills, the potential entrepreneur graduating from the incubator may have a better chance for obtaining financing, either through the traditional means of obtaining loan capital, or attracting venture capital.

The DTBI therefore seems to be appropriately adapted and suitable as a means to facilitate enterprise formation and entrepreneurship development in a rural setting.

To determine the extent to which the *application* of the incubator concept in a rural setting was successful, an assessment was first made at the level of the incubator, comparing the outcomes achieved by the DTBI against generic objectives of conventional incubator systems (Table 3). It is interesting to note that almost all the secondary objectives of conventional incubators are already met by the DTBI in this early stage, while very few of the primary objectives are met. It might be that the primary objectives are more long term in nature (venture creation, economic development, technology commercialization, etc.) and it is too early to expect the primary objectives to be achieved. The achievement of secondary objectives over a relatively short time span is significant, especially when considering the nature of these secondary objectives with regard to community development. Most of these secondary objectives seem to be necessary prerequisites for providing a solid base from which to operate when engaging in the socio-economic development of a region (*viz*. community goodwill, institutional collaboration, utilization of existing/vacant infrastructure, empowerment, diversification of the economic base, etc.). The application of the DTBI in the current context seems to be a possible way to contribute to the development of entrepreneurial capacity in individuals. Only when assessed over a longer time period, the DTBI will reveal its potential value to contribute to the primary objectives of enhancing enterprise formation, employment creation and economic development in disadvantaged rural communities.

The second level on which the application of the DTBI in the rural context can be evaluated is to assess the financial viability of the business in incubation. Table 4 depicts some basic economic and financial results of the broiler rearing operation over the four cycles.

Table 3. Extent to which observed DTBI outcomes fit the generic objectives of conventional incubators

Generic objectives of conventional incubators	Observed DTBI outcomes	Fit
primary objectives		
1. venture creation and growth	1. no outcome observed yet	0
2. enhancing entrepreneurial culture	2. trainees display increased self-confidence, increased awareness of opportunities, creative adaptation of production, marketing and financial processes, etc.	+
3. employment creation	3. limited use of community members or family members in the marketing process	+
4. economic development	4. no outcome observed yet	0
5. innovation	5. no outcome observed yet	0
6. technology commercialization	6. no outcome observed yet	0
secondary objectives		
1. empowerment	1. increased self-confidence, financial gain, training in business knowledge and skills etc.	+
2. diversify economic base	2. introduction of broiler production in area diversify traditional farming as well as retailing	+
3. utilize existing facilities	3. utilize vacant infrastructure	0
4. generate incubator income	4. no outcome yet	+
5. create goodwill in the community	5. goodwill was definitely created between community and academic institution	+
6. technology transfer	6. technology transfer is both on the education & training level as well as the scientific level with advanced broiler genetics and feed technology	+
7. institutional collaboration	7. collaboration is between academic institution, government, local business and NGO's	+

\+ DTBI characteristics fit requirements/characteristics of conventional incubator to a higher degree
\- DTBI characteristics fit requirements/characteristics of conventional incubator to a lesser degree
0 no outcome yet

Table 4 indicates that there is a positive trend in the majority of the variables measured, indicating efficiency in the performance of the business in incubation. Although sales figures moved sideways in the second cycle (due to mortalities), net income as well as the margin per bird sold increased sharply towards the third cycle. The slight decline in margin in the fourth cycle is normal as feed consumption and costs increase during winter months (June – August). Costs decreased gradually, mainly due to decreased feed costs, which was in large the result of birds being marketed at a younger age. The sharp decline in transport costs from cycle 1 was a direct effect of increased management capabilities and business understanding. The percentage cash inflow exhibits a sharp increase from the first to the second cycle. This was due to adjustments to the debtor policy and the marketing strategy induced by learning derived from the initial production cycles.

Table 4. Selected economic and financial results of the broiler rearing operation

Item	*Cycle 1*		*Cycle 2*		*Cycle 3*		*Cycle 4*	
	Value ZAR	**Value *US $**	**Value ZAR**	**Value *US $**	**Value ZAR**	**Value *US $**	**Value ZAR**	**Value *US $**
Sales	R 5 218	$ 745	R 4 059	$ 580	R 5 885	$ 841	R 6 265	$ 895
Total cost	R 4 766	$ 681	R 3 792	$ 542	R 3 324	$ 475	R 4 092	$ 585
Net income	R 452	**$ 65**	R 267	**$ 38**	R 2 561	**$ 366**	R 2 173	**$ 310**
Cost per bird sold	R 25.22	$ 3.60	R 27.48	$ 3.93	R 18.67	$ 2.67	R 22.24	$ 3.18
Margin per bird	R 2.39	**$ 0.34**	R 1.93	**$ 0.28**	R 14.39	**$ 2.06**	R 11.81	**$ 1.69**

Selected costs: - Feed cost - Transport	R 3 492 R 465	$ 499 **$ 66**	R 2 969 R 80	$ 424 **$ 11**	R 2 531 R 40	$ 362 **$ 6**	R 3 055 R 80	$ 436 **$ 11**
Age at sale (weeks)	9		7		6		6.5	
Birds sold: - live birds - slaughter	189 136 53		138 44 94		178 0 178		184 10 174	
Feed consumption (kg)	1300		1100		1000		1200	
Cash inflow	R 2 929	$ 418	R 3 630	$ 519	R 3 220	$ 219	R 1 605	$ 229
Cash flow %	61.46%		95.73%		46.03 %		39.22 %	

* Exchange rate (R/$) = R 7. 00

However, from the second cycle onwards, a steady decrease in cash flow was experienced. This trend resembles a pattern characteristic of the dynamics often encountered in rural disadvantaged communities and revolves *inter alia* around issues such as community purchasing power, buyer behavior and migration of poor people. Food is often purchased with the promise to pay at a later stage when (if) money becomes available. If money is not available, the payment period is merely extended. In some cases people might migrate from the area in search of a better livelihood, before it becomes possible to settle outstanding debts. The combined effect usually results in cash deficiencies for such an enterprise, affecting further growth and expansion of the venture.

When assessing the financial viability of the broiler rearing operation, the early indication is that it is possible to incubate a business successfully within the DTBI milieu. The business showed economic viability and the capacity to generate profits. However, if cash flow and debtors are not managed properly, the business may eventually have to consider closing down.

A third level on which the successful application of the DTBI in the rural context can be measured is to assess the learning of the trainee entrepreneurs. From Table 4 it is evident that performance of the operation increased progressively, indicating positive learning curve effects. Five key incidents observed from the actions of the trainee entrepreneurs are indicative of entrepreneurial learning that has taken place:

- *incident 1:* from an interpretation of cost and profit figures, the production cycle was shortened to 7 weeks in the second cycle and 6 weeks in the next; the recording of production and sales data was initiated for improved management decision making.
- *incident 2:* changing the transport contractor and utilizing freight capacity optimally by ordering more feed units less frequently led to decreased transport cost
- *incident 3:* proportionately less live birds and more slaughtered birds (some cooked) were sold, thereby adding value to the primary product
- *incident 4:* the production cycle was synchronized with pension and welfare payouts in the community in order to have marketable birds ready when customers

had money available, thereby securing a larger target market, and simultaneously reducing potential debtors
- *incident 5:* one entrepreneur initiated the replication of the DTBI at another site in another community, realizing the potential contribution towards reduction of poverty in the community

When assessing the few critical incidents reported above, quite a number of entrepreneurial-like attitudes and behaviors are recognized, such as opportunity recognition, initiative, creativity, ability to adapt and change, intimate knowledge of customer needs, value creation, coping with ambiguity / uncertainty (Timmons, 1999; Hornaday, in Kuratko & Hodgetts, 1995; Carland, Hoy, Boulton & Carland, 1984) and much more. Through demonstration, training and hands-on participation in a supported learning environment, participants were able to develop entrepreneurial capacity and a range of entrepreneurial skills, all necessary pre-requisites for enhancing the start-up of entrepreneurial SME's.

Critical reflection

An assessment of the DTBI as a means to facilitate enterprise formation and entrepreneurial development shows positive outcomes. The DTBI is different from conventional incubators in some important ways. It focuses more on entrepreneurship capacity development of teams of potential entrepreneurs rather than on existing entrepreneurs and their own start-up ventures.

The broiler rearing venture was found to be particularly suited for the purpose of learning about entrepreneurial business ventures whilst in incubation. A few of the characteristics are highlighted below:

- The complete venture cycle and business process, from start-up to harvest, are simulated over each of the broiler rearing cycles of 8 weeks.
- In repeating the cycle several times (5 cycles allowed before graduation), it allows for adequate practical exposure and experiential learning about the intricacies of business processes.
- Because broiler rearing is a risky business, it allows for first-hand experience about business- and financial risk and the effects of these on business survival.
- By inviting five trainee entrepreneurs to participate in each cycle, team work and mutual accountability for the successful operation of each cycle was assumed.
- The number of broilers raised per cycle, (200 +), are too many to consume individually and consequently, encouraged (forced) the entrepreneurs to sell commercially. It provided cash flow for the entrepreneur and an excellent source of protein for the community.
- The broiler rearing operation also served as an example of successful technology transfer, where the possibilities of combining traditional rural systems with high-tech genetics and feed technology were demonstrated practically.

Some of the problems and difficulties experienced in the process that would serve as valuable inputs for future phases of the project include:

- The objectives of the project were not clearly communicated to the community by the academic institution, resulting in beneficiaries of the project not being clearly identified and informed
- Ownership of the project was not clearly defined, resulting in some confusion about responsibilities after the DTBI had been introduced at the particular venue
- Some deep-rooted differences and historic conflicts within the community on issues relating to the access and use of the particular venue; this resulted in much less trainee entrepreneurs participating in the DTBI than initially indicated.

However, the DTBI concept provides a good basis for demonstration and training of the main topics and issues associated with normal business. It differs from other modes of training in that entrepreneurs are motivated to learn, because they actually learn about what they experience and experience what they learn about. They can easily relate to the training content because it becomes a part of their frame of reference.

For the academic institution, the following learning experiences can be documented:

- establish trust and get buy-in from the local leadership as well as from those influencing the local leaders; informal leaders operating in the background often have more influence and power than formal leaders in the community; appreciate and respect the community dynamics
- start small and develop slowly and step-wise; involve other potential partners and collaborators only gradually to avoid the perception of a “hostile take-over”
- the responsibility for the management of projects should not remain with the academic institution, but rather be developed, mentored and transferred to the community
- lay the foundations first; basic life-skills and social empowerment are as important as economic empowerment
- it is vital for the academic institution to be in a position (financially and otherwise) to commit resources and provide tangible support over a meaningful time period otherwise community outreach becomes “window dressing”, resulting in more harm than good.

The limitations in the study are apparent. The DTBI was introduced in the community as a single project, applied at a single location, with an assessment largely based on observations of the researchers over a relatively short time span of four completed cycles. Although the findings are encouraging, evaluations made over longer time periods need to be undertaken, possibly employing statistical analyses where appropriate. In line with action research practices and principles, the observations and results of this study can be used to structure follow-up phases of the project or aid in replicating this project at other venues in other communities. Without any attempt to assess the significance of the DTBI outcomes statistically, the learning experiences are perhaps the most important outcomes of the project.

CONCLUSION

It is clear from the above results that conventional business incubation concepts can be appropriately tailored and successfully applied within a disadvantaged community context. The secondary objectives of incubators are met at an early stage, while few of the primary

objectives are met. In the particular community context this may suggest that until the secondary objectives are met, the primary objectives may never be properly realized.

The financial viability of the broiler rearing operation indicates that it is possible to incubate a business successfully within the DTBI milieu. The business showed economic viability and the capacity to generate profits. The focus of the DTBI on income generation through the production of a food commodity had dual positive effects on household food security: the product could be used to increase household food security directly though increased household consumption or indirectly through the income generated through sales.

The action research methodology proved to be useful and contributed to enhanced learning and change at both the community and institutional levels. Trainee entrepreneurs were able to develop a range of entrepreneurial skills in a supported learning environment. It is anticipated that the participants that ultimately graduate from the DTBI will possess the entrepreneurial skills and experience required for the start-up and operation of a commercially oriented SME.

The experience gained from the DTBI was invaluable from an institutional point of view. The capacity and experience to provide education, training and mentorship to non-traditional target groups was increased, together with a realization of the importance of adopting a more central position in the provision of education and training for the economic and social development of the region it serves.

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STRATEGIC CAPABILITIES OF GHANAIAN FEMALE BUSINESS OWNERS AND THE PERFORMANCE OF THEIR VENTURES

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ABSTRACT

For some time now, women have been starting businesses at a rate more than twice that of men. Globally, women-owned businesses constitute between a quarter and a third of all businesses. While little empirical research has addressed women-owned businesses, even fewer studies have addressed women-owned businesses in Africa. Using the resource-based theory, this study reports the correlates of the performance of ventures owned by Ghanaian women. More specifically, the study focuses on the strategic, firm-level factors related to business performance. We hypothesise that performance of women-owned businesses is affected by strategic planning, the resources of the business, the skill and previous experience of the owner.

The data for this study were collected in Ghana from June to August 2003. Subjects for the study were randomly selected from databases held by a quasi government organization and two women's business organizations. The data were collected by eleven University of Ghana and nine Cape Coast University students after a one day orientation facilitated by the first author. During the first half of the day, interviewing skills and the duties of the students as interviewers were discussed, and during the second half of the day, students were familiarized with the questionnaire. Before starting the actual data collection, the students under the supervision of the first author, interviewed a sample of thirty female respondents. Face to face interviews were used to collect the data because the other means of data collection by mail and telephone were found to be less effective in Ghana. The postal system in Ghana is slow and unreliable, while the telephone system is erratic and therefore not dependable. Strategic planning was measured by asking respondents to indicate how far ahead they planned certain business activities ranging from 1 = less than three months to 5 = more than two years. Ventures resources were measured by asking respondents to rate eleven items related to different resources of the firm on a 5-point Likert scale, ranging from 1=weak to 5= strong. The items were then factor analysed.

Experience was measured dichotomously where 1=yes and 2=no. Business owner's skills were measured on a 5-point Likert scale, ranging from 1=weak to 5=excellent. Factor analysis was carried out on the responses. Business performance was measured by means of sales, number of employees, and profitability. Examination of the relationship between the selected strategic capabilities and performance utilized factor analysis, one-way analysis of variance, cross tabulations and Pearson correlations. Finally, in order to examine the relationships among all the variables, we executed multiple regressions for each of the performance variables. Findings from the study and implications deriving from the findings are discussed.

INTRODUCTION

For some time now, women have been starting businesses at a rate more than twice that of men (GEM, 2003; Dollinger, 1999). According to Moore (1999), globally, women-owned businesses make up between a quarter and a third of all businesses. Notwithstanding the growth in women-owned businesses, researchers (Baker et al., 1997; Holmquist and Sundin, 1996) have decried the paucity of empirical research addressing female business owners. Studies that have focused on the correlates of the performance of firms owned by women have been few (Lerner et al 1997). In particular, there is a dearth of research on the relationship between strategy and performance of women-owned businesses (Lerner and Almor, 2002). In a recent study, Moore (1999) identified areas of female entrepreneurship research, however, strategic aspects of women-owned businesses were missing. While little empirical research has addressed women-owned businesses, even fewer studies have addressed women-owned businesses in Africa. This study addresses this neglected area of female entrepreneurship research. Using resource-based theory, the study focuses on the strategic, firm-level factors related to the performance of female Ghanaian businesses.

RESOURCE BASED THEORY

The resource-based perspective argues that sustained competitive advantage is generated by the unique bundle of resources at the core of the firm (Conner and Prahalad, 1996; Barney 1991). In other words, the resource-based view describes how business owners build their businesses from the resources and capabilities that they currently possess or can acquire (Dollinger, 1999). The term "resources" was conceived broadly as "anything that can be thought of as a strength or a weakness" of the firm (Wernerfelt, 1984:172). The theory addresses the central issue of how superior performance can be attained relative to other firms in the same market and posits that superior performance results from acquiring and exploiting unique resources of the firm.

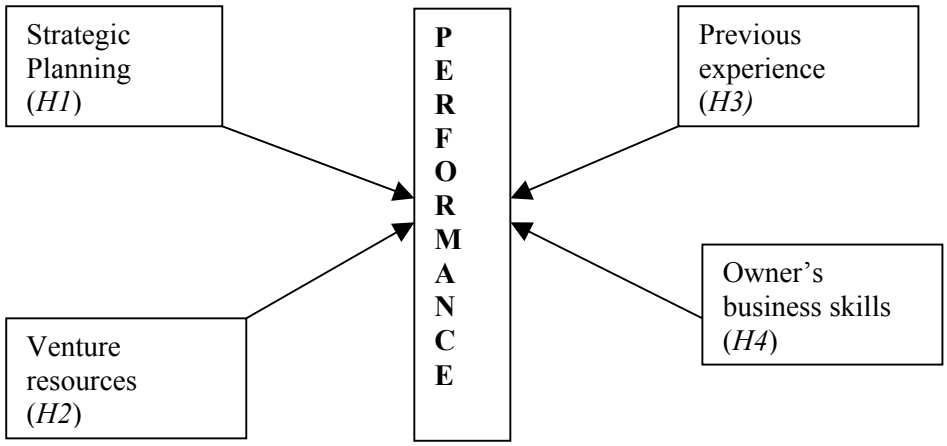
Implicit in the resource-based perspective is the centrality of the venture's capabilities in explaining the firm's performance. Resources have been found to be important antecedents to products and ultimately to performance (Wernerfelt, 1984). According to resource-based theorists, firms can achieve sustainable competitive advantage from such resources as strategic planning (Michalisin et al 1997; Powell 1992)management skills (Castanis and Helft 1991), tacit knowledge (Polanyi, 1962, 1966), capital, employment of skilled personnel (Wernerfelt, 1984) among others. Resource based theorists (eg. Barney 1991; Grant 1991; and Peteraf 1993) contend that the assets and resources

owned by companies may explain the differences in performance. Resources may be tangible or intangible and are harnessed into strengths and weaknesses by companies and in so doing lead to competitive advantage. The resource-based theory continues to be refined and empirically tested (Bharadwaj, 2000; Hadjimanolis, 2000; Medcof, 2000). Given that the resource-based view addresses the resources and capabilities of the firm as an underlying factor of performance, it was found to be a suitable theory to use in this study.

Theoretical framework

Figure 1 presents the theoretical framework for this study. Following the resource-based perspective, we hypothesise that strategic planning, the resources of the business, the skill as well as the previous experience of the owner influence the performance of Ghanaian women-owned businesses.

Figure 1 Resource-based perspective of women owned venture performance



Strategic planning and performance

Research has shown an association between planning in small businesses and performance. The literature suggests that planning is a good management practice, and may be beneficial to business (Gibson et al 2002; Schwenk and Shrader, 1993). According to Berman, Gordon and Sussman (1997:14) "firms that plan produce better financial results than firms that do not plan". Bracker et al (1986; 1988) found that firms that undertook strategic planning performed better financially. Lerner and Almor (2002) contend that planning lays the groundwork for developing the strategic capabilities needed for high performance.

Strategic planning has been studied by various scholars including (Mintzberg, 1973, 1994; Brush and Bird, 1996; Bracker and Pearson, 1986; Braker, Keats and Pearson, 1988). The findings can be summarised as follows: there is a positive relationship between strategic planning and firm performance. According to Miles and Snow (1978), successful, proactive firms have the propensity to invest time in strategic planning. On the contrary, unsuccessful, reactive firms do not invest time in strategic planning, rather they fight fires. Rue and Ibrahim's study involving 253 US small firms found that there was a link between planning sophistication and growth in sales. A recent study of 168 manufacturing SMES s in Sri Lanka found that planning and control sophistication led to increased sales (Wijewardena et al 2004). Their study concluded that the greater the sophistication in

planning the greater the sales. A study of 297 Ghanaian entrepreneurs found a significant gender difference in the planning sophistication of small firms in Ghana (Yussuf and Saffu, *forthcoming*). Firms owned or managed by males had more sophisticated planning compared to female owned or managed businesses. Research shows that women put less stress on long-range, formalised strategic planning (Brush and Bird, 1996). Implicitly, women-owned ventures that put less emphasis on strategic planning will have low performance. From the foregoing, we hypothesise thus:

H1: Strategic planning by Ghanaian women business owners is positively related to the performance of their ventures.

Venture capabilities and performance

According to the resource-based perspective, venture resources in the form of capabilities, assets, and skills provide competitive advantage and underpin the organisation's performance (Barney 1991; Grant 1991; and Peteraf 1993). In other words, resource-based theory hinges on the resources and capabilities of the firm as an underlying factor of performance. Findings from Chandler and Hank's (1994) study of small manufacturing businesses demonstrate the link between the availability of resource-based capabilities and venture performance. An abundance of capabilities in the firm ensures survival, rapid growth and profitability (Chandler and Hanks, 1994). The centrality of the business owner in the operation of the firm cannot be overemphasised (Lerner and Haber, 2000). To the extent that the business owner makes all the important decisions, his/her skills become a critical asset on which the success of the firm depends. Implicitly, when the skill set is stronger, the performance of the business will be higher (Lerner and Almor, 2002). From the foregoing, we hypothesise:

H2: Strong venture resources are positively related to venture performance.

Previous experience and performance

There is recognition in the entrepreneurship literature of the significance of the contribution of entrepreneurial experience to venture performance (Ronstadt, 1988). Vesper (1980) contends that prior entrepreneurial experience can lead to success. Similarly, specific experience in similar businesses ensures survival and growth (Cooper, Gimeno-Gascon and Woo, 1994; Chandler and Hanks, 1994). A large proportion of women entrepreneurs lack prior entrepreneurial experience (Bowen and Hisrich, 1986). Fischer, Reuber and Dyke (1993) found that female business owners who had opened their business had less experience in similar industries, in management, and in opening and managing the businesses they were in. Based on the resource-based theory, it is plausible to argue that previous entrepreneurial experience is a resource that women bring to the firm. The findings lead to the following hypothesis:

H3: Previous entrepreneurial experience of Ghanaian female business owners is positively related to venture performance.

Business owner's skills and performance

Research shows that an entrepreneur's management skills contribute to venture performance and growth (Lerner and Almor, 2002; Bird, 1995; Cooper and Gimeno-Gascon, 1994). The propensity of the entrepreneur to employ and apply a variety of skills has been recognised (Hunger and Wheelen, 1996). According to Hood and Young (1993),

some of the important skills of successful entrepreneurs include accounting, marketing, sales and financial management. However, women business owners often rate themselves lower than men in financial skills (Brush 1992). Hisrich and Brush (1984) found that US women entrepreneurs scored themselves high on generating ideas, product innovation and dealing with people, average on marketing and operations, and weak on financial skills. From the foregoing, we hypothesise that:

H4: Managerial skills of Ghanaian female business owners are positively related to venture performance.

METHODOLOGY

Data collection

The data for this study were collected in Ghana from June to August 2003. Participants for this were randomly selected from databases held by a quasi government organization and two women's business associations/organizations. One hundred and eighty female entrepreneurs were selected but 171 were used in the analysis. The sample however varies as some respondents with missing data were omitted in some analysis.
The data were collected by using a questionnaire originally developed by Hisrich and Brush (1985) and adapted for use in Israel by Lerner and Almor (2002). Eleven students from the University of Ghana and nine students from Cape Coast University were hired as interviewers. They were initially trained at a one-day orientation facilitated by the first author. During the first half of the day, interviewing skills and the duties of the students as interviewers were discussed, while in the course of the second half of the day, students were familiarized with the questionnaire. The questionnaire was pilot-tested on a sample of twenty female respondents who were not included in the final sample. Following the advice of the second author, face to face interview was employed in the data collection because the other means of data collection such as mail and telephone survey were found to be less effective in Ghana. The postal system in Ghana is slow and unreliable, while the telephone system is erratic and therefore not dependable

The research variables

Independent variables in the study included strategic planning, venture resources, previous experience and business skills.

To measure strategic planning, we used a nine-item scale and for each item, we asked respondents about how far ahead they planned certain business activities ranging from 1 = less than three months to 5 = more than two years. We computed an index by summing up all the items on the scale. Reliability analysis showed an alpha of .78. Multiple regression analysis was conducted using the nine item-scale as the predictors.

Venture resources were measured using a eleven item scale by asking respondents to rate eleven items related to different resources of the firm on a 5-point Likert scale, ranging from 1=weak to 5= strong. Pearson correlation analysis/multiple regression was conducted to test the hypothesis between venture capabilities and performance. The items were then factor analysed leading to three factors.

We measured the business owner's skills on a 5-point Likert scale, ranging from 1=weak to 5=excellent. Multiple regression, correlation analysis and factor analysis were carried out on the responses. Reliability analysis was alpha of .75.

Previous experience - entrepreneurial and family- was measured by asking a dichotomous question where 1=yes and 2=no. A univariate ANOVA and chi-square test were carried out on two independent variables.

Dependent variables

Dependent variables in this study were number of employees, sales and profitability. These performance measures have been used in prior studies (Lerner and Almor, 2000, 2002; Brush, 1984). Size was measured by the number of employees in the firm, consistent with prior practices in the small business literature (Lerner and Almor, 2000, 2002). Number of employees was an open question. Sales were divided into 5 categories and respondents were asked to indicate their gross turnover for the previous year by checking the range closest to their total revenue. Profitability was measured using an ordinal scale where 1=a profit, 2=neither profit or loss and 3=a loss.

Descriptive statistics

Type of business

An overwhelming majority of the firms 75 percent were in the service industry, 19 percent were in retailing and the rest 6 percent were in manufacturing.

Firm age and size

The firms in the sample were small in size, with a mean of 11.65 full time employees. 11 percent employed less than five employees; 40 percent employed between five and fifty employees; 10 percent employed between 51 and a hundred people while 39 percent employed more than a hundred employees. The average age of the businesses was 12.08 years with minium of 2 years and a maximum of 38 years.

Ownership

Almost 74% of the businesses were sole proprietorships while 12.9 % were limited liability businesses. These contrast with 2.3% and 1.8% for joint venture and other means of ownership respectively.

Location

Of the sample, 32 percent of the businesses were located in the business owner's home, 23 percent were in the businesses' own premises while 42 percent were located in rented premises.

Education of business owner

13 percent of the female business owners had nine years of schooling, 20 percent had secondary education and 67 percent had post-secondary education.

Owner's experience
19 percent had previous entrepreneurial experience; 66 percent had previous experience in the same industrial sector; and 57 percent had a family member who owned a business.

RESULTS

Strategic planning and performance

We tested the hypothesis that strategic planning was a predictor of performance (*H1*) by conducting a multiple regression using a nine-item scale as predictors. Size was denoted by number of employees, as the dependent measure for performance. The items in the scale were measured on a five-point scale ranging from 1= planning less than 3 month to 5=planning for more than two years. The respondents were required to indicate how far ahead they planned along this dimension. Table 1 presents the findings of the hypothesised relationship between strategic planing and performance. Although the overall model was not significant thereby not fully supporting the hypothesis, one item in the scale was a significant predictor. Planning ahead for new products was more likely to lead to a higher number of full time employees.

Table 1 Multiple regression of strategic planning on performance

	Standardized Coefficients	t	Sig.
	Beta		
Reputation	.092	.873	.384
Cash flows	-.112	-1.033	.303
New products	.295	2.779	.006
Expenditures	.012	.121	.904
Entry into new markets	.071	.717	.475
Planning sales	.108	1.143	.255
Add or drop products	-.020	-.173	.863
Hiring and other staff decisions	-.061	-.651	.516
Expansion of firm's operations	-.185	-1.900	.059

R^2 = .112 F (9 137) = 1.93 p = .053

Venture resources and performance
Although the main outcome variable used for the multiple regression was the number of full time employees, sales outcome and number of part tme employees were also used examined in a correlation analysis. The results for both analyses are presented in Tables 2. Pearson correlations between the predictor (venture resources) and volume of sales

and number of employees (both full time and part time) indicated that efficiency and quality of product were positively related to the volume of sales. Cost control was negatively related to number of employees (part time).

Table 2. Predicting performance from venture resources.

Multiple regression predicting performance			**Correlation between venture resource and outcome variables.**		
	Beta	t	Sales Volume	Number of current employees (Full time)	Number of current employees (Part-time)
Financial resources	.070	.755	.109	.063	-.109
Marketing/sales	-.278	-2.910*	.094	-.149	.102
Geographical location	.161	1.824	.142	.099	-.324*
Equipment	.043	.384	.011	.065	.065
Human resource	.021	.183	.117	.076	-.027
Overall management	.082	.790	.052	.029	.124
Efficiency	-.086	-.666	.174*	.029	-.069
Cost control	.002	.017	.072	-.059	.033
Quality of product	.150	1.321	.165*	.041	-.044
Innovation	.158	1.462	.027	.105	-.063
Customer service	-.297	-2.919*	.072	-.113	-.143

R^2 =.121 F (11, 144) = 1.809, p = .057
* $p < .05$.

Multiple regression was conducted to test the hypothesis that entrepreneurs who considered venture resources as strong were likely to have a higher performance as measured by the number of full time employees. Again, the overall model did not support the hypothesis. Two predictor items, marketing/sales and customer service from the composite were significant. The coefficients however were negative implying that respondents who rated these venture resources as important resource to their firms were likely to have fewer number of full time employees.

As shown in Table 3, principal component factor analysis with varimax rotation yielded three factors. Human resource, overall management, equipment, efficiency and control, called GENMGT, loaded on the first factor. Customer service, quality of product and innovation, labelled NICHE loaded on the second factor. Geographical location, financial resources, and marketing/sales, LOFMA, loaded on the third factor. This contrasts sharply with findings of Lerner and Almor (2002), which showed two factors. The loadings in the factor matrix were high ranging from .55 to .82.

Table 3. Factor Analysis for Venture Resources (Rotated)

	Factor		
	1	2	3
Human resource	.819		
Equipment	.786		
Overall management	.667		
Efficiency	.647		
Cost control	.519		
Customer service		.819	
Quality of product		.793	
Innovation		.557	
Geographical location			.788
Financial resources			.722
Marketing/sales			.647

Previous experience

To examine the relationship between previous experience and performance, a univariate analysis of variance and chi-square test were conducted on two dependent variables namely, number of full time employees, and volume of sales measured on a three-point categorical scale (low growth, medium growth, and high growth). This was assessed based on volume of sales from the previous financial year. Table 4 presents the results of the relationship between number of employees and entrepreneurial and family experience. Neither the ANOVA nor the chi square analysis showed significant results. H3 was not supported.

Table 4 Relationship between entrepreneurial experience and family experience and performance

Variables	Sum of Squares	df	Mean Square	F	Sig.
Entrepreneurial experience	943.821	1	943.821	2.257	.135
Family experience	813.175	1	813.175	1.945	.165
	714.629	1	714.629	1.709	.193
Error	70665.485	169	418.139		

Business owner skills and performance

In order to test the relationship between business owner skills and performance (number of full time employees) (H4), another multiple regression was conducted. As shown in Table 5, the overall model was significant. The predictors accounted for 12.4% of the

variance. Examination of the predictors showed that human resource management and forecasting were theemost important predictors. However, the relationships were not in the expected direction. For example, entrepreneurs who rated themselves as having strong skills in forecasting and human resource management were likely to have fewer full time employees.

These were confirmed in the correlation analysis presented in the Table 6. These predictors were also significant but had a negative relationship with volume of sales. Apart from these two predictors, Pearson correlation also showed product innovation had a negative relationship with the performance indicator variable.

Table 5 Business owner skills and current number of employees

	Beta	t
Securing finance/capital	-.055	-.625
Operations	.088	1.022
Strategic management	.056	.653
Human resource management	-.228	-2.786*
Marketing sales	.010	.122
Innovation	.022	.232
Product innovation	.165	1.691
Budgeting	.070	.654
Forecasting	-.196	-2.046*
Organising and planning	-.079	-.811

R^2 = .124 F (10, 152) = 2.14 p = .024
* $p < .05$

Table 6 Correlation between business owner skills and performance

	Number of current employees (Full time)	Number of current employees (Part time)	Sales volume
1. Securing finance/capital	-.007	.001	.057
2. Operations	.079	.097	-.025
3. Strategic management	.023	.120	-.072
4. Human resource management	-.167*	-.242	-.247**
5. Marketing sales	.021	.065	.046
6. Innovation	.095	-.026	-.074
7. Product innovation	.154*	.161	.017
8. Budgeting	-.051	.147	-.104
9. Forecasting	-.167*	-.159	-.198**
10. Organising and planning	-.103	-.103	-.109

* Correlation is significant at the 0.05 level.
** Correlation is significant at the 0.01 level.

Factor analysis with varimax rotation resulted in three factors (see Table 7). Factor1 loaded on forecasting, organizing and planning, budgeting, and strategic management and was labeled STRMGT. Factor 2 loaded on product innovation, innovation, operations and human resource management, or OPERS. Factor 3 loaded on marketing and securing capital, MKTFIN.

Table 7 Factor analysis for business owner skills

	Factors		
	1	2	3
Forecasting	.821		
Organising and planning	.806		
Budgeting	.693		
Strategic management	.512		
Product innovation		.804	
Innovation		.789	
Operations		.672	
Human resource management		.347	

Marketing sales	.778
Securing finance	.732

DISCUSSION AND CONCLUSION

This study empirically examined the relationship between the resources of 171female-owned ventures and the performance of the businesses. The study was anchored on the resource-based theory which posits that the resources of the venture are vital in explaining the firm's performance (Dollinger, 1999; Barney, 1991; Wernerfelt, 1984). Business performance was measured by number of employees, sales volume and profitability as in previous studies (Lerner et al., 2002; 2000, 1997; Brush 1984). The findings of the study were mixed.

While a recent study indicated a strong correlation between planning and performance (Wijerwarneda et al 2004) the centrality of strategic planning was not evident in this study. Strategic planning did not correlate strongly with the performance measures in this study. Although the overall model was not significant, thereby not fully supporting *H1*, planning ahead for new products, an item in the scale, was a significant predictor of performance and was more likely to lead to an increase in the size of full time employees. Research indicates indicate that no performance benefit is ascribed to the level of planning sophistication of firms (Whitehead and Gup 1985) operating in adverse economic conditions. In such an environment, firms are challenged by credit constraints and a steep rise in the cost of materials (Tambunan 2000).

In an uncertain economic environment like Ghana's, where business owners are more concerned with manipulating scarce and limited resources, perhaps it is not wise to plan strategically, but rather plan with a short-term focus. Instead of a sophisticated strategic planning regime, emphasis is placed on short-term measures to tackle the continuing changes in the business environment (Beaver and Ross, 2000). With the recent introduction of trade liberalisation regime in Ghana, competition has become unfettered, especially in the services industry where nearly 90% of the respondents in the study are located. It is expedient to plan ahead for new products just for the sake of survival in the cluttered market place. Our finding confirms a recent study of 297 Ghanaian entrepreneurs that found that sales were highest in firms with low planning sophistication (Yusuf and Saffu, *forthcoming*). Simply employing a high level of planning sophistication i.e. *planning strategically* does not necessarily yield higher performance. Planning *may* not be the only one way to best performance (Mintzberg, 1994).

Although the hypothesised relationship between strong resources and performance *(H2*) was not supported, it is worth noting that two venture resources: efficiency and product quality were positively related to sales volume. Perhaps, this is not surprising considering 89.5% of the women business owners in the sample were in the service and retail industries. An unexpected finding was the negative correlation between cost control and the number of part-time employees. In other words, as cost control increases more part time employees are hired. It is plausible that because it is cheaper to hire part time employees than it is to hire full-time employees, this may be a strategy used by the female business owners to control costs.

Contrary to the findings of prior studies about entrepreneurial experience being conducive to business performance (Bird, 1995; Ronstadt 1988) *H3* was not supported. Given the

fact that an overwhelming proportion (81.5%) had no prior entrepreneurial experience and the current business was their first venture, the finding was not surprising. Ghanaian female business owners face a *double jeopardy*. In addition to generic barriers that women business owners face (see Brush, 1984) Ghanaian female business owners also have to deal with their culturally ascribed role. While Ghanaian female entrepreneurs are hardest hit by the lack of access to credit (The Ghanaian Times June 23 2003; The Daily Graphic, June 23 2003), the Ghanaian banks' insistence on landed property as collateral makes it even more harder to access credit. Due to the cultural norms of most ethnic groups in Ghana, the control of land is often in male hands. It is therefore difficult for Ghanaian women to access land for any meaningful enterprise. Land for subsistence agriculture is all they get (Bortei-Doku Areetey, 2000).

The relationship between business skills and performance (*H4*) was supported, albeit the relationship was not in the expected direction. Forecasting, human resource management and product innovation were significant predictors. This finding is consistent with earlier studies that found women business owners considered themselves skilful in generating ideas, product innovation and dealing with people (Brush, 1984) as well as the tendency to think that their interpersonal skills are the their strongest assets (Brush, 1992; Chaganti, 1986). However, it is interesting to note that the relationship was not in the expected direction. For instance, the female business owners who rated themselves as possessing strong skills in forecasting and human resource management were likely to have fewer full time employees. It is plausible that the people skills of the female business owners are such that they are able to achieve the goals of the business with fewer full time employees. These predictors also had significant but negative relationship with sales volume. Product innovation was negatively correlated with performance.

Based on our findings, to achieve a high sales volume and a large number of employees requires the need to invest more in developing the business skills of female business owners. In particular, developing training programs to enhance the human resource management, forecasting and product innovation skills cannot be overemphasised. Given the importance of small business in job and wealth creation (Reynolds et al., 2004; Birch, 1984) the government must take an active role in equipping female business owners with the requisite business skills that the study has identified. Female entrepreneurship could play a crucial role as part of the solution to Ghana's economic development problems (Chamlee-Wright, 1997).

Limitations of the study include the size and the locale of the sample. Although female owned-businesses in the Accra-Tema metropolitan area constitutes over 70 percent of all female businesses in Ghana, a larger study covering a larger sample from other regions in Ghana is warranted. In particular, the strategic capabilities of male-owned business owners should be studied and compared on the above attributes. Similarly, larger studies in other African countries and countries in the developing part of the world will be a fruitful area of research.

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CONSTRAINTS AND CHALLENGES OF SMALL AND MEDIUM ENTERPRISES (SMES') IN SWAZILAND: A CASE ANALYSIS

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ABSTRACT:

Case studies are some of the useful methods for analysing practical issues of concern and for disseminating information in business. They can also be used in evaluating effectiveness of methods used in measurement criteria by citing practical cases of organisational practices, problems and concerns. An analysis of cases can be applied in any business establishment, including SMEs. Swaziland is a developing country and its economy is in part dependent on the SMEs' sector. SMEs are an important base for economic development in developing countries. It has been argued that they are a seedbed for future development; they provide employment and to a great extent promote the standards of living of the rural communities. In Swaziland, most SMEs are indigenously owned. This is in part explained by shrinking inward investment, the amount of start-up capital required by this sector and other limitations in support structures for SMEs. The significance of SMEs in promoting development has led the researcher to develop a case study on some of the developments in this sector. There are significant gaps in literature and on scientific research conducted on developing countries' contexts. Often these countries rely on literature and cases from developed countries that may be inappropriate for addressing developing countries' problems. The problems discussed may hamper the SMEs development and adaptability in the globalised context and hence, hinder national development. These problems can be attributed to the developmental status of Swaziland. Concerns and need for research that is Afro-centric have been raised by different scholars and leaders in Africa. Validity of Afro-centric studies is dependent on usage of appropriate and more relevant techniques to the problems and challenges. In view of these gaps, the case study objectives are to:

1. Indicate the importance of case analysis in evaluating SMEs problems,
2. evaluate the nature of SMEs' activities in Swaziland using case analysis, and
3. analyse their constraints and challenges in the globalised context.

Key words

Case analysis method
Ubuntu
Small and medium enterprises(SMEs)
Constraints
Challenges
Globalised context

The importance of case analysis in evaluating SMEs problems:

A case study is useful in the analysis of SMEs because it can utilize information from multiple sources such as documentation, archival records, interviews, and observation (Yin, 1994). It has been argued and observed in Swaziland that studies on SMEs are limited and where available, may be inconclusive because of limitations in availability of data. SMEs do not keep up-to-date records, a factor that may hinder validity of studies in this area. To counteract the limitations, the case investigator has relied on interviews, observations, and on available documentations on SMEs. The investigator interviewed two hundred and sixty five SME' owners in Swaziland, using a semi- structured questionnaire to gather insights on a variety of issues. These were randomly selected from the various regions in the country, using the scale of operation as a basis of selection. SMEs are mainly concentrated in the major city centers: Manzini and Mbabane. As a result, a substantial number came from these centers. The research results were substantiated by in-depth focus group interviews.

The Nature of SME's in Swaziland:

Intensified competition and the other associated global processes have been accompanied with shrinking-inward investment and divestment and/ or closure of foreign owned business corporations. Some of the businesses have moved to countries where perceived benefits are relatively greater (e.g. South Africa and Mocambique). These processes have also been accompanied with threatened job security as retrenchments and redundancies are rising. As a result of escalating unemployment level, the informal sector that mainly consists of SMEs has been utilised as an alternative means to survival. Thus, the country is witnessing growth in informal sector due to shrinking foreign inward investment and other economic problems. SMEs in Swaziland features mainly in transport, farming, marketing, manufacturing and distribution of hand – craft, micro financing, training and food processing.

SMEs may vary according to the scale of development, number of employees and nature of ownership. For instance, in Swaziland a small-scale sector employs about 50 employees maximum (Gamedze, 1993), while in the US, they may employ more than that. SMEs are regarded as a worldwide cornerstone for economic development and may enhance the industrialisation process if the entrepreneurial mode is nurtured. However, there are numerous factors identified that hampers the entrepreneurial spirit. These include marketing, accounting, finance, limitations in training and development and other managerial constraints (Joubert and Akinnusi, 1993).

An attempt is made to counteract some of these problems by the government, non-governmental institutions and financial institutions and other international organisations. They have assisted with training and development, finance and other support services that include marketing. The type of activities rendered includes retailing, watching and protective (security), transportation, construction, farming, domestic servants, manufacture and sale of handcrafts, and rendering of other services such as cleaning and catering.

The Small Enterprise Development Corporation Ltd (SEDCO) which was established in 1970 through the assistance of the UNDP and the ILO has contributed to the promotion of small business development in Swaziland. This unit provides technical and financial assistance, premises, at a subsidised rate; facilitate purchase of equipment and other inputs, and sale of outputs (Maasdorp, 1973).In the recent years, SEDCO's services to SMEs has included training and business counselling. Despite these initiatives, SMEs in Swaziland still encounter problems of developing business plans, managing their businesses and keeping records. Because of poor record-keeping and other limitations, the economic impact of SMEs in GDP may not be easily ascertained

None-the-less, SMEs contributions economically and in terms of employment is invaluably significant. Research evidence has proved that SMEs have a significant role in a country's economic development process (Carland et al., 1984; Joubert and Akinnusi, 1993; Trevisan, 1997). They can serve as a seedbed for big businesses, generate wealth, offer employment opportunities, and generate new business ideas and concepts and many other valuable uses.

In view of their immense contributions, SME's have to be consistently monitored to enhance further their contribution to the society. This may require consistent review of the business ideas generated for relevance and assessment of their potential to strive and/ or survive in the contemporary world. In this regard, entrepreneurship is an imperative.

The Small Enterprise and Development (SME) unit under the Ministry of Enterprise and Employment is increasingly becoming involved in instilling entrepreneurship by rendering advice and training as well as soliciting funds internationally. It also facilitates building of effective networks to help promote their development and is responsible for formulating policies and legislation that governs the establishment and promotion of SMEs. The impact of the unit in instilling the entrepreneurship mode cannot be easily ascertained at the present moment because it is still in the process of implementing these different aspects. As a result, the SMEs' policy has not been enacted.

SMEs Constrains and challenges

Despite their major role in economic empowerment and development, SMEs encounter numerous constraints and challenges. For instance, the country does not have a policy governing their operation. Furthermore, they lack the necessary skills and competencies to enable them to effectively carry out the various SME activities, while there are various essential functional activities required for operating any type of business: accounting, legal, management, marketing, financing and international business management skills as illustrated in table 2. Big businesses rely on specialists' knowledge which small businesses, usually, cannot afford. As a result, small business owners perform most of these functions. Doing all these activities may be an impediment to the growth and development of the business and may deter entrepreneurship in that SMEs may not have all the necessary competencies to carry out the wide range of activities. The

situation is expected to be worse in a globalised context, where most businesses have to internationalise their business corporations and have to deal with intensified competition.

Other required managerial competencies include, decision-making skills, continuously generating new combinations of production systems, introduction of new goods and services, industrial reorganisation, finding new markets and sources of supply. Other researchers (e.g. Mill, 1848; Schupeter, 1934; Dunkelberg and Cooper, 1982) identified the following characteristics: risk bearing, innovation, initiative, need for achievement, internal locus of control, drive, self-confidence, goal-oriented, moderaterisk-taker, need for control, responsibility-seeker, need for growth, independence-oriented, craftsman-oriented (sic) and many others.

Despite the numerous characteristics identified above, 'it is practically impossible to provide a precise exposition of the qualities that are of crucial importance for being an entrepreneur and successful for entrepreneurship' (Trevisan, 1997:181). For example, it is not clear as to which trait take precedence over the other and at what stage does each of these become paramount. The uncertainty could be linked to the complexity of understanding behaviour and the extent to which it changes as well as the relationships that may exist among them. Nonetheless, the most visible aspects of contemporary entrepreneurs is adaptability, profitability and growth of their businesses in a highly volatile and competitive business environment. Hence, the argument that they have to be innovative and strategic in their business practices (Carland et. al 1984). This has implications that different stakeholders have a role in the development of the entrepreneurial spirit. Suggested ways for entrepreneurial development include: innovation, creation of an enabling environment, research and development, possession of special leadership and other managerial qualities (Mushyoki 1997).

In Swaziland, it can be argued that SMEs lack a clear vision of their business. This problem is compounded by the problems of limited finance and other support structures to cater for their basic needs. Small Business entrepreneurs are mainly driven by the desire to maintain their livelihood in response to escalating unemployment in the country. Often, they emulate each others' business ideas. As a result, most of them are engaged in similar activities. They lack one of the major components of small business entrepreneurship, creativity. Moreover, proceeds obtained in the business cater for their basic needs such as food, health and education for their families as illustrated in table 1.

Table 1: Usage of SMEs proceeds:

PROFIT

	Frequency	%	Valid %	Cumulative %
Maintain family	84	31.7	31.7	31.7
save it	6	2.3	2.3	34.0
invest in business	38	14.3	14.3	48.3
pay loan	1	.4	.4	48.7
miscellaneous	131	49.4	49.4	98.1
none	5	1.9	1.9	100.0
Total	265	100.0	100.0	

Miscellaneous uses, mainly included maintenance of family, education, health and putting it back into the business for its sustenance and repayment of loans which were from family relatives and friends. Most of them barely used the bank because of the collateral problem. They were not considered credit worthy mainly because of the nature of their businesses. However, the situation is now improving; different banks do consider financing SMEs because

of the increasing significance of this sector. However, the case investigator did not ascertain from the banks measures used to finance them. In the past they tended to emphasise group loan schemes and relied on peer pressure for loan repayment. Recently, they have been extending their loan services to individuals, a factor that my promote SMEs development and their business expansion.Furthermore, Fincorp(a financing corporation in Swaziland) offers a wide range of financial services that can also be extended to individuals provided they furnish the corporation with a viable business plan and a business constitution. Despite the latter developments, difficulty in obtaining funding for the business is still regarded as a major operational problem.

Table 2: Operational problems of SMEs

Nature of problem	Percentage (%)
Difficulty in obtaining funding for the business	74
High machinery and other input costs	63
Unavailability of inputs locally	55
Limited infrastructural support	49
Transportation problems	43
Limited knowledge on the source of advice/assistance when needed	42
Too many dependents	42
General management problems	40
Marketing problems	34
No suitable business premises	34
Domestic responsibilities	22
Licensing problems	21

The numerous operational problems encountered are likely to hinder their development, maintenance and business growth. As a result, a substantial amount of SMEs in Swaziland appears to be static, while others do not survive very long. This creates further challenges on how they can be upgraded to viable commercial entities that can fit in a highly competitive business environment. None-the-less, most of them were optimistic on the extent of success of their business as illustrated in table 3.

Table 3: An evaluation of the SMEs success in Swaziland

	Frequency	%	Valid %	Cumulative %
very successful	15	5.7	5.7	5.7
successful	87	32.8	32.8	38.5
break-even	100	37.7	37.7	76.2
not at all successful	63	23.8	23.8	100.0
Total	265	100.0	100.0	

Generally, the SME owners perceived that their businesses were successful mainly because they manage to sustain them. However, this result should be treated with caution as their evaluation of success differ from most of the widely used measures of success such as

productivity level, profitability ratio, rate of return. They used sustenance of their businesses as a measure of their success and the ability to maintain their families. Most of them had been in business for over five years and were satisfied with the little source of income generated because it was perceived to help enormously in maintaining and educating their families. Family members in Swaziland, include extended families, who are also major employees in the small and medium enterprises. This is a result of 'ubuntu' or compassionate attitude of Africans towards each other as a way of maintaining close family ties and social interactions. Otherwise one may be ostracised from society or labelled for non-conformity with the prevailing African norms. Furthermore, there is a perception that an 'anti-ubuntu' attitude may perpetrate misfortune.

Thus despite the performance status of their businesses, most (60%) of them were satisfied, because of the value of the contribution to the African family ties and to the quality of life. Their businesses also offered employment to family members, a sense of purpose in life, and limit potential societal problems of crime and political upheavals.

Table 4: Level of satisfaction derived by business owners in their business performance

	Frequency	%	Valid %	Cumulative %
highly satisfied	17	6.4	6.4	6.4
satisfied	84	31.7	31.7	38.1
fairly satisfied	58	21.9	21.9	60.0
dissatisfied	106	40.0	40.0	100.0
Total	265	100.0	100.0	

Despite the majority of SMEs' satisfaction with their business performance, 40% of the respondents were dissatisfied with the status of their businesses. This problem was compounded by the operational problems that included managerial, marketing, finance, lack of clear policies, frustration with the procedures for acquiring licences and funding problems. There was the perception that the procedures used are cumbersome, delaying and at times not transparent. Major delays were encountered with opening of businesses in rural areas whereby they have to seek approval from the chiefs and the king as there is no title-deed land, but Swazi-nation land. Others expressed concern about the discriminatory practices between male and female entrepreneurs. Females often have to get consent from their spouses on most of the business aspects (e.g. obtaining loans from the banks) because of their minor status. If unmarried, they cannot have access to any land. However, with the ongoing reviews of Swaziland's constitution, it is envisaged that the situation may improve. The processes of reviewing the Swaziland constitution and that of enacting SMEs' policy are taking a relatively long time, and this may deter SMEs development and effective participation in the globalised business context.

CONCLUSIONS AND RECOMMENDATIONS.

Critical issues such as commercial viability of SMEs in Swaziland transpired from the case results. Moreover, they appeared to rely on different measures for ascertaining their success. None-the-less the results revealed that SMEs have a significant role in Swaziland. Over an above the normal expectations, they enhance family ties, values and fulfil certain perceived expectations; and they enhance further the overall quality of life as they have a role in the education, health and livelihood of the society. However, they encounter insurmountable challenges and constraints that include emulating each other's ideas, accessing funding, managerial problems, securing sources of supply, transportation problems, location, marketing, keeping records and lack of a supportive small business environment.

SMEs record-keeping problems may hinder application of appropriate measures in the evaluation of their business success and in extending assistance to them. Thus despite, the perception of success expressed, this should be treated with caution because of the indicators used in ascertaining success. They relied on the ability to sustain their businesses, their livelihood and being able to meet other basic family-related needs. Validity of these measures has not been proven as these are unusual business performance indicators. As a result, future case studies may focus on the relevance and applicability of these measures in view of the scenario presented. This justifies the significance case investigations on the SMEs' sector and the need to devise appropriate and relevant strategies to help them develop further. This process may also include a clear SME policy that will address the various problems raised by the respondents, and encouragement of business networks to strengthen relationships with other stakeholders to enhance the marketability and competitiveness of their businesses.

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IMPACT OF ADVISERS ON SMALL AND MEDIUM ENTERPRISES' BUSINESS PERFORMANCE - A STUDY OF CPA INTERVENTIONS ON SINGAPOREAN CHINESE SMES

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ABSTRACT

SMEs in Singapore have continued to play an important role in the local economy since 1959. Over 90 per cent of all Singaporean enterprises were SMEs of which ninety-two percent were owned by Singaporean Chinese in 1999. SMEs have contributed significantly to Singapore's economic development by providing critical support to multi-national corporations, which bring in investments, experience and technology.

In Singapore, about seventy-one percent of small and newly registered companies fail within the first five years of incorporation. Lack of entrepreneurial and managerial skills have been identified as the major causes of SMEs' failures. External professional advisers to SMEs could supplement their lack of managerial skills by providing management advisory services to enhance SMEs' effectiveness. Many professionals provide advice to SMEs but until now there was no understanding as to which advisory group had the greater impact on business performance and what services SME owners want and need.

A conceptual framework was postulated that Chinese CPA intervention, centred on microlevel organisational change, could have a positive impact on business performance of Singaporean Chinese SMEs. The study explored the impact of CPA intervention on business performance of SMEs. It was further postulated that CP As have a greater impact on SME performance that other external advisers. To test these propositions, a survey was undertaken of SMEs and CPAs.

The research findings indicate that SMEs that used CP As extensively out-performed those SMEs that did not use any external advisers. Amongst SMEs that used external advisers moderately to extensively, those Chinese SME that used CP As scored the best business performance growth, measured by net profit plus owner's remuneration over the ten-year period 1987 to 1997. Thus CPA interventions are associated with higher performing Chinese SMEs and in addition outperform other advisers. The outcome has important implications for professional advisers and SME owners as to the sources and types of services they provide to their clients.

Keywords: Small business, external adviser, CPA, SME, business performance

BACKGROUND

Like in many countries, Singaporean small to medium enterprises (SMEs) continue to be an important group in the local economy, particularly since self-government in 1959. This is evidenced by the fact that over ninety per cent of all Singaporean enterprises were SMEs in 1999 of which ninety-two percent were owned by Singaporean Chinese (Department of Statistics, 1997). By 1999, local SMEs accounted for 92% of establishments, 52% of Singapore workforce, or about 583,000 workers, and contributed 35% of the Gross Domestic Product (PSB, 1999).

The importance of SMEs was originally realized and rediscovered by the Singapore Government in the 1985 economic recession. In 1986, the SME Master Plan was drawn up by the Economic Development Board (EDB) and constitutes the blueprint for the local entrepreneurship development path and action strategies. With the implementation of the SME Master Plan, the Government realized that, in Singapore's future economy, SMEs must increasingly play an important role as a source of entrepreneurship and innovation, and act as the kernel of future successful indigenous companies.

As a consequence, government intervention has been directed towards the development of a strong indigenous population of firms to provide a necessary counterbalance to volatile multinational companies' (MNCs) activities. This has resulted in partnerships between entrepreneurs of local enterprises, MNCs and government-linked companies (GLCs). SMEs have contributed significantly to Singapore's economic development by providing critical support to multi-national corporations, which bring in investments, experience and technology. Unfortunately, not all small enterprises survive and grow.

High business failure rates in the small business sector have drawn the particular attention of researchers. In Singapore, the business failure rate was extremely high within five years of firm incorporation. Between 1983 and 1990, an average of21,000 companies and businesses were registered annually in Singapore. The annual attrition rate averaged around 15,000, giving a net addition of 6,000 new businesses per year (Boeyand Lee, 1994). The 1997 Asian economic crisis caused serious cash-flow problem for 92,000 SMEs in Singapore. It was reported that if no measures were taken to help these SMEs, some five per cent would not survive (Fernandez, 1998).

There are a multitude of external and internal factors that contributed to the high business failure rate. SMEs have no control over external factors, such as competitive environment (Gaskill et al, 1993), government regulation and economic conditions. Internal factors, such as access to capital in the start-up stage and for the future development of the business, managerial inadequacy (Haswell and Holmes, 1989) and failure to seek professional advice (Lussier, 1995), are offered to explain the failure of new or growing firms. Thus, lack of managerial skills has been identified as the major causes of SMEs' failures as well as not

seeking external advice. Provision of professional advisory services on an going basis to

SMEs was identified as an effective solution to managerial incompetence (Latif and Shanmugam, 1990). When small firms are con:tronted by threats to their survival or growth, they may seek external assistance to supplement their own resources, particularly management skills and experiences, in order to reach an adequate solution. External professional advisers to SMEs could be used to supplement small businesses' lack of managerial skills by providing management advisory services to enhance SMEs' effectiveness (Ferris and Livingstone, 1987; Latifand Shanmugam, 1990).

Studies have indicated that external accountants are in key demand as external professional business adviser to SMEs. These studies indicate that accountants, amongst others, with a vested interest in small firm performance, essentially in a consulting capacity, offer the advantages of experience, technical knowledge, analytical skills and objectivity to help the small business in problem-solving. In the study by Peat, Marwick, Mitchell & Company (1983), it was shown that external accountants are primary business advisers to private companies more than any other professional groups, such as attorneys or bankers. In the case of Singaporean Chinese SMEs, studies have shown that their external accountants become the preferred choice on the grounds of trust, independence as well as the industry experience they have gained from their multitudes of clients. Many professionals provide advice to SMEs but until now there was little empirical evidence as to which advisory group had the greater impact on business performance and what services SME owners want and need.

Leading Singaporean CPA firms provide mainly traditional audit/accounting and tax services to their local SME clients. The need for local CP As to provide management advisory or consulting services to their SME clients has not been widely recognized. The International Accountant Bulletin survey in 1995 indicated that selected leading Singapore CPA firms derived the majority of their income from audit/accounting and tax work (80%) and only a small percentage from management advisory fees (11 %). In contrast, in the U.K. there was a noticeable shift from audit to non-audit works amongst the international accounting firms. The contribution of audit fees to total income of the then big six declined from 70% in 1980 to 52% in 1992.

Contingency theory assert that organizational effectiveness is a product of an appropriate matching between internal organizational characteristics and the demands created by elements of context such as technology and external environments (Burrell and Morgan, 1979). For this study, a contingency-based conceptual framework (Figure 1) was developed on the basis that CPA interventions, centred on micro-level organizational change, could have a positive impact on the business performance of SMEs. It postulates that business performance is contingent on appropriate management and control systems but CPA interventions could have a mitigating positive influence on business performance. This mitigating influence is based on the assumption that CPA interventions could compensate for the lack of SMEs' skills in business management and control. Thus, this study explored the impact of CPA interventions on business performance of SMEs. Building on long-standing and trusting relationships between CPAs and SMEs in combination with in-depth knowledge and experience of their SME clients, CP As could intervene in SMEs' management by introducing and implementing appropriate management techniques and systems of control to enhance SMEs' business performance. Intervention is not measured directly but by association based on SMEs reporting the extent to which they used their CP As' services to

support their business performance.

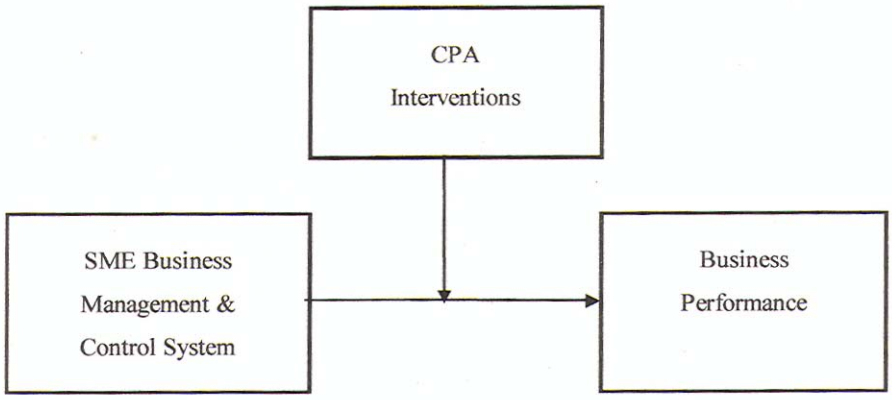

Figure 1 – Conceptual Framework for Study

In Singapore, small business research has been scant and no studies have been conducted on local CP As providing management advisory services to their SME clients. The focus of most research has been mainly on succession planning (Khoo, et al., 1993), characteristics of family firms, integrating daughters into family business (Chan, 1996), and culture (Lee, 1996).

Theoretically, qualitative considerations and quantitative measures are used to define SMEs. In practice, however, precise quantitative criteria are generally adopted in most part of the world. There are however differences between developed and developing countries in choice of criteria. In developing countries, the definition of a SME tends to be still based on employment size. Unlike the surrounding Asian countries, Singapore has developed quite rapidly and as a consequence its SME definition has changed over time. In Singapore, there is no official legislation to define small and medium sized enterprises (SMEs) and they are defined according to the eligibility criteria used by the Economic Development Board (EDB) to qualify firms for assistance programs. In 1996, the establishment of the Singapore Productivity and Standard Board (PSB) resulted in the PSB acquiring the responsibilities of EDB for promoting SMEs. SMEs were then defined as firms with less than 200 employees and S$5 (approximately US$3) million net value of fixed assets, which included land, buildings and structures, machinery equipment, vehicles, and office equipment.

A definition based on the number of employees ignores the fact that certain types of industries, by the very nature of their operations (such as that in manufacturing), require relatively more workers than others. The book values of productive fixed assets serve to segregate SMEs from the large local enterprises, and the percentage of local equity serves to identify the indigenous businesses from those that are affiliated to foreign firms as subsidiaries. Given the focus of the study, it was important to also incorporate a longevity factor into the criteria for identifying the target population as the study was interested in how the client-adviser relationship affected business performance over time. Consequently, only SMEs that had been established for at least 7 years were included in the target population.

For this study a Singapore Chinese SME was defined as a business entity where:

- it employed less than 200 employees; and
- not less than 51 % of the issued shares were held by Singaporean Chinese shareholders and were actively involved in the management of the business; and
- it was an exempt private limited company (an exempt private limited company is defined under section 4 of the Singapore Companies Act as one where none of the shareholders is a corporate entity and where there are not more than 20 shareholders in the company).

A small firms performance is a measure of its success in terms of its profitability or growth in sales (Hall, 1995). However, in small businesses, the owner's personal characteristics and attitude towards risks may impact the performance it achieves, particularly the owner's objective of his/her expected long-term income, including owner's remuneration, as owner's remuneration in small business represents a greater percentage of revenues than in a large firm (Welsh & White, 1981).

Performance is the outcome of the interaction between strategic (controllable) factors and environmental (uncontrollable) factors. While this general idea has wide acceptance in the literature, there is considerable disagreement as to what exactly constitutes performance (Cameron and Whetten, 1983; Ford and Schellenberg, 1982). Not surprisingly, there is considerable evidence and consensus on the multi-dimensionality of the performance concept as it is this very multi-dimensionality that is at the root cause of the performance debate (Buzzell and Gale, 1987; Cameron and Whetten, 1983; Chakravarthy, 1986; Dess and Robinson, 1984; Venkatraman and Ramanujam, 1986; Walker and Ruekert, 1987; Woo and Williard, 1983).

In this study, the following criteria were used to assess the business performance of the Singaporean SMEs.

- Sales growth which includes growth in product ranges and customers bases.
- ProfIt growth which includes net profIt on sales before and after owner's remuneration.
- Director's remuneration which includes rewards in terms of salary, bonus and fee payable to members of the board of directors.
- Employee size
- Shareholders' fund which includes unappropriated earnings.

Choice of Chinese accountants was based on the requirements for registration on the Public Accountant Board (PAB) register. Only CPA that were local practitioners as either sole-proprietors or in partnership firms and who had Chinese SME clients, were eligible. As the PAB's register did not identify the latter criteria, respondents were required to identify if they met all criteria.

RESEARCH QUESTIONS AND METHODOLOGY

In developing the conceptual framework, the study explored the relationship of CPA interventions in Singaporean SMEs' management and control processes leading to changes in strategy, structure and system formulation of SMEs. Specifically, these issues were addressed by posing the following research questions.

1. Do Singaporean SMEs perceive that CP As can contribute to improving their business performance?

2. Do Singaporean SMEs perceive that CP As are the best advisers, amongst other external advisers, to improve their business performance?

3. Do Singaporean CPAs perceive that they can enhance business performance of their SME clients?

4. Do Singaporean CPAs have the skills and experience to improve business performance of their SME clients?

This research used mailed questionnaires and case studies. Empirical data was used to test the propositions and validate the conceptual framework. Case studies provided the opportunity to test the framework and gain both qualitative and quantitative feedback on its applicability in practice. Findings from case studies are not reported in this paper.

Survey findings are based on 45 useable responses from Singaporean SMEs and 66 usable responses from CPA practitioners. The sample of SMEs was drawn from those that were corporate members of the Chinese Chamber of Commerce and Industry (CCCI), Singapore, 1997/1998 and that met the SME definition criteria (target population 187). In addition, a question in the survey solicited their business age in order to select only those that met the longevity criteria. The sample of CPA practitioners was drawn from the register of CPA practicing members, Public Accountant Board (PAB), Singapore, as at March 1999 (225 were chosen at random for mailing of the questionnaire). Given the sizes of the samples, the study must be treated as exploratory and the findings as preliminary.

FINDINGS

In reporting findings in this paper, the results discussed are focussed on CPA interventions although other external advisers' interventions were investigated but are not discussed in detail. The findings commence with a discussion of an analysis of SMEs' responses followed by a comparison of CPAs-SMEs perceptions of each other. It concludes with a correlation analysis between four advisory groups' interventions and SMEs' business performance.

Accountants were the most used external advisers to Singaporean SMEs with industry/trade associations the second most used external advisory group. Bankers' ranked after the industry/trade associations as the third most used external advisers (Figure 2). Financial,

management and business improvement consultants were least used and provided a limited range of services. Thus they were dropped from further analysis. CP As provided SMEs with a full range of advisory services (Figure 3). Financial and legal/taxation advisory services were areas identified as most contributing advisory services provided by accountants to SMEs' business performance. Industry and trade associations provided SMEs places for relationship building and exchanging trade as well as business improvement learning experience. This finding was in conformity with past research that Chinese association networks have been viewed as one of the key factors contributing to the success of Chinese business in Hong Kong, Singapore and other Asian countries (Hamilton, 1991; Wong, 1992).

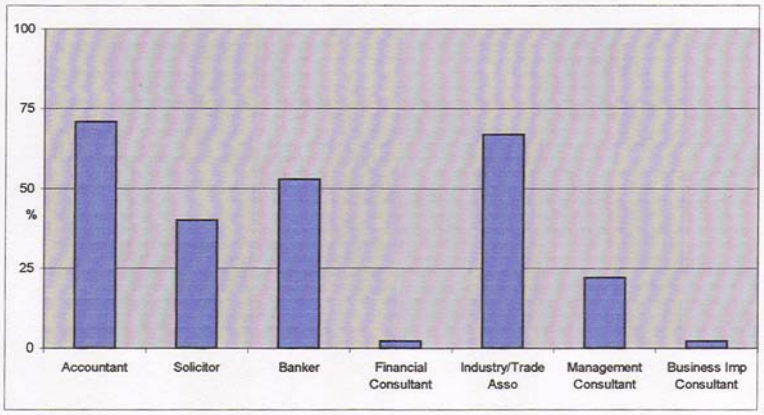

Figure 2 – % of moderately to extensive use of external advisers by Singaporean SMEs

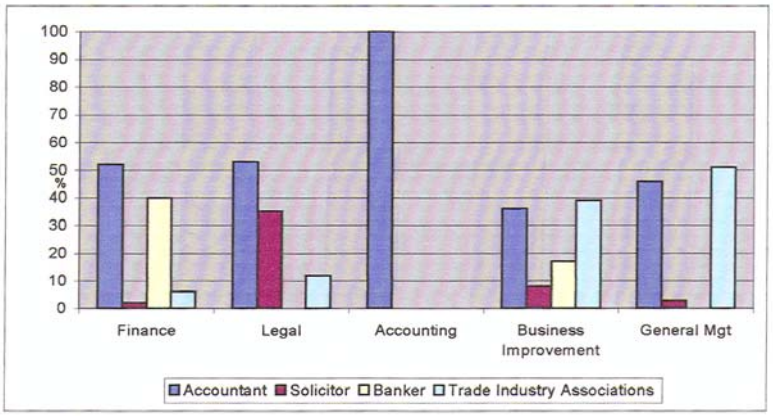

Figure 3 – % of external services used moderately to extensively by SMEs by type and adviser group

The major reasons given as to why SMEs called in external adviser were lack of skills in-house (78 %) and a need for change (69%). Owners/founders of Singaporean SMEs felt that there was a need for change in their management processes in order to improve business performance. When this need arises, accountants become SMEs first choice amongst other professionals being the closest and trusted external advisers. Lack of skills in-house, mainly in areas of business system and control, was identified by respondents as the area of immediate need for advice.

The above findings were based on SME owners' perceptions of the usefulness and contribution of external advisers including CP As. To gain further empirical evidence, the study collected data on business performance in addition to the level of use of external advisers. This evidence was used to answer the research question.

Research questions' findings

The first research question asked was can CP As providing management advisory services positively impact the business performance of SMEs? The findings indicate that over the ten years from 1987 to 1997, under the same business and economic environment, SMEs that used CP As moderately to extensively as their external advisers achieved great improvements in business performance using the measures of business turnover (338%), net profit (549%), directors' remuneration (664%) and shareholders' funds (1,450%). Conversely, SMEs that did not use CPAs as their external advisers improved marginally in business turnover (236%), but suffered drastic business net losses (-436%) with relatively marginal growth in directors' remuneration (122%) and shareholders' funds (28%).

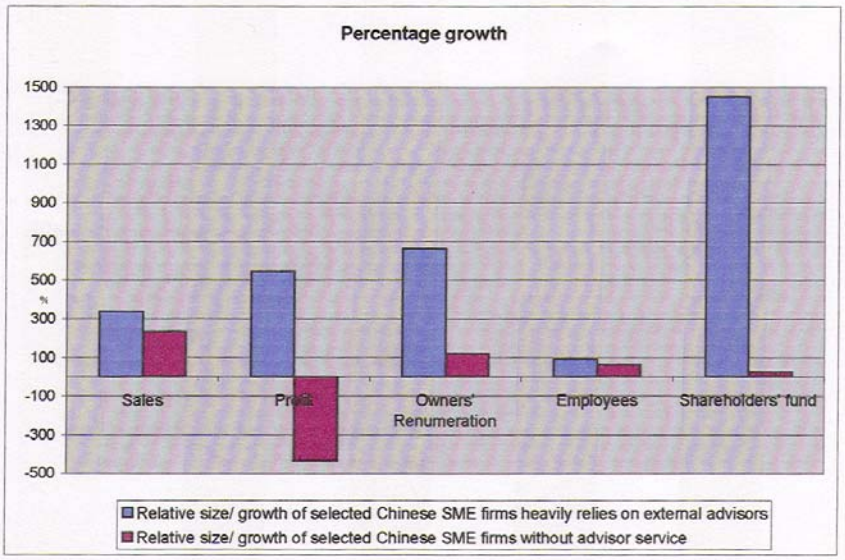

Figure 4 – % growth in performance measure of Chinese SMEs that heavily used CPAs as external advisers and those that did not

In attempting to answer the second research question (do Singaporean SMEs perceive that CP As are the best advisers, amongst other external advisers, to help improve their business performance?), SMEs were asked to rank external advisers' perceived contributions to their past business performance as well as future performance. Amongst other advisers, accountants were ranked the most used external advisers in providing value for money service (69 percent of SMEs perceive that CPAs provide value for money services) and were perceived to be the most contributing external advisers to SMEs past performance (93 percent). For the future, SMEs were asked to rank those advisers, which had not been used in the past that could possibly contribute to their performance. Industry/trade associations (42%) and banks (33%) were ranked ahead of accountants (31 %). However, the question was conditional on 'not used in the past' so a valid outcome would be that accountants were not ranked first as they have been used most extensively in the past and presumably this

would continue into the future.

The remaining two research question attempted to ascertain the perceptions of CPAs' in relation to their contribution and level of knowledge/skills. To gain confirmatory evidence, SMEs were asked the same questions and a comparison of results revealed agreement on these and other relationship issues. There were strong relations between SMEs and CPAs which made CP As their most used external advisers.

- *Value for Money*
  - 69 percent of SMEs say CPAs provided value for money service.
  - 64 percent of CPAs perceive they provided value for money service.

- *Strength of Relationship*
  - CP As scored highest in the strength of their relationship with SMEs.

- *Knowledge/skills of CPAs*
  - Both CP As and SMEs agreed 100 percent that CP As have experience to provide management advisory services.

- *Commitment of CPAs*
  - Both CPAs and SMEs agreed 100 percent that CPAs are committed in providing management/consultancy services.

- *Principal involvement*
  - Both CP As and SMEs agreed that principals of CPA firms were 100 percent involved in providing management advisory services.

Ninety-seven percent of respondent CP As felt that they were competent in their professional skills and eighty-nine percent of the respondents felt that they had appropriate levels of business experience in order to provide management advisory services to their SME clients. This was backed by the empirical evidence in that eighty-seven percent of accountants had 10 or more years in CPA practice. Fifty-two percent of CP As had three or more years of other business/management experience outside their practice. Even given this level of knowledge and experience, CP As generally concurred that they needed to acquire additional skills in human resource management, computers and communications to improve their quality of business advisory services.

However, when it came to the areas where CPAs could perceivable add to SMEs' business performance, there were some notable divergence of opinion. Although CP As perceived that in most areas they could add to their SMEs' performance, SMEs believed that their accountants could do more for them in terms of business improvement which ranked equally with of finance and banking advice (Figure 5). Given that CPAs indicated that only 7.5% of their fees came from business improvement consultancies, SME are sending a signal that they are seeking more services in this area rather than traditional compliance services in order to help improve their firms' business performance.

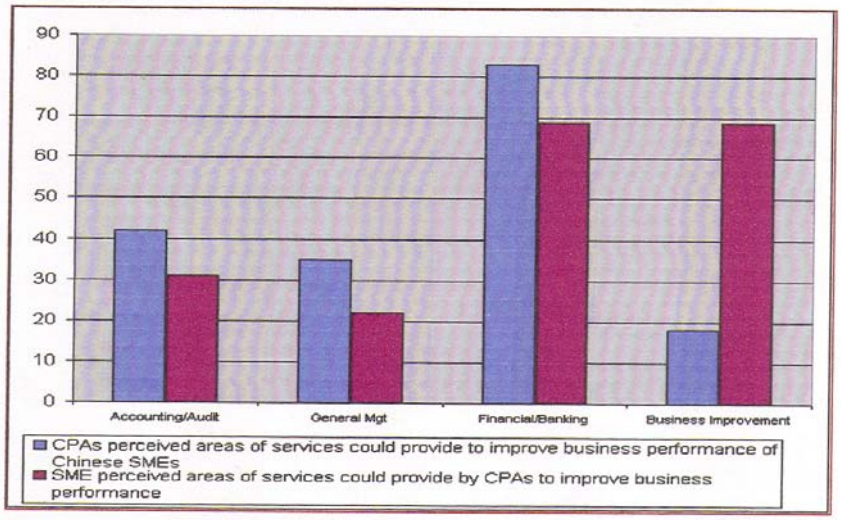

Figure 5 – Perceived areas of services that could be provided – CPAs-SMEs comparison

Correlation analysis

In an attempt to explore the association between adviser's interventions and business performance, a correlation analysis was undertaken. To gain further evidence to support the proposition that CPA interventions have a significant impact on a SME's business performance, each group of advisers were analysed against the four business performance measures over the study period.

Use of the four professional adviser groups has a positive impact on business performance but the extent of impact varies across advisers. All advisory groups showed significant correlations with two or more business performance measures. However, as indicated earlier, the two more important business performance measures to SMEs are Net Profit and Owner's Remuneration. On these two measures, CPAs were the only group of advisers that had significant correlations for both measures. Interestingly, Bankers showed a significant negative correlation coefficient for Net Profit while Solicitors, showed significant correlations with Sale Growth, Owner's Remuneration and Shareholders' Funds.

CONCLUSION

Singaporean SMEs used CP As most as their external advisers in comparison to other external advisory groups. Accountants have the business experience and management skills to provide financial and business improvement advisory services in addition to the normal compliance services of taxation and audit. CP As interventions contributed significantly to the business performance of Singaporean SMEs, when performance was measured by the combination of net profit plus owner's remuneration (1997 to 1987 a growth rate of 602.5%) in comparison to other key external advisers.

Table 1 – Correlation Analysis – Relationship between of four external advisory groups and SMEs' measures of business performance

Measure	Accountants	Solicitors	Bankers	Industry/Trade Associations
Sales growth				
Correlation co-efficient (r)		**0.457**	**0.411**	
Significance		0.004	0.011	
Net profit				
Correlation co-efficient (r)	**0.370**		**-0.510**	
Significance	0.022		0.044	
Owner's remuneration				
Correlation co-efficient (r)	**0.354**	**0.409**		
Significance	0.029	0.011		
Employee				
Correlation co-efficient (r)				**0.390**
Significance				0.049
Shareholders' funds				
Correlation co-efficient (r)		**0.373**	**0.417**	**0.430**
Significance		0.021	0.009	0.018

The conclusions drawn from this research must be considered within the context of certain limitations. These limitations include both practical and methodological issues. From the practical viewpoint, the limitations include size of sample, generalisation of results, proposition testing, the matching of two interrelated samples, and the application of the model to a single case. The methodological issue revolve around the use of questionnaires, interpretation of questions, use of performance measures, and framework validation. Each of the populations surveyed (SMEs and CPAs) were independent of each other. In other words, SME respondents were not clients of CPAs who responded to the survey. Given that the responses were anonymous, there may been some SME clients of CPA respondents. Thus the actual link between SMEs and their CPA advisers is tenuous particularly as there was no direct intervention measure. Approaches were made to CP As for them to survey their clients but due to their concerns about client confidentiality, they were not prepared to send questionnaires to their clients. The study attempted to gather data on a number of performance measures. However, some SMEs were not prepared to divulge all their financial results. All did however provide data on net profit and owners' remuneration. The combination of these two measures was chosen as the better indicator of a firm's performance. Given the diversity of industries, this may not be the perfect measure of business performance.

As this study is exploratory, it is hoped that other researchers interested in improving SMEs' business performance and survival may consider undertaking similar studies to explore further the proposition posed in this paper. By undertaking additional research as to how external advisers might contribute to SME performance, many economies in both developed and developing countries will benefit.

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HELPING DISADVANTAGED YOUTH START SMALL BUSSINESSES: THE KENYA YOUTH BUSINESS TRUST EXPERIENCE.

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Summary

Kenya Youth Business Trust (KYBT) assists disadvantaged youth to start small businesses by providing capital to those with viable business propositions and then attaching those successful applicants to volunteer business mentors.

KYBT has been established to facilitate the development of programmes to stimulate youth entrepreneurship in Kenya. The programmes are for the young people who are unable to find help elsewhere and who are unemployed or underemployed. The business community plays a major role by providing mentoring and local business support along with flexible access to finance for young people with viable idea and an entrepreneurial aptitude.

Background

There are currently over 300 million unemployed and under-employed young people aged 18 to 30 years around the world. At least 20 per cent of these young people have the potential to become entrepreneurs. Unfortunately only less than 5 per cent have the opportunity to do so.

In Kenya, the economic growth rate has not been sufficient enough to create productive employment opportunities to absorb the increasing labour force of about 500,000 annually. Most of these are the youth and only about 25% are absorbed, leaving 75% to bear the burden of unemployment. Further, some of those absorbed are doing jobs that do not match their qualifications and specification.

Kenya Youth Business Trust (KYBT) is an initiative of Youth Business International (YBI) and was launched in Kenya in March 2003 to stimulate youth entrepreneurship. The principles upon which YBI programmes are based were developed in the UK by the Prince's Trust and have now been adopted in over 20 countries around the world. These are:

- targeting disadvantaged youth.

- providing access to financial support to young people who have a viable business proposition but who are unable to find support elsewhere.
- providing successful applicants with a volunteer business mentor and full access to the organization's local and national business support network.

The countries running the YBI programme include: Argentina, Barbados, Canada, Hungary, Nigeria, India, UK, China and Australia among others.

Since its inception over 50,000 disadvantaged 18 to 30 year-olds have been assisted to start their own business through the YBI initiatives. Over 60 per cent of these businesses are still trading in their third year or beyond.

Outreach

The programme involves outreach initiatives whereby the programme: locates, encourages and prepares young people to begin planning to start their own business. KYBT does this in three ways namely; physical visits, media and word of mouth.

- *Physical Visits*: The secretariat works with NGOs that share a common vision of building sustainable livelihoods for the youth. These NGOs are able to spread the word to prospective beneficiaries. It involves physical visits to targeted areas where partnerships are built.

- *Media*: The media is a great communication tool. KYBT have featured in the local dailies and on radio through which many young people have come to know about the programme.
- *Word of Mouth*: This is one of the fastest ways to get the word round. Those who have heard about the initiative including the beneficiaries have spread the word to others who have made enquiries about the programme and are posed to benefit from it.

Business plans

The programme realises the complexity of starting and running business, particularly by the youth who have no experience in the same.

Based on the viability of idea, KYBT provides support to youth in developing business plans. Planning increases the chances of success and a business plan helps organise all the pieces that have to come together to make the business a success.

To make the business planning process easier for the youth, we use a business plan template borrowed from the Prince's Trust. It's simple and has some illustrations to help the youth understand what is required.

We have also seen the need of taking the youth through some short training to assist them complete the cash flow. The training is conducted by the secretariat twice a month. The training is in groups of six to eight. These trainings are not sustainable in the long run when the numbers increase.

KYBT is in the process of forging partnerships with learning institutions that offer business and finance. They are looking at the possibility of finishing students assisting KYBT potential beneficiaries in putting together the business plans. The institutions approached have shown interest and these partnerships are expected to be formalised by August 2004.

Mentoring

At the heart of the KYBT programme is the business mentor, an experienced local business person who works with the young person as a guide, teacher and friend for the critical first two or three years. Business mentors are volunteer business people who are attached to every business that KYBT funds.

- They provide business advice and act as a sounding board for new ideas.
- Their main aim is to ensure that the business has the best possible chance of surviving.
- KYBT sources mentors from the corporate world as well as local and national organizations e.g. rotary.
- KYBT matches mentors to entrepreneurs after the selection panel has passed their businesses. The mentors are made aware of areas that may have been identified as weak or needing extra attention.

On average a mentor spends 4-5 hours a month with the young entrepreneur and provides assistance in the following areas:

- Monitoring monthly loan payments.
- Monitoring performance of the business and ensuring the completion of business progress forms.
- Determining the need for specialist help, training, business recovery programmes and/or loan rescheduling.
- Assisting the entrepreneur in seeking out opportunities for business development.
- Assisting the entrepreneur to take full advantage of marketing opportunities, e.g. exhibitions/fairs, media/PR/advertising, etc.

Mentoring mobile clinic: is a new mentoring concept that KYBT is trying out. This is when a group of four to six mentors visit several youth business together. The concept was necessitated by the fear of visiting the slum areas alone. We realised that the mentors and especially those of Asian origin and women were willing to give time to mentoring but could not visit our entrepreneurs alone.
The mobile clinic has also the added advantage of having people with different areas of experience. The entrepreneur therefore benefits from more than one mentor. Ideally, the mentoring clinic should ensure that the mentors on board at any one time have expertise in the areas that the entrepreneurs need help.

Business support network

Another area of support is through business support network, which together with mentoring is used to support the young people. This involves local support network of business people, companies and other entrepreneurs who provide the young people with specialist advice and resources. KYBT is well linked with the business community /private organizations including

founding private sector partners such as GlaxoSmithkline, Barclays Bank, and KPMG. These business community and private organisations provide support in various ways. They

- Engage employees as business mentors.
- Provide pro-bono business support and specific advise E.g. KYBT gets legal and auditing services pro-bono.
- Bring the young entrepreneurs to their supply chain.
- Provide training through their early years.
- Bring them into their local business network. Mentoring mobile clinic is a good example.
- Join the local or national board to help manage the organisation. We currently have three boards namely, Board of Trustees, Area board and Entrepreneur selection panel.
- Join KYBT as corporate sponsors and provide funding for local business start up and programmes. E.g. Adopt a business initiative which has been discussed under fundraising

Founding private sector partners include GlaxoSmithkline, Barclays Bank and KPMG.

KYBT is also linked to non-governmental organisations such as Rotary club (that are a good source of mentors), and also to local NGOs and CBOs who spread the word to potential entrepreneurs and provide volunteers.

Board of Trustees

The Board of trustees and the Area boards are part of the support network of business people volunteering their valuable time. Currently the Board of Trustees include:

Managing Director, First Africa Capital Ltd
Managing Director, Barclays Bank, Kenya Ltd
Managing Director, GlaxoSmithKline Ltd
Managing Director, Wilken Telecommunication Kenya Ltd
Managing Director, MediaXchange
Director, TBWA/CREATIVE Ltd
Chief Executive Officer, Tread setters
Chief Executive, Equity Building Society

The Trustees roles include the following:

- Create, review and monitor the national strategy
- Ensure the programme is a legal, accountable and not for profit entity
- Support the national Executive Director
- Promote the interest of the programme to the existing and potential partners
- Raise funds and resources for the programme

Area Board

Further, Kenya Youth Business Trust has an Area board in Nairobi and every other area that youth will be assisted to start small businesses. The Area Board's responsibilities include among others:

- Supports the delivery of the regional strategy
- Facilitates the involvement of key organisations in the initiative.

- Promotes KYBT through external networks.
- Facilitates the involvement of key external organisations in the work of the Trust
- Actively seeks the best ways of consulting with disadvantaged youth between the ages of 18 and 30 in the area and ensure their participation in the development of services locally.
- Influences key policy makers relating to youth issues.

Access to finance

Since initiation of any business involves finance, its access is of paramount importance. In view of that, KYBT strives to make available such finances. Thus
Young people with viable business ideas get start-up capital.

KYBT has a revolving fund developed through fund raising, sponsorships and adopt a business initiative

Fundraising: KYBT organises a mountain climb every year. Last year, 2003, a team of 28 executives, 8 from UK, 1 from South Africa and 19 from different corporates in Nairobi went up Mt Kilimanjaro. This year another team is preparing to go up Mt Kenya in the month of August.

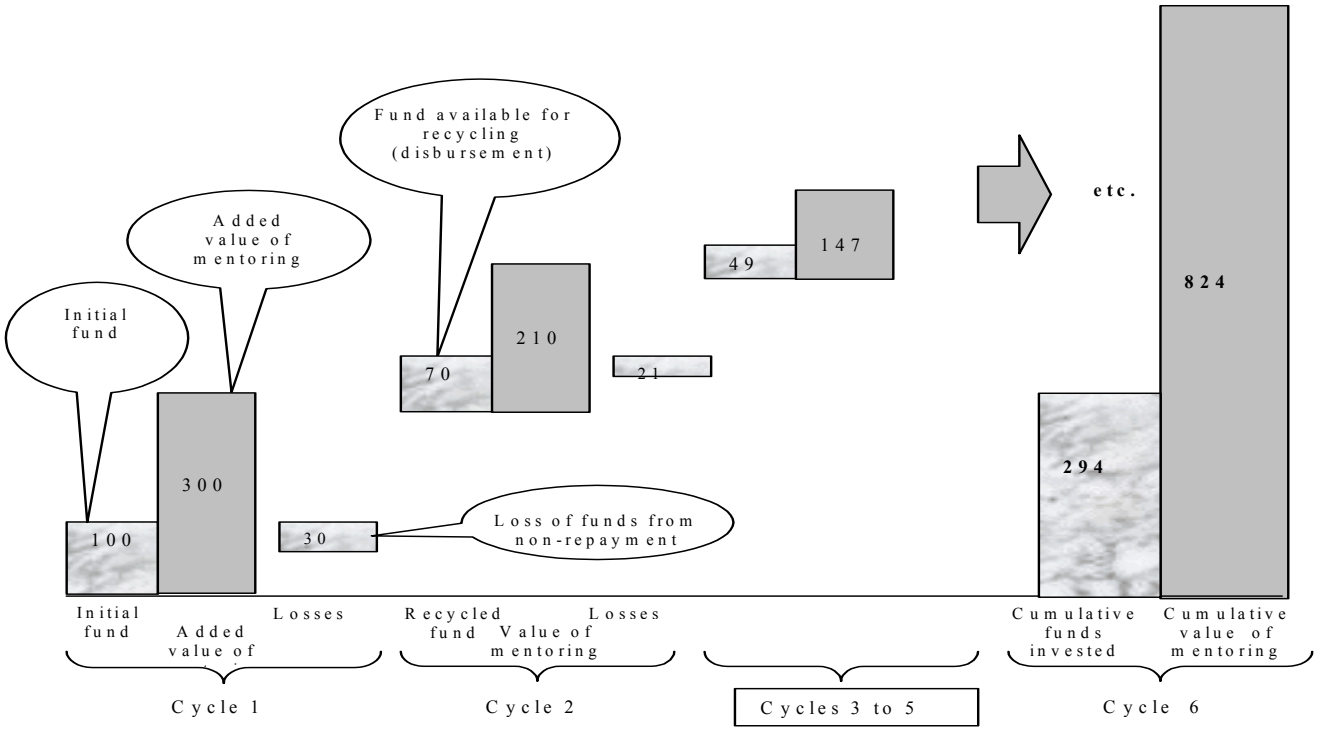
Adopt a business: This is when a corporate organisation takes up the responsibility of both funding and providing the youth entrepreneur with the business mentor. The youth are taken through a vetting process and after ESP has passed them, their businesses are then availed to the corporates in groups of five. Within the five we ensure gender balance, variety of business both in nature and funding requirements

Funds are allocated based on the project idea and budget. Average funds allocated to clients vary between Ksh.35, 000/= - Ksh. 200,000/= with an average of Ksh.150, 000/=. KYBT requirements are youth friendly and are organised as follows:
- No collateral asked for
- Management fee – 10%
- Grace period – 2 to 6 months
- Payback period – 3 yrs

The money is then recycled to support other young entrepreneurs.

Experience Worldwide on YBI youth businesses indicates a success rate of 70%. Reasons for default include:
- Formal employment: Some youth opt for formal employment when that opportunity avails itself
- Absconding: Even with the help of mentors, some youth give up business after a short while.
- Business failure

These young people redeem their financial obligations and therefore the initial support to one business is passed on to many, more prospective youth entrepreneurs. The mentor enriches the fund by 300 units to every 100 units. If you allow for a 70% repayment rate for businesses, the fund would generate within a relatively short time a net investment into the community of more than 1100 units (As explained on chart A below) By the 6th cycle the value added amounts to 1100 units which is more than ten fold what was invested.



Source: Youth Business International
Chart A: Financial implications of a youth business programme

Loan panels

The process of loaning is transparent and goes through a panel. This is important for good judgement and to provide opportunity to all those deserving cases. The panel comprises of business people from the local community who volunteer their services on a regular basis. The panel is known as the Entrepreneur selection panel (ESP).

The ESP plays an important role in the selection of the entrepreneur to be funded by Kenya Youth Business Trust (in accordance with the directions and criteria laid down by the BOT). The ESP consists of senior and experienced business people, who are representatives from Industries, Banks, Management and Technical Professions.

The ESP meets at least once a month for 1-2 hrs to:

- Study applications and conduct interviews. Potential entrepreneurs are presented to the panel by the Secretariat after the initial screening procedures are successfully completed.
- Access the viability of the projects based on the entrepreneur summary, site visit report, and technical evaluation report.

During the interviews, ESP finds outs (from the entrepreneur) the following:

- Vision for development / future plans
- Growth potential to the business
- Market demand for the project / service
- Investment required
- Payment schedule and monthly expenses etc

Other crucial aspects questioned and analyzed by the ESP include:
- Average monthly sales, monthly expenses etc
- Break-up of working capital
- Profit margin
- Cash-flow statement

Based on the above findings, the ESP then provides guidelines on the loan amount to be approved and suggest the appropriate mentor for the business.

The ESP has the responsibility to
- Select entrepreneurs and approve loans to them in accordance with the criteria and directions recommended by Board of Trustees.
- Suggest /recommend appropriate mentors for the businesses
- Review the progress of the selected cases from time to time
- Pay special attention to the problematic cases. ESP members may be called upon from time to time to visit the entrepreneur's unit for counselling or to put pressure in case of failure to repay.
- Decide on rescheduling of the loan amount in case there is a genuine need.

Programme Achievements

- *Applications to date:* 265
- *Complete business plans: 83*
- *Interviewed applicants:* 24
- *Approved loans:* 16 (10 funded for pilot)

Challenges

1) Business plans
It takes a long time for the applicants to prepare the business plan, especially the cashflow forecast. Although KYBT has a simple template that should make the process of business planning simple and manageable, many of these young people come to the office up to 3 times, before they can successfully complete the plan. It therefore became necessary for the secretariat to conduct business plan preparation sessions with about 5-8 applicants at a time. The sessions are geared towards the youth explaining in detail what the plan is about. These enables each applicant assess there plan and make amendments where necessary before submitting them.

During these sessions, there is a lot of useful information that is revealed that the secretariat would otherwise not know.

2) Selection of viable businesses
The secretariat has to evaluate each business plan and select the most viable businesses. We base our selection on the ideas rather than on the execution of the business plan. We have realised that some young people have good ideas but are limited due to lack of proper education. Youth with good ideas are assisted in the execution of the business plan in preparation for the interviews by the Area board panel.

3) Recruiting mentors
Mentors are volunteers. They sometimes contact us having heard about us from friends but usually, we have to put a fair amount of energy in the recruitment process. We have done this by raising the profile of KYBT and by sending information through mail (emails) to potential recruits who need to fully understand the commitment they are going to make. On 11th March 2004, we had mentors' recruitment cocktail and 42 potential mentors attended.

It has been a challenge to find mentors who are committed to their roles. The need for volunteer business mentors in any YBI initiative cannot be underestimated. A study of YBI young entrepreneurs found that 75% felt their business mentor had made a difference to their success. This is also one of the key reasons why 60% of all the businesses YBI have helped launch are still operating successfully in their third year.

4) Matching businesses to mentors
Matching mentors with the entrepreneurs requires careful consideration. An unsuitable match could damage the confidence of the young person, make the business mentor leave the programme and create a lot more work for the secretariat.

We try to match the skills and characteristics of the business mentor to the personal and professional needs of the entrepreneur. This means considering details such as gender, religion, race or age with knowledge of the particular business, interests and background.

5) Training in good business practices
Most young entrepreneurs have not been trained in business ethics. The secretariat therefore has to conduct short training sessions with those who have completed their business plans. The mentors also aid their mentees learn good business practices during their meetings

In addition, KYBT organises three formal training sessions for both Mentors and the entrepreneurs every year.

Conclusion

YBI Model

The YBI model has been successful in 26 countries, Kenya included. However, it requires customisation to suit the different environments. In Kenya several adjustments have been made and there is a likelihood of more adjustments in the future. Challenges faced are overcome by adjusting the model accordingly.

Examples of customisation:

- The youth that qualify for the loan don't receive cash or a cheque in their name. We pay the provider of the equipment or materials needed directly.

- KYBT has a Field officer who works closely with the mentors. Initially the mentors were expected to send monthly reports to the secretariat. This was not viable as the mentors were either travelling on business or bogged down with their office responsibilities.

- Introduction of mentor mobile clinics in the urban areas.

Mentoring

Mentoring is indeed at the heart of every YBI programme. KYBT has developed a mentors' programme with the help of the mentors themselves. The aim of the programme is to help keep the mentors motivated. These include:

- Three training sessions in a year,
- Regular get-togethers with other KYBT volunteers
- Networking cocktails to give them an opportunity to interact with the BOT, Area board, ESP and KYBT sponsors.

Programme impact

As noted in the background, unemployment is a worrying phenomenon all over the world. However, it posses even more threat to the developing countries such as Kenya where young educated youth find themselves on the street without anything to do and frustrated. Many of these have turned to criminal activities, destroying their lives, the country's image and posing danger to the very existence of nations. All means must be put in place to create opportunities for the youth. KYBT has started playing a role however small it may be in alleviating this particular problem. Among the results noted already include empowering the young to realise their dreams and to become good contributing citizenry. A number of projects started have started showing signs of success and some of the youth who otherwise would be in the streets on drugs and criminal activities are now engaged in fruitful businesses. The programme impacts the entrepreneur, local and business community as indicated below:

1) To Entrepreneur /Beneficiaries

- Empowerment of youth through self-employment
- Economic independence
- Self respect and a sense of worth increasing self esteem
- Knowledge in good business practices
- New contacts through networking with mentors and other Entrepreneurs

2) To Community (Multiplier effect)

- Entrepreneur's family and next of kin benefit from increased income
- Each youth business employs an average of two persons therefore reducing unemployment

- Knowledge learnt by Entrepreneur is shared with friends and relatives
- Entrepreneur becomes a role model encouraging more youth into self-employment

3) To the business community
- An opportunity to get involved in the local community
- Development of an entrepreneurial culture
- Development of dynamic small business sector
- Sharing skills through mentoring and networking that impacts on the whole community

The programme has provided opportunity for successful entrepreneurs to "give back to society" by volunteering to support the youth to stamp out unemployment and reduce poverty.

Recommendations

1) Business plans
KYBT does not discriminate against youth that can't put together a business plan. In the past the secretariat has put great effort in ensuring that all youth with good ideas are assisted in understanding and completing the business plan template.

This current arrangement is not sustainable as the number of youth applying for funding increases. KYBT is in the process of forging partnerships with learning institutions that offer business and finance. They are looking at the possibility of finishing students assisting KYBT potential beneficiaries in putting together the business plans. The institutions approached have shown interest and these partnerships are expected to be formalised by August 2004.

2) Vetting process
The vetting process needs to be very stringent to minimise risk since our funding requirement exclude collateral. Before we ask a potential entrepreneur to put together a business plan we undertake a site verification exercise. The Field officer makes a physical check on the youth to confirm his/her background, residence and area of proposed business. We also require two referees who are not relatives to sign that they know the youth well.

If the exercise is satisfactory, the youth is given the business plan template to fill. The business plan is taken through technical evaluation to confirm viability. Technical evaluators are volunteers who are attached to KYBT to assist in assessing businesses in their specific areas of expertise. If the youth wants to start a shoe-manufacturing unit, we ask a person (evaluator) in a shoe industry to perform the technical evaluation.

It is only after the youth has successfully passed these two exercises that they qualify for the final stage, the panel (ESP) interview.

3) Mentoring
The one on one mentoring model (where one entrepreneur is attached to one mentor) is not always easy to implement. As stated earlier, there is fear of visiting the slum areas alone. We have solved this problem by introducing the mentoring mobile clinics. These clinics have safety in numbers and have the added advantage of exposing the youth to mentor with varied expertise.

ENTERPRISE EDUCATION IN EUROPE: FINDING APPROPRIATE METHODS FOR EVALUATING PROGRAMMES

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ABSTRACT

While many studies have been conducted and documented on the impact of enterprise education, this study concentrates on the evaluation methods used to assess the outcomes of enterprise education. The results of the study will enable educators to better understand the process of evaluation and how it can be applied to best effect in practice. The research for this paper was undertaken in six European countries: Finland, Ireland, Austria, Germany, Norway, and Spain. Each country had a key partner who was responsible for the work undertaken in that country. The research was funded under the European Union Leonardo initiative[1]. The literature review began with an examination of the various types of enterprise education interventions that were categorized as follows: (1) Learning about entrepreneurship; (2) Learning to become entrepreneurial (non-business focus); and (3) Learning to become an entrepreneur (business focus). The literature review also assessed the different types of evaluation methods that are available to education providers and how they might be utilized at different stages of intervention. Following the development of a taxonomy of reports for each country under these headings, qualitative research was then undertaken by each participant through five in-depth interviews with local experts in each of the six countries, giving a total of thirty interviews. This paper offers educators a greater understanding of the evaluation processes in enterprise education, the different levels of evaluation required to suit the different stages of the programme, as well as insights into developing pre and post-programme evaluation.

[1] This project has been carried out with the support of the European Community (project number FIN/02/C/P/RF-82501). The content of this project does not necessarily reflect the position of European Community, nor does it involve any responsibility on the part of the European Community.

INTRODUCTION

It has become increasingly recognised by governments across Europe that the creation and encouragement of an enterprise spirit is a critical constituent to generating jobs, and to improving the competitiveness and economic growth of an economy (European Commission, 2002). In order to engender entrepreneurial activity, numerous interventions are delivered by a variety of bodies across Europe. These interventions are extremely diverse, ranging from pan-European policies to highly localised initiatives. However, according to the European Observatory for SME Research (1994), these interventions tend to converge upon nine areas of activity:

- Start-ups and growth,
- Job creation,
- Research and development,
- Capital and finance,
- Investment,
- Exports,
- Co-operation,
- Sub-contracting,
- Education.

Each of these areas of activity offers its own form of specialist, but broadly varied, support. For example, in terms of structured intervention for education (including training and development), there are a very large number of initiatives now taking place across EU countries (Henry et al, 2003b). Therefore, from an analysis perspective, it is quite difficult to generalise these initiatives as the focus of the programmes vary greatly dependent upon the needs of the local economy. An additional difficulty in generalising about enterprise education is that the term 'enterprise education' covers a broad spectrum of training and support provided to owner-managers, budding entrepreneurs, and students of entrepreneurship. However, investment in this type of support represents considerable expenditure and therefore there is a need to ensure that it represents good value for money. This can be difficult to achieve, as it can be very challenging to effectively evaluate the long-term impact of soft supports. It can be argued, for example, that the impact of financial support is more easily evaluated than educational support, as there is a more direct correlation between the support and the outcome (Moran et al, 2003). Nevertheless, the primary objective of this study is to focus on the evaluation processes used to assess the outcomes of enterprise education and to deliver to the enterprise education community a greater understanding on how to maximise the evaluation process.

DEFINING ENTERPRISE EDUCATION

Within the study of entrepreneurship, the debate continues as to whether or not entrepreneurship can be taught. Some people are undoubtedly 'born' or 'natural' entrepreneurs and will display entrepreneurial skills and behaviour without any enterprise education or training. But there is also a school of thought that argues that entrepreneurship is a skill and can be learned. Drucker (1994) is quoted as saying that 'most of what you hear about entrepreneurship is all wrong. It's not magic; it's not mysterious; and it has nothing to do with genes. It's a discipline and, like any other discipline, it can be learned' (Hill et al, 2003). If one considers Drucker's version of entrepreneurship, it implies that if entrepreneurship can be learned, it is something that

can be taught. While many authors have debated the arguments for and against intervention in entrepreneurship development, the benefits of interventions such as entrepreneurship education and training are widely acknowledged and accepted (Henry et al, 2003b).

Over the past decade, there has been significant growth in the provision of structured education and training programmes across Europe (Henry et al, 2003a). But entrepreneurship education is a broad subject area and it covers a wide variety of education and training interventions, delivered by an extensive number of providers, ranging from universities to state agencies and private training companies. It can be applied at a number of different levels, ranging from primary school level all the way up to and including adult education and training, and lifelong learning. However, some authors make a clear distinction between entrepreneurship *education* and entrepreneurship *training*. Henry et al (2003a) identified three categories of intervention based primarily on the stage at which the intervention is provided. These interventions were categorised as follows:

1. Education **about** enterprise,
2. Education **for** enterprise,
3. Training **in** enterprise.

The first of these is focused on awareness creation and is academic in nature, the second is aimed at the preparation of aspiring entrepreneurs who want to set up and run their own business. The third category, training in enterprise, is an extension of the second category and provides further entrepreneurial development to growing or established entrepreneurs. These distinctions in categorisation are critical when determining the purpose of an enterprise education programme.

There are also other important distinctions that need be made when considering the field of entrepreneurship education. Entrepreneurship is often considered to be a skill applied in the development of a new business, but this is only one aspect of the role and importance of entrepreneurial skills and attitude. Increasingly, it is being recognised that entrepreneurship is not only a means for creating a new business, but it is also an attitude that can be developed and applied by everyone in day-to-day life and working activities (Iredale, 2002). Indeed, many large corporations now seek to instil entrepreneurial attitudes and skills in their workforce, more usually associated with smaller companies. This is known as intrapreneurship and can bring about many benefits for large companies who need to be creative and innovative to stay ahead of their competitors.

Educational systems have not traditionally been geared towards the development of entrepreneurship but have tended to have as their final goal, the creation of employees who would work in large companies or public administration. However, this situation is changing and there is a growing awareness in Europe that initiatives should be developed to promote an enterprise culture and encourage risk-taking, creativity, and innovation. The field of enterprise education has an important role to play in enhancing and developing entrepreneurial skills and capabilities. Enterprise education from an early age should underpin the process of developing a culture of enterprise within society as opposed to one of dependency (Iredale, 2002), and in doing so, recognise that not everyone can be an entrepreneur, but everyone has the potential to be enterprising.

Entrepreneurship and entrepreneurship education can therefore be considered from a variety of perspectives, including the traditional education system from primary up to

tertiary level and the vocational education system. What is to be taught will depend largely on the target population. Throughout Europe, entrepreneurship education is being provided through a range of avenues and through a wide variety of initiatives and programmes designed to encourage entrepreneurial behaviour and creativity. However, the question remains 'how successful are these programmes'?

METHODS OF EVALUATING TRAINING PROGRAMMES

An issue that has been raised by many writers is the vagueness of objectives of enterprise policy, thus making the resulting interventions difficult to evaluate. Menzies (2003) pointed to the fact that education, as opposed to training, is not an 'instant payback phenomenon' and noted that, while a number of studies do exist, research related to the outcomes of entrepreneurship education is under-researched in the entrepreneurship literature. Hill and O Cinneide (1998) argued that while some studies have investigated the effectiveness of entrepreneurship education, they often tend to focus on one particular programme and its immediate outcomes. There also appears to be a lack of longitudinal studies, such as that by Owusu-Ansah et al (2001), which monitor the impact of entrepreneurship education over a significant period of time.

One of the most popular models for training evaluation is the Kirkpatrick model, developed in 1959 and presented as a series of four articles in the American Society of Training and Development Journal. Kirkpatrick's four level model measures the impact of training in an incremental manner. Level one measures ***reaction***, which ascertains the participants' reaction to the programme or intervention and is normally assessed immediately or very soon after the completion of training. This is done by asking participants to give their immediate views on the intervention. This level of evaluation is often applied to enterprise education and training. Level two measures ***learning*** and level three measures ***transfer of learning*** (changes in behaviour as a result of what has been learned in the intervention). Level two evaluation is more laborious and time consuming than level one and aims to assess the amount of skill or knowledge acquired as a result of the intervention. Level two evaluation can also be more difficult to apply to entrepreneurship interventions. Level three evaluation measures changes in behaviour. It is known that the higher the level of evaluation attempted in the Kirkpatrick model, the more complex the evaluation process becomes and the more difficult it is to attribute changes in behaviour, for example, to any one particular intervention (Abernathy, 2001). Changes in behaviour may not occur for a considerable amount of time after the intervention and after any evaluation has taken place. Level four evaluation is about ***results.*** This is sometimes known as the 'bottom line' evaluation and measures the Return On Investment (ROI) or cost benefit of the intervention. Non-financial indicators such as improved quality of work, improved safety record or better morale, all of which have the potential to translate into financial gain at a future date, can be used as well as financial data. Again, level four evaluation is quite challenging because it is difficult to establish clear evidence that a particular intervention resulted in level four outcomes.

The Phillips model could be considered to be an extension of the Kirkpatrick model, where ROI is calculated by placing a monetary value on training worth and using that to calculate ROI of a training intervention (Donovan et al, 1999). The Phillips approach is to collect the post-programme data and isolate the effect of training from other influences, thereby estimating the contribution of the training intervention in financial terms. This is a strength of the model, but weaknesses include a lack of attention to the pre-programme phase where the pre-testing must take place if the model is to be tested and secondly, the

reliance on an estimator's ability to identify a unit of output, which can be reliably converted into monetary worth.

Models such as those of Kirkpatrick and Phillips are not without their limitations and alternative views of training evaluation are beginning to emerge as organisations seek to find an appropriate method of evaluating the return on their training investment (Donovan et al, 1999; Abernathy, 2001). However, research (Moran et al, 2003) found that, in terms of the evaluation methods currently used, none were considered to be ideal in the evaluation of enterprise education in the long term. With reference to the Kirkpatrick model, most interviewees felt that it was not possible to truly go beyond stage one or two in the evaluation process, due to the increasing complexity of evaluation beyond stage two and the associated costs and difficulties in obtaining meaningful data from the participants. It was felt that an element of stage three evaluation might be possible, but that most evaluations remained at level one or two and that this could provide an indication of the likely outcomes of stage three and four evaluation. This research also found that there are relatively few published evaluations available on the benefits of enterprise education, but it is clear that the importance of evaluation is recognised and that evaluations are in fact carried out. There is not a universal model of evaluation that is applicable to enterprise education evaluation, and it would appear that there is a considerable amount of scope to improve on the methods currently employed. This study set out to establish the current methods that are being utilised in six European countries and thereafter, to offer insight into the development of appropriate methods for evaluating enterprise programmes.

RESEARCH METHODOLOGY

The research began with a survey being carried out in six different European countries (Austria, Finland, Germany, Ireland, Norway and Spain) of the literature on evaluation studies in the field of enterprise education and entrepreneurship training that was available in each country. In total, ninety unpublished or published evaluation studies were reviewed, analysed, and classified by the national researchers. The data gathering was conducted by using agreed guidelines in order to retrieve comparable data from all of the participating countries. Some of the studies analysed were not linked to a particular programme or initiative, but instead represented a more general discussion with regard to evaluations in the field or incorporated an evaluation of a range of programmes. One of the key difficulties in this phase of the research was in accessing reports that were available for public information. Many organisations evaluate their programmes but do not make them available publicly. Later research with interviewees suggested that some reports are not made public because of the negative impact they may have on the funding of the programme due to unproven value or results emanating from the programme.

The second phase of the research study involved interviewing experts in the field of enterprise education and entrepreneurship training so as to gain more in-depth insight into the evaluation of these programmes. The experts were selected from three different groups: programme promoters, evaluators and policy makers. The interviews were conducted using templates (one for each group) that were developed based on the results of the literature survey. Each country partner was required to carry out at least one interview with a representative from each category, and to carry out a total of five successful interviews in their country. A total of thirty experts were interviewed from the partner countries. The interviews were analysed thematically as areas of convergence and divergence were sought across countries.

ANALYSIS OF DATA

As the ambition of the research project[2] was broad, since it sought to examine the problems of evaluation of enterprise education programmes from a wide perspective, this research paper concentrates on specific elements of the qualitative interviews and literature survey. The original aim of the research was to develop a standardized evaluation system which could be utilized in any country across Europe and which would have different levels to suit the different stages of the programme, as well as pre- and post-programme evaluation. However, the research carried out clearly demonstrated that no 'one-size-fits-all' model could be developed. The results of the expert interviews highlighted that there exists a wide range of different aims for evaluations due to multiple parties being involved in evaluations. Also the programmes differ greatly from each other in their aims and contents and therefore a generalised system of evaluation was considered inappropriate. The paper therefore focuses on the different aims of evaluations and the measures used in evaluations.

The result of the research study was positive in many respects since it engendered important recommendations on how to conduct an evaluation in the field of enterprise education and entrepreneurship. Some of these recommendations and results may also be applicable to evaluations in other fields/areas. As a result of the research project a web tool for planning the evaluation of enterprise education and entrepreneurship training will also be developed. This web tool will develop the multiple possibilities when conducting an evaluation and will help the user to plan an evaluation for their own education programme. This web tool will be available for the public at www.entreva.net from October 2004. In the following sections, some of the important findings concerning the aims and measures in evaluation studies of enterprise education are discussed in detail. A comprehensive review of the study is contained in the report by Hytti and Kuopusjarvi (2004).

Basic Prequisite

When planning an evaluation of a programme, the specific characteristics of the education programme in question should be considered, particularly its objectives. As already discussed in the previous paragraphs, the field of enterprise education and entrepreneurship training is quite diversified and the aims of education can be divided into three categories: (1) Learning about entrepreneurship; (2) Learning to become entrepreneurial (non-business focus); and (3) Learning to become an entrepreneur (business focus). Therefore, the objectives of the education programme needs to be clarified since it has implications on what actually can or should be measured/evaluated. Other characteristics of the programme, such as the level of education of the target group, will also have a significant bearing on the suitability of the evaluation methods.

Aims of Evaluation

One of the first considerations in the evaluation process is to decide the purpose of the evaluation. Based upon the literature review undertaken, there are many different needs for evaluations, some based on the phase in the policy-making process in which the

[2] Hytti, Ulla & Kuopusjärvi, Paula (2004) - Evaluating and Measuring Entrepreneurship and Enterprise Education: Methods, Tools and Practices. Report of the Entreva Project. Small Business Institute, Business Research and Development Centre, Turku School of Economics and Business Administration.

programme takes place, and others on the objectives set for the programme. There is unique set of possible uses for evaluations but a multitude of potential uses. However, evaluation studies can be divided into several categories. Depending upon the conductor and/or financier of the study, the evaluation can be either internal or external. In internal evaluation studies and procedures, the programme promoters generally aim at learning from their own activities in order to improve the training offer. In external evaluation studies, an outside evaluator is contracted for conducting the evaluation study. Internal and external evaluations can also be overlapping or substitute one another. Whether the evaluation is internal, external, or a mixture will most likely influence the aims set for evaluation study.

In order to classify the multiple aims in some way, the taxonomy developed by Diamond and Spence (1983) was employed as a basis for the analyses of the literature and interviews. They acknowledge four basic types of questions for evaluation research:

1) Programme planning questions,
2) Programme monitoring questions,
3) Impact assessment questions,
4) Economic efficiency questions.

Based upon analyses of the data, a focus was placed on the first three objectives: programme planning, monitoring, and impact analyses, since economic efficiency was not a topical question in the data. *Impact assessment* was the most common aim in the evaluation studies analysed. *Programme planning* questions and *programme monitoring* questions were both equally common. The expert interviews revealed the same emphasis on the different aims, although the different expert groups emphasised the aims very differently. Programme promoters are more interested in developing the programme, whereas programme evaluators were more interested in monitoring the programme, and programme policy-makers were more interested in impact assessment. It was quite clear that the different parties involved in evaluations also have very differing aims for the evaluation of certain programme(s). This in turn may cause major difficulties in the use of evaluation studies and in the results as it causes a lack of clarity in the purpose of the evaluation process.

The research also revealed that evaluation studies have aims that may not always be very openly communicated. The evaluation studies may be conducted, for example, for the justification of policies, or for marketing and public relations purposes. In fact, frequently it appeared that some stakeholders (e.g. financiers or programme promoters) had some hidden agendas, which may even lead to developing such a methodology that will 'falsify' positive results for projects.

Measures

One of most difficult issues in the evaluation of enterprise education is what to measure and how. The research sought to gain a solution to this particular challenge by asking the experts what they considered to be the 'most suitable' or 'potential' measures to be applied when evaluating different kinds of programmes. When analysing the answers it became clear that most respondents understood the issue by way of measuring the *impact* of the different programmes. The lack of measuring instruments was thus highlighted with many of the experts asking/wishing for commonly accepted criteria that would also improve the usability of evaluation studies in the field of enterprise education and training. The following sections present measures that should be used in the evaluation of enterprise

education and are based on the three most important aims presented earlier (programme planning, programme monitoring, impact assessment).

1. Programme Planning

In many of the evaluation studies, the primary aim is to assist in *programme planning* (i.e. identifying the appropriate education/training techniques, target groups, and budget). The concept is that it is possible – and necessary – to evaluate the process, not only the outcome. From the perspective of the different aims for the enterprise education and training, programme planning is an important aim for all evaluations. It is no surprise therefore that in the qualitative expert interviews, the programme promoters put much emphasis on carrying out evaluations that assist in continuously improving materials, adapting to change, and planning of the programmes.

For the programme planning purposes, it is quite customary that the participants (students, teachers, stakeholders) are asked questions directly about the programme. These questions typically centre about the different elements of a programme: *Contents* (knowledge and skills the programme aims at providing), *Methods and Materials* (the way the knowledge and skills are learned/taught), *Teachers and Tutors* (the people responsible for teaching/facilitating learning and of their relationship with the students), and *Organisation of the Programme* (the process, timing, rooms and facilities). The questions about these areas can include questions about the expectations of the students for the course and an assessment if these expectations have been met, questions about the motives for attending a particular course, questions about the usefulness of the programme or satisfaction of the respondents towards a course, identification of what the participants had learned, and suggestions to improve the course. These questions are clearly structured in 1 below.

Table 1 - Questions Addressed in Evaluation Studies for Programme Planning Purposes (Hytti & Kuopusjärvi, 2004)

	Motives or expectations vs. meeting of expectations	**Usefulness of the programme, satisfaction**	**Learning outcomes**	**Suggestions to improve the course**
Contents	What the participants had expected from the contents? Had these expectations been met?	Were the participants satisfied with the contents? Were they useful?	What the participants had learned from the programme? (Improve contents?)	How to improve the contents of the programme?
Methods and materials	What the participants had expected from the methods applied? Had these expectations been met?	Were the participants satisfied with the methods and materials? Were they useful?	NA.	How to improve the methods and materials of the programme?

Teachers and tutors	What the participants expected from the teachers? Had these been met?	Were the participants satisfied with the teachers and tutors and their role? Were they useful?	NA.	How to improve the teaching of the programme? (A need for replacement of teachers?)
Organisation of the programme	What the participants had expected organisation of the programme? Had these expectations been met?	NA	NA.	How to improve the organisation of the programme?

In terms of the Kirkpatrick model, many of these questions lie within Level 1 (Reaction), and Level 2 (Knowledge) to a lesser extent. The questions are orientated towards an immediate feedback of how the programme could be improved and what the individual believes they have learned from it. The evaluation would have to take place some time after the programme was completed before a better understanding of Level 2 (Knowledge) and Level 3 (Transfer of Knowledge) could be acquired.

2. Programme Monitoring

The evaluation of programme monitoring provides a systematic assessment of whether or not a programme is operating to the conformity of its design and whether or not it is reaching the target population. If a programme deviates from its original intentions then much care must be exercised when interpreting the results from the evaluation study (Diamond & Spence, 1983). Based on the literature review, monitoring studies are frequently aimed at measuring and reporting the following issues:

- Number of participants,
- Recognition of participants (who they are),
- Numbers who return to further training ('satisfied customer'),
- Costs / participants (linked to economic efficiency),
- Number of failed students,
- Strengths and weaknesses of the programme.

Similar to programme planning, programme monitoring can be carried out irrespective of the programme aims. However, in the expert interviews, monitoring was not emphasised, except by the financiers. This reflects the fact that monitoring alone is not very important but it is needed for carrying out programme planning and programme impact evaluations. From the financing perspective, however, it helps to keep track of the activities and expenditure.

3. Impact Assessment

The most common perception of evaluation is impact assessment. Impact assessment evaluation gauges the extent to which a programme causes change in the desired

direction. This implies that programme stakeholders are not only interested in the effects, but also in the direction taken by the participant after the programme has been completed (Diamond & Spence, 1983). Based on the analysis of the research, it was found that two main categories of measures should be used in assessing the impact of the programme: start-ups, new ventures, entrepreneurs and jobs; and attitudes, perceptions, intentions (and behaviour). These categories are introduced below but greater information is offered in the report by Hytti and Kuopusjarvi (2004) which discusses the research study in full detail.

1) Start-ups, new ventures, entrepreneurs and jobs

The most popular measure suggested in the data was *measuring of new start-ups*. Not surprisingly this was especially underlined in the programmes that aimed at increasing the number of new ventures and entrepreneurs but it was quite common in the other programme types as well. This result is interesting because it highlights the (hidden) meanings and agendas that people involved in enterprise education have about the role of enterprise education. Alternatively, the start-up measure is suggested because it is concrete and relatively easy to measure.

According to some of the interviewed experts, not only should start-ups should be measured, but also the decisions of participants on a course that they will not start a business (testing of ideas, self-critical aspect). The experts also argued that it is necessary to take into account the time factor. It was understood that while the long-term effects are more important, they are more difficult to assess. It was also emphasised that it is not enough to produce a large number of start-ups but to create *successful* start-ups, and hence it was suggested that measures should be put in place to measure the quality of the companies (e.g. by measuring the number of sustainable start-ups such as companies that are on the market 3-5 years after the start-up, or by measuring if these start-ups are entering prospering or dead-end markets). Furthermore, the number of jobs created (and the quality of these jobs) was also suggested as a measure reflecting also the question of 'quality' of these companies.

The comparative element of start-ups is interesting as it helps to assess what is an expected or accepted level of start-ups. In some of the interviews, comparisons of results between different programmes, different regions and/or entrepreneurs of different groups were suggested, such as comparisons across different categories of entrepreneurs: 1) Entrepreneurs that have participated on a programme and have been successful; 2) Entrepreneurs that have not participated on a programme and have been successful; 3) Entrepreneurs that have participated on a programme and not been successful; and 4) Entrepreneurs that have not participated on a programme and have not been successful. These comparative studies will enable evaluators to analyse how participants on programmes have progressed in comparison to matched groups who did not participate on the programme. A significant difficulty with this type of study is that it cannot legislate for all other variables that may influence the success of a business.

2) Attitudes, perceptions, intentions (and behaviour)

The start-up measure was also considered to be too limited and a process approach was suggested to measure the different steps in the process, starting from changes in skills, motivation and intentions. In many programmes where the time lag is important, it is difficult to observe or to account for start-ups in the short term, necessitating another measure. In these types of programmes, the measurement of *attitudes, perceptions and*

intentions is frequently applied. The changes in attitudes, perceptions of own capabilities, and possibly also intentions are applied as the measurement tools for the impacts.

Based on the analysis of this research study, it was significant that the attitudes measured primarily dealt with entrepreneurship as a general phenomenon, as a personal career choice, and as a teaching subject. However, in measuring the attitudes, the challenge remains: 'what is the acceptable standard against which to measure the attitudes?' An alternative or complementary measure is the change in the attitudes as a result of doing (or during) the programme. It must also be noted that there are other intervening factors than just the course that may also account for the changes in attitudes, intentions, and perceptions. The third option is to apply the same survey at the same level over time. Another potential measure that has been applied is to question the beliefs and perceptions of one's own capabilities to act as an entrepreneur or entrepreneurially. The results of these studies must, however, be interpreted with caution. First, self-confident people might be more inclined towards an entrepreneurial career. Second, it would be relatively easy to suspect that as a general trend people perceive their capabilities to be better than they are in reality. Attitudes and beliefs are not objective measures for the (long-term) impacts of a programme. However, attitudes and beliefs are important in the sense that they can be understood as the products of social and cultural environment and that they can be applied as a starting point for interventions in the school or university environment.

3) Increase in knowledge and development of skills

In some cases – especially concerning those programmes that aimed at increasing knowledge and/or skills about entrepreneurship - the interviewed experts suggested that it could be measured whether the participants possessed the necessary knowledge and skills, e.g. for start-ups, after the programme. It was suggested that this type of impact could, for example, be measured by analysing business ideas and the quality of them. It was also suggested that (acting/real) entrepreneurs could analyse the skills and knowledge of the participants concerning entrepreneurship and starting-up since they could be regarded as experts in this field since they would/should know what is required. Long-term evaluations were also suggested for identifying what happens to the participants over the course of the years, what they remember and how they rate the usefulness of the experience. In addition, traditional measurement techniques were also suggested, for example measurement of improvement in understanding business through exams.

4) Entrepreneurial behaviour and learning about entrepreneurship

A critical finding of the study was the need to develop new tools for evaluating the impact of programmes that aim at boosting entrepreneurial behaviour or learning about entrepreneurship (non-business focus). The experts interviewed found this to be very challenging task and based on the literature review, the lack of experience in this type of evaluation was evident. For example, it appears that a fairly low number of existing evaluations made use of qualitative material, such as learning diaries or stories written by the students or observational material gathered in the process. This is of course also a matter of effort and costs - they require the use of highly qualitative, time-consuming research methods. In the expert interviews, however, where the approach was more future-oriented (i.e. not linked to actual evaluating practices), there were some highly innovative suggestions for measurement and evaluation techniques. For example, observation as a method was suggested especially in relation to children who may have it more difficult to verbalise their learning experiences than adults. In addition, there were suggestions to introduce visits at the workplace to assess to what extent any elements of

the programme are implemented. Furthermore, simulation games, meetings and practical experiences were included.

5) Possible causes for impact

In the impact evaluations, measuring the impact (how much, to what direction) is the key but an equally important analysis should be also the analysis of the causes for impacts. For example, it is necessary to analyse the achieved results against the aims and assess if the aims set in the first place have been realistic or over optimistic. In addition, understanding why a particular programme has been a success is important for being able to repeat the programme. Furthermore, a necessary analysis when assessing the results is the choice and selection of participants for the programme, since it could be a critical factor in the success of the programme.

When evaluating 'Impact Assessment', it is important to consider the five different elements that have been identified in this section and to carefully determine how they can be utilized to best effect within the evaluation process. As has been identified earlier in the paper, evaluating the benefit of a programme is fraught with challenges as one needs to consider the many other external variables that can influence the impact of the programme and the fact that it needs to be carried out over time, rather than at a point soon after the programme has been completed. These extra requirements add cost and difficulties to the evaluation process. A final barrier to undertaking this type of evaluation is that the final result may not provide the outcome that was anticipated, thereby offering proof of the inadequacy of the programme to meet its aims. Neither the programme promoters, providers, or policy-makers wish to read of such an outcome thus making evaluation of programme planning and monitoring much more preferable.

Research Methods, Data, and Timing

Based on the expert interviews and literature analysis, any general recommendations for the selection of methods and data sources cannot be given. The selection of methods is greatly dependent upon the aims of evaluations and the measures selected. As in all evaluation research, it is best to use multiple sources for data and multiple methods, both quantitative and qualitative. However, concerning the timing of the evaluation, two main recommendations were given. The experts interviewed emphasised both the need to carry out ex-post evaluations with an extended time lag as well as the need to carry out interim evaluations that allow changes in programmes also while the programme is running. These recommendations clearly reflect the different approaches of programme promoters and policy makers concerning the aims of evaluation.

CONCLUSIONS

Based upon the analysis of this study, Diamond and Spence's (1983) classification was still relevant as a tool in planning evaluation studies and thus a focus was placed on the first three objectives: programme planning, monitoring, and impact analyses. When planning a programme, the following are the key issues for participants:

1. Contents
2. Methods and Materials
3. Teachers and Tutors
4. Organisation of the programme

It is necessary to acknowledge that the different kinds of programmes for enterprise education and entrepreneurship training and the different potential reasons for carrying out the studies create a situation where it is not possible to give 'one size fits all' type of recommendations for conducting evaluation studies. Hence, different results – at least on the short-term – are to be expected from the different programmes and different issues should be measured in relation to the programmes.

From a detailed analysis of the study, it would appear that as an individual measure, the number of start-ups is by far the most frequently used and acknowledged measure in the evaluations in the field of enterprise education, even in the programmes that aimed at learning about entrepreneurship, learning entrepreneurial skills, and learning to become an entrepreneur. It seems generally that the 'hidden agenda' behind enterprise education and entrepreneurship training is creating start-ups. This might also reflect the complexity of enterprise education and the lack of suitable measures. Based upon the analysis of the data, some other measures that may be more realistic and usable in the short term, given the different aims for the evaluations (see table below) could also be found.

Table 2 - Aims and Measures of Evaluation (elaborated from Hytti & Kuopusjärvi, 2004)

Programme planning	***Programme monitoring***	***Programme impact*** →	***Possible c impact***
• Motives for participating, expectations • Meeting of expectations • Usefulness of the programme, satisfaction • Learning outcomes • Suggestions to improve the course	• Number of participants • Recognition of participants (who) • Costs / participant • Number of failed students	Start-ups, new ventures • Start-ups (time factor) • Non start-ups • Successful start-ups at viable markets • Comparisons	• Analy aims c (un)ex • Select partici
		Attitudes, perceptions, intentions • Changes in attitudes, perceptions, intentions	
		Knowledge and skills (related to acting as an entrepreneur) • Business ideas and plans • Assessment by "experts" • Traditional exams	
		Entrepreneurial behaviour & learning about entrepreneurship (non-business focus) • Learning diaries, stories • Observation of actual behaviour, simulations	

To place all of this in context, it is important to offer an overall checklist of key considerations when undertaking an evaluation of an enterprise education programme. The principal considerations are:

1. Programme details
   - aims,
   - target group/market,
   - course contents,
   - methods and materials,
   - teachers and tutors

- organisation of the programme

2. Aims of the evaluation
   - planning,
   - monitoring,
   - impact,
   - economic efficiency.
3. Measures to be used
   - based upon the aims of evaluation
4. Sources of information
5. Budget
6. Conductor of the evaluation (internal or external evaluation)
7. Timing
8. Report structure
9. Availability of the report
10. The use of the results

It is only in considering each of these elements that the evaluation of an enterprise education programme can be properly undertaken. The complexity of the evaluation will be dependent upon the evaluation level being sought, and each measure is fraught with its own difficulties. What is critically important to the development of enterprise education is that such programmes are evaluated and the results of evaluation are used (for improvement) as well as made available for others (to learn). Otherwise, the educators are not learning themselves.

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PERCEIVED INSTITUTIONAL OBSTACLES IN DOING BUSINESS: A COMPARATIVE STUDY

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ABSTRACT

There are strong indications that the institutional environment has a direct effect on the performance of small enterprises. Furthermore, perceptions of how the institutional environment will hinder or foster their respective firms shape the actions entrepreneurs take. This research looks at the Filipino entrepreneurs' perceptions of institutional obstacles in doing business - specifically the government-business interface. A sample size of 290 small and medium sized firm owners from different industries were provided with a list of 15 areas where the firm is confronted with government action and were asked to evaluate the degree to which these different areas create obstacles for conducting business. Data analysis included computation of means as well as a factor analysis to determine significant categories of obstacles. A discussion of the overall findings, as well as applicable lessons and future research follows.

INTRODUCTION

There are strong reasons to believe that productive entrepreneurship is an essential explanatory factor for the economic performance of a country, and hence that cross-country differences in the degree of productive entrepreneurial activity are partial explanatory factors of observed cross-country differences in economic performance (Davidsson and Henrekson 2000). The promotion of small and medium enterprises (SMEs) has become an important strategy for economic development for most countries. It is interesting to note that despite differences in the institutional environments, entrepreneurs still flourish. In developing countries such as the Philippines, rates of business start-ups have increased, which is despite the difficulties in finding financing, high tax regulations, inflation, crime and theft and corruption.

Attitudes towards smaller businesses and entrepreneurial start-ups appear to be shifting favorably among political and economic decision-makers as the evidence of their importance mounts (Lundstrom and Stevenson, 2001). The role of the government in the development and growth of SMEs cannot be underemphasized. The government's role in encouraging entrepreneurship is not just limited to providing an institutional environment conducive for business, and a stable political scene. To stimulate economic growth through entrepreneurship, the government must provide the right combination of policies and incentives to attract individuals to become entrepreneurs.

In identifying key institutional determinants of firm emergence and growth, Davidsson and Henrekson (2000) analyzed a number of institutions and policy measures that are likely to have contributed to an environment that discourages firm activity and growth. The aspects dealt with included: the lack of entrepreneurship in the care sectors and household related services, taxation of entrepreneurial income, incentives for wealth accumulation, wage-setting institutions and labor market regulations. The investigation provided evidence of a low prevalence of nascent entrepreneurs and a small employment contribution by high growth firms. Among the high growth firms that existed in 1987 either as independent companies or as SME company groups, and which still existed as independent entities in 1996, the most spectacular growth case added 596 new jobs. Only fourteen cases added more than 250 jobs each; collectively these fourteen cases added 5217 new jobs over the ten-year period. This represents close to a complete void of spectacular high growth firms.

Entrepreneurs may be discouraged from starting a business if they have to adhere to an excessive number of rules and procedures. The level of procedural requirements for registration and licensing, taxes, and financial reporting may either facilitate or hinder entrepreneurial activities. Research shows that most small businesses consider paperwork very time consuming and cumbersome (Dana, 1987, 1990; Young and Welsch, 1993; Fogel, 1994). Countries that keep procedural requirements to a minimum generally have a viable and dynamic entrepreneurial sector. Research also shows that tax and other start-up incentives have a positive impact on small business establishments and growth (Davidsson and Henrekson, 2000).

In a worldwide study of institutional environments, a World Bank policy team (Brunetti, Kisunko and Weder 1997) surveyed more than 3,600 entrepreneurs from 69 countries and developed five quantitative indicators of institutional uncertainty: predictability of laws and policies, reliability of the judiciary, political stability, corruption in bureaucracies, and security of property rights. They found that uncertainty about policies, laws and regulations has hampered development of the private sector in many developing countries.

The above-mentioned investigation has motivated this research. The main purpose of this study is to determine the perceived policy obstacles affecting entrepreneurs in the Philippines. This paper will use the index developed in the World Bank Report on the overall government-business interface as perceived by entrepreneurs themselves.

PROBLEM STATEMENT

This paper primarily focuses on the perceptions of the entrepreneurs on various obstacles in doing business. They consist of the following items: start-up regulations, price controls, foreign trade regulations, financing, labor regulations, foreign currency regulations, tax regulations, inadequate infrastructure supply, policy instability, safety/environmental

regulations, inflation, general uncertainty on cost of regulations, crime and theft, corruption and terrorism. This research will also compare the perceptions of entrepreneurs from the Philippines and less developed countries (LDCs).

To date, very few studies have evaluated the institutional environment surrounding SMEs. Even rarer are cross-country comparisons of institutional environments affecting small businesses. Cross-country comparisons would give more insight into how differences in context would affect the conduciveness of a country towards entrepreneurship. This type of investigation will also present similarities and differences in the perceptions of entrepreneurs from different countries, regardless of the context. It is also important to note that in this study, the entrepreneurs themselves evaluated the institutional environment. In order to be effective in promoting and developing SMEs, it is important to evaluate the institutional environment from the point of view of the main actor - the entrepreneur.

THEORETICAL BACKGROUND

Institutional theory is the theoretical framework used in this study. This theory developed by developed by Douglass C. North, primarily analyses economic structures by explaining how institutions and institutional changes affect the performance of economies. Veciana (1999) stated, "Without doubt the theory that currently supplies the most consistent and appropriate conceptual framework to probe the influence of environmental factors on entrepreneurship is institutional theory."

Institutions, according to North (1989:238), which arise because of the uncertainty associated with human interaction, provide structure and order, the rules of the game to human exchange, whether political, social or economic. It provides the framework, the structure, to facilitate certain kinds of exchange as well as a framework within which people have some confidence as to how outcomes will be determined. They consist of both formal and informal constraints as well as their enforcement characteristics.

Informal constraints include norms, codes of behavior, subjective perceptions and traits. They arise to coordinate repeated human interaction and these constraints are extensions, elaborations, and modifications of formal rules, social sanctions and internally enforced standards of conduct. Formal constraints on the other hand include political (and judicial) rules, economic rules, and contracts (North, 1991:47). The function of these rules is to facilitate political or economic exchange. Enforcement on the other hand refers to whether the rules and informal constraints are enforced (and how rigidly it is enforced) or not enforced.

Using North's institutional theory, the perceived overall government-business interface has an effect on the entrepreneurs' perceptions of conduciveness of the environment for business. If entrepreneurs perceive the obstacles as being problematic, this hampers development of the private sector. Therefore, individuals tend to feel discouraged in pursuing entrepreneurial endeavors,

This study will only focus on the formal institutional factors specifically the government-business interface. Other aspects such as informal and enforcement factors will be dealt with in a forthcoming paper.

METHODOLOGY

Sample

The total sample consisted of 290 randomly selected entrepreneurs from the Manila. Firms that had an employment size of 10-199 employees served as respondents. Only the following four industry sectors were included in the survey of entrepreneurs: manufacturing; wholesale and retail; finance, real estate, insurance and business services; as well as community, social and personal services. Almost 90% of all SMEs in Manila are from these industry sectors.

Instrumentation

The complete questionnaire contained 25 questions. They were from a World Bank survey questionnaire conducted by Brunetti, Kisunko and Weder (1997). The researcher obtained permission to use the questionnaire from the authors. This paper will deal with only one aspect of institutional obstacles specifically the government-business interface. This section provided the respondent with a list of 15 areas where the firm encounters government action and asks the owner to evaluate the degree to which these different areas create obstacles for doing business. The questionnaire used a Likert scale of six choices. The answers for the questions ranged from one (not a problem) to six (very strong problem) with the option of answering zero if the question was not applicable to the respondent or where there was no response.

Data Gathering Procedure

Use was made of research assistants, who after instruction learned how to distribute and collect the questionnaire. Each research assistant distributed the questionnaire to several assigned firms. They emphasized that only the entrepreneurs themselves should answer the questionnaires. They then collected the completed questionnaire the following day. Before leaving the premises of the firm, the research assistant ensured the completion of all questions. This method of data collection ensured a higher response rate.

DATA ANALYSIS

The data analysis in this study includes descriptive statistics such as means, frequencies and cross-tabulations. The index of obstacles for doing business on the other hand, takes the mean scores of the sample's responses on each of the 15 items. The computation of chi-squares ($\chi 2$) indicated differences between the entrepreneurs from the Philippines and LDCs on the perceived problematic obstacles. A factor analysis on the 15-item scale identified underlying categories of perceived policy obstacles.

RESULTS

Figure 1 graphically presents the means for each of the fifteen problematic policy areas for both Philippine and LDC entrepreneurs. The mean was computed by adding all the

responses of the entrepreneurs, and dividing it by the number of respondents. Generally, entrepreneurs from the Philippines have higher mean scores than their LDC counterparts in the different policy areas except for financing, tax regulations and inadequate infrastructure supply. This indicates that Philippine entrepreneurs in general feel that they encounter more problematic policy areas than their LDC counterparts. Notable differences in means can be seen in price control and terrorism (refer to table 1).

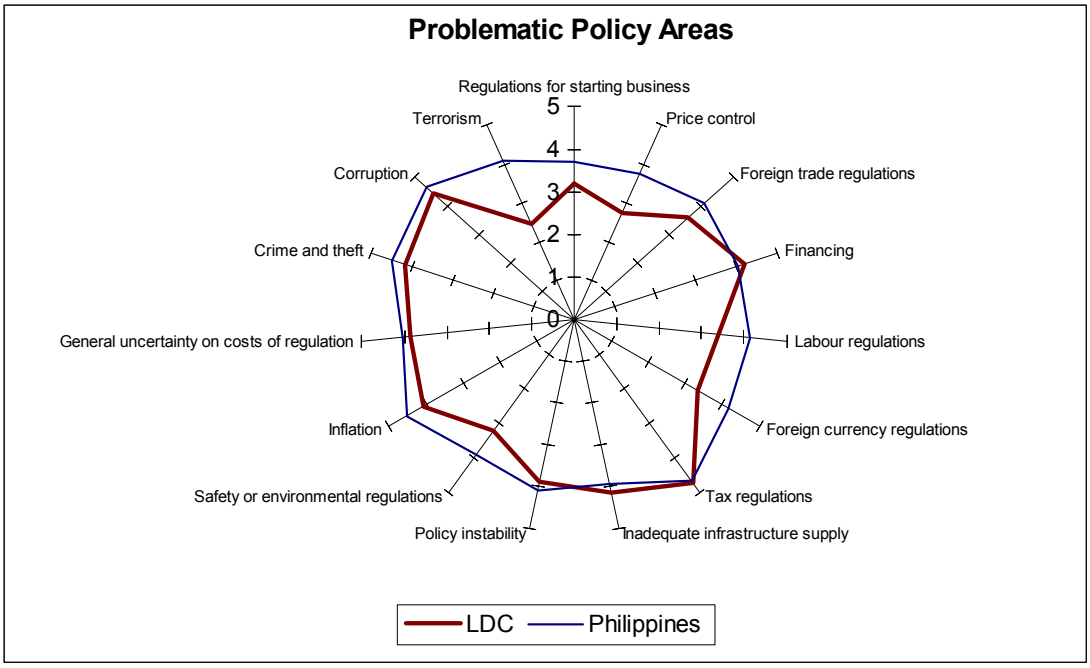

Figure 1. Problematic Policy Areas - Philippines and LDCs

Table 1 shows that at 6 degrees of freedom and $\rho \leq 0.05$, the critical value from the Chi-square table is 12.59. The computed values for all but one (corruption, with a computed chi-square value of 10.191) of the fifteen policy areas from the analysis exceed the critical value (12.59). This indicates that there are significant differences in the perceptions of problematic policy areas between Philippine and LDC entrepreneurs except in the policy area corruption.

Table 1
Comparison of Means: Problematic Policy Areas

Policy Area	Phils. Mean	LDCs Mean	χ^2 Value
Regulations for starting business	3.69	3.19	47.964*
Price control	3.75	2.72	135.536*
Foreign trade regulations	4.07	3.57	31.331*
Financing	4.04	4.18	50.345*
Labour regulations	4.12	3.39	79.418*
Foreign currency regulations	4.16	3.32	78.718*
Tax regulations	4.67	4.72	14.246*
Inadequate infrastructure supply	3.92	4.16	23.882*
Policy instability	4.07	3.88	25.808*
Safety or environmental regulations	3.90	3.21	110.165*
Inflation	4.51	4.06	36.704*
General uncertainty on costs of regulation	4.02	3.86	41.031*
Crime and theft	4.49	4.17	27.408*
Corruption	4.65	4.45	10.191*

Terrorism	4.07	2.45	290.646*

* $\rho \leq 0.05$, one tailed.

Findings from the factor analysis illustrated in table 2 show the emergence of a four-factor solution that accounts for 57.56 percent of the variance.

Table 2
Rotated Factor Matrix for Policy Areas

Item	Security & Bureaucracy	Regulatory Environment	Economic Policy	Start-up Regulations
Crime and theft	0.811			
Terrorism	0.765			
Corruption	0.739	0.374		
General uncertainty on cost of regulations	0.433	0.400	0.376	
Financing	0.422		0.372	0.351
Inadequate infrastructure		0.806		
Policy instability		0.742		
Safety and environment regulations		0.695		
Foreign currency regulations			0.789	
Foreign trade regulations			0.586	
Inflation		0.306	0.578	
Price control			0.539	0.398
Tax regulations			0.509	
Regulations for starting business/new operations				0.874
Labour regulations	0.346			0.475
Eigenvalue	**4.818**	**1.543**	**1.196**	**1.077**
Cronbach's Alpha Coefficent (α) (Overall 0,8373)	**0.7628**	**0.7354**	**0.6857**	**0.4260**
Percent of Variance Explained (Total 57,555%)	**32.123**	**10.285**	**7.970**	**7.178**

Extraction Method: Principal Component Analysis

Rotation Method: Varimax with Kaiser Normalisation

The four factors identified through the factor analysis are:

Factor 1. Security and bureaucracy

This factor had five item loadings ranging from 0.422 to 0.811 and included items such as crime and theft, terrorism, corruption, general uncertainty on costs of regulations and financing. This factor related to the entrepreneurs' perception on how secure his property and personal safety is, the ease of dealing with government, and availability of financing.

Factor 2. Regulatory environment

This factor had three item loadings and included the following items: inadequate infrastructure supply, policy instability, and safety or environment regulations. This factor deals with the entrepreneurs' perception of how stable the policy environment is and the ease of obtaining much needed resources such as financing and infrastructure. The component loadings ranged from 0.695 to 0.806.

Factor 3. Economic policy

This factor had five item loadings ranging from 0.539 to 0.789 and included items such as foreign currency regulations, foreign trade regulations, inflation, price control and tax regulations. This factor corresponds to entrepreneurs' perceptions of the basic economic policies. This factor emphasizes that entrepreneurs consider economic policies as important and critical in their decision to start their business. Entrepreneurs perceive economies based on free competition and minimalist government intervention as favorable.

Factor 4. Start-up regulations

This factor had two item loadings ranging from 0.475 and 0.874 and included the following items: regulations for starting business/new operations and labor regulations. This factor deals with the entrepreneurs' perceptions of how easy it is to start-up the business in terms of what is required by the government. The less stringent and numerous the regulations are the more the entrepreneur perceives the environment as positive.

The initial-components factor analysis method determined the number of possible factors present. From the eigenvalues greater than one, the decision to have four factors was because from the fifth factor onwards, the eigenvalues were less than one. In order to determine a finer selection of factors, an orthogonal varimax rotation was completed. The factor loadings for each of the four factors is greater than 0.35. All the eigenvalues for the respective factors are greater than 1.0, which fulfills the Kaiser criterion (SPSS, 1990; 1999).

The performance of a scree test confirmed the number of factors to select. Based on the scree plot and the Kaiser criterion, the correct number of factors to extract was indeed four.

The completed rotated factor matrix presented in table 2, also shows specific factor eigenvalues, alpha coefficients, and the percentage of total variance that each factor accounts for. As can be seen from the table, a number of items loaded onto more than one factor. For purposes of interpretation, only factor loadings greater than 0.30 are shown in table 2, and the highest loading of each variable were identified and used in the labeling of the factors.

Results illustrate that all the four factors have an eigenvalue of above one, ranging from 1.077 to 4.818. Factor 1, security and bureaucracy, contributes a variance of 32.123 percent, followed by factor 2, regulatory environment, which contributes 10.285 percent. Economic policy, factor 3, contributes 7.97 percent of the variance, while factor 4, start-up regulations, explains 7.178 percent of the variance. The total cumulative variance explained by the four factors is 57.555 percent.

Item analysis was also performed on the data. The Cronbach's alpha coefficient (α) determined the internal consistency of the items on the scale. The alpha value for the entire problematic policy areas scale was 0.8373, which indicated that the internal consistency was quite high. Cronbach's alpha coefficients for each factor of the scale were as follows: factor 1 = 0.7628; factor 2 = 0.7354; factor 3 = 0.6857; and factor 4 = 0.4260.

CONCLUSION

The results of the analysis indicate that improvements must be made on the following policy areas: security and bureaucracy, regulatory environment, economic policy and start-up regulations. To improve on security and bureaucracy, the government must improve the overall security measures in protecting the property and persons of its citizens against crime, theft and terrorism. There should also be tougher sanctions taken against individuals that participate in corrupt practices in the government, avoid changing the cost of regulations often as this confuses the entrepreneurs. Regulatory environment improvements will entail the provision of adequate infrastructure supply (such as electricity, water, communications facilities), ensuring changes in policies involve entrepreneurs themselves and are communicated well in advance, and making sure that safety and environment regulations are reasonable and realistic. Economic policies specifically involving foreign trade, currency regulations, inflation, price control and tax regulations must be formulated to create an incentive structure positive towards entrepreneurship. Lastly, start-up regulations such as registration and licensing as well as labor regulations need to be clarified with new entrepreneurs to avoid confusion.

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THE UTILISATION OF SOCIAL CAPITAL AMONG ETHNIC ENTREPRENEURS

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KEYWORDS: ethnic entrepreneurship, social capital, South Africa.

ABSTRACT

The objective of this study is to better understand how entrepreneurs from different ethnic groups mobilise social capital. A survey of 325 entrepreneurs from the KwaZulu-Natal province of South Africa was conducted. Analysis of variance, t-tests and multiple regression analysis was performed on a 20-item scale on social capital variables. Results indicate that among the three ethnic groups of entrepreneurs studied, Europeans mobilised social capital better than their Indian and African counterparts. Europeans tend to favour more formal avenues of accessing social capital while Indian respondents tend to prefer informal means. Respondents that accessed social capital better were divorced, had a degree or diploma, was more likely to be male, and had a close relative that was an entrepreneur. Regression results show that various network variables are positively influenced by trust, acceptance of diversity and participation in community activities.

INTRODUCTION

Presently, the concept of social capital has been given more attention by sociologists and economists as an alternative to traditional forms of capital, such as financial, physical, and human (Marger, 2001). Social capital may be defined as those resources inherent in social relations that facilitate collective action. Social capital resources include trust, norms, and networks of association representing any group which gathers consistently for a common purpose. The critical issue is that norms of trust, obligation and reciprocity are established through membership in these social networks (Coleman, 1988; Light and Gold, 2000; Portes and Sensenbrenner, 1993). In addition, social capital is an entity, consisting of all expected future benefits derived not from one's own labour, but from linking with other persons (Portes, 1995). It is from this membership of a network that individuals are able to obtain scarce resources. Social capital does not constitute the resources themselves, but rather the individuals' ability to mobilise these resources on demand.

The intensity of a community's networks is major factor that enables a particular region to develop competitiveness on wider national and international markets. This view is supported by Johannisson (2000), who stated that the personal network provides not only information and access to important physical and financial resources, but also human and social capital. Menning (1997) argued that one of the secrets of the success of the silk industry in Surat, India is a system of "ethnic entrepreneurship" in which business people rely on informal networks based on ties of kinship, caste, sect and place of origin. Participation in these flexible networks gives merchants and manufacturers access to community resources, and allows them to minimize costs, adapt to market fluctuations and avoid government restrictions.

Empirical research illustrates that the context has a major impact on entrepreneurial activity. However, even within the same context, studies show that there are differences in rates of entrepreneurship between ethnic groups. Researchers argue that the reason for this lies in the entrepreneur's access to various forms of capital, and the ethnic groups with higher rates of entrepreneurship utilize networking extensively in order to access resources.

KEY LITERATURE

Social capital has its roots in several theoretical traditions. Putnam (1993) defined the concept as "those features of social organisation, such as trust, norms and networks that can improve the efficiency of society by facilitating co-ordinated actions, or as features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives" (Putnam, 1995). Portes (1998) argues that the concept refers to dense interlocking networks of relationships between individuals and groups. People engage with others through a variety of lateral associations, which must be both voluntary and equal (Onyx and Bullen, 2000). Social capital cannot be generated by individuals acting on their own in isolation. It depends on a proclivity for sociability, but a spontaneous sociability, a capacity to form new associations and to co-operate within the terms of reference they establish (Fukuyama, 1995).

Another common theme of social capital is reciprocity. This is not the immediate and formally accounted exchange of a loyal or business contract, but a combination of short-term altruism and long-term self-interest. He individual provides a service to others, or acts for the benefits of others at a personal cost, but in their general expectations that this kindness will be returned at some undefined time in the future (Onyx and Bullen, 2000). A further theme refers to trust. Trust entails a willingness to take risks in a social context based on a sense of confidence that others will respond as expected and will act in mutually supportive ways, or at least that others do not intend harm (Fukuyama, 1995).

Putnam (1993) and Coleman (1988) both refer explicitly to social norms. Social norms provide a form of informal social control that obviates the necessity for more formal, institutionalised legal sanctions. Social norms are generally unwritten but commonly understood formulas both for determining what patterns of behaviour are expected in a given social context and for defining what forms of behaviour are valued or socially approved. Both Coleman (1988) and Putnam (1995) argue that in communities where social capital is high, there is little crime and little need for formal policy. On the other

hand, where there is low level of trust, few social norms, people will co-operate in joint action only under a system of formal rules and regulations, which have to be negotiated, agreed to, litigated, enforced, sometimes by coercive means, leading to expensive legal costs (Fukuyama, 1995).

Social capital and ethnicity

Within ethnic settings, actors rely upon social capital created by their common membership to reach economic ends. Groups' collective resources, including trust and co-operation, help them overcome the disadvantages of outsider status and maximise the value of their human and financial capital in order to achieve economic stability or betterment. In may cases, ethnic-based trust offers definite advantages over the impersonal and legalistic forms of co-operation that underlie modern economic exchange. The benefit of ethnic-based trust can be attributed to the flexible human relationships in which this trust is embedded (Light and Gold, 2000). Further, because the use of social capital tends to reinforce the relationships from which it originates, its consumption may actually increase rather than deplete its availability in a given context. Finally, unlike resources availed through impersonal market transactions, social capital is often delivered within an environment of human caring and concern. At the same time, however, social capital can only be created at a cost, in terms of money, effort, or the exchange of favours. Forms of mutual obligation involved in the maintenance of social capital can diminish the value of resources by limiting individual freedom, requiring assets to be shared, mandating contributions to community welfare, permitting "free riding", and the like.

Flap, Kumcu, and Bulder 2000: 142) deliberate over why members of some ethnic groups enter business ownership in numbers disproportionate to the size of the group, whereas other ethnic groups shun entrepreneurship almost altogether (Aldrich and Waldinger, 1990). Existing explanations for differences in the success of ethnic entrepreneurs look to very diverse causes, such as prior experience in the business as an employer or employee, the characteristics of the settlement or servicing a particular, often co-ethnic clientele. Light and Karageogis (1994) make a useful distinction between market conditions on the demand side and supply sides. On the demand side of the market they identify five conditions that are favourable to success: the special consumer demands of co-ethnics, the local industrial mix, the resurgence of small and medium-sized business, vacancy chains emerging from the retirement or exit of existing business owners, and political encouragement (Flap, Kumcu, and Bulder 2000: 144). Special consumer demands of co-ethnics refer to ethnic products or services that co-ethnics know best how to produce and distribute. A local industrial mix that favours small and medium-sized firms, for example, with a large share of service industries, also favours ethnic enterprises. Major opportunities for ownership result from the process of ethnic succession: vacancy chains emerging from the retirement or exit of existing business owners offer opportunities for minorities to take over an existing line of business. The final condition identified by Light and Karageorgis can be formulated as the absence of encouraging policies. Government measures often affect ethnic minorities in such a way that – as they are not fluent in the official language, have little or no formal education or are illegal immigrants – they are forced to work in informal or illegal circumstances (Portes, 1995). Another well-known explanation for the relative success of ethnic entrepreneurs, is that they operate in product markets where entry barriers are low, for example in markets where one can start production without much technology, where little capital is needed to finance this and other necessities and where competition is minimal (Flap, Kumcu, and Bulder 2000).

As it relates to ethnic groups and their adaptation to the host society, social capital refers to participants within social networks of kin and especially co-ethnics (Marger, 2001). Ethnic networks have been described as fulfilling a crucial role in the adaptation process of ethnic entrepreneurs, for whom valuable sources of social capital include ethnic business associations, informal and formal credit groups, a co-ethnic clientele, and co-ethnic workers. They provide the embeddedness, that is, networks of social relations that engender mutual trust and enforcement of norms. Such networks function as vital resources in the establishment and operation of their businesses (Light, 1972; Light and Gold, 2000; Waldiner et al, 1990). Social capital theory states that the extent and effectiveness of social and community relations transforms the returns to human capital. According to this perspective, social networks provided by the extended family or community-based relationships are likely to augment the effects of education, experience, and financial capital, facilitating the accumulation and utilisation of resources. Social capital can help obtain limited resources because it provides external actors with full or partial control over interests or activities that are shared by members.

Downside of social capital

Social capital is seen as a “double edged sword”. On the one hand, it can provide community members with a familiar variety of benefits, ranging from job referrals to cash. But there is also a downside, in that the ties can place enormous non-economic claims on members’ obligations and commitments, cutting them off from information about employment opportunities (Woolcock, 2001).

Portes and Landolt (1996) report the case of many successful businessmen in the Andean highlands in Ecuador. They choose to be Protestant, rather than Catholic, because by shifting religions, these entrepreneurs removed themselves from the host of obligations for male family head associated with the Catholic Church. The convert becomes, in a sense, a “stranger” in his own community, which insulates him from demands for support from others on the strength of Catholic norms. For these men, social capital comes at too high a price (Portes and Landolt, 1996: 5). They go onto state that it is not the lack of social capital, but the lack of objective economic resources – beginning with descent jobs – that underlies the plight of impoverished urban groups.

Furthermore, Portes and Sensenbrenner (1993) give examples in which social capital has detrimental effects. Firstly, people become trapped in their network by their investments in their local community, and if they try to escape from their investments in their local community, and if they try to escape from their fate they are ridiculed as “wannabes”. Secondly, those who are successful will be approached by job and loan-seeking kinsmen who lay claim to their profits. Tight ethnic communities produce a great deal of social capital in the sense of enforceable trust, as Portes (1995) calls it. People fear getting a bad reputation or even being ostracised. Not living up to the implicit repayment agreement certainly means losing face. Thus business owners may lie about their financial situation, and in some cases they may in desperation even sell family properties in the home country (Flap, Kumcu, and Bulder 2000: 155). Not only is the successful use of social capital by a particular ethnic entrepreneur or group of entrepreneurs or groups detrimental to the business chances of other ethnic entrepreneurs or groups of entrepreneurs with less or less effective social capital, there is another consideration. One can also have social capital of a kind that does not work. Finally, one can have too much social capital, leading to adverse effects.
Brown and Butler (1993: 104) claimed that these strong ethnic and cultural ties also act as

borders to those entrepreneurs who are not members of the ethnic group. For example, in Zambia, a large proportion of the business sector is run by Asian immigrants, who are not bound by the cultural factors in the country, and the production and trade of indigenous goods, as well as trade in imported goods were discouraged among “natives” by colonial economic policies.

In addition, Kobonyo (1999: 131) argued that networks can act as strong barriers for entry by those who are outside the network. Based on research in Kenya, for example, non-Asian, particularly Africans found it very difficult to penetrate business sectors dominated by Asians. This is largely due to social networks among the Asian business operations, which excludes anybody who is not of Asian origin.

Given that ethnic businesses may face discrimination, not only in accessing formal institutional sources of start-up finance and advice but also in reaching customers and receiving credit from suppliers, it is expected that they would draw heavily upon their social resource base. Thus, the family and kinship networks may be viewed as building blocks for business development that ethnic minority owners rely heavily upon. Furthermore, the pooling of resources provides the “trust”, security and reliability, which come from dealing with persons from the same ethnic background (Ram, 1994: 43). In addition, Ram (1997: 149) and Basu and Goswami (1999: 251) argue that ethnic minority businesses often arise out of a context of disadvantage, and that the adverse “opportunity structure” carries greater explanatory power than speculations on “culture” and so-called “ethnic” resources. Sanders and Nee (1996: 233) accept the importance of social capital in explaining interethnic variations in self-employment, but locate the relevant social unit as the immediate family rather than the immigrant community. As a social organization of production, the family’s chief advantages are not simply tangible products, such as unpaid labor, but also involve the mutual obligation and trust characteristic of solidaristic small groups. Morris (2000) argues that differences in relative success of ethnic groups can be explained by considering not just financial capital available to that group, but also the cultural, human and social capital. Forms of family-based co-operation and strategizing are instrumental among these groups in providing a degree of stability, support and resource acquisition.

Often groups subjected to equal discrimination are unequally successful in entrepreneurship. Irrespective of economic conditions and income levels, some groups save more and lend more than others. The causes of inter-group disparity in savings rate include values and attitudes that bear upon saving and lending, the size and integrity of the group’s kinship system, and the availability of rotating credit associations (Light & Gold, 2000). Furthermore, Dana (1993: 30) in a study of three different immigrant groups illustrated that entrepreneurship rates were substantially lower in the Black/Caribbean group. He explains that one possible reason is that for some ethnic groups, entrepreneurship is culturally desirable, and for others, it is a means of coping with marginalisation.

The African environment

Kinunda-Rutashobya (1999: 24) contends that entrepreneurial activities vary from one socio-economic context to another. These differences are due to differences in economic, political, historical and social circumstances, laws and the regulatory framework, policies and levels of state involvement, formal and informal socio-economic institutions, type and distribution of resources and socio-cultural sectors (Buame, 1996). Ahwireng-Obeng and

Piaray (1999: 78) argue that formal institutional factors exert a powerful negative influence on entrepreneurship in South Africa, and the historical and political system has served to promote an anti-entrepreneurial culture due to the dependency on, or control of, the population by the state which decreased the propensity for entrepreneurship (Olomi, 1999: 164).

In addition, Mbaku (2000) believes that the South African government failed to maintain an enabling environment for the development of indigenous entrepreneurship and the participation of Africans in national development. Kinunda-Rutashobya (1999) advocates for more empirical work especially in the African context and argues that reasons for success of one ethnic group over another can be further understood by network theory. This perspective is reinforced by the research of Godsell (1991), in her study of four ethnic groups in South Africa. She discovered that although both Indian and African entrepreneurs were victims of discriminatory legislation, the Indian entrepreneurs were able to utilize resources provided by family and the community, which included the local, national and international community. Among the African entrepreneurs, very few networks were found, which was ascribed to the low status of small business in the African community. A further explanation for this lack of networks was the perception that traditionally African entrepreneurs have had very few entrepreneurial role models. In trying to explain the lack of entrepreneurship among African entrepreneurs in the UK (Basu & Goswami, 1999; Ram, 1994, 1997), and in the US, (Light & Gold, 2000; Yoo, 2000), it is argued that one feasible explanation was that there was a shortage of entrepreneurial role models in their community.

RESEARCH METHODOLOGY

Data for the analysis was collected from 325 entrepreneurs in Durban, the largest city in the province of KwaZulu-Natal, South Africa. Entrepreneurs were requested to fill in a structured survey instrument to ensure reliability and validity in responses obtained. The sample was selected from entrepreneurs from the three dominant ethnic groups in the region: African, Indian and European. The three ethnic groups chosen for this study will contribute more to our understanding of how social capital is mobilised by entrepreneurs within a developing country. The African entrepreneur group is an example of a marginalised group, but in South Africa, they are a majority, and not a minority group. Therefore by studying this group will add to our understanding of entrepreneurship in this context. Also this group is not an immigrant group, but an indigenous group, and it is important when comparing ethnic groups to have a “native” group. The Indian ethnic group is an example of a group filling the “middleman minority” group. However, in South Africa, they were also marginalised by institutional factors, and will therefore make for an fascinating study. The European ethnic group also have a long history in South Africa, but their position in South Africa has always been one of privilege, and was originally one of being the colonial power. However, with change, firstly with the Afrikaner-led government and then the Black-led government in 1994, their position has changed dramatically.

The sample was selected largely by personal contacts and referrals and introductions by those interviewed. Given that a large amount of ethnic businesses are still operated in areas dominated by specific ethnic groups, research assistants from the same ethnic group as the respondents’ were used. This methodology was utilised by Ram (1991; 1994) and Basu and Goswami (1999) in studies conducted in England, and Yoo (2000)

and Light and Bonacich (1988) in studies in the US, whereby having interviewers with the same ethnic background led to more access and acceptance by the entrepreneurs.

The data analyses consisted of frequency analyses of the demographic information. A chi-square (χ^2) test was then performed on the data to measure if there were any significant differences between the African, Indian and European entrepreneurs. With regard to the statements concerning social capital, an ANOVA was conducted to determine whether there were any significant differences between the mean scores of the three ethnic entrepreneur groups in the social capital variables. Furthermore, a stepwise multiple regression analysis was conducted to determine the best demographic predictors of respondent's scores on the social capital variables.

RESULTS AND DISCUSSION

This section presents a profile of some of the characteristics of the entrepreneur in addition to the results of the analysis of variance, and a multiple regression analysis on the social capital variables.

Of the 325 respondents, 34.2 percent (N=111) were African entrepreneurs, 37.2 percent (N=121) were Indian entrepreneurs, and 27.7 percent were European(N=90), while 1 percent (N=3) were classified as other. Several demographic characteristics are presented in table 1. The majority of the entrepreneurs in the ethnic groups were male, except for the European group. Chi-square test results indicate that at the $\rho = .001$ level, there were significant differences between the three groups on gender, with less than 22 percent of Indian, 41.4 percent of the African, and 51.1 percent of the European respondents were female.

Table 1: Frequency Distribution of Characteristics of the Entrepreneur

Characteristic	African	Indian	European	χ^2
Gender				20.910*
Male	58.6%	78.3%	48.9%	
Female	41.4%	21.7%	51.1%	
Age				60.179*
21 – 30	24.1%	8.7%	11.6%	
31 – 40	38.9%	19.6%	4.7%	
41 – 50	22.2%	32.6%	53.5%	
51 – 60	11.1%	26.1%	23.3%	
61 – 73	3.7%	13.0%	7.0%	
Marital status				55.241*
Never married	36.8%	8.3%	8.9%	
Married	55.7%	80.8%	66.7%	
Divorced	4.7%	10.0%	15.6%	
Widowed	2.8%	0.8%	8.9%	
Education	2.8%	2.5%	0%	21.644**
Primary school or less	10.1%	16.7%	8.9%	
High school or less	36.7%	53.3%	42.2%	
Matric/12th grade	45.9%	23.3%	42.2%	
Degree/diploma	4.6%	4.2%	6.7%	
Postgraduate degree				
Entrepreneurs in family				
Father	14.8%	12.4%	9.5%	1.501
Mother	4.8%	2.5%	2.6%	1.169
Close relatives	24.3%	68.6%	66.7%	53.892*

* $\rho \leq .001$
** $\rho \leq .05$

Looking at the age distribution, it is evident that that the African ethnic entrepreneurs were younger, with the majority (63%) below the age of 40. In contrast, more than 70 percent (71.7%) of the Indian and 85.8 percent of the European ethnic group were over the age of 40. The χ^2 results show that at $\rho = .001$, there are significant differences in the ages between the entrepreneurs from the three ethnic groups.

When one looks at the marital status of the entrepreneurs, the χ^2 results also show significant differences between the three ethnic groups. The majority of entrepreneurs in all three ethnic groups are married (55.7 percent of the Africans, 80.8 percent of the Indians, and 66.7 percent of the Europeans).

In terms of education, the results indicate that at the ρ = .05 level, there were significant differences between the three ethnic groups on education, with the majority having completed twelve years of schooling (African 87.2%; Indian 80.8%; European 91.1%). Interestingly, in the African group, 45.9 percent had either a degree or a diploma.

Looking at whether the entrepreneurs had immediate family members who were entrepreneurs, all groups showed that very few of them had parents who were entrepreneurs. However, looking at whether they had close relatives who were entrepreneurs, only 24.3 percent of African respondents, while 68.6 percent of the Indians, and 66.7% of the Europeans had said that they had a close relative who was an entrepreneur.

To determine whether there were significant differences in the various social capital variables among the three ethnic groups, an analysis of variance (ANOVA) was performed. The results are shown on table 2.

Of the 20 items included in the questionnaire, at ρ ≤ .05, 17 were found to be statistically significant when ethnic groups was used as a differentiating factor. The findings indicate that among the respondents from the three ethnic groups, the Africans scored the lowest and the Europeans scored the highest in the social capital variables. This shows that the African entrepreneurs do not mobilise social capital as well as their Indian and European counterparts.

When marital status is used as a differentiating factor, the ANOVA yields results which indicate that out of the 20 social capital variables, 8 are significant. These include being satisfied with the meaning of ones life, feeling safe walking down ones street after dark, going outside the community to visit family, running into acquaintances when shopping, knowing where to find information when needing to make a life decision, helping organise a new service in ones area, thinking that multiculturalism makes life better and enjoying living among people of different lifestyles. The overall findings show that the divorced followed by married, widowed and unmarried respondents were most effective at mobilising social capital.

Using level of education as a grouping variable, the ANOVA results show that only 5 of the 20 social capital items are significantly different between groups. The five items were: believing that by helping others one helps oneself, running into friends and acquaintances when shopping, being in a management committee for any local group, taking part in a community project, and helping organise a new service in ones area. Overall, the findings indicate that the respondents that have a degree or diploma are able to mobilise capital more effectively followed by respondents with postgraduate degrees, matric (grade 12), less than high school and primary levels.

In determining whether there were significant differences in the various social capital variables among male and female entrepreneurs, an analysis of variance (ANOVA) was performed. Table 2 presents the findings.

Using gender as a grouping variable, of the 20 items included in the questionnaire, at ρ ≤ .05, 7 social capital items were found significantly different for the two genders. Male respondents scored higher on 4 of the 7 items namely: feeling valued by society, being satisfied with what one's life has meant, helping out a local group as a volunteer, and helping organise a new service in one's area. Females scored higher in three items: feeling that the community is like home, thinking that multiculturalism makes life better,

and enjoying living among people of different lifestyles.

Only one social capital variable (being an active member of a local organisation or club) was found to be significantly different when the sample was categorised according to whether the respondent had a father that was an entrepreneur. When mother's occupation was used to categorise the sample, none of the social capital variables were found to be significantly different between groups.

When the entrepreneurs were classified according to whether they had close relatives who were entrepreneurs, 6 social capital variables emerged as significantly different between groups. These variables were – attending a local community event, going outside one's community to visit family, running into friends and acquaintances when shopping, feeling free to speak out even when one disagrees with what everyone else agreed on, thinking that multiculturalism makes life better and enjoying living among people of different lifestyles. Entrepreneurs with relatives who were also entrepreneurs scored higher in the first 4 variables mentioned.

Table 2: Analysis of Variance of Social Capital Variables with Ethnic Group, Marital Status and Level of Education

Item	Ethnic Group	Marital Status	Education Level
Do you feel valued by society?	14.934*	0.760	2.344
If you were to die tomorrow, would you be satisfied with what your life has meant?	19.846*	3.467*	1.465
Do you believe that by helping others you help yourself?	14.383*	1.182	4.665*
Do you help out a local group as a volunteer?	1.138	1.334	1.247
Do you feel safe walking down your street after dark?	4.555*	4.371*	0.964
Do you agree that most people can be trusted?	3.505*	2.205	1.307
Does your area have a reputation for being a safe place?	5.198*	2.044	2.475
Have you attended a local community event in the past 6 months (e.g. church fete, school concert)?	18.719*	2.743	0.295
Are you an active member of a local organization or club (e.g. craft, sport, social club)?	3.460*	1.499	1.034
Does your local community feel like home?	9.625*	1.508	.989
Do you go outside your community to visit your family?	48.957*	3.037*	1.644
When you go shopping in your local area are you likely to run into friends and acquaintances?	44.883*	2.825*	3.202*
If you need information to make a life decision, do you know where to find that information?	17.188*	3.028*	0.799
Are you on a management committee or organizing committee for any local group or organization?	6.905*	1.579	2.463*
In the past 3 years, have you ever joined a local community action to deal with an emergency?	7.936*	2.246	0.873
Have you taken part in a community project?	1.209	1.882	2.507*
Have you helped organize new service in your area?	2.557	3.380*	2.836*
If you disagree with what everyone else agreed on, would you feel free to speak out?	11.916*	0.616	0.847
Do you think that multiculturalism makes life better?	8.923*	7.561*	0.716
Do you enjoy living among people of different lifestyles?	3.361*	6.065*	0.170

Table 3: T-tests of Social Capital Variables with Gender, Father's Occupation,Mother's Occupation and Entrepreneur Close Relative

Item	Gender	Father's Occupation	Mother's Occupation	Entrepreneur Close Relative
Do you feel valued by society?	3.900*	0.005	-0.048	1.844
If you were to die tomorrow, would you be satisfied with what your life has meant?	2.503*	-0.323	-0.858	3.364
Do you believe that by helping others you help yourself?	0.962	0.048	-1.074	1.804
Do you help out a local group as a volunteer?	2.137*	-0.426	1.610	1.727
Do you feel safe walking down your street after dark?	0.517	0.702	0.544	-0.866
Do you agree that most people can be trusted?	0.391	-0.443	0.448	-1.940
Does your area have a reputation for being a safe place?	-0.970	-0.738	-1.198	-0.348
Have you attended a local community event in the past 6 months (e.g. church fete, school concert)?	1.565	-1.030	0.277	2.956*
Are you an active member of a local organization or club (e.g. craft, sport, social club)?	-0.856	-1.977*	-0.934	-0.469
Does your local community feel like home?	-2.031*	-0.381	0.647	1.085
Do you go outside your community to visit your family?	1.105	-0.200	-0.722	4.202*
When you go shopping in your local area are you likely to run into friends and acquaintances?	1.628	0.350	0.567	4.382*
If you need information to make a life decision, do you know where to find that information?	-0.606	-1.425	0.162	1.738
Are you on a management committee or organizing committee for any local group or organization?	0.097	-1.673	0.764	-0.084
In the past 3 years, have you ever joined a local community action to deal with an emergency?	0.547	-0.560	-1.227	-1.730
Have you taken part in a community project?	0.672	0.613	-0.210	-0.802
Have you helped organize new service in your area?	2.156*	-0.497	-0.726	-0.610
If you disagree with what everyone else agreed on, would you feel free to speak out?	1.675	0.406	0.192	2.037*
Do you think that multiculturalism makes life better?	-2.039*	-0.815	0.201	-3.082*
Do you enjoy living among people of different lifestyles?	-2.250*	-1.820	-0.089	-2.939*

Table 4 illustrates the findings of the multiple regression analysis with "how many people did you discuss your business" (NUMPEO) as the dependent variable.

Table 4: Regression of Network Variable (NUMPEO) and Social Capital Variables

Multiple R		.344			
R^2		.119			
Adjusted R^2		.107			
Standard error		11.917			
Analysis of variance	**DF**	**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Regression	3	4339.221	1446.407	10.185	.000
Residual	227	32238.155	142.018		
Variables in the equation	**B**	**Standard error of B**	**Beta**	**t**	**Sig.**
Constant	4.253	3.449		1.233	.219
Thinking that multiculturalism makes life better	3.127	0.719	-.277	-4.351	.000
Running into friends and acquaintances when shopping	2.951	0.846	.220	3.489	.001
Being an active member of a local organization or club	1.518	0.681	.141	2.228	.027

The best solutions for the NUMPEO dependent variable, in terms of R^2, significance of t and significance of F were obtained with model shown in table 4. Only 12% of the variation of NUMPEO was explained by the following variables – thinking that multiculturalism makes life better (t=-4.351, ρ=.000), running into friends and acquaintances when shopping (t=3.489, ρ=0.001), and being an active member of a local organization or club (t=2.228. ρ=0.027), with R^2 =11.9%. Analysis of variance indicated that F=10.185, ρ=.000 for the model.

Table 5: Regression of Network Variable (HRSDEV) and Social Capital Variables

Multiple R		.216			
R^2		.047			
Adjusted R^2		.042			
Standard error		8.655			
Analysis of variance	**DF**	**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Regression	1	774.056	774.056	10.334	.002
Residual	211	15804.564	74.903		
Variables in the equation	**B**	**Standard error of B**	**Beta**	**t**	**Sig.**
Constant	0.998	1.667		0.595	.553
Enjoying living among people of different lifestyles	1.758	0.547	.216	3.215	.002

The solution for the HRSDEV dependent variable, in terms of R^2, significance of t and significance of F were obtained with model shown in table 5. Only about 5% of the variance of HRSDEV can be explained by only one variable – enjoying living among people of different lifestyles (t=3.215, ρ=.002), with R^2 =4.7%%. Analysis of variance indicated that F=10.334, ρ=.002 for the model.

Table 6 presents the results of the multiple regression analysis on the dependent variable "number of hours spent maintaining contacts" (HRSMAIN). The solution for the HRSMAIN dependent variable, in terms of R^2, significance of t and significance of F were obtained with model shown below.

Table 6: Regression of Network Variable (HRSMAIN) and Social Capital Variables

Multiple R		.182			
R^2		.033			
Adjusted R^2		.028			
Standard error		8.569			
Analysis of variance	**DF**	**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Regression	1	513.882	513.882	6.998	.009
Residual	204	14979.575	73.429		
Variables in the equation	**B**	**Standard error of B**	**Beta**	**t**	**Sig.**
Constant	2.321	1.684		1.37	.170
Enjoying living among people of different lifestyles	1.449	0.548	.182	9 2.64 5	.009

Only about 3% of the variance of HRSMAIN can be explained by one variable – enjoying living among people of different lifestyles (t=2.645, ρ=.009), with R^2 =3.3%. Analysis of variance indicated that F=6.998, ρ=.009 for the model.

Table 7: Regression of Network Variable (PERTIM) and Social Capital Variables

Multiple R		.562			
R^2		.315			
Adjusted R^2		.297			
Standard error		25.997			
Analysis of variance	**DF**	**Sum of Squares**	**Mean Square**	**F**	**Sig.**
Regression	6	68803.516	11467.2	16.967	.000
Residual	221	149365.4	53 675.862		
Variables in the equation	**B**	**Standard error of B**	**Beta**	**t**	**Sig.**
Constant	92.710	8.081		11.473	.000
Running into friends and acquaintances when shopping	- 7.985	2.469	-.238	-3.234	.001
Being in a management committee for a local group	4.503	1.462	.179	3.080	.002
Feeling safe walking down ones street after dark	4.665	1.758	.154	2.653	.009
Attending a local community event	-5.111	1.713	-.200	-2.984	.003
Helping out a local group as a volunteer	4.713	1.666	.186	2.829	.005
Going outside ones community to visit family	-6.198	2.363	-.201	-2.623	.009

Multiple regression analysis was also performed with the responses on the question "what percentage of time spent establishing contacts" (PERTIM). Table 7 indicates the best solutions for the PERTIM dependent variable, in terms of R^2, significance of t and

significance of F. the results show that 32% of the variation of PERTIM was explained by six social capital variables. An analysis of variance indicated that F=16.967, ρ=.000 for the model. The t-value of the coefficient for the significant social capital variables are as follows: running into friends and acquaintances when shopping (t=-3.234, ρ=0.001), being in a management committee (t=3.080, ρ=0.002), feeling safe walking down ones street (t=2.653, ρ0.009), attending a local community event (t=-2.984, ρ=0.003), helping out a local group as a volunteer (t=2.829, ρ=0.005), and going outside ones community to visit family (t=-2.623, ρ=0.009).

CONCLUSION

As the literature indicates (Portes, 1995) social capital refers to the individual's ability to mobilise resources. For entrepreneurs to be successful they need to be able to obtain scarce resources through various sources. It is important for them to establish relationships with others in order to access these resources. The findings indicate that among the respondents from the three ethnic groups, the Africans scored the lowest and the Europeans scored the highest in the social capital variables. This shows that the African entrepreneurs do not mobilise social capital as well as their Indian and European counterparts. These results support Godsell (1991)'s findings that Indian entrepreneurs access social capital better than Africans.

Quite surprisingly, the African entrepreneurs were more educated than the Indian and European group. However, even though the Indian and European groups are not as highly educated, the majority of them had completed their high school education. Assuming that higher education levels improve one's chance of accessing formal sources (e.g. financing) then the African respondents would have found it less difficult than Indians or Europeans to find resources needed for the business. This could explain the higher levels of social capital mobilisation for Indians and Europeans. The findings also show that respondents that have higher education levels (i.e. degree or diploma) are able to mobilise capital more effectively followed by respondents have postgraduate degrees, matrics, less than high school and primary levels. The respondents that have degrees have a higher level of acceptance of people with different cultures and enjoy living among people of different lifestyles. As different types of social capital can be accessed from individuals of different characteristics, acceptance of diversity can improve social capital mobilisation.

The overall findings also show that divorced followed by married, widowed, and unmarried entrepreneurs were most effective in mobilising social capital. This can be attributed to the fact that respondents that have been or are married, have access to the networks of their respective spouses widening their own networks. Also they tend to accept diversity and participate more actively in community activities when compared to their unmarried counterparts.

An analysis of the demographic data revealed that the sample was predominantly male. Male entrepreneurs scored slightly higher than females in terms of accessing social capital. Males tend to do better in participating at community activities. Participation in community activities increases the chances of the entrepreneur in meeting an individual that will be able to provide resources he needs. Females on the other hand excel in accepting people of different cultures and lifestyles.

Regarding having other entrepreneurs in the family, less than 20 percent of all the groups had an entrepreneurial parent. However, when asked if they had a close relative that was an entrepreneur, 68.6% of the Indian and 66.7% of the European group responded in the affirmative. Less than one quarter of the African group had a close relative who was an entrepreneur. This result partly explains why the level of entrepreneurship is lower among Africans. Being related to an entrepreneur by blood or marriage most facilitates one's own entrepreneurship when one can take over a parent or relative's business relationships and reputation (Light and Gold, 2000). Hence, more Indians and Europeans becoming entrepreneurs. Entrepreneurs who had close relatives who were entrepreneurs were also better at mobilising capital particularly through participation in community activities.

The regression results indicate that an individual is able to discuss his/her business to more people if he is open to networking with diverse people and participating in community activities. The number of hours spent developing and maintaining contacts also increases when the entrepreneur enjoys living among people of different lifestyles. Lastly, the percentage of time spent networking also increases when the entrepreneur participates actively in community activities and has trust in other people.

To conclude, this paper has attempted to add to our understanding of ethnic entrepreneurs in South Africa. It is widely accepted that entrepreneurship is a social activity, embedded in a social context. Therefore, in line with the mixed embeddedness perspective, there is a need to examine the influence of the wider socio-economic and politico-institutional environments on entrepreneurship.

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TOWARDS HARMONIOUS TRANSITION OF FAMILY BUSINESS BY FIRST GENERATION ENTREPRENEURS IN INDIA

by
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INTRODUCTION

In most countries of the world, the role of small and medium enterprises (SMEs) has remained noteworthy throughout the 20th century. The importance of the SMEs also seems to have been increasing over time. The reasons for growing importance have been largely economic (Dunlop, 1993; Thomassen, 1992; de Jordy, 1991). The SMEs constitute the backbone of the nations and are significant in terms of their contribution to the GDP, employment generation, exports (foreign exchange earnings) etc. The SMEs constitute an important source of outsourcing various inputs or components required by the large scale enterprises (LSEs). The dedicated ancillary units to the LSE are also SMEs. The SMEs are started by the individuals who possess basic traits like initiative, drive to succeed, risk taking ability etc. Such individuals who start the enterprise are known as The First Generation Entrepreneurs (FGEs). There are several types of FGEs such as:

- Manufacturer Entrepreneur (ME), i.e. an entrepreneur who establishes plant and machinery for the purpose of production of manufactured merchandise products, including the assembled products.

- Service Entrepreneur (SE), i.e. an entrepreneur who starts an enterprise to produce commercial services of all types, including retailing, consultancy, data processing, professional expertise, like medical, legal architecture etc.

- Other Entrepreneur (OE), i.e. an entrepreneur who establishes an enterprise that cannot be clearly classified as a manufacturing enterprise or commercial service enterprise. Such enterprises range from not-for-profit non-governmental organizations (NGOs), religious organizations and even the criminal and intimidating organizations producing services such as smuggling, pick-pocketing, thieving, robbing, terrorizing etc.

All entrepreneurs, including the “other services” producing entrepreneurs look forward to a “smooth” succession of their business before they decide to retire. Danco (2004) points out that many family firms go out of existence after 10 years and only 3 out 10 survive into a

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second generation. Davis and Harveston (1998) point out that a mere 30 % of family business survive past the first generation (Dyer, 1986; Beckhard and Dyer, 1983) and only 10 % to 15 % survive to a third generation (Applegate, 1994). Obviously, there are alternative situations of family business transition from one generation to another and there are reasons and occasions of conflicts. This paper attempts to analyze the conflict situations between the first generation entrepreneurs and offsprings as well as the factors affecting the succession. Based on the said analysis, the Harmonious Business Transition (HBT) Model is proposed.

ANALYSIS OF CONFLICT SITUATIONS

Conflicts exist in most relationships throughout the world. The root cause of conflicts can be attributed to clash of social, psychological, economic, political or any other type of interests between the two parities. Here, our objective is to discuss the conflicts that may come in the way of harmonious business transition from FGEs to their offsprings. The process of family business transition from parents to offsprings is quite similar in all countries like in India. However, this process deviates in case of democratically developing countries which are facing the problems of high population growth and lack of investment to generate jobs for the growing labor force. The economic prosperity, prevailing social system and reasonably remunerative job opportunities in the western developed countries make the family business succession for SME entrepreneurs a challenge as the offsprings may not be interested in entrepreneurship at all. On the other hand, in eastern underdeveloped country like India, the situation is quite different in the sense that the nature of challenge assumes different dimension. Because of increased focus on socialistic policies in India in the 1970s, the investment was officially restricted to prevent the growth of capitalists and this resulted in rapid growth in unemployment, particularly the educated unemployment. Forced by the created circumstances, the government developed policies towards facilitating and encouraging youth, particularly the engineering graduates to become First Generation Entrepreneurs. This trend has continued since then. However, with the economic reforms of 1991, followed by the WTO regime that came into being in 1995, the competition started growing in India and the protected environment to the industry started fading away. The ‘feel good’ factor among the entrepreneurs got converted into ‘feel challenged’ factor which has probably added to the conflicts in family business transition.

In similar environment in several developing countries, the people who were not able to find jobs for themselves became entrepreneurs or job creators. They also took the advantage of various government incentives for promotion of entrepreneurship and thus accumulated wealth. But their journey to survival and success was hard. This phenomenon is also sometimes termed as ‘zero to hero’ syndrome and results in high ego of successful First Generation Entrepreneurs. High ego of any person causes problems in general and particularly the conflicts between two generations. Most business owners hope and often expect that their children will eventually succeed them in the business (Family Business, 1993; Ward and Aronoff, 1990). The father wants his son to work as hard as he did, without leisure, in his youthful days, without realizing the fact that he started the struggle for survival whereas his son is at the doorstep of inheriting an established family business, which the latter has to eventually own and run. The major conflicts that may arise when the family

business is in transition from a First Generation Entrepreneurs to his son(s) are analyzed as follows.

1. The competent but egoistic entrepreneur finds faults with the way of doing any activity by his son who gets fed up with his father and this emerges as the major cause of future conflicts.

2. The entrepreneur does not assign a defined role to his son and does not delegate tasks. Instead, son is *used* by the entrepreneur as his personal assistant. Parents always put pressure their offspring to work in the family firm (Nelton, 1991). This does not give any satisfaction to the son and the conflict begins.

3. The entrepreneur does not empower his son who starts feeling unimportant and disgusted with the situation. Sometimes offspring may think that they are not wanted in the family or are discouraged from wanting to enter the firm (Ward, 1987). Here the conflict starts.

4. The son is not adequately compensated, in financial terms, for his full time services rendered to the family enterprise and this necessitates him to look for another independent entrepreneurial venture. This increases the potential for conflict. Rosenblatt *et al*., (1985) mentioned that conflicts are usually invoked from unique problems relating to the way in which family relations affect the process of supervision and issues of compensation at work.

5. When there is significant difference between an entrepreneur and the spouse in terms of their socialization process from the bringing up stage, then there is high probability of personality clash and this adversely affects children's bringing up who start learning to defy and, in the process, loose confidence of the entrepreneur. This results in increasing conflicts at later stage. This type of conflict can be termed as "Husband - Wife - Children Personality Triangle".

6. When children grow in an open environment, they develop their own liking and disliking about all aspects in life and particularly the choice of profession. Offspring may decide that they do not want employment in their parents' business because they want to take advantage of the education opportunities available to them (Stavrou and Swiercz, 1999) and because they will not be able to make best use of their skills there (Stavrou, 1996). Thus, one cause of conflict arises due to offsprings not being interested in joining the family business irrespective of its size.

7. When the son is involved in family business under father's leadership, the management thinking and style of the two may be conflicting due to generation gap. This may be regarding continuance of the old technology vs. technology upgradation, compensation package to the workers, product pricing, distribution channels, advertising budget, choice of suppliers, product quality strategy, diversification strategy etc.

8. Sometimes the problems are also induced by certain people who have some vested interests or are jealous of the FGE. Rivalries can arise among family members (Morris, *et al*., 1997). Such people create misunderstanding and cause conflicts.

There are other reasons also that cause conflicts and hinder harmonization transition of family business from one generation to the next generation. The key to smoothen the succession process lies in successful management of the conflicts that may arise between the two generations in the process of family business transition.

FACTORS AFFECTING SMOOTH SUCCESSION

Succession includes the transfer of ethics, values and traditions along with the actual business itself (Danco, 2004). All entrepreneurs look forward to a smooth succession of their business enterprise by the time they retire. Most entrepreneurs have expectations, hopes and desires from the successor for their organizations. It is hoped that the successor(s) will share this vision and be able to run their business enterprise at least as efficiently as was done earlier. The entrepreneur usually focuses on a son as a successor with the intent of gradually giving him the operational responsibilities followed by strategic power and ownership. Different problems may occur and affect the smooth succession of the family business enterprise.

One major concern is the level of willingness to relinquish management authority and control (Morris *et al*., 1997). To a large extent, the owner's personality and talents shape up the SMEs. Some entrepreneurs are easy to replace whereas for others, suitable replacement is difficult. An entrepreneur who is the idea person in a high-tech operation, if he is removed from the picture, the company might be unable to continue. The same is true for an entrepreneur whose personal business-facilitating contacts are the key factors for the enterprise's success. However, an entrepreneur running an operation that requires a minimum of knowledge or expertise usually can be replaced without much trouble. Additionally, the entrepreneur may not want to be removed.

The potentially dysfunctional outcomes of sibling rivalries and /or failure to accommodate one another has/have been another factor(s) affecting smooth succession (Barnes and Herson, 1976; Handler 1991; Kaslow, 1993; Ket de Vries, 1993). When an entrepreneur has more than one son interested in taking over the family business, it becomes very difficult for the owner to choose a successor among his sons. Succession becomes a highly charged emotional issue for him as well as for the family and sometimes even the close blood-relations get involved with the issue. Each of the owner's sons may feel that he should be put in charge of the operation. Many times the SME is too small to accommodate all the sons. It may be tempting for the owner to put different children in charge of different areas of the business enterprise. But this could cause disputes later on which could even lead to the business breaking up. Given that only one of them could succeed the family business, the rivalry could lead to the sale or bankruptcy of the business.

The factors such as aptitude of the son and his level of preparedness, i.e. the extent to which he has the requisite business skills, managerial capabilities, knowledge of company operations, and attitudinal predisposition to run the business etc. matter a great deal (Doescher, 1993; Fenn 1994; Hyatt, 1992; Osborne, 1991). If he possesses the aptitude to run the family business, the succession would be smooth. On the other hand, if the son lacks the aptitude to run the business, the father would be very apprehensive in relinquishing the

control of the business enterprise to his son. Son's incapability could lead to losses or even bankruptcy of the firm. So in the absence of any other heir, the owner would prefer to sell off his business enterprise.

Age difference between the father and the son plays a significant role in the smooth succession of the business enterprise. A higher age gap among them would lead to quicker succession since by the time the son becomes competent enough to succeed, the father would be nearing his retirement. So there is a smoother and a quicker succession. On the other hand, in case of a lower age gap, succession takes place very late, which leads to more conflicts. By the time the son becomes mature enough to succeed, the father is at his peak, rapidly expanding and growing his business enterprise. At this stage, the entrepreneur desires to control almost all aspects of his enterprise and generally, may not be interested in handing over the family business to his son. He finds it very difficult to relinquish or delegate any authority to his son at that point of time. Another dimension of age gap is the father not wanting to hand over the reigns of the family business to the son(s) fearing that loss of economic control would adversely affect his importance and care by the youngsters in the family.

Conflicts that arise due to higher age gap can be resolved by making the son an independent entrepreneur in a different business enterprise. The father can allocate a new factory for his son and ask him to run it independently. Gradually, the entrepreneur would empower his son. Another way to resolve this problem is that the son works as the entrepreneur's Apprenticeship. This way he would be able to understand the functioning of the business enterprise and be groomed adequately for future inheritance of the family business.

Another important factor in the venture's success is whether the founder and the heirs can get along. The basic thing to be developed is trust and affability (Morris, *et al*., 1997). Trust is characterized by openness and honesty among family members, as well as confidence in family's member's reliability and integrity. It can be associated with such qualities as consistency, competence, fairness, responsibility, helpfulness and benevolence. Affability is concerned with respect between the family business head and heirs, on the one hand, and with the minimization of rivalry, bickering, hostility and tension, on the other hand.

Another important factor affecting the succession is the nature and the level of the education that the son acquires. His over-qualification vis a vis the business size would be a disincentive for him to inherit the family business. For example, after completing his MBA, the son may like to opt for a job. He would prefer a high paying job rather than take over the family business. Suppose he decides to succeed his father in the business. Being very competent, he would be a fast learner and would be able to take the family business to new heights. In this case, smooth succession of the family business would take place. On the other hand, in case of under qualification of the son, the father would hesitate to relinquish the family business to his son. In such a case, the succession may take place very late or perhaps the owner might prefer to sell off his business enterprise. When the son is 'appropriately qualified', he would be able to run the family business well as envisioned by his father and be able to meet his father's expectations, hopes and desires.

Size of the family business also plays an important role in smooth succession. In case of a small family business, the son, even though moderately qualified, would not be interested in taking up his family business. So the succession becomes difficult in such cases. However, in

case of a big SME, the son would be interested in joining the family business and succession in this case would be easier.

Sometimes, it so happens that the entrepreneur is required to step aside and let someone else take over the control of the company. This happens mostly due to death or some kind of physical incapacitation or some mental or psychological breakdown, which results in the entrepreneur having to withdraw from the operations of the business enterprise. Such events are called forcing events. These types of events are often unseen and the family seldom has a contingency plan for dealing with such situations. It places an unnecessary burden on those whom they leave behind and create major problems for the business if the entrepreneur has not identified any successor for his business enterprise. It reflects the lack of preparedness of entrepreneurs of family business in passing managerial control to the next generation. The earlier the entrepreneur begins to plan for a successor, the better are the chances of finding the right person since in the prospect of events that force immediate action, it results in inadequate time to find the best replacement.

Of all factors, the greatest amount of attention has been devoted to the need for family members to develop formal succession and to engage in early estate planning (Ward, 1987; Ward and Aronoff, 1992; Kets de Vies, 1993; Danco, 1982). The entrepreneur needs to develop a succession plan in order to make a decision regarding his heir. He then needs to groom his successor so that he becomes an able entrepreneur. In order to do so, he must become be able to turn from being a leader to being a coach, from being a doer to being an advisor (Danco, 2004). The successor must respect the owner's attachment towards the enterprise and be sensitive to his possessive feelings. He needs to blend family traditions with future business goals. At the same time he must be able to use his entrepreneurial flair to initiate necessary changes in the enterprise if needed.

HARMONIOUS FAMILY BUSINESS TRANSITION MODEL

The conflicts in the family business transition that are faced and the factors that effect smooth succession can be synthesized to develop the proposed Harmonious Family-Business Transition Model.

When the offsprings (sons) are in school, the parents should start educating and motivating them towards the advantages of joining the family business. When the offsprings reach the college level, the parents start providing entrepreneurship education and suitable exposure to them so that they feel themselves close to the family business by heart and mind both. When offsprings join the family business, they should be assigned the well defined role in the SME rather than just assisting their father. Initially, they must work in all functional areas and take independent responsibility so as to understand the complete functioning of the SME and then they should work as 'entrepreneur-apprentice'. If the SME is very small then not more than one son/daughter should be involved in the business. For other children, similar SMEs may be initiated so as to avoid the conflicts and sibling rivalries. However, if the SME is big then all those children who have to join the SME must have well defined roles and continue working in it until the FGE reaches the stage of retirement. At this stage, the share holding division should be amicably executed.

When the age gap between the FGE and his heirs is less, then the offsprings should be encouraged to gain working experience outside the family business by taking up job as an employee or new SME may be started for/by them. The extent of delegation and empowerment should be increased with the passage of time for a harmonious family business transition by the FGE. When the offsprings/sons gain adequate experience and develop the maturity for operating the business independently, then the family business may be transferred by the FGE to the offsprings/sons. The Harmonious Family-Business Transition Model is presented in Exhibit 1.

CONCLUSION

Entrepreneurs have been traditionally facing the problem of smooth transition of the family business. However, the difficulties faced by the FGEs are more crucial and they also lack the experience of witnessing the family business transition in the past. In the environment of democratically developing countries such as India, another problem that is faced by the FGEs is a higher degree of conflict due to generation gap. This is precisely so because the FGEs struggled much more in the process of growing their business enterprise. Normally, they faced the situation of scarcity in their initial period of struggle. The major generation conflict arises due to the fact that their offsprings are brought up in an environment of plenty and comfort. The conflicts that arise relate to attitudes, interests, way of thinking, personality, leadership style, trust, delegation, empowerment etc.

There are several factors that affect smooth succession and the transition of the family business such as the age gap between the father and offsprings, level and nature of their education, sibling rivalry, grooming process and so on. These factors remain more pronounced in case of FGEs. The analysis and discussion of the conflict situations and the factors affecting smooth succession lead to the development of the Harmonious Family-Business Transition Model which proposes the smooth and harmonious way for family business transition from the FGE to the heir/offsprings.

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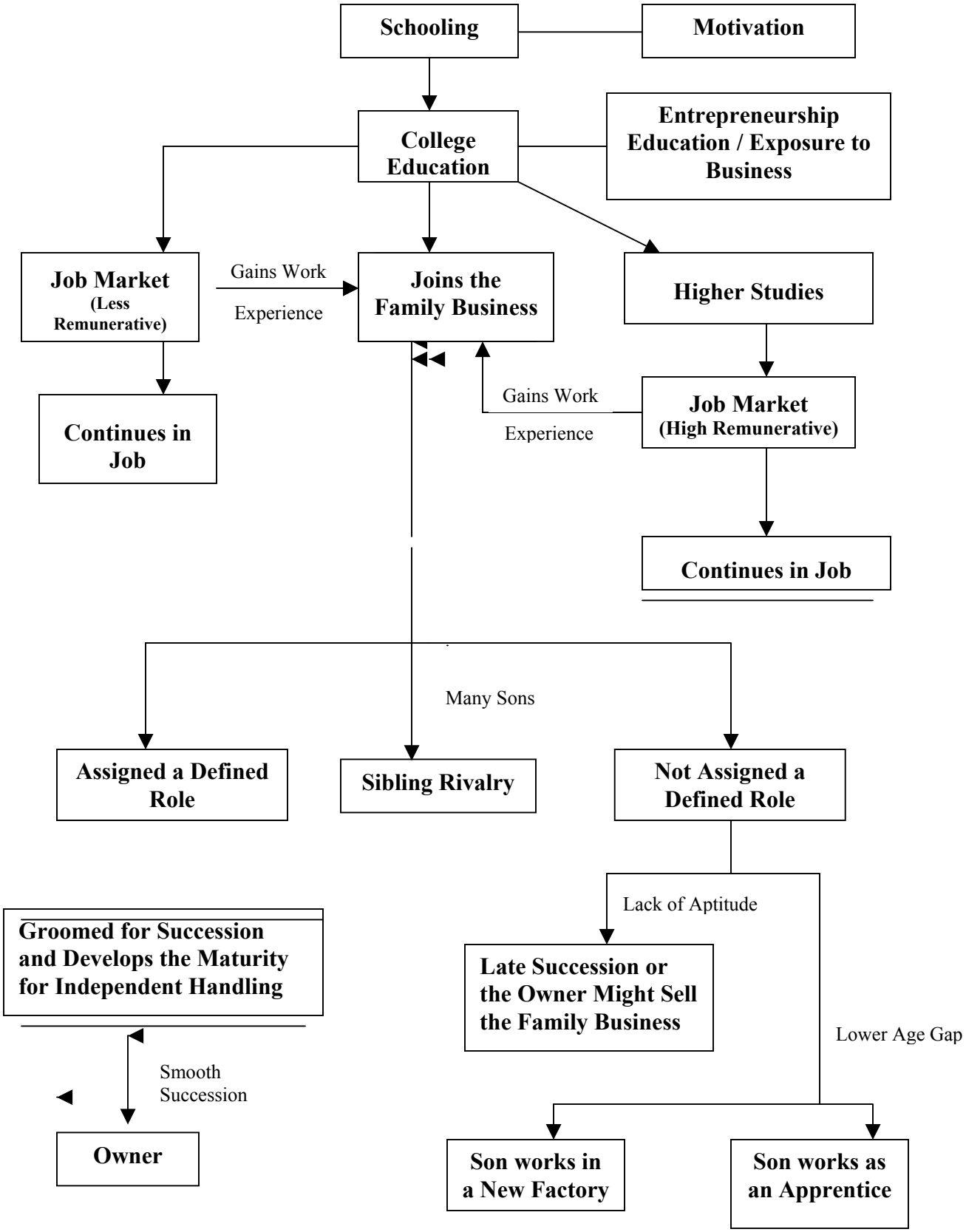

Exhibit 1: Harmonious Family-Business Transition Model

TRAINING NEEDS OF INDIAN SMES: ASSESSMENT AND ACTION PLAN

by

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INTRODUCTION

The last half-century has seen rapid developments in technology mainly due to rapidly growing competition and massive investments in R&D by the USA, Japan and several European countries. In particular, the recent developments in information and communication technologies such as satellite, computers, fax, cellular/mobile phones, Internet, etc. have virtually turned the world into a global village. The international community is now getting closer as never before. There is a growing and irreversible trend towards globalization. Large companies all over the world have been forced to outsourcing a large number of parts, components, sub-assemblies and accessories to cut costs of production in order to stay competitive. Thus, there is an increasing world-wide integration of the productive processes based on the economic principle of "efficient international division of labor".

International trade is now becoming as common as the domestic trade was until recently. This has thrown open vast opportunities to Small and Medium Enterprises (SMEs) throughout the world for growth in business, expansion and profitability. The vast opportunities have brought the threat of loosing out in the world of increasing competitiveness. Thus, SMEs everywhere have to find ways to grow and become more competitive by reducing costs, penetrating new markets, upgrading product quality, introducing new innovative products, increasing production levels, deriving economies of scale, reducing employee turnover, upgrading the techno-managerial skills of self, managers/supervisors and workers, and so on. The techno-managerial skills are upgraded through training. However, it is a general perception that entrepreneurs are averse to training and do not respond to the training programs offered by the trainers or training institutions. If the entrepreneurs do not care for training then how can they enhance their own as well as their employees' managerial competence. This paper first presents the structure and performance of Indian SMEs and then the findings of a major study undertaken in the National Capital Region (NCR) of India, i.e. Delhi and neighboring States' districts around Delhi to assess the training needs of SMEs as perceived by the entrepreneurs. This is followed by the analysis of the supply side scenario and the recommendations for the action plan.

STRUCTURE AND PERFORMANCE OF INDIAN SMES

Traditionally, the Indian economy was known to be agriculture in character as majority of population was engaged in agriculture and related occupations. However, the agro-industrial base of India was also quite developed simultaneously, in addition to the industries such as gold / silver / copper / tin / iron / sugar / salt / paper / jute / wood / rubber / chemical manufacturing, brick- laying, leather works, pottery, weaving, dying etc. Prior to the beginning of planning era in 1951, there were plenty of tiny industries whereas the modern type of small and medium enterprises (SMEs) were generally missing as there was no planned industrial development of the country before independence. Accordingly, in the era of planned development, the tiny and small scale industries were clubbed together to form the Village and Small Industries (VSI) sector that was designed to cover a wide variety of activities which were sub-divided into eight sub-sectors viz., (a) Khadi, (b) Village industries, (c) Handlooms, (d) Sericulture, (e) Handicrafts, (f) Coir (g) Powerlooms and (h) Small Scale Industries (SSIs). Thus, the modern SMEs in India are known as SSIs.

India's second five year plan (1956-61) laid emphasis on development of heavy industries mostly in the public sector and this absorbed the growing labor force. However, because of the huge capital requirement, such trend of investment could not continue. With the spread of college education, the problem of educated unemployment started surfacing in late 1960s and early 1970s, and the only alternative was development of SMEs which could provide employment to the masses at low capital investment. Table 1 reveals that the number of SMEs grew very rapidly from about 500 thousands in 1975 to about 3.37 millions in 2001 with more than four fold increase in employment to about 18 millions during this period. The Manufacturing SMEs Survey in 1994-95 revealed the sectoral structure of the SMEs as shown in Table 2. It was found that wood products, food products, repair services accounted for more than 50% of the SMEs. Tobacco related, textiles and garments accounted for about 25% of the SMEs.

In 1974-75, the SMEs accounted for production worth Rs. 92 billion (approximately US $ 18 billion) which rose to Rs. 6.45 trillion (approximately US $ 141 billion) in 2000-01 as shown in Table 3. The SMEs had negligible exports in 1951-52. The most remarkable achievement of the Indian SMEs is their contribution to exports and foreign exchange earnings of about Rs. 490 billion (US $ 11.64 billion) in 1998-99 and US $13.13 billion in 2000-01 as shown in Table 4.

In spite of the significant contributions to the national economy, the Indian SMEs suffer from the problem of industrial sickness. As on 31st March 2001, there were 249,630 sick SMEs (out of total of 3.37 millions) amounting to 7.41% of the total SMEs. Of these, only 13,076 units (5.24%) were considered potentially viable by the financial institutions (banks) with an outstanding credit of Rs. 3.99 billion (US $ 85 million) out of the total blocked amount of Rs. 45 billion (US $ 962) million 91.2 % of the total blocked amount will have to be written off on account of bad debts. In India, the sickness of an industrial unit has been defined in alternative ways. According to Reserve Bank of India (RBI), "a sick unit is one which incurs cash losses for one year and which, in the judgment of the bank, is likely to incur losses for the current year as well as the following year, and which has an imbalance in its financial structure, such as a Current Ratio of less than 1 and worsening debt-equity ratio. The Sick Industrial Companies Act (1985) defines a sick industrial company as "a company registered for not less than 5 years which has at the end of any financial year accumulated losses equal to or exceeding its entire net-worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year". The sickness may be caused due to exogenous and/or endogenous factors. Some of the exogenous factors relate to changes in international economic environment (e.g. WTO), government policies pertaining to production, distribution, prices, taxation etc.,

and/or infrastructure and related problems such as shortage of power, transportation, raw materials, deteriorating industrial relations etc. Some important endogenous factors causing industrial sickness are: mismanagement, bad planning, overestimation of demand, diversion of funds, excessive overheads, insufficient provision for depreciation, wrong dividend policy etc. As mentioned above, out of the total of 3.37 million SMEs, about 7 per cent have been found to be sick which cannot be considered as a very high proportion of the total units, particularly in the emerging WTO regime where the business environment is changing rapidly.

Commercial Banks and specialized financial institutions play an important role in extension of financial assistance, particularly for meeting the working capital requirement of this sector. The major institutions extending credit to the SSI enterprises in India include Small Industries Development Bank of India (SIDBI), State Finance Corporations (SFCs) in each State/Province of the country, public sector commercial banks, regional rural banks and cooperative banks. If the loans of these institutions were not repaid in time then the banking system would tend to collapse. India underwent the first phase of nationalization of major private commercial banks in July 1969 followed by the second phase of nationalization in early 1980. The nationalized banks rapidly expanded their branch network to mobilize resources and disperse loans to the priority sector, which included the agricultural sector, household/tiny industries and small-scale enterprises. The economic policies of the government that were followed during the 1970s and 1980s created an increasing number of willful defaulters resulting in the rapid growth of bad debts and non-performing assets. The economic reforms initiated in the country in 1991-92, which have been continuously strengthened by the successive governments since then, have tended to make the borrowers more responsible and the problem of bad debts has moved in a direction to find the solution.

TRAINING NEEDS OF SMES

The managerial competency can be enhanced through training of entrepreneurs and managers/supervisors of the SMEs. Some useful training themes have been identified as follows: Performance Appraisal, Reward System, Motivation, Japanese Management System, Effective Communication Skills, Self Management, Management of Change, Managerial Excellence, Managing Competition, Effective Negotiation Skills, Time Management, Stress Management, Creative Problem Solving Skills, Decision Making, Team Building, Conflict Management etc. Some of these themes are quite standardized whereas others are not. A thorough investigation may reveal many more useful training themes for the SMEs.

Unlike the large corporate sector, the SSI Units do not have separate HRD Managers. Accordingly, these do not have the system of scientifically identifying the training needs of their personnel. Also, in view of their smallness, the training needs of managers, supervisors and workers of the SSI Units are identified directly by the entrepreneurs. Here the situation is such that a person (entrepreneur) tries to find out the training needs of his employees without knowing and adopting the right procedure for doing so. The exposure of any entrepreneur is not so much that he or she can identify all possible training needs of the employees. In the absence of adoption of a systematic methodology, all training needs cannot be identified correctly. An entrepreneur needs to be made aware of alternative training themes so as to give him a broad spectrum of training alternatives so

that he/she can indicate the extent of usefulness of these training themes. The present study attempts to assess the extent of usefulness of training on various such themes.

RESEARCH METHODOLOGY

This study uses structured and non-disguised questionnaire to seek the response of the SME entrepreneurs in the NCR of India that consists of the State of Delhi, and includes Gautambudh Nagar (Noida) and Ghaziabad districts of the State of Uttar Pradesh, and Faridabad and Gurgaon districts of the State of Haryana. The number of industrial areas in the State of Delhi is very large and it is an extremely difficult task to cover all these areas which are several hundred in number. Therefore, two largest industrial areas of Delhi, viz. Okhla and Wazirpur were selected for the study. The results of the empirical study are based on 374 valid responses from the entrepreneurs of 3400 selected SMEs to which questionnaires were sent. More than 10 per cent response rate could be achieved by way of repeated reminders and sending another copy of the questionnaire through mail as well as personal contacts.

FINDINGS & ANALYSIS

The survey findings and analysis are presented as follows.

1. Training Needs for Developing Managerial Competence

Table 5 presents the extent of usefulness of training on policy and knowledge-based themes. About 50 per cent of the respondents have indicated the extent of usefulness of training on 'Government Policies on SMEs' as medium or high. About 43 per cent sample entrepreneurs have indicated 'WTO and Its Impact' as medium or highly useful theme of training. In contrast to this, the training on 'Intellectual Property Rights' has been considered 'not applicable' by about 46 per cent entrepreneurs and only one-fourth of the entrepreneurs have considered it as medium or highly useful theme of training.

Table 6 presents the usefulness of training program related to production management and productivity. From about one-fifth to one-third of the sample entrepreneurs do not find any applicability of production management related training for their SSI units. The most important theme for training in this category has been found to be 'Improving Work Culture and Productivity' by about 47 per cent of the sample entrepreneurs. About 27 per cent of the respondents have indicated its usefulness as medium. The next most important themes for training are indicated as 'Rejection and Wastage Control' and 'Process-time Reduction' by about two-third of the sample entrepreneurs. Other themes like 'Project Management', 'Materials Management', 'Vendor Development', 'Safety Management', 'TQM & ISO Certification' and 'Quality Circles & Suggestion Scheme' have also been considered as medium or highly useful by about 50 % to 60 % of the sample entrepreneurs.

Table 7 indicates usefulness of Human Resource Management (HRM) related training programs. The entrepreneurs response has been sought on the following themes: (a) performance, reward system & motivation, (b) Japanese management system, (c) effective

communication skills, (d) self management, (e) management of/for change, (f) managerial excellence, (g) managing competition, (h) effective negotiation skills, (i) labor laws, (j) time management, (k) stress management, (l) creative problem solving & decision making, (m) team building & conflict management, (n) A to Z management of SSI unit. About two-third to three-fourth of the sample entrepreneurs consider medium or high usefulness of training in the areas of 'Self Management' (71 %), 'Effective Negotiation Skills' (71 %), 'Reward and Motivation' (70 %), 'Managing Competition' (69 %), and 'Creative Problem Solving' (66 %). For other themes, the medium or high importance was indicated by about 60 per cent of the respondents except that 'Japanese Management System' was considered useful by about 39 per cent respondents.

Thus, it has been found that training on Managing Competition, Effective Negotiation Skills, Performance Appraisal, Reward System, Motivation and Self Management is perceived to be **highly useful** by more than one-third of the respondents. This is followed by the training on Managerial Excellence, Effective Communication Skills, Creative Problem Solving Skills, Time Management, Team Building and Conflict Management which have been considered as highly useful by a little less than one-third of the respondents. If the entrepreneurs' responses as 'medium' and 'high' usefulness of training are combined then it is found that about two-third of the respondents have indicated training on these themes as medium or highly useful. The training on themes such as Stress Management, Management of Change, Japanese Management System and Labor Laws has been perceived as less useful.

Table 8 presents the distribution of respondents according to the extent of usefulness of training in the area of Marketing Management. Two-third of the sample entrepreneurs have indicated medium or high usefulness of training on 'Effective Sales Management' whereas 55 per cent respondents have indicated medium or high usefulness of training on 'Advertising and Sales Promotion'. The e-Marketing or e-Commerce does not seem to be the favorite of sample entrepreneurs. For about one-third respondents this theme is indicated as 'not applicable' and only about 47 per cent respondents consider this as useful.

Table 9 presents training needs of sample entrepreneurs in the area of Financial Management. More than two-third of the entrepreneurs have indicated as medium or high usefulness of training on 'Cost Analysis for Profit Planning' and 'Cost Control and Decision Making'. About 60 per cent entrepreneurs have also favored training program on 'Alternative Sources of Working Capital'.

Table 10 presents the extent of usefulness of training programs related to the workers. For most of the training themes for the workers, more than half of the sample entrepreneurs have found training to be medium or highly useful. In terms of high usefulness of training themes for the workers, 'Improving Workers Productivity' has been found to be highly useful by about 58 per cent of the sample entrepreneurs. This is followed by 'Training on Technical Skills' (48.8 %), 'Good Work Habits' (46.1%), 'Work Ethics' (43.2 %). The 'Preventive Maintenance' and 'Industrial Safety' followed by 'Evils of Drinking & Smoking Habits' and 'Constructive Union Leadership' have also been considered as useful training themes by the sample entrepreneurs.

Thus, it is discernible from the foregoing discussion that the responding entrepreneurs do consider managerial as well as workers training on various aspects as useful. The extent of usefulness of various training themes as indicated by these entrepreneurs is a significant finding of the present study as these results can be used by the trainers and

training organizations committed to organized relevant and suitable training programs for the SSI sector.

Training Needs & SME Size

Table 11 reveals the survey findings on training needs by the size of SMEs as measured by number of employees. It has been found that as the number of employees in the unit increases, the usefulness of training generally becomes higher. The training on themes such as Managing Competition, Effective Negotiation Skills, Performance Appraisal, Reward System, Motivation, Managerial Excellence, Effective Communication Skills and Self Management has been indicated as **highly useful** by more than 45 per cent of the SMEs having more than 25 employees. About three-fourth of the responding entrepreneurs of these SMEs have indicated training on these themes as 'medium' or 'highly' useful. In case of training on Time Management there is significant difference between the perceptions of its usefulness by the units with more than 50 employees and those with employees' strength between 26 and 50. Only about 30 per cent of the SMEs in the latter category consider training on Time Management as highly useful in contrast to more than 52 per cent in the former category. Somewhat similar pattern is exhibited in case of training on Creative Problem Solving and Decision Making. Training themes such as Japanese Management System and Management of Change have not been perceived as highly useful by more than one-third of the responding entrepreneurs of this category SMEs.

Training Needs & SME Turnover

The size of an industrial unit usually increases with its turnover. The analysis of training needs of the sample SMEs reveals that more than half of the respondents (50% to 60%) from SMEs with turnover more than Rs. 5 crores consider training on Performance Appraisal, Reward System, Motivation, Effective Communication Skills, Managing Excellence, Managing Competition, Effective Negotiation Skills to be **highly useful** (Table 12). The usefulness of such training has been found to be increasing with the turnover of the organization. This finding is consistent with the increasing usefulness of training in these areas when analyzed from the point of view of size of the SME by the number of employees. Similar pattern is observed in the responses towards the training on Japanese Management System, Self Management, Management of Change, Time Management, Stress Management, Creative Problem Solving, Decision Making, Team Building and Conflict Management. These are also consistent with the findings regarding usefulness of training needs with increasing number of employees in the responding SMEs.

Training Needs & Organization's Age

Although the training needs as perceived by the organizations of varying ages do not show upward or downward trend, it can be broadly concluded that the usefulness of training has been found to be lower for the older SMEs set up before 1970 as well as those young SMEs set up in the 1990s. These results are presented in Table 13. It has been found that the organizations set up in the 1970s realize the training as highly useful. About 40% of these SME entrepreneurs have considered as **highly useful** the training on Performance Appraisal, Reward System, Motivation, Effective Communication Skills, Self Management, Managerial Excellence, Managing Competition, Effective Negotiation Skills, Time Management, Creative Problem Solving Skills, Decision Making. Other themes have not been found as highly important by more than one-third of these entrepreneurs. This could

be due to the age factor of the entrepreneur, motivation for growth, succession-planning interest of the potential inheritor of the business.

SUPPLY-SIDE SCENARIO

The analysis presented above reveals the extent of training needs of different sets of SMEs. Although the entrepreneurs have revealed high importance for training, in practice they show a lukewarm attitude towards sponsoring their managers/supervisors for training.

Unlike the SME sector, the large corporate sector systematically earmarks budget for training, most of the Indian professional trainers are engaged in the corporate sector training. New training programs are designed for the corporate sector executives and conducted at attractive Indian/foreign locations. Such programs are also well marketed as there is potential demand as well as attractive returns for trainers and training organizations.

On the other hand, the training for SMEs is neither associated with much demand by the entrepreneurs nor does it provide satisfactory returns to the trainers and training organizations. Thus only the philanthropist trainers or otherwise less competent trainers are engaged in the business of SME training. Thus, the vicious circle of low importance of training by the SMEs starts. As there is dearth of good and appropriate training programs, the SMEs do not wish to spend money for training and when there is no reasonable demand for training, the good trainers do not get into the SME training. Another hampering factor in SME training is the psychology of the entrepreneurs which works in two ways. One, an average entrepreneur does not want to spare his people for training as he considers it to be a double loss, i.e. the loss of work due to absence of the employee sent on training as well as the cost of training (Registration Fee, transportation expense etc). The other psychological factor that hinders SME training is the entrepreneur's attitude that 'he knows everything' and 'nobody can impart "training" to him', and that the training is important but it does not add to (future) profits.

India has several professional bodies of trainers but specialized tailor-made SME Training Programs hardly exist and no efforts seem to be underway in this regard. Thus, it can be said that the supply-side of SME training is weak in India. The situation does not seem to be much different in most other developing countries as has been revealed by the SME experts from those countries. Thus, it may be concluded that the supply-side side of SME training needs significant upgradation.

CONCLUSION AND RECOMMENDATIONS

The SMEs contribution to the national economy has been found to be quite significant in India, as is true elsewhere in the world. The findings of field study reveal that the SMEs, particularly in the NCR of India, consider training as important. Some of the training themes such as Performance Appraisal, Reward System, Motivation, Effective Communication Skills, Self Management, Managerial Excellence, Managing Competition, Effective Negotiation Skills, Time Management, Stress Management, Creative Problem Solving Skills etc. are considered important by the entrepreneurs. The training needs are

higher for SMEs with large number of employees and higher turnover. The SMEs do not feel need for training to be strong if they have been set up during the past 10 years. However, there are psychological road-blocks on the part of entrepreneurs that are responsible for their lukewarm attitude towards training. The findings of the study are extremely important for the trainers and training organizations actively engaged in this activity. If extremely well-designed training packages are developed and offered to the SMEs, then the SME Training Programs would sell like hot cakes. The enlightened entrepreneurs must come forward in this regard. Governmental SME Training Institutions would also need to work hard in this direction. If all stake holders join hands, then the SMEs would tend to be more successful in this era of globalization and industrial sickness will be far away from them.

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TABLES

Table 1: Number of SMEs (or SSEs) in India

Year (as at March end)	**Cumulative No. of Units** (in Million)	*Growth* (%)	**Average Annual Growth Rate** (%)	**Employment** (in million)	**Growth** (%)	**Average Annual Growth Rate** (%)
1975	0.50	-	-	4.04	-	-
1980	0.81	62.0	12.40	6.70	65.8	13.16
1985	1.24	53.1	10.62	9.00	34.3	6.86
1990	1.82	46.8	9.36	11.96	32.9	6.58
1995	2.57	41.2	8.24	14.66	22.6	4.52
2000	3.21	24.9	4.98	17.85	21.8	4.36
2001 (E)	3.37	4.98	4.98	18.56	3.98	3.98

E: Estimate

Source: Report of the Study Group on the Development of SSEs (Planning Commission, Govt. of India, 2001)

Table 2: Distribution of SMEs by Industry Groups

Industry Groups	Enterprises (in '000)	Percentage of Total
Food Products	2394.32	16.50
Beverages, Tobacco & Tobacco	1426.56	9.84
Cotton Textiles	818.51	5.64
Wool, Silk & Synthetic, Fibre	340.19	2.35
Jute, Hemp & Mesta Textiles	95.00	0.65
Hosiery & Garments, etc.	1093.60	7.54
Wood Products	2872.71	19.81
Paper Products & Printing	174.93	1.21
Leather & Leather Products	211.31	1.46
Rubber & Plastic Products	143.32	0.99
Chemical & Chemical Products	84.64	0.58
Non-Metallic Mineral Products	853.15	5.88
Basic Metal Industries	34.12	0.24
Metal Products	449.66	3.10
Machinery & Parts Except	95.03	0.66
Electrical Machinery & Parts	28.89	0.20
Transport Equipment & Parts	28.23	0.19
Miscellaneous Mfg. Industries	1159.41	7.99
Other Repair Services	2186.85	15.08
Services (not elsewhere classified)	13.68	0.09
Total	14504.11	100.00

Source : Manufacturing Enterprises Survey 1994-95

Source: Manufacturing Enterprises Survey 1994-95

Table 3: Production of SMEs in India

(Figures in Billions)

Year	Production at Current Prices			
	Indian Rs.		Approx. US $	
	Amount	Average Annual Growth Rate (%)	Amount	Average Annual Growth Rate (%)
1974-75	92.00	-	18	-
1979-80	216.35	27.03	28	11.11
1984-85	505.20	26.70	43	10.71
1989-90	1323.20	32.38	79	16.74
1994-95	2988.86	25.18	94	3.80
1999-00	5728.87	18.34	132	8.09
2000-01 (E)	6454.96	12.67	141	6.82

E: Estimate

Source: Report of the Study Group on the Development of SSEs (Planning

Commission, Govt. of India, 2001)

Table 4: Growth of Exports by SMEs

(Figures in Billions Rs.)

Year	Total Exports (Rs.)	Export by SSEs (Rs.)	Percentage Share of SSEs
1951-52	7.16	Negligible	-
1971-72	16.08	1.55	9.6
1976-77	51.42	7.66	14.9
1981-82	78.00	20.71	26.5
1986-87	125.67	36.44	29.0
1991-92	440.40	138.83	31.5
1996-97	1188.17 ($33.47)	392.48 ($11.06)	33.0
1998-99	1397.52 ($33.22)	489.79 ($11.64)	35.0
1999-2000	1595.61 ($36.82)	542.10 ($12.51)	33.98
2000-01 (E)	2035.71 ($44.56)	599.83 ($13.13)	29.47

E: Estimate
Source: Report of the Study Group on the Development of SSEs (Planning Commission, Govt. of India, 2001)

Table 5: Percentage Distribution of Respondents According to Extent of Usefulness of Policy and Knowledge-based Training Programs

S.No.	Nature of Program	Extent of Usefulness			
		Low	Medium	High	N.A.
1	Govt. Policies for SME's	24.27	30.40	20.27	25.07
2	WTO & its Impact	21.60	21.33	22.13	34.93
3	Intellectual Property Rights (Patents etc.)	29.07	16.27	8.80	45.87

Table 6 : Percentage Distribution of Respondents According to Extent of Usefulness of Training Programs Related to Productivity

S.No.	Nature of Program	Extent of Usefulness			
		Low	Medium	High	N.A.
1	Project Management	20.00	32.27	14.40	33.33
2	Materials Management	16.27	34.13	22.93	26.77
3	Vendor Development	15.73	26.93	30.93	26.40
4	Process-time Reduction	11.20	22.67	40.27	25.87
5	Safety Management	19.47	31.47	25.87	23.20
6	TQM & ISO Certification	11.20	28.00	28.80	32.00
7	Quality Circles & Suggestion Schemes	13.33	30.13	29.07	27.47
8	Improving Work Culture & Productivity	7.73	26.93	47.20	18.13
9	Rejection & Wastage Control	10.93	26.13	42.93	20.00

Table 7 : Percentage Distribution of Respondents According to Extent of Usefulness of Training Programs Related to HRM

S.No.	Nature of Program	Extent of Usefulness			
		Low	Medium	High	N.A.
1	Performance, Reward System & Motivation	8.80	33.87	36.00	21.33
2	Japanese Management System	12.53	18.67	20.00	48.80
3	Effective Communication Skills	9.87	32.53	32.80	24.80
4	Self Management	8.53	35.73	35.73	20.00
5	Management of / for Change	9.07	33.60	21.07	36.27
6	Managerial Excellence	7.73	33.33	34.40	24.53
7	Managing Competition	7.20	31.20	37.87	23.73
8	Effective Negotiation Skills	6.67	34.40	36.53	22.40
9	Labor Laws	23.47	34.13	24.27	18.13
10	Time Management	16.27	32.80	29.87	21.07
11	Stress Management	21.87	34.40	17.60	26.13
12	Creative Problem Solving & Decision Making	11.20	33.33	32.80	22.67
13	Team Building & Conflict Management	13.87	30.93	28.53	26.67
14	A to Z Management of SSI Unit	14.93	27.47	33.87	23.73

Table 8: Percentage Distribution of Respondents According to Extent of Usefulness of Training Program Related to Marketing Management

S.No.	Nature of Program	Extent of Usefulness			
		Low	Medium	High	N.A.
1	Effective Sales Management	11.47	36.53	30.13	21.87
2	Advertising & Sales Promotion	20.27	38.13	17.07	24.53
3	e-Marketing / e-Commerce	18.13	27.23	20.03	34.67

Table 9: Percentage Distribution of Respondents According to Extent of Usefulness of Training Programs Related to Financial Management

S.No.	Nature of Program	Extent of Usefulness			
		Low	Medium	High	N.A.
1	Cost Analysis for Profit Planning	9.33	34.13	35.73	20.80
2	Cost Control & Decision Making	10.67	30.67	37.33	21.33
3	Alternative Sources of Working Capital	14.40	32.00	27.73	25.87

Table 10: Percentage Distribution of Respondents According to Extent of Usefulness of Training Programs Related to Workers

S.No.	Nature of Program	Extent of Usefulness			
		Low	Medium	High	N.A.
1	Technical Skills	10.93	28.80	48.80	11.47
2	Improving Workers Productivity	5.87	21.87	57.87	14.40
3	Work Ethics	13.07	27.20	43.20	16.53
4	Industrial Safety	12.53	37.87	36.80	12.80
5	Preventive Maintenance	9.07	37.60	37.60	15.73
6	Good Work Habits	9.07	30.93	46.13	13.87
7	Evils of Drinking & Smoking Habits	20.53	25.07	32.80	21.60
8	Constructive Union Leadership	25.60	28.00	18.93	27.47

Table 11: Distribution of Respondents According to the Extent of Usefulness of Training Programs Related to No. of Employees

S. No	Nature of Program	No. of Employees	Extent of Usefulness			
			Low	Medium	High	N.A.
1	**Performance, Reward System & Motivation**	Upto 10	**7.9**	**35.0**	**22.9**	**34.3**
		11-25	**11.54**	**33.65**	**37.50**	**17.31**
		26-50	**9.09**	**34.85**	**46.97**	**9.09**
		More than 50	**6.15**	**30.77**	**50.77**	**12.31**
2	Japanese Management System	Upto 10	**10.0**	**12.9**	**14.3**	**62.9**
		11-25	**11.54**	**22.12**	**17.31**	**49.04**
		26-50	**22.73**	**19.70**	**25.76**	**31.82**
		More than 50	**9.23**	**24.62**	**30.77**	**35.38**
3	Effective Communication Skills	Upto 10	**9.3**	**35.0**	**18.6**	**37.1**
		11-25	**9.62**	**29.81**	**34.62**	**25.96**
		26-50	**10.61**	**33.33**	**46.97**	**9.09**
		More than 50	**10.77**	**30.77**	**46.15**	**12.31**
4	Self Management	Upto 10	**9.3**	**36.4**	**22.9**	**31.4**
		11-25	**6.73**	**37.50**	**38.46**	**17.31**
		26-50	**7.58**	**37.88**	**46.97**	**7.58**
		More than 50	**10.77**	**29.23**	**47.69**	**12.31**
5	Management of/for Change	Upto 10	**8.6**	**33.6**	**10.7**	**47.1**
		11-25	**7.69**	**32.69**	**24.04**	**35.58**
		26-50	**10.61**	**33.33**	**25.76**	**30.30**
		More than 50	**10.77**	**35.38**	**33.85**	**20.00**
6	Managerial Excellence	Upto 10	**7.1**	**35.0**	**22.9**	**35.0**
		11-25	**8.65**	**33.65**	**34.62**	**23.08**
		26-50	**12.12**	**30.30**	**42.42**	**15.15**
		More than 50	**3.08**	**32.31**	**50.77**	**13.85**
7	Managing Competition	Upto 10	**7.9**	**31.4**	**27.1**	**33.6**
		11-25	**5.77**	**32.69**	**41.35**	**20.19**
		26-50	**9.09**	**25.76**	**48.48**	**16.67**
		More than 50	**6.15**	**33.85**	**44.62**	**15.38**
8	Effective Negotiation Skills	Upto 10	**7.9**	**32.9**	**25.0**	**34.3**
		11-25	**8.65**	**35.58**	**37.50**	**18.27**
		26-50	**4.55**	**36.36**	**46.97**	**12.12**
		More than 50	**3.08**	**33.85**	**49.23**	**13.85**
9	Labor Laws	Upto 10	**27.9**	**29.3**	**16.4**	**26.4**
		11-25	**24.04**	**32.69**	**25.00**	**18.27**
		26-50	**19.70**	**40.91**	**30.30**	**9.09**
		More than 50	**16.92**	**40.00**	**33.85**	**9.23**
10	**Time Management**	Upto 10	**14.0**	**28.6**	**20.0**	**30.7**
		11-25	**16.35**	**34.62**	**28.85**	**20.19**
		26-50	**15.15**	**40.91**	**30.30**	**13.64**
		More than 50	**7.69**	**30.77**	**52.31**	**9.23**
11	**Stress Management**	Upto 10	**14.0**	**25.7**	**12.1**	**40.7**
		11-25	**25.00**	**34.62**	**20.19**	**20.19**
		26-50	**21.21**	**46.97**	**15.15**	**16.67**
		More than 50	**18.46**	**40.00**	**27.69**	**13.85**
12	**Creative Problem Solving & Decision Making**	Upto 10	**10.7**	**30.0**	**25.0**	**34.3**
		11-25	**12.50**	**37.50**	**31.73**	**18.27**
		26-50	**12.12**	**31.82**	**39.39**	**16.67**
		More than 50	**9.23**	**35.38**	**44.62**	**10.77**
13	**Team Building & Conflict Management**	Upto 10	**12.9**	**33.6**	**17.9**	**35.7**
		11-25	**14.42**	**26.92**	**31.73**	**26.92**
		26-50	**15.15**	**28.79**	**36.36**	**19.70**
		More than 50	**13.85**	**33.85**	**38.46**	**13.85**

Table12: Distribution of Respondents According to the Extent of Usefulness of Training Programs Related to HRM

S. No.	Nature of Program	Organization Turnover (Rs.)	Extent of Usefulness			
			Low	Medium	High	N.A.
1	Performance, Reward System & Motivation	**Upto 50 lakhs**	8.28	32.41	26.90	32.41
		50 Lakhs – 1 Crore	8.64	37.04	33.33	20.99
		1 Crore – 5 Core	**11.22**	**34.69**	**42.86**	**11.22**
		More than 5 Crore	5.88	31.37	52.94	9.80
2	**Japanese Management System**	**Upto 50 lakhs**	11.72	15.17	15.17	57.93
		50 Lakhs – 1 Crore	14.81	9.88	14.81	60.49
		1 Crore – 5 Core	**13.27**	**29.59**	**24.59**	**32.65**
		More than 5 Crore	9.80	21.57	33.33	35.29
3	**Effective Communication Skills**	**Upto 50 lakhs**	10.34	31.72	23.45	34.48
		50 Lakhs – 1 Crore	11.11	32.10	28.40	28.40
		1 Crore – 5 Core	**10.20**	**38.78**	**35.71**	**15.31**
		More than 5 Crore	5.88	23.53	60.78	9.80
4	**Self Management**	**Upto 50 lakhs**	9.66	34.48	26.21	29.66
		50 Lakhs – 1 Crore	4.94	40.74	33.33	20.99
		1 Crore – 5 Core	**10.20**	**36.73**	**44.90**	**8.16**
		More than 5 Crore	7.84	29.41	49.02	13.73
5	**Management of/for Change**	**Upto 50 lakhs**	8.97	30.34	15.17	45.52
		50 Lakhs – 1 Crore	6.17	41.98	14.81	37.08
		1 Crore – 5 Core	**11.22**	**27.55**	**28.57**	**32.65**
		More than 5 Crore	9.80	41.18	33.33	15.69
6	**Managerial Excellence**	**Upto 50 lakhs**	7.59	29.66	27.59	35.17
		50 Lakhs – 1 Crore	4.94	40.74	29.63	24.69
		1 Crore – 5 Core	**12.24**	**33.67**	**38.78**	**15.31**
		More than 5 Crore	3.92	31.37	52.94	11.76
7	**Managing Competition**	**Upto 50 lakhs**	7.59	27.59	33.10	31.72
		50 Lakhs – 1 Crore	4.94	37.04	34.57	23.46
		1 Crore – 5 Core	**8.16**	**33.67**	**38.78**	**19.39**
		More than 5 Crore	7.84	27.45	54.90	9.80
8	**Effective Negotiation Skills**	**Upto 50 lakhs**	7.59	29.66	30.34	32.41
		50 Lakhs – 1 Crore	4.94	38.27	34.57	22.22
		1 Crore – 5 Core	**8.16**	**38.78**	**37.76**	**15.31**
		More than 5 Crore	3.92	33.33	54.90	7.84
9	**Labor Laws**	**Upto 50 lakhs**	22.76	29.66	20.69	26.90
		50 Lakhs – 1 Crore	25.93	30.86	24.69	18.52
		1 Crore – 5 Core	**28.57**	**39.80**	**20.41**	**11.22**
		More than 5 Crore	11.76	41.18	41.18	5.88
10	Time Management	**Upto 50 lakhs**	22.76	29.66	20.69	26.90
		50 Lakhs – 1 Crore	7.41	38.27	32.10	22.22
		1 Crore – 5 Core	**15.31**	**33.67**	**33.67**	**17.35**
		More than 5 Crore	13.73	31.37	45.10	9.80
11	Stress Management	**Upto 50 lakhs**	21.38	27.59	13.79	37.24
		50 Lakhs – 1 Crore	23.46	38.27	13.58	24.69
		1 Crore – 5 Core	**23.47**	**35.71**	**22.45**	**18.37**
		More than 5 Crore	17.65	45.10	25.49	11.76
12	Creative Problem Solving & Decision Making	**Upto 50 lakhs**	12.41	30.34	24.14	33.10
		50 Lakhs – 1 Crore	13.58	33.33	30.86	22.22
		1 Crore – 5 Core	**10.20**	**34.69**	**40.82**	**14.29**
		More than 5 Crore	5.88	39.22	45.10	9.80
13	Team Building & Conflict Management	**Upto 50 lakhs**	15.17	31.03	19.31	34.48
		50 Lakhs – 1 Crore	13.58	35.80	23.46	27.16
		1 Crore – 5 Core	**15.31**	**23.47**	**39.80**	**21.43**
		More than 5 Crore	7.84	37.25	41.18	13.73

Table 13: Distribution of Respondents According to the Extent of Usefulness of Training Programs Related to HRM

S.No.	Nature of Program	Year in which unit set up	Extent of Usefulness			
			Low	Medium	High	N.A.
1	Performance, Reward System & Motivation	**Before 1970**	14.29	14.29	33.33	38.10
		1971 – 1980	7.69	26.15	44.62	21.54
		1981 – 1990	9.04	33.90	35.03	22.03
		1991 onwards	8.04	41.96	33.04	16.96
2	**Japanese Management System**	**Before 1970**	14.29	14.29	14.29	57.14
		1971 – 1980	10.77	21.54	29.23	38.46
		1981 – 1990	14.12	17.51	19.77	48.59
		1991 onwards	10.71	19.64	16.07	53.57
3	**Effective Communication Skills**	**Before 1970**	14.29	19.05	38.10	28.57
		1971 – 1980	7.69	26.15	41.54	24.62
		1981 – 1990	12.99	28.81	29.94	28.25
		1991 onwards	5.36	44.64	31.25	18.75
4	**Self Management**	**Before 1970**	9.52	19.05	42.86	28.57
		1971 – 1980	3.08	32.31	44.62	20.00
		1981 – 1990	9.60	35.59	32.77	22.03
		1991 onwards	9.82	41.07	33.93	15.18
5	**Management of/for Change**	**Before 1970**	14.29	14.29	28.57	42.86
		1971 – 1980	10.77	27.69	30.77	30.77
		1981 – 1990	7.91	32.77	18.08	41.24
		1991 onwards	8.93	41.96	18.75	30.36
6	**Managerial Excellence**	**Before 1970**	14.29	9.52	38.10	38.10
		1971 – 1980	7.69	27.69	43.08	21.54
		1981 – 1990	7.91	32.77	30.51	28.81
		1991 onwards	6.25	41.96	34.82	16.96
7	**Managing Competition**	**Before 1970**	9.52	33.33	28.57	28.57
		1971 – 1980	9.23	18.46	50.77	21.54
		1981 – 1990	7.34	32.77	30.51	29.38
		1991 onwards	5.36	35.71	43.75	15.18
8	**Effective Negotiation Skills**	**Before 1970**	9.52	23.81	38.10	28.57
		1971 – 1980	7.69	24.62	43.08	24.62
		1981 – 1990	6.21	33.90	35.03	24.86
		1991 onwards	6.25	42.86	34.82	16.07
9	**Labor Laws**	**Before 1970**	28.57	28.57	28.57	14.29
		1971 – 1980	24.62	30.77	27.69	16.92
		1981 – 1990	20.90	34.46	24.86	19.77
		1991 onwards	25.89	36.61	20.54	16.96
10	Time Management	**Before 1970**	14.05	19.05	42.86	19.05
		1971 – 1980	10.77	29.23	41.54	18.46
		1981 – 1990	17.51	31.07	25.42	25.99
		1991 onwards	16.96	40.18	27.68	15.18
11	Stress Management	**Before 1970**	23.81	33.33	19.05	23.81
		1971 – 1980	12.31	35.38	24.62	27.69
		1981 – 1990	24.29	29.94	16.38	29.38
		1991 onwards	23.21	41.07	15.18	20.54
12	Creative Problem Solving & Decision Making	**Before 1970**	19.05	19.05	38.10	23.81
		1971 – 1980	9.23	27.69	38.46	24.62
		1981 – 1990	10.17	35.59	29.94	24.29
		1991 onwards	12.50	35.71	33.04	18.75
13	Team Building & Conflict Management	**Before 1970**	28.57	23.81	19.05	28.57
		1971 – 1980	10.77	33.85	24.62	30.77
		1981 – 1990	14.69	27.12	30.51	27.68
		1991 onwards	11.61	36.61	29.46	22.32

CELENTIS
DEVELOPING AN ENTREPRENEURIAL CULTURE INSIDE A CROWN RESEARCH INSTITUTE

Prepared by

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INTRODUCTION

In 1992, the infrastructure of New Zealand government departments and ministries that supported research and development and technology transfer, were dismantled. In its place was established a series of Crown Research Institutes (CRIs). AgResearch is the largest of these institutes.

In 2001, Celentis was established as the commercial arm of AgResearch to deliver products and technologies to the market.

This case study involved the writer gaining a deep understanding of the Celentis business from his involvement as a consultant from March 2001 through to May 2001. This included facilitation of the strategic planning process, documentation of the plan and involvement of the team in aligning organisational structure with strategy. In May 2003 after no contact for two years, the writer spent four weeks analysing the current state and comparing it with 2001. The result of this analysis has provided insight into the key drivers of cultural change and a detailed account of the development of entrepreneurial capability in a highly innovative environment.

It was found that significant changes had been made over the period with respect to processes and people. The study describes the challenges faced when incorporating a commercial focus into a predominately "science" culture and provides insight into the type of results that can be achieved.

The Celentis Business

Celentis' purpose is to create value for its shareholder by commercialising technology. It does this primarily through:

- Creating, incubating and strategically growing standalone companies, either to be sold, or to provide an ongoing source of dividends
- Licensing technologies

In addition to their primary purpose of creating companies and licensing technologies, the capabilities of Celentis can be leveraged to generate secondary sources of revenue by providing third party services. These include:

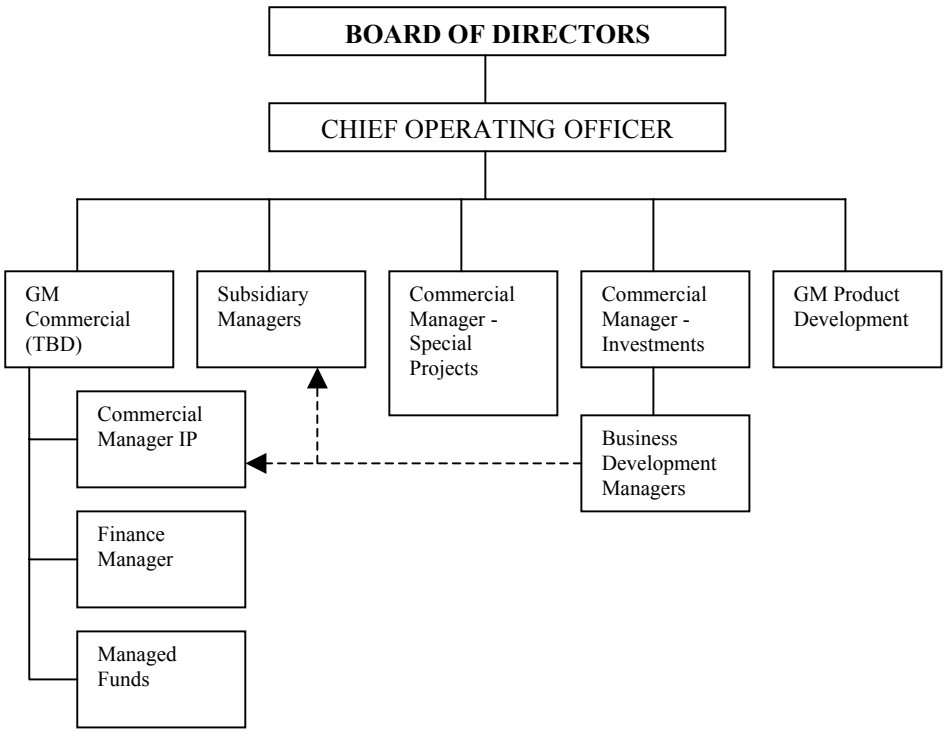
- Consulting revenue from intellectual property management services
- Brokering fees for arranging finance
- Brokering fees for arranging contract R&D

March 2001 – Situation Analysis

In March 2001 Celentis, a division of AgResearch, was undergoing significant change under the guidance of their newly appointed General Manager. The majority of staff had worked previously for AgResearch. Their new roles and responsibilities in Celentis were not well defined and accountability was poor. Celentis had yet to be incorporated and operations were significantly influenced by AgResearch senior management.

The organisation chart is shown below:

Figure 1: Celentis Organisation Chart, March 2001



It is important to note that the above structure was evolving as at March 2001 and there was considerable overlap between the positions of Commercial Manager (Investments) and the General Manager (Product Development). The GM Commercial had not been appointed and the Chief Operating Officer spent considerable time in subsidiary affairs and dealing with operational issues.

Celentis was located in Ruakura, Hamilton alongside the scientific research facilities of AgResearch. The emerging commercial culture was dominated by the surrounding

scientific culture and there was deep suspicion amongst the AgResearch scientific community with respect to the Celentis value-add.

Capability - 2001

A survey carried out by senior management at Celentis identified the following capability deficiencies:

1. Capability in Science Commercialisation scored 4 out of 10. This process focussed on capabilities such as:

    - The process of taking a science concept through the product development process.
    - The process of launching new products through subsidiaries and investments.
    - The process of collecting and using market intelligence in a timely manner.
    - The process of aligning science with the market
    - The process of protecting and managing intellectual property.

2. Capability in establishing new business arrangements scored 5 out of 10. This process focussed on capabilities such as:

    - Establishing new start-up companies.
    - Negotiating partnerships with larger industry players.
    - Establishing license agreements.
    - Valuing intellectual property and businesses and scenario analysis.

3. Capability in investment management scored 4 out of 10. This process focussed on capabilities such as:

    - Managing businesses
    - Investment management
    - Arranging Finance
    - Analysing risk – portfolio management
    - Negotiation
    - Forming and managing strategic relationship

In addition to the capability gaps above, the following weaknesses and risks were identified:

Weaknesses:

- High uncertainty with respect to intellectual property competitiveness
- High business development compliance costs within New Zealand
- Lack of seed capital funders within New Zealand
- Under developed linkages between research institutes, investors and businesses
- Lack of a commercial focus
- Constraints imposed by AgResearch shareholders

Risks:

- Risk of product failure – where products Celentis are connected with fail in the marketplace
- Commercial risk – where Celentis fails to deliver commercial outcomes
- Intellectual property risk – where Celentis misses out on opportunities
- Lack of succession planning – where loss of key staff impact on performance
- Financial risk – where Celentis fails to fund its business expansion

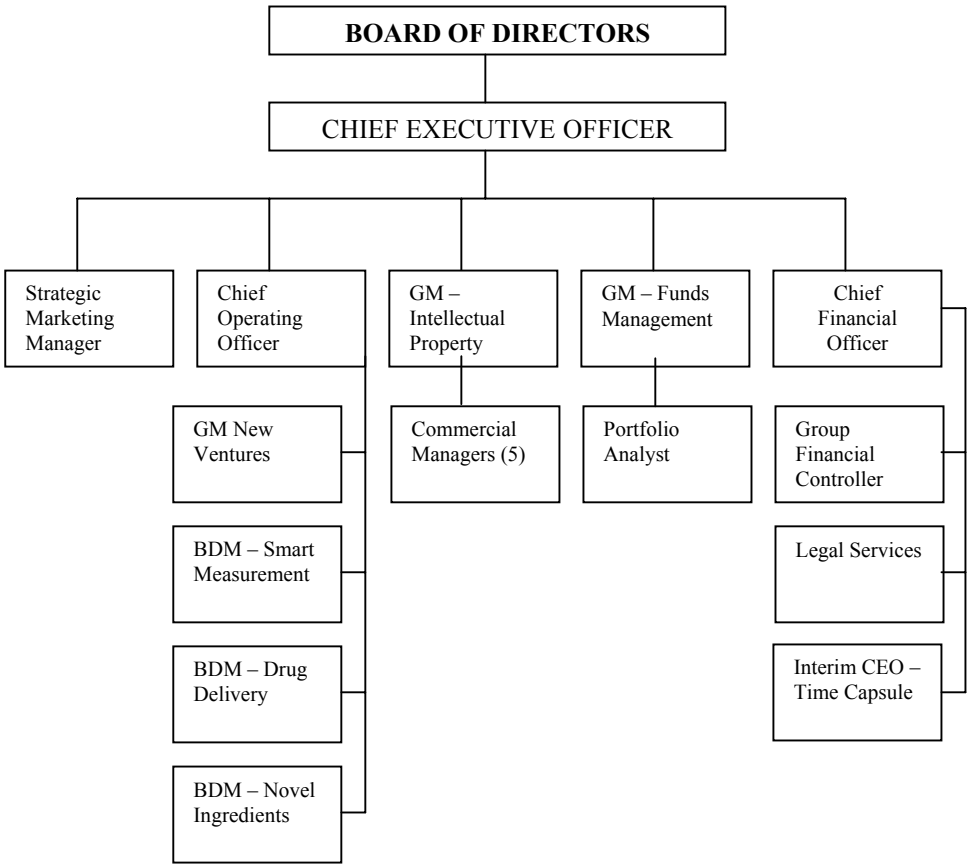
May 2003 – What has changed?

In May 2003 Celentis is a stand alone entity with a strong commercial identity and focus. The company is now located in Auckland. A new Chief Executive Officer was appointed mid way through 2002 with significant Biotech start-up and wealth creation experience. This was followed by the appointment of an experienced Chief Financial Officer and a Strategic Marketing Manager.

Subsidiaries now all have their own independent Boards of Directors with Celentis representation. Funds are sourced both internally and externally and invested in portfolios of science projects (product development) and new start-up projects. Dealflow is now being sourced from outside of AgResearch and consultancy and brokering services can be offered to external parties.

The new organisation chart is shown below:

Figure 2: Celentis Organisation Chart, June 2003



Capability – 2003

The self-assessed ranking of the capability gaps identified in 2001 are now rated as follows:

- Capability in Science Commercialisation scored 7 out of 10.

  "We are now good at forming new companies around technologies and then encouraging their ongoing work with AgResearch science. We still have plenty of room for improvement in the area of setting obtainable milestones. Linking funding to milestones has been a major breakthrough" Stewart Washer, CEO, Celentis

- Capability in establishing new business arrangements scored 7 out of 10.

"We have launched five new subsidiaries over the past year and now have a much better link between our product pipeline and market opportunities" Stewart Washer, CEO, Celentis

- Capability in investment management scored 6 out of 10.

"We still haven't got a track record yet. In two years we should be able to say, 8 successful deals, $24m invested successfully plus proof of successful exit. We have had three successful exits over the past year" Stewart Washer, CEO, Celentis

In response to the weaknesses identified in 2001:

- With respect to competitiveness, the company has increased its customer responsiveness and speed to market. This is demonstrated by the focussed nature of meetings and the improving performance measures.

- With respect to intellectual property, the company continues to build its portfolio and is now inviting other research institutes to utilise the services offered by Celentis.

- With respect to the costs of doing business in New Zealand, the company is thinking internationally with respect to all operating, financing costs and taxation. It will relocate where it makes economic sense to do so.

- With respect to commercial focus, the company has built a strong commercial team and culture with the introduction of new staff and the relocation to Auckland. The previous GM, Product Development has been appointed to specifically develop relationships with investors in New Zealand under the GM, Funds Management Role.

In response to the risks identified in 2001:

- Risk of product failure – Celentis is moving toward an ISO or similar type quality rating
- Commercial risk – all incentives for employees, science and managers are aligned around commercial success. All transactions between related parties are full arms-length commercial with written agreements.

- Intellectual property risk – a focussed team of four intellectual property specialists is in place
- Succession planning – depth is now held in all senior positions. There are now no serious key man risks.
- Financial risk – Celentis is well on the way to securing a pre-seed funding mechanism and has built considerable relationships in the capital markets with respect to post start-up funding. In addition their CEO has significant previous experience in attracting funding from angel investors.

Cultural Shift

There has been a significant cultural shift brought on by the new appointments and commercial clients becoming increasingly more demanding. Benefits of this cultural shift include:

- There is clarity with respect to future direction
- A new, positive mindset created by the shift to Auckland – the office and external environment spell out that they are here to do business
- Meetings held are strongly centred around the dollar – far more efficient and focussed than in 2001
- There are minimal politics in the structure "it is all about people focussed on the dollar"
- There is a deeper understanding of the investors perspective i.e. what they want deals to look like
- A science "involvement and incentive" scheme ensures that 14% of royalties collected go straight back into science (10% to the science platform and 4% to the individuals). A philosophy of milestone-based payments with bonuses attached has been established.
- Business development managers concentrate on a specific focus areas and are building international relationships and sourcing deal opportunities
- A focus on leveraging existing offshore partners and targeting specific individuals ensures a growing web of international networks
- The marketing team provide a strong research function which feeds directly into market assessment studies

Capability going forward

Celentis is now well positioned to offer its services to other science agencies and to replicate its commercial model offshore.

Key capability can be summarised as follows:

Market analysis and business development

Celentis' resources in this area include:

- A team of three business development managers
- A dedicated strategic marketing manager
- Two marketing analysts

In addition, a Chief Operating Officer is currently being recruited to optimise the returns from customers in the focus areas with the business development managers.

The business development team is capable of identifying new customers within and beyond New Zealand, building relationships with them and building revenue by packaging contract R&D, new product development, and co-investment.

The marketing team is capable of evaluating markets and gathering customer intelligence to ensure that science projects are only undertaken if there is a strong likelihood that there will be a strong demand for the outcomes.

Intellectual property management

Celentis' resources include:

- A general manager of intellectual property
- A four person in-house intellectual property team
- A strategic relationship with James and Wells, Intellectual Property Attorneys
- Access to external databases

In addition to their primary role of supporting the wider AgResearch Group, the intellectual property team is capable of generating revenue by out-licensing AgResearch technologies and brokering technology transfers between third parties. In addition they can consult to third parties on intellectual property commercialisation.

Fund raising and management

Celentis' resources include:

- A general manager of investment
- A senior portfolio analyst

The investments team maintains a network of contacts covering most of the venture capital firms in New Zealand and is rapidly building networks of venture capital firms based overseas. They are capable of evaluating and packaging science projects for investment by external fund providers. Furthermore, they can oversee the management of these projects through to proof of concept stage where they can be developed as standalone companies or licensed to third parties.

Business incubation

Celentis' resources include:

- A dedicated general manager for new ventures
- All new businesses have, or are in the process of recruiting, their own CEO/General Managers and Boards of Directors[1]

The general manager of new ventures draws upon the resources of the rest of Celentis and AgResearch, as well as external consultants to provide the infrastructure necessary to support incubating businesses.

[1] CEOs are usually appointed by the Boards via a professional executive search

Maximising return from maturing subsidiaries

The corporate team at Celentis (consisting CEO, CFO, manager of human resources and accountant) oversee the operation of four mature subsidiaries (profit making in 2002/3) and five incubating businesses.

The corporate team draw on extensive experience from the financial, banking and agricultural sectors in order to put in place an investment strategy to maximise the return from dividends or increase in equity value.

RESULTS TO DATE

In addition to the significant capability building programme described in this case study the following commercial results have been achieved over the two year period:

- Founding of nine subsidiary companies covering areas such as anti-ageing nutraceutical development, animal health, food processing technology, asthma prevention drug development, human health products and biocontrol solutions.
- Development of commercial alliances with global heavyweights in the biotech industry.
- Over fifteen licensing deals.
- Revenues of $33,275,700 for the current financial year.

The study provides insights into the transition from a government-owned science agency into a dynamic commercial entity.

WHAT WOULD THEY DO DIFFERENTLY?

In its first year, Celentis was deeply involved in the product development process. It had many unfocussed meetings with Scientists. It is now very focussed on establishing new companies that have natural incentives to drive product development to meet the needs of specific target markets. Celentis has become a commercial facilitator, matching “proof of concept” research with the market demands of spin-out companies. Product development is now the domain of subsidiaries.

THE YEAR AHEAD

Celentis will concentrate on five activities in 2003/4

1. Building revenue through licenses, collaborative investment and contract R&D

Celentis will work to expand its customer base in 2003/4. Business development will be focussed in three areas:

- Novel ingredients from nutraceuticals and functional foods
- Smart measurement systems for the food industry
- Drug delivery for animal health

The target customer base will be mainly outside of AgResearch's established clients and will include a substantial number of non-New Zealand companies. The Business Development Managers all have a deal pipeline. They must complete or replace failed deals with equivalent deals.

2. Forming and incubating new companies

A key priority for business incubation in 2003/4 will be the establishment and growth of the company formed to commercialise the production of high value proteins from transgenic cows.

In addition, five established but relatively young subsidiaries will be assisted in their business building process. A priority will be to recruit an executive team and expert Board of Directors for each business.

3. Creating ScieNZe

The ScieNZe fund will be established during 2003/04. Celentis, in combination with its partner New Zealand Asset Management plan to raise a fund of $20m. Celentis Funds Management will put together a portfolio of projects for ScieNZe investment and manage the investment into these projects.

4. Developing new products

The medium to long term viability of Celentis depends on a steady and growing product pipeline for four applications:

i) subsidiaries
ii) licensing out
iii) ScieNZe fund investment
iv) new venture developments

5. Accelerating growth of mature subsidiaries

Subsidiary companies will be the largest growing contributor to the Celentis Group EBIT. Consequently, ensuring that these subsidiaries are able to maximise their profit potential will be a key priority in 2003/4. This will be achieved through Celentis forming subsidiary Boards with independent high value Directors and setting clear growth targets and strategies for these companies.

The long term future will see Celentis establishing their track record and then applying their capability and business model across other science disciplines and in other countries.

INTRAPRENEURING STRATEGY FOR SMALL FIRMS SURVIVAL IN A GLOBALIZED ECONOMY

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ABSTRACT

It is replete in the literature that problems and constraints of small firms are enormous. To thrive in this very competitive environment has been the major concern of many scholars. Could intrapreneuring maintain their competitive position? The study examined the intrapreneurship approaches of small firms in a developing nation in a globalized economy.

The survey was conducted in southwestern part of Nigeria among 60 small-scale manufacturing firms. A multi-stage sampling technique was used to select three states out of the six states comprising the region. Twenty enterprises were randomly selected in each of the states making a total of sixty respondents for the study. A focus group discussion in three sets of twenty respondents was held. Questionnaire was developed to collect the relevant and more specific information needed. Intrapreneurial strategies as well as the problems faced by the firms were measured using a five-point scale, while success was characterized into performance and growth and these were categorized into technological development, market expansion and increase in manpower size. The data were analyzed using descriptive and inferential statistics. While all the variables of interest were highlighted, their relationships were correlated for linear dependence.

The unprecedented shrinking and wiping out of small firms in the economic arena due to lack of competitiveness could be prevented by the adoption of intrapreneurship innovation strategies. These include benchmarking, total quality management, product and service innovation, market niche opportunity, intra-capital strategy, and community development among others. Through these intrapreneurial efforts, their survival in a globalized economy could be sustained.

Key words: market niche, organizational innovation, adaptive innovation, rightsizing.

INTRODUCTION

In recent decades, several nations sought to protect their domestic economy against external forces and to limit the net outflow of surplus by adopting economic nationalism,

that is nationalization of key industries, indigenization decrees, requirements for local corporation of a portion of foreign capital, and so on. Other nations have embarked a more radical strategy of self-reliance as a means of insulation from the world system.

Today, however, the world system has deepened its concept to globalization in which the world is becomingly homogenized economically, socially, and culturally, developing a global village by market penetration through dispersing production capacity to an unprecedented number of developing as well as industrialized countries. It is noteworthy however, that in the process of globalization, as it affects all regions of the world, it generates social and cultural resistance. While the opportunities offered by the integration of the world economy can be large for accelerating growth and development, there is growing concern on its significant effects on market structure, labor condition and mobility, capital mobility, among others. Obviously and significantly, the process affects the industrial sector.

The quest of moving up in the global economy, Third World regions confront a significant productivity gap. In their efforts to narrow the gap and gain international competitiveness, they pursued a variety of policy and institutional reforms. For instance, the relatively large resource-rich economies pursued Import Substituting Industrialization (ISI) approach in which industrial production was geared to the needs for sizable domestic markets. The smaller resource-poor countries like the Newly Industrializing Countries (NICs) adopted the Export-Oriented Industrialization (EOI) approach that depends on global markets to stimulate the rapid growth of manufactured exports. This approach has led to a notable enhanced competitiveness among the NICs in the 1980s and 1990s (Gereffi, 1997).

Moreover, Third World development involves ascending a ladder of industrial complexity that requires a dynamic enterprise base, appropriate state policies, and on improving set of skills and wages in the workforce. Whereas the less developed countries (LDCs) of the Third World have limited industrial experience, they are on a trajectory that many other countries with rich as well as poor resource bases already have traversed.

Several strategies were suggested to maintain the competitive advantage of the developing and the less developed countries by many scholars. According to Gereffi (1997), there is a scant attention given to the role of local innovations in stimulating productivity increases. He further stressed that there are several kinds of innovation elements to include: breakthrough innovations, adaptive innovations, and organizational innovations.

Apparently, there exist an intrapreneurial functions imperative in the quest of the developing economies in reaching the status of core countries in the world economy. To close the productivity gap, innovation is critical. Pinchot (1987) submitted that the economy of the United States is on innovation treadmill and said:

> “Our competitors enjoy cheaper labor, cheaper capital, and more government support than we. To maintain our competitive position, we need superior technology, more proprietary products, services, and better processes. As our competitors become more scientific, and managerially sophisticated, it takes them less and less time to understand and copy our innovations, we have to increase our speed and cost-effectiveness or innovations in our country to match our competitor’s increasing sophistication in copying and capitalizing on our technology”.

In other words, in-house entrepreneurs, those “dreamers” who can increase the speed and cost-effectiveness of technology transfer from research and development to the marketplace brings the productivity gap closer.

PROBLEM STATEMENT

The tumultuous changes wrought by economic globalization apparently had affected industrial sector specifically the small-scale industries in developing and less developed countries of the world. As globalization affects all spheres, even multinational organizations cannot but to leave no avenue for the small firms to grow outside their shells. Undoubtedly, very soon as their socio-economic roles are shrinking, they cannot be found in the economic scene any longer.

By and large, small firms have assumed a critical role in industrialization and economic development of most developing countries. The literature has recorded a magnitude of social and economic benefits they have contributed. They have been observed and seen as vehicles for employment generation, utilization of indigenous resources, distribution of income, self-fulfillment, economic rejuvenation, among other socio-economic benefits. They are also seen as the seed of corn of the economy, providing medium and large firms of tomorrow. As Ogbimi (1992) stressed, multinational companies should not be forgotten that they are not a product of a two-day activity they have been nurtured for decades.

In Nigeria, small firms were observed to have been promoting indigenous skills and abilities to tap latent savings and skills that could not otherwise be mobilized (Adejugbe, 1987). Small firms are also recognized for the utilization of domestic inputs and the development of local technology. They are always ready to adapt and improve their production withing theor respective localities. For example, in the food industry, there has been a number of breakthrough in the production of composite flour from local raw materials such as yam, cassava, rice and maize. In another direction, there has been some success in making biscuit from plantain. In employment, small firms had contributed seventy percent of the industrial labor force in the country in the past.

The promotion of small firms is regarded as a way of enabling the local population to participate in the country’s economic and social development. When people are involved from various localities, it creates and improves the national value system and eventually brings equitable distribution of income, thus promoting social harmony. This means that if income is not only in the hands of a few, there will be less poor people. Therefore, the proliferation of small firms brings end to poverty while satisfying the basic needs of the people. It also helps in solving social problems.

While small firms are receiving recognition as the bedrock of economic development in many countries, their survival and growth are constrained and hindered by many obstacles militating against their effectiveness. They are constrained by the basic physical infrastructure, high illiteracy level, cumbersome government procedures, environmental impact, political economy, and lack of financial support among others. In light of this, the study accentuated on examining the intrapreneurial strategies used by small firms to thrive from the threat of all these problems and the negative impact of globalization. The study specifically aimed at determining the adoption of intrapreneurship as a function and a strategy for survival and growth.

FRAMEWORK FOR ANALYSIS

Entrepreneurship is often viewed as a function, which involves the exploitation of opportunities that exist within a market. Such exploitation is most commonly associated with the direction or combination of productive inputs. Gill (1963) described entrepreneurs as an individual who possesses drive, ambition, foresight and imagination to breakthrough traditional barriers, overcome social inertia and transform theory into practice. Schumpeter (1934) saw entrepreneur as an innovator who implements change within markets through carrying out of new combinations. The carrying out of new combinations can take several forms: 1) the introduction of a new good or quality thereof, 2) the introduction of a new method of production, 3) the opening of anew market, 4) the conquest of a new source of supply of new materials or parts, 5) the carrying out of the new organization of any industry.

Pinchot (1987) described an entrepreneur as any of the dreamer who do and those who take hands on responsibility for creating innovation within any kind of an organization. In other words an intrapreneur is an entrepreneur within an existing organization. Being a part of the corporate structure, an intrapreneur is also referred to as a corporate entrepreneur. Pinchot further elaborated that an intrapreneur may be a creator or the inventor but is always the dreamer who figures out how to turn an idea into a profitable reality. The major thrust of intrapreneuring, then, is to create or develop the entrepreneurial spirit within the corporate boundaries, thereby allowing an atmosphere of innovation to prosper, thus bridging the productivity gap to maintain competitiveness.

According to Gereffi (1997) the several kinds of innovations can be distinguished in three ways. One is the breakthrough innovation where new products and process that allow firms to fundamentally redefine the cost structure of modern industries so that old products and technologies become obsolete. Second is adaptive innovations which involve the use of modern technologies, and third is organizational innovations using a vertical and horizontal organizational forms like trading, sub-contracting, networks and triangle manufacturing that changes the status of the manufacturer from primary production contractor to middleman. This third party production or subcontracting has become popular and had served several important implications to large and small firms in general.

There are other innovative elements that are dynamic sources of competitiveness. Total Quality Management (TQM) is one of the latest management innovations that set out a guiding principle of continuously improving organization. It is the application of new materials to improve all the processes to meet customer needs and satisfaction. In collaboration, Grint (1997) added that in a dynamic market economy, the only way to stay marginally ahead of your competitors is to generate some kind of competitive advantage through innovation. In fact TQM is a new approach to improving the effectiveness and flexibility of business as a whole. It is a quality process that involves every person in every department of the organization, all to be working together to eliminate errors and prevent waste. Okollie (1986) viewed TQM as a management philosophy that builds customer driven, learning organization dedicated to total customer satisfaction with continuous improvement in the effectiveness and efficiency of the organization. This philosophy is anchored on the concept that customer satisfaction is the primal goal of any organization may be profit or non-profit. More over if this core group are satisfied they are assets to the organization but if otherwise they are cankerworm to the growth of the enterprise.

Furthermore, Michael and Chen (1993) were of the opinion that TQM is a system that comprises a set of integrated philosophies, tools and processes used to accomplish business objectives by creating delighted customers and happy employees. Rightsizing is another organizational innovativeness. It is an approach to strategically reshaping the organization by expanding part of the organization into new markets. Similar are delayering and outsourcing in improving organizational efficiency. These downsizing strategies of organizational change were recorded to have improved efficiency (Appelbaum, 1999). Another element of organizational innovation is re-engineering. It is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements (Lankford, 1999). It encompasses the envisioning of new work strategies, the actual process design strategy, and the implementation of the change in all its complex technological, human, and organizational dimensions.

Another most common innovative tool is benchmarking. Benchmarking being a survival strategy can be viewed as a management technique to improve business performance. It is used to compare performance between different organizations or units within a single organization undertaking similar process. It has been defined as the search for industry best practices, which lead to superior performance (Walleck, et. al. 1991). Paradoxically, an organization will not like to be at a status quo, the management executives will like to know how the organization is performing, particularly in the competitive environment. The areas that require changes must be identified and make improvements that will be worthwhile. In order to achieve this, structured approach such as benchmarking is essential when seeking opportunities, improve services and reduce costs through efficiency (Fuld, 1988).

Ashton (1988) theorized the concept of benchmarking and stated that it is a continual process of measuring products, services and practices against the toughest competitors or those companies recognized as industry leader. Benchmarking as a management technique came to prominence due to organizational changes in the 1980's. It is a technique, which was initially used to support companies in gaining competitive advantage (Codling 1992). However, today it is also used to measure similar operations as a way of improving business processes. It is worth mentioning that, unlike other traditional competitive management techniques, the success of benchmarking depends on cooperation between partners (Allan, 1993).

Forming alliances is strategy of forming networks of partner firms. Successful organizations benefit from social supports, which entail forming close associations with trusted, empathetic partners who are good confidence builders. Those associations are needed to get people through stressful situations. Today such alliances if deliberately sought out and developed are needed for the growth of small firms. Similarly networking strategy will help the small firms to cope better and be more effective. Further, niching strategy is another dimension of intrapreneurship. The intrapreneur has to seek for more niches in his local areas that are not paid attention to by the multinationals and serve them better than the competitors. Fuld (1993) in his study of how America's high and mid-size growth companies succeed, opined that smaller firms normally avoid competing with larger firms by targeting small markets of little or no interest to the larger firms. He further stated that firms with low shares of the total market could be highly profitable through smart niching.

Research and development is an element of innovation. It directly faces on the problems of creatively handling large amounts of information in an atmosphere of uncertainty in which future effects of different decisions must be compared and in the end require

important financial, technological and moral choices. Additionally, enterprises are situated in communities. They can also grow by taking active part in community development. Serve the community with best products and enhance the satisfaction of the community dwellers. Apparently if the entrepreneur cannot compete globally in has the chance to grow at its local environment.

These are the many intrapreneurial strategies, the innovation elements available to small firms and if these could be adopted, a chance of survival and growth is apparent.

METHODOLOGY

The study was conducted in southwestern part of Nigeria. The country is situated on the West Coast of Africa occupying an area of 923,786 square kilometers with a population of 133,881,703. The climate varies; equatorial in South, tropical in Center and arid in North. These are characterized by high humidity and substantial rainfall. Petroleum, tin, iron ore, coal, limestone, lead, and zinc among other resources abound in the country. The land area that have been used comprises 31 percent for arable land, 3 percent for permanent crops, 23 percent for meadows and pastures, 15 percent forest and woodland, and 28 percent for other use. Generally, the temperature is high and constant. Rainfall varies between the coastlands and the Savannah region. Thus, there are two seasons, the wet and dry.

The study selected sixty small-scale industries through multi-stage sampling procedure. Out of the six states of the region, three were randomly selected and twenty industries were randomly selected in each selected state making a total of sixty respondents. A focus group discussion was done in three sets. Each set comprised twenty respondents. The information generated from the discussion was expanciated in the questionnaire. This has assisted in tapping the right concepts of the study.

The variables of the study such as, problems and constraints, intrapreneurial strategies specifically the innovation elements were measured by nominal, five-point, and likert scales; while performance was measured by categorizing into technology development market expansion, and manpower increase. The data collected were analyzed using both the descriptive and inferential statistics. In order to determine the correlation between variables, Pearson correlation was used, while regression analysis was used to test the relationship between the intrapreneurial strategies and the organizational performance.

RESULTS AND DISCUSSION

Several innovation elements have been associated with manufacturing firms for their performance and growth. These elements are intrapreneurial strategies hence these are entrepreneurial functions within an existing organization. Similar innovation elements were predicted to have been very essential for the survival of small firms specifically in the period of globalization where their existence in the economic arena has been threatened. These include the various innovation elements in the three categorized innovation namely, breakthrough innovations, adaptive innovations and organizational innovations.

5.1 Adoption of Intrapreneurial Innovations

There are six intrapreneurial innovation strategies have been adopted by the small firms for survival and growth. By rank of their mean scores, these include benchmarking, (3.666), total quality management (3.633), introduction of new products and services (3.583), intra-capital (3.533), market niching (3.483), and community development (3.050). The results show that about 95% and 97% of the respondents have an opinion that sub-contracting, and re-engineering have only very little influence and that the adoption is very negligible. However, alliances and introduction of new techniques in operation have shown to have almost averagely adopted by the small firms. The total mean score (2.584) of intrapreneurial innovation strategies adoption indicates the readiness and willingness of the small firms to adopt intrapreneurship in their organizations.

Perceived Effect of Intrapreneurial Innovations

The results in Table 2 show an average (3.546) opinion of the small firms respondents that the adoption of the intrapreneurial innovation strategies will enhance their performance thereby increasing their productivity and competitiveness not only in the local market but also in international market competition. The adoption of the strategies as shown in the results indicates that the respondents are of the opinion there will be an improvement in the quality of their products (4.383), which will enhance product patronage (3.600), thus expanding their market share 94.033). This will likewise be supported by the opinion that innovation strategies will encourage building original brand initiatives (3.633). Overall, the adoption of innovation strategies would highly improve manpower development (3.533).

Intrapreneurial Innovations and Performance

The results in Table 3 show the average (mean=2.000) performance of small manufacturing firms. The average performance was indicated by almost high increase in manpower size. This result is supported by small firm characteristic of being labor intensive operation. The data in Table show the correlation analysis among the intrapreneurial innovation strategies available to business organizations made available for small manufacturing firms. Out of the sixteen innovation strategies, eleven strategies were revealed significant. These include total quality management (r=0.2528), benchmarking (r=0.2521), networking (r=1348), alliances (r=0.1664), community development (r=0.1653), market niching (r=0.1937), research and development (r=0.1333), new product/service (r=0.2297), intra-capital (r=0.2296), original brand (r=0.1498), and rightsizing (r=0.1974).

The results further revealed that there is linear dependence between the innovation strategies and small firms' performance. Eleven variables have shown influence in performance contributing 47 percent (R^2=0.4719). Thus, variables total quality management (5.26%), benchmarking (6.36%),networking (1.89%), alliances (2.81%), community development (2.72%), market niche (3.79%), research and development (1.92%), new product/service (5.45%), intra-capital; (4.99%), original brand (2,58%), and rightsizing (3.97%) have contributed to small firm performance.

CONCLUSION AND RECOMMENDATIONS

A magnitude of social and economic contributions have been attributed to small businesses both in the economically advanced countries and less developed economies. However, the tumultuous effect wrought by globalization has affected every economic activity in all regions of the world, with no exception of small firms. They have been

struggling to survive in the very competitive environment. Having been threatened to shrink and be wiped out in the economic arena due to their weaknesses, problems and constraints, small firms must survive and grow. Several innovation strategies within the organization are made available by many scholars to an entrepreneur, whose firm, be it small, medium or large.

In the small-scale operation, intrapreneurship innovation strategies such benchmarking, market niche opportunity, total quality management, product and service innovations, intra-capital strategy, and community development participation among others have significant relationship with small firms' performance. Intrapreneurship therefore, being a key element for survival and growth among small firms, there exist a need to improve intrapreneurial spirit and capacity.

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Table 1: Distribution of respondents on adoption of intrapreneurial innovation strategies.

STRATEGIES	Very Much		Much		To an Average Extent		Little		Very Little		Mean Score
	F	%	F	%	F	%	F	%	F	%	
1. Total quality	20	33	24	40	00	00	06	10	10	17	3.633
management	18	30	17	28	15	25	07	12	03	05	3.666
2. Benchmarking	05	08	15	25	08	13	12	20	20	33	2.550
3. Networking	00	00	24	40	13	22	15	25	08	13	2.883
4. Alliances	17	28	12	20	10	17	11	18	10	17	3.050
5. Community	18	30	20	33	00	00	17	28	05	08	3.483
development	05	08	14	23	06	10	15	25	20	33	2.483
6. Niching	22	37	19	32	00	00	10	17	09	15	3.583
7. Research and	15	25	05	08	08	13	14	23	18	30	2.750
development	19	32	22	37	00	00	10	17	09	05	3.533
8. New product/services	00	00	00	00	00	00	05	08	55	92	1.083
9. New techniques	00	00	00	00	00	00	03	05	57	95	1.050
10. Intra-capital	00	00	00	00	00	00	02	03	58	97	1.000
11. Sub-contracting	03	05	17	28	12	20	12	20	16	27	2.650
12. Contracting out											
13. Triangle manufacturing	00	00	00	00	06	10	12	20	48	70	1.400
14. Original brand	08	13	15	25	00	00	16	26	21	35	2.555
manufacturing											
15. Re-engineering											

16. Rightsizing											
Total											2.584

Source: Survey 2004 Mean score: =3.0 ± 1.5811
Score: Very Much = 5 High: =4.5811
Much = 4 Average: =3.0000
To an Average = 3 Low: =1.4189
Little = 2
Very Little=1

Table 2: Distribution of respondents on the perceived effect of intrapreneurial innovation strategies.

Statements	Very Much F	%	Much F	%	To an Extent F	%	Little F	%	Very Little F	%	Mean Score
1. Helps to improve product quality	32	53	19	32	09	15	00	00	00	00	4.383
2. Helps to render better service	08	13	09	15	23	38	10	17	10	17	2.916
3. Creates full awareness about customers	06	10	14	23	20	33	12	20	08	14	2.967
4. It helps to expand market share	24	40	19	32	12	20	05	08	00	00	4.033
5. It improves manpower development	18	30	10	17	18	30	14	23	00	00	3.533
6. It enhances sales of products	11	18	22	37	27	45	00	00	00	00	3.733
7. It enhances enterprise patronage in the community	18	30	16	27	11	18	14	23	01	02	3.600
8. It encourages brand initiatives	09	15	25	42	21	35	05	08	00	00	3.633
9. It increases profitability	11	18	12	20	16	27	15	25	06	10	3.117
Total											3.546

Source: Survey 2004 Mean score: =3.0 ± 1.5811
Score: Very Much = 5 High: =4.5811
Much = 4 Average: =3.0000
To an Average = 3 Low: =1.4189
Little = 2
Very Little =1

Table 3: Distribution of Respondents on Performance

Performance	High F	%	Average F %		Low F	%	Mean
Market expansion	4	07	32	53	24	40	1.667
Technological development	4	07	38	63	18	30	1.700
Manpower size increase	8	13	40	67	12	20	2.633
Total							2.000

Source: Survey 2004
Score:High = 3
Average = 2
Low = 1

Table 4: Correlation analysis showing the magnitude of relationship among variables and relationship between intrapreneurial innovation strategies and performance.

VARIABLES	Pearson Correlation Coefficient (r)	Coefficient of Determination (r^2)
Total quality management	0.2528*	0.0526
Benchmarking	0.2521*	0.0636
Networking	0.1348*	0.0189
Alliances	0.1664*	0.0281
Community development	0.1653*	0.0272
Niching	0.1937*	0.0379
Research and development	0.1333*	0.0192
New product/service	0.2297*	0.0545
New techniques	0.1587	0.0256
Intra-capital	0.2296*	0.0499
Sub-contracting	0.0286	0.0167
Contracting out	0.0497	0.0025
Triangle manufacturing	0.0552	0.0030
Original brand manufacturing	0.1498*	0.0258
Re-engineering	0.0954	0.0097
Rightsizing	0.1974*	0.0397

Source: Survey 2004
Critical Value: 1.96
P ≥ 0.05

DETERMINANTS OF SMALL FIRMS ENTREPRENEURIAL SUCCESS IN A DEVELOPING ECONOMY

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ABSTRACT

The study examined the determinants of entrepreneurial success of small firms in a developing nation. It anchors on propositions that relate several factors to the success of small-scale industries specifically in today's era of globalization. It specifically aims at determining the personality characteristics of the entrepreneurs; identifying their motivations factors, management skills, and level of education; and government policies specifically on trade predicted to contribute in the performance and growth of small enterprises.

A survey of 39 small-scale industries in southwestern part of Nigeria was conducted employing area and purposive sampling techniques. Questionnaire was used to collect the primary data and was supported by a focus group discussion on important issues relevant to their successes. The independent variables: entrepreneurial personality, motivation, management skills and abilities, level of education and entrepreneurship training, and government trade policies predicted to influence entrepreneurial success were measured by nominal, ratio, and likert scaling methods; while the dependent variable, entrepreneurial success to mean performance and growth of the enterprise was operationalized by characterizing it, into market share expansion, technology development, and manpower size. The data were analyzed using descriptive and inferential statistical tools. Correlation and regression analyses were used to test the relationship among the variables.

Despite business environmental uncertainty in the country, small firms have demonstrated a relative stability. This is predicated by the results of the study showing the determinants of entrepreneurial success on small firms performance and growth. Specifically, entrepreneurial personality has shown a positive and significant relationship with entrepreneurial success and having the highest contribution among other predictors that contributed significantly and averagely with the exception of entrepreneurship training.

Key Words: entrepreneurial personality, motivation, management skills.

INTRODUCTION

In most developing countries, small-scale industries have assumed a critical role in industrialization and economic development. The literature has recorded a magnitude of social and economic benefits contributed by the small firms, both in the developed and developing countries. An observation was made in the 1990s' global economic depression that while the large industries are retrenching their workers, small industries on the other hand, are increasing in terms of production and employment. Small firms by then were seen as vehicles for employment generation and economic recovery in most of the countries.

The economically advanced countries where problems and constraints are less if not negligible compared to the developing economies are experiencing a great positive impact of small firms contributions to their economic growth. The culture of entrepreneurship has already deeply rooted in their society. Reynolds, et.al. (2000) submitted that the United States is having the highest prevalence rate in entrepreneurial activity. This is indicated by an observation that one in every fifteen adults invests in new venture. Their economic condition has accomplished much because of the favorable conditions not primarily geographic as others had attributed but they have exceptionally favorable cultural and historical conditions. More so, US has enjoyed a political stability. They have that readiness and willingness to adopt the necessary changes towards development. As a consequence, the industrialists have been able to go about their business in an orderly community with the basic assurance that they would be able to enjoy the fruits of their labors; at the same time, the rule of order has never been dogmatic and authoritarian but practical and democratic. Adjusting itself to new situation and to the needs of the people.

In the same vein, the English Industrial Revolution, beginning in the late part of the eighteenth century, marks the first real breakthrough into modern growth we are witnessing today. Their dramatic revolution in technology, invention in particular was great acceleration of technological progress which preceded by major innovations especially the basic techniques of production that is well suited to the natural resources and other factors of production available to England. This take off into modern economic growth involving an accelerated pace of technological advancement demanded a group of men who had economic foresight, the intangible factors of production who responded positively to the call.

Today, the rate of entrepreneurial activity in the United Kingdom is high. Both men and women are engaged in the productive sector (Reynolds, et.al. 2000). Being the first to recognize the significance of entrepreneurs, United Kingdom has a supportive business environment for entrepreneurship.

PROBLEM STATEMENT

The world's acclaimed potentialities of small-scale industries in developing the economy have also been the experience of various countries that follow the lead of the economically advanced countries specifically in promoting the small firms. To many, inclusive of developing countries, the promotion of small firms is regarded as a way of enabling the local population

to participate actively in the country's economic and social development. When many people are involved from various localities, it creates and improves the national value system, and eventually brings equitable distribution of income, thus promoting social harmony. And when income is more evenly distributed people will have money with which to buy products and services they need. This means bringing in more money to the enterprise. Therefore, if income is not only in the hands of a few there will be less poor people. Eventually, it brings end to poverty, thus solving social problems.

However, this positive impact of small of small firms on economic development varies depending on environmental conditions prevailing in the society and the extent of influence of such conditions to entrepreneurial activity. This is predicated by Reynolds, et.al (2000) submission that the level of entrepreneurial activity differs significantly between countries due to some factors like social, cultural, political and entrepreneurial framework conditions such as availability of finance, government policies and programs designed to support start-ups, and education and training for entrepreneurship. In South Africa for instance, Naude (2003) noted that in their recent research, has been casting doubt on the hopes of small firms contributions expecting them to drive economic growth in the country. Small business often face very high transaction costs, which does not favor increase returns to scale. Increasing returns to scale can be obtained through large market size, which allows specialization to take place. Large market size generates high volumes of trade, which depends on low transaction costs of which the small firms lacks.

Additionally, the research revealed that ineffectiveness of small firms to drive economic growth in Africa is due to lack of property rights, prohibitive regulations and absence of institutions that support their development like lack of credit, tax policy influencing smallness of firms. Nigeria, being a developing nation has not also felt the great impact of small firms contribution, though they are seen as the heart of free market economies, the primary creator of jobs and economic stability. Although small firms have demonstrated a relative stability, despite environmental uncertainties in the country, many entrepreneurs have lamented that their hampered growth is due to government's lack of interest in their quest for development (Ajayi, 1987). This relationship being not best to the interest of the economy, the government poured its resources by providing funds for research on small businesses with a view of identifying their problems, which hinder the growth. Many factors were revealed militating against the effectiveness of small firms. These include shortage of basic physical infrastructure, finance and capital, illiteracy, lack of entrepreneurship and management abilities, political economy among others.

In view of the aforementioned factors found to have been hindering the growth of small firms in the country and the attractiveness and importance of small firms having a great positive impact on economic growth seen in developed countries, what factors might have been responsible in determining the slow growth or no growth at all of small firms in developing countries? In light of this, the study accentuated on identifying and examining the factors affecting entrepreneurship success in small businesses and investigate the relationship between the entrepreneurship success determinants and their performance and growth in terms of increase in market size, number of products, and manpower size.

CONCEPTUAL FRAMEWORK FOR ANALYSIS

Entrepreneurship is more than starting a new business enterprise, acquiring or expanding an existing business. Entrepreneurship requires skills and ability of an entrepreneur regardless of business size, be it small or large. The entrepreneurial process remains the same and the roles and nature of the entrepreneur are universal. It is notable however, that a society has its own peculiar environment different from other societies. These environmental factors have been identified to be influencing the development and success of entrepreneurship. That is why there are countries or societies whose entrepreneurial level is high and there are those that is low.

Looking at the many attributes of an entrepreneur and his nature and characteristics, personal qualities, and his roles and functions in the socio-economic development, entrepreneurship is best viewed as a creative process that stimulates an individual to undergo five stages of creative process as shown in Figure 1. These include steps such as ideation, conceptualization, enterprise creation, commercialization, and growth. Throughout the entrepreneurship process, the entrepreneur uses his creativity. It begins with ideation. Ideation is the process of generating ideas and becoming thoroughly familiar with them. It is a period of sleepless nights thinking for business opportunities. He looks at the economic opportunities offered by the environment. He has to develop solutions to human needs. In so doing, he is introducing an innovation. Innovation is a creative process that enables the entrepreneur to do things never done before in order to change and improve the quality of life.

Conceptualization stage is the process of generalizing the possibility of idea into a tangible offer by considering all the factors needed in making the idea a reality. These factors include the market, raw materials, technology, economy, workforce, competition, and finance among other factors. These enumerated factors require risk-taking, business planning and capital formation.

In establishing the enterprise, the entrepreneur starts in deciding what business choice opportunity and what legal form of business ownership and the allocation of resources needed to start the operation. In production, the entrepreneur decides and sets the organization's goals. His creativity in decision-making is required in recruiting as well as coordination personnel, introducing new method of production, opening new supply sources, product quality, and satisfying consumers.

When an enterprise is in full swing operation, the entrepreneur decides on the desired level of growth and plans how to achieve it. Hence business firm aims at growth, an entrepreneur does not cease being creative. He looks at the success of the venture. Venture success, though is relative, could mean growth of an enterprise. Indications of growth can be an increase in terms of productivity, market share, and diversification among others. Such growth is commonly measured in terms of profitability. Generally, every business firm has its own mission and purpose of existence, but all work towards profit. Growth and performance are determined by several factors influencing entrepreneurial success as shown in Figure 2. Porter and Lawler in Luthans (1974) described that performance is not only affected by effort, but also by skills, ability, traits and perceptions of their roles. Similarly, there are factors

external and internal to entrepreneurs influencing his performance. These factors are grouped into triggering factors, enhancing factors, and sustaining factors.

Triggering factors are those that push the entrepreneur to go into thinking. These include personality and motivation. Personality captures the whole person concept. It includes the person's moods, attitudes, motives, tradition, values and many others that describe an individual. Allport in Luthans (1974) defined personality as the dynamic organization of the psychophysical systems within an individual that determine the characteristics, behavior and thought. As Luthans (1974) puts personality is determined by biological, social, cultural and situation. Motivation is seen to have direct implications for the consequences of performance. Motivation is a causative factor that enhances a person to behave or do something in order to attain an objective. According to various studies, achievement motive is revealed as profile of the high achievers. In McClelland (1961) work, he observed that in a society with generally high level of need for achievement (n Ach) produce more energetic entrepreneurs. He has identified that n Ach does most in predisposing individuals to vigorous economic activity.

Enhancing factors are identified to have synergy effect influencing entrepreneurial opportunity. These are called entrepreneurial capacity factors known to enhance the entrepreneur into doing. Enhancing factors include management skills and ability, and level of formal and informal education attained. Management skills and ability affects the process of setting and accomplishing goals through the use of human, technical, and financial resources within the context of environment. It involves the functions of planning, organizing, directing and controlling both human and non-human resources to achieve the set goals, thus influencing entrepreneurship performance or enterprise growth. In fact, from the time the idea is conceived, management takes over. In other words, to be successful the entrepreneur needs the breadth of knowledge in managing the available resources to ensure that performance does in fact move the enterprise towards the desired goals.

Education is another essential factor that enhances performance and growth. The ability of the person to assimilate tradition and morals, and the development of his social and attitudes, and the optimum development of an individual intellectually, mentally, socially, culturally, economically, and psychologically make possible for an entrepreneur to perform better.

Furthermore, from the onset of innovation, an entrepreneur needs assistance from the government. The government promotes business by stimulating economic expansion and development, by providing assistance in terms of technology, marketing, and others, by subsidizing selected industries, by supporting research and even protecting some businesses through special tariffs. Political leaders and legislators must also be given consideration, hence the role of the government is to promote and regulate business. It protects workers, consumers and communities. Others are designed to make contracts enforceable and protect property rights.

Infrastructural facilities are of course known to be indispensable to business growth and development. The transportation problem can cause inability to expand market and unavailability of raw materials. The poor training facilities result in unskilled labor affecting the product quality and the marketability of the product as well. Entrepreneurship is also influenced by business environment, such as economic, technology, and government. During recession business operation slackens, traditional technology stunts technological

development, and unfavorable government regulations to entrepreneurial activities squeeze the capital outlay yielding negligible profit.

METHODOLOGY OF RESEARCH

The study was carried out in Nigeria. The country is situated on the West Coast of Africa occupying an area of 923,768 square kilometers with a population of 133,881,703. The climate varies; equatorial in South, tropical in Center and arid in North. These are characterized by high humidity and substantial rainfall. Petroleum, tin, iron ore, coal, limestone, lead, and zinc among others abound in the country. The land area that have been used comprises 31 percent for arable land, 3 percent for permanent crops, 23 percent for meadows and pastures, 15 percent forest and woodland, and 28 percent for other use. Generally, the temperature is high and constant. Rainfall varies between the coastlands and the Savannah region. Thus, there are two seasons, the wet and dry seasons.

Thirty-nine selected small firms in the southwestern part of the country served as the respondents of the study using area and purposive sampling techniques. Questionnaire was used in collecting the primary data and was supported by a focus group discussion on important issues relevant to the variables of the study. The independent variables predicted to influence the success of small firms were entrepreneurial personality characteristics, motivation management skills and abilities, environmental conditions, and entrepreneurship education. These variables were measured by nominal and likert scale methods through developing statements that characterized the variables. The dependent variable entrepreneurial success was defined and described as the performance and growth of the enterprise. This variable was operationalized into market size expansion, technological process development, and manpower size and was measured by ratio scale method. The data collected from the primary source were analyzed using descriptive and inferential statistical tools. Frequency, percentages and means were computed to describe the variables. Correlation analysis was done and variables having significant relationship were analyzed by regression.

RESULTS AND DISCUSSION

Several factors influencing the performance and growth of small firms have been revealed by various studies. It has been also established that each society has its own peculiar situation different from others. This differences prompted this study to investigate the determinants of success among small firms in a developing economy specifically in today's era of globalization where no one is exempted from its effect. The discussion on findings is sectioned according to the variables used in the study namely, the selected socio-economic characteristics, entrepreneurial personality, management skills, motivation factors, environment influence, level of formal education and entrepreneurship training, and relationship between success factors and performance.

Socio-economic Characteristics of Small Firms Entrepreneurs

Majority (56%) of the respondents attained secondary level of education as shown in Table 1. Sixty-eight percent of them have not attended any informal education on entrepreneurship training or other related programs like bookkeeping, technical, commerce and management. Among those who have attended entrepreneurship training programs, 58 percent have technical training, 18 percent on bookkeeping, and 12 percent for start your own business seminar.

Entrepreneurial Personality

The data in Table 2 show that the entrepreneurial personality characteristics of small firms predicted to influence the success of the firms is high (mean score=4.402). This indicates that entrepreneurs in small firms possess significant attributes to entrepreneurial activity. The attribute resourcefulness scored the highest (4.710) among all the entrepreneurial personality predicted to influence small firms successes. It is an attribute that will never allow lack of capital to stop a person from getting ahead. In other words the small firms entrepreneurs can search and provide the resources needed for the business. They can work hard for the survival and growth of the enterprise. Through persistence, they are determined to achieve their objectives while taking the risks. This is followed by attribute initiative with a mean score of 4.614. Initiative means taking every opportunity the environment offers. In this attribute, the entrepreneurs have displayed self-confidence and independence. It is a feeling of ones ability to handle whatever difficult situation is cast in their path. This also explains in part why entrepreneurs are risk- takers. They believe in their ability to influence the outcome of every decision they make more than what the people can do. They are optimistic that everything they do would be a success.

The results also show that the entrepreneurs have the personality that is high (4.106) in innovation. This explains that apart from having the ability to conceive multiple possible futures and proactively create the most desire, they have the ability to see things in novel ways. This is an important attribute to conceive and develop an idea beneficial to mankind. This explains further the attribute necessary to create and utilize profitable opportunity, an attribute that considers all things are resources that even waste products should be utilized for a profitable venture. Similarly, in achieving success of an enterprise, enthusiasm is an important attribute that displays a keen interest to respond to an economic opportunity and the eagerness to perform. This attribute scored also high (4.332).

Management Skills

The data in Table 3 show the management skills of the respondents influencing entrepreneurial performance and growth. Management skills demonstrate an efficient and effective conduct of the management functions on planning, organizing, staffing, directing, and controlling. The results provide an understanding that the respondents averagely (mean score=3.982) performed the management functions. A high score of 4.383 is depicted for their ability in organizing. This shows their skills in coordinating human and material resources, the ability to establish structure of roles for workers in order to create an environment for human performance. This also gives an understanding of their ability in grouping similar and related activities in order to encourage coordination among various types of work. The data also

show that the respondents attempt to find and employ the right person for the job offered and the ability of the respondents to lead by using the motivational tools in achieving increase in productivity. The data further show the ability of the respondents to ensure events conform to the plans and actions set prior to business execution.

Motivation Factors

Entrepreneurs are known for being self-motivated. Economic status, achievement, self-reliance, prestige, and desire to use the skill are inner motives that drive them into business undertaking. The same is true of the respondents of the study. The data in Table 4 show the average (3.862) influence of motivation on the success of small firms. It is important to note that in McClelland submission, individuals with high in need achievement are predisposing to vigorous economic activity. In this study, however, the results show that small firms entrepreneurs are highly motivated by self-reliance motive (4.512) and economic motive (4.177) more than achievement motive (3.870). Information gathered from focus group discussion show that these entrepreneurs are those who lost their jobs, those who want to augment their income, and those who can't find a job. Prestige (3.423) and desire to use skill (3.331) averagely influenced entrepreneurial success.

Environmental Factors

A business enterprise does not, of course, exist in a vacuum. Rather, it is dependent on its environment, both internal and external. A business is a part of the larger systems like the industry where it belongs, economic system, and the society. It could be either direct or indirect. Direct elements like the government agencies, financial institutions and the indirect elements like technology, economy, infrastructure, political and legal are influencing the business operations. The perceived influence of these systems is shown in Table 5. Technical and financial factors are among those that scored high with a mean score of 4.256 and 4.255 respectively. The rest like infrastructure in communication and transportation have averagely influenced the performance and growth of the small firms. Government trade policies have also averagely influenced the success of the firms.

Performance and Growth

The regression results in Table 6 show the relationship between the six variables predicted to influence entrepreneurial success, which means performance and growth of small firms. The positive correlation of entrepreneurial personality (r=0.67640), management skills (r=0.22611), motivation factors (r=0.19908), environmental forces (r=0.10892), level of education (r=0.19058), and entrepreneurship training (r=05268) indicates that the higher the magnitude of variation of these predictors, the higher the entrepreneurial performance and growth of the enterprise. The results also predict an overall linear dependence of entrepreneurial performance and growth on the six independent variables indicated by R=0.47129. It also shows that 18 percent (R^2=0.18461) of the variation in entrepreneurial success is explained by the predicted determinants. Thus, the predictors of entrepreneurial success contribute 48%, 5%, 4%, 1%, and 4% respectively. However, the regression coefficient results explain that for every effect of one unit in each variable stands an equivalent expected change in entrepreneurial success when the rest are controlled. In other

words, the absolute values contributed by the predictors of entrepreneurial success are 36%, 17%, 12%, 10%, 11% and 3% respectively.

CONCLUSION

All enterprises be it small or large work toward success. Success is relative, however, in business success is measured by the performance and growth of the enterprise. Success is dependent on several factors called determinants in this study. By ranks, these include personality characteristics, management skills and abilities, motivation factors, environmental forces and level of education. They are found significant and have positive relationship with entrepreneurial success. Personality has the highest contribution, while management skills and abilities, motivation factors, environmental forces, have average influence on the success of small firms.

For the impact of small firms to be largely felt by the society, there is a need to increase awareness on small-scale industry development with the aim of encouraging people to go into entrepreneurship. Creating awareness could be an intensified effort in promoting small businesses. Efforts towards building an enabling environment are essential in developing entrepreneurial personality characteristics and highly self-motivated people. Promoting education as well and introducing entrepreneurship programs into the curricula will be beneficial.

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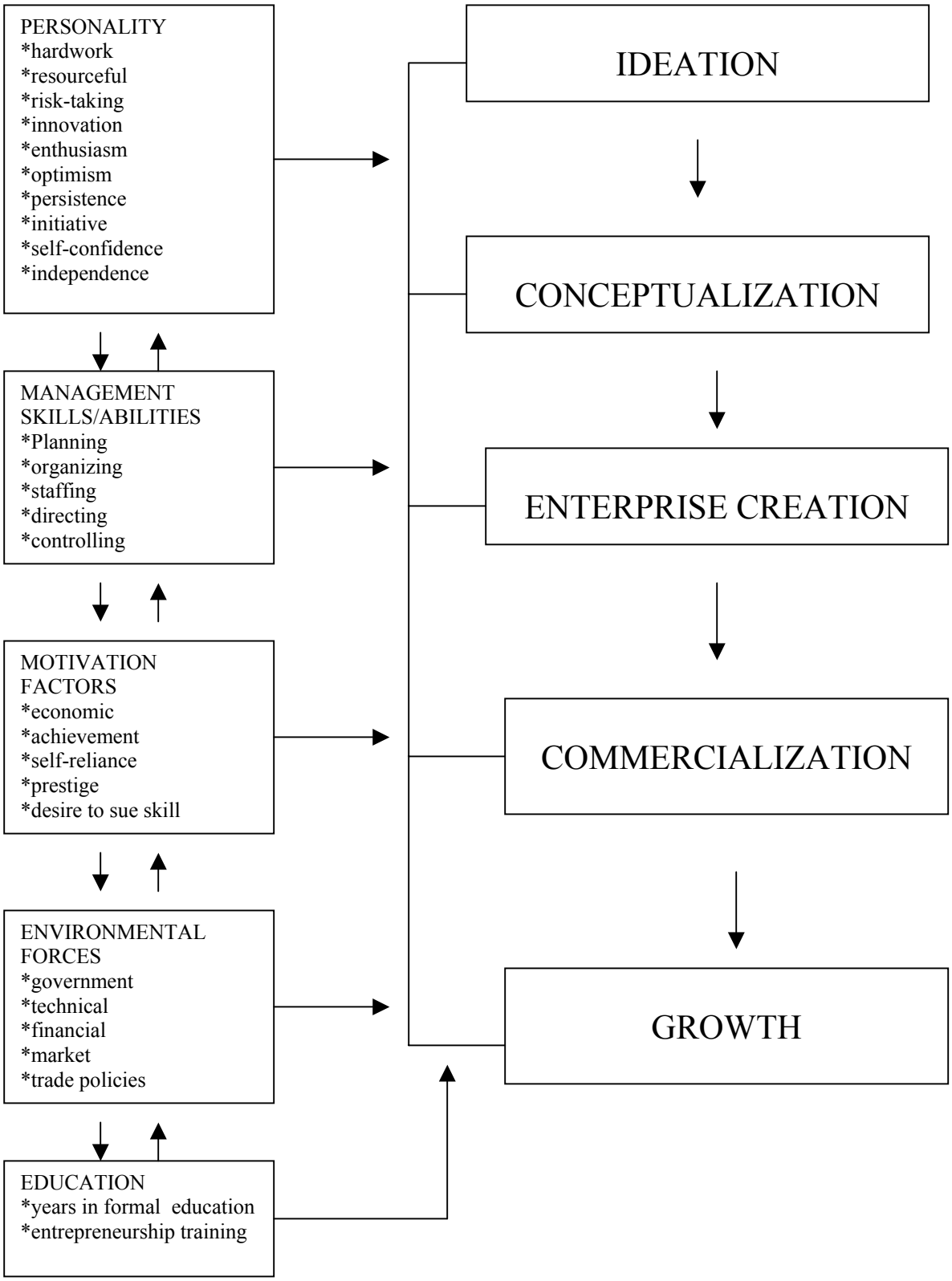

Fig. 1: Schematic diagram showing the interrelationship of entrepreneurial determinants influencing entrepreneurship process.

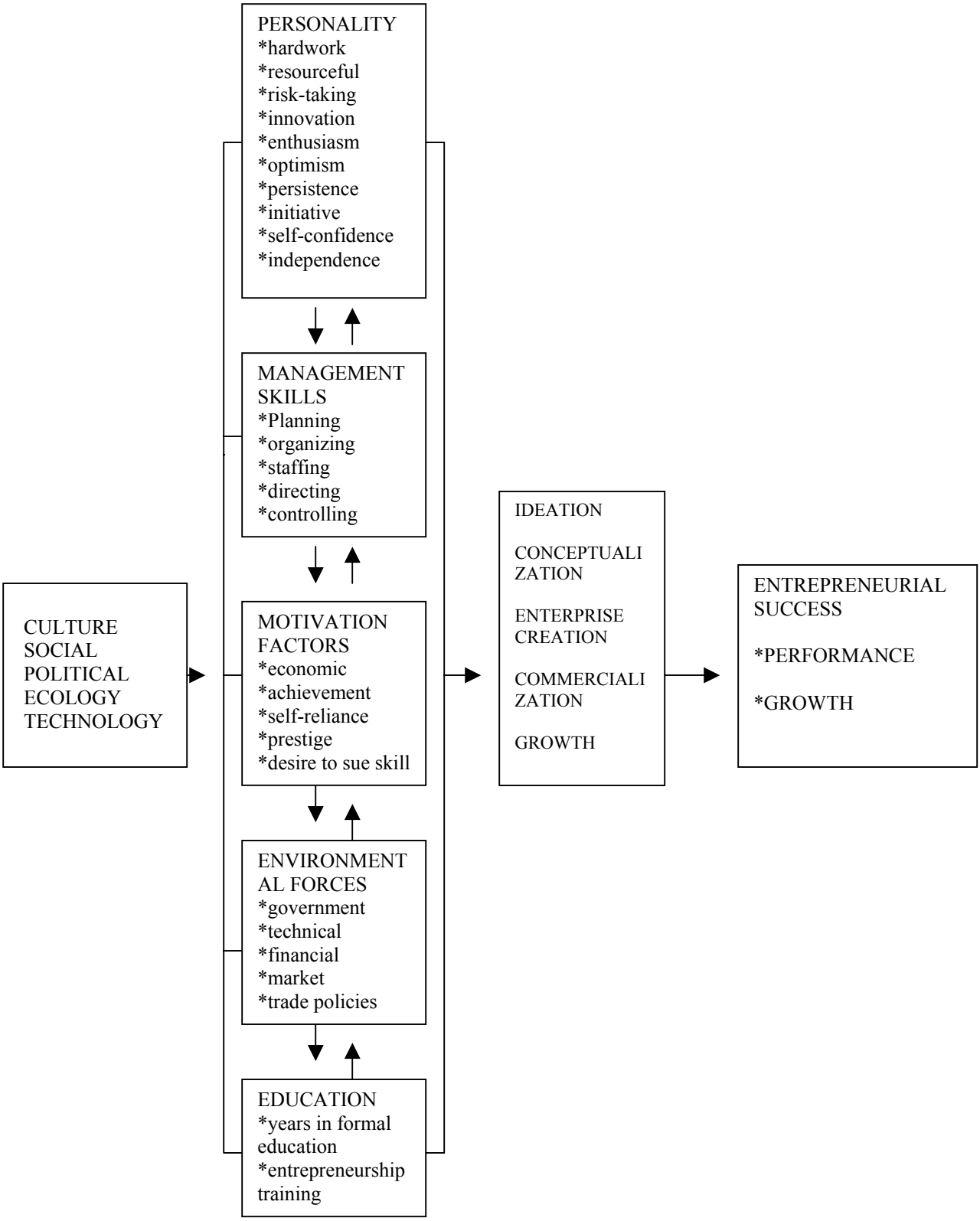

Fig.2: Schematic diagram showing the antecedents influencing entrepreneurial success.

Table 1: Selected Socio-economic Characteristics of Small Firms Entrepreneurs

Socio-economic Variables	Frequency	Percentages
Level of Education		
Elementary	07	18
Secondary	23	56
Post Secondary	02	04
University	05	14
Postgraduate	03	08
Total	39	100
Entrepreneurship Training Attendance		
Attended	17	43
Did not attend	22	57
Total	39	100
Entrepreneurship Training		
Bookeeping	03	18
Technical	10	58
Marketing	00	00
Start Your Business	02	12
Other related	02	12
Total	17	100

Source: Survey 2004

Table 2: Distribution of Respondents by Entrepreneurial Personality

Personality Characteristics	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree		Mean Score
	F	%	F	%	F	%	F	%	F	%	
Hardworking	16	41	19	48	3	08	1	03	0	00	4.280
Resourceful	28	72	10	25	1	03	0	00	0	00	4.710
Risk-taking	18	46	19	48	1	03	1	03	0	00	4.382
Innovation	15	38	21	54	3	08	0	00	0	00	4.106
Enthusiasm	18	46	16	41	5	13	0	00	0	00	4.332
Optimism	16	41	21	54	2	05	0	00	0	00	4.357
Persistence	19	50	14	37	5	13	0	00	0	00	4.254
Initiative/opportunity	24	62	15	38	0	00	0	00	0	00	4.614
Self-confidence/ independence	23	59	16	41	0	00	0	00	0	00	4.589
Total mean score											4.402

Source: Survey 2004 Mean Score: 3.0 + 1.5811
Score: Strongly Agree = 5 High = 4.5811

Agree = 4
Neutral = 3
Disagree = 2
Strongly Disagree = 1

Average = 3.0000
Low = 1.4189

Table 3: Distribution of Respondents by Management Skills

Management Skills	Strongly Agree		Agree		Neither Agree nor Disagree		Disagree		Strongly Disagree		Mean Score
	F	%	F	%	F	%	F	%	F	%	
Planning	13	33	15	38	8	21	0	00	3	08	3.895
Organizing	19	49	16	41	4	10	0	00	0	00	4.383
Staffing	12	31	15	39	8	21	3	08	1	03	3.869
Directing	16	41	12	31	5	13	6	15	0	00	3.972
Controlling	10	25	16	41	8	21	5	13	0	00	3.794
Total mean score											3.982

Source: Survey 2004
Score: Strongly Agree = 5
Agree = 4
Neither Agree nor Disagree = 3
Disagree = 2
Strongly Disagree = 1

Mean Score: 3.0 ± 1.5811
High = 4.5811
Average = 3.0000
Low = 1.4189

Table 4: Distribution of Respondents by Motivation Factors

Motivation Factors	Very Much		Much		To an average extent		Somewhat		Not at All		Mean Score
	F	%	F	%	F	%	F	%	F %		
Economic	19	49	12	31	04	10	04	10	0	00	4.177
Achievement	13	34	12	31	10	25	04	10	0	00	3.870
Self-reliance	20	51	19	49	00	00	00	00	0	00	4.512
Prestige	11	28	12	31	05	13	05	13	6	15	3.423
Desire to use skills	10	25	09	24	07	18	10	25	3	08	3.331
Total mean score											3.862

Source: Survey 2004
Score: Strongly Agree = 5
Agree = 4
To an Average extent = 3
Disagree = 2
Strongly Disagree = 1

Mean Score: 3.0 ± 1.5811
High = 4.5811
Average = 3.0000
Low = 1.4189

Table 5: Distribution of Respondents by Environmental Forces

Environmental Factors	Very Much F	%	Much F	%	To an Average Extent F	%	A Little F	%	Very Little F	%	Mean Score
Government	03	08	12	33	12	31	8	21	3	08	3.106
Technical	20	51	09	23	10	26	0	00	0	00	4.256
Financial	18	47	13	33	08	20	0	00	0	00	4.255
Market	05	13	09	23	12	31	8	20	5	13	3.075
Infrastructure	10	26	10	26	09	23	6	15	4	10	3.408
Trade Policies	14	36	12	31	11	28	0	00	2	05	3.921
Total mean score											3.670

Source: Survey 2004

Score: Strongly Agree = 5
Agree = 4
To an Average extent = 3
Disagree = 2
Strongly Disagree = 1

Mean Score: 3.0 ± 1.5811
High = 4.5811
Average = 3.0000
Low = 1.4189

Table 6: Results of Regression Analysis on the Relationship Between the Predictors and Entrepreneurial Success

Multiple R = 0.47129 F = 5.08933 F Sig = 0.00000
R2 = 0.18461
Standard Error = 0.68102

Independent Variables (X)	Regression Coefficient (b)	Correlation Coefficient (r)	Coefficient of Determination (r^2)	T Sig
Entrepreneurial Personality	.36071	.67640	.47843	7.0063
Management Skills	.16542	.22611	.04989	3.2690
Motivation Factors	.11879	.19908	.03792	2.317
Environmental Forces	.09987	.10892	.01268	2.127
Education	.10782	.19058	.03632	2.119
Entrepreneurship Training	.03276	.05268	.00319	0.809
Constant				3.961

Source: Survey 2004
P ≥ 0.05
Critical = 1.96

ENTREPRENEURIAL TRAITS OF UNDERGRADUATE COMMERCE STUDENTS: AN INTERNATIONAL COMPARISON

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ABSTRACT

International research on entrepreneurship shows that substantial variation exists in entrepreneurial activity between countries (Orford, Wood, Fischer, Herrington & Segal 2003:8). Entrepreneurial activity is measured in terms of the proportion of adults who are involved in starting a business or are owner-managers of new firms. Variations exist between countries in terms of the number of persons starting up new enterprises.

Literature proposes that entrepreneurs are not only persons who start up businesses but also persons who possess certain characteristics or traits to varying degrees. It is thus of importance and interest to entrepreneurial educators to establish whether variations in countries also exist with regard to the possession of these entrepreneurial traits. Against this background, the primary aim of this research is to learn more about the entrepreneurial traits of undergraduate Commerce students at selected tertiary institutions in each of the following countries, namely South Africa, the United States of America and the Netherlands. The objectives of this research are to report on the levels of students' entrepreneurial traits in the different countries and to establish whether significant differences exist between the countries with regard to the level of entrepreneurial traits of students.

Convenience sampling was used to measure the responses of 1 528 undergraduate students. The sample consisted of 758 South Africans, 379 American and 391 Dutch students. The data analysis involved firstly calculating the descriptive statistics for the sample and secondly the internal reliability of the measuring instrument was established by calculating the Cronbach Alpha Coefficients. All the items in the research instrument were subjected to a factor analysis procedure to determine which items should be used in summated scales to calculate the entrepreneurial trait category scores. Finally inferential statistical analysis (ANOVA) was

conducted to establish whether significant differences existed between the countries with regard to the level of entrepreneurial traits of students.

It appears that undergraduate students from the United States score higher on most of the entrepreneurial traits investigated than students from the other two countries. Dutch students, on the other hand, scored the lowest on most of the traits investigated. Significant differences were found between countries with regard to all the entrepreneurial traits investigated. These findings provide important insights for entrepreneurial educators, because the reasons for the development of a trait in one country could provide the answer as to how to develop them in another.
Keywords: Entrepreneurship, Entrepreneurial traits, Entrepreneurship education and Small Business.

INTRODUCTION AND PROBLEM STATEMENT

While the relationship between entrepreneurship and economic growth is multi-faceted and complex, it is beyond dispute that entrepreneurial capability is a necessary ingredient in a country's capacity to sustain economic growth. There is little doubt that entrepreneurship plays a critical role in contemporary world economies and that entrepreneurship is a driving force of both economic growth and job creation (Levin, 1998:79; Lunsche and Barron, 1998:1; Sunter, 2000:23).

Given the importance of entrepreneurship, it is imperative to understand the concept of entrepreneurship and it practical implementation. However, to find a single appropriate definition of entrepreneurship is a challenge for academic researchers and students of entrepreneurship. In scrutinising numerous definitions and traits, common characteristics of successful entrepreneurs become evident. These include the ability to recognize business opportunities; to create, establish and/or expand profitable economic organisations through time, effort and money; to blend creativity, innovation and risk-taking with hard work; and to correctly appropriate resources. On this basis it becomes evident that entrepreneurship is not just about establishing a new enterprise, but it is also about the psychological make-up of the person behind this endeavour, a person who possesses specific traits or characteristics.

International research on entrepreneurship shows that substantial variation exists in entrepreneurial activity between countries (Foxcroft, Wood, Kew, Herrington & Segal 2002:13). Entrepreneurial activity is measured in terms of the proportion of adults who are involved in starting a business or are owner-managers of new firms. Variations exist between countries in terms of the number of persons starting up new enterprises.

As mentioned above, literature proposes that entrepreneurs are not only persons who start up businesses but are also persons who possess certain characteristics or traits to varying degrees. It is thus of importance and interest to entrepreneurial educators to establish whether variations in countries also exist with regard to the possession of these entrepreneurial traits. The existence of developed entrepreneurial traits in one country could provide solutions as to how to develop these traits in another.

RESEARCH OBJECTIVES

Against this background, the primary aim of this research is to learn more about the entrepreneurial traits of undergraduate Commerce students at selected tertiary institutions in each of the following countries, namely South Africa (SA), the United States of America (USA) and the Netherlands (NED). The objectives of this paper are to:

- Determine the levels of entrepreneurial traits of Commerce undergraduate students at selected tertiary institutions in South Africa, the United States and the Netherlands; and to
- Establish whether significant differences exist between the levels of entrepreneurial traits of undergraduate students in the different countries.

With the problem statement and objectives as background, the focus will first be on a brief literature overview, from which a classification of entrepreneurial traits was made. This is followed by the empirical findings on the entrepreneurial traits of undergraduate students at the selected tertiary institutions in Port Elizabeth (South Africa), Iowa (USA) and Utrecht (The Netherlands). Finally conclusions and implications of the research findings are discussed.

An Overview of Entrepreneurial Traits

The field of entrepreneurship has been approached from many perspectives and by many disciplines. Most research about entrepreneurial traits undertaken in the psychological discipline is centred on the influences of genes, family, education and career experience (Timmons 1999: 24; Dollinger 1995:9). Although numerous descriptive studies and some valuable empirical research have been undertaken in this regard, there is no guarantee that the guidelines derived from such research will automatically ensure entrepreneurial success.

The present comparative research into the entrepreneurial traits of undergraduate students made use of an existing measuring instrument, which was slightly modified according to the country in which the instrument was administered. A new category (P), named business knowledge, was also added to establish whether respondents possess a basic understanding of business operations and terminology. The original measuring instrument focused on one of Gartner's (1985) conceptual framework dimensions for new venture creation, namely *individual characteristics*. In this respect, attention is placed primarily on individual characteristics, specifically the evaluation of those attitudes and behaviours that are shared to varying degrees by successful entrepreneurs. It must be stressed that entrepreneurs who succeed, not only possess creative and innovative flair, attitudes and behaviours, but also solid general management skills, business acumen, the ability to use networks effectively and of course hard work and luck. Luck may be described as favourable outcomes linked to chance events, for example starting the appropriate type of business to meet specific market needs at a specific point in time.

The individual entrepreneurial traits included in the measuring instrument, as well as literature substantiating these traits, are presented in Table 1. Three categories G, J and O, from the previous research, were excluded in this study. This was done to improve the validity of the results.

Table 1: Literature pertaining to entrepreneurial traits

ENTREPRENEURIAL TRAITS	SELECTED RESEARCH
Category A: ***Goal Setting / Perseverance*** (Realistic and attainable goals, long-term	Kroon and Moolman (1991); Naffziger, Hornsby and Kuratko (1994); Timmons (1999); Bowler

ENTREPRENEURIAL TRAITS	SELECTED RESEARCH
commitment and determination)	(1995); Wickham (1998); Nieman & Bennet (2002); Nieman, Hough & Niewenhuizen (2003), Timmons & Spinelli (2003); Driver, Wood, Segal & Herrington (2001)
Category B: ***Human Relations Ability*** (Ability to convince others to move in a specific direction, characteristics such as cheerfulness, cooperation and tact)	Baumback and Lawyer (1979); Lambris (1995); North (1995); Van Vuuren (1997)
Category C: ***Communications Ability*** (Ability to communicate ideas to others, verbal and written)	Marx, Van Rooyen, Bosch and Reynders (1998); Barrier (1995)
Category D: ***Competing Against Self-imposed Standards*** (Compete against high yet realistic self-imposed standards, accept responsibility, accountable)	Siropolis (1990); Marx, Van Rooyen, Bosch and Reynders (1998)
Category E: ***Dealing with Failure*** (Failure to be regarded as a learning experience)	Gerdes (1988); Burns and Dewhurst (1989); Kuratko and Hodgetts (1993); Goodman (1994)
Category F: ***Self-confidence / Belief in Self-determination*** (Belief in own ability to achieve goals that are self-determined, high need for autonomy)	Mushonga (1981); Goodman (1994); Zimmerer and Scarborough (1998); Longenecker, Moore and Petty (1997); Kreitner and Kinicki (1998); Driver et al (2001), Nieman & Bennet (2002); Nieman et al (2003); Timmons & Spinelli (2003)
Category G: ***Risk-taking*** (Predisposition for taking moderate, calculated risks providing a reasonable chance for success)	McClelland (1967); Schackle (1979); Burch (1986); Siropolis (1990); Kroon and Moolman (1991); Kuratko and Hodgetts (1993); Mariani (1994); Wickham (1998); Zimmerer and Scarborough (1998); Casson (1991); Driver et al (2001), Nieman et al (2003)
Category H: ***Taking Initiative / Seeking Personal Responsibilities*** (Need to use own initiative, make important decisions and determine action steps. Accept consequences)	Gerdes (1988); Marx, Van Rooyen, Bosch and Reynders (1998); Goodman (1994); Kreitner and Kinicki (1998); Maré (1996)
Category I: ***Drive and Energy Level*** (Ability to work long hours, vigour, good health and persistence)	McClelland (1967); Burns and Dewhurst (1989); Casson (1991); Goodman (1994); Mariani (1994); Marx, Van Rooyen, Bosch and Reynders (1998); Timmons & Spinelli (2003)
Category J: ***Tolerance for Ambiguity and uncertainty*** (Ability to live with modest to high levels of uncertainty concerning job and career security, perform different tasks simultaneously)	Bowler (1995); Zimmerer and Scarborough (1998), Nieman & Bennet (2002); Timmons & Spinelli (2003)
Category K: ***Thinking Ability*** (Need for original thinking, creativity and critical analysis of situations)	McClelland (1967); Gerdes (1988); Casson (1991); Hjelle and Ziegler (1992); Burch (1986); Kreitner and Kinicki (1998); Nieman & Bennet (2002); Timmons & Spinelli (2003).
Category L: ***Use of Outside Resource Persons*** (Seek expertise and assistance of others in the accomplishment of goals)	McClelland (1967); Mushonga (1981); Bowler (1995)
Category M: ***Knowledge seeking*** (Developing skills, experience and resources in known territory)	Kroon and Moolman (1991); Hatten (1997); Hellriegel, Jackson and Slocum (1999)
Category N: ***Number Sense*** (Ability to understand and/or interpret financial statements /performance)	Bygrave (1994); Maré (1996); Marx, Van Rooyen, Bosch and Reynders(1998); Zimmerer and Scarborough (1998); Wickham (1998)
Category O: ***Money Sense*** (Ability to recognise that money is an important	Burch (1986); Kuriloff and Hemphill (1981); Kroon and Moolman (1991); Burns and

ENTREPRENEURIAL TRAITS	SELECTED RESEARCH
factor, correct appropriation)	Dewhurst (1993)
Category P: ***Business Knowledge*** (Possess a basic understanding of business operations and terminology)	Van Vuuren (1997), Marx, Van Rooyen, Bosch and Reynders (1998), Zimmerer and Scarborough (1998)

RESEARCH DESIGN AND METHODOLOGY

In an effort to assess the entrepreneurial traits of students, a positivistic research paradigm was adopted using a previously developed research instrument by Louw, Du Plessis, Bosch & Venter (1997). A convenience sampling method was used, in which 1 528 undergraduate Commerce students completed the questionnaires. The research instrument consisted of two sections. Section A, the self-assessment section, covered 104 items divided into sixteen categories, each representing an entrepreneurial trait. The items were phrased as statements with the possible response continuum linked to a Likert-style five-point scale (1 = strongly disagree to 5 = strongly agree). It is important to bear in mind that responses to the self-assessment section are based on the perceptions of students of themselves. The item scores on the five-point scale were categorised into *Low* (less than or equal to 2.6), *Average* (between 2.6 and 3.4) and *High* scores (above 3.4). Demographical information relating to gender, age and country of residence was requested in Section B.

DATA ANALYSIS

Data analyses relating to reported results were conducted in four stages:

- All the items in the research instrument were subjected to a factor analysis procedure to determine which should be used in summated scales to calculate the entrepreneurial trait category scores. The Statistical Program BMDP 4M (Frane, Jennrich & Sampson 1990) was used, specifying principal component analysis as the method of initial factor attraction, with Direct Quartimin oblique rotation of the original factor matrix. Most of the original items loaded on one or more of the sixteen trait categories. It should be noted that the concept of discriminant validity is not applicable in this study, as the sixteen categories are not postulated as mutually exclusive dimensions of the respondents' traits construct.
- To assess the internal reliability of the measuring instrument, Cronbach alpha coefficients were calculated. Reliability coefficients of less than 0.50 are deemed to be unacceptable, those between 0.50 and 0.60, are regarded as sufficient and those above 0.70 as acceptable (Nunally 1978; Peterson 1994). Coefficients greater than 0.80 are regarded as good (Sekaran 1992: 174, 284, 287).
- Descriptive statistics such as the mean, standard deviation and frequency distributions were calculated to summarise the sample data distribution. This was done for the individual items and the summated scores relating to the problem categories and perceived success.
- The BMDP Program 2V was used to perform inferential statistical analysis such as the analysis of variance (ANOVA). Scheffé and Cohen's d tests were done to investigate whether significant differences exist between countries with regard to the level of entrepreneurial traits. The discussion of the results will however be based on the Scheffé tests.

Sample Size and Demographical Information

The measuring instrument was completed by 1 528 undergraduate students. The respondents included 758 South Africans (SA), 379 American (USA) and 391 Dutch (NED) students. In all three countries students were primarily from a Commerce field of study. The demographical information of the respondents is given in Table 2. It is evident that for SA and the USA the sample consists of a satisfactory spread between males and females. This figure is however slightly skewed in the Netherlands, with more males than females participating in the study. In SA, the USA and NED it is evident that the majority of participants fall in the 20-25 years age group.

Table 2: Composition of the respondents

South Africa	N	%	USA	N	%	Netherlands	N	%
Total	758	100%	**Total**	379	100%	**Total**	391	100%
Male	319	42.1%	**Male**	182	48.0%	**Male**	247	63.2%
Female	439	57.9%	**Female**	197	52.0%	**Female**	144	36.8%
<20	299	39.5%	**<20**	8	2.1%	**<20**	109	27.9%
20-25	419	55.3%	**20-25**	363	95.8%	**20-25**	273	69.8%
>25	40	5.3%	**>25**	8	2.1%	**>25**	9	2.3%

EMPIRICAL RESULTS

Item Analysis

The statistical analysis of the data included an assessment of the internal reliability of the measuring instrument. This consisted of calculating Cronbach Alpha coefficients, which measure the internal homogeneity or consistency among a set of items, i.e. the extent to which the same set of respondents replies in a consistent manner to similar items (Diamantopoulous & Schlegelmilch, 1997:36). The calculated Cronbach Alphas for each entrepreneurial trait category are reported in Table 3.

Table 3: Reliability of category scores (Cronbach Alpha coefficients)

Category	South Africa	Netherlands	USA
A: Goal Setting / Perseverance	0.78	0.64	0.77
B: Human Relations Ability	0.67	0.64	0.68
C: Communications Ability	0.70	0.55	0.70
D: Competing Against Self-imposed Standards	0.64	0.70	0.70
E: Dealing with Failure	0.58	0.56	0.60
F: Self-confidence / Belief in Self-determination	0.56	0.52	0.50
H: Taking Initiative / Seeking Personal Responsibilities	0.79	0.69	0.78
I: Drive and Energy Level	0.61	0.54	0.64
K: Thinking Ability	0.72	0.58	0.70
L: Use of Outside Resource Persons	0.62	0.58	0.68
M: Knowledge Seeking	0.73	0.78	0.77
N: Number Sense	0.72	0.64	0.76
P: Business Knowledge	0.71	0.64	0.72

As mentioned earlier the categories *G (Risk-taking), J (Tolerance for ambiguity)* and *O (Money sense)* were excluded from the study. From Table 3 it is evident that all the Cronbach Alpha values are above 0.50, most of which are between 0.60 and 0.78, indicating that the internal reliability of the measures used in this study can be regarded as acceptable.

The Levels of Entrepreneurial Traits of Undergraduate Students

Tables 4, 5 and 6 contain a summary of the descriptive statistics obtained for the various entrepreneurial trait categories for each of the countries under investigation. In Section A of the questionnaire, the students had to respond by assessing themselves according to the entrepreneurial trait categories as summarised in Table 1.

Table 4: Descriptive statistics of entrepreneurial traits: South Africa

South Africa				**Frequency Distribution**					
Category	**N**	**Mean**	**SD**	**Low**		**Average**		**High**	
A	758	**3.82**	0.58	16	2.1%	152	20.1%	590	77.8%
B	758	3.78	0.58	24	3.2%	143	18.9%	591	78.0%
C	758	3.42	0.56	54	7.1%	308	40.6%	396	52.2%
D	758	**4.05**	0.80	33	4.4%	135	17.8%	590	77.8%
E	758	**3.93**	0.57	18	2.4%	148	19.5%	592	78.1%
F	758	3.76	0.55	11	1.5%	190	25.1%	557	73.5%
H	758	3.32	0.60	88	11.6%	337	44.5%	333	43.9%
I	758	**3.91**	0.57	12	1.6%	114	15.0%	632	83.4%
K	758	3.61	0.56	19	2.5%	263	34.7%	476	62.8%
L	758	3.18	0.63	160	21.1%	296	39.1%	302	39.8%
M	758	3.14	0.76	185	24.4%	312	41.2%	261	34.4%
N	758	3.49	0.85	145	19.1%	227	29.9%	386	50.9%
P	758	3.55	0.75	83	10.9%	233	30.7%	442	58.3%

From Table 4 it can be seen that the four highest mean scores or four most developed traits among South African respondents, were:

- Category D: Competing against self-imposed standards (mean = 4.05)
- Category E: Dealing with failure (mean = 3.93)
- Category I: Drive and energy levels (mean = 3.91)
- Category A: Goal setting and perseverance (mean = 3.82)

The most developed trait among South African students was *Competing against self-imposed standards* (mean = 4.05). For the four most developed traits more than 77 per cent of respondents obtained high scores (above the threshold value of 3.4 on the five-point Likert scale) or agreed that they possessed the traits concerned.

In South Africa the lowest scoring traits were as follows:

- Category M: Knowledge seeking (mean = 3.14)
- Category L: Use of outside resource persons (mean = 3.18)
- Category H: Taking initiative and seeking personal responsibility (mean = 3.32)
- Category C: Communications ability (mean = 3.42)

In the case of the three lowest scoring traits less than 45 percent of respondents obtained high scores. Although *Communications ability* had the fourth lowest mean score, like the remaining traits, it obtained a mean score of above the threshold value of 3.4 on the five-point Likert scale, thus indicating the possession of this trait.

Table 5: Descriptive statistics of entrepreneurial traits: The Netherlands

Netherlands				**Frequency Distribution**					
Category	**N**	**Mean**	**SD**	**Low**		**Average**		**High**	
A	391	3.43	0.47	12	3.1%	167	42.7%	212	54.2%
B	391	**3.61**	0.48	12	3.1%	106	27.1%	273	69.8%
C	391	3.22	0.41	21	5.4%	245	62.7%	125	32.0%
D	391	3.60	0.92	54	13.8%	109	27.9%	228	58.3%
E	391	**3.65**	0.49	11	2.8%	129	33.0%	251	64.2%
F	391	3.60	0.44	6	1.5%	125	32.0%	260	66.5%
H	391	3.08	0.46	53	13.6%	242	61.9%	96	24.6%
I	391	**3.64**	0.50	7	1.8%	117	29.9%	267	68.3%
K	391	3.44	0.43	6	1.5%	192	49.1%	193	49.4%
L	391	2.74	0.54	169	43.2%	176	45.0%	46	11.8%
M	391	2.96	0.73	129	33.0%	158	40.4%	104	26.6%
N	391	**3.68**	0.59	21	5.4%	119	30.4%	251	64.2%
P	391	3.50	0.56	24	6.1%	137	35.0%	230	58.8%

In the Netherlands the four most developed entrepreneurial traits, with more than 64 percent of respondents obtaining high scores, were as follows:

- Category N: Number sense (mean = 3.68)
- Category E: Dealing with failure (mean = 3.65)
- Category I: Drive and energy levels (mean = 3.64)
- Category B: Human relations (mean = 3.61)

The lowest scoring traits or the least developed, with no more than 32 per cent scoring high scores, were as follows:

- Category L: Use of outside resource persons (mean = 2.74)
- Category M: Knowledge seeking (mean = 2.96)
- Category H: Taking initiative and seeking personal responsibility (mean = 3.08)
- Category C: Communications ability (mean = 3.22)

The remaining traits all obtained mean scores above the threshold value of 3.4 on the five-point Likert scale, thus indicating that they possessed the traits concerned.

Table 6: Descriptive statistics of entrepreneurial traits: The USA

USA				Frequency Distribution					
Category	**N**	**Mean**	**SD**	**Low**		**Average**		**High**	
A	379	3.95	0.50	3	0.8%	47	12.4%	329	86.8%
B	379	**3.98**	0.46	3	0.8%	26	6.9%	350	92.3%
C	379	3.54	0.48	12	3.2%	122	32.2%	245	64.6%
D	379	**4.32**	0.70	10	2.6%	31	8.2%	338	89.2%
E	379	**3.96**	0.47	2	0.5%	51	13.5%	326	86.0%
F	379	3.86	0.44	5	1.3%	46	12.1%	328	86.5%
H	379	3.49	0.52	16	4.2%	143	37.7%	220	58.0%
I	379	**4.06**	0.50	4	1.1%	30	7.9%	345	91.0%
K	379	3.84	0.46	2	0.5%	63	16.6%	314	82.8%
L	379	3.19	0.61	66	17.4%	168	44.3%	145	38.3%
M	379	2.95	0.70	115	30.3%	177	46.7%	87	23.0%
N	379	3.85	0.68	23	6.1%	73	19.3%	283	74.7%
P	379	3.69	0.62	14	3.7%	103	27.2%	262	69.1%

In the USA the four most developed traits, with more than 86 per cent of respondents obtaining high scores, were as follows:

- Category D: Competing against self-imposed standards (mean = 4.32)
- Category I: Drive and energy levels (mean = 4.06)
- Category B: Human relations (mean = 3.98)
- Category E: Dealing with failure (mean =3.96)

The four least developed traits were as follows:

- Category M: Knowledge seeking (mean = 2.95)
- Category L: Use of outside resource persons (mean = 3.19)
- Category H: Taking initiative and seeking personal responsibility (mean = 3.49)
- Category C: Communications ability (mean = 3.54)

Less than 40 per cent of respondents scored high scores for *Knowledge seeking* and *Use of outside resources.* The remaining traits (including H and C) however all obtained mean scores above the threshold value of 3.4 on the five-point Likert scale. This indicates that the sample group possessed the traits concerned. For the USA, students scored high scores for 85 per cent of the traits investigated.

Significant Differences between the Levels of Entrepreneurial Traits

From Tables 4, 5 and 6 it can be seen that for eleven of the thirteen entrepreneurial traits under investigation, the USA scored the highest score, with SA scoring the second highest and the Netherlands scoring the lowest. The exceptions were for the traits *Knowledge seeking (M)* and *Number sense (N). Knowledge seeking (M)* scored low mean scores in each country but for this trait the order was somewhat different. South Africa scored the highest mean, the Netherlands scoring the second highest and the US scored the lowest mean. For the trait, *Number sense (N)* the order was also different in that the USA scored the highest, followed by the Netherlands and the lowest score was obtained by the South African respondents.

The extent to which these differences in mean scores and order are significant however, was established by undertaking an analysis of variance. This was done to determine whether significant differences exist between the countries and the level of development of entrepreneurial traits of the students. Significant differences ($p < 0.00$) were found and from Table 7 below the Scheffé test also shows that significant differences between countries exist (at the 95 per cent confidence level) with regard to all the entrepreneurial traits.

Significant differences (at the 95 per cent confidence level) between the means scored for the entrepreneurial trait categories, existed between all three countries with regard to the following traits, namely *Goal setting and perseverance (A), Human relations (B), Communication (C), Competing against Self-imposed Standards (D), Self- confidence (F), Taking initiative (H), Drive and energy levels (I), Thinking ability (K), Number sense (N).* Although mean scores were significantly different for all three countries, the USA respondents scored significantly higher means for all the above mentioned traits than the other countries, with South Africa scoring the second highest (except number sense). For the traits *Number sense*, the mean scores were significantly different between all three countries with the USA (3.85) scoring significantly higher than both the Dutch (3.68) and SA (3.49). In this case however SA scored the lowest mean score.

Table 7: Significant differences between countries

Category		Country			Anova			Scheffé	Cohen's d			
		a) SA	c) NED	d) USA	F-statistic	p-value		p < 0.05				d>0.2
A	Mean	3.82	3.43	3.95	74.72	0.000	**	ac,ad	0.09	0.74	0.24	ac,ad
	S.D.	0.58	0.47	0.50						0.91	0.16	
	N	758	391	379				cd			1.07	cd
B	Mean	3.78	3.61	3.98	46.71	0.000	**	ac,ad	0.38	0.32	0.38	ac,ad
	S.D.	0.58	0.48	0.46						0.77	0.00	
	N	758	391	379				cd			0.79	cd
C	Mean	3.42	3.22	3.54	54.53	0.000	**	ac,ad	0.50	0.41	0.23	ac,ad
	S.D.	0.56	0.41	0.48						1.10	0.27	
	N	758	391	379				cd			0.72	cd
D	Mean	4.05	3.60	4.32	61.94	0.000	**	ac,ad	0.34	0.52	0.36	ac,ad
	S.D.	0.80	0.92	0.70						0.27	0.77	
	N	758	391	379				cd			0.88	cd
E	Mean	3.93	3.65	3.96	48.77	0.000	**	ac	0.56	0.53	0.06	ac
	S.D.	0.57	0.49	0.47						0.08	0.67	
	N	758	391	379				cd			0.65	cd
F	Mean	3.76	3.60	3.86	19.34	0.000	**	ac,ad	0.13	0.32	0.20	ac,ad
	S.D.	0.55	0.44	0.44						0.46	0.06	
	N	758	391	379				cd			0.59	cd
H	Mean	3.32	3.08	3.49	74.52	0.000	**	ac,ad	0.61	0.45	0.30	ac,ad

	S.D.	0.60	0.46	0.52						1.26	0.31	
	N	758	391	379				cd			0.84	cd
I	Mean	3.91	3.64	4.06	44.53	0.000	**	ac,ad	0.24	0.50	0.28	ac,ad
	S.D.	0.57	0.50	0.50						0.27	0.55	
	N	758	391	379				cd			0.84	cd
K	Mean	3.61	3.44	3.84	51.47	0.000	**	ac,ad	0.32	0.34	0.45	ac,ad
	S.D.	0.56	0.43	0.46						0.74	0.13	
	N	758	391	379				cd			0.90	cd
L	Mean	3.18	2.74	3.19	125.93	0.000	**	ac	0.74	0.75	0.02	ac
	S.D.	0.63	0.54	0.61						1.67	0.74	
	N	758	391	379				cd			0.78	cd
M	Mean	3.14	2.96	2.95	51.39	0.000	**	ac,ad	0.62	0.24	0.26	ac,ad
	S.D.	0.76	0.73	0.70						0.90	0.94	
	N	758	391	379							0.01	
N	Mean	3.49	3.68	3.85	24.10	0.000	**	ac,ad	0.04	0.26	0.47	ac,ad
	S.D.	0.85	0.59	0.68						0.29	0.55	
	N	758	391	379				cd			0.27	cd
P	Mean	3.55	3.50	3.69	11.42	0.000	**	ad	0.23	0.08	0.20	ad
	S.D.	0.75	0.56	0.62						0.18	0.48	
	N	758	391	379				cd			0.32	cd

In four instances significant differences did not occur between all three countries namely, *Dealing with failure (E), Use of outside resource persons (L), Knowledge seeking (M) and Business knowledge (P)*. For the trait, *Dealing with failure (E)*, significant differences were found between the means scored by the USA (3.96) and SA (3.93), on the one hand, and the Netherlands, on the other. The Netherlands scored a significantly lower score of 3.65. For the trait, *Use of outside resource persons (L),* the Dutch respondents (2.74) also scored significantly lower than both the USA (3.19) and the South African respondents (3.18).

CONCLUSIONS AND IMPLICATIONS OF THE RESEARCH FINDINGS

The main objectives of this paper were to report on the levels of students' entrepreneurial traits in three different countries and to establish whether significant differences exist between these countries with regard to the development of the entrepreneurial traits under investigation. It was found that the four most well-developed entrepreneurial traits for the three countries were as follows:

South Africa:

- Competing against self-imposed standards,
- Dealing with failure,
- Drive and energy levels and
- Goal setting and perseverance

The Netherlands:

- Number sense,
- Dealing with failure,
- Drive and energy levels and
- Human relations.

The USA:

- Competing against self-imposed standards,
- Drive and energy levels,
- Human relations and
- Dealing with failure.

It is evident that the means scored as well as the order of the four most developed entrepreneurial traits differed for each of the three countries. It is however interesting to see that two categories, namely *Dealing with failure* and *Drive and energy levels*, were among the four most developed traits in all three countries. South Africa and the USA had three of the top four most developed traits in common, namely *Competing against self- imposed standards, Dealing with failure* and *Drive and energy levels.* The mean scored by Dutch students for their most developed trait, namely *Number sense*, was however lower than the means of any of the other four most developed traits of both South Africa and the USA. *Number sense* was also not among the four most developed traits for either South Africa or the USA.

If one considers the age of the respondents in this survey, it is not surprising that the traits, *Drive and energy levels,* and *Dealing with failure*, were among the top four most developed traits in all three countries. Younger people or students are more able to work long hours and in most cases have the drive and energy to do so. Younger persons might also not have been exposed to difficult situations, major disappointments or have made life-changing mistakes. In the USA for example, the competitive nature of American society and the high involvement in sports enables individuals to learn from an early age that failure is part of life. Americans are also taught from an early age that failure is an opportunity to learn from one's mistakes. *Competing against self-imposed standards* scored the highest score in both SA and the USA. This could be attributed to the educational and social systems that encourage individuals to set high standards and to take responsibility for themselves.

In South Africa three of the thirteen entrepreneurial traits investigated obtained means scores of below the threshold value of 3.4 on the five-point Likert scale, namely *Use of outside resources, Knowledge seeking*, *Use of outside resources* as well as *Taking initiative and seeking personal responsibility*. In the Netherlands four of the thirteen entrepreneurial traits investigated obtained means scores of below the threshold value of 3.4, namely *Knowledge seeking, Use of outside resources, Taking initiative and seeking personal responsibility,* and *Communication*. On the other hand, in the USA only two of the thirteen trait categories obtained mean scores of below 3.4, namely *Knowledge seeking* and *Use of outside resources*. These observations suggest that the trait categories that scored below the threshold of 3.4 were regarded by the respondents as not being well-developed.

Although the order differed slightly for the Netherlands with regard to the least developed traits, the four lowest scoring traits in all three countries were the same. In South Africa and the USA the ranking of the four least developed traits were the same. *Knowledge seeking* and *Use of outside resource persons* were the least developed traits in all three countries. *Taking initiative and seeking personal responsibility,* and *Communications ability* were the other two least developed traits. Young people today are bombarded with vast amounts of information and the idea of *Seeking knowledge* might not seem relevant to them. Knowledge and information is continually presented to them without their having to seek for it. Students also follow strict programs and the idea of obtaining more information beyond the scope of their coursework might not occur to them. A possible explanation for the low score for the trait *Use of outside resource persons* could be that many of the items relating to this trait made specific reference to obtaining assistance when starting up a new business. As most of the

respondents were students it is possible that the issue of starting and looking for assistance to start an own business would not be a priority for them. It appears that the trait *Taking initiative and seeking personal responsibility* is also not that well-developed among the respondents in all three countries. If one considers the age of the respondents, it can be seen that most are in the earlier stages of their university studies and would still be settling down at university and after having undergone numerous changes would not seek additional responsibilities. It is possible that in some cases, young people come from homes where wealth has been created in previous generations. Many have possibly been given that which their parents or grandparents would have had to work for. As such these young persons have not needed to take the initiative and create opportunities for themselves, but been given these opportunities by their parents. Students in all three countries scored low on the trait *Communication*. In the USA and SA at secondary school level much emphasis is placed on sport. This has become the main extracurricular activity whereas activities such as drama, debate, speech and writing competitions take second place. Students are thus not exposed to as many activities at school level, where communications skills can be developed. In countries like South Africa it could also be a culturally biased aspect that prevents individuals from standing out or drawing attention to themselves.

For eleven of the thirteen entrepreneurial traits under investigation the USA scored the highest score, with SA scoring the second highest and the Netherlands scoring the lowest.
International research (Foxcroft, Wood, Kew, Herrington & Segal 2002: 14) on entrepreneurship shows that substantial variation exists in entrepreneurial activity between countries. This afore-mentioned research measures entrepreneurship in terms of the proportion of adults who are involved in starting a business or are owner-managers of new firms. It thus identifies variations between countries in terms of the number of persons starting up new firms. According to that study the USA is ranked 11th, South Africa is ranked 19th and the Netherlands is ranked 26th, in terms of total entrepreneurial activity or number of persons starting up new firms. When considering only the three countries included in this research and the total entrepreneurial activity, the USA ranked first, South Africa ranked second and the Netherlands ranked last. It is interesting to note that this ranking corresponds with the existence of entrepreneurial traits among students revealed in this study. On 85 per cent of the entrepreneurial traits investigated in the study the USA scored the highest score, South Africa the second highest and the Netherlands the lowest. Although no attempt has been made to prove any statistical correlations, it appears that in the counties where more entrepreneurial output (starting businesses) occurs, more entrepreneurial input (entrepreneurial traits) exists. This supports the notion that entrepreneurs are not only persons who start up businesses but are also persons who possess certain entrepreneurial traits to varying degrees. These traits thus need to be developed if more entrepreneurial activity is to occur.

Numerous explanations could be put forward to explain the ranking of the entrepreneurial traits among the three countries included in the investigation. These could be amongst others, culturally or language based. According to Hofstede's dimensions of culture (Hofstede 1994; Thomas & Bendixen 2000) the American and South African societies are more masculine than the Dutch society. In masculine societies assertiveness, toughness, individual achievement, material success, and heroism are valued, as opposed to feminine societies in which attitudes of modesty, tenderness, and concern with the quality of life are highly valued (Arrindell 2001). This distinction could account for the modest Dutch outcomes as compared to the American and South African outcomes.

It should, however, be noted that when ranking entrepreneurial activity between the three

countries, in terms of opportunity entrepreneurs (those pursuing a business opportunity as opposed to those starting a business out of necessity), the ranking is changed with South Africa being place third among the three countries in the investigation. In terms of the global comparison South Africa ranks 9th in terms of necessity entrepreneurship, but only 29th in terms of opportunity entrepreneurship. The score for necessity entrepreneurship is much lower in the USA and in the Netherlands, and it appears that in countries where a comprehensive social security system is in place the incidence of necessity entrepreneurship is lower (Foxcroft, Wood, Kew, Herrington & Segal 2002:15).

The extent to which these differences, between the means scored on the entrepreneurial trait categories between the different countries, were however significant was established by undertaking an analysis of variance. Significant differences (at the 99% confidence level) between the means scored for the entrepreneurial trait categories, existed between all three countries with regard to the following traits, namely *Goal setting and perseverance, Human relations, Communication, Competing against Self-imposed Standards, Self-confidence, Taking initiative, Drive and energy levels, Thinking ability* and *Number sense*. Although mean scores were significantly different for all three countries, the USA respondents scored significantly higher means for all the above traits, with South Africa scoring the second highest (except for *Number sense*). For the traits *Number sense*, SA scored the lowest mean score, with the Dutch scoring the second highest.

In four instances significant differences did not occur between all three countries namely, *Dealing with failure (E), Use of outside resource persons (L), Knowledge seeking (M)* and *Business knowledge (P)*. For the traits, *Dealing with failure* and *Use of outside resource persons* the Netherlands scored significantly lower than the USA and SA.

For the traits *Knowledge seeking,* however, the SA respondents scored significantly higher than both the USA and the Netherlands. A significant difference was also found for the trait *Business knowledge*, where the USA respondents scored significantly higher than both the Dutch and the South African respondents.

These research findings have important implications for all stakeholders who are involved in entrepreneurship education and fostering entrepreneurial ventures. It is believed that the Entrepreneurial traits, which seem to be underdeveloped, should be addressed in a responsible manner. *Knowledge seeking, Taking initiative, Using outside resource persons* and *Communications ability* are all skills that need to be encouraged and developed. Through adapting curricula and implementing practical initiatives students can be given the opportunity to develop these skills. Attention should thus be given to the creation of a learning environment where these skills are fostered and further developed.

Based on empirical results, it is evident that in some cases students from different countries possess different entrepreneurial abilities or some traits are more developed in one country in relation to another. The reasons for these differences should be identified as they could provide possible solutions as to how to develop these traits in countries where they are underdeveloped. It is imperative that institutions of higher education in all three countries pay attention to skills development, with particular emphasis on those of an entrepreneurial nature. The research findings derived from the empirical evidence do have real implications for educators in Entrepreneurship and for institutions which foster entrepreneurial development. Entrepreneurs are not necessarily born with the required characteristics. These characteristics can, however, be acquired through education, life experiences, and even through the entrepreneurial process itself. Potential entrepreneurs

have to develop a robust psychological make-up because what they are undertaking is invariably daunting.

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INTERACT CASE STUDY
CITY OF THE HAGUE:
LOCAL GOVERNANCE OF BUSINESS START-UPS

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INTRODUCTION

The small and medium-sized enterprise (SME) sector is seen as an important job market necessary for the city economy. There are more than 17.000 firms in The Hague that are part of SME. They are responsible for 90% of all the firms in The Hague and take care of 100,000 jobs, more than 50% of the employment in The Hague. The SME sector is very important for offering work to lower trained people. A great deal of the national increase in employment comes from an increase in the number of new businesses. The Hague was behind the national trend. The large numbers of new firms that are to be found nationally are not in The Hague. In the period 1991-1996 the number of new starter firms decreased by 16%. This decrease was the initiative for The Hague government to bring out a 'Starter's memorandum" to stimulate new entrepreneurship. Creating new jobs, especially in the market sector is the most important task of the government of The Hague in the coming decades. The Hague wants to achieve this target by encouraging entrepreneurship, with a special focus on immigrant entrepreneurship because of the high unemployment rate, by making a more professional business background, increasing the market for entrepreneurs and raising the preconditions by increasing the training levels, creating more business accommodation and business areas, simplifying regulations, forming 'one counter' (The Business Desk) for the business community and making easy accessibility to the city. The foundation of The Hague Starters Counselling Association (Stabij 1997) and the Business Desk (1998) have been set up to add form to these aims. The main goal of the business starter project, which is a part of a broad city economic policy, is to stimulate business starters at the bottom end of the market by means of an integrated approach embedded in partnerships with internal and external actors, with a special reference to immigrant business start-ups.

This case study addresses the following questions:

- What policy is the city of The Hague developing to promote business start-ups, with a special reference to entrepreneurship among immigrants?
- What parties are involved in implementing the policy?
- How successful is the business starters policy?
- What bottlenecks arise in the implementation of the policy?
- What improvements can be recommended?

The case study has two components: an analysis of the city's structure and an analysis of processes of policy implementation. The analysis of the city structure provides background

information about the city policy in general. The process analysis is meant to give specific insight in three dimensions of local governance:

- Integrated approach (multi-sectoral approach);
- Participation of partners;
- Area-wide perspective.

Within the three dimensions the analysis will focus on four specific items:

(1) partnership, (2) leadership, (3) organisational learning and (4) financial innovations as possible preconditions for innovativeness of the project.

First, the data will be described according to the format developed by the Scientific Committee of Interact. After that conclusions will be drawn in the context of the three dimensions.

The study was carried out in association with one of the partners, the Haagse Hoge School. The data was collected from 15 in depth interviews with professionals in the working field and policy advisors. The results were discussed with policy assistants in The Hague city council, two of the other partners involved in implementing the policy and the University of Amsterdam. Because of privacy reasons the opinions are anonymised as much as possible.

CHAPTER (SECTION) I: STRUCTURAL ANALYSIS

The environment of the case study project

Analysis of institutions and regulations: national, regional, metropolitan, municipal, infra-municipal levels.

Political-administrative structures

Central government, the provinces and local authorities are the three levels of government that set policy. Although cities have been given greater scope to formulate policy in the last twenty years, central government still has enormous influence on municipal economic policy. The policy culture in the Netherlands is characterised by the desire for a ‘makeable’ society. The intensity of regulation is a good illustration of this policy culture. However, significant changes have occurred in this respect in recent years. Economic policy is a good example of this, as the era of intensive regulation has given way to increasing deregulation. This process provides opportunities for economic development of the Netherlands. The small and medium-sized enterprise (SME) sector is one of the economic sectors where deregulation has proceeded rapidly. As regards (immigrant) entrepreneurship, the subject of this study, the number of incentive measures has steadily increased since the end of the 1980s. Broadly speaking, the evolution of government policy targeting (immigrant) entrepreneurship can be divided into the following phases.

Urban development and Major Cities Policy

From 1994 the government is stimulating urban development in the major cities. In 1994 a voluntary agreement was concluded with the four largest cities, including The Hague, and later with 21 smaller cities to take urban regeneration measures. This policy, known as the Major Cities Policy, was instigated by the cities themselves, and is based on a thorough analysis of the cities' strengths and weaknesses, as well as possible future opportunities and threats. In 1999 the cities produced, on request of the national government, an integrated vision for the years 1999-2003 in preparation for the 'second generation' of agreements with cities and the national government. This vision was to outline the future of the cities as seen by themselves, with a time span of ten to twenty years.
The main features of this "second generation covenants" Major Cities Policy were:

- Vision;
- An integrated approach that interrelates physical, economic and social measures;
- The targeted and combined use of central and local government resources
- A sustainable alliance;
- An area-specific approach with full involvement of local residents, and
- Measurable objectives.

Unusual about this policy is that cooperation between the government, the cities and private partners does not follow the normal Dutch administrative pattern. The aim of the urban regeneration policy is to enable cities to work with local partners in devising policies tailored to local conditions. This development is being facilitated in several ways by the government.

- Firstly, a process of deregulation and removal of obstacles is taking place.
- Secondly, the power of the cities is being increased.
- Thirdly, extra funds are being provided.
- Fourthly, the performance is monitored.

The government has contracted to act in partnership with the cities. The government and the cities are now equal partners who have reciprocally bound themselves by contract (in the form of a covenant) to certain commitments.

In return for government input, the cities have committed themselves to achieving certain quantifiable goals, such as achieving reductions in crime, unemployment and the social and economic deprivation of immigrants, and increasing the number of jobs. Attention is also being focused on qualitative aspects, such as levels of public satisfaction. Each covenant between a city and the government is based on a four-year development programme (with measurable goals) produced by the city in question. This development programme must comply with different types of requirements specified in the agreement between the government and the city. Besides national programmes also European resources and programmes (Uban and Objective Two) are put in to regenerate disadvantaged urban areas in The Hague.

The programme should be compatible with the future development of the city over the following ten or twenty years as envisaged in the city plan. Government and city should agree on the programme, although the city alone is responsible for developing its own long-term

plan. This integrated long-term plan should be based on an analysis of the city's strengths and weaknesses, and express clear goals and objectives. This insistence on formulating a long-term plan is an essential part of the strategy to force cities to work and think integrally in terms of the intended social outcome.

(Immigrant) entrepreneurship and Major Cities Policy

Until the end of the 1980s policymakers showed little interest in immigrant entrepreneurship and there were also relatively few entrepreneurs from ethnic minorities. Towards the end of the 1980s the government began to develop policy more actively. More precisely, it was in 1987 that the Ministry of Economic Affairs published a policy document entitled: "Scope for enterprise, Policy for small and medium-sized enterprises in a new perspective"(1987). This policy document announced that the government would commission further research to help it formulate its position on entrepreneurship among members of ethnic minorities. On the basis of the results of this research and its experience with a number of special facilities for entrepreneurs from ethnic groups, in 1989 the government produced a position paper ("Policy towards entrepreneurship by persons from ethnic minorities"). The WRR summed up the results of the research and earlier experience as follows (WRR, 1989): the financial situation of entrepreneurs from ethnic minorities, especially Turks and Moroccans, was poor; most companies were set up in sectors with a low entry threshold, and they lacked entrepreneurial know-how (professional skills, management skills, the Dutch language and the diplomas required to start a business). Since 1987 central government has devoted specific attention to entrepreneurship among ethnic minorities as part of its policy on small and medium-sized enterprises. The main objective of the policy specifically targeted at SMEs was to promote equal opportunities for commercial success for entrepreneurs from ethnic minorities. A secondary objective was to create equal opportunities for self-employment among members of those groups.

In 1995 the Ministries of Economic Affairs, Social Affairs and Employment and Finance produced the memorandum "Work through enterprise". This memorandum discussed a number of trends in the SME sector. The main points it identified were:

- Changes in consumer preferences;
- Outsourcing of activities to suppliers;
- Growing demand for services;
- Development of technology;
- Cooperation and increase of scale;
- Globalisation.

These trends led to a greater policy focus on small enterprises in the Netherlands and abroad. Small and medium-sized enterprises played a major role in Dutch economy in the period 1987-1993 since just over 50% of production and 58% of employment (in man-years) in the private sector was generated by SMEs. New companies (start-ups and subsidiaries) created more than 30% of new jobs in that period (Ministry of Economic Affairs/ Ministry of Social Affairs and Employment, 1995). SMEs can therefore justly be seen as the engine of job growth. More recently, the SME sector has been shrinking.

The government proposed five measures in 1995:

- Improving the tax climate;
- Rolling back regulations that curb business dynamism;
- Improving the quality of entrepreneurship;
- Reducing the costs and increasing the flexibility and quality of labour;
- Increasing the possibilities to secure external financing for start-ups and existing companies with potential for growth.

The government recommended establishing centres of expertise specifically for entrepreneurs from ethnic minorities. These proposals were designed to increase the possibilities for starting and expanding companies, for example by removing obstacles to the hiring of staff. With the second voluntary agreement on Major Cities Policy in 1999 entrepreneurship among ethnic minorities was firmly embedded in urban economic policy. Because unemployment remained high the government decided that further measures were still needed. A year before the second voluntary agreement on Major Cities Policy (1999) took effect the government asked the Social and Economic Council (SER) to produce an advisory report on the policy to be pursued with respect to entrepreneurship among ethnic minorities with special reference to Surinamese, Antilleans/Arubans, Turks, Moroccans and refugees. The government adopted most of the SER's advice in developing its policy.

The SER made the following recommendations. First, specific promotion of entrepreneurship in the market for personal services, whereby forms of public-private partnership could also be tried. Second, immigrant entrepreneurship should be embedded in the urban-economy element of Major Cities Policy by considering the creation of an "urban economy fund" designed to finance projects that would strengthen the economic structure in pre-designated economic incentive areas, projects for which the public and private sector would be jointly responsible, for instance small business centres in the city for Dutch and immigrant entrepreneurs, the establishment or restructuring of shopping centres and business parks, facilities for business starters, education for entrepreneurs and information. Third, immigrant entrepreneurs should be encouraged to join franchises and shop chains. According to the SER, the franchise formula could help to solve three of the problems associated with entrepreneurship among ethnic minorities: (1) lack of management skills, (2) the problems they have gaining entry to some sectors, and (3) a shortage of good locations. A fourth recommendation was to give more attention to external financing, for example by providing guarantees for loans to entrepreneurs from private banks in the economic incentive areas in the Major cities and good communication between borrowers and commercial banks. Fifthly, the SER identified room for improvement in the field of legislation and regulations and their implementation specifically with reference to:

- A single contact point, or one-stop shop, in local authorities (front office);
- Streamlining and coordination of procedures in the back office;
- A short, pre-announced lead-time for licensing and other procedures.

The SER also said that more could be done for unemployed people who were starting their own enterprise under the Self-Employed (National Assistance) Decree.

In 1999 the Ministry of Economic Affairs produced the policy document "The enterprising society. More opportunities and fewer obstacles for entrepreneurship". This document followed the line taken in the earlier SER advisory report with respect to entrepreneurship among ethnic minorities. The government favoured a tailored local approach built around the following action points:

- The appointment of mentors from the entrepreneur's own ethnic group;
- Consultation with commercial banks and other institutions about the possibilities of increasing lending to small entrepreneurs from ethnic minorities;
- The implementation of "Local Business", an action plan drawn up by the chambers of commerce of the four large cities. This plan was designed to improve the service provided to ethnic entrepreneurs in particular by appointing consultants for particular districts and creating networks. The government's intention was that other chambers of commerce would also adopt this approach.
- The government also felt the Self-Employed (National Assistance) Decree could be used to enable unemployed members of ethnic minorities to start a business.

The period since the Major Cities Policy was adopted (1994) has been the most intensive in terms of policy for the development of (immigrant) entrepreneurship in the Netherlands up to now. Almost all the measures are applicable for immigrants as well as the native business starters.

From national to urban policy

For a city like The Hague, which has no large-scale industry, small and medium-sized enterprises are particularly important for economic growth. But in that respect the city failed to profit sufficiently from the strong national growth. Although self-employment in the Netherlands has grown explosively in recent years, in the period 1994-1997 the number of start-up businesses in The Hague declined from 1,700 to 1,200 per year (Chamber of Commerce, 1997). The fall in the number of business starters led the local authority in The Hague to publish a policy document on start-up businesses in The Hague "Stimulating new entrepreneurship" in 1996. The policy on business starters is important for expanding and upgrading the municipal economic structure. The policy programme for 1998-2002, "Renewed perspective", stated that the policy on business starters would be expanded in the coming years with special attention to business starters from ethnic minorities and business start-ups by people receiving social security benefits. Besides advising new entrepreneurs the local authority will stimulate the reservation and construction of inexpensive business premises for start-up businesses. There is a direct relationship between the business starters policy and the Major Cities Policy. "The Strength of The Hague", the city's plan for the Major Cities Policy for the period 2000 to 2004 refers to business starters as one of the most important target groups of this policy.

The main aims of central government's business starters policy correspond with The Hague's policy document on business starters, these being to optimise the service to individuals starting a business and to remove the bottlenecks they face. The target groups of the business starters policy are start-up businesses and existing entrepreneurs in financial difficulty. Each organisation in turn divides the target groups into subsidiary target groups. For

instance, organisations also target existing companies that are in difficulties or entrepreneurs who have questions about their enterprise.

The Hague's policy on business starters contains eight action points:

- To set up a counselling service for business starters (Stabij);
- To draw up a list of organisations that help business starters;
- To improve the activities for business starters in The Hague;
- To set up a Business Desk for entrepreneurs;
- To create a databank of business accommodation;
- To construct business premises for business start-ups and small enterprises;
- To stimulate mini-enterprises;
- To increase the opportunities for business starters to secure financing.

Role of supra-local levels in relation to the local project: financial relations, power relations (legal disposition and regulation system)

Central government stimulates municipal policy and in that context provides extra funds as part of the Major Cities Policy. It has provided 100 million euro for projects in the 'soft economy' (such as business starters policy) and 408 million euro for the physical infrastructure. These funds are primarily intended to address local problems relating to the provision of information and advice and business accommodation. In addition, central government has provided over 18 million euro for other activities such as opening a Business Desk, stimulating education about entrepreneurship and for export policy and policy measures for fast-growing companies and technology start-up businesses. European subsidies such as Objective 2 funds (funds under an EU programme targeting areas affected by urban decay) are used for some elements of the policy. Central government "monitors" the policy. The funds provided are linked to performance targets and in principle the agreement is that the funds will be reduced if the performance targets are not reached. But the local authority is free to produce its own analysis of the city's problems and to gear measures, resources and performances to them. An independent assessment committee decides whether the procedures and performances accord with the contract that The Hague concluded with central government.

The municipal authority also has to account for its use of the European subsidies it receives. In that respect, the European Union is far more bureaucratic than the national government. The city has appointed a broad-based advisory committee made up of representatives of different departments and chaired by the alderman for economic affairs to monitor the use of European Objective 2 funds in areas affected by urban decay.

Existing development agencies, planning structures and other mediating organisations

The Major Cities Policy represents an important framework for The Hague's economic policy. The plan for the city's long-term future, "The strength of The Hague", is as mentioned the city's overall strategic plan for the economic development of The Hague. Entrepreneurship is an important topic in the plan in view of the opportunities afforded particularly by small and

medium-sized enterprises. One of the gains arising from the Major Cities Policy is the development of public-private partnerships. The Hague faces a number of major challenges in its effort to reverse the widening socio-economic gap in the city. In order to do so it needs allies in business and among NGOs. The city therefore operates in various networks that also include large companies such as KPN, Siemens, the banks, etc. Central government regularly relies for advice on policy from bodies such as the Social and Economic Council and the Social and Cultural Planning Office. The Association of Netherlands Municipalities represents the interests of local government.

Civil society participation procedures

The Hague uses a system involving district plans. Residents, NGOs, housing associations, interested parties and municipal services are all involved in drawing up these plans. Residents can make their wishes known during the restructuring of their immediate living environment. In general, the public input is used to prepare the annual plans. In the eight city districts there are management teams in which the various policy sectors are represented. It is they who initiate resident participation, together with residents associations. Under the title “The Hague 2025” dozens of interactive policy sessions were held in the period 1997-1998 with citizens, businesses and NGOs to discuss long-term socio-economic policy and a website was produced to assemble the ideas for policy received from individuals. These sessions resulted in four master plans, including the Urban Economy Master Plan, which incorporates suggestions from participating actors about entrepreneurship. A recent law has now created the possibility of holding referenda. It did not apply for this project although a survey was held to gauge public views on the future of their city. In addition the City Survey is held each year and in the Quality of Life Monitor every two years residents of the city are asked how they see the future of the city and what recommendations they would make.

Land use system or any spatial related element in connection with the project (land use plan, master plan, strategic plan etc.) and status of these elements (e.g. necessity of a local land use plan to conform with a master plan)

The economic policy of The Hague rests on the Urban Economy Master Plan, the long-term development programme “The Strength of The Hague”, Choosing and Sharing, the policy document on business starters, the Social-Educational Master Plan, the Restructuring Master Plan (urban regeneration) and the Hoog Hage Master Plan (a plan for a high-quality office economy). These strategic policy documents were used extensively in discussion of the policy on business starters. Spatial planning is crucial to the city’s economic policy. This is why The Hague invests a great deal in the traffic infrastructure to make it attractive for companies to locate in The Hague, for example by reducing traffic jams. Because of the lack of space the city uses the instrument of dual land use, which means that in areas designated for regeneration business premises are created on the ground floor with dwellings above. The city also invests in a pleasant living environment by creating shopping streets to attract business activity. The master plan for the coastline around The Hague will also have a positive effect on business activity in the city. A mixed function/gentrification strategy is adopted in the poorer neighbourhoods. In effect, this involves creating a mix of cheaper and more expensive dwellings so that wealthier people are also attracted to these areas. The assumption is that increasing the purchasing power in these areas will lead to more business

activity. In this way the city can retain its middle class and people will also have the chance to move to more expensive housing.

The city's economic policy is also strengthened by the policy of constructing housing in urban regeneration areas for wealthier households who are expected to produce an economic spin-off. As with the office economy, the assumption is that jobs will be created in the service economy markets. It is these markets that generate employment for low-skilled workers, so that opportunities will be created for businesses run by immigrants. In particular the personal services industry, with its low entry threshold but high potential for growth, offers opportunities for immigrant enterprises. In the first place it eases the competitive pressure in the saturated small retail sector, which attracts most immigrant business starters, so that existing companies will have greater opportunities to grow. Second, immigrant businesses will be more widely spread over different markets, hence increasing their chances of success.

Spatial related elements in connection with the project

The Hague Starters Counselling Association (The Stabij) pays special attention to business starters in certain sections of the city like Transvaal, Schilderswijk, Stationsbuurt, Groente- en Fruitmarkt en Laak-Noord (the inner city). These neighbourhoods have been made an economic stimulation area by the European Commission. Female entrepreneurs are also one of the priority groups. Ethnic minorities receive special attention in the SME policy, because as well as creating chances for an increase in status through independent entrepreneurs, there is also an emancipation factor. The stimulus for entrepreneurship is an important integration factor for the city and its concern about inhabitants who are not part of the labour market. The wishes of specific groups of inhabitants with regards to housing are also being taken more into account. Examples are the collective business buildings of the Hobbit, Fruitweg Business Centre and the Schilde, which have taken into account an excellent infrastructure as an innovation motive for starter businesses. Similar initiatives will take place together with private partners in the coming years. As well as the advantage of combined use of services, this concept also offers the possibility of better support to and co-operation between starter businesses.

General data related to the metropolitan area and the city: population, number of municipalities, wealth

Before the redrawing of the boundaries on 1 January 2002 The Hague had a population of approximately 440,000. The figure is now roughly 480,000. The city is now divided into 42 local districts. Immigrants make up just over 40% of the population. The percentage of the population made up of the traditional immigrant groups from Morocco, Turkey, Suriname, Aruba and the Dutch Antilles is around 25%. As in the other large cities in the Netherlands in The Hague the gap between rich and poor widened rather than narrowed during the economic boom. Income statistics for 1994 show that 52% of the households in The Hague fall into a low-income category, with a wide gulf between rich and poor households. Poor households are concentrated in certain districts of The Hague. There is also income segregation in the region as a whole. The region around The Hague is wealthier than the city. The average income in the Haaglanden region is 24% higher than in The Hague. The concentration of low-income households in the four large cities increased in the period 1994

to 1998. The numbers of people in the middle and higher income groups declined in this period.

THE CASE STUDY

The area: demographic, social, economic and spatial structure

The decline of small industry and the wholesale trade has negative consequences for unskilled workers, who are over-represented in The Hague, since this sector generates most jobs for the unskilled. This is a worrying development, especially for migrants, a large proportion of whom depend on unskilled work. The level of education of the average resident of The Hague is also at odds with the needs of the services sector, which makes up a large share of the city's economy. Knowledge plays a dominant role in this sector and that places great demands on educational standards. However The Hague has only a limited pool of workers with secondary and higher education (NEI, 1998). NEI observed that The Hague is losing its status as a commercial and residential centre. People are moving to the surrounding region to live and shop and this is having a negative effect on purchasing power in The Hague. The conclusion was that economic development is passing parts of The Hague by so that in certain districts prosperity is lagging behind the rest of the city. Features of these districts are vacant buildings, a lack of diversity in the population, extremely high unemployment and impoverishment. Two districts of The Hague stand out in this respect: the Schilderswijk and Transvaal. These are also areas with large ethnic concentrations. Certain districts also stand out in terms of the proportion of the working population that are dependent on long-term national assistance. In the period 1996 to 2000 the overall percentage remained stable at around 4%, but in the deprived neighbourhoods that percentage was at least twice as high.

Having work is regarded, as the most important factor for integration but the fact is that the chance of unemployment among migrants is far higher than among the native Dutch population. The unemployment rate among Dutch people in 1998 was 4% compared with 16% among ethnic minorities, although that figure has since fallen to below 10%. There are, however, significant differences between the various ethnic groups. For instance, unemployment among Moroccans is 22%, among Turks 17%, Surinamese/Antilleans/Arubans 12%, other ethnic minorities 17% and other immigrants 7% (CBS/EBB figures, 1999). Around 46% of the unemployed in The Hague are members of ethnic minority groups (Statistics of the National Manpower Agency, 1999). There is an obvious correlation between long-term unemployment, level of education and ethnicity.

The trend in The Hague is for the productive members of the population to move to somewhere else in the region. For instance, the population statistics for The Hague in 1997 show that 70% of the population who left certain districts of the city chose to move elsewhere in the Haaglanden region. On the other hand, only 13% of people living in the Haaglanden region settled in The Hague. The native Dutch are over-represented among these 'suburbanites'. On the other hand, the inner-city areas also attract new residents, generally young people and migrants who chose to live in the city centre, for example because housing is cheaper and because there is a social network they can fall back on. With the suburban

flight of the overwhelmingly native population and the arrival of immigrants the demographic profile of the inner-city areas is still changing and that process is not yet complete. The ethnic concentration seems likely to continue in the coming years as a result of the selective migration, particularly of native Dutch, to the suburbs, the net natural growth of the immigrant population and the influx of new immigrants.

City policy response on these tendencies

The city policy of The Hague is reacting to the mentioned tendencies with a coherent and integrated social, physical and economic policy. The Hague has opted to build upon its strong points, the so-called Investment Triangle.
This involves:

- Aiming at high-quality office economy with a positive spin-off for low trained jobs;
- Strengthening small and middle sized firms and promoting self-employment, specifically among ethnic minorities;
- Aiming at competitive living environments, which are to draw well to do citizens and firms to The Hague;
- Tackling the lack of space through double land-use;
- Strengthening the links between education and the job market;
- Developing and improving the knowledge infrastructure;
- New commercial activity;
- Neighbourhoods with a stronger economic and social foundation;
- A competitive residential climate which is attractive to those with middle and higher incomes;
- A better average educational level of its population;
- A challenging economic, social and cultural climate and
- Businesses back to the neighbourhoods.

For every three jobs requiring qualified staff, the market creates one job for relatively unskilled staff in the so-called secondary support sector - catering, hospitality, construction, security and so on. Based on this fact, the city is concentrating its investments in the service economy:

- More office space;
- Efforts to attract more ICT businesses;
- International organisations which fit The Hague's image and reputation as a United Nations city and as the international capital of justice, peace and security;
- Efforts to improve accessibility in and around the city;
- Redevelop existing industrial and commercial sites;
- To introduce an incentive policy aimed at new businesses;
- To promote tourism which will increase the need of more lower skilled
- jobs.

In the social sphere, most significant challenges facing The Hague are:

- To raise the average educational level of its citizens in order to achieve a better match with the employment market. This should begin with the very youngest;
- To increase safety and security, particularly in public areas, and reducing crime.

Important spearheads of this policy are to encourage more children from the ethnic minorities to join in nursery school activities, to provide support in bringing up children, and to improve co-operation between the various organisations involved in childcare and youth work.

The number of children leaving school without any form of qualification must be reduced to zero. As mentioned earlier, an increasing proportion of the population of The Hague is of an ethnic origin. If the city is unable to offer good prospects to the ethnic minorities, the effect will be disastrous to the city. The extra efforts of the city in social integration of immigrants are geared towards eradicating their social and economic disadvantage.

The city wishes to give them full access to the employment market, but also to break through the social isolation they will experience if they are insufficiently familiar with the Dutch language and Dutch society. However, the policy in this field goes further than just alleviating disadvantage. The ethnic minorities represent a force for renewal within The Hague's society. This policy includes an important place for the encouragement of 'ethnic enterprise' and other forms of social and cultural initiative on the part of the ethnic minorities.

To achieve the mentioned goals all city departments have agreed a set of performance indicators. All the sectors in the physical, economic and social policy fields work together to achieve the goals. The City Management Team sees to it that the performances are achieved.

The inhabitants of the backward areas should profit the most from these policies, so as to take the Major Cities Policy slogan “vital and undivided” live up to expectation.

Major actors: municipalities, economic actors involved, civil society, etc. detailed description of the various administrative and technical bodies involved in the project

There are a number of parties involved in the business starter policy. Some of these parties were not specifically established to implement business starter policy but do provide information or deliver services for business starters. The main actors in The Hague’s policy on business starters are discussed below.

External parties
The most important actor in the business start policy is Stabij. Stabij was founded by local authority of The Hague to implement the city’s business starter policy and to act as a one-stop shop for business starters. The aim of the local authority is to make it easier for entrepreneurs to find the information they need and to start a business. Another of Stabij’s tasks is to direct the start-up process and coordinate the activities of the participating parties. Another function of Stabij is to keep pushing the various agencies concerned to handle the applications they receive. Stabij also provides coaching and counselling to students, immigrant entrepreneurs and social security beneficiaries who are starting a business. Stabij helps them to draw up a

business plan, but above all tries to fill in the gaps in their knowledge and skills. At the same time it provides general business advice, negotiates in loan applications to the Gemeentelijke Kredietbank (GKB) under the Guarantee Fund or the municipal Social Affairs and Employment Department. Stabij also gives intensive workshops on business administration, market research and starting your own business. Stabij also runs the SME service point, which is used mainly by immigrant entrepreneurs.

Stabij is also:

- A platform for policymakers and suppliers of services for business starters;
- The implementing organisation for joint projects;
- An initiator of new projects;
- The account holder for the Economic Incentive Area (European policy).

How successful Stabij is as a key actor in the governance of business start-ups, in its role as mediator in conflicts between partners and in negotiations with actors in the benefit of the individual starter, in building up a good coordination with the actors and achieving the agreed performance will be discussed in the process analysis.

The Chamber of Commerce

The Chamber of Commerce provides information for all businesses, gives advice and refers people to other bodies. It also produces the starters orientation set, organises meetings for business starters and conducts trade name research. Every new business, except certain free professions, must file its name with the Trade Register at the Chamber of Commerce and is assigned a registration number.

Syntens is also involved in The Hague's business starters policy. It is an innovation network for businesses that was founded in 1994. It provides coaching and advice for innovative business start-ups from the implementation phase with the emphasis on six themes: new entrepreneurship, information and communication technology, personnel and organisation, product and process development, cooperation and marketing and strategy.

The **banks** are also involved, providing information to start-up businesses as well as financial support if necessary. They assess the financing of the business, provide advice on credit control, payment systems and insurance. The banks involved are ABN AMRO, GKB, ING Bank, Rabobank and VSB Bank (Fortis Bank).

Steenworp is another participant. It manages a database of all business accommodation in the Haaglanden region available for start-up enterprises.

Trade associations and **retailers' associations** are also involved. Individuals who are starting a business in a particular sector can go to these parties for information about it. They provide assistance, regulate their sectors and member of the association and provide legal protection in conflicts, etc.

Some accountancy firms are also involved in business starter policy. They provide information about business plans, general business advice, assess the budget, mediate in loan applications to banks, draw up annual financial statements and tax returns, produce the financial administration and advise on the purchase and sale of a business. Among the well-known firms of accountants taking part are BERK, Arenthals and partners, BDO CampsObers, Deloitte & Touche, Ernst & Young Ondernemersservice, KPMG Accountants and PricewaterhouseCoopers.

Important internal parties

Four departments of the municipal authority are also intensively involved in the business starter policy: the Urban Development, Social Affairs and Employment, Maintenance Department and City Management Department.

Department of Urban Development:

The Department of Urban Development is the section that develops economic policy. Its core tasks are to carry out research into economic, infrastructure and spatial developments and develop appropriate policies. The SME sector is a very important one for generating employment. The Department of Urban Development tries to stimulate business start-ups, which will in turn lead to more employment and a stronger urban economy. The department's directorate of Economic Affairs and Services coordinates business starter policy and the activities of the different departments. It also provides the link with Stabij as the body responsible for implementing the business starter policy.

The Business Desk falls under the Department of Urban Development and was formed in 1998 as a contact point for small entrepreneurs and business starters. The majority of entrepreneurs, around 65%, that visit this contact point are immigrants. The purpose of the Business Desk is to contribute to growth in the number of small and medium-sized enterprises by helping the small and first-time entrepreneurs, for instance in making applications for licences and in finding a suitable location. The entrepreneur must however start the business himself.

Department of Social Affairs and Employment Projects:

The involvement of the Department of Social Affairs (Service) and Employment Projects is important with respect to people who are receiving national assistance and want to start their own business. The Self-Employed (National Assistance) Decree provides the department with an instrument to help people receiving national assistance benefits to start their own enterprise. The department's Self-Employment section is responsible for this aspect of the policy. The Department of Social Affairs and Employment Projects can provide income support and/or business capital in the form of a loan during the start-up phase of the enterprise. Since 1997 the department has referred recipients of national assistance who want to start their own company to Stabij for advice on drawing up a business plan. Applicants for a loan under the Self-Employed (National Assistance) Decree must submit a business plan. The department and Stabij together provide information about

entrepreneurship to recipients of national assistance who are interested in starting their own business.

Since 1 April 2000 new legislation under the National Assistance Act (Bulletin of Acts and Decrees, 23/12/1999) has provided greater possibilities to counsel recipients of national assistance in preparing their own business start-up and expanded the possibilities for securing financing. Examples include:

- Recipients of national assistance can retain their benefits for a year while they prepare to start their own business if they are advised during this period by an external agency designated by the municipality. They can receive financial support under the Self-Employed (National Assistance) Decree;
- Local authorities (social services) are allowed to reclaim the costs of the assistance provided by the designated external agency from central government;
- The period for which recipients of national assistance can avail of the facilities of the Self-Employed (National Assistance) Decree after starting their own business was extended from 18 to 36 months;
- For individuals who for medical or social reasons are only partially able to work the period of 36 months can be extended further;
- The maximum loan that can be provided as start-up capital was raised from around 19,500 euro to around 27,500 euro in order to give business starters more financial leeway.

In association with Stabij the Department of Social Affairs and Employment has developed an integrated process for the practical implementation of the 'preparatory year' referred to in the law. Stabij is responsible for carrying out the process.

The basic principles of this cooperation are:

- The Department of Social Affairs and Employment Projects makes a preliminary selection and investigates the best way of mediating for a recipient of national assistance;
- Recipients of national assistance for whom self-employment is the best way of permanently supporting themselves are referred to Stabij;
- The selection phase may involve following a short orientation course at Stabij;
- A decision is taken on whether the applicant can take part in the scheme while retaining the right to national assistance and with an exemption from the requirement to apply for jobs;
- Counselling and training are geared to the needs of the participant;
- The department monitors the progress of the participants;
- Stabij continues to provide counselling after the start of the enterprise;
- The approach is comprehensive, so the department can continue mediating for any dropouts from the scheme in a different direction.

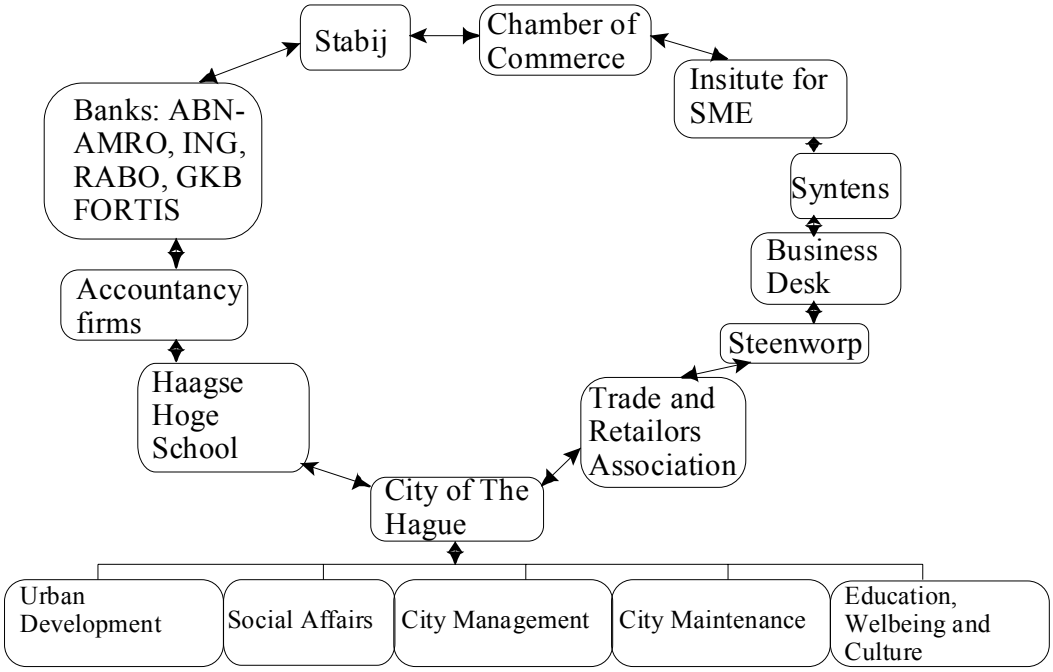
Coordination:

Besides coordination within the local authority itself, there is also coordination with the external intermediaries for business starters. Stabij plays a leading role in this. An important

initiative in this respect is the *"Hague Business Starter Process".* This process is designed to reap the benefits of cooperation between the various parties in The Hague, which provide services for start-up enterprises. The business starter process is intended to lead to a higher success rate among business start-ups. To achieve this, the services provided by the various parties are matched to the needs of the business starters, business starters are informed of the existing supply of services and offered coaching and mentoring. The cooperation between the intermediary institutions is also reflected in *"Haagse Start",* a competition for business starters run by the city, the ABN AMRO, the *Haagsche Courant* newspaper, the accountants Moret, the employment agency Randstad, Syntens, the Chamber of Commerce and Stabij.

The next chart gives an overview of all the participating partners

Chart 1: Overview of participating partners



The financing structure of the project: sources of funding (ranging from local to European funding)

Stabij's main partner is the local authority, which is the main source of subsidies (annually 325,000 Euros, including 100,000 Euros for female starters), with subsidies also from the Institute for SME (about 1 million Euros for the SME Service Desk), central government and Europe. Consequently, Stabij is very vulnerable to spending cuts. Since recently the local authority is also obliged to put contracts for services out to tender as a result of the Work and Income (Implementation Structure) Act. This means that Stabij faces competition and its financial position is therefore under pressure.

Goals of the project and specific objectives pursued by the main actors by participating in the project

The goal of the business starter policy is to increase the number of successful business starters, including business starters among ethnic minorities, with the potential to run a viable business in the long term. Because of the criterion that the venture must be promising 90% of the applicants do not complete the process successfully. Stabij essentially deals with a group of business starters with fewer qualifications for entrepreneurship, including social security beneficiaries. It has mediated for 3,000 potential starters in the period 1998-2002. Its target is to help 60 business starters to launch their own business each year. In practice this means it pursues a policy of positive discouragement (Statistics of Stabij 1998-2002).

Brief history of the project (conception, elaboration and implementation)

Since 1996 The Hague's business starters policy has concentrated on eight action points, which are described below.

Action point 1: foundation of Stabij
Stabij officially started operations in mid-1997. The board of the foundation is made up of representatives of the chamber of commerce, Syntens, the banking and accountancy industry, the Haagse Hogeschool and organisations of immigrant entrepreneurs. The Hague local authority acts as advisor to the executive.

Action point 2: drawing up a survey of organisations for business starters
The second action point in the policy document on business starters policy involved drawing up a list of organisations that provide services for starting entrepreneurs. The intention was to create transparency in The Hague's business start-up market. The list would make it easier for a starting entrepreneur to find the right agencies when they needed assistance. In 1999 Stabij published the brochure "Starting your own company?" which clearly explained which agency provided which service for business starters. These are agencies that are involved in The Hague's business starter process. The intention was to update the list each year.

Action point 3: improving activities for business starters in The Hague
The third action point involves improving the cooperation between the various municipal departments involved in the business starters policy as well as cooperation within the city council and between the participating parties. There are a number of parties involved in the business starters policy.

Action point 4: opening The Hague's municipal Business Desk
This action point involved opening a municipal office to provide information directly to entrepreneurs with questions about municipal policy, regulations and licences. The office can refer applicants to other departments that will handle the enquiries further. The business desk can also play an important role in speeding up the handling of enquiries from entrepreneurs and improving coordination between the various municipal services that deal with entrepreneurs. The business desk was named "Bedrijvenbalie gemeente Den Haag" and was officially opened in June 1998.

Action point 5: creating a databank of business accommodation

Action point 5 relates to a databank with an up-to-date list of business accommodation from the various suppliers (estate agents, housing associations and the city council). This databank would provide business starters and other entrepreneurs with a complete list of the business accommodation available in The Hague. Besides improving the choice for entrepreneurs it could also be useful for business starters, many of whom are unfamiliar with the market for business premises. A possible spin-off benefit would be that there would be less need for entrepreneurs to leave The Hague because they cannot find business accommodation. The various suppliers of business accommodation in The Hague were sounded out about the databank (see Steenworp).

Action point 6: establishing small business centres for business start-ups and small enterprises

When the business starters policy started in 1996, like the other large cities The Hague had a shortage of affordable business accommodation for business start-ups. Action point 6 in the policy document on business starters relates to the development of business accommodation for start-up businesses. The goal was to develop an optimal supply of affordable business accommodation for start-ups and other small enterprises. The emphasis was on premises with small and flexible units at reasonable prices. In this context, the Economic Affairs and Personnel Committee recently adopted a memorandum on subsidising the construction of business accommodation at the unprofitable top end of the market. Three small business centres entirely or partially for business start-ups have been established since the business starters policy was launched. NV Stedelijk Belang bought “De Schilde” with a subsidy from the city of The Hague. In the other premises, "De Hobbit", the city provides rent subsidy for start-up businesses to make it easier for them to survive the first difficult years of the business. The business centre on Fruitweg was sold to a private institution.

Action point 7: stimulating mini-enterprises

To increase the number of business start-ups in the future and create enthusiasm among young people for entrepreneurship the city supports mini-enterprises. This is an initiative by the business community and its aim is to improve the match between vocational education and business. The Mini-Enterprises Foundation enables young people to become familiar with self-employment by allowing them to set up their own business for one school year. The Mini-Enterprises Foundation uses volunteers to advise students. Sponsors such as VNO NCW, ORDINA, ABN-AMRO, the city of The Hague and the city of Dordrecht finance the foundation. The foundation plans to call on more local authorities for subsidies. Twenty-three mini-enterprises have been started in higher (mainly in the Haagse Hogeschool), secondary and preparatory vocational education in The Hague since 1997.

Action point 8: increasing possibilities for business starters to secure financing

Action point 8 refers to expansion of the financing possibilities for business start-ups. Lack of finance is a frequent problem for starting entrepreneurs. They often do not have sufficient capital and banks are frequently reluctant to provide loans for start-ups. The Gemeentelijke

Kredietbank (GKB) plays an important role in increasing the financing possibilities for start-up businesses. To increase the range of financing options for start-up companies the Gemeentelijke Kredietbank started the Guarantee Fund for Starting Entrepreneurs. The Guarantee Fund exists for entrepreneurs with a viable plan but who do not have sufficient collateral for a "normal" loan so that commercial banks find the risk of lending too great.

Brief presentation of the skills, backgrounds of the main persons involved in the project

A striking conclusion of the study is that the success of the business starters policy depends heavily on the motivation of key individuals. Some of these individuals have a lengthy background in business and some have worked for many years as civil servants. This personal motivation means that the continuity of the business starters policy could eventually be at risk. On the other hand, these individuals could encourage other professionals to follow their example. For immigrant entrepreneurship special business advisers were appointed who are familiar with their cultural background. The core competencies and background of the institutions concerned were described earlier.

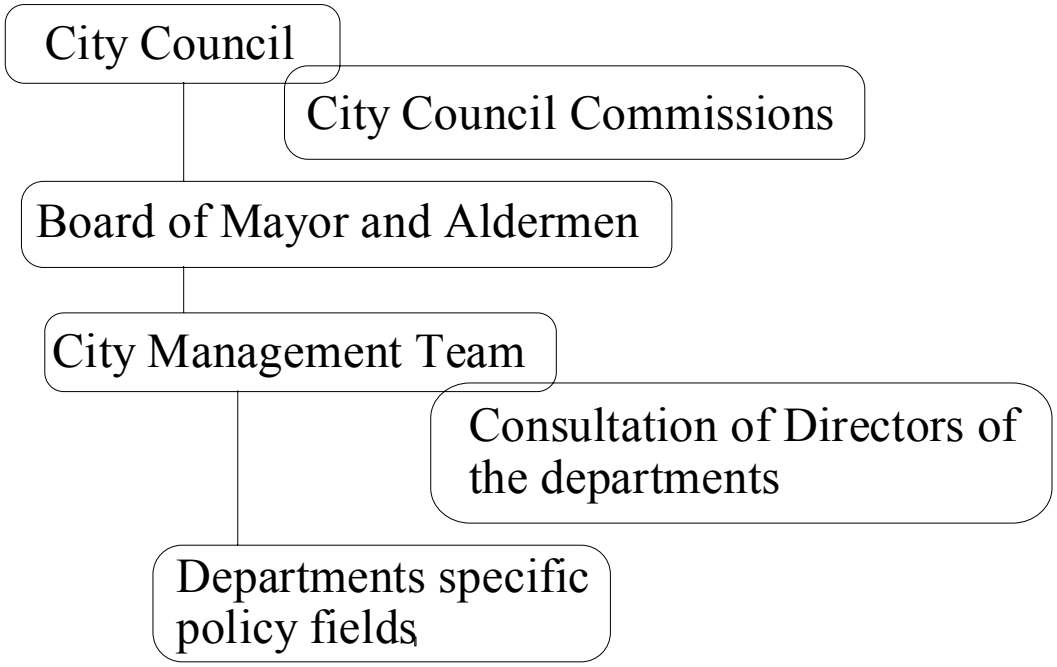
Management system of the project (structure and how effective it is)

Since 1999, when the 2nd voluntary agreement under the Major Cities Policy was concluded, the structure of municipal policy with respect to reversing urban decay and creating new opportunities has changed. The strategic choice for an integrated approach – coordination of social, economic and physical planning measures – means that the key departments are jointly responsible for urban policy. Administrative responsibility rests with the Municipal Management Team in which five core departments are represented. There is a quality control system in place to monitor their performance. Political responsibility has been delegated to the alderman for economic affairs, personnel and large cities policy. The mayor and the relevant aldermen have responsibilities in specific policy areas such as education, culture, welfare, labour market policy, social affairs, public order, security and quality of life. In other words, the municipal executive of mayor and aldermen form a joint executive and are therefore jointly responsible for policy. So long as economic policy is part of Major Cities Policy the Major City Policy projects office supervises the activities. The coordinators of the social, economic and physical infrastructure elements and the project director for Major Cities Policy together form a sort of everyday executive that monitors activities and develops strategy. The project director is part of the Municipal Management Team and forms the link between operational management on the one hand and tactical and strategic management on the other. With respect to the business starters policy, the management structure is clustered around Stabij and the Economic Affairs and Services section of the Department of Urban Development. The management structure of Stabij is embedded in a municipal structure but it also has its own executive that coordinates the partnership. There are no specific management structures for immigrant entrepreneurship because The Hague essentially pursues a general policy in this respect. However, there are frequent contacts with intermediaries from this target group such as associations of shop owners. By contrast, in the City Mondial project there is a clear management structure that focuses on immigrant entrepreneurship. When the local authority absorbed City Mondial in 1996 it assumed the form of a foundation in which associations of shopkeepers, the chamber of commerce, SMEs

and other relevant parties are represented. Entrepreneurs from ethnic minorities started City Mondial.

The following chart gives insight in the organisation structure of the city.

Chart 2: City Structure



CHAPTER (SECTION) II: PROCESS ANALYSIS

Obstacles and problem areas regarding the conception, elaboration and implementation of the project

Introduction:

The main conclusion from the study is that Stabij does not pursue any policy specifically targeting immigrant entrepreneurs with the exception of a number of measures to facilitate the group. These include establishing Stabij in an ethnically-segregated neighbourhood to make it more accessible, providing information in the languages of ethnic minorities, the appointment of experienced business advisers who are themselves immigrants and providing information via media for ethnic minorities. In the selection process only promising candidates are considered. The criteria adopted are business-economic rather than ethnicity. This highlights a discrepancy between proposed city policy and the practice of Stabij on the issue of business start-ups. Stabij pursues a policy of positive discouragement. However, within the

city policy three main projects concerning immigrant entrepreneurship are promoted and financed: City Mondial, Avenue Culinair and China Town. Besides these projects EU Objective Two measures are taken in five most ethnic concentrates districts to promote immigrant businesses. So the fact is that there are many city initiatives that take immigrant entrepreneurship into account. This conclusion means that there is no damaging influence on this research on local governance, despite the fact that Stabij is not pursuing a positive action policy towards immigrants. The fact is also that immigrant business start-ups cannot be isolated from the general policy on entrepreneurship. All the taken measures on this subject are very much applicable on non-immigrants as well, except for the information in foreign languages and the assignment of advisors from ethnic minority groups to advice immigrants. With the collected data the three dimensions of the process analysis can be described properly.

Although there is no special emphasis on immigrant business starters Stabij does receive a lot of applications from immigrants (45%). Of all the 327 starters so far (in the year 2002), 50% are immigrants. Nationally, only 10% of prospective starters are promising. The figure is the same for all the starters in The Hague, which is due to the fact that Stabij mainly attracts applicants from the bottom end of the market. Essentially, the fact is that the central government's ambitions for immigrant entrepreneurs are higher than those of Stabij. However, the city council of The Hague promotes, as mentioned, three projects very specifically aimed at immigrant entrepreneurs: City Mondial, Avenue Culinair and China Town.

The first is aimed at promoting tourism in ethnic neighbourhoods by stimulating ethnic enterprises. The intention is to remove the negative image of ethnic neighbourhoods by attracting more people to them. City Mondial is an initiative of The Hague to make a positive relationship between ethnic cultures and economic business in ethnic neighbourhoods. Each year 1,700 new businesses are set up in The Hague, most of them in the services sector and the wholesale and retail business. Some 300 of these starters are members of ethnic minority groups and their numbers are still growing. In the year 2000 The Hague had 4.478 immigrant businesses (source: Chamber of Commerce). The majority of these businesses are owned by Turks (34%) and Surinamese residents (21%). Most ethnic minorities open businesses in the retail sector and the catering industry and are focused on an ethnic clientele. In the tourist sector immigrant businesses are under represented, while this sector has a tremendous potential. To illustrate, each year 25 million people visit the various sections of the city of The Hague and spend 400 million dollars. The multi-cultural supply of products and services in the segregated city areas offers good perspectives for the development of an exotic tourist product. At the same time the tourist sector offers opportunities to link immigrant entrepreneurship with cultural and economic integration.

With this in mind, in December 1996 the city of The Hague started an experiment utilizing the economic potential of its ethnic communities. The Hague embarked on a journey to develop a new tourist product based on the infrastructure of immigrant entrepreneurs' cultural institutions. The new product is now known under the name City Mondial. An immigrant entrepreneur from Surinam developed the idea.

The local government is linking the multi-ethnic culture with local economy and is building a positive image of the three most ethnic concentrated urban areas, Schilderswijk, Transvaal and Stationsbuurt.

There are six innovative aspects in this project:

- Starting from the strengths of the ethnic community, not from its weaknesses;
- Developing a new tourist product based on cultural diversity with a link to economic development of deprived neighbourhoods;
- The linkage of this project with culture and economics (in the municipality of the Hague ethnic minorities were up to now mostly a concern of the department of welfare);
- Positive image building of the ethnic groups and neighbourhoods;
- Opening a new economic sector for immigrant entrepreneurship;
- Integrating the tourist concept in the physical planning of the migrant areas.

A project like City Mondial needs a formal status, good marketing and an excellent network. City Mondial is now a foundation and has ties with many external participants. A network of partners has been built up to develop an ethnic tourist concept. The participants are: mainstream tourist bureaus, religious organisations, individual ethnic entrepreneurs, cultural institutions, associations of (ethnic) entrepreneurs, organisations of local inhabitants, employers network, ethnic organisations, Starters Foundation, Chamber of Commerce, Institute of SME, local political parties and the media.

One of the major partners is the municipality. The different departments of the municipality involved are the economic, management, urban development and cultural department. With these departments a vision is developed in how to integrate the concept of City Mondial in the plans for the physical spatial development of the multi-ethnic area. That means to signpost the City Mondial activities, the upgrading of the market and upgrading of shopping streets.

City Mondial is already a success. One of the highlights is a guided tour through the multi-cultural districts, visiting mosks, temples, cultural and religious events, shops of immigrant entrepreneurs and artisans at work, providing multi-cultural lunches and diners and introductions about the history and culture of the major immigrant communities. Each year more than 1,200 visitors take part in the guided tour.

The plans of City Mondial are very ambitious. First of all, the project “Avenue Culinair” is set up in one of the main streets of the city centre, consisting of fifteen multi-cultural restaurants. Secondly, in a street connecting the two railway stations, the concept of “China Town” will be developed. China Town is a project designed to promote enterprise among Chinese in the city centre. Within a year a collective business building will be delivered for small and medium-sized enterprises, in a street that already has many Chinese and South Asian shops, restaurants and health centres. The idea is that by creating a larger and more varied range of business activity between The Hague’s two railway stations the city will acquire a more cosmopolitan image like cities such as New York, San Francisco, London and Sydney. This is predominantly a private initiative. City Mondial will be financed mainly by the city. One of the goals of the project, financed by the European Union and the municipality, was to have a major success on the short term. This goal has been achieved, because in 2000 in Leipzig, City Mondial was rewarded with the *Eurocities Award on Innovative Urban Strategies*. In this initial phase it is difficult to indicate the economic value of City Mondial. The expectation is that this concept will work, and it will have a major impact on the development of economic activities in multi-cultural neighbourhoods and on the integration of ethnic minorities.

This introduction makes it clear that the process analysis focuses on business starters policy in general as well as on policy specifically for immigrant entrepreneurs.

Political obstacles: conflicts of powers, functions

Before Stabij was founded business starters, including those from ethnic minorities, had no single contact point. Information was provided from a number of sources. But when it launched Stabij the local authority failed to properly consider a number of issues. It brought together two competing parties that served the same target group in a partnership without clearly defining their tasks and powers. As a result, in practice conflicts of powers arise. A second problem is that over time the city council has withdrawn too much from the process. A number of problems have arisen in the implementation of the city's policy. Thirdly, respondents commented that there is too little information available about the business starters policy at a number of institutions. There is also room for improvement in external communication. For example, different bodies sometimes offer the same services to the same target groups among business starters. The local authority could and in fact should be the most appropriate mediating partner for solving the problems that arise. In practice, it rarely performs this role. Stabij cannot fulfil that role because they are no neutral party in the partnership. Questions of partiality can easily arise and undermine trust in the partnership. Agreements need to be reached on this to improve the planning process for the adjustment of policy. The local government should take the lead to manage the process of business start-ups and not one of the partners when conflicts occur.

The region and the business cycle heavily dictate the economic function of the city since the economic market extends to the entire Randstad. The Hague has to set itself apart and specialise within the region and ensure that it strengthens the Randstad as an economic unit. Various local authorities in the Randstad therefore collaborate in the Delta Metropolis. The government produces policy to promote this development so that there are no political obstacles between the three tiers of government – state, province and city. Conflicts arise over building in the Green Heart, especially with environmental groups and some political parties. There are no serious political obstacles between the three tiers of government when it comes to policy on business starters.

Financial and fiscal obstacles

As described above, some individuals encounter financial obstacles to entrepreneurship. Various measures have been introduced to assist them. The city itself has a serious shortage of space to create sufficient business accommodation. Financially, it therefore depends heavily on central government funding and the resources of housing associations to create room for more business activity during the physical regeneration of the city.

As far as stimulating business activity in particular areas of the city is concerned, the rules make tax breaks practically impossible. With additional tax advantages entrepreneurship could be promoted even more strongly. One of the reasons for not allowing initiatives like the Empowerment Zones in the US is the risk of distorting competition. The city council in The Hague does offer reduced rents for business starters for a certain period, but this is a general policy.

Increasing the possibilities for business starters to secure financing is seen as a problem by a number of parties involved in business starters policy. Some are not fully aware of the greater possibilities of securing financing. Reducing the Guarantee Fund for starters in the future will mean that fewer starters enter the market and reduce the viability of the companies that have already been started. It should also be noted that banks are very reluctant to lend to immigrant entrepreneurs as they regard the risk as too great.

Administrative obstacles: conflicts between administrations, technical bodies,

This section describes the main organisational problems.

A number of the parties referred to the following problems in the implementation of the business starters policy.

Foundation of Stabij:

Stabij targets the bottom end of the business starters market. A substantial proportion of the candidates who approach Stabij to start their own business are immigrants (45%) and individuals who are receiving social security benefits (around 60%, most of them receiving national assistance). Compared with the other large cities in the Netherlands Stabij reaches a relatively large number of immigrants but far fewer women (26%). One of the main goals of Stabij is to avoid failed business start-ups through a strategy of positive discouragement. There are many more discouraged starters than successful starters. Only a small proportion of people who want to start a business in the Netherlands (around 10%) are suited to entrepreneurship. Stabij has a difficult target group by comparison with other cities as it consists of the long-term unemployed and unskilled workers. Stabij's target group in The Hague requires intensive counselling. A problem is that the chamber of commerce and Stabij have not clearly defined their respective tasks and questions of competence arise (conflicts in powers). The victims are the starting entrepreneurs who want to be well informed about how the official agencies can help them to start a business.

The main problem with drawing up a **list of organisations that assist business starters** was that once the list was drawn up it was not consistently kept up to date. A number of parties also feel that there are too many organisations and that the cooperation between them does not always proceed smoothly. Various parties feel it is a pity that there is no transparent flowchart for starting entrepreneurs to show where they need to go and who they need to talk to during the various phases of the start-up process.

The **Business Desk** feels it should have the power to issue licences to the entrepreneur. Entrepreneurs are currently referred to the eight city district offices which issue the permits.

A **business accommodation databank** known as Steenworp has been established. However, some parties are not familiar with Steenworp's tasks. Starting entrepreneurs who are looking for business accommodation are still referred to estate agents. Nor is everyone aware of the existence of Steenworp and this is certainly a problem. Most parties agree that there is too little cheap business accommodation for business start-ups. This is seen as one of the major bottlenecks but Steenworp has no influence over it. The double use of ground for

business centres and perhaps building high-rise and creating more office space in these buildings can provide solutions. In this matter the housing corporations should be major partners.

Another action point regarded by some parties as a problem is the **building of small business centres** for start-up and small businesses. By selling business centres the local authority loses control over them. In addition housing associations are very reluctant to reserve business space for economic activities (shopping streets) during regeneration projects.

Increasing the **possibilities of securing financing** for starters is seen by a number of parties as a problem. Although the possibilities have increased they are still inadequate. Banks are extremely reluctant to provide loans to immigrant entrepreneurs. The financial risk is regarded as too high. A very important bottleneck is the phasing out of the Gemeentelijke Krediet Bank whose social function is being lost. This is a problem for business starters.

Economic obstacles

There has been a shift between business sectors in the last 25 years. This trend was reinforced in The Hague by a lack of space. There was no room for new business parks and existing companies were forced to make way for different functions. The lack of space led to high production costs so that the accommodation costs for companies rose sharply. This caused many companies to leave the city.

In the same period many middle-income residents left the city to settle elsewhere in the region. The number of residents declined and the composition of the population changed. On balance less money was spent in the city.

A second consequence of this selective exodus is that the qualities of the remaining working population in The Hague do not properly meet the needs of business. The business community is mainly looking for highly qualified staff, while the job seekers are mainly unskilled. A consequence of this discrepancy is high unemployment, although unemployment has declined sharply in recent years thanks to the economic boom and urban economic policy. At the moment 60% of the unemployed in The Hague are not immediately employable and depend on social services and care.

Commuters from outside the city account for almost 50% of the working population, and this figure grew by 8% in the period 1994 to 1997. Because of this increase the congestion around The Hague has worsened over the years. As a result, The Hague's position as a business location has deteriorated and that has negative consequences for the start-up and establishment of new companies. The lack of purchasing power in certain areas of the city is also a negative factor for the establishment of companies in the city.

The lack of cheaper business accommodation is one of the major threats for new (immigrant) enterprises. One area of concern is that the abolition of the requirement to have a diploma to start a business has led to an increase in the number of bankruptcies. Finally, the recent decline in the SME sector is a problem for business starters.

Environmental obstacles

The Hague is not an industrial city and has no major environmental problems. However, it has congestion problems around the periphery (traffic jams) and the city centre is jammed. The heavy traffic in the city produces a lot of CO_2 emissions, which is a typical problem for large cities. Business starters in certain sectors face stringent health and environmental standards that sometimes represent a major problem for starting and continuing a company, for instance in the hospitality and meat sectors.

Social hardships

Another factor that applies for starting entrepreneurs, and especially immigrant entrepreneurs, is the fact that starters work long hours, usually six to seven days a week, for a small profit margin or cannot survive on their income. 30% go bankrupt in the first year. Many immigrants borrow money from family or friends. Bankruptcy therefore has not only negative financial consequences, but also social implications not only for the entrepreneur but also the social network. This is another reason for the policy of discouragement for certain business sectors.

POSITIVE FACTORS EXPLAINING THE SUCCESS OF THE PROJECT

Role of existing mediating structures to enhance cooperation and coordination among actors (e.g. planning or development agencies)

The first action point of the business starters policy, "setting up Stabij", was generally seen as a success factor in the implementation of the policy. The reason is that it gave starting entrepreneurs a contact point where they could get information and help in preparing for entrepreneurship.

Also seen as positive is the fact that the various agencies are represented in the executive of Stabij. As a result, there is greater contact and communication between them so the cooperation has improved. The coordination is relatively good, although questions of competency arise from time to time, especially between Stabij and the chamber of commerce.

The municipal executive deliberately chose not to join the board of Stabij so the foundation has greater freedom to develop policy and resolve problems without politicising the issues. This means policy can be implemented smoothly and speedily. It is also makes Stabij more effective since political assessments do not have to be made for every decision.

Role of mediating mechanisms to foster cooperation and integration (e.g. planning process, round tables)

The parties concerned were positive about the degree of cooperation. However, there are occasional quarrels and it is sometimes unclear who should be doing what. The contacts are good but not frequent enough. Bottlenecks are discussed in the Stabij executive.

Role of supra-local bodies (including the State) and their policies

National policy has played an important role in establishing the emphases of municipal policy towards entrepreneurship, both with ideas and with resources. For instance, the government recommended setting up a one-stop shop for entrepreneurs, expanding lending possibilities, appointing business advisers, monitoring performance, etc. The government is essential for the regeneration of the city since it provides the funds, particularly for revitalising decaying neighbourhoods and creating opportunities for business activity, with its policy on gentrification. European subsidies - Urban and Objective 2 – provide welcome additional finance but accounting for the policy involves a lot of red tape.

Existing incentives (financial, administrative)

Broadly speaking three local measures provide a financial incentive:

- Starters loans for unemployed business starters and payment of the cost of living;
- Guarantee fund;
- Reduced rents for business accommodation for a certain period.

In addition there are various national tax schemes such as the *Tante Agaath* scheme for private venture capitalists, initial exemption from tax payments, allowances for training, VAT refunds, etc.

Existence of leadership (by an institution, a specific character, etc.) and how effective this leadership has been)

Stabij as key actor in governance, mediator, negotiator and the main actor to be judged on the achieved performance

Stabij as key actor in the governance of the primarily process

The city council has an explicit role as director of the business starters policy when it comes to creating the basic conditions such as policy frameworks, legislation and enforcement of the licensing policy. Stabij is the director of operations. The city council has mandated Stabij to take the lead in the primarily process as a key actor. That means guiding the individual starter to set up their business, the governance of the quality of the primarily process and cooperation with the various actors that are involved to achieve the objectives.
The process in which the individual starter is guided is as follows.

- Information and pre selection of the starters by Stabij and Starter/Business Desk. That means the discouragement of starters with little chances for success and stimulating the starters with potentials;
- The preparations. By means of workshops, advice by accountants and projects the future starters are prepared for the business start-up;
- The Start. The advisors of Stabij negotiate and sometimes mediate with banks that provide loans. For business starters receiving social benefits the Social Service is contacted to guarantee the financial position in the starting phase. Accountants coach the starters and if necessary, Stabij helps to find business location.
- After-start-phase. In this phase the starter gets intensive coaching. The coaching is focused on more information, networking and helping with the bookkeeping. Gradually the starter should manage their own managerial process and should be able to contact official institutions independently.

In the years 1998-2002 there were about 3,000 contacts with business starters. In general, one third of the cases there was a face-to-face contact. In 64% of the cases there were contacts by telephone. In other cases the starters were reached through general information. By the end of 2002 about 3,000 starters were in a trajectory (starting with the intake) to start a business (statistics Stabij 1997-2002 and current case study). This illustrates the intensive way Stabij has to reach the starters. In total 327 starters have set up a business in the period 1998-2002. Only 8% failed in the first year, while the country average is 14%. 74% of the starters are still in business. These percentages underline the success of Stabij. So the intensive guidance by Stabij works. The conclusion is also justified that Stabij is successful in the governance of the primarily process, considering the fact that the annual target of 60 starters is achieved with an annual budget of approximately 325,000 Euros with only four professionals that coach the starters and two administrative officers. In fact it is an excellent performance. The city council considers the achieved target also as a success. When the agreed targets are achieved, one can speak of an effective governance of the primarily process.

The governance of the coordination

Stabij has a three monthly meeting with all the actors. In that meeting the progress of the business start-up project is discussed. A central point on the agenda is the quantitative performance and the quality of the partnership. This meeting can be seen as an assessment of the project. The difficulties in the cooperation and coordination between partners are discussed, but this research shows that this does not take place on every issue. An example is the difference between the Chamber of Commerce and Stabij. The position of the Chamber of Commerce is that they are the main actor when it comes to business start-ups. Actually the Chamber of Commerce is trying to expand their core competence, because their main task is to register starters and give information. This shift towards the core competence of Stabij leads to some tension. So, the position of the Chamber of Commerce towards Stabij is not fair because they have signed an agreement to work together in a partnership in which the local government has given Stabij a key position. The Chamber of Commerce should have considered their position before starting this partnership. On the other hand Stabij, financed by the local government, has a better access to the Social Affairs Department and Urban Development and to the city council. The Chamber of Commerce has always been a partner on a distance when it comes to clients of the Social Affairs. Stabij is doing an excellent job for

this category. In 2001 30% (statistics Stabij 2002) of the starters were selected by the Social Affairs Department. That means that Stabij offers opportunities to these residents to participate in the economic market.

Stabij and The Chamber of Commerce see each other as competitors but the issue is not always discussed openly. That makes it hard to use the existing mediating structure. So, the three-monthly meetings provide in a mediating structure to solve conflicts between partners, but it does not work effectively when interests between partners are involved. Although Stabij has a leading role it is not always considered as a neutral partner and that makes that Stabij cannot fulfil the role of mediator when interests are involved. It can too easily be blamed for being partial or defending its own position. It should be considered to give the role of mediator to a neutral party when conflicts between partners occur. That can be an officer of the city administration or the alderman. When it comes to mediation and negotiations for the benefit of the individual business starter, Stabij is the mediator and the organisation structure provides in that mediating structure. This is also a core competence of Stabij. The partners accept that role of Stabij.

The contact between Stabij and the city is intensive. These contacts create transparency, although Stabij would like to keep the city council at arm's length to have more policy freedom. On the other hand, the local authority is the major financier of Stabij and must continue to audit it. The leadership can be described as effective because of the achieved targets, despite some obstacles, and is buttressed by support from business and NGOs. These obstacles arise because of putting competitors- Stabij and Chamber of Commerce- in a partnership and a city council that is on a distance. Despite the differences the targets are still achieved and that makes the differences less important.

Although Stabij directs operations the city council should be more intensively involved so that it can provide overall leadership and ensure that problems that arise in implementation can quickly be translated into policy. The city council now has too much of a policy-making role. The local government of The Hague is now planning to work on a strong leadership.
Another problem is the difference in views between the Social Affairs and Stabij. The Social Affairs Department focus on social security beneficiaries and give greater weight to social factors in providing assistance. Stabij is more concerned with business-economic arguments and looks at the long-term effect of a business start-up. The city council should also intervene here so that good working arrangements are made.

Model for governance

The Netherlands are famous because of their so called "polder model'. This means a consensus structure in which the government and partners like employers associations and unions make agreements on certain issues. In this consensus structure there seems to be no question of strong leadership from the government, instead there is a belief in joint leadership of all the partners on the basis of clearly defined responsibilities. Recently this structure is under pressure and there is a growing demand for more leadership from the national and local government.

Organisational continuity and learning

The choice of an integrated approach for the long term means that there is continuity in policy. With this long-term approach The Hague has developed an economic plan with a horizon stretching to the next 15 years. The business starters policy is constantly monitored, for instance with the ‘benchmark of the business climate’ and annual output measurements. Consequently, the effects of policy are constantly being reviewed; lessons are learned from this and where necessary policy is adjusted. A university also monitors the development of immigrant entrepreneurship annually and a trend in the number of entrepreneurs from ethnic minorities is recorded in the annual City Survey for The Hague. The fact that the city also has to account to central government on the extent to which it is meeting targets also guarantees continuity.

Innovative elements (i.e. creation of bodies, procedures or mechanisms to facilitate the project in terms of integration of policies and of cooperation among actors)

Bringing together various parties active in the area of business start-ups in a platform can be described as an innovative development. In this platform the parties can agree on policy and work processes. The policy coordination between the various sectors is essential. The success of the business starters policy depends for example not only on good economic policy but also on coordination with the education policy to ensure a good match between what the market needs and what the educational institutions can offer. The physical infrastructure of the city also helps determine business activity. Plans for regeneration therefore also have to consider opportunities for entrepreneurs. Policy discussions of this nature take place between the actors in the existing platform. An additional benefit of this platform is that the work processes are better coordinated. This greatly benefits customer friendliness although there are still a number of bottlenecks. The amalgamation of existing institutions and coordination of the work processes also led to a search for missing links. These were found and as a result two new institutions were formed, the Business Desk and Stichting Steenworp (databank of business accommodation).

Financial innovations (opening up of existing sources of funding, new criteria for funding, new mechanisms)

The action point "increasing possibilities for business starters to secure financing" is a positive development, since the local authority has genuinely increased the possibilities of financing. An example of this is the creation of the Guarantee Fund, through which the municipality can guarantee a loan from the bank so that entrepreneurs can take risks in their business. The result is that enterprises have been started that would otherwise not have been. Unemployed business starters who earn too little income from their enterprise can receive a top-up for a certain period, which provides them with a certain security and allows them to continue.

Institutional innovations (e.g. creation of a new structure to enhance integration, cooperation, participation, partnership)

Until 1996 there was no integrated business starters policy in The Hague. There were various parties all with their own goals. The isolated nature of these activities had an impact on the business starters market. The Hague lagged behind the national trend of steady growth in the SME sector. For a city like The Hague without major industries this sector is very important. The foundation of Stabij gave a clear signal that the city wanted more business starters in order to create an economically lively city.

The launch in 1996 of a structured business starters policy resulted in the series of new initiatives mentioned under the eight action points. The one-stop shop approach in the form of Stabij, the Business Desk, Steenworp, the Guarantee Fund for business starters, mini-enterprises, an intensive effort by the social service to refer applicants to Stabij and the promotion of entrepreneurship in ethnically segregated neighbourhoods can all be regarded as innovative for The Hague. Some elements can be regarded as the most innovative and as having proved themselves in practice:

- The mini-enterprises. Students of the Haagse Hogeschool have already started 23 mini-enterprises on a trial basis. The projects were the students' graduation projects. A number of the mini-enterprises showed real promise for a real enterprise.
- A second innovation in the business starters policy is the stimulation of the City Mondial project that offers opportunities to immigrant entrepreneurs in segregated neighbourhoods.
- A third innovation is the opening of the "Business Desk". There is a huge need for a centre where entrepreneurs can go with their questions.
- A fourth innovation is the business accommodation databank in the form of the Steenworp foundation. The 'weaker' starting entrepreneurs among the target group can go to Steenworp for help in finding suitable business premises. The databank, which is kept up to date by a single body, creates greater transparency for the (prospective) entrepreneur. This could lead companies to locate in The Hague rather than in other cities because they now have a number of options.
- The Guarantee Fund for business starters also provides an extra stimulus for (new) business activity. Entrepreneurs will now take greater risks in starting a business.

Administrative innovations within the municipality (addressing the same goals)

Before Stabij was created most of the current participants already existed but they had no platform. The foundation of Stabij created one. This marked the start of good coordination between the actors. It also represented the first in a series of administrative innovations and an integrated approach to business starters policy in The Hague. For example the intensive collaboration between the three core departments in the implementation of the business starters policy can be regarded as innovative. Previously this policy field was entirely the reserve of the Department of Urban Development. There is now greater cooperation at strategic, tactical and operational level so that integrated measures now have a far greater multiplier effect.

Administrative innovations (new working groups, for instance) among public actors, between public and private actors, involvement of civil society)

For the actors that make up the executive of Stabij the business starters policy can be described as innovative because where they formerly operated entirely independently their administrative procedures are now geared to each other to make them as customer-friendly and transparent as possible. Retailers' associations are actively involved in the policy. The chamber of commerce organises frequent meetings to provide information for starting entrepreneurs to prepare them properly for running a business. The tax authority has a Business Starters Desk to answer questions from starting entrepreneurs. The representative organisation for the small and medium sized business sector conducts regular research to keep entrepreneurs informed about developments in their sector and members can subscribe to a regular newsletter which is distributed via the Internet. The Hague recently launched a Business Class in which key figures discuss aspects of entrepreneurship. Finally, the Haagse Hogeschool now teaches entrepreneurship as a subject.

ICT innovations: Internet instruments (consultation, group decision procedures)

The ICT aspect of policy for business starters is still developing. The Hague wants to establish a profile as an important centre for the ICT sector and a number of well-known companies have already located within the municipal boundaries. Stimulating small businesses in this sector is one of the main areas of attention. Internet consultations and group decision procedures are not used in the development of policy, although there was a group decision session involving members of the municipal executive, directors of a number of departments and external experts to discuss the future economic profile of The Hague. The city does not use ICT to help business starters in the same way as Barcelona. The chamber of commerce and the tax authorities do have such services.

IDENTIFYING TRANSFERABILITY IN THE GOVERNANCE OF THE PROJECT

Factors specific to the area (the territory of the project) that make transferability difficult

The City Mondial project could be an example for other cities.

Factors specific to the project (the content of the policies) that make transferability difficult

Laws and regulations differ greatly from country to country in Europe, so it seems unlikely that policies can be transferred integrally. In a political-administrative sense the 'polder model' would not seem to be feasible in every situation. The consensus culture would not work in

every country. The Stabij approach essentially rests on a consensus structure; parties make commitments to each other to deliver a certain level of performance.

The level of public services in the Netherlands is also high, especially with respect to social security benefits. The National Assistance Act provides opportunities to stimulate business start-ups. For example, business starters can retain their benefits for a certain period of time after they start a company. But this policy is not really feasible in the poorer European countries.

Elements that may be transferable

A shortage of space is a problem confronting many European cities. The Hague is no exception. That has an impact on policy both towards creating more business space and more and varied housing and the development of neighbourhoods that meet the needs of today's residents. A creative solution that could be adopted and would be transferable is the dual use of ground. In other words, creating space for business activity on the ground floor and for housing on the upper floors. The Hague makes efficient use of its scarce space. It has also been revitalising dilapidated industrial estates, for example to build small business centres where starting entrepreneurs can secure accommodation at a reduced rent for a few years after they start a company. Such innovations are transferable to other cities.

Other elements of The Hague's business starter policy could also be applied in other cities, such as the one-stop shop approach represented by Stabij, creating a central executive for starting entrepreneurs, mini-enterprises to encourage students and young talent to become entrepreneurs, setting up a central business accommodation databank and a business desk, the approach of City Mondial, the Guarantee Fund for starters, a competition for starting entrepreneurs and the all-in concept of providing services from a central point.

(Influences in the other direction) experiences in other cities that have inspired the method/project

The cities of Rotterdam and Birmingham have influenced policymakers in The Hague in their ideas about the one-stop shop approach. The interviews held with the actors involved showed that there is a huge need for a single physical contact point as is the case in Rotterdam and Birmingham. In the development of the China Town concept administrators and policymakers in The Hague were inspired by cities like London, New York Vancouver, Sydney and San Francisco. Finally, the use of ICT for business starters in Barcelona also provided inspiration. That policy could definitely be applied in The Hague.

THE DATA INTERPRETED ACCORDING TO THE THREE DIMENSIONS

Integrated approach (multi-sectoral approach)

With the slogan "vital and undivided", the profile of 'The Hague in 2025' has been further elaborated in four interrelated master plans that reinforce one another. In the Master Plan 'Hoog Hage', The Hague proceeds further with the redevelopment of the inner city that was started in 'Den Haag Nieuw Centrum' (The Hague New Centre). In the Master Plan 'Stadseconomie' (Urban Economy), attention is given to broadening and strengthening the economic structure of the city. The Master Plan 'Herstructurering' (Restructuring) is devoted to strengthening the residential function of The Hague and the realisation of a promising environment in which to live. Finally, the Social-Educative Master Plan 'Mensenwerk' (People Work) is directed mainly at strengthening the qualifications of The Hague's residents for the labour market and the participation of all residents in the urban community. These four master plans constitute the basis for 'De Kracht van Den Haag' (The Strength of The Hague), the development programme that The Hague has drawn up within the framework of the national government's "Policy on the Major Cities" and the "Investment Budget for Urban Renewal". With the implementation of these plans, The Hague has started along the road to a complete city, a city with a strong social, physical and economic infrastructure. The vision is that one cannot solve city problems by simply taking measures in one field and ignoring the other. The central government has signed an agreement with The Hague in which there is a link between financial support and performances. Internal and external partnerships and a multi-sectoral approach are the basis for financial support. The central government is monitoring this issue. The city complies with this agreement. The already mentioned four master plans illustrate the multi-sectoral approach in the city of The Hague. The City Management Team, in which all the main sectors are participating, sees to it that all the performances are achieved. In the case of business start-ups the Departments of Urban Development (economy and spatial planning), Social Affairs, Education, Wellbeing and Culture, and Maintenance are partners that work closely together. Urban Development is responsible for the starter policy, financing Stabij, setting up the Business Desk and building or buying business centres for starters. Social Affairs is motivating the unemployed living on social benefits to start up a business, has an agreement with Stabij to direct potential clients to there office and offers loans. The Maintenance Department provides in permits to start up a business. The Haagse Hogeschool (Advanced School for Higher Education) works together with the Department of Education, Wellbeing and Culture and Stabij. They offer a special course for young business starters. The external partners are already described. All the partners are involved in the primarily process of Stabij. This illustrates that the starter policy is multi-sectoral.

Participation of partners and leadership

This issue has been tackled thoroughly in this report. The basis of the four master plans of the city is the consequence of a long and intensive consultative process with the residents of the city. During the past few years, The Hague has focused intensively on the future. Together with residents, businesses, experts and social organisations, a visionary picture of the city has been developed, with the title 'The Hague in 2025”. Accessibility, economic vitality and social cohesion are key concepts that are appropriate for such a city.

The city plan is evaluated each year. On the basis of these evaluations the new annual plans are formulated. The Hague has a widespread network in the city. The annual plans for the eight city sections are based on consultations with residents and bodies that represent them like BOOG (Association of Residents) that operates all over the city. The annual City-survey

(Stadsênquete) is also an input for the policy making process and the legitimacy of the policy. In this survey residents are asked to provide ideas for future policy.

Stabij achieves the agreed performance and that makes that they fulfil effectively their role as the main actor in the governance of the business start-up process, despite some tension with the Chamber of Commerce. The tension has to do with a changing vision of The Chamber Commerce of their core competence. The structural meetings with all the actors provide in a mediating structure. That structure does not work effectively on every point. When tensions between actors occur, Stabij is not a neutral party to mediate. It should be a neutral party to assure that private interests are not dominating. The city should provide in that role. On the other hand Stabij can mediate in the benefit of the individual starter. In the structure of the cooperation between partners this is taken into account. The partners accept that role.

Area-wide perspective

The Netherlands has three political levels: central, provincial and local. The city economy cannot be developed without the metropolitan area. The Hague works together with the city region (Haaglanden) on the issue of environment, mobility and health care and tries to develop a Deltametropole to be competitive within the other regions and in Europe. The last three decades the city has lost thousands of businesses because of traffic congestion. Now, the city is working together with the metropolitan region to solve this issue and making The Hague attractive for businesses to settle down. In the Business Benchmark the business climate is monitored.

On the issue of business start-ups the city council has taken special measures for the inner city. The development of City Mondial, Avenue Culinair, China Town and Objective Two measures in designated areas illustrate the territorial dimension of the starter policy. This aspect has been discussed before.

CHAPTER III: CONCLUSIONS AND RECOMMENDATIONS

There has been an intensive business starters policy in The Hague since 1996. The SME sector has grown rapidly in recent years and this sector more than any other affords opportunities for business start-ups. The Hague did not profit from this growth as much as the rest of the country and therefore developed policy to make up lost ground. At the same time it was apparent that unemployment among immigrants remained high, four to six times higher than among the native Dutch population, and the government felt that it could increase the participation of immigrants in the labour force by promoting entrepreneurship among members of ethnic minorities. Instruments to achieve this were developed on the basis of government policy documents. In many respects local policy follows national policy, with a helping hand from financial measures and deregulation. Up to 1996 The Hague had no integrated approach to business starters policy. The different parties had their own agendas and work processes, but now they are working together in a platform. The business starters policy has also led to the creation of a number of new institutions that now provide tremendous added value for business starters policy.

The business start-up project is characterized by a multi-sectoral approach based on partnerships between internal and external partners. The Hague works closely with the central and provincial government to solve the cities problems. Main efforts have been made in the inner city. That part of the city needs more support because of the weak social and economic position. Making these areas vital and livable, mains tackling the social and economic division of the city. More economic participation by means of business start-ups is one of the targets. The project City Mondial, Avenue Culinair and China Town in ethnic concentrated areas and the Objective Two measures (EU policy) in five city districts illustrate the territorial approach of business start-ups in The Hague. The residents, business partners and NGO's take part in the policy making process.
The launch of Stabij in 1997 created a platform designed to put into practice the all-in principle based on a one-stop shop approach. Various internal and external parties working in this field, which had previously seldom worked together, are now partners in the platform. Immigrants form one of Stabij's target groups. A specific aspect of the policy is to promote entrepreneurship among ethnic minorities. Immigrants are given practical assistance through the media for ethnic minorities, the establishment of Stabij in an ethnic neighbourhood, by providing them with information in their own language and the appointment of business consultants who are themselves immigrants. In the selection of prospective entrepreneurs, however, only promising candidates are admitted and ethnic background is not a consideration. Consequently, this case study had to focus on The Hague's business starters policy in general. This focus has no damaging influence on this research on local governance, because the start-up of immigrant businesses cannot be isolated from the general policy on entrepreneurship. The rules and regulations are applicable for all business starters.

The study shows that with the all-in concept various innovations have been introduced, a number of which are transferable to other cities. There is now cooperation, customer-friendliness has improved and promising entrepreneurs are entering the market through the creation of a Business Desk, the Guarantee Fund, targeted information, the creation of a databank of business accommodation and a good economic structure policy which ensure that the scarce space that is available is used well. The dual use of ground and the revitalisation of run-down industrial sites create opportunities for enterprise. The annual target of 60 successful starters is met by pursuing a policy of discouragement.

But a number of bottlenecks have emerged in the management sphere. The local authority has surrendered too much of the control over the operational process. The partners themselves are happy with this and desire greater autonomy. This in itself is not a problem because the partners, especially Stabij, have more room to manoeuvre in the implementation of the policy. On the other hand, the local government has become too engrossed in developing policy and has consequently lost a certain feel for the implementation, a feel which is important if the policy cycle of research and problem definition, policy formulation, implementation, evaluation and policy adjustment is to proceed properly. Frequent interim evaluations of implementation are essential for adjusting policy. Another problem is that the social service and Stabij hold different views. The social service focuses on social security benefits and gives greater weight to social factors in providing assistance, while Stabij adopts more business-economic arguments and looks at the long-term effect of a start-up business.

There are also conflicts in powers between Stabij and the chamber of commerce, because after the creation of Stabij there were two competing parties cooperating in a partnership in

which the tasks, responsibilities and powers were not clearly defined. Another fundamental problem is the long-term financing of Stabij, which is too dependent on the local government.

Finally, I would like to make a few more observations and recommendations for policy.

First, the local authority has to define its role as director more clearly and become more closely involved in the development and implementation of policy. By becoming more directly involved in the implementation the local authority can manage the policy cycle more effectively.

Second, the participants need to improve their marketing. Practice has shown that the participating parties are not fully aware of each other's core tasks. This means that starting entrepreneurs are not always adequately informed and don't always know what task each of the participants has in each phase of the start-up process. From the entrepreneur's perspective, the transparency of the process could be improved. In other words, it must be clearer to the client, the business starter, where he needs to go with a particular question. An up-to-date flowchart of the process could be a useful tool for the starter showing where he needs to go for information at each phase of the process. There is a flowchart, but it is not up to date. It is important to investigate the extent to which such flowcharts would be used. All cooperating partners should take action.

Third, the various parties would prefer that starting entrepreneurs could go to a single physical location for help. One possible alternative that was mentioned is that the same information should be available at all locations. The starter would then not have to shop around the various agencies. The local government should take necessary steps.

Fourth, it was suggested that the division of tasks should be defined more clearly. There is an overlap in the tasks of the various parties. This leads to issues of competencies and competition between the various parties, especially the chamber of commerce and Stabij. It also means that conflicting signals are sent to the business starter. All the partners should take action.

Fifth, improvements are needed in the availability of suitable and cheap business accommodation. The Steenworp initiative is a good one but the problem is that there is a shortage of cheaper business accommodation within the city's boundaries. That can only be resolved with a good economic structure policy initiated by the local government supported by the national government.

Sixth, it is suggested that existing contacts with the Haagse Hogeschool should be intensified to increase the interest in entrepreneurship among students and to ensure that the teaching materials match the needs of business more closely. There are already projects in which students in their final year can set up a mini-enterprise. But at the moment the companies close down after a year when the student has earned the study points. A number of parties feel that this does not provide a real incentive and are in favour of giving students the opportunity to continue their business even after completing their study. Stabij and banks should take action to make these enterprises successful on the long term.

Seventh, a number of participants referred to the abolition of the requirement to possess the necessary certificates to start a company. Until recently, these were mandatory. Statistics

have shown that a large proportion of the bankruptcies in the last year involved business starters without a diploma. Various parties said that the abolition of the requirement to have a business diploma should be reversed. There is good reason to study the effect of the abolition of the business diploma requirement on the viability of start-up companies. It is up to the central government to take measures and local partners can put this issue on the political agenda.

Finally, it is recommended that better use should be made of ICT for digital provision of information. The Barcelona approach could serve as an example. The local government should take action.

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HUNTING FOR FEMALE ENTREPRENEURS ENTREPRENEURIAL CAPACITY AND GENDER

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ABSTRACT

Due to the low rate of female entrepreneurs, women's entrepreneurial activity should be increased. In spite of many initiatives to promote female entrepreneurship, the number of self-employed women is still low. It is proposed here that there are differences in entrepreneurial capacity between men and women. That is, a survey of the components of entrepreneurship capacity to understand the entrepreneurial readiness of women is needed. A number of gender-related capacity differences was found.

INTRODUCTION

Women make up only about one-third of the self-employed in Finland and also in the Nordic countries in general. That is why the share of female entrepreneurs should be increased. One of the objectives of the Economic and Employment Development Centers, representing the essential ministries in Finland, is to increase entrepreneurial activity among women. There are some initiatives to promote female entrepreneurship, e.g., micro-loan programs specifically for enterprises started by women, female advisors specialized particularly in questions related to women's entrepreneurship, and entrepreneurial mentoring for women. However, more understanding about the orientations of potential female entrepreneurs is required. It is proposed here that there are differences in entrepereneurial capacity between men and women. In general, a survey of the components of entrepreneurship capacity to understand the entrepreneurial readiness of different kinds of people is needed. In this paper, entrepreneurship capacity and enterpreneurial intentions in regard to gender will be analyzed. The main research question is, does gender matter when it comes to entrepreneurial capacity.

Principally, it is assumed that positive attitudes towards entrepreneurship, as well as entrepreneurship qualities, and certain entrepreneurship ideals correlate positively with entrepreneurial intentions. Entrepreneurial intentions correlate with starting up a business, although this relationship is not strong. According to pilot studies (e.g. Routamaa 2001), however, entrepreneurial attitudes correlate slightly with entrepreneurial intentions whereas motivation has stronger association with entrepreneurial intentions. Positive attitudes towards entrepreneurship form the basis and favourable climate for entrepreneurship but are rarely the basic reason or motive for it. The rate of entrepreneurial intentions is very low in Finland (see Jokinen, Routamaa and Vesalainen 2000a, 2000b). However, if a much greater share of the intentions could become true, the problem of relatively low number of enterprises and high rate of unemployment might be solved. That is, only developing attitudes is not enough but the whole scale of

entrepreneurial capacity must be taken into account. Especially concerning women, the barriers to entrepreneurship should be made known.

EARLIER STUDIES

Considering the entrepreneurial intentions, for example Crant (1996) found that men had higher entrepreneurial intentions than women. According to Covin (1994) when compared the family-owned firms and non family-owned firms in case of perceptions of "attributes of employees", "competitive weaknesses", "formal performance policies", "favoritism", "opportunities for non-family contributors", "attributes of managers" the gender of respondents were not found to have a significant influence.

When considering "push and pull" -factors the researchers have found that men start their businesses primarily as a result of "pull" factors such as the opportunity to work independently, to have greater control over one's work, and to earn more money. There is a lesser influence from such "push" factors as limited advancement opportunities, job frustration, and avoiding an unreasonable boss or unsafe working conditions. Male entrepreneurs were most motivated by the need to improve their positions in society for themselves and their families, while the female entrepreneurs were most motivated by the need for achievement (Shane, Kovereid and Westhead, 1991). Buttner and Moore (1997) found out that women's entrepreneurial motivations were a complex function of personal aspirations and organizational influences. "Pull" factors like seeking challenge and the opportunity for self-determination were the most important. Those who left for the highest rated "pull" reason -seeking challenge- measured success primarily in terms of self-fulfillment, and secondarily in terms of profit. "Blocks to career advancement" were considered of less importance in deciding to leave an organization and start one's own business. Women who contemplate leaving the corporate environment to achieve a better balance between work and family may want to re-examine their organizational options before leaping to entrepreneurship.

According to Goh, Koh, and Seet (1996), motivational factors differed between women and men as well. Female entrepreneurs perceived the motivational factors to be more important than their male counterparts. Females' ratings were higher in independence (e.g. "desire to be one's own boss"), financial rewards (e.g. "desire for higher earnings"), opportunity ("take advantage of an opportunity"), escape (e.g. "disagree with boss because I feel that I could have run things better"), recognition ("get recognition for my achievement"), and others ("follow in the footsteps of relatives who are in the business").

The personal profile of female entrepreneurs has been studied with regard to education, experience, motivation, and personal traits in Poland. In case of motivation, financial motives were the most important, and after that came self-fulfillment, independence, family tradition and fear of unemployment, risk and imitation and others. Women pointed out positive motives more frequently than negative ones. A similar situation can be found among male entrepreneurs. However, men looked for risk and kept tradition more often than women. Financial motives, fear of unemployment, and other motives (taking care of a child) were more often chosen by women. Women were more persistent than men, but when other traits were considered, they were less inclined to take risks and less ready to devote them to the firm (Wasilczuk, 2000).

RESEARCH METHODOLOGY

Sample.

The sample consisted of 9 158 respondents representing the working age between 18 and 55 years, of which 51 % were females and were 47 % males, from different parts of Finland. The sex of 2 % of respondents was unknown. Most of the respondents (15 %) were 41-45 years old and least (10 %) were between 26 and 30 years. The most common educational background of the male respondents was vocational school (42 %) and for female respondents it was institute (29 %), while and the most uncommon educational background for both genders were postgraduate studies, licentiate or doctor (0,7 %). During the time the research was accomplished, the most of the respondents had a full-day job (50 %), while only 5 % of females and 10 % of males were working as entrepreneurs. Considering the family background, the parents of the most respondents had had agriculture or forestry as their main livelihood source (32 %). The parents of 28 % had been working on the private sector and 25 % on the public sector, while 15 % of the respondents came from entrepreneur families.

Instrument.

A survey of entrepreneurship capacity in terms of (1) attitudes towards entrepreneurship, (2) different entrepreneurship qualities, (3) entrepreneurial ideals, (4) entrepreneurship motivation, and (5) entrepreneurial intentions was performed as a part of an entrepreneurial development program (see Routamaa 1999, 2000). A scale of five alternatives ranging from ‘strongly disagree’ to ‘strongly agree’ was applied when suitable. In addition to the dimensions above, the barriers to entrepreneurship (26 items) were inquired. The potential barriers concern economic risk, entrepreneurial role, the lack of business ideas or knowledge, social risk, resources, social support, and personal traits. Further, push-and-pull factors, i.e., dissatisfaction and opportunity factors were also inquired. The question of entrepreneurial intentions consists of three dimensions that are the intention of starting up a firm, the intention of preparing to start one up, and the intention of being educated for an entrepreneurial career. These dimensions include several alternatives, for example starting up alone, starting up with a partner, buying a firm alone, buying a firm with a partner, et cetera. In this connection, starting up a firm with a company will be concerned. Several background variables were asked about, too, for example, age, gender, education, work experience, current professional status, and family background in terms of the parents’ occupation.

RESULTS

The *Attitudes Towards Entrepreneurship* were measured by six questions. All the six questions were loaded in one factor in factor analysis, and the loadings were varying between 0.533 and 0.685. This factor had high reliability (Alpha=0.7140). The attitudes of males and females were compared by T-Test, but there were no statistically significant differences between sexes, although women had slightly more positive attitudes towards entrepreneurship (see Table 1).

The *Entrepreneurial Qualities* were measured by 14 questions, of which, five factors (Varimax) were obtained. One question measuring the fear of taking risks was removed because of double loading. The reliabilities (Alpha) of these factors were: Fear of Change 0.5727, Pleasing Others 0.6146, Opportunism 0.5387, Fatalism 0.6199 and Maverick 0.4149. The first quality, Fear of Change, is described in terms of being slacken in insecure situations, having doubts about new things, and believing that changes create only new problems. The second quality, Pleasing Others, included items: avoiding performing in public, keeping the craziest ideas to oneself, and not wanting attention to one's different thoughts or ideas. The third quality, Opportunism, contains principles such as succeeding requires not irritating other people, pleasing those who have power, and making sure that one's own plans fit to those of others before accomplishing them. Fatalism-quality is described in terms of succeeding in life is a matter of destiny and things will be as they're meant to be. In the last quality, Maverick, topics were: one's destiny depends on one's own actions and accomplishing ideas in spite of resistance of other people. These entrepreneurial qualities of males and females were compared by T-test. Significant differences were found in Opportunism, Fatalism and Maverick quality. Females were more Opportunistic than males, whereas men had more Fatalistic and Maverick characteristics than women. Both, men and women had highest score in Maverick-character, which is proposed to be the most entrepreneurial character (see Table 1). It may be noted, however, that the Fear of Change was nearly as high as Maverick, i.e. there is a lot of people avoiding risks.

Table 1. Attitudes towards entrepreneurship and entrepreneurial qualities.

	Female (mean)	Male (mean)	t-value (sig.)
Attitudes towards entrepreneurship	3.7168	3.6911	1.877 (0.061)
Quality 1: Fear of Change	3.4836	3.4571	1.494 (0.135)
Quality 2: Pleasing Others	3.2659	3.2424	1.173 (0.241)
Quality 3: Opportunism	3.0455	2.9558	5.027 (0.000)
Quality 4: Fatalism	3.3225	3.4498	-6.002 (0.000)
Quality 5: Maverick	3.5354	3.6566	-7.254 (0.000)

The preferred *Entrepreneurial Ideal* is a personal interpretation about how one sees oneself as an entrepreneur. Respondents could rate the ideal from the perspective that which will suit to him/her best, a personal interpretation about how one sees oneself as an entrepreneur. These ideals were for example; "net-marketer", "shopkeeper", "part-time-entrepreneur" etc., in all 19 ideals offered; see Table 2. The preferred Entrepreneurial Ideals seems to be different for men and women (see Table 2). Both would most probably consider being a team entrepreneur, a safe alternative in terms of shared responsibility. Instead, men preferred more businessman, innovator, manager, scientist, part-time, subcontractor, farmer/forestry, transportation/machine contractor, and agent/representative entrepreneurial identities than women. Women, on the other hand, could consider themselves having a career of sole proprietor, franchising, net-marketer, handcraft, shopkeeper, social services provider, and restaurant entrepreneur more that

men did. Women seemed to favour more secure, small-scale enterprising compared to men.

Table 2. Entrepreneurial ideals.

Ideal	Females (mean/order)	Males (mean/order)	t-value (sig.)
Businessman	2.16 (13.)	2.68 (8.)	-18.801 (0.000)
Innovator-entrepreneur	1.93 (17.)	2.59 (10.)	-26.432 (0.000)
Manager-entrepreneur	2.41 (9.)	2.74 (6.)	-11.784 (0.000)
Scientist-entrepreneur	1.81 (18.)	2.09 (16.)	-11.891 (0.000)
Sole proprietor	3.14 (2.)	3.05 (3.)	3.156 (0.002)
Businessman in team	3.31 (1.)	3.29 (1.)	0.643 (0.520)
Part-time-entrepreneur	2.89 (5.)	3.04 (4.)	-5.258 (0.000)
Subcontractor	2.61 (8.)	3.12 (2.)	-18.761 (0.000)
Farmer/Forestry-entrepreneur	2.15 (14.)	2.59 (10.)	-8.162 (0.000)
Franchising-entrepreneur	2.23 (12.)	2.00 (18.)	8.883 (0.000)
Co-operative entrepreneur	2.40 (10.)	2.39 (13.)	0.603 (0.547)
Net-marketer	1.94 (16.)	1.61 (19.)	14.211 (0.000)
Handcraft-entrepreneur	2.99 (4.)	2.88 (5.)	3.698 (0.000)
Trainer/Consultant	2.67 (7.)	2.66 (9.)	0.532 (0.595)
Transportation/Machine contractor	1.62 (19.)	2.70 (7.)	-38.408 (0.000)
Shopkeeper	2.84 (6.)	2.59 (10.)	8.219 (0.000)
Agent/Representative	2.03 (15.)	2.17 (14.)	-5.228 (0.000)
Social services provider	3.10 (3.)	2.04 (17.)	36.834 (0.000)
Restaurant-entrepreneur	2.28 (11.)	2.14 (15.)	4.878 (0.000)

Next, the *Efforts to Start up New Business* and *Entrepreneurial Intentions* of both men and women were compared. In all the questions, men had higher means and therefore they were more eager to start up a business, although the intentions of neither men nor women were high (see Table 3). The most common activities for preparing for entrepreneurship for

men was looking for new business ideas while for women it was learning for business know-how.

Table 3. Entrepreneurial efforts and intentions.

Effort/intention	Female (mean)	Male (mean)	t-value (sig.)
Looking for new business ideas	1.68	2.19	-18.890 (0.000)
Trying to produce own product	1.64	1.94	-11.791 (0.000)
Developing new product or service	1.67	2.02	-13.462 (0.000)
Looking for co-operation partner	1.55	1.93	-15.604 (0.000)
Seeking patent for invention	1.22	1.47	-13.897 (0.000)
Learning business know-how	1.69	1.95	-10.183 (0.000)
Starting studies of entrepreneurship	1.56	1.67	-4.820 (0.000)
Participating for a starting-up business education	1.57	1.70	-5.564 (0.000)
Learning to be an entrepreneur by working for someone else	1.55	1.76	-7.378 (0.000)
Going to start up business by myself within a year	1.52	1.84	-8.475 (0.000)
Going to start up business together with a partner within a year	1.50	1.77	-7.907 (0.000)
Going to buy already existing enterprise/ business by myself within a year	1.33	1.51	-5.873 (0.000)
Going to buy already existing enterprise/ business together with a partner within a year	1.35	1.53	-6.347 (0.000)
Going to be a shareholder in a new enterprise but not work there within next year	1.35	1.59	-7.848 (0.000)

Push and Pull Factors were measured by five questions. Reliabilities (Alpha) of both factors were high (push: 0.8671 and pull: 0.8653). Push factors did not differ significantly between men and women. Male respondents evaluated the Pull factors higher than female respondents. Altogether, both men and women considered the Push factors more influential than Pull factors.

Table 4. Push and pull factors.

	Female (mean)	Male (mean)	t-value (sig.)
Push	2.8908	2.9392	-1536 (0.125)
Pull	2.0457	2.4542	-13.94 (0.000)

Needs that Could Be Satisfied more likely in the career of entrepreneur than in the current career were measured by eleven questions, of which two factors were obtained: Motivation factor (alpha=0.8158) and Hygiene factor (alpha=0.8746). Hygiene factor includes statements: compared to wage labour, working as an entrepreneur... "I would get more respect in society", "I would be a team member and have better relations to co-workers", "I would have better earnings", "I would have higher status and more power", "I would more surely earn my livelihood" and "I would more certainly have enough free-time". Motivation factor is described in terms of: compared to wage labour, working as an entrepreneur... "I could develop and regenerate continuously", "I would be more autonomous and independent", "I could better decide my working-hours" and "I could better accomplish my innovativeness and creativity". Men experienced, more than women, that the Hygiene factors would be more satisfied in the career of an entrepreneur. For both, men and women, however, the Motivation factor seemed to be more important than the Hygiene factor. See Table 5.

Table 5. Hygiene and Motivation factors.

	Female (mean)	Male (mean)	t-value (sig.)
Hygiene factor	2.4456	2.4962	-2.115 (0.034)
Motivation factor	3.2071	3.1989	0.320 (0.749)

Finally, the *Obstacles for Becoming an Entrepreneur,* were measured by 26 items, from which six factors were obtained: Fear of Failure (alpha=0.8398), Wrong Life Situation (alpha=0.7564), Lack of Knowledge (alpha=0.6945), Practical Obstacles (alpha=0.6845), Personal Characteristics (alpha=0.5880), and Lack of Support (alpha=0.8779). Four questions were removed because of low loadings, or loadings in several factors.

Factor "Fear of Failure" included items: fear of uncertainty of livelihood, fear of losing my property, fear of running into debt, fear of adequate demand, fear of becoming imprinted as unsuccessful and fear of getting laughed at, "Wrong Life Situation" included items: entrepreneurship ties too much, entrepreneurship does not offer enough free-time, entrepreneurship means loneliness, current state of life is not suitable for being an entrepreneur and it's not profitable to change my current work to entrepreneurship, "Lack of Knowledge" included items: own knowledge is too narrow, my expertise is difficult to commercialize, and lack of business idea, "Practical Obstacles" included questions: not getting needed financing, not finding suitable place and fear of lack of skilled labour, "Personal Characteristics" was formed of items: low tolerance of uncertainty, lack of diligence and persistency, and lack of service orientation, "Lack of Support" included questions: people close to me don't support and family doesn't support entrepreneurial intentions.

Altogether women experienced more obstacles than men, especially there was more fear of failure, wrong life situation, lack of knowledge, and they faced practical obstacles. Like men, women considered the fear of failure having the most influence on not becoming an entrepreneur. See Table 6.

Table 6. Obstacles for becoming an entrepreneur.

	Female (mean)	Male (mean)	t-value (sig.)
Fear of Failure	2.7077	2.4849	11.618 (0.000)
Wrong Life Situation	2.6181	2.3702	11.875 (0.000)
Lack of Knowledge	2.6237	2.3527	12.221 (0.000)
Practical Obstacles	2.1026	1.9822	6.122 (0.000)
Personal Characteristics	1.9158	1.9086	0.381 (0.703)
Lack of Support	1.8651	1.8441	0.870 (0.384)

CONCLUSIONS

This study focused on the differences of entrepreneurial capacity between men and women. The main research question was, whether gender matters in terms of entrepreneurial capacity.

Results indicate that men tend to have more fatalistic and maverick entrepreneurial capacities whereas women are more opportunistic by nature. The gender also has influence on the preferred entrepreneurial ideals. Women favour more small-scale, secure entrepreneurial careers. Altogether men were having more entrepreneurial intentions, they were making more efforts to start up new business, they experienced more push and pull factors, and they believed that entrepreneurship could satisfy more needs than women did. Women, instead, experienced more obstacles than men. Strong fear of economic troubles was typical for both men and women but still worse for women.

Entrepreneurial capacity is quite decisive in the case of a free choice between entrepreneur and wage earner. The factors of entrepreneurial capacity form a chain where the weakest links can stop the path to an entrepreneurial career. The less weak links of capacity in the chain, the more probable will be the entrepreneurial career. One of the weakest links in the chain of entrepreneurial capacity of women is the specific obstacles found by women, e.g., insecurity associated with many entrepreneurial activities. When fear of change, fear of failure and lack of knowhow are high associated with wrong life situation, women's motivation does not carry over the threshold of starting up. In addition, the pull factors do not support women's entrepreneurial activity. This partly explains the low share of female entrepreneurs in Finland, in a country of excessive social security, and huge high taxes and labour costs. In all, it seems that entrepreneurial capacity is different between genders.

IMPLICATIONS FOR FUTURE RESEARCH AND PRACTICE

As the research results indicate, the capacity of potential female entrepreneurs greatly differs from the entrepreneurial capacity of men. That is also why the entrepreneurial courses arranged for casual participants may be rather wasting of money than profitable promotion of entrepreneurship. Based on the research results, it is possible to forecast entrepreneurial capacity and intentions of women. Understanding better facilities, ideals, barriers, and motives of potential female entrepreneurs, the specified development

activities and training can be better focused, and the target group can be better selected. Women need special efforts in supporting economic fears as well as improving entrepreneurial qualities to strengthen the weakest links on the way to start up. Attitudes and motivation are the strongest chains, but the high need of security is the worst barrier. Actually, the Finnish welfare system is the worst barrier to increase the level of self-employment. On the one hand, the welfare system with its subsidies is so high that working in low or middle-level jobs will not pay; on the other hand, when one becomes self-employed social security benefits are lost (see Routamaa 2003). That is something policy makers should finally realize.

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THE MISSING LINK
THE KNOWLEDGE FILTER AND ENTREPRENEURSHIP IN ENDOGENOUS GROWTH[1]

Zoltan J. Acs, David B. Audretsch, Pontus Braunerhjelm and Bo Carlsson[2]

ABSTRACT

The intellectual breakthrough contributed by the new growth theory was the recognition that investments in knowledge and human capital endogenously generate economic growth through the spillover of knowledge. Endogenous growth theory does not explain how or why spillovers occur. The missing link is the mechanism converting knowledge into economically relevant knowledge. This paper develops a model that introduces a filter between knowledge and economic knowledge and identifies entrepreneurship as a mechanism that reduces the knowledge filter. A cross-country regression analysis over the period 1981-2000 provides empirical support for the model. We conclude that public policies facilitating knowledge spillovers through entrepreneurship may be an important new approach to promoting economic growth.

JEL: O10, L10

Keywords; Endogenous growth, knowledge, innovation and entrepreneurship.

INTRODUCTION

Endogenous growth theory has provided two fundamental contributions that constitute intellectual breakthroughs. The first is that the formation of knowledge and human capital takes place as a response to market opportunities. The second is that, investment in knowledge is likely to be associated with large and persistent spill-over to other agents in the economy. Thus, knowledge impacts growth endogenously. However, empirical evidence supporting the hypotheses derived from these models is ambiguous at best.[3] The simple correlation between R&D expenditure and GDP growth reveals no systematic

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[3] See Jones (1995a, 1995b), Young (1995) and Greenwood and Jovanovic (1998). Educational variables have been more successful in explaining growth (Barro and Sala-i-Martin, 1995). Jones proposed a semi-endogenous growth model where it becomes more difficult over time to discover new products . See Dinopoulos and Thompson (1998) and Aghion and Howitt (1998) for a discussion of empirical problems.

relationship (Figure 1).[4] Thus, the model seems to offer no explanation as to why countries such as Japan and Sweden with high rates of R&D spending grew so slowly during the last decades, while other countries less endowed with knowledge – such as Denmark and Ireland – experienced persistent and high growth rates. We believe that the ambiguous empirical support for endogenous growth models is associated with far too mechanistic a view on the spillover of knowledge.[5]

We go back to Arrow's (1962) recognition that knowledge is not the same thing as economically relevant knowledge, suggesting that spillovers may not occur automatically. The endogenous growth proponents (Romer 1986, 1990, Lucas 1988, Rebelo 1991, and others) picked up the thread suggested in the spillover literature a couple of decades earlier. Their aim was to explicitly introduce knowledge into models of growth. Aggregate knowledge capital was defined as a composite of R&D and human capital, not embodied in processes or products. Accumulation of capitalized knowledge assets was then shown to lead to increased growth and a well-defined general equilibrium. The major contribution – because of the properties of non-excludability and non-rivalry attached to knowledge – of these models was to analytically demonstrate that since the marginal productivity of knowledge capital does not diminish as it becomes available to more users, growth may go on indefinitely.

The first wave of endogenous growth models (Romer 1986, Lucas 1988, Rebelo 1991, and others) gave little attention to how spillovers actually took place and treated the process as exogenous. Their emphasis was on the influence of knowledge spillovers on growth without specifying *why* and *how* knowledge spills over. Yet, the critical issue in modeling knowledge-based growth rests on the spillover of knowledge. This was to some extent remedied in the second generation of endogenous growth models (Schmitz 1989, Segerstrom, Anant and Dinopoulos 1990, Segerstrom 1991, Aghion and Howitt 1992, Cheng and Dinopoulos 1993, Segerstrom 1995). These neo-Schumpeterian models design entry as an R&D race where a fraction of R&D will turn into successful innovations.

While this implies a step forward, the essence of the Schumpeterian entrepreneur is missed. The innovation process stretches far beyond R&D races that predominantly involve large incumbents and concern quality improvements of existing goods. As pointed out by Schumpeter (1947) "the inventor produces ideas, the entrepreneur 'gets things done' ….. an idea or scientific principle is not, by itself, of any importance for economic practice." Indeed, the Schumpeterian entrepreneur, by and large, remains absent in those models. We intend to highlight how the introduction of the "pure" Schumpeterian entrepreneur influences knowledge spillover and how knowledge thereby can be more or less smoothly filtered and substantiated into business activity.

The purpose of this paper is to extend the endogenous growth model to explain how knowledge is converted into economic knowledge and how economic knowledge influences economic growth. First, in contrast to previous endogenous growth models, we explicitly introduce a transmission mechanism that determines the rate at which the stock of knowledge is converted into economically useful firm-specific knowledge. Second, we develop a model that demonstrates how entrepreneurship is necessary for the exploitation of knowledge. Thus, whether regions or countries experience higher growth depends rather on the entrepreneurial skills in the economy than on how much resources that are

[4] In Figure 1, changing or removing the time lag does not materially change the results.

[5] Solow (1956) and Cass (1965) are two standard references on neoclassical growth theory. Kendrick (1981) and Maddison (1987) are examples of studies that have studied the importance of technological change as a source of growth.

spent on knowledge creation, e.g. in terms of R&D-outlays. Third, we show how the suggested modifications of the endogenous growth model imply a new policy approach.

The paper is organized as follows. In the next section, we outline the basic structure of the knowledge-based growth model and specify how the model can be extended to identify the missing link in the spillover process. In Section 3 we present a model that incorporates a filter in the spillover mechanism determining the link between entrepreneurship and growth. In Section 4 we provide empirical support of the contribution of entrepreneurship to economic growth. The following section 5 discusses the implications of growth policy. Finally, we provide a summary and conclusion in Section 6.

THE MISSING LINK IN THE ENDOGENOUS GROWTH MODELS

The Knowledge-Based Growth Model

Endogenous growth theory took off in the later part of the 1980s, with Romer (1986) and Lucas (1988) as the standard references. The knowledge-based growth models have three cornerstones: spatially constrained externalities, increasing returns in the production of goods, and decreasing returns in the production of knowledge. These provide a micro-economic foundation for explaining the mechanisms that promote growth at the macro level. More precisely, profit-maximizing firms produce knowledge in one period which is used as inputs in subsequent periods.[6] Production of knowledge is assumed to be characterized by (strongly) diminishing returns to scale. The result is an upper bound of knowledge that can be used in the production of goods. Each firm *i* can appropriate only a portion of the knowledge ($l_{i,R}$) it produces; this implies that firms also benefit from spillovers originating in all other firms'(n) knowledge investments ($A = \sum_{i=1}^{n} l_{i,R}$).

The focus of the endogenous growth literature changed markedly with Romers (1990) article, where the role of technology (designs)in the growth process was emphasized.[7] Invention of new technologies emerges as profit-maximizing firms invest in R&D. As a result new products was supplied, but also the overall level of knowledge in society at large increased because of increased R&R-investments, which in turn improved productivity in future R&D. Thus the accumulation of knowledge was distributed on firm-specific part and broader general knowledge, implying that knowledge was partially excludable.

Romer furthermore argued that the economic impact of new technologies was likely to be large, as technology was non-rival and hence could be used by many agents simultaneously. The combination of partial excludability and non-rivalry suggested an important role for technology in explaining growth. Since R&D-production was explicitly

[6] In a contionous time period world the maximization problem is:

$\max\ U(c) = \int_0^{\infty} u(c_t)e^{-\rho t}dt, \quad s.t.\ \dot{K} = \bar{A}K^{\alpha} - c \quad and \quad \dot{K} \geq 0$, where knowledge is denoted A and capital accumulation implies sacrificed consumption.

[7] Grossman & Helpman (1991) and Aghion & Howitt (1992) are two further standard references in the area. Initially, the endogenous growth models focused on the role of physical and human capital. As Rebelo (1991) showed, endogenous growth can be sustained if the output of capital goods in at least one sector is linear in the stock of (broad) capital.

modeled and also privately financed in these models, there was scope for growth-enhancing economic policies to correct externalities due to underinvestment in R&D.[8]

The Missing Link

New knowledge – in the form of products, processes, and organizations – leads to opportunities that can be exploited commercially. But converting new ideas into economic growth requires turning new knowledge into economic knowledge that constitutes a commercial opportunity. For example, only about half of the invention disclosures in U.S. universities result in patent applications; half of the applications result in patents; only 1/3 of patents are licensed, and only 10-20 % of licenses yield significant income (Carlsson and Fridh 2002, p. 231). In other words, only 1 or 2 percent of the inventions are successful in reaching the market and yielding income. Such opportunities are a function of the distribution of knowledge.

Just as important is that opportunities rarely present themselves in neat packages; rather they have to be discovered and applied commercially. Such discoveries are made in all types of economic activities, not only in R&D-intensive activities. Precisely for that reason the nexus of opportunity and enterprising individuals is crucial in order to understand economic growth (Shane and Eckhardt, 2003).

This implies that knowledge by itself is only a necessary condition for the exercise of successful enterprise in a growth model. An interesting approach recently presented (Michelacci 2003) focuses on the allocation of societal resources spent on R&D and entrepreneurship. Michelacci concludes that low rates of return to R&D may be due to lack of entrepreneurial skills. Hence, the ability to transform new knowledge into economic opportunities involves a set of skills, aptitudes, insights and circumstances that is neither uniformly nor widely distributed in the population.

In particular, the uncertainty, asymmetries and high transaction costs inherent in knowledge generate a divergence in the assessment and evaluation of the expected value of new ideas (Arrow, 1962). This divergence in valuation of knowledge across economic agents and within the decision-making process of incumbent firms can induce agents to start new firms as a mechanism to appropriate the (expected) value of their knowledge. This would suggest that entrepreneurship facilitates the spillover of knowledge in the form of starting a new firm.

Moreover, empirical findings suggest that entrepreneurial startups are important links between knowledge creation and the commercialization of such knowledge, particularly at the early stage when knowledge is still fluid (see section 4). There are undoubtedly many mechanisms that impede the commercialization of knowledge. By serving as a conduit for the spillover of knowledge that might not otherwise be commercialized, entrepreneurship is *one* mechanism that links knowledge to commercialization and economic growth.

ENTREPRENEURS AND THE KNOWLEDGE FILTER –A SIMPLE MODEL

[8] See Shell (1966) for an early model of R&D-driven growth. As e.g. Fagerberg (1994) argues, the endogenous growth literature has brought the treatment of technological progress much closer to what empirical research tells us.

In order to model the filter as well as the mechanism that generates spillovers, we impose the following assumptions:

1. A given set of individuals L_0 can either be employed in the goods producing sector (L_M), the knowledge (invention) producing sector (L_R), or in the entrepreneurial (innovation) sector (L_E).
2. Entrepreneurial ability is distributed unevenly across individuals. They deploy their endowments of entrepreneurial capabilities to evaluate the knowledge accessible to them in reaching a decision how best to appropriate the returns from that knowledge, i.e. they make profit-maximizing inter-temporal choices whether to remain employees or become entrepreneurs (Knight, 1921).
3. There is a filter σ_R in the economy influencing how efficient knowledge is transformed into economic knowledge, implying that only part of the stock of knowledge (A) is converted into economically useful firm-specific knowledge. The filter depends on policy, traditions and path-dependence that influences networks and technology transfer mechanisms
4. There are two channels to transform knowledge (A) into economically useful knowledge. The first involves incumbent firms and the second involves the entrepreneurial startup of new (Schumpeterian) firms.
5. Incumbent firms transform knowledge into economically useful knowledge by employing knowledge workers (L_R) which results in new inventions, new varieties of products (x_i) and new knowledge (A). The "thickness" of the filter determines how efficient firms can transform knowledge into goods and services (commercialization),

$$0 \leq \sigma_R \leq 1$$

The thicker the filter (σ is close to zero), the less efficient exploitation of knowledge.
6. A start-up (innovation) represents any kind of new combination of existing or new knowledge, where individuals (L_E) draw on their (given) entrepreneurial ability ($\bar{e}_i$) and the aggregate stock of knowledge (A).[9] Also entrepreneurial activities are governed by how efficient knowledge is exploited and transformed into goods,

$$0 \leq \sigma_E \leq 1$$

7. Knowledge produced by firms is non-rivalrous and partly non-excludable.

These assumptions imply that two conditions are decisive for an increasing stock of knowledge (through R&D and education) to materialize in higher economic growth. First, knowledge has to be transformed into economically useful knowledge, and, second, an economy must be endowed with factors of production that can select, evaluate and transform knowledge into commercial use. If these conditions are not fulfilled, an increase in the knowledge stock may have little impact on growth. Moreover, economies endowed with small knowledge stocks may experience higher growth than regions more abundantly endowed with knowledge due to a less impeding knowledge filter.

The entrepreneurial choice

Consider an economy endowed with a population of L_0 individuals that live for two (or more) periods. In the first period all individuals are employed by incumbents, but between periods they make intertemporal choices between remaining an employee or becoming an entrepreneur.

[9] Schumpeter (1911).

Individuals at the higher end of the distribution of entrepreneurial ability identify more opportunities to commercially exploit A as compared to individuals with lower ability. By combining given entrepreneurial ability $(\bar{e})$ with the economy's knowledge stock A (given how efficient the system works), individuals (i) with the ability to identify opportunities switch from employees to entrepreneurs. Thus,

$$a_i = f(\overline{e_i}, A, \sigma), \quad \sum_{i=1}^{\bar{S}} a_i \equiv L_E \tag{1}$$

where aggregate entrepreneurial ability in the economy is increasing in $(\bar{e})$ and in A.

The intertemporal choice between becoming an entrepreneur or remain an employee depends on the expected pay-off accruing to the respective alternative. Suppose that the individuals' preferences are characterized by von Neumann-Morgenstern utility functions allowing a strictly increasing utility representation of the expected utility form. Moreover, assume that individuals are strictly risk-averse and that *u(0)* = 0. The decision whether to become an entrepreneur or not is illustrated in Figure 2. [10]

Figure 2

The individual who choose to remain an employee will receive a wage (w) with certainty, yielding utility,

$$U^{Worker} = u(w) \;=\; u^{w}(x) \tag{2}$$

which we will refer to as the individuals expected utility from remaining an employee, allowing consumption of x goods. If, on the other hand, the individual chooses to become an entrepreneur, expected utility is dependent on the probability of success ($\phi \in [0,1]$) and the expected pay-off (□,

$$U^{Entrepreneur} = \phi\, u(\pi) = \phi\, u^{\pi}(x)\,. \tag{3}$$

To engage in entrepreneurial activities the individual's expected net pay-off from entrepreneurial activities (u^{π}) must be larger then expected net pay-off from remaining an employee (u^{w}). As shown in Figure 2, if $\pi \geq w$ then there exists a probability ϕ^* such that the choice of being an entrepreneur is optimal for the individual for all $\phi > \phi^*$. Assume that there exist a □ > *w* and a $\phi > \phi^*$ for a subset of individuals (since $\bar{e}$ is assumed to be unequally distributed). Then a share L_0 will shift from employees to entrepreneurs, thereby commercializing part of the given aggregate knowledge stock.[11]

[10] The concave curve in Figure 2 - the Bernoulli utility function - is associated with certain outcomes and the straight line - the von Neumann-Morgenstern utility function - with uncertain outcomes. The certain utility of π is $u^{\pi}(x)$ and the certain utility of a zero payoff is u(0) = 0. If, as is the case for the entrepreneur, the outcomes are uncertain and can only be described in probability terms, we have to look at the von Neumann-Morgenstern utility function. This utility function gives the expected utility of becoming an entrepreneur as the linear weighted average of the certain outcomes (wage earner), where the weights are the probabilities of the respective outcomes. The expected utility of the choice to become an entrepreneur is therefore $\phi\, u^{\pi}(x) + (1-\phi)u(0) = \phi\, u^{\pi}(x)$.

[11] Compare Murphy, Schleifer and Vishny (1991).

At the aggregate level entrepreneurial activity in the economy (L_E) depends on entrepreneurial ability and factors influencing the filter, assumed to be contained in a vector σ_E. A policy that increases the probability of success (ϕ) – given $\tilde{\phi}$ e.g. by facilitating the regulatory burden or making knowledge more accessible, increases the expected utility from becoming an entrepreneur. This can be illustrated as a move along the straight line in figure 2 toward the "northeast" corner.

The share of entrepreneurs can also increase due to a policy that increases the expected pay-off ($\tilde{\phi}$) for an entrepreneur (e.g. through lowered taxes). In the figure, this implies a shift downwards of the straight line and the intersection with the u-curve would take place further to the "east" in Figure 2. Thus, even though the probability of success is held constant, the expected utility of becoming an entrepreneur may increase through other measures.

A simple endogenous growth model with entrepreneurship

To illustrate the role of entrepreneurs in growth we take the model of Romer (1990) as our departure point. Assume that there are two methods of developing new products; research labs in incumbents and entrepreneurs. There exist three factors of production: labour, different varieties of capital goods and entrepreneurship and markets are characterized by monopolistic competition. Entrepreneurship is embodied in labour, but in contrast to raw labor entrepreneurship is distributed unevenly across the population. This means that some individuals are inherently better at performing entrepreneurial activities, whereas all individuals have the same ability to do R&D and to produce final goods.

Researchers and entrepreneurs develop new varities of (patented) capital, which can be thought of as either new types of physical capital, blueprints or "business models" that are being rented or sold to final good producers thus increasing the efficiency of production of final goods.[12] Specifically, new varieties of capital goods and new knowledge is produced as:

$$\dot{A} = \sigma_R L_R A + \sigma_E Z\left(L_E\right) A \qquad (4)$$

where the $\sigma : s$ are efficiency parameters in invention activities (R&D) and innovation (entrepreneurship). Labour is distributed between personal involved in R&D and those engaged in entrepreneurial activities, whereas A is the stock of available knowledge at a given point in time. Entrepreneurial activities are assumed to be characterized by decreasing returns to scale ($\gamma \prec 1$),

$$Z\left(L_E\right) = L_E^{\gamma}, \gamma < 1 \qquad (5)$$

since entrepreneurial skill is unevenly distributed among the population. Hence, doubling the amount of people engaged in entrepreneurial activities will not double the output of new knowledge and varieties. Rewriting (4) as

$$\frac{\dot{A}}{A} = \sigma_R L_R + \sigma_E Z\left(L_E\right) \qquad (6)$$

[12] As e.g. Grossman and Helpman (1991) have shown, the new varieties of capital goods can just as well be thought of as new varieties of consumer goods entering consumers utility function directly.

shows that the rate of technological progress is an increasing function in R&D, entrepreneurship and the efficiency in these two activities. Combining equations 4 and 5 with a standard consumer optimization problem and a production function for final goods yields a well-defined balanced growth path (see Appendix 1). It can be shown that in steady state some entrepreneurial activities will always be profitable($L_E > 0$), while R &D may or may not be profitable, depending on parameter combinations. Moreover, growth is increasing in both efficiency parameters ($\sigma : s$) and in both R&D and entrepreneurial activities. However, the latter effect depends in a non-trivial way on the range of parameters. The degree of entrepreneurial activity is, for instance, decreasing in the productivity of R&D as long as R&D is profitable. Thus, R&D and entrepreneurship are to some extent substitutes. But overall

Apart from these model-specific properties, the model shares a number of characteristics with previous models (e.g., growth is decreasing in the discount factor but increasing in a larger labour force). But most important is that an economy endowed with a labour force having high entrepreneurial skill enjoys higher growth rates.

The model implies some (testable) predictions. Firstly, a country with relatively low spending on R&D may grow faster than one with high spending on R&D if entrepreneurship is much more prevalent in the first country. Secondly, the amount of labor engaged in entrepreneurship may not necessarily be the best indicator of the level of entrepreneurial efforts in a country, as the distribution of entrepreneurial skill may differ across countries. Finally, R&D and entrepreneurship may be substitutes in growth.

Extending the neo-Schumpeterian growth model to include entreprenurial start-ups

The first versions of the so called neo-Schumpeterian growth models appeared a few years after Romer presented his work on endogenous growth. The objective was to insert entry and exit into the Romer model through innovation races. Basically the neo-Schumpeterian models built on the later Schumpeter's (1942) view on entry through the introduction of new ways of producing goods (processes) and production of higher-quality versions of already existing goods.

Notwithstanding that the neo-Schumpeterians extended our knowledge on growth by introducing an entry mechanism, the problem is that the mechanism they suggest (R&D-races) is not compatible with stylized facts: R&D-races occur predominantly among large, technology-based incumbents. In the model below we will return to the early Schumpeter (1911), emphasizing the combinatorial innovative capacity of entrepreneurs.

Let us first outline the basic structure of the neo-Schumpeterian model (see Aghion and Howitt, 1998) and then introduce our proposed modifications. Individuals' allocation between savings and consumption is based on maximizing their discounted utility over life, and savings are invested in R&D-shares. The return to R&D-investments is related to an instantaneous market interest rate (r), which in equilibrium equals consumers' rate of time preferences, □t > 0 (the discount rate). The standard utility function can be depicted as,

$$U = \int_0^\infty e^{-\rho t} \ln\left[h(\,.\,)\right] dt \qquad (7)$$

where the sub-utility function h describes how utility is increasing in improved quality (ν) – i.e. new knowledge - of existing goods,

$$h(x_o, x_1, x_2 .....) \quad = \sum_{n=0}^{\infty} \nu \;\; x_n, \quad \nu > 1 . \qquad (8)$$

Assuming prices on the preceding quality equals one, consumers are willing to pay ν (>1) for the quality enhanced product. As consumers switch to the new products, resources are shifted from production of old to new products; i.e., creative destruction takes place.

New qualities are the outcome of R&D races between firms, where the outcome is stochastic and sequential. Each new race builds on previous investments in knowledge. As firms hire labor to undertake research and augment their firm-specific knowledge ($l_{i,R}$), they enhance their probability of winning the R&D race; that is, commercializing knowledge. A winner of the R&D race will enjoy a temporary monopoly market power, which induces more investment in R&D and new races. Such quality-enhancing innovations enter the market through a Poisson process by probability (μ),

$$\mu = (\sum_{i}^{n} l_{i,t})dt = L^{\gamma} dt \qquad (9)$$

where the assumed technology in knowledge production implies decreasing returns to scale ($0 < \gamma < 1$). Or, assuming that a filter is present that impedes the transformation of knowledge into commercialized products,

$$\mu = (\sum_{i}^{n} l_{i,t})dt = \sigma_R L^{\gamma} dt \qquad (10)$$

The economy's growth is driven by consumer preferences for enhanced qualities of the good x, i.e. $h(x_o, x_1, x_2.....)$. In steady state income, consumption and knowledge-investment remain invariant over time, but new qualities augment consumer utility. This means that growth (g) is driven solely by the innovative capability to commercialize knowledge investments; $tL^{\gamma} \ln \nu$. Hence,

$$g = dG(t,Y)/dt = L_R{}^{\gamma} \ln \nu \qquad (11)$$

that is, growth increases in knowledge-investments (hiring more R&D-workers), i.e. the intensity by which new innovations enter the market, the level of improvement (the quality ν), but decreases in the degree of diminishing returns to scale (γ).

Despite many appealing features of the model it does not capture the characteristic of the "pure" Schumpeterian entrepreneur; combining entrepreneurial skill and the knowledge stock to innovate, thereby reducing the filter between knowledge and economically useful knowledge.

To emphasize our point about the entrepreneur, consider the case when knowledge (R&D) workers contribute to an invention (δA) that leads to a productivity increase. Hence, marginal productivity of knowledge workers increase by $mp_R = w_R \delta A$. If knowledge workers appropriate the whole rent associated with the productivity increase, wages remain constant in the section producing final goods,

$$mp_R = w_R \delta A, \quad mp_m = w_m \quad and \quad w_m \leq w_R \delta A.$$

The final goods worker can then either take up work in the knowledge producing part or become an entrepreneur.[13] As an illustration we relax the assumption of substitutability between research and manufacturing workers, i.e. only the option of entrepreneurship is feasible. Individuals abundantly endowed with an entrepreneurial ability (e) will then combine that with available knowledge (A) to innovate and introduce new products,

[13] A higher price lowers demand for the knowledge input in final goods sector, implying that per worker in the final goods production less of the knowledge input is employed.

thereby raising their income from wage w to entrepreneurial profit π. The reshuffling of labor between sectors implies that a new (temporary) equilibrium is established where wages are equalized at a higher level for both employees in final goods production and entrepreneurs.

To include the innovative part into to the neo-Schumpeterian framework, we propose the following alterations, based in profit-maximizing behavior of individuals.[14] First, start-ups of entrepreneurial new firms occur in the same manner as new qualities enter the market, i.e., a subset of the given population of L_0 individuals will randomly appear governed by a Poisson procedure,

$$\eta\ dt = \left(\sum_{i=1}^{L_0} l_{i,E}(\bar{e}, A, \sigma) \right) dt = \sigma_E L_E^{\gamma} dt\,, \qquad (12)$$

where $0 < \gamma < 1$ implies decreasing returns to scale in aggregate production and σ_E represents the efficiency – or filter – parameter. For simplicity, we have equalized the degree of diminishing returns to scale in entrepreneurial entry and entry through R&D-races. The intuition for decreasing returns to scale in entrepreneurial activities is that it would be sub-optimal for all economic activities to be undertaken by entrepreneurs; some tasks are better performed by incumbents and large firms.

Accounting for "pure" entrepreneurship, simultaneously as we allow for R&D-based entry, implies

$$\kappa\ dt = \mu\ dt + \eta\ dt = \sigma_R L_R^{\gamma} + \sigma_E L_E^{\gamma} dt \qquad (13)$$

where we have used the additive property of Poisson distributions. In terms of long-run steady state growth (sse Appendix 2), the expression would then become,

$$g^* = dG/dt = (\sigma_R L_R^{\gamma} + \sigma_E L_E^{\gamma}) \ln \nu \qquad (14)$$

which obviously exceeds – given that $L_E \succ 0$ - the expression in equation 10. Hence,

$$g = \sigma_R L_R^{\gamma} \ln \nu < (\sigma_R L_R^{\gamma} + \sigma_E L_E^{\gamma}) \ln \nu = g^*. \qquad (15)$$

Thus, a higher intensity rate in the commercialization of knowledge generates higher growth. Depending on the degree of the quality improvement and the market structure, growth may be either to low or to high from a social welfare point of view. As long as the demand elasticity and modest innovation levels are not to low, the social growth rate will normally be below the social optimum.

EMPIRICAL EVIDENCE

There is ample evidence that entrepreneurship can be found in almost any industry (Acs and Audretsch, 2002). Examples of fast growing entrepreneurial start-ups that do not originate in R&D-intensive activities are Walmart, Starbucks and McDonalds from the U.S., and H&M, Ikea and Tetra Pak from Sweden. It therefore seems reasonable to include all firms when we look at the relation between growth and start-ups, not only knowledge intensive.

A series of recent studies have found an empirical regularity in the form of a positive relationship between various measures of entrepreneurial activity, most typically startup rates, and economic growth (Figures 3 and 4).[15] Other measures include the share of

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[15] See Appendix for details.

[15] See for instance Acs and Armington (2003), Audretsch and Keilbach (2003) and

SMEs, and self-employment and business ownership rates. For instance, Thurik (1999) provides empirical evidence from a 1984–1994 cross-sectional study of 23 Organization for Economic Co-operation and Development (OECD) countries. He shows that increased entrepreneurship, as measured by business ownership rates, is associated with higher rates of employment growth at the country level. In another study for the OECD, Audretsch and Thurik (2002) undertake two separate empirical analyses to identify the impact of changes of entrepreneurship on growth. Regardless of the measure of entrepreneurship or the geographic unit of observation (city, region, state, or country), recent studies suggest the existence of a positive relationship between entrepreneurship and subsequent economic growth.

As an illustration of the model, we present a brief empirical analysis of the model. Expression 24 could be interpreted as a composite of the contribution to growth from new firms and incumbents, where research based entry ($\sigma_R L_R$) refers to incumbents, whereas $\sigma_E L_E$ is associated with "pure" entrepreneurs. We are interested in the contribution of the respective category to annual GDP growth. We regress the following variables on annual GDP-growth for 19 countries: Following Evans and Jovanovic (1989), Evans and Leighton (1989) and Blanchflower and Oswald (1998), we approximate the share of entrepreneurship (ENT/L) by self-employed; that is, non-agricultural self-employed as a share of civilian employment (lagged in the last regression). Knowledge is measured as the share of R&D in relation to GDP (R&D). We know that the overwhelming part of knowledge produced relates to large, incumbent firms (Braunerhjelm and Ekholm, 1998).

We the control for the capital/labor ratio (CAP/L), and the regulatory burden in these countries approximated by government expenditure in relation to GDP (GEXP).[16] We expect all explanatory variables, except government expenditure (as in Barro and Sala-i-Martin,1995) to have a positive effect on annual growth. The data cover the period 1981 to 2000 and are taken from OECD sources We implemented fixed effect panel regressions, and the result is shown in Table 1.

Table 1. Regression results, panel estimations. Dependent variable, annual growth, 1981-2000.

R&D	1.27*** (3.02)	-	1.67*** (3.46)	1.82*** (3.38)	1.03** (2.09)
ENT	-	.13** (2.08)	.23** (2.13)	.17* (1.69)	-
ENT (-1)	-	-	-	-	.25*** (2.58)
Cap/L	-	-		.06 (1.25)	.02 (.39)
GEXP	-	-	-	-.26*** (-8.42)	-.23*** (-7.34)
R^2	.03	.01	.07	.31	.25
F-vale	9.11***	9.11***	10.99***	33.25***	25.34***

Callejon and Segarra (1999).

[16] Captital per labor is approximated by GDP per capita (the correlation coefficient is .88). The second regression stretches from 1970 to 2000. In the sixth regression the entrepreneur variable is lagged one period, similar results were obtained when a lag-structure of two or three years was imposed.

No. of obs.	337	549	319	316	331

Note: t-values within parentheses. *, **, and *** refer to statistical significance at the 10-, five- and one-perecnt level, respectively. All data from OECD Statistical Compendium.

Note that even at this aggregate level, self-employed are shown to have a positive and significant effect on growth, although the significance varies between 1 and 10 percent level. The share of R&D (incumbents in the model) attains strong positive significance impact on growth, as do the share of governmental expenditure, albeit negative,. Only the capital-labour ratio is insignificant in the regressions.

POLICY IMPLICATIONS

The policy focus of the neoclassical growth models was on deepening capital and augmenting it with labor (Solow, 1956). Thus, the policy debate revolved around the efficacy of instruments designed to induce capital investment, such as interest rates and tax credits, along with instruments to reduce the cost of labor, e.g., reduced income and payroll taxes and increased labor market mobility.

A significant and compelling contribution of the endogenous growth theory was to refocus the policy debate away from the emphasis on enhancing capital and labor with a new priority on knowledge and human capital – in particular through a combination of taxes and subsidies. As Lucas (1993) concluded, “The main engine of growth is the accumulation of human capital – of knowledge – and the main source of differences in living standards among nations is differences in human capital. Physical capital accumulation plays an essential but decidedly subsidiary role.”

Lucas also elaborates on specific policy instruments designed to enhance investments in human capital and knowledge. Thus, the policy debate to generate growth revolves around the efficacy of such instruments as universities, education, public and private investments in research and knowledge, training programs, and apprentice systems.

By contrast, the extension of the endogenous growth model suggested in this paper implies the central, although not exclusive, role played by a very different set of policy instruments. This policy focus is on instruments that will reduce the filter that generates a wedge between A and commercialized knowledge, or between knowledge and economic knowledge. Such policies are targeted to enhance the spillover of knowledge and focus on enabling the commercialization of knowledge. Examples of such policies include encouraging new-firm startups. The different specific types of policies being implemented to enhance knowledge spillovers are too numerous to be identified and listed here, but Storey (2003) provides a set of examples.

The point emphasized in this paper is that entrepreneurship policies are important instruments in the arsenal of policies to promote growth. As this paper suggests, while generating knowledge and human capital may be a necessary condition for economic growth, it is not sufficient. Rather, a supplementary set of policies focusing on enhancing the conduits of knowledge spillovers also play a central role in promoting economic growth.

CONCLUSION

A careful examination of the basic structure of the knowledge-based endogenous growth theory reveals that the model is limited by the assumption that knowledge not only exogenously spills over but also that it is automatically transformed from knowledge to economic knowledge. Such an assumption violates the basic premise of Arrow's (1962) insights into the economics of knowledge. These misspecifications may account for the somewhat ambiguous empirical results the model has generated in explaining growth differences across countries.

Recent literature on entrepreneurship suggests that the process of starting a new firm commercializes knowledge that might otherwise not be commercialized. By serving as a conduit for the spillover of new knowledge, entrepreneurship is one mechanism that may reduce the knowledge filter. This is certainly consistent with the recent wave of statistical regularities that provide compelling, systematic empirical evidence linking measures of entrepreneurship to economic growth.

We suggest that the endogenous growth model needs to be modified in order to incorporate the knowledge filter constituting a wedge between knowledge and economic knowledge. To achieve this end, we have suggested an extension to the endogenous growth model that we believe will narrow the gap between the model and real world behavior. The role that entrepreneurship plays in reducing the knowledge filter and increasing the arrival intensity of innovations, thereby generating economic growth implies a whole new policy approach. Hence, growth is enhanced through individual entrepreneurs exploiting knowledge even though they are not producing knowledge. Policies that generate entrepreneurship facilitate economic growth by reducing the filter between knowledge and commercialized knowledge.

As we have emphasized throughout this paper, entrepreneurship is just one type of mechanism reducing the knowledge filter. We look to future research to empirically identify and analyze other mechanisms that can also serve to reduce the knowledge filter and thus enhance the impact of investments in knowledge on their impact on economic growth. In this paper we have made a first preliminary attempt to separate the contribution to growth that emanates from entrepreneurial spillovers relative to the commercialization by incumbent firms. Future research needs to more rigorously identify the different contributions to growth by entrepreneurial and incumbent firms.

Appendix 1

Appendix

Entrepreneurs and researchers engage in knowledge production in order to develop a new variety of a differentiated capital good that is used in final production. Different varieties of capital goods compete in a monopolistic competition fashion, meaning that they never become obsolete and earn an infinite stream of profits. As a side effect of their efforts, researchers and entrepreneurs produce new knowledge that will be publicly available for use in future capital good development. Equations (1) and (2) describes the production of new knowledge, i.e. the evolution of the stock of knowledge, in relation to resources channelled into R&D (L_R) and entrepreneurial activity (L_E). Production of final goods takes place using labor and the different varieties of capital-goods:

$$Y = L_m^{\alpha} \int_0^A x(i)^{1-\alpha} di \qquad \text{(A.1)}$$

Given the symmetry of different varities in (A1), demand for all varieties in equilibrium is symmetric, i.e. $x_i = \overline{x}$ for all $i \leq A$. We therefore rewrite (A1) as

$$Y = L_m^{\alpha} A \overline{x}^{1-\alpha} \qquad \text{(A.2)}$$

Assume that capital goods are produced with the same technology as final goods and that it takes κ units of capital goods to produce one unit of capital (See e.g. Chiang, 1992). Then it can be shown that

$$K = \kappa A \overline{x} \qquad \text{(A.3)}$$

(A2) and (A3) then gives

$$Y = L_m^{\alpha} A^{\alpha} K^{1-\alpha} \kappa^{\alpha-1} \qquad \text{(A.4)}$$

Labour market equilibrium implies that employment in R&D, entrepreneurship and final production equals total labor supply.

$$L = L_m + L_R + L_E \qquad \text{(A.5)}$$

Finally, we assume that consumer preferences can be described by constant elasticity utility

$$U(C) = \frac{C^{1-\theta}}{1-\theta} \qquad \text{(A.6)}$$

We form the Hamiltonian for the representative consumer

$$H_C = \frac{C^{1-\theta}}{1-\theta} + \lambda_A \left(\sigma_R L_R A + \sigma_E L_E^{\gamma} A \right) + \lambda_K \left(\kappa^{\alpha-1} A^{\alpha} K^{1-\alpha} \left(L - L_R - L_E \right) - C \right) \qquad \text{(A.7)}$$

Maximizing (A7) gives the first-order conditions

$$\lambda_K = C^{-\theta} \rightarrow \frac{\dot{\lambda}_K}{\lambda_K} = -\theta \frac{\dot{C}}{C} \tag{A.8}$$

$$\Delta = \frac{\lambda_A \sigma_R A}{\lambda_K \alpha}\left(L - L_R - L_E\right) \tag{A.9}$$

$$\Delta = \frac{\lambda_A \gamma \sigma_E L_E^{\gamma-1} A}{\lambda_K \alpha}\left(L - L_R - L_E\right) \tag{A.10}$$

where $\Delta = \left(\kappa^{\alpha-1} A^{\alpha} K^{1-\alpha}\left(L - L_R - L_E\right)\right)$. Combining (A9) and (A10) gives

$$L_E = \left(\frac{\sigma_R}{\gamma \sigma_E}\right)^{\frac{1}{\gamma-1}} \tag{A.11}$$

Thus, on a balanced growth path, where both R&D and entrepreneurship is profitable, the amount of resources engaged in entrepreneurial activities is independent of consumer preferences. As γ is less than 1, entry into entrepreneurship is increasing in σ_E and decreasing in σ_R. The maximization of (A7) also gives the equations of motion for the shadow prices of knowledge and capital as

$$\frac{\dot{\lambda}_K}{\lambda_K} = -\left(1-\alpha\right) K^{-1} \Delta + \rho \tag{A.12}$$

$$\frac{\dot{\lambda}_A}{\lambda_A} = -\sigma_R L_0 - \sigma_E L_E^{\gamma} + \sigma_R L_E + \rho \tag{A.13}$$

On the balanced growth, knowledge, final production and consumption all grow at the same rate, while $\frac{\dot{\lambda}_K}{\lambda_K} = \frac{\dot{\lambda}_A}{\lambda_A}$. Combining (A8) and (A13) gives

$$L_R = \frac{1}{\theta \sigma_R}\left(\sigma_R\left(L_0 - L_E\right) + \left(1-\theta\right)\sigma_E L_E^{\gamma} - \rho\right) \tag{A.14}$$

Combining (A14) with (A11) and (1´) gives

$$g = \frac{1}{\theta}\left(\left(\sigma_R L - \rho\right) - \sigma_R^{\gamma} \gamma^{\gamma-1} \sigma_E^{\gamma-1} + \sigma_E^{\frac{2\gamma-1}{\gamma}} \gamma^{\frac{\gamma-1}{\gamma}} \sigma_R^{\frac{\gamma}{\gamma-1}}\right) \tag{A.15}$$

where it can be shown that the growth rate is increasing in L, σ_R and σ_E but decreasing in ρ. It should be noted that (A15) only applies when both R&D and entrepreneurship is profitable. The given specification implies that some entrepreneurial activity will always be profitable as long as $A > 0$. This does not apply to R&D activities however. If R&D is not sufficiently profitable (following from (A14)), then we can combine (A8), (A10), (A12) and (A13) to derive the reduced-form growth rate. The resulting expression however provides little new insights and is not shown here.

Schumpeterian endogenous growth: A basic structure

Standard basic assumptions apply; labor is the only production factor, one unit of labor is required to produce one unit of output (goods or knowledge), wage rates (w) are normalized to unity. We will discuss the assumption regarding labor mobility between sectors (research and production sectors). Moreover, sequential innovation takes advantage of positive spillovers from knowledge introduced through market entry, but there are also negative spillovers from the fact that each new innovation makes the current innovation/product obsolete.[17]

Demand side: Subject to a budget constraint, consumers maximize linear intertemporal utility,

$$U = \int_0^\infty e^{-\rho t} \ln\left[h(\quad) \right] dt ,$$

(A.1)

where □t > 0 equals consumers rate of time preferences (discount rate). h is the sub-utility function,

$$h(x_o, x_1, x_2 .....) \quad = \sum_{I=0}^{\infty} \nu^{\ I} x_I , \quad \nu > 1 . \qquad \text{(A.2)}$$

where products (x's) are assumed perfect substitutes and and I refers to the innovated, new quality. If $\nu\ p_{t-1} > p_I$, then all consumers will prefer the new product (product obsolescence).

Production: New products (qualities) are innovated by incumbent firms hiring labor to undertake research (L_R). Commercialization of knowledge is defined as market entry and occurs through a Poisson process by probability (μ),

$$\mu\ (\sum_i l_{i,R}) dt = L_R^{\ \gamma} dt . \qquad \text{(A.3)}$$

The probability of launching successful innovations is increasing in L_R and production technology is characterized by decreasing returns to scale ($0 < \gamma\ < 1$).[18]

Instantaneous profit maximization for the innovating firm implies,

$$\pi = (p_I - 1) Y / p_I = (\nu - 1) Y / \nu \qquad \text{(A.4)}$$

where p_I represents price of the new good, corresponding to the quality improvement (ν) of new products based in new knowledge, and Y is the derived demand which equals consumption expenditure. First order condition implies that $\nu \geq p_I \geq 1$. The discounted profits (V) – which could be interpreted as the value of a firm at time t - of a temporary winner (firm i) of the race is equal to,

$$V(l_{i,R} / L_R\ )\mu\ dt - l_{i,r} dt \qquad \text{(A.5)}$$

where the first expression refer to revenues from knowledge production (where the firm's probability of commercialization increases in a larger share of total knowledge production and μ is the aggregate probability of entry of a new variety) and the second expression

[17] We refer to work by Dinopoulos (1996) and Aghion and Howitt (1998) for details of the standard model and restrict the appendix to modifications required to allow for the inclusion of the "pure" Schumpeterian entrepreneur.

[18] We focus on the knowledge producing sector. The general production function is $x = Ak^{\gamma}$.

alludes to wage costs related to that production ($l_{i,R}$) times wage costs (which by assumption equals one). Free entry implies that over time,

$$\mu\, V(t) = L_R \qquad \text{(A.6)}$$

implying that revenue is increasing in higher knowledge expenditure.
Firms' instantaneous profit $(\pi = (\nu - 1)(Y/\nu))$ and the discounted return (V) is linked through the financial market. Assume that investors (savings by consumer) buy shares in all firms, implying a riskless return of $r(t) = \pi - m$, where m is the costs related to the firms' debt service (mortgage and interest rate). Incumbents run the risk of being replaced by the introduction of new qualities (μ),

$$[\pi(t)/V(t)]dt + \dot{V}(t)/V(t)[1 - \mu dt]dt - [(V(t) - 0)/V(t)]\mu dt = r(t)dt \qquad \text{(A.7)}$$

where $(1 - \mu\, dt)$ is the probability that the firm survive and $\mu\, dt$ represents the probability that the firm will be forced out of business. As dt goes to zero,

$$\dot{V}(t)/V(t) + \pi/V(t) = r(t) + \mu, \qquad \dot{V}(t) = 0$$

$$V(t) = \pi/(r(t) + \mu). \qquad \text{(A.8)}$$

The higher risks associated with an investment in incumbents (because they may become replaced), requires a higher return in steady state. Or, put differently, the discounted value of the firm decreases with interest rate and the risk of being replaced, and increases in profits. The temporary incumbent monopolist at time t will not undertake knowledge investments.[19]

The factor (labor) market, equilibrium is obtained when,

$$L_E + (Y/\nu) = \overline{S} \qquad \text{(A.9)}$$

where (Y/□) is the production of manufactured goods which equals employment in that sector.

Equilibrium in knowledge production is derived by substituting equations A.4 and A.6, using the (Euler) conditions that r(t)=□and $\dot{V}(t) = 0$ in steady state, into equation A.8,[20]

$$(\nu - 1)Y = \nu\ (L_R^{1-\gamma}\rho\ + L_R) \qquad \text{(A.10a)}$$

or

$$L_R = \mu\pi/(\rho + \mu) \qquad \text{(A.10b)}$$

Consumer expenditure (Y) is thus increasing in new knowledge (ν), a higher rate of arrival (μ) and consumers' rate of time preferences (ρ). Alternatively, knowledge production is shown to be increasing profits, and in the arrival rate, but decreasing in higher interest rate (or higher preferences for current consumption). Together with factor market equilibrium (equation A.9), where production in the residual manufacturing sector is diminishing in increased costs for knowledge inputs (due to productivity increase in the research sector

[19] See Dinopoulos (1996) for a model of the financial market.

[20] Maximizing the Hamiltonian, $H = \ln C(t) + \lambda\ (t)[r(t)A(t) + 1 - C(t)]$, yields the dynamic optimization where steady state implies, $\dot{C}/C = \dot{Y}/Y = r(t) - \rho$, i.e. over time the rate of (constant) change in consumption must equal the rate of change in income. Balanced growth takes place when consumers intertemporal rate of preferences is equal to the interest rate (Euler conditions).

related to augmentation in knowledge, L_R), this determines the balanced growth equilibrium allocation between knowledge production and Y.

Aggregate growth: In steady state income, consumption and R&D-investments remain invariant over time, but new qualities augment consumer utility. Let $G(t,Y) = Exp[\ln(x)]$ represent the expected aggregate utility in the economy at t, where the indirect sub-utility at time t is given by $x(\cdot) = \nu^I C / \nu$. The number of innovations (I) as the economy moves along its steady state rate of growth then follows a Poisson process $Exp(I) \equiv \mu\ dt = tL_R{}^{\gamma} dt$. In logarithms the expected aggregate utility at time t is

$$G(t,Y) = \ln C - \ln \nu + t(L_R)^{\gamma} \ln \nu, \qquad \text{(A.11)}$$

where the first two terms on the right-hand side denote the quality-adjusted expenditure level, and the last one represents the rationally expected introduction of new qualities over time.
Long-run Schumeptererian growth is defined as,

$$g = dG(t,Y)/dt = L_R{}^{\gamma} \ln \nu \qquad \text{(A.12)}$$

that is, per capita growth rate is expressed in terms of consumption of new goods, weighted by quality (ν). Growth increases in knowledge-investments (hiring more R&D-workers), i.e. the intensity by which new innovations enter the market, the level of improvement (the quality ν), but decreases in the degree of diminishing returns to scale (γ).

Allowing for "pure" entrepreneurs in the Schumpeterian growth model
As shown above, growth is increasing in the entry rate of new varieties based in inventions that originates in R&D-races (A.10a). Assume a second mechanism for entry through innovations by "pure" Schumpeterian firms (individuals) combining entrepreneurial ability ($\bar{e}$) with overall knowledge (A). Also here entry occurs through a Poisson process with probability η (cf eq. A.3),

$$\eta\ dt = \sum_{i=1}^{S} e_i\ \ Sdt = \sigma_E\ L_E^{\gamma} dt, \quad e_i = f(\bar{e}, A, \sigma_E) \qquad \text{(A.13)}$$

where entry depends on the number of individuals engaging in entrepreneurial activities. We also introduce an efficiency – or filter – variable in the economy representing obstacles for entrepreneurial activities. If we assume "perfect" efficiency ($\sigma_E = 1$), the A.13 corresponds exactly to A.3. Since it would be sub-optimal for all economic activities to be undertaken by entrepreneurs, $0 \le \gamma \prec 1$. Allowing for Schumpeterian entrepreneurs alter the expression in A.5 - discounted profits - to

$$\begin{aligned} &V(l_{i,R} + al_{i,m} / \sigma L\ )(\mu + \eta)dt = (l_{i,r} dt + a_i l_{i,m})dt, \\ &V(\mu + \eta) = \sigma L = \sigma_R L_R + \sigma_E L_E, \qquad \text{(A.14)} \\ &V = \sigma_R L_R^{1-\gamma} + \sigma_E L_E^{1-\gamma} + (\sigma_E L_E)/L_R^{\gamma} + (\sigma_R L_R)/L_E^{\gamma} \end{aligned}$$

where $0 \prec \mu + \eta \prec 1$. Profits (or the value of the firm) stem from two sources: ether because a firm engages in successful research activities (inventions) or because of entrepreneurial ability (innovations). The latter type of entry means that an alternative cost is incurred, defined as foregone income from being a wage earner in the residual manufacturing (m) sector. To simplify we set the cross-sectional effects in the last two terms to zero

$((\sigma_E L_E)/L_R^\gamma = (\sigma_R L_R)/L_E^\gamma = 0))$. Including Schumpeterian start-ups into the economy implies that also expression A.7 changes,[21]

$$\begin{aligned}&[\pi(t)/V(t)]dt + \dot{V}(t)/V(t)[1-\mu dt]dt - [(V(t)-0)/V(t)]\mu dt \\ &+ \dot{V}(t)/V(t)[1-\eta dt]dt - [(V(t)-0)/V(t)]\eta dt = r(t)dt\end{aligned} \tag{A.15}$$

Hence, incumbents may now be replaced by either other firms engaged in a R&D-race (inventions) or by "pure" entrepreneurs (innovations), implying that a higher risk-premium is required in order to invest in incumbents.

$$\dot{V}(t)/V(t) + \pi/V(t) = r(t) + \mu + \eta \tag{A.16}$$

As regards the labour market, individuals can choose between research work, manufacturing work and becoming an entrepreneur,

$$L_K + L_E + (Y/\nu) = \overline{S}\,. \tag{A.17}$$

Retaining the assumptions used to derive A.10a and substituting A.4 and A.14 into A.15,

$$\begin{aligned}&\dot{V}(t)/V(t) + \pi/V(t) = \rho + \mu + \eta, \\ &((\nu-1)Y/\nu)/(V) = \rho + \mu + \eta, \\ &(\nu-1)Y = \nu(\rho+\mu+\eta)(V) = \nu(\rho+\mu+\eta)(L_R^{1-\gamma} + L_E^{1-\gamma}) = \\ &\rho(L_R^{1-\gamma} + L_E^{1-\gamma}) + L_R + L_E + (\mu/\eta)L_E + (\eta/\mu)L_R\end{aligned} \tag{A.18}$$

Taking into account that the efficiency (σ) - the filter – may differ across sectors, expression A.16 becomes,

$$\begin{aligned}&(\nu-1)Y = \rho(\sigma_R L_R^{1-\gamma} + \sigma_E L_E^{1-\gamma}) + \sigma_R L_R^\gamma + \sigma_e L_E^\gamma \\ &+ (\mu/\eta)\sigma_E L_E + (\eta/\mu)\sigma_R L_R\end{aligned} \tag{A.19}$$

Consumer expenditure is thus influenced by the rate of consumer preferences, research and entrepreneurial efforts, impediments to research and entrepreneurial activities, and the relative size of probabilities of entry. Difference between countries as regard the filter and the level of the labor force allocated to invention or innovation thus influence growth.

Building on the additive property of Poisson distributions, from A.3 and A.11

$$\kappa\ dt = \mu\ dt + \eta\ dt = (\sigma_R L_R^\gamma + \sigma_E L_E^\gamma)dt\,. \tag{A.20}$$

In terms of long-term growth, the expression would then become,

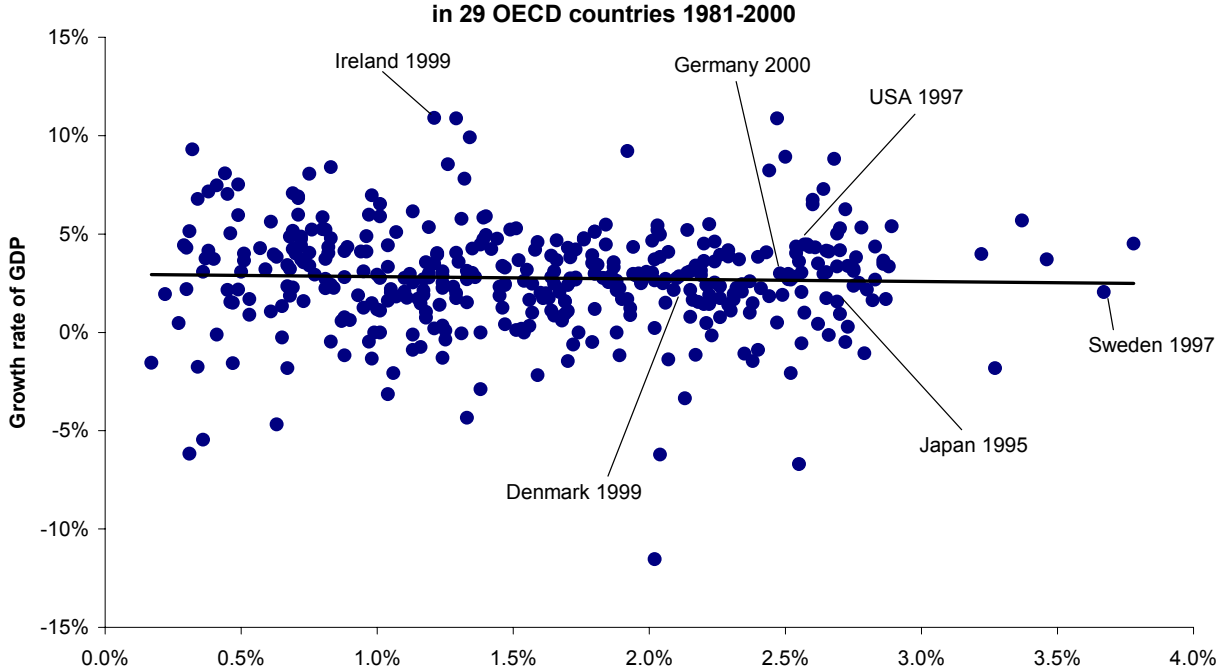
$$g^* = dG/dt = \sigma_R L_R^\gamma + \sigma_E L_E^\gamma)\ln\nu \tag{A.21}$$

which obviously exceeds growth (g) building on entry solely from R&D-races,

$$g = \sigma_R L_R^\gamma \ln\nu < (\sigma_R L_R^\gamma + \sigma_E L_E^\gamma)\ln\nu = g^*.$$

[21] We assume that cost – though not related to R&D - is associated with market entry by "pure" Schumpeterian entrepreneurs (e.g. marketing costs) and that the portfolios of investors instantaneously include these firms as they enter the market.

Figure 1: Expenditures on R&D and economic growth in 29 OECD countries 1981-2000



Source: OECD Statistical Compendium on CD, 2002:2.

Figure 2: Expected utility of becoming an entrepreneur

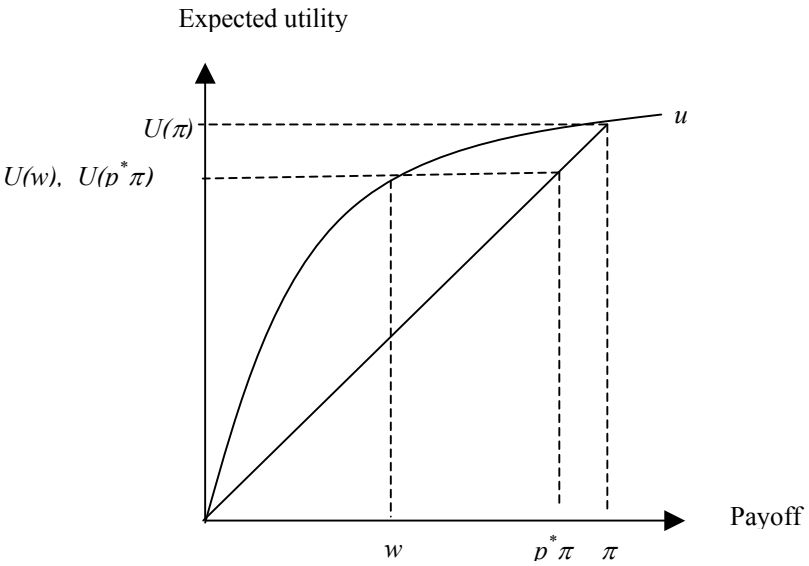
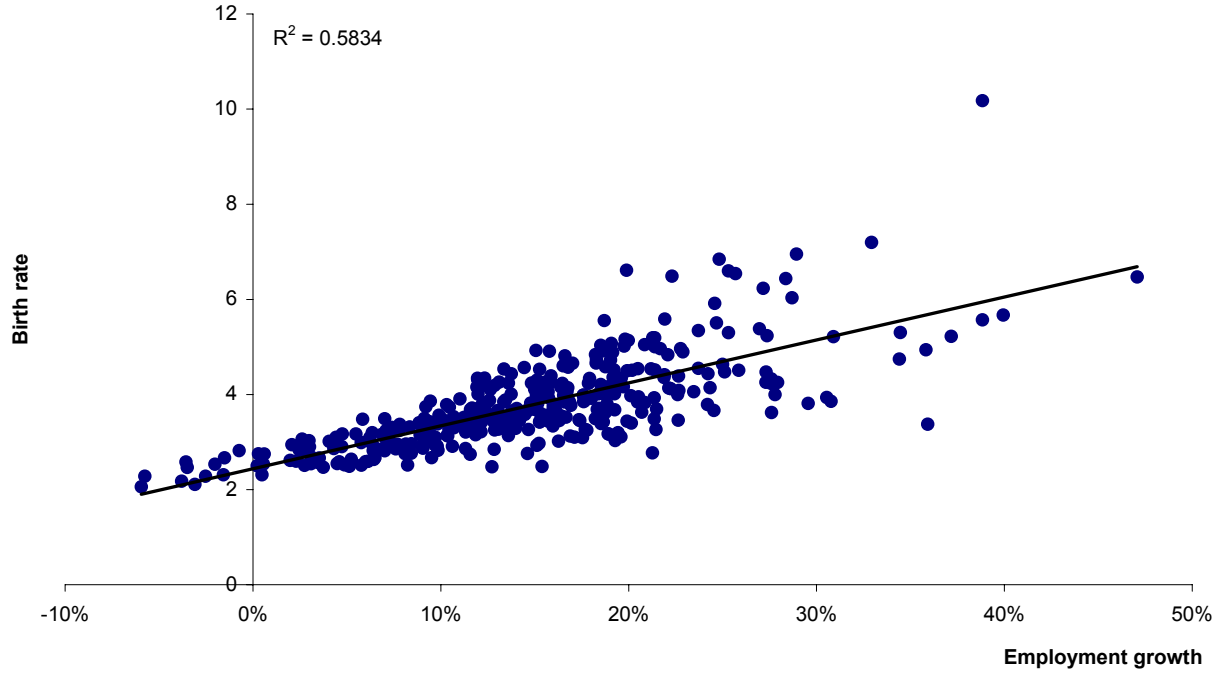
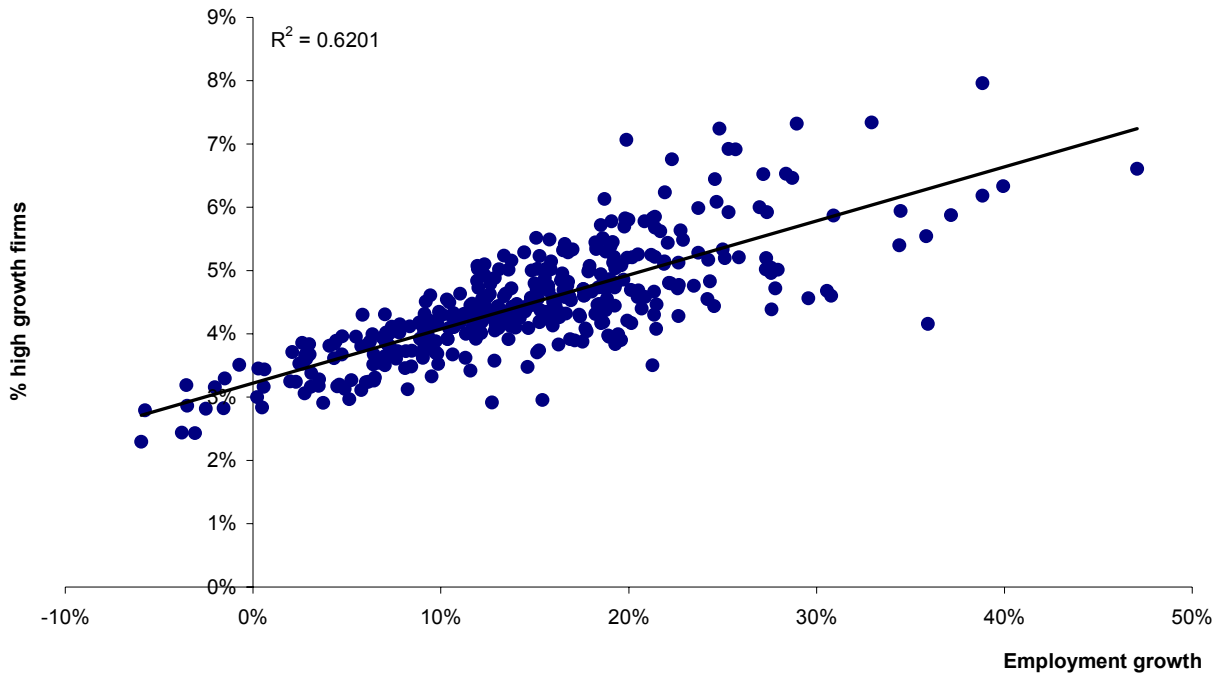


Figure 3: Entrepreneurship and growth 1991-96



Source: Acs and Armington, 2002.

Figure 4: Entrepreneurship and growth 1991-96



Source: Acs and Armington, 2002.

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BEST PRACTICE IN UK HOSPITALITY AND TOURISM SMES: THE IMPLICATIONS OF SIZE, LOCATION AND OWNER STYLE

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ABSTRACT

This paper explores factors central to the success of high performing SMEs based on the results of a nation-wide study into best practice in the hospitality, leisure and tourism industry. The research was conducted for the 'Profit through Productivity' initiative and sponsored by the Department of Trade and Industry (DTI). It focussed on eight areas deemed crucial to the success and continuity of businesses within these industries. Operational 'core capabilities' were identified and there is evidence to suggest that best practice in SMEs does not vary by industry sector, that is, hospitality, tourism or leisure sectors or geographic region. However, three ways in which best practice does vary between operators were identified, namely the size of the business, its location and the owner's philosophy. The analysis emphasised that success is based on each of the various types of SMEs adapting their core capabilities to match their internal and external environmental context. That is, adopting a *'contingent'* approach to best practice.

Keywords: Best practice, Small and Medium Sized Enterprise, Hospitality, Tourism.

INTRODUCTION

Following the foot and mouth outbreak in 2001, the government recognised the importance of tourism to the UK economy, hence the Department for Trade and Industry (DTI) funded a best practice initiative in the tourism and hospitality industry and the "industry forum adaptation programme" (IFAP) for the industry was established. This research study, forming part of the 'Profit through Productivity' initiative, was planned to identify high performance and best practice within UK SMEs.

The significance of SMEs arises from the employment opportunities generated and their contribution to regional development. In the UK representing 99.1% of all businesses in the private sector and accounting for 55.4% of employment and 45.4% of turnover in (2001), based on Small Business Service (SBS) statistics. The hospitality, tourism and

leisure industry includes a broad range of small businesses varying considerably in size and scale, representing a key force in the economy. Looking at the figures quoted for the Hotels and Restaurants sector alone, there were over 123,000 businesses of which 98.3% had less than 50 employees. These businesses accounted for 43.4% of employment out of a total of 1,560 million and 47% of turnover out of a total of approaching £50 million. Although there are no directly comparable statistics available for the other sectors included in this study, it is expected that they will show a similar pattern. The dynamism of the hospitality, leisure and tourism sectors, increasing customer demands, as well as the low barriers to entry within the hospitality and tourism industry ensures a continuous supply of new businesses.

This paper explores the results from a major study of best practice in Small and Medium Enterprises (SMEs) in the UK hospitality and tourism industries. Examining the key factors that influence the success of outstanding SMEs

BEST PRACTICE

The concept of 'best practice' itself is very wide ranging and there is little agreement on a specific definition. There remains significant dispute over the interpretation of what is considered the 'best', as it implies 'a single best way' rather than 'the most appropriate way for the circumstances'. According to Ogden (1998) no single organisation is likely to attain the best performance in all aspects of their operation.

Research pertaining specifically to the hospitality industry into best practice is very limited. One of the more comprehensive studies was that of CERT (McIver Consulting, 2000) in benchmarking hospitality best practice across Ireland, the United Kingdom, continental Europe and the United States. However, this was a practitioner-based study and failed to develop theoretical concepts of best practices or a rigorous method for summarising the areas identified or the companies selected. One of the most comprehensive studies to-date is the Cornell study, by Dubé *et al*. (1999), which suggests that best practices are exemplary or successfully demonstrated ideas or activities that are viewed to be highly valuable or effective. However, their identification of 'best practice' was based purely on the opinions of the managers of the businesses targeted. Wőber (2002) stated that the research is limited by judgmental assumptions in the sampling, with some doubt that the managers from hotels deemed to be champions were the best source of insight into the operation of their competitors.

The Cornell study also highlighted the argument that 'best in class' is a more suitable definition of what is meant by 'best'. Cook (1995) identified 'best-in-class' as companies that may not be exemplary in all areas, however, due to the nature of competition and their drive for excellence, these businesses have implemented practices that help to position their operation as some of the most admired, most profitable or keenest competitors in the industry.

The seeking of best practices across industries or sectors adopts the method of generic benchmarking. This approach allows companies to make intra and extra organisational comparisons at organisational, process, functional or tool and technique level by establishing key success factors and their associated measures, and hence benefiting from the potentials of learning best practice (McAdam and Kelly, 2002).

Codling (1998) stressed that benchmarking provides an organisation with a focus on the external environment and an emphasis on increasing process efficiency. Together with the growing interdependence between organisations and their customers, the increasingly rapid rate of innovation is identified as a major driver for the need for companies to focus to a greater extent on the external environment. Walgenbach and Hegele (2001) believed that the major attraction of benchmarking is that it provides a method which compares a possible (enhanced) state with an existing state in a similar manner, thus making certain actions appear inevitable if communicated in the right way. Along with sharing information, the firm may reduce development times and increase capabilities.

Francis et al. (1999) also identified a number of potential problems in what could be a costly and time-consuming activity in practising benchmarking - difficulties in finding partners who are considered suitable comparators, resource constraints (especially time), access to other organisations, staff resistance and confidentiality (in descending order of frequency).

Some warn that the introduction of best practice may improve performance in one subsystem of an organisation, but may result in a significant cost for the whole of the organisation if the balance between desired strategic outputs and the basic principles of organisation dynamics and culture are disturbed. Monkhouse (1995) argues that SMEs are often at a disadvantage as relevant benchmark tools and techniques may either be unknown or inaccessible. The benefits of the practice of competitive benchmarking in SMEs may not be as great as claimed as the learning examples come from well-resourced and successful companies. Further, the best practices adopted in a certain successful organisation may not necessarily be the best when adopted by other organisations (Dattakumar and Jagadeesh 2003).

Therefore unless the barriers are understood, SMEs are unlikely to benefit from the fundamental features of benchmarking studies to raise their performance standards to world class (McAdam and Kelly, 2002). One way to solve this sceptical view of benchmarking is to utilise third-party grading schemes as a form of benchmarking. In the UK, several grading and award schemes against various standards of business practice or service quality are provided by the Tourist Boards, Investor in People (IiP) and the Excellence through People awards from British Hospitality Association, being particular to the hospitality and tourism industries (Kozak and Rimmington, 1998).
Recently, the attention has moved away from a simple measurement based approach to benchmarking towards companies identifying, managing and transferring best practice in operational processes and management practices (Ashton, 1997).

Gunaskeran (2003) suggest that more attention needs to be paid to benchmarking in SMEs. He contends that it would afford not only various opportunities for evaluating their own performance against the best in class, but would also enable them to identify gaps in their performance and then suitable best practices. McAdam and Kelly (2002) concluded that benchmarking studies for SMEs should move beyond traditional deductive measurement and develop a deep, grounded, inductive approach that includes cultural based measures, for instance in leadership and people management. With this previous knowledge about SMEs in mind, this research examines businesses that have implemented practices that help to position their operation as one of the most admired, profitable or keenest competitors in the UK industry.

METHODOLOGY

The overall aim of the project was to identify leading business processes within outstanding SMEs[1] across the hospitality, leisure and tourism industry. It was deemed that the case study approach would be most appropriate in order to elicit more in-depth information regarding the issues under consideration, as research cases offer a unique tool to build theory by examining phenomena not suited to traditional statistical approaches (Stake 1995).

In order to identify the areas for detailed research, a preliminary investigation into the critical success factors in hospitality, leisure and tourism SMEs was conducted by interviewing 38 SME consultants, owners, and managers in the hospitality industries, (see Jones and Hwang 2002). From this study, together with an extensive literature review into best practice, the key areas for investigation were identified. A decision was made to confine the study to areas that were currently relatively under-researched. This led to the selection of eight targeted areas, namely, partnerships and networks, achieving standards, internal and external communications, measurement and performance evaluation, leadership, employee retention, operational planning and control, and adding value.

In order to compile a comprehensive list of target businesses, experts from the associations affiliated with the project were consulted. This included committees from the various Tourist Boards, National Associations and the Department of Trade and Industry, forming the IFAP Board. Snowball sampling was used as it afforded the research team the opportunity to solicit assistance from experts and businessmen in the industry in order to identify the population under investigation more accurately. This list was further refined by identifying companies that were the recipients of such awards as the Excellence through England Award, Leisure Property Forum Award, AA Hospitality Awards, Investors in People and Vision 100.

This facilitated greater focus within the research and afforded the opportunity to avoid some of the limitations associated with random sampling through cross-referencing the various lists and targeting those businesses that appeared most frequently. Initial telephone interviews were also conducted in order to filter out unsuitable organisations and thereby identify prima facie cases representing the most appropriate businesses. The resultant list sought to identify outstanding businesses geographically spread throughout the UK, involving a wide variety of hotels, guest houses, restaurants, bars, pubs, leisure centres and visitor attractions.

For each of the eight study areas (partnerships and networks, achieving standards, internal and external communications, measurement and performance evaluation, leadership, employee retention, operational planning and control, and adding value) semi-structured interview protocols were developed based on the existing literature in these areas and specific gaps in understanding. For each study area, ten outstanding businesses were selected to cover each of the industry sectors and give wide geographic

[1] For the purpose of this research the Department of Trade and Industry (DTI)'s definition of SMEs is used, this identifies SMEs as businesses employing under 250 employees. Other stipulations involve a limitation on ownership by any other enterprise that does not constitute an SME. This definition varies from that of the European Commission which enforces a maximum limit on the amount of turnover and the balance sheet total.

coverage. Face to face interviews were conducted with a cross section of owners, managers, employees and customers in each of these 89 businesses as appropriate for the area under consideration. In addition to these, a further, 94 telephone interviews were subsequently conducted with businesses involved in the main and pilot study in order to substantiate the previous data.

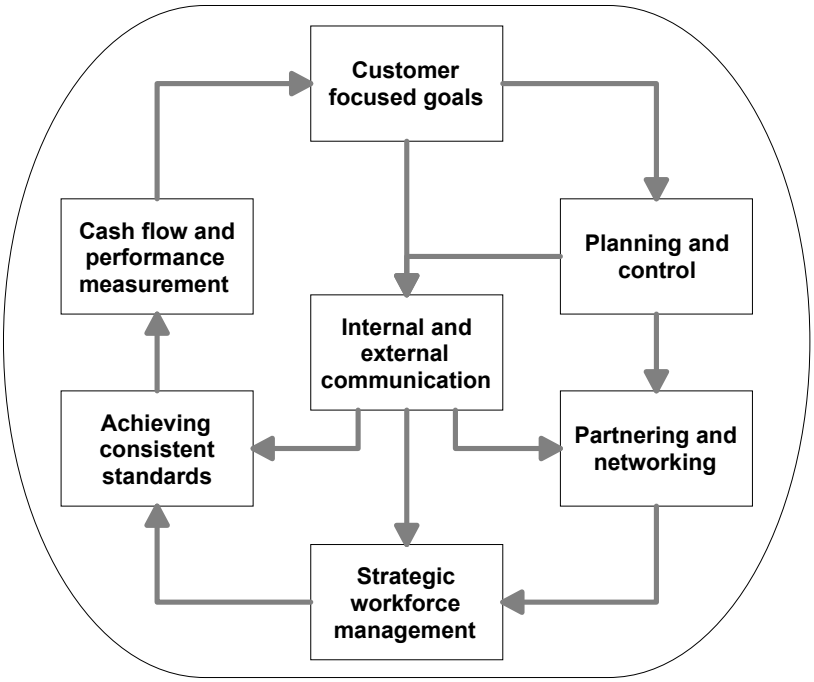
A detailed case study was prepared for each of the ten businesses and a report written for each study area to draw out the emergent themes and issues from the cases.

A grounded theory approach was applied to uncover recurring themes within the case studies and interview transcripts. Goulding (1998) maintains that this method is useful to generate theory where little is already known or to provide a fresh slant on existing knowledge and requires early data collection, analysis, and further theoretical sampling and category saturation. The analysis procedure worked retrospectively through the basic data transcripts, generating critical success factors to describe the features of each case, and these were summarised into the subject reports.

FINDINGS

An analysis was performed across cases and subjects combining the eight study area reports and this has resulted in the development of the model shown in Figure 1. It identifies the core capabilities pertinent to the execution of best practice and the achievement of high performance. The elements outlined are all inter-related in a cyclical manner as they often directly impact on each other, thereby becoming a self-reinforcing cycle.

Figure 1: SME Core Capabilities



Setting Goals Around a Customer Focus

This is based on the owners of the business having a well developed idea of what they want out of the business and setting the appropriate personal, social and commercial goals that will provide a clear direction for the conduct of the business. However, in order for goal setting to facilitate productivity, sound customer knowledge is vital, as well as a sound appreciation of the external operating environment. Based on factors such as knowing your customers; developing detailed service standards for each market segment and package of benefits; communicating a clear vision of the direction or mission of the business to all the people who work within it; ensuring good feedback on the success of the operation through a high level of direct and indirect contact with the customer; knowing your competitors; continued communication with customers after their visit to build profitable long term relationships and customer loyalty.

'Everything we do is because of our customer. We don't do anything because we think it looks nice. It's done because that is what the customer is going to want'. (Hotel, Edinburgh)

'I spend my life with customers. Myself and my colleagues eat regularly in the restaurant, and we are able to give each other loads of feedback. I am always doing customer research. We always try to listen to what the customers are saying. Being a restaurant manager is very much like being a football manager - everyone thinks they can do it better than everyone else. Listening is a very important part of the role, but you can't rely on being reactive to what the customers say. It's a matter of being pro-active and taking a broader brush stroke.' (Restaurant, Dedham).

'Continual contact with the customer is very important. We care how they feel about us. We care how they feel about the surroundings they're in and what they thought about the service. So we're constantly aware of our customers' feelings and constantly watching them as well. If there is anything wrong we can spot it'. (Restaurant, Winteringham)

Planning and Controlling the Operation

From the research it has been established that operational planning and control can be most effective and successful if the owner/manager has sound knowledge of the customer base. Forecasting demand and managing resources through marketing, reservations and labour scheduling was also found to be highly significant. Another crucial element was developing clear policies and procedures for handling resources – understanding who does what when, in addition to building loyal relationships with suppliers, customers and employees. Activities such as yield management and menu engineering were also used to enhance operational efficiency.

'…We have inculcated a culture of watching stock levels, portion control and measuring etc through all our staff.' (Restaurant, Scotland)

'Within our limited resources we try, as far as possible, to target new audiences …so that if school visits drop because of external factors like transport costs or changes in the curriculum, we have other ways in which we can generate income and earn money for the museum…' (Tourist Attraction, Bromsgrove)

'…Everyone is responsible for the general stock control or items whether it's portion size, presentation of drinks, standards, using the correct glassware so we're not

giving too much, too little etc. … we do a lot of training in weights and measures in our bar as well.' (Pub, Edinburgh)

Partnering and Networking

All of the businesses had identified ways of using such relationships to further the success of their business. They highlighted some of the crucial elements for successful partnerships and networks, such as the level of involvement, encouraging proactive participation in external organisations. Other factors include, mutuality, that is, both parties contributing to the relationship; value for money both in terms of actual cost (such as membership) fees, but also hidden costs (time and effort to participate) and whether their specific needs are addressed both personal and/or commercial

'It is very much above the line that the attractions need to have the visitors brought in partly through their own efforts but through other people's efforts as well.' 'If an authority wanted to push something forward through marketing work, or whatever, they can bring other people on board to work their project forward. This means they minimise the risk, share in expertise and bring other expertise in. Being able to access more clients.' (Visitor Attraction, Northumberland).

'To attract people to the region in the first place, to link up with other organisations you make it worth people's while to come to this part of the world…if they come to 'X' for a day they wouldn't come for a week but if you link with other people then perhaps they would … I don't think you can operate a business in isolation with the region that you're operating in. I think you've got to be part of that region and understand how it works so by becoming partners within these various organisations you link in with the whole region. If you try and stand alone you're not going to go far.' (Visitor Attraction, Leeds)

Having Clear Internal and External Communication

All of the businesses used both informal and formal channels striving to develop an organisational climate based on participation, trust, co-operation, learning and teamwork.

'There is a high level of management interaction and involvement within all job roles. The supervisory role is also taken on by the owners, thus they are also viewed as co-workers and perhaps this is why they can achieve such a relaxed and informal atmosphere.' (Pub, Barnsley).

'The owner/manager tries to make sure that the company objectives are understood by trying to link the company's goals into their job tasks so that they actually understand their contribution to the company's main goals and objectives.' (Hotel, Dartmouth).

'If there is any problem we work very close together, we are a team, and we just pull together and see what we can do. We resolve it as a team.' (Leisure Centre, North Somerset).

In terms of external communication, emphasis was placed on co-ordination in order to create a distinctive identity. This was achieved by using one or more marketing communication techniques such as word-of-mouth, advertising in the local press, exhibitions and events, telemarketing, public relations, networking, websites and personal selling as well as obtaining quality awards. They also held a wide and elaborate view of their competitive arena. The main underlying principle found in all of the operations was

the alignment of business strategy with internal and external communications strategy and organisational culture.

'We work closely with other five star hotels. We work with them and share mutual ideas and interests. Although they are our competitors it is beneficial to work together because we can refer business to each other. We do know exactly what is going on in other hotels locally and nationally and that helps.' (Hotel, Berkshire).

'Networking I find very important. That's me going round to specific businesses in the area. Me going to Freshers' Fair. One thing I also try to do is to encourage my managers to be proactive in terms of marketing.' (Brasserie, Bristol).

Strategic Workforce Management

The businesses emphasised the significance of selecting and retaining a competent and qualified workforce. Suggesting that this may be achieved through understanding the changing nature of employee needs and expectations from their employment relationship as well as committing to providing personal and professional development

'The challenge is not to hire and develop people that you are training for your competitor. How do you build a culture that people do not want to leave? The challenge is retention. Our culture has developed to 'hey he really is looking out for my well-being'. I lose very few people to my competitors' (Restaurant, Edinburgh).

'And that is you have to figure out what is driving them. What are their needs and wants? And then assuming that there is a fit between what you want, you have to lay out the vision of how in their particular instance, they are ideally suited to do the best they are going to do in life with you' (Leisure Centre, Mainland Orkney)

'We need people to care for our company at the very lowest levels and we can't treat them as a commodity and can't even think of them as a commodity. We need some consistency, we don't to have huge turnover there. We want people to build up from the ground up. We want to continue to train and teach them' (Hotel, Torridon).

'The key to retaining staff is striving to make the business a happy place to work. We are all in it together. If one of our staff is having problems with a customer or even with another member of staff, it becomes a communal matter' (Leisure Centre, Sussex).

Setting and Achieving Consistent Standards

This is highly dependent on the role and involvement of the owner. The respondents stressed that the owner/manager must have a very clear vision of what the business is intending to provide for the customer, a clear customer focus with a high level of direct and indirect contact, involving the staff, systems and controls, and effectively manage complexity.

'I think that it is just a feeling amongst ourselves that if we can get the standards and quality we want then the guests will be happy and will then come back again…' (Hotel, Stockcross)
'On standards, we know what we actually want of ourselves … it's being straight, honest, you're only here for the best and you go for everything 100%' (Visitor Attraction, Devon)

'It's an in-built feeling with management, with owners, and that runs right down to the person who is washing the dishes, doing the garden. It's dedication and a passion that they want us to be the best it can be'. (Restaurant, Winteringham)

'We have very specific standards on every aspect, every key performance indicator in the business and within that we have questionnaires which we give to members of the public and staff … everything is targeted against those achievement levels which we set standards on'. (Leisure Centre, Vale of Glamorgan)

'We tend to make sure that each person we take on has to justify their position in terms of increasing the visitor experience in some way or other. '(Leisure Operation, Cotswolds)

'the advice, local knowledge, experience and confidence of my people. It makes the customer feel more relaxed … regardless of the duration of the tour or the experience they're having…we want all of our customers to feel that they are in safe hands, good hands. They don't really have to think. They just have to enjoy.'(Leisure Operation, New Forest)

Managing Cash Flow and Performance Measurement

Respondents in the pilot study identified cash flow as being of major importance. The subsequent studies identified the need for a balance between investment and profitability. Cash flow played a significant role in the ongoing success of the businesses. They stressed the need for exercising budgetary control with a view to increasing total revenue and cash flow. Undertaking of customer relationship management as a means of improving quality of service and customer retention was also highlighted. In addition to the necessity for strategic management in managing internal business processes, and the necessity for collaboration (both inter and intra) to drive innovation and learning.

'We have a weekly business meeting. Following that one, we have a yield meeting which discusses where we can go to and get extra business to meet financial targets. Following that, we have a financial forecast meeting where we pull the results of the two meetings down into spreadsheets to work out how much our budget is going to be exceeded by or under by. Then we forecast where we can make cost savings as appropriate.' (Hotel and Leisure Complex, London)

'Telephone research is ongoing so that everyone who contacts us is asked how they found out about us and that information is subsequently logged in the database. Also we conduct on-site market research via questionnaires. On occasion if there is a specific need we would actually go out and do questionnaires outside if necessary'. Leisure Centre, (Vale of Glamorgan)

'we reward them for their return custom, it also allows us to create a fantastic database. Let them know of any special events that we are running…' 'every time they use the card we see exactly what the customer is using it for.' (Pub, Edinburgh)

'One reason we're successful is because we don't have lots and lots of systems…I think we're more successful than a lot of big companies because we cherry pick the good things in big companies but we also put in a lot of impetus and motivation from hands on management. That's what makes us successful. It's very difficult for us to

analyse the system by which we work because there aren't any set systems'. (Restaurant, Skipton)

'Staff are absolutely our key performance indicator. We used to do a guest questionnaire and we used to use the responses but next year's performance measurement will be to introduce a more formal customer review process. We will invite customers to make comments and we will actually send to them, once they've stayed, a little note asking them just to complete it…to actually measure how well our staff and how our product are performing.'(Hotel and leisure complex, London)

'Innovation and learning is inextricably linked to managing the customer relationship, and having effective internal business processes, through the work of the staff.', (Hotel, Newcastle upon Tyne)

VARIATION IN BEST PRACTICE

The initial model in Figure 1 suggests that there is a single model of 'best practice' and that all of the core capabilities are consistent across all of the sectors. However, variation in practice was evident between cases and this was resolved to three factors, namely the business's size, its location and the owner philosophy. These factors are explained below again drawing on quotes from the interviews to illustrate the effects.

Business Size - Micro or Small-Medium Sized Business

The distinction here is based on operational activities, in the sense that, the micro-sized businesses (those with fewer than 9 employees) used primarily informal planning and control methods more than the small-medium-sized businesses and had significantly less need for strategic workforce management as they had very few or indeed no employees to manage.

'because we're a small establishment – husband and wife running it – you don't document these things (i.e. operating procedures/standards) …we don't have them documented because we're not asking someone else to go through it. We do it ourselves.' (Pub, Berwick upon Tweed)

'The heads of departments are the key people involved in ensuring that standards are maintained on a day-to-day basis. They are aware of the operating quality standards that you are trying to achieve and they assess on a daily basis whether they are being achieved'. (Hotel, Stockcross)

'Staff are there to make sure that as you go down the ladder everybody below you is doing their job right to make sure that the person under them is doing their job right'. (Leisure Facility, Greenock)

Location - Rural or Urban

This factor distinguishes between businesses situated in rural or remote areas and those situated in urban areas. The distinction is based on issues such as accessibility to resources and work force recruitment capabilities and how these issues impact on planning, logistics, staff management and retention.

'…because we've got this small market place …we can't let people down. We've got to get it right all the time. We're much more focussed on customer care, …than you would need to be in, say, central London because there will be another 100 along in a minute. We don't get another 100 along.' (Pub restaurant, Belfast)

Owner Philosophy – Transactional or Transformational

This consists of a number of dimensions, such as the owner/manager's attitude and values, leadership style adopted and 'lifestyle choice'. The 'lifestyle choice' includes the level of commercial motivation of the owner. A second component was the attitude and values of the owner-manager, relating to the company's culture and how it is influenced by the attributes of the owner. Evidence from this study suggests that two types of culture are predominant – transactional and transformational. Although further study would be required to determine more accurately the key attributes of these approaches, it appears that they are closely linked to leadership style, the subject of one of the individual reports. This report identified a range from more task oriented (i.e. transactional) to more adaptive (i.e. transformational.) styles of leadership and for the purpose of this study the terms have therefore been extended to describe the overall difference in philosophy between owners. There is also some evidence that links these styles to the stage of development of the business – with transactional being linked to stable businesses and transformational to those going through a process of change.

'the manager takes charge – it is not over the top – she just makes people understand her, everyone has a very clear idea of what they should be doing so everybody is pulling their end' (Bar, Bristol)

'I think my objective is to provide a working environment for staff so they get some sort of satisfaction from working her … we are all under pressure, but it is mutual support and respect for each other' (Bar, London)

DISCUSSION

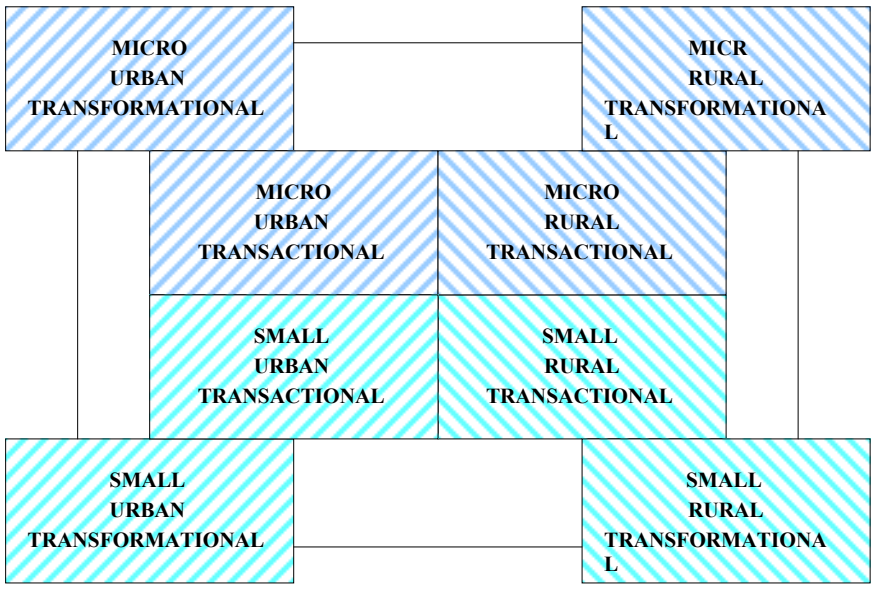
Our objective was to identify best practice in hospitality, tourism and leisure SMEs. What was uncovered was that at the core of successful operations, there are certain core capabilities that all small business owners must address in order for the businesses to be successful. Contingent on the business's operating environment as external factors are particularly significant for small businesses, given their limited resources etc. Of particular interest is the fact that the findings suggest that best practice in SMEs does not vary by industry sector or by geographic region. It was uncovered that the size, location and ownership philosophy are more influential in terms of the company's response to its operating environment. Further, long-term survival hinges on a company's ability to adapt to changing technologies, competition and customer needs.

The Contingent Approach

Small businesses can be more flexible and capable of adapting to their environment, as illustrated by the SMEs in the study. They readily adapt to their environments and, as acknowledged by the owner/mangers, are becoming increasingly dynamic. Based on the three variables outlined above, it is proposed that there are potentially eight alternative models of 'best practice' contingent upon the specific size, location and ownership philosophy of the business as illustrated in Figure 2. The business will have to change

the way it approaches each of the seven core capabilities described in Figure 1 based on which segment of the diagram it occupies.

Figure 2: Variables Affecting SME Core Capabilities



The ownership philosophy factor which includes dimensions such as leadership style, lifestyle choice, attitudes and culture may be considered rather contentious because it is a very broad-ranging category that attempts to capture the behavioural characteristics and style of the owner/manager. It suggests that the transactional leader is more concerned with a static working environment, utilising systematic techniques and being very task-oriented. Whereas the transformational leader promotes and embraces change and adopts a more progressive perspective and inspires the workforce. Transactional leadership behaviour is still considered to be the most prevalent in businesses, however this study found that transformational style leadership was more prevalent and best capable of change management.

It can be argued that one of the key issues in promoting best practice in SMEs is the personal hands-on and active involvement of the owner. Many of the best practice operations analysed here are owner operated and thrive on their personal commitment.

There comes a point as the business grows in complexity through increasing scale or scope, however, at which the complexity of the business becomes such that the owner cannot cope alone without moving toward more formal and more documented procedures. The key factors influencing the complexity are the scale of the operation and its operational scope. There will come a point as the business expands that the owner's active control becomes too difficult and similarly there will be a point where the operation becomes too diverse, operates too many services or facilities, for the informal approach to continue.

Due to the size of most SMEs, management and employees agree on the importance of informal, face-to-face communication at all levels. However, as the business grows in size and complexity more formalised channels need to be developed and utilised with the danger of introducing increased amounts of bureaucracy into the business. These are in agreement with Orser et al. (2000) findings.

The UK, particularly England is considered a rather urbanised economy by the standards of other places such as North America or even continental Europe. However, the research did uncover variances based on the location of the business and proximity to resources. A study of the British SME sector between 1999 and 2002 was conducted by Cosh and Hughes (2002) examining the locational variations in the degree to which SMEs engaged in formal or informal collaborative or partnership arrangements with other firms or organisations. It was found that the urban-rural differences in collaboration were not great enough to be statistically significant but it could be noted that rural SMEs recorded the lowest frequency of collaboration and networking, relative to firms in the urban groups, possibly reflecting the greater isolation of some rural firms from potential collaborators. Our study also found evidence to support this claim.

The results of the research also yielded similarities and differences in comparison with the results of other studies, such as the Cornell study (Dube et al 1999). It should be noted that the study did not focus specifically on SMEs. Nonetheless, it must be considered because it represents the largest study in the hospitality sector to-date. Their study mostly targeted the views of senior management and customers whereas; this study embraced the views and perspectives of the owner/managers, supervisors, staff and customers.
One of similarities is the acknowledgement that employee involvement was frequently cited as key to the achievement of customer satisfaction and overall success. They also acknowledged that the best practice properties stressed the importance of understanding customer needs and creating value for stakeholders, such as owners, employees and customers.

Another, perhaps unfortunate similarity is the subjectivity of the definitions of 'best practice' used. Wober (2002) commented that the Cornell study used a purely judgmental definition. Conversely, this study tried to minimise this by utilising various sources and cross-referencing them in order to obtain the most suitable business. Though, admittedly, it cannot be guaranteed that all of the businesses used are the 'best'.

Another similarity is that the findings of both the Cornell and the CERT study emphasised that best performance exists in organisations that posses a clear perspective of their position and values and continually strive to align their work practices with their strategic view/standpoint.

CONCLUSION

An analysis of the key themes from across the eight study areas revealed seven core capabilities pertinent to the execution of best practice and the achievement of high performance. It was also found that best practice varied based on the size of the business; the business's location; and the intentions of the owner, whether they are more transactionally or transformationally oriented, as well as their attitudes, values, and 'lifestyle choice'

However, one of the main underlying principles found in all best practice operations is the alignment of business strategy with internal and external communications strategy and organisational culture - without forgetting the alignment with human resource practices regarding appropriate training to support the business strategy and future planning. In other words, it is the integration of all the above domains under the same strategic and

human resources umbrella rather than the how of organisational and communication management that underpins organisational success.

Further, throughout the world customers' requirements and preferences are changing more rapidly in present times than in any previous era. Managers and owners of small businesses not only face the challenge of doing the right things but also of doing things in the right way.

Heavy reliance on SMEs is not only present in England, it is also evident in most countries and in the developing world they could represent a good opportunity to be more competitive and effective. In South Africa, tourism is growing rapidly and it represents an opportunity to improve economic growth and reduce unemployment. As such sound businesses need to be developed that can be highly competitive, flexible and operationally sound, delivering consistent quality and service.

While this study has taken place in the UK, the evidence suggests that the model could be extended internationally as a blueprint for SME best practice relevant in all countries and may prove particularly useful when putting together developmental interventions.

According to Gibb (2000) cross-country comparison may not be easy in the hospitality, tourism and leisure industries for a number of reasons, such as, risks in ideology, culture, language, concept, context, local enterprise agencies, agenda of local governmental policies, field of production, and customer aspects. However, due to the conceptual nature of the model it should be highly adaptive as it takes full consideration of the internal and external operating environments.

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GLOBALIZATION AND THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

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CONTENTS

INTRODUCTION

The term "globalization" has acquired considerable emotive force. Some view it as a process that is beneficial—a key to future world economic development—and also inevitable and irreversible. Others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress. This brief offers an overview of some aspects of globalization and aims to identify ways in which countries can tap the gains of this process, while remaining realistic about its potential and its risks.

Globalization offers extensive opportunities for truly worldwide development but it is not progressing evenly. Some countries are becoming integrated into the global economy more quickly than others. Countries that have been able to integrate are seeing faster

growth and reduced poverty. Outward-oriented policies brought dynamism and greater prosperity too much of East Asia, transforming it from one of the poorest areas of the world 40 years ago. And as living standards rose, it became possible to make progress on democracy and economic issues such as the environment and work standards.

By contrast, in the 1970s and 1980s when many countries in Latin America and Africa pursued inward-oriented policies, their economies stagnated or declined, poverty increased and high inflation became the norm. In many cases, especially Africa, adverse external developments made the problems worse. As these regions changed their policies, their incomes have begun to rise. An important transformation is underway. Encouraging this trend, not reversing it, is the best course for promoting growth, development and poverty reduction.

The crises in the emerging markets in the 1990s have made it quite evident that the opportunities of globalization do not come without risks—risks arising from volatile capital movements and the risks of social, economic, and environmental degradation created by poverty. This is not a reason to reverse direction, but for all concerned—in developing countries, in the advanced countries, and of course investors—to embrace policy changes to build strong economies and a stronger world financial system that will produce more rapid growth and ensure that poverty is reduced.

How can the developing countries, especially the poorest, be helped to catch up? Does globalization exacerbate inequality or can it help to reduce poverty? And are countries that integrate with the global economy inevitably vulnerable to instability? These are some of the questions covered in the following sections.

WHAT IS GLOBALIZATION?

Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization that are not covered here.

The major multilateral institutions acknowledge the need to improve the transparency of their decision-making and each has programs to make themselves more open to outside contributions and develop better information flows. However they are all organisations composed of governments. In the case of the World Trade Organisation, the practice has been that no decisions are made unless a consensus of governments is achieved. This guarantees that the WTO reflects the will of its member nation states.

As the work of the United Nations has demonstrated, globalisation is more effective when there are strong governments, with sound domestic institutions.

Globalisation benefits both big and small business, together with the citizens of those countries that embrace international trade. There are no grounds for asserting, however, that large companies are bent on subverting governments. Large corporations generate employment, tax revenue and wealth for the nations in which they operate. They invest in proportionately more research and development than smaller businesses.

Multinational corporations on the other hand are key agents transforming the international political and economic landscape. Because they are highly visible organizations with great economic power and mobility, they inspire both awe and fear. The changes in today's global business environments will gain even greater momentum as the world economy continues to shift from nationalism to regionalism and, increasingly, to globalization.

This means that any country, any enterprise, and any brand of product or service will face unlimited competition when the trade barriers and other protective market measures are removed, through the dynamic processes of globalization. The anticipation of these developments, the management of MNC's and other firms involved in international business has to be pro-active. This will generally require knowledge of internal as well as external environments, and the management and leadership skills to utilize environmental information and capitalize on opportunities in the competitive and dynamic global arena.

WHO ARE THE MAIN PLAYERS ? - INTERNATIONAL ORGANISATIONS:

The World Trade Organisation (WTO) is established in 1995 to administer the rules of international trade agreed to by its 123 member countries. These rules have been ratified by the parliaments of all members.

The key difference between the WTO and the General Agreement on Tariffs and Trade (GATT), which it replaced, is that the WTO is a permanent organisation with the judicial powers to rule on international trade disputes. The WTO also covers trade in services, whereas GATT only covered trade in goods.

The WTO’s rules make it hard for a country to favour their own industry over imports from other countries. Also, the WTO rules do not allow a country to favour the imports of one country over those from another.

The WTO argues that the growth of trade between countries increases the wealth of everyone. Trade allows the production of goods and services by those who are most efficient, thus maximising their availability at the best price.

The growth of trade is helped by the lowering of barriers, such as tariffs and import quotas, which is the object of WTO agreements.

The International Monetary Fund (IMF) was established in the wake of the World War II in 1946 to:

- promote international cooperation on finance,
- encourage stability in exchange rates and orderly systems for exchanging money between countries
- providing temporary assistance for countries suffering balance of payments problems

The IMF frequently seeks institutional reform in the countries to which it provides temporary financial assistance. Like the WTO, the IMF believes that world prosperity is enhanced by greater exchange between nations and that this is made possible by

everyone agreeing to abide by rules. The IMF has 182 member countries.

The World Bank provides loans to poor countries for development projects. The bank provides loans for investment projects, such as water and sanitation, natural resource management education and health. It also lends for what it calls adjustment projects, which are to support governments undertaking policy reforms, such as improved public sector management.

The growth in trade between nations has contributed to lifting 3 billion people out of poverty over the past 50 years. Reducing tariff barriers, which makes it easier for nations to trade with each other, lifts the wealth of all nations by allowing them to concentrate on those where they have greatest expertise.

Poor countries that have lowered their tariff barriers have gained increases in employment and national income because labour and capital shifts from import-competing industries to expanding, newly competitive export industries. In addition to providing jobs, companies moving to developing countries often export higher wages and working conditions compared with those in domestic companies operating in the country. While wages are often lower in developing countries than those in developed countries they reflect lower levels of education and productivity. The experience in countries like Korea is that as countries develop their wage levels rise and the focus shifts from labour intensive to more capital and knowledge intensive industries.

DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

There has never been a more exciting time to start your own business! New businesses are springing up every day all across the country. Whether these new ventures are inspired by women re-entering the job market, young people starting their careers at home-based businesses, previously employed middle managers, or just regular folks looking to earn some extra cash on the side, everyone is finding themselves caught up in the entrepreneurial spirit.

What has led to this entrepreneurial boom? First, there has been a sharp increase in downsizing at both large corporations and medium-sized businesses. As you may be aware, many of the larger corporations in the United States, like IBM and General Motors, have been laying off workers in record numbers, and the end is not yet in sight. Nearly one-third of companies surveyed by major outplacement firms say they are considering cutting their work force in 1996 by as much as 30 percent.

As companies are learning to be leaner and meaner, career-minded professionals cannot expect job security the way they could in the past. In today's economy, chances are good that you will probably not stay at one company throughout your professional career. And a growing number of people feel that the best way to prevent an almost inevitable layoff is to take the skills they have and open up shop for themselves.

Changes in government programs and tax benefits for minority-owned businesses provide still more clues why entrepreneurship is on the rise. And despite affirmative action programs, it is still a statistically proven fact that there is a lack of opportunity for women and minorities within medium- to large-sized companies.

Thus, thousands of women and minorities are recognizing that their earning potential is much higher "on their own" than it would be in the corporate world, and that there is no "glass ceiling" to deal with when you are your own boss. In addition, it is now easier for minorities and women to get financing to start new ventures, either through local banks or government programs.

ENTREPRENEURIAL - THE SUCCESS FORMULA

Every year, hundreds of thousands of businesses are started. Most will fail, some will muddle along, and a few will thrive. Which ones thrive, and why? The reason some businesses experience spectacular sales and profit growth from the start isn't because they had a lot of money at the beginning. Their fast growth can be attributed to the fact that they were put together the right way.

In every instance, the founders either had or acquired the experience and knowledge they needed to start-up and run the business. They recognized what their weak points were, subsequently nurtured alliances, and acquired the skills they needed to start their company off right.

They also understood how the various parts of the business fit together to form a total structure and knew that if one part was missing, the total structure would break. For example, they knew that a successful sales plan is directly dependent upon support from the marketing and promotional plans, and that the strategic business plan acts as the glue that holds all the subplans together so that they work in concert.

Developing Ideas

Clever product and service ideas are a dime a dozen. Everybody has one, and most of them never get implemented. The successful entrepreneur starts with a basic idea. This idea is first tested to staying power. Can it be used to grow a customer base, and will it be profitable? The pseudo-entrepreneurial itch often ends before the basic idea gets tested. Studies show that a high percentage of people who open new businesses do so because they are frustrated with their current job. They'll jump into any business venture that comes along without first checking it out. Ninety percent of this group will go out of business in their first year.

Those that make it are smart enough to recognize the symptoms of their emotional state. They are acutely aware that they may be in a vulnerable position. As a result, they may hang on to the security of their current job and start a business on the side. They'll make the move to become a full-time entrepreneur when the time is right for them and after they have thoroughly checked out their business venture ideas. There are three basic concepts to keep in mind as you develop and refine your business start-up ideas.

Be Creative

The opposite of creativity is rigidity. Entrepreneurs are not rigid in their thinking. If you cling to the old ways of doing things because "that's the way we have always done it," you'll never come up with the new solutions that are demanded by today's small businesses. To test your creative ability, practice finding ways to tie together seemingly unrelated ideas.

Understand Every Problem

You must have a clear understanding of what it is you are trying to achieve and be able to identify the obstacles that stand in your way. Break each problem down so that you understand it and know what you need to do to eliminate it. For example, the problem may be that you need more space. Why do you need more space, and what are the alternatives? An alternative may pose a new set of problems, but if they reduce the magnitude of the original problem, the alternative may be a more viable option.

Brainstorming

When you come up with a solution to a problem, brainstorm the solution with as many qualified people as you can find to avoid judging your own answer. Accept modifications that make sense, and be prepared to replace the solution with a totally new and better alternative. The key to the brainstorming process is to be objective. Brainstorming is an excellent way to come up with a new set of ideas for new products, services, or improvements that could accelerate the growth of your business.

THE IMPACT OF GLOBALISATION ON THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES ENTREPRENEURIAL - SELF-ANALYSIS

If you work for a company, you probably have a steady job and income. You probably enjoy the usual fringe benefits, such as paid vacations and life and medical insurance. If work runs out, it is up to somebody else to find something for you to do. When work piles up, somebody else can be brought in to help. If you get sick, it's up to your boss to cover you. You may have some flexibility in deciding where you want to live if you work for a company with many locations.

You may even have a career path established with your company. If you follow this career path, you can probably enjoy a comfortable retirement through the company pension plan. Are you sure you want to abandon the corporate life to start your own business? Before you answer this question, let's explore the reasons people become self-employed.

Controlling Their Destiny

Many people find regular employment unsatisfying because it forces them to accept and respond to decisions others make on their behalf. They may not like the people they work for, their work location, their working hours, or their possibilities for advancement. The company may be poorly managed or in poor financial condition, or there may be frequent layoffs. Whatever the trigger, the ability to control one's destiny can be a major motivation for opening a personal business.

The Creative Urge

If you have truly developed a better mousetrap or discovered a better way of doing something, starting your own business may be the simplest and most direct way to get

your idea into the market. If you succeed, there is a great deal of personal gratification in being able to say, "I did it with my idea, my way."

The creative urge can be a powerful driver that gives people the incentive to start their own business. It can also prove to be one of your worst enemies if you lose your objectivity along the way. If your unique idea proves to be not so unique after all, will you recognize the facts when you see them, and adjust your strategies accordingly?

Financial Rewards

Most people who start their own business expect financial rewards for their endeavour. They have every right to this expectation. In the business world, financial rewards increase in direct proportion to the level of risk a company is willing to take.

The banking industry provides a classic illustration of this simple concept. If you ask for an unsecured loan, what happens? The bank charges you a higher interest rate to compensate it for the higher risk of loans that are not secured by collateral.

The same principles apply if you open a business. The failure rates for personal businesses are very high. As a business owner, you have a right to expect a high rate of return to compensate you for the risk you are taking on, just as the bank does. Entrepreneurs are driven to achieve high financial rewards. They know that if they do not achieve acceptable profit levels, their business venture will not survive. Since they are in it for the long term, they reject one of the most common start-up scenarios: "I'll try it for a while to see if it works. If it doesn't work, I can always go back to my old job."

If this is your scenario, you'll probably end up back at your old job. Entrepreneurs know exactly how much money they need to make to stay in business. They are committed to the achievement of specific financial goals and do not consider their old job as a viable option.

Chrysler's Lee Iacocca was once asked, "After you joined Chrysler and discovered how much trouble the company was in, did you ever consider throwing in the towel and going back to Ford?" Iacocca responded by saying, "Never! Once I made the commitment, I never lost my determination to do everything I could to make sure the company achieved reasonable financial rewards."

PROFILE OF AN ENTREPRENEUR IN THE GLOBAL DYNAMICS - DO YOU HAVE WHAT IT TAKES ?

If you think you want to be your own boss and run your own business, but are not sure you have the right qualifications to be an entrepreneur, read on. What are the characteristics of an entrepreneur? How does an entrepreneur think? Is your personal profile similar to that of a successful entrepreneur?
Until recently, entrepreneurs were not widely studied. There was a general lack of knowledge and information about what made them tick. The recent interest in revitalizing America's dormant productivity has changed all that. Most business universities now offer courses in entrepreneurship. As a result, business professionals have learned a lot about what it takes to become a successful entrepreneur.

Although no one has found the perfect entrepreneurial profile, there are many characteristics that show up repeatedly. In the sections that follow, we'll cover several important characteristics of entrepreneurs for you to consider and dispel the entrepreneurial myths.

Entrepreneurial Characteristics

A series of interviews were conducted with distinguished entrepreneurs. They were asked what characteristics they felt were essential to success as an entrepreneur. Good health was a characteristic mentioned by every entrepreneur interviewed. Entrepreneurs are physically resilient and in good health. They can work for extended periods of time, and while they are in the process of building their business, they refuse to get sick.

In small businesses, where there is no depth of management, the leader must be there. You may not be able to afford a support staff to cover all business functions, and therefore you will need to work long hours. We all know people who use part of their sick leave each year when they are not sick. Entrepreneurs are not found in this group. At the end of the eight-hour day, when everyone else leaves for home, the entrepreneur will often continue to work into the evening, developing new business ideas.

Self-Control

Entrepreneurs do not function well in structured organizations and do not like someone having authority over them. Most believe they can do the job better than anyone else and will strive for maximum responsibility and accountability. They enjoy creating business strategies and thrive on the process of achieving their goals. Once they achieve a goal, they quickly replace it with a greater goal. They strive to exert whatever influence they can over future events.

In large, structured organizations, entrepreneurs are easy to recognize by the statements they make: "If they wanted that job done right, they should have given it to me." A dominant characteristic of entrepreneurs is their belief that they are smarter than their peers and superiors. They have a compelling need to do their own thing in their own way. They need the freedom to choose and to act according to their own perception of what actions will result in success.

Self-Confidence

Entrepreneurs are self-confident when they are in control of what they're doing and working alone. They tackle problems immediately with confidence and are persistent in their pursuit of their objectives. Most are at their best in the face of adversity, since they thrive on their own self-confidence.

Sense of Urgency

Entrepreneurs have a never-ending sense of urgency to develop their ideas. Inactivity makes them impatient, tense, and uneasy. They thrive on activity and are not likely to be found sitting on a bank fishing unless the fish are biting. When they are in the entrepreneurial mode, they are more likely to be found getting things done instead of fishing.

Entrepreneurs prefer individual sports, such as golf, skiing, or tennis, over team sports. They prefer games in which their own brawn and brain directly influence the outcome and pace of the game. They have drive and high energy levels, they are achievement-oriented, and they are tireless in the pursuit of their goals.

Comprehensive Awareness

Successful entrepreneurs can comprehend complex situations that may include planning, making strategic decisions, and working on multiple business ideas simultaneously. They are farsighted and aware of important details, and they will continuously review all possibilities to achieve their business objectives. At the same time, they devote their energy to completing the tasks immediately before them.

Accounting reports illustrate this characteristic. Accountants spend hours balancing the accounts and closing them out. For them, the achievement is to have balanced books. The entrepreneur only wants to know the magnitude of the numbers and their significance for the operation of the business.

Realism

Entrepreneurs accept things as they are and deal with them accordingly. They may or may not be idealistic, but they are seldom unrealistic. They will change their direction when they see that change will improve their prospects for achieving their goals. They want to know the status of a given situation at all times. News interests them if it is timely, and factual, and provides them with information they need. They will verify any information they receive before they use it in making a decision. Entrepreneurs say what they mean and assume that everyone else does too. They tend to be too trusting and may not be sufficiently suspicious in their business dealings with other people.

Conceptual Ability

Entrepreneurs possess the ability to identify relationships quickly in the midst of complex situations. They identify problems and begin working on their solution faster than other people. They are not troubled by ambiguity and uncertainty because they are used to solving problems. Entrepreneurs are natural leaders and are usually the first to identify a problem to be overcome. If it is pointed out to them that their solution to a problem will not work for some valid reason, they will quickly identify an alternative problem-solving approach.

Status Requirements

Entrepreneurs find satisfaction in symbols of success that are external to themselves. They like the business they have built to be praised, but they are often embarrassed by praise directed at them personally. Their egos do not prevent them from seeking facts, data, and guidance. When they need help, they will not hesitate to admit it especially in areas that are outside of their expertise. During tough business periods, entrepreneurs will concentrate their resources and energies on essential business operations. They want to be where the action is and will not stay in the office for extended periods of time.

Symbols of achievement such as position have little relevance to them. Successful entrepreneurs find their satisfaction of status needs in the performance of their business,

not in the appearance they present to their peers and to the public. They will postpone acquiring status items like a luxury car until they are certain that their business is stable.

Interpersonal Relationships

Entrepreneurs are more concerned with people's accomplishments than with their feelings. They generally avoid becoming personally involved and will not hesitate to sever relationships that could hinder the progress of their business. During the business-building period, when resources are scarce, they seldom devote time to dealing with satisfying people's feelings beyond what is essential to achieving their goals.

Their lack of sensitivity to people's feelings can cause turmoil and turnover in their organization. Entrepreneurs are impatient and drive themselves and everyone around them. They don't have the tolerance or empathy necessary for team building unless it's their team, and they will delegate very few key decisions.

As the business grows and assumes an organizational structure, entrepreneurs go through a classic management crisis. For many of them, their need for control makes it difficult for them to delegate authority in the way that a structured organization demands. Their strong direct approach induces them to seek information directly from its source, bypassing the structured chains of authority and responsibility. Their moderate interpersonal skills, which were adequate during the start-up phases, will cause them problems as they try to adjust to the structured or corporate organization. Entrepreneurs with good interpersonal skills will be able to adjust and survive as their organization grows and becomes more structured. The rest won't make it.

Emotional Stability

Entrepreneurs have a considerable amount of self-control and can handle business pressures. They are comfortable in stress situations and are challenged rather than discouraged by setbacks or failures. Entrepreneurs are uncomfortable when things are going well. They'll frequently find some new activity on which to vent their pent-up energy. They are not content to leave well enough alone. Entrepreneurs tend to handle people problems with action plans without empathy. Their moderate interpersonal skills are often inadequate to provide for stable relationships. However, the divorce rate among entrepreneurs is about average.

MAPPING OUT YOUR STRATEGY FOR SMALL BUSINESS DEVELOPMENT

The majority of the books written about corporate turnarounds, are written by executives who have fixed Fortune 500 companies. These individuals have the ability to cut large numbers of employees, tap pension funds and banks for infusions of capital, and sell off enormous assets to raise cash and decrease debt.

Although not demeaning the accomplishments of these people, few small and midsize companies can make such dramatic changes. These businesses can have a difficult time getting a line of credit from a bank, typically don’t have meaningful assets to sell to increase the company’s cash position, and can’t afford to lay off large numbers of people.

There is another category of books written by business consultants that focus on financial and accounting issues. Unfortunately, many of these books deal with only the half the problem an executive faces in a turnaround, and none of them provide examples of how to write business plans to raise new capital or marketing/sales plans to increase sales. They also don't address the people management issues and the mistakes the leaders make.

Turning around and starting small companies are found that both offer unique and sometimes very painful challenges. To accomplish corporate turnarounds successfully you need a great deal of energy, self-confidence, resiliency, and the ability to maintain a positive mental attitude every day. Your employees, shareholders, and family look to you for leadership and stability.

Business leaders who find themselves in a turnaround situation are initially afraid and likely to question whether they have the skill to fix their company. They might even feel worthless and sorry for themselves. Unfortunately, those feelings can't last long or they'll affect the energy and ability that is needed to turn the ship around.

Before discussing how to recognize that your company needs to be fixed, and how to fix it while maintaining control, let's review some information on business bankruptcies and failures published in a 1997 Small Business Administration report.

According to the Small Business Administration, business failures are up 16.6 percent from 1995 to 2001. Business bankruptcies increased by 5.3 percent during 1996, rising from 50,516 in 1995 to 53,214 in 2001.

Why did I share this information? First, to let you know that if your business is in trouble, you aren't alone. Second, I hope those numbers will scare you into taking a positive action.

How Do You Know You're in Trouble?

Companies usually don't find themselves in trouble overnight. It happens over a period of a few months to a couple of years.

How do you know your company is in or is coming close to being in dire straits? Here is a simple list of symptoms:

- Sales are decreasing in a growing market
- Current customers are leaving for reasons that are in your control
- Clients complain their calls aren't being returned
- More client projects are over budget
- Profits are declining and expenses are going up
- Employees are telling each other, and, unfortunately, customers, they aren't sure of the company's direction
- Employees are telling management they don't feel they are being led
- Employees are coming in late and leaving early
- Employee monthly meetings stop taking place and good employees start leaving
- Employees stop trusting management
- Employees are beginning to bicker over small things
- Management meetings that used to be weekly are happening whenever people feel like getting together
- Management isn't working as a team

- The company can't afford to pay its taxes
- The company is falling behind paying its vendors

If, after an honest assessment, you recognize these symptoms and realize you are in trouble, then you need to take the following steps to get your shareholders, employees, and yourself out of trouble.

IS THERE ANY ALTERNATIVE TO GLOBALISATION?

Supporters of globalisation argue that it can be rolled back and point to the period between the first and second world wars as evidence. The increase in world trade as a proportion of world GDP was proportionately greater between 1870 and 1914 than it has been since 1975. That expansion was stopped, not just by the first world war, but also by the loss of support for free trade which followed. Tariffs and controls on capital were imposed around the developed world. This led directly to the 1930 depression and indirectly to the second world war.

There is clear danger in the gathering strength of opposition to globalisation that it could be halted again. The consequences of a decline in world trade would immediately be felt with rising unemployment throughout the trading world. The poorest countries of the world would also be affected by a fall in aid and opportunities for trade.

A weakening of the institutions of the global order, such as the WTO, would leave them unequal to the task of adjudicating between nations. The fate of the League of Nations at the end of the 1930s provides a parallel example of the cost of weak international institutions.

It is not clear what alternate form of economic production to the corporation the opponents of globalisation have in mind. However the sharing of risk in the limited liability corporation has proven a robust framework for the development of innovation, wealth and the advance in global living standards.

Although trade and economic integration could be undone by concerted political opposition, it is not possible to turn back the globalising influence of communications technology.

CONCLUSIONS

This country and Africa as a whole still has one of the most unequal distributions of income in the world. This is a direct result of the extremely low levels of black participation in the mainstream economy. As a consequence, our economy continues to perform below its potential. This can impact on Africa to be regarded as a junior partner in the global economy.

Despite the adoption of transformative policies implemented within the framework of sound fiscal and monetary management aimed at overcoming economic disparities, entrenched inequalities continue to characterize the economy and act as a deterrent to growth, economic development, employment creation and poverty eradication.

Vast racial and gender inequalities in the distribution of and access to wealth, income, skills and employment persist. Continued levels of unemployment and increasing poverty threaten to undermine the stability of our new democracy.

The country still has one of the most unequal distributions of income in the world. This is a direct result of the extremely low levels of black participation in the mainstream economy. As a consequence, our economy continues to perform below its potential.

Evidence emerging from the recent published 2003 Global Entrepreneurship Monitor (GEM) conducted by the University of Cape Town's Graduate School of Business revealed that South Africa's levels of entrepreneurship are roughly half what they are in other developing countries such as Brazil, India, Argentina and Mexico comparatively.

The factors contributing to this are complex and include the state of economy, cultural and social norms and the existence of business opportunities.

This declining levels of entrepreneurship confirms that South Africa compares very poor, and this has a direct effect in economic growth, poverty eradication and job-creation, which is one of this NEPAD's main objectives. It has then been suggested that in order to halt South Africa's dismal slide down the entrepreneurial scale is raising the priority of enhancing entrepreneurship in SA at the highest level, developing ways to increase the pool of potential entrepreneurs and ensuring that existing entrepreneurs are receiving the right kind of support.

In another survey carried out by the London Business School and Babson College, which compares countries' competitiveness, rated South Africa as one of the lowest-ranking countries in terms of entrepreneurial activity. It was found to be the weakest performer out of 38 countries surveyed, which included developing countries such as Argentina, India, Uganda, Chile, Thailand and Mexico.

Entrepreneurship is an indispensable prerequisite for success in an increasingly globalised and competitive economy. Entrepreneurs are wealth creators. In order to create jobs and alleviate poverty, entrepreneurs are a must. South Africa needs more of a culture dominated by entrepreneurship spirit in providing the engine for innovation and growth, which creates jobs and alleviate poverty. The challenge is to create an enabling environment that encourages risk-taking.

What then must South Africa and Africa do to inculcate and nurture a culture of entrepreneurship ? First, entrepreneurship needs to be embedded into the basic fabric of society. Every aspect of public policy must seek to encourage the entrepreneurial spirit and potential of the nation. Second, entrepreneurship should be celebrated. Entrepreneurs should become national heroes. The US glorifies its entrepreneurs, as it does its sportsmen and women.

Third, the education system needs to be aligned accordingly. Education system should not be geared to produce workers, as it happened during colonial era, but it must be capable of producing entrepreneurs. In showcasing how academic innovation can lead to productive business that generate value and job-creation, institutions of higher learning in Africa as a whole need to integrate their activities into the mainstream economy while maintaining their commitment in knowledge production.

Leading Universities like Stanford, Oxford, Cambridge and Harvard have shown and proved this point beyond reasonable doubt.

The New Partnership for Africa's Development (NEPAD) on the other hand has the potential to turn Africa into a dynamic and economically vibrant continent offering many to the SMME sector. It is also a strategic framework and along-term programme for the socio-economic renewal of Africa. It is a programme that will help us to overcome the challenges and problems that we face as a continent.

NEPAD is a strategic framework and a long-term programme for the socio-economic renewal of Africa. The challenges in Africa affect and constrain small businesses in a number of ways. In addition, African small firms still have to deal with some of the prejudices that they find in their own market development strategies.

It is anchored on the determination of Africans to extricate themselves and the continent from the malaise of underdevelopment and exclusion in a rapidly globalizing world.

Africa need to reinvent itself to address its growth and development deficit, and Nepad provides a good foundation for a Marshall Plan for Africa.

The main difference between the Marshall Plan and Nepad is that the former was initiated by the US for Europe, and the latter is an initiative by Africans for Africa. If the Marshall Plan was as true for Europe then Nepad is as true for Africa today. The international community in its endeavour to assist Africa should not be seen as an issue of charity, it makes sound business and ethical sense.

The big challenge is to build strong and viable economies to boost the purchasing power of Africans. This would enable Africa to be an effective player in the global economy. It would also transform Africa's relations with the rich world from being aid-based to being driven by trade and investment.

The need to counter the rise of communism in Europe was one of the main strategic drivers behind the Marshall aid. The Marshall Plan served as the economic and political foundation of the western alliances. It also allowed the US gradually to engage in the bipolar confrontation by first committing money, not blood.

For Nepad to have a positive effect on Africa, as indeed it must, Africa leaders and the private sector need to do more to provide a conducive environment for growth and prosperity. The initiative and commitment must come from Africa.

Developing countries such as India, Singapore and South Korea have shown that it is possible to liberate a nation's entrepreneurial spirit in a way that enhances its global competitiveness. This requires focused strategies that lay the right foundation for current and future entrepreneurs. It is a prerequisite for Africa to assert and position itself in the mainstream spheres of the global economy.

I thank you all.

S Manamela

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KNOWLEDGE FOR INNOVATION: COMPETITIVE INTELLIGENCE PRACTICES IN SMALL AND MEDIUM SIZED BUSINESS

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ABSTRACT

Without appropriate intelligence, companies are unlikely to succeed. Recognizing this, most companies in North America with sales over $1 Billion and some of the largest companies in South Africa have installed intelligence units. CI may be more important for small business than it is for larger ones. Everyone needs to conduct CI to thrive and identify opportunities, but smaller companies cannot absorb market mistakes in the same way that large firms can. Organized properly, good competitive intelligence can level the playing field between small and large businesses. Smaller businesses must take advantage of CI to grow. But these companies feel that they lack the resources necessary to develop full scale intelligence capabilities. The objective of this paper is to explore how SME's can conduct world class intelligence and the role of size in the intelligence effort. The paper reports on research conducted in Canada that looks at intelligence practices in technology firms and reports on initiatives underway in Canada and South Africa to bring Intelligence capability to these firms. The study debunks two of the more popular CI myths
Myth 1: Competitive Intelligence is not for small business
Myth 2 : Small Business Cannot Conduct CI

What is competitive intelligence?

At a simplistic level, competitive intelligence (CI) can be defined as information that makes the firm more competitive. One of the better definitions comes from the Business Intelligence Institute in the United States:

> "Competitive/Business intelligence is the total knowledge a company possesses about the environment in which it competes. It is synthesized from the vast amount of bits

> and pieces of external information bombarding the firm every day. It paints a whole picture of the present and future competitive arena of management decisions." (Gilad, 2000)

The fuller definition is:

> Competitive intelligence is the art and science of preparing companies for the future by way of a systematic knowledge management process. It is creating knowledge from openly available information by use of a systematic process involving planning, collection, analysis, communication, and management which results in decision-maker action. " (Calof and Skinner 1999)

Whatever definitions is chosen, all point towards creating knowledge from openly available information by use of a systematic process involving planning, collection, analysis, communication, and management which results in decision-maker action. The intent of CI is to better understand customers, regulators, competitor's, and so forth to create new opportunities. In fact, the intent is to forecast changes in any of these forces and better position the firm to take advantage of these changes.

Myth 1: Competitive Intelligence is not for small business

The overall objective of an intelligence program is to assist decision makers by providing forward looking views of the environment. In a sense to avoid market surprises and provide appropriate recommendations. If you are a large company and you read the market wrong, what are the risks? Coca Cola came out with the new coke – a dismal failure; Microsoft was late to market with a web browser but now holds most of the market share (Netscape's market share was at 7% after Internet Explorer 6 was released). How is it that these companies were able to survive despite such poor intelligence – deep pockets comes to mind.

But what of small business? As noted in a Business Week article " If you're Coca-Cola, and you read the market wrong, you can buy your way out of the problem. If you're a small business, and you read the market wrong, you're dead." (Business Week June 16, 2000). CI may be more important for small business than it is for larger ones. Organized properly, good competitive intelligence can level the playing field between small and large businesses.

More importantly, small businesses are the cornerstone of most economies around the world. Ensuring their viability and success is of paramount importance for a thriving domestic economy. For example, in Canada less than 1% of all businesses are large (.3% to be exact) and most employment arises from small business. As for the United States, Donald A Manzullo, U.S. House of Representatives estimated 25 million small businesses in the United States which employ over half the US workforce. From a CI growth perspective, over the past decade in the United States, 75% of all new jobs and 50% of all new technologies have come from small businesses.

It's not that CI is not important for larger businesses -- everyone needs to conduct CI to thrive and identify opportunities. But smaller companies can not absorb market mistakes in the same way that large firms can. Besides, today's large business did start out as a small business (Microsoft was once a two person operation). Smaller businesses must take advantage of CI to grow and

become a large business. Reality 1: CI is very important for small business

Myth #2 : Small Business Cannot Conduct CI

“Sure, CI is important for small business,” states the Reporter from Business Week, “ but are they not too small to conduct competitive intelligence?” How great it must be to have tens of thousands of employees to draw upon for information collection, or to have access to expensive databases. Also consider that some technical intelligence analytical techniques cost into the hundreds of thousands of dollars. Clearly, small business cannot afford to conduct these activities, at least not on their own.

Lets look at the results of a survey conducted of Canadian technology firms.

To understand the practice of BI in Canada, a two-phase approach was undertaken;

1) Surveys were administered to 3080 Canadian companies. The mailed questionnaire consisted of 44 true/false questions designed to measure a company’s BI practices. Some 1,025 useable responses were received. About 400 of the respondents indicated willingness to participate in follow-up.
2) Interviews were held with executives from 20 companies (selected from the 400 respondents willing to engage in follow-up), to validate the questionnaire responses and obtain more context for the study findings.

The rest of this report will address the outcomes of the research and end with suggestions for further study.

THE SURVEY

We developed a questionnaire to measure BI awareness and use in Canada on the basis of a similar questionnaire designed jointly by the US-based Industrial Research Institute (IRI) and Society of Competitive Intelligence Professionals (SCIP) and administered to IRI companies in the United States in 1996-97. The IRI/SCIP questionnaire was oriented particularly to CTI practices in large manufacturing companies; we gratefully acknowledge the support and advice of IRI in allowing us to modify the questionnaire for use with a broader range of companies in a different national context. The CICI questionnaire contains 44 true-false questions designed to examine how BI is practiced in Canada. The questions constitue a basic BI audit examining the following areas:

1) Planning and focus - BI is not about collecting everything but focusing on those issues of highest importance to senior management.
2) Collection - BI requires collection from a broad base of information sources. The best sources, according to BI experts, are a company’s own employees followed by contacts outside the company.
3) Analysis - 35% of BI project time should be spent analyzing the information. This is where the true intelligence is created.
4) Communication - BI results need to be communicated to those with the authority and

responsibility to act on the findings.

5) Counter-intelligence - A well run BI effort should also involve attention to protecting the most important information in the organization.
6) Process/structure - BI requires appropriate policies and procedures so that employees contribute effectively to the BI system.
7) Awareness/Culture - For BI to thrive, all in the company need to be aware of what BI is and contribute to its efforts.

3,080 questionnaires were mailed in late November 1998 to Canadian technology-intensive companies identified through STRATEGIS and relevant industry association membership lists. Of the 3,080 surveys sent out, 1280 were returned. 255 were eliminated for a variety of reasons - some were eliminated, for example, as too few answers were filled in; others as they lacked identification. In all 1,025 surveys were used in this study – just over 33%.

A 33% response rate is very high for a survey of this type. Also impressive is the fact that some 64% of responses were apparently completed by the President or CEO, and another 26% by a Vice-President. Responses were received from all regions of the country, in proportions basically similar to their representation in the initial mailing. Distribution of responses by size of company (based on number of employees, since revenue estimates are lacking for many of the firms) also mirrors the mailing list.

RESULTS

Average scores

The 44 questions in the survey instrument support 13 functional areas or components of CI capability. The average scores in each question and functional area are shown. For the purposes of initial analysis, we grouped the scores obtained by the respondents by quartile, and subdivided the top quartile into the top 10% and the next 15%. Group 5, containing 109 responses, achieved an average score of 59.2 out of a maximum of 83, or 72%; this group can clearly be characterized as “world-class” in CI capability.

A summary of the average scores, by quartile group, for the whole questionnaire and for each component, is provided in Table 1, below:

TABLE 1: Average scores

	Total	CI Awareness	CI Focus	CI Target	Collection	Analysis 1	Analysis 2
Max. Pts	83 (100%)	6	6	10	9	8	6
Group 5 (109)	59.2 (71.3%)	5.6	5.8	8.8	5.9	3.4	5.4
Group 4 (145)	47.5 (57.2)	5.3	4.6	7.3	5.3	1.8	4.6
Group 3 (258)	36.9 (44.5%)	4.6	3.4	5.8	5.2	1.1	2.9
Group 2 (265)	27 (32.5%)	3.4	2.3	4.2	4.6	0.5	1.8
Group 1 (252)	12.7 (15.3%)	1.3	1	1.6	2.9	0.2	0.6
Average		3.7 (62%)	2.9 (48%)	4.9 (49%)	4.6 (51%)	1.1 (14%)	2.6 (43%)

	Technology Assessment	Communic'n	Counter-CI	CI Culture	Employee Role	Technology Tools	KM Readiness
Max. Pts	6	3	6	6	8	6	3
Group 5 (109)	3.4	2.1	4.2	4.5	5.5	2.6	2.1
Group 4 (145)	2.2	2.1	3.3	3.8	4.6	1.2	1.3
Group 3 (258)	1.5	1.5	2.9	3.4	3.2	0.7	0.8
Group 2 (265)	0.7	1.1	2.4	2.9	2.1	0.5	0.5
Group 1 (252)	0.1	0.1	1.4	2.1	1	0.2	0.2
Average	1.3 (22%)	1.2 (40%)	2.6 (43%)	3.1 (52%)	2.8 (35%)	0.8 (13%)	0.8 (27%)

CI Organization

It is interesting to note that of the 109 companies scoring in the top decile included 32% of those claiming to have a CI unit; 23% with dedicated, full-time CI staff; 27% of those claiming that CI is integrated throughout the company; and 6% of those with staff whose duties include part-time CI work. Therefore, a preliminary conclusion is that the chance of having world class CI practices is higher with a full time CI component. In fact, of the 13 CI functions examined in this study, 11 showed significant statistical variation with type of CI organization. This aspect of the survey results is further illustrated in Table 2, below.

TABLE 2: CI Organization

	Total	CI Awareness	CI Focus	CI Target	Collection	Analysis 1	Analysis 2
Max. Pts	83 (100%)	6	6	10	9	8	6
Dedicated CI Unit (25)	48	5.1	4.2	7.4	5.3	3.1	4.2
Full-time CI Staff (48)	41	4.3	3.9	6.0	5.4	2.0	3.5
Integrated CI (174)	42	4.6	3.7	6.5	5.1	1.8	3.7
Part-time CI Staff (644)	31	3.8	2.9	4.7	4.7	0.9	2.4

	Technology Assessment	Communic'n	Counter-CI	CI Culture	Employee Role	Technology Tools	KM Readiness
Max. Pts	6	3	6	6	8	6	3
Dedicated CI Unit (25)	2.2	1.9	3.1	4.1	4	1.8	1.4
Full-time CI Staff (48)	1.7	1.9	2.8	3.6	3.5	1.5	0.9
Integrated CI (174)	1.9	1.2	3.3	3.8	4	1.3	1.1
Part-time CI Staff (644)	1.2	1.2	2.5	3	2.7	0.7	0.8

Regional Distribution and Company Size

The companies in the top decile include 11% of the Ontario respondents; 11% of Quebec respondents; 9% of those from the Western provinces; and 6% of those from the Atlantic Region. Within the top group, 48% are from Ontario, 25% from Quebec, 23% from the West and 4% from the East -- essentially the same distribution as for the total respondents.

By size, the top group included 28% of the very large firms (over 500 employees); 14% of large (100-500); 7% of medium (25-99); 11% of small (10-24); and 9% of the smallest firms (1-9 employees). Within the top group, 4% were very large and 37% were very small. Correlation company size with CI capability is summarized in Table 3, below.

TABLE 3: Results by Company Size (number of employees)

	Total	CI Awareness	CI Focus	CI Target	Collection	Analysis 1	Analysis 2
Max. Pts	83 (100%)	6	6	10	9	8	6
Very Small (1-9) (265)	29.8	3.3	2.6	4.3	4.3	0.8	2.5
Small (10-24) (197)	32.3	3.9	2.9	4.9	4.6	1	2.4
Medium (25-99) (157)	32.6	3.9	3.1	5.0	4.5	1	2.4
Large (100-499) (74)	35.2	4.1	3.1	5.4	5.1	1.7	2.8
Very Large (>500) (32)	41	4.1	3.8	6.6	5.3	2.7	3.6

	Technology Assessment	Communic'n	Counter-CI	CI Culture	Employee Role	Technology Tools	KM Readiness
Max. Pts	6	3	6	6	8	6	3
Very Small (1-9) (265)	1.2	1.2	2.5	2.9	2.8	0.6	0.7
Small (10-24) (197)	1.3	1.1	2.5	3.0	3.0	0.9	0.9
Medium (25-99) (157)	1.3	1.3	2.7	3.2	2.9	0,7	0.7
Large (100-499) (74)	1.2	1.2	2.6	3.5	2,5	1.2	0.8
Very Large (>500) (32)	1.4	1.5	2.9	4.2	2.7	1.4	0.8

The implication of this table is that while there are several smaller firms with top level CI, the chance of having world class CI practices is higher in larger firms. It is interesting to note that of the 13 CI functional areas examined in this study, five showed no statistical variation with firm size. In terms of provincial breakdowns, the probability of having higher level CI practices does not depend on geographic location.

How dramatic are the differences by province, size and type of function? To examine this, all 44 questions were subject to an ANOVA analysis using SPSSx. ANOVA (analysis of variance) is a statistical technique used for comparing the averages of different groups. For example, suppose that we are interested in finding out if type of BI structure is related to whether or not the company recognizes BI as a legitimate and necessary activity for business (question 16). The researcher would specify Question 16 as the Dependent variable and type of intelligence structure as the Independent variable. The program would then calculate the average responses for question 16 for each of the different intelligence structures (part time resources, full time resources, intelligence department, integrated) and then compare them to see if the differences are statistically significant.
Provincial location: - The location of the company made very little difference in responses. Of the 44 questions, only 8 showed statistically significant differences by location of the company.

Number of employees - Of the 44 BI audit questions, 19 had significant ANOVAs - with most being in the predicted direction (the larger the firm the higher the probability of a yes response).

This means that for 19 of the questions, the larger the firm (as measured by number of employees), the more likely they were to be engaged in the intelligence practice being queried.

Type of BI organization - No variable was more important in predicting type of BI activity than the sort of organization used for BI. Of the 44 questions, 36 had significant ANOVAs. In general, companies with a BI unit had higher numbers of "yes's" than any other type of structure, followed by companies with full-time BI personnel. Companies that used part-time resources had the lowest incidence of "yes" answers.

After analyzing the results of over 1000 respondents, it was concluded that there were few differences between the intelligence practices of smaller versus larger firms with the exception of larger firms conducting more formal analysis and making greater use of their employees.

The study looked at 40 different aspects of CI including:

- culture of information sharing
- type of analytical techniques used
- formal structure for intelligence
- counterintelligence procedures
- collection systems

Follow up interviews were carried out with several companies. Based on the responses and the subsequent scoring of the study, company practices were divided into four categories – ranging from low or non existent CI practices to world class CI practices. The results:

While the chance of having world class CI practices was higher in larger firms, there were more small firms with top level competitive intelligence practices

Given these findings, the remainder of this paper looks at results by area of competitive intelligence.

Planning and Focus

Question #	% yes
4 Our company is only concerned about the companies with which we directly compete.	46
5 Our company produces intelligence reports and assessments on the competitors and/or emerging technologies that we believe are most important.	34
6 Our company continuously and systematically monitors our technologies globally to determine whether new competitors or technology substitutes are emerging.	59
7 We monitor and assess the activities and plans of organizations and groups whose view of our company could affect us.	41
8 Our company focuses its intelligence efforts on competitors and technologies that management has identified as important.	77
23 We interview our executives regularly to understand their intelligence	23

requirements.	
26 Senior executives' stated intelligence requirements are used to focus intelligence resources.	36
29 Our company has a variety of methods for collecting current intelligence, e.g organized methods to exploit conferences and tech. Scouting program.	35
41 We are concerned to understand the plans and intentions of not only our key competitors but also of key allies and partners, such as suppliers, distributors, investors and collaborators.	76

Nine planning questions were posed in this study. The positive elements of the responses in this section include the large number of respondents who recognized that BI is more than just asking questions about competitors but involves other aspects of the environment (76%: question 41). As well, most felt that they were focused on the needs of senior management (77%: question 8). Unfortunately, only 23% (question 26) regularly interview executives to truly understand their needs. Effective intelligence procedures require regular interviewing of executives to truly understand their needs. A second negative aspect in this section was the large number of respondents who indicated that their activities are focused only on their direct competitors (46%: Question 4). Today's competitors are unlikely to be the competitors of yesterday. As a result new entrants will be missed by these procedures.

Collection

Question #	% yes
2 We use secondary sources of information (public literature, reports) to learn about key competitors and/or new technology.	88
10 Our employees regularly report information about our competitors or relevant emerging technologies to appropriate managers.	73
11 Our company maintains a network of human contacts outside the company that we call on to answer senior management's questions in a timely and credible fashion.	61
17 Our company collects and uses patent and scientific literature to assess our competitors' R&D programs and/or emerging technologies.	33
32 Company scientists and engineers are our primary source of intelligence on competitors' R&D programs and/or new emerging technologies.	38
33 Our contacts outside the organization are our primary source of intelligence on competitors' R&D programs and/or new emerging technologies.	44
35 Secondary information sources (e.g. publications, trade show materials) are our primary source of information.	76

Seven questions on collection were asked. One of the more positive results of the study was the high percentage of respondents who regularly get information about competitors or emerging technology from their employees (73%: question 10). Unfortunately the dominant source of information from responding companies was secondary, external sources (76%: question 35) rather than internal sources (38%: question 32). Intelligence theory posits that employees should be the dominant source of information, followed by other primary sources, this was not the case with the sampled firms.

Analysis

Analysis is the most important part of the intelligence project process. Unfortunately this section along with the process/structure section recorded the lowest scores of any of the intelligence questionnaire sections. None of the nine analysis questions had more than 31% answering "yes". Further, the two questions that addressed higher level analytical techniques (questions 14 and 27) had fewer than 10% of the respondents answering yes. Clearly, the Canadian respondents were highly deficient in their analysis.

Question #	% yes
1 Our company regularly prepares profiles of our competitors including their R&D plans.	21
9 Our company produces assessments that address several possible outcomes of our competitors' actions and that identify the threats and opportunities those outcomes present for our company, R&D plans, new products, etc.	31
12 Our company analyzes our competitors' R&D plans and strategies to predict and anticipate their actions.	21
13 We use formal competitor analytical models such as SWOT and resource gap analysis.	12
14 We use formal psychological models such as competitor management profiling.	3
27 Our company uses advanced analytical techniques (e.g., on-line data screening, photography/imaging of competitor technology) to analyze our competitors' R&D programs and assess their future business implications.	8
28 Our company develops profiles of emerging technologies to better understand their characteristics, potential applications and market advantages.	46
40 Our company assesses our core technologies worldwide to identify advances that could impact our company.	56
43 Our company produces forecasts of key technologies that are potential competition, substitutes, or upgrades for our current and projected core technologies.	35

Communication

Question #	% yes
30 Our staff distributes intelligence findings only to those who are authorized to see them.	39
36 Our staff distributes intelligence findings throughout the company to anyone who is interested in them.	54

While information should be given to everyone, intelligence should only be given to those who are authorized to use it. In this study 54% indicated that the results were given to everyone in the organization who is interested (question 36.

Counter-Intelligence

Question #	% yes

15 Our employees understand clearly that our proprietary information and intellectual property should not be disclosed, and what to do if they become aware of potential inappropriate disclosure or access.	88
19 Our CI activities specifically include counter-intelligence, aimed at assessing the success of CI efforts directed against us.	10
25 In our communications activities (media relations; marketing, advertising; etc.) we consider the potential CI benefits that competitors could gain from our disclosures.	71

The results of this section indicate that Canadian firms generally have good protective practices. In fact, questions 15 and 25 generated the highest percentage of yes responses. Unfortunately, question 19, on assessing the results of BI activities directed against the company, which can be said to represent the highest level of intelligence practice, generated one of the lowest response rates. Security awareness is fairly high; translating that awareness into counter-intelligence is deficient.

Process/structure

Question #	% yes
3 Our company has developed legal and ethical guidelines for the conduct of CI activities	20
20 Our company has incentives to encourage employees to report their competitive observations and information.	13
21 We proactively communicate the company's intelligence needs to employees.	36
22 We have convenient ways for employees to report observations & information.	49
31 We use information management techniques, such as data-mining, data-warehousing, OLAP or "business intelligence" software, to understand our customers.	13
34 We use the corporate Intranet as a means of storing and accessing competitive information that our employees need in their day-to-day work.	31
37 Our corporate Intranet is specifically designed to facilitate and support our CI activities.	8
39 We maintain a comprehensive map or inventory of internal information and knowledge.	26

The results of this section indicate that Canadian companies are not yet investing appropriately in building the internal infrastructure required for fully effective BI. Only 26% claimed a capability to locate internal sources of information and knowledge (question 39), for example, and apparently very little use is made of computer systems to support BI activities (questions 31 & 37). While 49% indicate that they have convenient ways for employees to report BI input (question 22), only 13% have incentives to ensure that this happens (question 31).

These indicators of structural deficiency are supported by the responses to two other questions which examined the process/structure of BI. Near the end of the questionnaire respondents were asked if they had a formal/organized system and how they formally or informally conducted BI.

The following indicates how respondents responded when asked what best described how they

are organized for conducting intelligence:

- Scattered/disorganized (2%)
- One part time person (23%)
- Several part time personnel (47%)
- One full time person (3%)
- Several full time personnel (2%)
- BI unit (3%)
- Integrated throughout the organization (20%)

When asked if they have a formal system, only 11% said yes.

These results suggest that the Canadian model of BI is currently a part time one. This runs counter to accepted BI practice, which suggests that some full time complement is needed.

Awareness/Culture

Question #	% yes
16 Our company recognizes CI as a legitimate and necessary activity for business.	74
18 Senior company management supports intelligence activities.	76
24 Senior managers use CI regularly in their planning and decision making.	49
38 We recognize the potential CI value of information held within our company.	74
42 Our employees understand that sharing information and knowledge is important to the success of the company.	89

Of all the sections in the questionnaire, this section yielded the highest number of "yes" responses. With the exception of use by senior management (question 24), all awareness/culture questions recorded greater than 70% yes responses. This indicates a culture highly supportive of effective intelligence.

CONCLUSIONS OF THE SURVEY

The survey portion ends with the observation that Canadian companies have a good culture to support BI but are not really practicing it. Low scores were evident in Planning/Focus, Analysis, Communication and Systems/Procedures. Medium level scores appeared on Counter-intelligence and generally a very high score in Awareness/Culture. What was most disturbing was that only 36% communicate intelligence needs to employees (question 21), yet in the collection section twice this number indicated employees regularly reported information. Taken together with the results from the planing section, this suggests that a lot of Canadian companies have employees regularly contributing information without being informed about management's information needs. Further, for those few that informed the employees what to collect (36%), less than half (44%)

actually interview senior management regularly to understand their needs.

Based on the responses and the subsequent scoring of the study, company practices were divided into four categories – ranging from low or non existent CI practices to world class CI practices. The results: *While the chance of having world class CI practices was higher in larger firms, there were more small firms with top level competitive intelligence practices.*

In fact, of the 85 top scores, only nine came from large businesses – the rest from small and medium sized businesses, including 26 that came from businesses with ten or fewer employees. Reality 2: Small business can and does conduct world class competitive intelligence operations.

POSSIBLE RECOMMENDATIONS

The key is that small businesses had to focus on fewer intelligence objectives (Key Intelligence Topics), can not conduct as varied intelligence analysis techniques and obviously can not have a formal intelligence unit with full time employees. In other words, the resource limitation required a more scaled down intelligence operation. But, small business can still coordinate collection, focus on top management concerns, train employees in intelligence, consider counter-intelligence implications of their information, share information, conduct some analytical techniques and in general be aware of the role of and need for CI.

The key for small business is to recognize that CI for them is more about developing an appropriate culture for intelligence and a focus for intelligence activities.

So how does a small business create a process for intelligence?

- Assign CI to someone in the organization.
- Ensure that they get appropriate training.
- Gather everyone and discuss what the key intelligence plan should be.
- Get all employees focused on reporting in the information needed for the plan – whether they find it on the net, hear it on the phone, or see it at an event – make sure they know what is important.

As well, there are several analytical techniques that are easy to learn and use just read Strategic and Competitive Analysis: Methods and Techniques by Craig Fleisher and Babette Bensoussan, 2002.

A final piece of advice

Even though a firm may be small, they can collect with the strength of a large firm by using information networks. An article by Calof and Fox (2003) describes how small businesses can work together to collect information at trade shows by sharing portions of their intelligence plans.

As well, part of the network for collection should include customers, suppliers, friends, association executives, government officers and so forth – people who would like to see you succeed. By letting these associates know what information you are looking for (or even tasking them with collecting specific pieces of information), firms can expand their collection potential and may even

approach the collection capabilities of large firms.

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EVALUATING ENTERPRISE EDUCATION IN A VIRTUAL LEARNING ENVIRONMENT: THE CASE OF E-COLLEGE WALES

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ABSTRACT

E-College Wales (ECW) in conjunction with the Welsh Enterprise Institute (WEI), both based at the University of Glamorgan, have designed an online, interactive, Web based Enterprise degree that aims to create and develop business and enterprise skills in Objective One areas of Wales. The programme is supported by the European Social Funds and a network of Welsh Further Education colleges whose primary objective is to assist individuals and communities to generate their own economic development solutions by raising entrepreneurial awareness and improving entrepreneurial capacity.

This paper examines the need for increasing entrepreneurial activity and capacity, and considers the reasons for undertaking this through the platform of Web-based learning, and the characteristics of the first cohort of students undertaking the course. Finally, conclusions are drawn and the requirements for a future research agenda are given aimed at determining the ultimate success or otherwise of ECW.

INTRODUCTION

The strategic approach taken by the University of Glamorgan and partners through the ECW project is geared towards addressing weaknesses in the SME sector, particularly business and enterprise skills, slow adoption of new technologies and the low take up of information and communications technology (ICT). Cooper et al (1988) found that people are more likely to pursue opportunities if they have developed entrepreneurship skills from previous employment. In the absence of work based learning for many individuals in the Objective One areas of Wales, ECW provides an important alternative to obtaining such information through its delivery of the BA Enterprise degree award.

The BA Enterprise Award is also aiming to ensure that support infrastructures are in place (Pickernell, et al, 2003; Jones et al, 2003; Jones et al, 2004) to provide opportunities for all members of the region to engage in new technologies, and gain access to training and support to encourage entrepreneurial activity and Community Economic Development (CED) (by providing free lap-top computers and ISDN lines to all students undertaking the course). The on-line delivery mechanism has been designed in recognition of the need to introduce more flexible methods of delivering education and training to Objective One

communities, and to exploit more effectively the potential of educational institutions to develop the skills of local populations (using local FE institutions as partners and focal points for the face-to-face contact). This requires innovative approaches to delivery, use of ICT and new technologies to support open and distance learning. The Award also addresses a number of key aims of the National Learning Strategy of Wales, including: providing better access to information and provision; developing new measures to increase and widen participation; strengthening co-operation, collaboration and partnership at the local, regional and all-Wales level.

The concept of the project is based upon forming an alliance of complementary organisations in the commercial, educational, media, communications, public and voluntary sector to deliver training and skills development. The clear focus of the BA Enterprise Award is based upon a broad partnership across these sectors, looking to:

- provide a focus in Wales for the development and promotion of excellent management, entrepreneurship and ICT skills in Welsh industry, commerce, public sector and voluntary organisations
- form the hub for future research and learning within Wales for entrepreneurship, small business management and successful practice in e-commerce
- help to create an environment for the regeneration of the Welsh economy.

As a result, the BA Enterprise Award has the aim of helping to achieve the following in Wales:

- Raising productivity and competitiveness in SMEs by updating and upgrading the knowledge, skills, competence and vocational qualifications of employees and employers, including higher level skills, ICT, basic and generic skills.
- Ensuring the development of entrepreneurship and management skills, alongside information technology capabilities.
- Encouraging a partnership approach to the modernisation of work organisation.
- Increase business start-ups through enterprise training.
- Raising the skills base and promoting entrepreneurship within existing social economy businesses.
- Promoting an understanding and appreciation of the opportunities offered by entrepreneurial activities among learners and educators alike.

The primary aim of the BA Enterprise Award is to help individuals establish, stabilise and grow their own small company. In order to achieve these objectives, technologies of e-communication, virtual classrooms, Web technology, video conferencing, broadcasting, distance learning techniques and traditional educational excellence are being used. It is envisaged that the use of these technologies in education will also stimulate their introduction into businesses large and small throughout Wales.

THE BENEFITS OF THE E-APPROACH

Given the interlinked importance of education, entrepreneurship and CED within the Objective One Programme, it would seem sensible to utilise approaches that can simultaneously help meet all of these objectives. Use of ICT potentially offers such an approach, in a number of different ways. Edwards (2001) and Anderson and Simpson (1999) provide examples from Australia where provision of access to ICT has linked communities together both internally and externally with other communities and government agencies. In the UK, Edwards (1996) also outlined a clear example with

respect to education specifically in his explanation of "community learning empowerment and resources" (CLEAR), community learning utilities which exploit ICT to create widespread affordable access to education and training resources, including for those whose previous access was disadvantaged. As he argues:

> *"It does not seem beyond the realms of probability that provision of community access to electronic highways at least for education and business purposes could bring a tremendous boost to a local economy. It is true that start-up costs will be very high, and the pay-off uncertain when seen from the point of view of an SME…or even a college…However, there are numerous ways in which competitive advantage and social equity can be delivered through public enablement of community access to electronic highways"*
> (Edwards, 1996, p.5)

It is also commonly agreed that knowledge will become increasingly important in sustaining a nation's competitive advantage (Packham and Miller, 2000). In December 1999, the European Commission (EC) also launched the eEuropean initiative, with the aim of accelerating the uptake of digital technologies across Europe and ensuring that all Europeans have the necessary skills to use them. The application of digital technologies has become a key factor for growth and employment in this newly emerging knowledge based or e-economy, which is built around the Internet. The EU eLearning initiative addressed the need for Europe's education and training systems to adapt to the knowledge society. A proposal has also been presented to create an action programme for encouraging 'European content' on the Internet. However, Taylor (2002) outlines a large number of problems and opportunities to on-line learning that institutions need to consider. Thus, the key to its ultimate success is the suitability of the methods it uses relative to the students' needs and the materials to be delivered. Morgan (2000) argues that the challenge is to use e-learning appropriately, where it is optimum, and use other modes of instruction where they are most effective. Of course, in order to understand this and ascertain the usefulness of ECW, one needs to understand the nature of the main and potential delivery methods.

POTENTIAL DELIVERY METHODS

Potential delivery methods can be used together with e-learning to provide an appropriate and effective means of instruction (Morgan, 2000). These need to be considered to determine what can be used to train individuals. Table 1 shows the training methods used in organisations which are relevant to ECW which have been researched in this paper and are described in the sub sections below.

Table 1: Training methods used in organizations

TRAINING METHOD	Regularly (%)	Sometimes (%)	Never (%)
On-the-job training	**87.3**	**11.4**	**1.4**
Face-to-face	**84.3**	**14.7**	**1.0**
Coaching/mentoring	**59.4**	**32.1**	**8.6**
Formal education	**49.6**	**46.2**	**4.2**

Source: 'Training and Development 2001' Survey Report, CIPD

On-the-job training

On the job training is essentially a form of work experience, involving coaching and mentoring, and may take the form of internal secondment. The question of transferring the learning to the actual job and working environment does not therefore arise and if properly planned and carried out it can be very effective for some jobs (Reid and Barrington, 1999). Although the trainee is restricted within this environment as the trainer usually has other responsibilities, if a particular role is being focussed upon then the trainer may act as a role model. Throughout on the job training the trainee must be encouraged to learn how to learn from the experiences at work, thereby providing a relative model from which to glean knowledge and skills. Anderson et al (1998) found in their Scottish study that entrepreneurs acting as mentors were seen as very important to the success of the entrepreneurship education process. Williams and Turnbull (1996) reported that entrepreneurs felt an obligation to undertake such mentoring and teaching as they viewed it as an important method to build future markets. In the case of ECW this was influenced by the fact that students wanted to set up enterprises but many did not have equipment or businesses.

Face-to-face

Voci and Young (2001) posit that traditional classroom based learning provides the social interaction that human beings need and enjoy by affording a direct exchange of ideas. Further advantages includes that learners are comfortable with the familiar and comfortable method. In addition face-to-face allows the learner to receive immediate feedback about the appropriateness and acceptance of their responses. In the case of enterprise-orientated training and education, the learner's objectives are to transfer the acquired skills into the workplace, which is very much distinct from the classroom environment. This brings in the danger of the learner not being able to cope outside the classroom, or not being able to apply the knowledge effectively (Reid and Barrington, 1999).

Coaching/Mentoring

> *"Mentoring has the advantage of inducting newcomers to the organisation and assisting them with organisational problems and personal development, thereby increasing motivation and job satisfaction. The mentor can also pass on the organisational culture."* (Reid and Barrington, 1999 p.241)

By comparison this method of training is inexpensive, providing an efficient method of knowledge development. Mentoring can be an extremely useful method for imparting knowledge in entrepreneurial development, and has already been used in Wales (e.g. Menter a Busnes). Cooper points out in McCarthy (2001) that entrepreneurship tends to flourish in areas already strong in entrepreneurship. However, given the need in Wales, and Objective One areas in particular, to significantly increase the relatively small base of entrepreneurs, then mentoring is not viable as a kick-start to the large scale transfer of basic knowledge. Mullen's (1997) UK wide study recommended that entrepreneurship communities able to provide guidance and advice through the entire process should be encouraged. This may become increasingly viable as the entrepreneurship base widens, and ECW may facilitate this as it builds up a database of entrepreneurs who have gone through the process and started up their own businesses.

Formal education issues with distance-learning

ECW's distance-learning Web-based model is clearly driven by practical as well as educational considerations, given the need to reach large numbers of non-traditional students. It clearly builds upon the distance model, which in the UK largely began with the Open University model, through stand-alone Computer Assisted Learning (CAL) systems (that often tried and failed) (see Brooksbank and Pickernell, 1998; Brooksbank et al, 2001) to mimic traditional teaching and learning, to the on-line style that ECW has adopted. However, there are clearly educational issues related to online learning (see Honey, 2001) that require careful consideration prior to implementation.

E-APPROACH OF ECW

The Chartered Institute of Personnel and Development (CIPD) define online learning as "learning that is delivered, enabled or mediated by electronic technology for the explicit purpose of training in organisations." (CIPD Website, 2002). We live in a digital age and the speed of technological advancement is transforming our society and therefore it should not be surprising that this technology has the, "potential to revolutionise training and learning." (Ravet and Layte, 2001:2). Online learning gives people access, through computers and the Internet, to everything they need to learn (Hammond, 2001) and the potential benefits can be summarised as follows:

- Cost savings. (Fry, 2001; Clarke and Hermans, 2001)
- Increased access to training. (Fry, 2001; Clarke and Hermans, 2001)
- Flexible and continual learning. (Clarke and Hermans, 2001)
- Knowledge on demand.(Thorne and Mackay, 2001)

The Internet can be used to simply transmit Web-based training materials to the users' computers to be used "off-line" by downloading the course materials. Alternatively the Web can be used as an online instructional medium itself. However, the introduction of online methods entails a sharp learning curve for the teacher also. When distanced from their students the teacher can often feel isolated (Benfield, 2000). In a classroom the teacher faces an initial struggle to establish an environment of free communication with every new class. Online it is necessary to establish a comfortable Computer Mediated Communication (CMC) facility.

Raelin (2001) also found that on-line learning technology could inhibit action (i.e. research-based) learning because of the absence of non-verbal and socio-emotional transmitted information. However, Hiltz et al (2000) presented evidence that while learning in isolation on-line may be less motivating than learning in a traditional classroom, working collaboratively on-line may actually lead to higher motivation than from within a traditional classroom setting. Canning (2002) also found that even where on-line facilities were established at work for on-line delivery of Web-based materials, the learners preferred to actually undertake their learning at home.

> *"Research suggests that collaboration in an online course can enhance learning, reduce feelings of isolation, increase satisfaction with the course, and increase motivation. Unfortunately, creating an environment within which collaboration can occur doesn't happen automatically. A review of the literature suggests that for on-line collaboration to be most effective, participants must: (1) see the value of expending the (considerable) effort required, (2) be comfortable with and trust the medium, (3) be comfortable with and trust their instructor (or facilitator) and their*

fellow collaborators, and (4) feel as though they are immersed in a rich, engaging, and rewarding social experience." (Hughes, et al., 2002)

The need to generate such an environment becomes more important when one considers the types of student typically involved. Jones and Martinez (2001) found that compared to the general student population, students choosing Web-based distance learning courses tend to have learning orientations characterised by more self-directedness and discovery learning. Some individuals may be attracted to distance learning because it offers them an opportunity to learn autonomously and effectively without having to interact much with others. This may be especially true in the case of busy professionals who are drawn to distance learning because they do not have time to take traditional courses. This, of course, is one of the benefits of ECW. Indeed, Ragoonaden and Bordeleau (2000) found that some students actually resented having to communicate with others whose work habits were different from theirs.

There are also a number of practical difficulties that ECW has had to overcome. One obvious potential drawback of online learning is access, or the lack of it to the very excluded groups often the ones most in need of the education it offers (Fry, 2001). However, the opportunities provided by ECW make it possible to cross this divide using European Objective One funding to ensure access to those undertaking the course, through free laptop computers and ISDN lines.

Technical difficulties can also create frustration by obstructing communication, interaction and collaborative learning (Canning, 2002; Ragoonaden & Bordeleau, 2000). Diverse technological skill levels amongst learners, if not addressed, may also be demotivating (Ge et al, 2000). Learners need both to be comfortable with the technology and be aware of the correct responses to technical problems when they do arise (Hughes et al. 2002). This requires the use of skills audits and training prior to the learning process itself, to allow students to develop trust and breakdown their natural resistance (Wegerif, 1998). In the case of ECW both of these have been put into place for students undertaking the course.

This process also needs to be on-going once the students go on-line. This can take several forms. For example, Harisim (1999) created a social Web conference forum called the “coffee house.” Clark (2000) suggested that students could post a public introduction and biography so that their peers could gain an immediate insight into their classmates’ backgrounds, interests, and skills. This was meant to make it easier and more comfortable for them to subsequently collaborate. Group learning contracts have been successful in establishing trust and a sense of community among group members (Murphy et al, 2000). Instructors can also help in facilitating the process of both group interaction and individual student work (Canning 2002). This often requires a shift to learner-centred environments where instructors act as facilitators, mediators, and problem solvers, offering guidance and suggestions for group projects and addressing any difficulties that arise (Murphy et al, 2000; Rogers, 2000). They thus have a fundamentally different role from in a traditional classroom where Abell (2000) notes that the instructor traditionally disseminates information and students merely absorb it. In the on-line environment, knowledge is generated through relationships and interactions (student-to-student and student-to-instructor). When groups collaborate on projects, a great deal of co-ordination is required, because the development processes are more complex on-line than they are in person (Hughes et al, 2002). On-line collaboration can provide many opportunities for the on-line learner, but requires facilitation via: encouragement to students of its worth; creating familiarity with using the technology; establishing trust between instructors and students; and creating a social environment on-line to promote collaboration (Hughes et al, 2002).

Many of these measures have been put into place with e-college. It is also important to note that, as Hodson et al (2001) have pointed out, computer based learning has the ability to offer distinct advantages to adult learners (of which the e-college student set is predominantly made up). This is because on-line based learning is particularly well suited to delivering materials that support and promote experiential learning (Kolb, 1984). Furthermore, it is able to deliver this material flexibly to overcome the problems that adult distance learners experience in terms of social responsibilities, limited time etc. Gasse and Garnier (1994) found that entrepreneurship was best taught using multiple methods when the participants were not well defined or the objectives were multiple and broad. However, when specific groups and objectives had been identified then specifically suitable methods could be used. E-college's methods have been chosen to be suitable to its target audience and objectives. Tyler's (1994) analysis of suitable curricula for enterprise education found that finance, business planning and identifying market conditions were seen by business owners, professionals and community groups as the most important elements of formal curricula. ECW's curriculum has been designed to meet these needs, with the first year of the programme aiming to give the student the skills to start a business, the second year's curriculum being concerned with survival, and the final year being the growth phase part of the course.

A PROFILE OF ECW STUDENTS: THE STORY SO FAR

A statistical profile of the first 183 ECW students indicates the broad nature of the audience that ECW is engaging with, and indicates some optimistic trends that can be discerned for the role ECW is playing in meeting the range of objectives outlined earlier. The geographical spread of the first cohort shows that 94 (51.4%) students are located in South East Wales and The Valleys, 57 (31.1%) are located in West Wales and 32 (17.5%) are located in North Wales. There is a relatively even spread around the Objective One areas. The course is promoting female entrepreneurship, the proportions of females on the course being much greater than those in the business community at large. This is shown by the fact that there are 74 (40.4%) females and 109 (59.6%) males.

ECW is promoting formal degree level education within non-traditional age groups. Most degrees are begun whilst students are still in the 18-20 age range. Conversely, ECW is being undertaken by students with a much broader spread of ages. For the first cohort 2 (1.5%) are under 20, 47 (25.6%) are 21-30, 53 (28.9%) are 31-40, 46 (25.1%) are 41-50, 31 (16.8%) are 51-60 and 4 (2.1%) are over 60**.** ECW's potential role is in increasing high level educational attainment, given that it indicates that the course represents an improvement in qualification level for nearly half the students. For the rest, ECW is also promoting entrepreneurial capacity more generally through its material.

The current employment status of students shows that 37 (20.2%) are unemployed, 50 (27.3%) are self employed, 43 (23.5%) are professional, 21 (11.5%) are academic related, 29 (15.8%) are industrial/engineering and 3 (1.6%) are other/not known. For the 20% of students currently unemployed the successful use of the course (to start their own business) will represent a reduction in unemployment/inactivity. For those currently self-employed the course, if successful, should improve their entrepreneurial capacity, whilst for the rest ECW is promoting more entrepreneurial activity.

Given the current relative paucity of finance and business related activities in Wales generally and the Objective One regions specifically, the concentration of students' business ideas in sectors such as sports/leisure, computing, engineering, hotel/catering, consultancy, business development, retail and design work also offers some grounds for

optimism about the worth of ECW. A more in-depth examination of the business ideas also revealed that nearly a third were for businesses that would serve the immediate local area (e.g. crèches), local firms (accountancy and business services) or community groups. Community enterprise type examples included creation of Web sites of local entertainment, for communities, and for linking communities and schools, a consultancy for small voluntary groups, and a local skills centre for teaching agriculture, horticulture and woodwork. Firms supplying local IT training and advice, access (cybercafés) and home computer repair were also strongly represented, which is of obvious importance given that many of the communities in the Objective One areas do not have proximate access to these services.

When examining the business ideas it is also clear that over a third of the students are already in small businesses or community activities and are using the course to advance skills linked to their existing employment. The spread of these people also fits in with the patterns mentioned earlier, in that two thirds of the people already working in these activities were to be found in the West Wales parts of the Objective One area, and only a third in the relatively entrepreneurially deficient Valleys area. Included amongst these existing players were managers of local charities, youth organisations, and organisations to help community groups, all of whom hoped to improve their capacity to run their organisations. Thus, whilst the course is specifically designed to encourage entrepreneurship in the Objective One areas, it is also having the potential knock-on effect of improving the capacity of community-based organisations and increasing the goods and services available to local communities provided by members of local communities themselves.

CONCLUSIONS: DEVELOPING THE RESEARCH AGENDA FOR ECW

The initial signs for ECW are encouraging. In a number of broad interlinked areas related to increasing educational, technological, entrepreneurial and community capacity and participation, ECW can be seen as a potentially very successful delivery mechanism. This involves a blended learning approach to supplement and enhance the online learning experience due to the specific needs of the students. The challenge will be to spread this approach further afield to other areas and countries especially as the nature of the individual can be very much different from the traditional Higher Education student. ECW, however, is at an early stage and this brief examination of the issues indicates a number of areas where further research is needed. A full evaluation of ECW will be a long-term project. However, there are a number of shorter-term projects that could fit into this research agenda.

Further research into the effectiveness of the digital delivery mechanism of enterprise education and analysis of whether the systems adopted should be changed/added to in future (e.g. mentoring) would seem to be necessary. This may be analysed both specifically and also in comparison with other enterprise education initiatives. This could include a psychological profile of e-learners against the literature to determine whether the course is attracting “traditional” entrepreneur types. There is already much literature on this issue (see for example, Gaedeke 1995; Cooper et al, 1988; Miner 1996), but the degree to which successful entrepreneurialism can be predicted by psychological characteristics is still a topic of debate.

The significance of the virtual enterprise degree course to the economic and social structure of Wales also needs to be examined. This should include an examination of the ways in which overall entrepreneurial capacity has been affected by the programme. This could involve a longitudinal study of student activity to assess the effectiveness of on-line delivery of enterprise education in terms of its comparative impact on business start-up and growth. A sectoral study of the companies created (and their success or otherwise) compared with the existing structure of the Welsh economy and the sectoral make-up of business start-ups in Wales may also form part of this. An examination of the CED effects of e-college in terms of capacity building, community businesses and networking within, and between, communities would be of significant use to policy makers and funding providers. The specific effects of the course will also require analysis, particularly whether entrepreneurial skills gaps have been closed as a result of e-college.

The analysis of the ECW project will cut across the neo-classical distinctions between production, utilisation, consumption and governance, because the potential effects of ECW are wide-ranging. The effects of globalisation are making the old reliance upon inward investment a risky strategy as multinationals fragment operations in search of cost advantages. Instead, internally driven economic development will become increasingly important. Based on the proverb, “If you give someone a fish they will eat for a day, but if you teach them how to fish, they will eat for a lifetime”, ECW is an important tool helping to deliver improved economic and social performance in Wales.

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Building an Innovation Economy

Collaborations Between Universities and Communities

Presented by:
Ann M. Dugan
Assistant Dean
University of Pittsburgh
Katz Graduate School of Business
Institute for Entrepreneurial Excellence

The Knowledge Economy

"Because technological advances have freed up companies from traditional business costs

.

knowledge, **skills**, and **experience** embodied in individuals

have become more valuable than capital equipment and even capital itself"

- James Irvine Foundation

Old vs. New (Knowledge) Economy

ISSUE	OLD ECONOMY	NEW ECONOMY
Economy-Wide:		
Markets	Stable	Dynamic
Scope of Competition	National	Global
Organizational Form	Hierarchical, Bureaucratic	Networked, Entrepreneurial
Regional Competition	Low	High
Industry:		
Organization of Production	Mass Production	Flexible Production
Key Factor of Production	Capital/Labor	Innovation/Knowledge
Source of Competitive Advantage	Low Cost through Economies of Scale	Innovation, Quality, Time-to-Market
Importance of Research	Moderate	High
Workforce:		
Skills	Job-Specific	Broad, Cross-Training
Requisite Education	A Skill	Lifelong Learning
Nature of Employment	Stable	Marked by Risk and Opportunity

- Progressive Policy Institute

Higher Education's "Products"

Universities Supply the Feedstock
for Economic Growth
in the Knowledge Economy:

Smart People *and* **Good Ideas**

Innovation and Technology Transfer is the Result!

Moving Research to Innovation to Market

- Recognizes that innovation is key
- Creates community culture that continuous innovation is encouraged
- Recognizes key ingredients for innovation are broader than research
- Requires human, intellectual, financial and social capital—from the university and the community

Higher Education's Role in the Knowledge Economy

Innovation & Entrepreneurship

- 31 jobs are created for every $1 million in R&D (Association of American Universities)
- Average of 1 spinout per $75 million in R&D (Association of University Technology Managers)

Community Development

- $11.9B in annual spending by PA institutions, much of it locally (US Dept. of Education)
- "Education and Knowledge Creation" 2nd-fastest-growing US industry – 300,000 new jobs between 1990-1999 (CEOs for Cities)

Workforce Development

- Every 1% increase in college educational attainment increases a region's ranking in high-tech activity by two places (Brookings Institution)

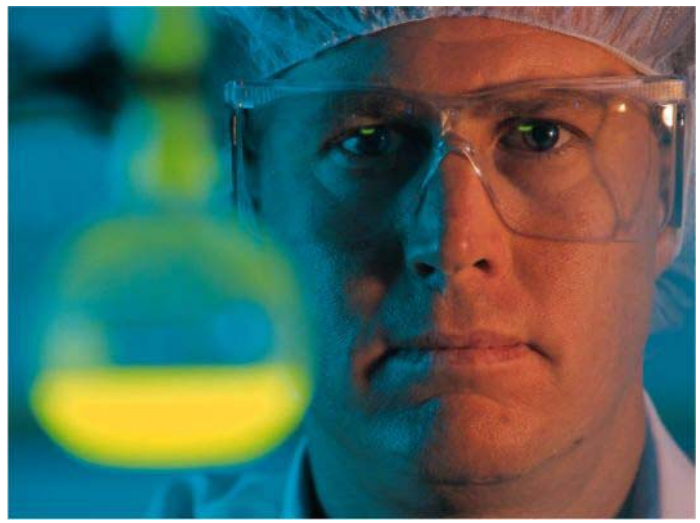
Pennsylvania's Regional Economies

- **14 Regional Economies:**
  Philadelphia, Pittsburgh, ABE, Altoona, Erie, Harrisburg, Johnstown, Lancaster, Reading, Scranton-Wilkes Barre- Hazelton, Sharon, State College, Williamsport, York (PMSA/MSA)
- **85% of the state's population**
- **Regional Dynamics**
  - Innovation Regions
  - Production Regions
  - Stressed Regions
  - Slipping Regions

Innovation Regions

Philadelphia, Pittsburgh, State College

- Assets for Entire State
- Drive Innovation and Growth
  - Annual University R&D Spending of $1.6 Billion by Three Regions
- Other Regions: Link to Them to be Competitive
- Role of Higher Ed:
  - Talent (workforce and entrepreneurs)
  - Intellectual Capital (innovation, tech transfer)
  - Community Anchors



Production Regions

Allentown-Bethlehem-Easton, Harrisburg, Lancaster, Reading, York

- High Degree of Industrial and Economic Vitality
- Top in Generating Jobs
- Substantial Human Resources
- Affordable
- Role of Higher Ed:
  - Build Linkages with Innovation Regions
  - Maintain Competitive Edge: Workforce Development
  - Community Anchors

Stressed Regions

Altoona, Erie, Scranton–Wilkes-Barre–Hazelton, Sharon

- Substantial Challenges To Maintain Population And Employment
- Not Likely To Benefit From General Improvements In State
- Comprehensive Approach Required
- Role Of Higher Ed:
  - Community Anchors
  - Workforce Development
  - Conveners

Slipping Regions

Johnstown, Williamsport

- Lagging The State In All Ways—beyond Stressed Regions
- Lack Resources To Solve Own Problems
- Will Require Specific And Direct Support From State
- Role Of Higher Ed:
  - Community Anchors
  - Workforce Development
  - Conveners

Setting the Stage

- What Are The New Realities?
  - The Realities Facing Everyone
  - Additional Realities Facing Universities/Colleges
- What Are The New Requirements?
  - New Thinking About Economic Development
  - New Thinking About University/College Mission
- What Are The New Opportunities?
  - Benefits Can Be More Widely Shared

    A New Common Ground Is Possible

New Reality: Change

1999: *During the the late 1990s the US research university began to be anointed as the poster child of the knowledge economy.*

.

2001: *"Only two entities in our society are basically still operating as they were 100 years ago. One is education; the other is government. Everything else in the world has changed with the advance of technology. These two things kind of grind along in 19th century form."*

--Craig Barrett,
Intel Corporation

Powerful Engines of Discovery
Are They Being Fully Tapped?

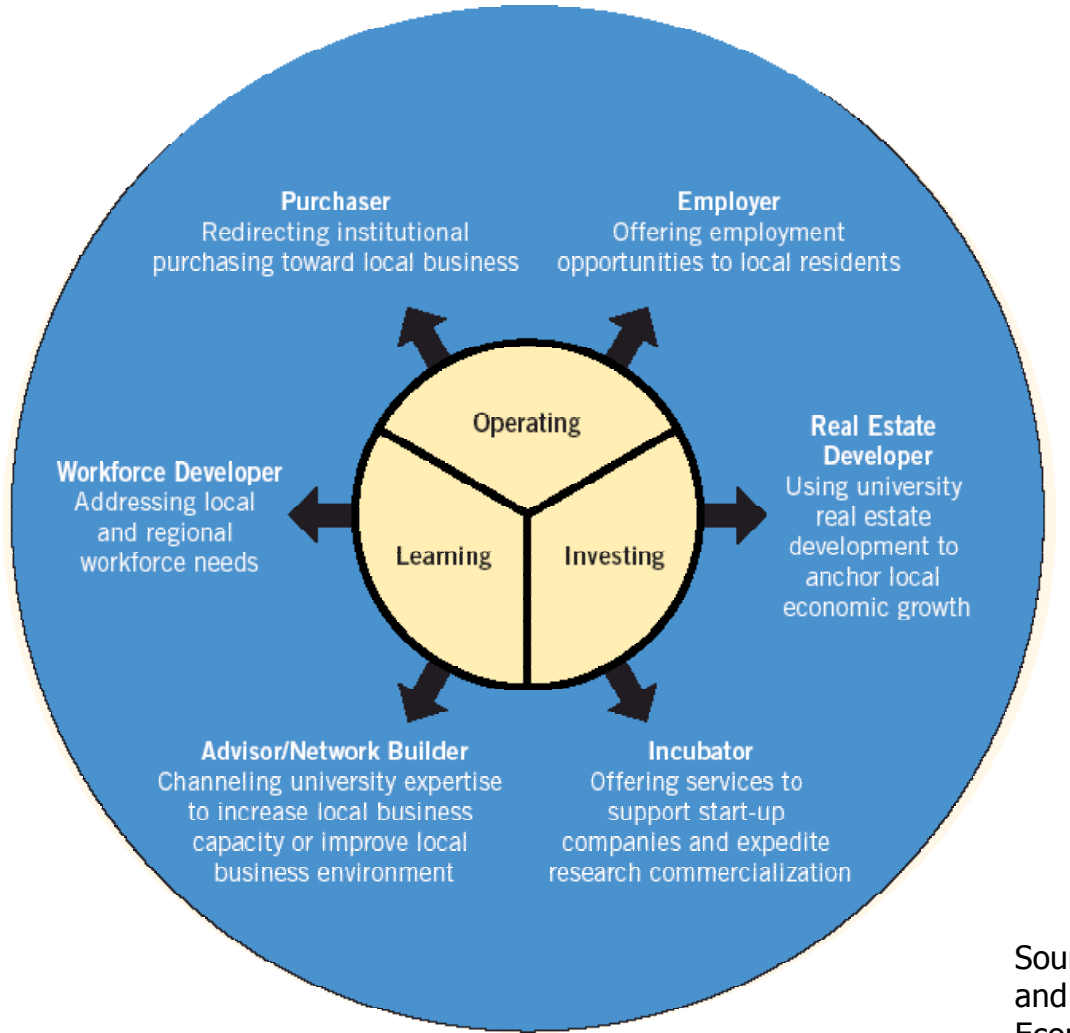
- Recognizes universities are the locus for multiple innovation "ingredients" (talent,interdisciplinary teams) for regions
- Recognizes that barriers to innovation have been traditional "walls" that separate universities, industries and entrepreneurs
- Recognizes the power of "tacit knowledge"

New Way of Thinking About Roles

- Create an explicit urban ED strategy focused on the surrounding community
- Include meaningful community participation and dialogue
- Charge specific areas with explicit ED goals
- Create a high-level champion to oversee/advance the effect
- Integrate university leadership to serve on community initiatives and boards
- Think long-term

Source: Leveraging Colleges and Universities for Urban Economic Revitalization.

University/College Role

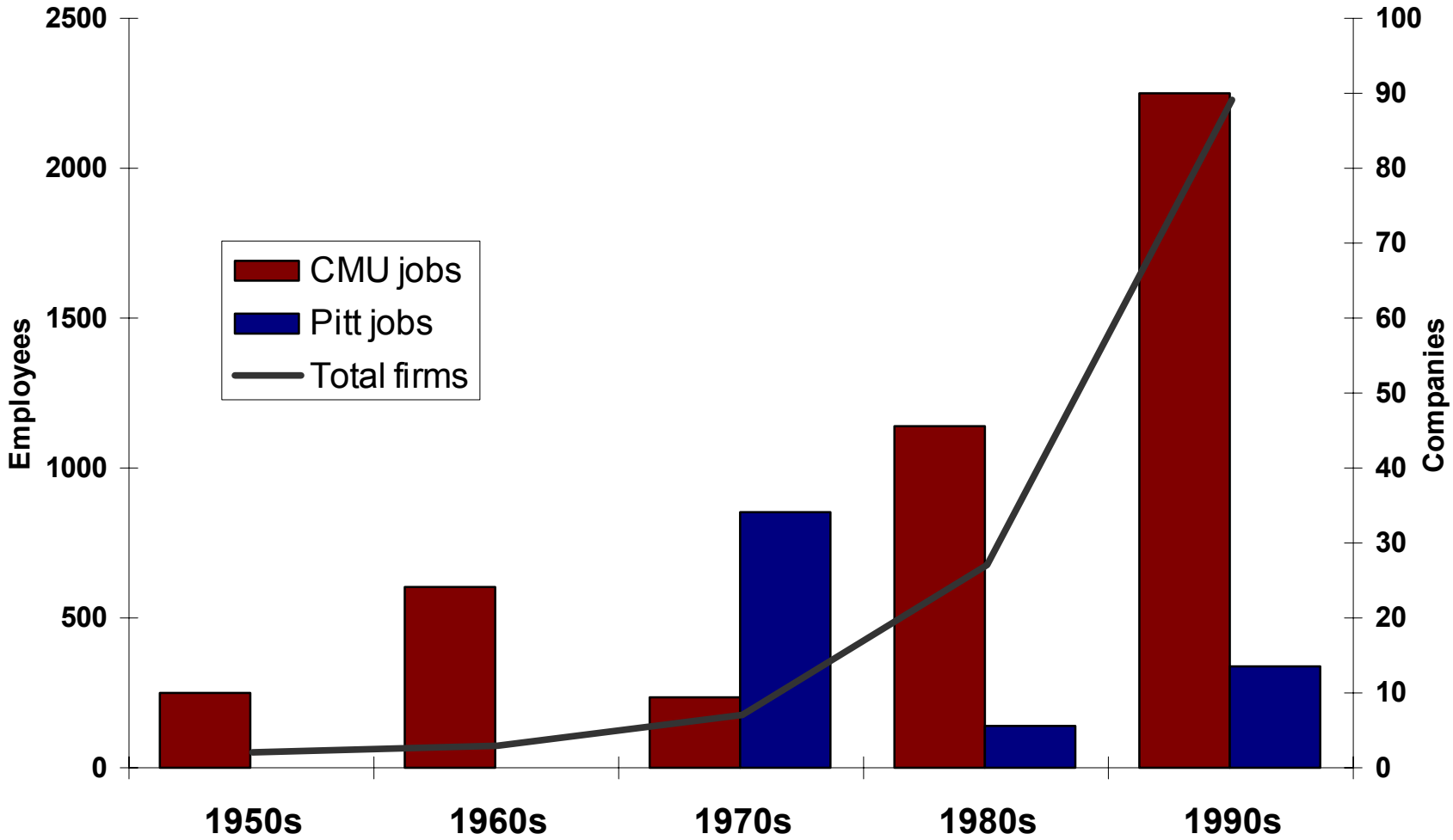


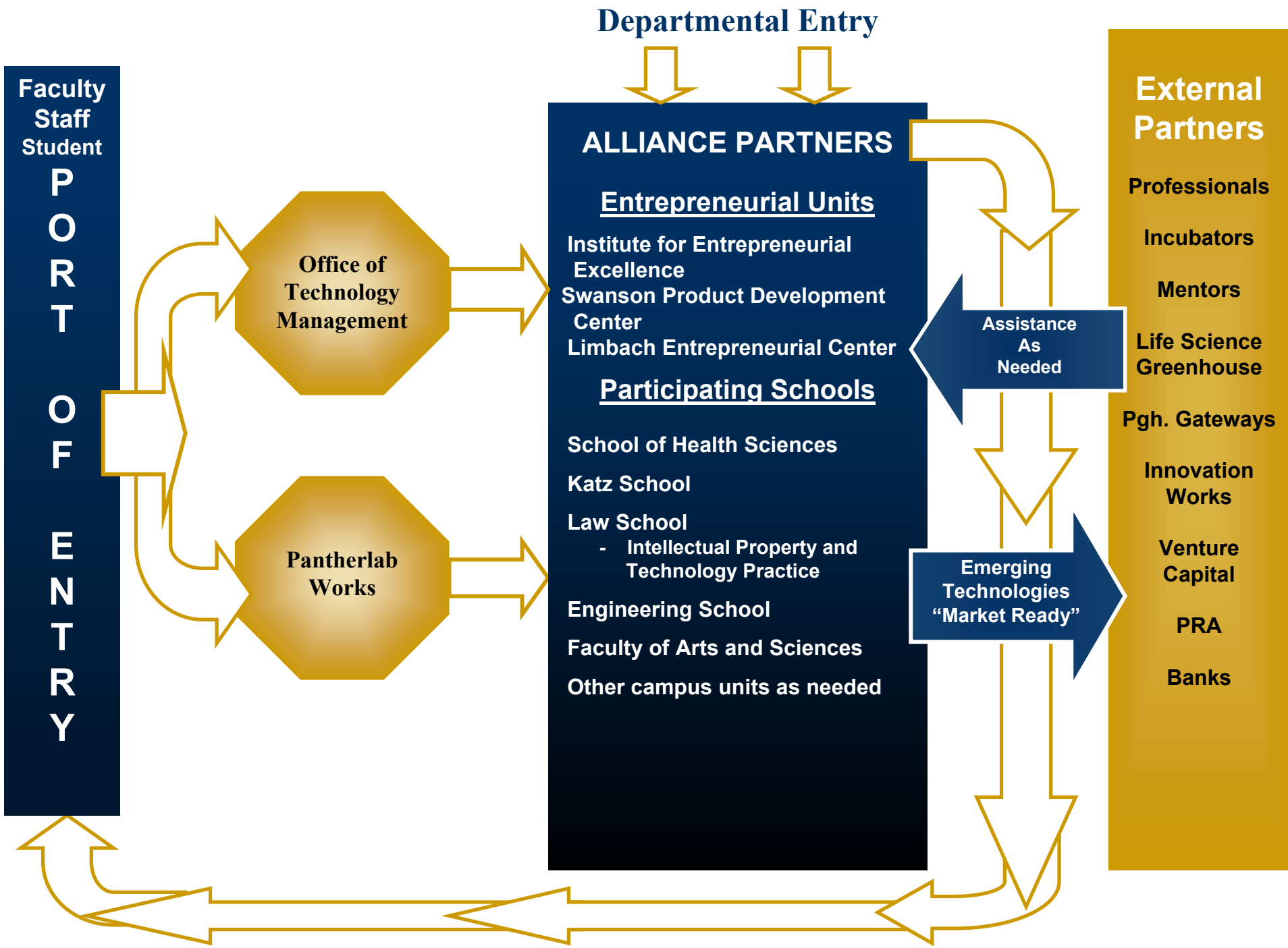
Source: Leveraging Colleges and Universities for Urban Economic Revitalization.

“It’s at the intersections of disciplines where sparks fly.”

Telecommunications, Biotech, Software, The Web, Great Music, Architecture, and Art

175 University Spin-offs; 6,200 Jobs




Departmental Entry
Faculty
Staff
Student
PORT OF ENTRY
Office of Technology Management
Pantherlab Works
ALLIANCE PARTNERS
Entrepreneurial Units
Institute for Entrepreneurial Excellence
Swanson Product Development Center
Limbach Entrepreneurial Center
Participating Schools
School of Health Sciences
Katz School
Law School
- Intellectual Property and Technology Practice
Engineering School
Faculty of Arts and Sciences
Other campus units as needed
Assistance As Needed
Emerging Technologies "Market Ready"
External Partners
Professionals
Incubators
Mentors
Life Science Greenhouse
Pgh. Gateways
Innovation Works
Venture Capital
PRA
Banks

Pitt, CMU, Wharton
A Number of Tools Available

- License Agreements
- Option Agreements
- New Company Formation
- Sponsored Research
- Access to Equipment/Laboratories

New Economic Development

From:

- Being a cheap place to do business was the key
- Attracting companies was the key
- A high-quality physical environment stood in the way of attracting businesses
- Regions won because they held a fixed competitive advantage in some resources or skill
- Economic development was government led

To:

- Being a place rich in ideas and talent is the key
- Attracting educated people is key
- Physical and cultural amenities are key in attracting knowledge workers
- Regions prosper if organizations and individuals have the ability to learn and adapt.
- Only bold partnerships among business, government, and the nonprofit sector can bring about change

Source: Progressive Policy Institute

Impact

- Provide innovations to the business community
- Create jobs
- Expand markets
- Enter New Markets

Build a Sustainable Engine

University Wins / Community Wins

THE INTERNATIONALISATION OF SOUTH AFRICAN SMES.
A SAMPLE OF THE CLOTHING AND TEXTILE INDUSTRY

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INTRODUCTION

South Africa is by far the richest and most economically developed country in Southern Africa. Its industrial sector is well developed and active, and a healthy competition makes its companies more efficient. In a world characterised by a growing interdependence among national economic systems, however, being competitive means being able to face international competition and to operate in foreign markets. The presence of South African companies in foreign markets is increasing but, still, it is concentrated in a few industries and mostly among larger companies.

South African Small and Medium sized Enterprises (SMEs) still do not contribute in a significant way to South African exports and appear reluctant to push into foreign markets. South Africa needs SMEs to sustain widespread growth that big business alone has not been able to deliver. But also for SMEs being competitive means the ability to succeed in foreign markets.

Indeed, in a context of increasing globalisation, the internationalisation process is no longer a choice[1], even for South African SMEs, but a path to follow in order to be

[1] This is certainly not a novelty: more than twenty years ago Levitt wrote: "Companies that do not adapt to the new global realities will become victims of those that do". LEVITT T., "The globalisation of Markets", in *Harvard Business Review*, vol. 61, May-June, 1983, p. 102.

competitive[2]. Alternatively, the risk is to endure passively the expansion of competitors on the local markets, putting into danger the survival of the business. Indeed an interesting - and unforeseen by most theories - feature of the globalisation process is the growing involvement of small businesses[3]. This involvement, however, is not equally strong across the globe. While in most industrial and industrialising countries for many small businesses it represents an opportunity to be taken, in less industrialised countries for many small businesses globalisation appears as a serious threat. This seems to be the case for most African countries, including South Africa. In this country, the small and medium enterprises seem to endure international competition on their home market without succeeding in creating a space for themselves in foreign markets. The proportion of exports generated by South African SMEs is worryingly low. It is clear that it is of vital importance that the competitiveness of the South African enterprises, specifically SMEs, in international markets be improved. In order to achieve this, it is necessary to understand how South African companies, larger ones and SMEs, move in foreign markets.

This paper presents one side of a study, aimed at comparing attitudes of exporting SMEs in African and European countries in order to understand the reasons of the latter's SMEs success in international markets and to evaluate the teachings that can be extracted for helping the former to be more competitive internationally.

It is well established in literature that companies can approach foreign markets in significantly different ways. These can be distributed between two extreme positions, the proactive approach and the reactive approach to internationalisation.

The former implies that the company makes a clear strategic choice, deeming important to be able to operate on a regular basis in foreign markets, wherein it tries to penetrate carefully and deliberately planning its way[4]. Opposite to this is the passive approach, typical of companies that albeit present in foreign markets, deem such a presence of limited importance for the company itself and incidental to their adapting to transitory circumstances.

For a long time it was assumed that SMEs would adopt, as a matter of course, the latter approach to internationalisation and that only following a process of steady growth they would – almost while shedding their nature of SME – be able to embrace the former. Recently, however, empirical research in many countries[5] has shown that a small but growing proportion of SMEs displays a clearly proactive approach to foreign markets.

Another tenet in the understanding of how SMEs move in international markets is the theory of the stages approach to internationalisation, which traces, with slight differences among authors, a sort of path in the internationalisation process of SMEs. The firm moves (or can move) from a stage where it is completely uninterested in foreign markets, through sequential steps, to the condition of experienced exporter, strongly present in all the world markets.

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[2] For a general review of the internationalisation of business see, among others, BUCKLEY P. J. GHAURI P.N. (eds.), *The internationalisation of the firm: A reader*, Academic Press, London 1993.

[3] GRANDINETTI R. RULLANI E., "Internazionalizzazione e piccole imprese. Elogio della varietà", in *Piccola Impresa/Small Business*, n. 3, 1992.

[4] See, for example, HOLLENSEN S., *Global Marketing*, Prentice Hall, Englewood Cliffs, N.J., 2001; pp.28-29.

[5] As an example see: JULIEN P.A., JOYAL A. DESHAIES L,. RAMANGALAHY C., "A typology of strategic behaviour among small and medium-sized exporting businesses. A case study.", in *International Small Business Journal*, vol. 15, 1997; and TREVISAN I., "I modelli di approccio incrementale ai mercati esteri e i percorsi di internazionalizzazione delle imprese minori del Triveneto", in *Piccola Impresa Small Business*, n 1, 2001.

This model, developed by the "Swedish school"[6] and subsequently readapted by various authors[7], maintains that the expansion of SMEs in foreign markets happens incrementally, with the timing and the happening of the various steps influenced by their growing knowledge of foreign markets, and growing confidence in their capability of acting in such markets, due to their increased expertise therein.

The stages approach theory has been variously criticised as being too deterministic[8] and cannot be considered as the only possible model of SMEs internationalisation. Indeed, it increasingly appears that SMEs tend to leap-frog one or more stages in the sequence, both in terms of where they firstly enter in foreign markets[9] and in the intensity of the their initial presence therein. In particular, it must be pointed out the growing phenomenon of the so-called "Born Globals": companies, sometimes SMEs, which aim at foreign markets since their establishment[10]. Usually they are technology-oriented companies that develop innovative products or production processes.

The present study takes into consideration South African SMEs in the textile and clothing industry. Specifically, in this paper, their attitude towards foreign markets will be analysed: whether it is reactive or proactive, as well as whether their moves in those markets can be well explained by the sequential path laid out by the stages approach theory.

In order to set these findings in their proper context, the internationalisation process of larger South African companies will also be analysed.

METHODOLOGY

The study of the internationalisation routes taken by the firms under examination is based on the analysis of interviews with their owners or export managers carried out using a questionnaire[11]:

South African firms operating in the textile and clothing industry were identified, about eight hundred of them were contacted and a questionnaire was either given directly to them, in the Pretoria-Johannesburg area, or sent them by mail or e-mail, in the rest of South Africa. The return rate was low and we collected or received back 82 questionnaires. The sample is then made up of those who were willing to return the questionnaire; therefore no statistical representative-ness can be claimed for it. Some of the questionnaires received were incomplete or otherwise not usable, mainly because the answering firm was not a manufacturer but only a trader We kept in our sample 11 questionnaires of firms that besides being manufacturers are also distributors of imported

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[6] JOHANSON J., WIEDERSHEIM-PAUL F., "The internationalisation of the firm. Four Swedish cases" in *Journal of Management Studies*, October, 1975; pp. 305-322 e JOHANSON J., VAHLNE J.E., "The internationalisation process of the firm. A model of knowledge development and increasing market commitments", in *Journal of Management Studies*, vol. 8, n. 1, 1977. This model is also called the "Uppsala model".

[7] See, for example, CZINKOTA M.R., TESAR G, *Export Management*, Praeger, New York, 1982.

[8] TURNBULL P.N., "Interaction and international marketing: an investment process", in *International Marketing Review*, winter, 1987.

[9] NORDSRÖM K.A., *The Internationalisation Process of the Firm: Searching for New Patterns and Explanations*, Stockholm School of Economics, Stockholm, 1990.

[10] MADSEN T.K. *et al.*, " Differences and similarities betwee Born Globals and other types of exporters ", *Working Papers in Marketing*, no. 22, University of Southern Denmark-Odense, 1999.

[11] The questionnaire was drawn up in such a way as to be applicable to any enterprise, irrespective of size or sector. The type of question is based mainly on hypotheses made in the literature on internationalisation.

clothing or textile products. In the end our sample is composed of 69 SMEs, 43 of them exporters; 26 are in the textile industry, 37 are clothing producers and 6 are in specialised productions.

The tool for the research is a questionnaire specifically developed, consisting of four parts: two, related to the characteristics of the firm and the factors that in their perception are an obstacle to their exports (actual or planned), were aimed at all the businesses, while the other two, related to the reasons for their decision to operate in foreign markets and the timing and the extension of their internationalisation process, were aimed at the firms that are actually exporting. Almost all the questions were closed or semi-closed questions, most of them with pre-coded multiple answers. Some questions consisted of a number of items whose importance had to be evaluated on a scale from 1 (irrelevant) to 7 (most important).

In this paper the analysis of the results is mostly descriptive, in order to establish the path towards internationalisation followed by these businesses and comparing it with what appears to be the normal internationalisation process of SMEs as is reported in literature.

THE SAMPLE: STRUCTURAL CHARACTERISTICS OF THE FIRMS

The clothing and textile industry is among the most important manufacturing industries in South Africa, producing about 6.5% of the total manufacturing output of the country. Its role in the country's export is, however, rather marginal: in 2001 textile and clothing exports amounted to US $ 544 million, only 1.9% of the total.

About 530 textile and 2,300 clothing productive units were counted in the year 2002[12], including the micro enterprises. According to the South African Clothing Federation (Clofed) 654 firms were operational in the clothing industry in 2001. The 800 firms contacted during the research are about one third of the total and more than one half, if micro enterprises are excluded. The sample used, thus, despite the low rate of return of the questionnaires, represents 5.6% of the clothing companies numbered by Clofed and about 5% of the textile productive units counted in South Africa.

Most of the firms in the sample (62%) are limited companies, a few of them (9%) public ones. All the larger firms belong to this category, while among the SMEs, the largest group is made up of partnerships (42%). Among these firms, sole proprietorships and public limited companies are in the same proportion (9%). There is a correlation between size of the firm and type of ownership: most of the limited companies tend to be larger businesses, all the other firms are SMEs. However, this correlation is weak. There is one single proprietorships and one partnerships among the firms with 150 to 249 employees, while there are limited companies in all the classes of employees, including that from 1 to 4.

Of the 69 firms of the sample, 48 (69,6%) are SMEs (the E.U. definition of SME as a company with less than 250 employees, is adopted). The proportion of SMEs among the 43 exporters of the sample is only slightly lower: 26 firms corresponding to 60,5% (see

[12] NAUMANN E., "An analysis of the spatial distribution of the clothing and textile industry in SADC", in DPRU WORKING PAPER N. 02/66, 2002.

table 1). More than half (56,5%) of the sample is made up of firms with up to 100 employees, the largest group being the class between 21 and 50 employees (27,5%). The next two classes in order of size are those of the larger companies (between 250 and 500 and more than 500 employees, almost equally represented).

Table 1 The dimension of the firms (employees)

Employees	All firms		Exporters	
	N.	%	N.	%
Between 1 and 4	1	1.4	-	0.0
Between 5 and 10	5	7.2	2	4.6
Between 11 and 20	6	8.7	3	7.0
Between 21 and 50	19	27.5	9	20.9
Between 51 and 100	8	11.6	6	13.9
Between 101 and 150	4	5.8	1	2.3
Between 151 and 249	5	7.2	5	11.6
Between 250 and 500	10	14.5	6	13.9
More than 500	11	15.9	11	25.6
Total	69	100.0	43	100.0

It can be noticed that while all the companies in the larger class are exporters, only 60% of those in the second largest are.

Examining the sample according to the other parameter for the dimension of the firms, the turnover, it appears that almost a quarter of the firms have a low turnover of less than € 500,000 and for another 30% the turnover stays below € 2,5 million. (see table 2).

Table 2 The dimension of the firms (turnover)

Turnover	All firms		SMEs		Larger companies	
	N.	%	N.	%	N.	%
Up to € 125,000	6	8.7	6	12.5	-	-
From € 125,000 to € 250,000	5	7.2	5	10.4	-	-
From € 250,000 to € 500,000	6	8.7	6	12.5	-	-
From € 500,000 to € 1 million	6	8.7	6	12.5	-	-
From € 1 million to € 2.5 million	14	20.3	14	29.2	-	-
From € 2.5 million to € 5 million	6	8.7	5	10.4	1	4.8
From € 5 million to € 12.5 million	10	14.5	3	6.3	7	33.3
From € 12.5 million to € 25 million	9	13.0	1	2.1	8	38.1
From € 25 million to € 50 million	1	1.4	1	2.1	-	-
More than € 50 million	4	5.8	-	-	4	19.0
N.R.	2	2.9	1	2.1	1	4.8
Total	69	100.0	48	100,0	21	100,0

All these companies are SMEs, the larger companies start appearing, albeit one firm only, in the next class of turnover, up to € 5 million. If it is true that the larger companies show a high turnover, the converse – firms with a high turnover are larger companies – does not apply. Indeed more than 20% of the SMEs have a turnover of € 2.5 million and higher (and two of them higher than € 12.5 million). Among the SMEs, higher turnover generally but not necessarily means larger size; indeed, the SME with the higher turnover is the smallest firm of the sample. This is explained by the fact that a large proportion of its turnover is due to the sale of imported products, while only a smaller proportion is due to its own

manufactured products. This applies also to a couple of other SMEs with high turnover, but most of them are pure manufacturers.

Most firms have been in business for a long time: only one quarter of them was established after 1990 and almost half (48%) before 1981(see table 3). This can be considered as a sign of solidity and good management of these firms; at least insofar as the long term survival of the business was attained.

There is a clear difference between SMEs and larger companies in terms of year of establishment, and the SMEs are more recent: one third of them was established after 1990 (and the only firms in the sample born after 2000 are SMEs) and exactly two thirds after 1980.

Table 3 Year of establishment of the business

Period		Before 1945	1945-1960	1961-1980	1981-1990	1991-2000	After 2000	Total
All firms	N.	7	10	15	19	16	2	69
	%	10.1	14.2	21.7	27.5	23.2	2.9	100.0
SMEs	N.	4	4	9	16	13	2	48
	%	8.3	8.3	18.8	33.2	27.2	4.2	100.0
Larger companies	N.	3	6	6	3	3	-	21
	%	14.3	28.6	28.6	14.3	14.3	0.0	100.0

The main concentration of firms birth is in the period 1981-1990, but births among large companies are concentrated in the period 1945-1960, followed by 1961- 1980 (the former has a higher rate per year). SMEs are clearly younger and make up more than 80% of the firms in the sample founded after 1990. We will discuss presently whether this affects the presence of those firms in the foreign markets.

ATTITUDE TOWARDS EXPORTS

Close to two thirds of the firms in the sample are exporters (see table 4). The situation, however, is rather different if the size of the firms is taken into consideration.
While only slightly more than half of the SMEs sell in foreign markets, more than four fifths of the larger companies do so.

Table 4 Exporters in the sample

	SMEs		Larger		All firms	
	N.	%	N.	%	N.	%
Exporters	26	54.2	17	81.0	43	62.3
Non-exporters	22	45,8	4	19.0	26	37.7
TOTAL	48	100.0	21	100.0	69	100,0

Looking at the data from another angle, it appears that the larger companies (which are about 30% of the sample) represent 40% of the exporters and only 15% of the non-exporters. This might be taken as a tentative indication that the firms in the sample comply with the traditional view that a larger size makes it easier deciding to operate in foreign markets. A closer look, however, shows that the reality is more nuanced.

Almost 18% of them earn from foreign markets more than half of their turnover. But also almost 12% of the SMEs are in the same condition and they are exactly one half of such strong exporters in the sample as a whole (see table 5). Looking at the other end of the range, the firms that are marginal or moderate exporters (up to 10% and 30% of turnover from exports, respectively) form almost 70% of the SMEs and 82% of the larger companies.

Using as a gauge of the importance of foreign markets for the business, the proportion of turnover earned abroad, it can be noticed that the prevalence of larger companies somewhat disappears.

Table 5 Turnover from exports

Exports as % of turnover	SMEs			Larger companies			All firms	
	N.	%	%Exp	N.	%	%Exp	N.	%
No exports	22	45,8	N/A	4	19,0	N/A	26	37,7
1-10%	15	31,3	57,7	7	33,3	41,2	22	31,9
10,1-30%	3	6,3	11,5	7	33,3	41,2	10	14,5
30,1-50%	5	10,4	19,2	-	-	-	5	7,2
50,1-75%	2	4,2	7,7	2	9,5	11,8	4	5,8
Oltre 75%	1	2,1	3,8	1	4,8	5,9	2	2,9
Total	48	100,0		21	100,0		69	100,0

In terms of intensity of the presence in foreign markets, then, it appears that the SMEs that are actually exporters tend to be, in a greater proportion than larger companies, strongly involved in these markets. The most important consideration that can be made from these data, however, is that within the limits of the sample, South African textile and clothing companies appear rather slothful in their involvement with international markets.

The two groups of exporters and non-exporters can be further subdivided to take into consideration the stages approach model. Classifying the attitude towards exporting of the firms of the sample according to the different stages as established by Bilkey and Tesar[13], the situation reported in table 6 can be observed.
Non-exporters are divided between those who are not interested in foreign markets, which are all SMEs, (6% of the sample and a little more than one sixth of the non exporters) and those who claim to be interested in exporting but have not yet started doing so (32% of the sample). In the following stages are distributed the exporters, the largest group of whom (25% of the sample) exports regularly, but only to one or few countries (most of them to the U.S.A. or the E.U.).

Table 6 Attitude towards exports

	SMEs			Larger			All firms		
	N.	%	% Exp	N.	%	% Exp	N.	%	% Exp
Not interested in foreign markets	4	8,3	-	-	-	-	4	5,8	-
Interested, but not yet exporting	18	37,5	-	4	19,0	-	22	31,9	-
Satisfies unsolicited orders	1	2,1	3.8	-	-	-	1	1,4	2,3
Exports, but not regularly	9	18,8	34.6	5	23,8	29.4	14	20,3	32.6
Exports regularly in one or few countries	9	18,8	34.6	8	38,1	47.1	17	24,6	39.5

[13] Bilkey W. Tesar G., "The export behaviour of smaller Wisconsin manufacturing firms", in *Journal of International Business Studies*, spring-summer, 1977.

Exports regularly in many countries	7	14,6	26.9	4	19,0	23.5	11	15,9	25.6
TOTAL	48	100,0	100,0	21	100,0	100,0	69	100,0	100,0

The really international firms are those that export regularly in many countries and they comprise 16% of the sample. None of the firms interviewed said that they have invested in foreign countries, therefore, at least among the businesses of the sample, South African textile and clothing firms have not yet reached the last stage in the model, that of the Foreign Direct Investment.

The difference between SMEs and larger companies is again clear to see among non-exporters, while it becomes blurred among exporters. Since in the sample there is a prevalence of SMEs (70%), it is not strange that they are a majority also of the exporters. However in two of the three principal classes of exporters, including those that export regularly in many countries, they are almost two thirds of the total. Furthermore, to the latter class belong 27% of the exporting SMEs, versus 23.5% of the larger exporting companies.

There is, then, no particular prevalence of larger companies among the exporters, not even when looking at those that have the strongest involvement in foreign markets. The same conclusion can be reached when type of ownership is taken into consideration. It is true that among the most internationalised exporters, only limited companies are present. But among regular exporters to one or few countries, one third are sole proprietorships and partnerships, a type of ownership not normally associated with strong involvement in foreign markets. Also in terms of size, similar remarks can be made. One sixth of the companies that are present regularly in many countries have a turnover of between € 1 million and € 5 million and less than 100 employees.

When looking at the motivations that led the firms to start their adventure in international markets, 13 motivations were mentioned in the questionnaire and the respondents had to evaluate them on a scale ranging from 1 (irrelevant) to 7 (most important).

Table 7 gives the average mark and the standard deviation for each item. The motivations are grouped: in the upper half of the table there are the reactive motivations and in the lower half the proactive ones.

Table 7 Reasons for starting exports

	Motivation	**SMEs**		**Larger companies**		**TOTAL**	
		Average	**σ**	**Average**	**σ**	**Average**	**σ**
1	Unsolicited foreign orders	3,24	2,14	1,92	1,04	2,74	1,90
2	Saturated domestic market	3,67	2,31	5,00	1,88	4,20	2,22
3	Excess capacity	3,41	2,22	3,71	2,02	3,53	2,12
4	Decrease in domestic market share	3,41	2,52	4,21	2,04	3,72	2,35
5	Competitive pressure	3,45	2,28	3,57	2,10	3,50	2,18
6	Imitation of competitors	2,59	1,94	2,71	1,77	2,64	1,85
7	Proximity to foreign markets	2,40	1,70	2,79	1,67	2,56	1,67
8	Prestige of the business	3,90	2,17	3,86	1,99	3,89	2,07
9	Profit goals	5,81	1,69	5,27	2,12	5,58	1,87
10	Development goals	5,00	1,97	4,86	2,14	4,94	2,01
11	Diversification of markets	4,81	1,94	5,14	1,92	4,94	1,91

12	Unique product	3,90	2,38	3,00	2,32	3,54	2,37
13	Technological advantage	3,00	2,14	3,21	1,97	3,09	2,05

The most important reason for entering foreign markets, with an average mark of 5.58, is profit goals, followed by development goals (4.94) and diversification of markets (4.94). These are all proactive motivations. The first two reactive ones, saturated domestic market (4.20) and decrease in domestic market share (3.72), rank fourth and sixth. Of six proactive motivations five are in the first seven places for importance. The missing one is technological advantage (3.09) that ranks tenth. The least important motivations are, from the bottom, proximity to foreign markets (2.56), imitation of competitors (2.64) and unsolicited foreign orders (2.74). The standard deviation, however, is rather high for all the items (the lowest is for proximity to foreign markets, 1.67). Indeed, excluding the two least important motivations that no firm considered of the utmost importance (maximum score was 6), all the others have been considered either irrelevant or most important by some firm.

There are, however, differences between SMEs and larger firms, in terms of order of importance, average mark and standard deviation. The average marks of the SMEs are in part higher for proactive motivations and mostly lower for the reactive ones (the main exception being unsolicited foreign orders). The standard deviation is slightly higher among SMEs for proactive motivations. Table 8 gives the motivations in the order of importance attributed to them by the two groups of firms (in **bold** type are the proactive motivations). The pattern of these differences confirms the evolving nature of SMEs internationalisation.

The first five motivations for the SMEs are all proactive ones. In the case of the larger companies the fifth one is in ninth place. This points to a more proactive approach to internationalisation among the SMEs than among larger companies. This is not completely unexpected since, as mentioned earlier, a growing body of empirical research shows that a small but increasing proportion of SMEs displays a clearly proactive approach to foreign markets.

Table 8 Reasons for starting exports, in order of importance

SMEs		**Larger companies**	
Profit goals	5,81	**Profit goals**	5,27
Development goals	5,00	**Diversification of markets**	5,14
Diversification of markets	4,81	Saturated domestic market	5,00
Prestige of the business	3,90	**Development goals**	4,86
Unique product	3,90	Decrease in domestic market share	4,21
Saturated domestic market	3,67	**Prestige of the business**	3,86
Competitive pressure	3,45	Excess capacity	3,71
Decrease in domestic market share	3,41	Competitive pressure	3,57
Excess capacity	3,41	**Technological advantage**	3,21
Unsolicited foreign orders	3,24	**Unique product**	3,00
Technological advantage	3,00	Proximity to foreign markets	2,79
Imitation of competitors	2,59	Imitation of competitors	2,71
Proximity to foreign markets	2,40	Unsolicited foreign orders	1,92

Nevertheless, having this confirmed also for South African SMEs, notoriously lukewarm in their approach to foreign markets, is a sign that one of the effects of globalisation, which applies also in some developing countries, is to launch towards active internationalisation

a growing proportion of SMEs. What is unexpected, however, is that SMEs look more proactive than larger companies. This, from the data previously discussed, unfortunately appears caused more by limited interest in foreign markets on the side of the larger companies rather than by the SMEs being actually strongly export oriented.

Another aspect that shows weakness in the approach to foreign markets of the South African firms of the sample is that technological advantage (3.09 in the whole sample) is valued among the least important motivations. The relatively high value of the standard deviation for this item shows that this does not apply uniformly to all the firms: indeed 31% of the sample considers this motivation as important (evaluation 5 or higher). Again it is the SMEs that reveal stronger competitive potential: 38% of them valued technological advantage as an important reason to start exporting, against 21 % of the larger companies. A similar situation is revealed when uniqueness of the product is considered. Here, 14% of the larger companies say that this was a most important reason to start exporting; this is the same proportion as among SMEs, but the other larger companies rank this item as of little or no importance (4 or less) while among the SMEs a full 47% ranks it as important.

Examining the motivation for starting to export, then, the South African SMEs in the textile and clothing industry appear to have reasons to feel confident in their ability to compete in international markets.

THE PACE OF INTERNATIONALISATION

The majority (53%) of the firms of the sample have started to move abroad only recently, and the pace at which they did so increased toward the end of the century, to slow down in the last couple of years (see Table 9). A strong group of firms (35%), both larger companies and SMEs, have a longer experience in foreign markets (12% of the sample did not answer this question).

Table 9 Period of the beginning of exports

	SMEs N.	%	% N.=23	Larger companies N.	%	% N.=15	TOTAL N.	%
2001-2002	2	7,7	8,7	2	11,8	13,3	4	9,3
1999-2000	5	19,2	21,7	3	17,6	20,0	8	18,6
1996-1998	5	19,2	21,7	1	5,9	6,7	6	14,0
1993-1995	2	7,7	8,7	3	17,6	20,0	5	11,6
Before 1993	9	34,6	39,1	6	35,3	40,0	15	34,9
Total answers	23	88,5	100,0	15	88,2	100,0	38	88,4
N.R.	3	11,5		2	11,8		5	11,6
Total	26	100,0		17	100,0		43	100,0

The main difference between SMEs and larger companies is that it appears that the former have been slower in taking advantage of the new environment, more conducive to South African firms' presence in foreign markets: 9% of the SMEs that answered this question started exporting in the period 1993-1995, while a full 20% of larger companies did so. This is the only period when SMEs are outnumbered. In this regard, it is remarkable that practically the same proportion of SMEs and larger companies (40% of those that answered) were already active in foreign markets in a period when South African exports, particularly from light manufacturers, were hindered by politically motivated obstacles.

Indeed, within the sample more SMEs than larger companies started exporting in that period. If SMEs have been slower in taking advantage of the new conditions, they have not been very far behind. In the following years, quite a few of them took the plunge and started exporting. However, in the last couple of years a smaller proportion of SMEs moved abroad.

Among the countries where the first contact was made UK and USA stand out, with just short of 25% and 20%, respectively. Then there is Germany with just more than 10% and Zimbabwe, which has the same proportion of first movers, if a company that started exporting quite a few years ago to then Rhodesia is included. Neighbouring countries sum up almost 25% of the first movers but, a bit unexpectedly, there is an almost even split between the companies that moved there in the last ten years and those that did so earlier. Interestingly, first movers to the USA make up one third of the firms that started exporting in the last four years (UK and Germany make another third). This spurt of first exports to the USA, after a ten years' interval, can be, at least in part, attributed to the AGOA (African Growth and Opportunity Act) of 2000. On the other hand, the TDCA (Trade, Development and Cooperation Agreement) with the E.U., might have had less influence, since first exports to European countries, in particular the UK, are present in all the periods. The fact that two thirds of the first destinations of exports are distant countries (Europe, USA, Australia) is clearly linked to the origin or background of the owners. To support this, it can be noticed that the firms that have as first country for their exports an "exotic" country (China and Iran) are run by people who originate there. In this light, what appears unusual is the fact that more than 20% of the first moves were towards a neighbouring country, because they are the only ones that do not fully comply with the stages approach model that has as first destination of the exports of a firm countries that are geographically and culturally close (this is the only explanation: Europe, USA, China and Iran are in the respective cases closer to the firm than Botswana or Zimbabwe. The alternative explanation that the exporting companies of the sample are particularly globalised and adventurous does not stand up).

Another important tenet of the stages approach model is that firms take a step by step and prudent approach to their internationalisation, and take their time before they decide to move to foreign markets, consolidating their presence in the home market before taking the risks linked to operating in other countries. It is possible to check if it applies to the sample under study by measuring the time lag between the establishment of the firm and the beginning of exports.

Of the 35 firms that answered the questions, more than half (55%) took ten years or more before deciding to tackle foreign markets, and almost one third (31%) took more than twenty years (see table 10). This proportion is higher for larger companies (66% and 53% respectively) than for SMEs (45% and 15%, respectively). This cannot be attributed to the fact the latter are younger than the former. It is true, but among the exporters 43% of the SMEs have been established more than twenty years ago and another 35% have been established between ten and twenty years ago.

Table 10 Time lag between the establishment of the firm and the beginning of exports

	SMEs		Larger companies		TOTAL	
	N.	%	N.	%	N.	%
0-1 year	3	15,0	2	13,3	5	14,3
2-4 years	2	10,0	2	13,3	4	11,4
5-7 years	3	15,0	-	-	3	8,6

8-10 years	3	15,0	1	6,7	4	11,4
11-20 years	6	30,0	2	13,3	8	22,9
> 20 years	3	15,0	8	53,3	11	31,4
Total answers	20	100,0	15	100,0	35	100,0
N.R.	6		2		8	
Total	26		17		43	

In contrast with that 55% of reluctant exporters, stands a group of firms that have moved to foreign markets in a very short time, if not since their establishment. They make up 25 % of the sample, almost evenly divided between those that first exported after three or four years of life and those that did so in the year of their establishment or the year after that (11% and 14% of the sample, respectively). They are also almost evenly divided between SMEs and larger companies, the former being 56% to 44% of the latter. This is particularly worth noticing because it shows that, within this sample, some South African textile and clothing SMEs are showing, albeit in a not too large proportion, a strong stance towards internationalisation.

Most (78%) of the firms that have started exporting immediately after their establishment were founded after 1991, the remaining, evenly divided between SMEs and larger companies, between 1981 and 1990. The fast exporters make up 39% of the firms established from 1991 onwards. It is, then, possible to claim that the nature of exporting firms in the South African textile and clothing industry, as far as the present sample goes, seems to be changing and a number of clearly export-oriented firms, many of them SMEs, is appearing. The SMEs among the fast exporters (later it will be discussed whether they can be considered in the category of the “Born Global”) are of various sizes, ranging from the largest class (between 151 and 250 employees) to the second smallest one (between 5 and 10 employees).

Some of the fast exporters (22%) still have only a marginal involvement in foreign markets, earning 90% or more of their turnover at home. On the other hand, 55% make more than half of their turnover from abroad, and they make up almost the totality of the firms that derive most of their turnover from foreign markets. The countries first destination of the exports of these firms are, with respectively 44% and 33% of the firms, the E.U. and the USA, the remaining being Iran and China (one did not reply to this question). This points to the conclusion that the firms that had “exotic” destinations as first move abroad were specifically set up with export to these countries in mind (remember that their owners originate in those countries). A positive aspect is that those firms did not stop at the countries where they first exported: in both cases these countries make up less than half of the turnover from exports of the firm.

In order to evaluate whether the fast exporters can be considered as belonging to the category of the “Born Globals” it is possible to look at the correlation between time lag to exports and the stage reached by the firm in its internationalisation process (see table 11).
Almost all of the firms in this group (89%) are habitual exporters. Those that export regularly to one or few countries are 33% and those that export regularly to many countries are 55%. They have, thus, reached the last stages, for exporters, of the internationalisation process. Looking from a different point of view, while these firms make up 25% of the sample, they are 9% of the sporadic exporters, 20% of the regular exporters to one or few countries, and 55% of the really international firms that export to many countries.

Table 11 Time lag to exports and stage in the internationalisation process (N = 35)

Time lag to export	Exports, but not regularly		Exports in one or few countries		Exports in many countries		Total	
0-1 year	1	9,1	1	6,7	3	33,3	5	14,3
2-4 years	-	-	2	13,3	2	22,2	4	11,4
5-7 years	1	9,1	2	13,3	-	-	3	8,6
8-10 years	2	18,2	1	6,7	1	11,1	4	11,4
> 10 years	7	63.6	9	60,0	3	33,3	19	54,3
Total	11	100,0	15	100,0	9	100,0	35	100,0

It seems then possible to say that most of the firms in this group seem to fit the most important characteristics of the Born Globals: rapid passage from establishment to internationalisation; rapid movement through the stages of the internationalisation process, leapfrogging some of them; large proportion – at least more than half – of turnover obtained in foreign markets. There is not much in terms of technology, making them a specific sub-species of the "Born Globals", but there is little doubt that they should be considered as such.

Comparing the evaluation of the motivations for entering foreign markets given by these firms with that of the sample as a whole, it is possible to measure their attitude toward internationalisation and to ascertain whether their approach shows a strong proactive tendency, and confirms the assessment of these firms as strongly "Born Globals".

Table 12 offers such a comparison. The first consideration to be made is that almost all the items receive a higher mark from these firms than from the sample as a whole. This does not change much, since there is no clear pattern in the difference of the evaluation.

Table 12 Ranking of motivation to start exporting for the "Born Global"

BORN GLOBALS (N = 7)	mark	Δ	TOTAL SAMPLE	mark
Profit goals	6.29	+ 0.71	**Profit goals**	5,58
Diversification of markets	5.50	+ 0.56	**Development goals**	4,94
Unique product	5.00	+ 1.46	**Diversification of markets**	4,94
Prestige of the business	4.71	+ 0.82	Saturated domestic market	4,20
Development goals	4.71	- 0.23	**Prestige of the business**	3,89
Decrease in domestic market share	4,50	+ 0.78	Decrease in domestic market share	3,72
Competitive pressure	4.33	+ 0.83	**Unique product**	3,54
Excess capacity	4.29	+ 0.76	Excess capacity	3,53
Proximity to foreign markets	3.83	+ 1.27	Competitive pressure	3,50
Saturated domestic market	3,50	- 0,70	**Technological advantage**	3,09
Technological advantage	3.29	+ 0.20	Unsolicited foreign orders	2,74
Imitation of competitors	3,29	+ 0.65	Imitation of competitors	2,64
Unsolicited foreign orders	2.43	- 0.31	Proximity to foreign markets	2,56

The ranking of the items is also slightly different: the first five motivations to go abroad in order of importance are proactive ones, with profit goals even more clearly the most important among them. The other proactive motivation, technological advantage is considered even less important by the Born Globals than by the sample as a whole. (One firm says that technological advantage was a most important reason to start exporting, but five other consider it either totally irrelevant or of very scarce importance). Certainly in the

case of these firms, one of the main characteristics of the Born Globals, the technological superiority, is almost absent. However, the item where the difference between these firms and the sample is larger is having a unique product. This indicates that the Born Globals have specific competitive advantages linked to the nature of their products, which points to a certain degree of innovation capacity, even if not linked to technology.

In general, then, the difference between these firms and the sample as a whole, albeit existing, is more quantitative than qualitative: they are a bit more proactive in their attitude to exports than the other firms in the sample, but the difference is not as clear cut as one would expect.

CONCLUSIONS

This paper aimed at analysing the attitude of a sample of South African SMEs in the textile and clothing industry towards foreign markets, comparing it with the attitude of larger companies. We wanted to ascertain whether also in South Africa could be registered the presence of export-oriented SMEs that are actively pursuing opportunities in the global market and their proportion among SMEs, as an indicator of the potential for global competitiveness of South African SMEs.

The results are mixed.

The proportion of SMEs among exporters is only slightly lower than among the sample as a whole. This may indicate that in the textile and clothing industry South African SMEs are starting to consider internationalisation at least as a feasible strategic alternative. However, little more than half the SMEs are exporters, while among the larger companies they are slightly more than four fifths. Internationalisation may be considered a practicable route by South African SMEs, but not too many of them are taking it. This becomes clearer when looking at how the firms are present in foreign markets: 12 % of the SMEs are truly international firms, with exports accounting for at least half of the turnover. There is not a great difference with larger firms, but this is because the latter, too, are only weakly present in foreign markets (18% with at least half of the turnover from exports). The same applies when judging the intensity of internationalisation from the stage reached in this process: 15% of the SMEs and 19% of the larger companies export regularly to many countries.

This means that while, in general, South African textile and clothing firms are not overly inclined to operate in foreign markets and their presence therein is basically weak, a small proportion of SMEs seems to have made the big step towards full involvement with foreign markets.

In terms of attitudes towards the internationalisation process, as they can be inferred from the importance attributed to different reasons for starting to export, the differences between SMEs and larger companies, albeit not great, are more surprising. SMEs appear to have a more strongly proactive approach than larger firms. Although this might reflect more a reluctance on the side of larger companies than a particularly strong interest in internationalisation among the SMEs, the most important consideration to be made is that the old assumption that SMEs can basically adopt only a reactive approach is falsified also in South Africa, which is not known for harbouring many internationally dynamic SMEs. It seems that internationally proactive SMEs can be considered as a normal occurrence.

Another important point is related to the conformity of the SMEs to the stages approach model of internationalisation: whether their moves in foreign markets can be well explained by the sequential path laid out by that theory. Again, while most of the firms of the sample, both SMEs and larger companies, appear to conform to the model and to pass from one stage to the other at a stately pace, a noteworthy proportion of SMEs (and a similar proportion of larger companies) seems to have skipped one or more steps of the internationalisation process and to have moved very fast on that road. A small nucleus of truly international SMEs is appearing in the South African textile and clothing industry and this is an encouraging sign of development for the country.

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ENTREPRENEURSHIP EDUCATION IN MALAYSIA

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ABSTRACT

The emergence of new business models as a result of the growth of the knowledge-based economy have brought to the rise of the entrepreneurship atmosphere among the younger generation, particularly the university graduates. For many years ago, it was strongly believed that entrepreneurs need no formal education. A successful entrepreneur is someone who works hard and has accumulated substantial experiences in relevant activity. The traditional entrepreneur usually starts from small business and small capital, involves in traditional business with low value-added and it takes him to struggle for many years to build up his career. Today, as evidenced by successful entrepreneurs at United States, especially from those in the Silicon Valley involving in high tech, high growth and high value-added activities, a new bleed of entrepreneurs with strong academic background, particularly those who know how to take advantage of Internet and other information communication technologies (ICTs) is required. Therefore, the growing concern is how should the education institutions, particularly the tertiary education institutions, impart essential entrepreneurial knowledge in the syllabus to equip future entrepreneurs with the necessary skills – the so called "entrepreneurship education".

This paper looks at the entrepreneurship education in Malaysia as the Malaysian government has taken great effort to transform the economy into the knowledge-based economy. In this regard, "entrepreneur" has been identified as one of the key elements to the development of the knowledge economy. Thus, this paper attempts to study the development of entrepreneurship education in Malaysia and to investigate the effectiveness of the entrepreneur education in Malaysia.

To achieve the objectives of the study, primary data are collected. In order to examine the development of entrepreneurship education in Malaysia, interviews with students are conducted to collect students' feedback on the effectiveness of the entrepreneurship teaching, to reveal their knowledge about entrepreneurship, their willingness to start up their own business, and factors influencing their decision to be entrepreneurs.

INTRODUCTION

Since the time of Plato, education is important for two basic purposes, i.e. to produce new knowledge and to transfer knowledge. However, in the new economy, which is also a knowledge-based economy, education institutions, particularly higher education institutions, are entrusted with a new additional task, which is to contribute to the development of entrepreneurial talent among young graduates. Nowadays, entrepreneurship education has been actively implemented in many countries, including Malaysia. Many universities and higher education institutions in Malaysia have recently introduced courses related to entrepreneurship or majors in entrepreneurship. For instance, in Multimedia University (MMU), a programme in Bachelor of Multimedia (Media Innovation & Entrepreneurship) has been introduced and entrepreneurship is a core course for the programme. In addition, the subject "Introduction to Cyberpreneurship", has been made a compulsory subject for all students in Multimedia University, regardless of their majors. The purpose of introducing the cyberpreneurship subject are twofold, which are: 1) to develop students interest to become entrepreneurs, even if they are not students from business or management faculties; 2) to enhance students knowledge and understanding on the role of entrepreneurship in the new business world, especially the cyber world. In fact, besides MMU, entrepreneurship is offered in almost all universities in Malaysia. In Univerisiti Putra Malaysia (UPM), it is one of the subjects offered for Bachelor of Business Administration programme, in University of Malaya (UM), entrepreneurship is offered by the Department of Business Strategy and Policy, and in Universiti Kebangsaan Malaysia (UKM), Information Technology and Entrepreneurship is a compulsory subject in Bachelor of Science in Information Technology programme. At the MBA level, entrepreneurship is a core subject in most of the higher education institutions in Malaysia.

The burgeoning of the entrepreneurship education since mid-1990s could be a result of the growing of the newly emerging knowledge-based economy. The new economy is experiencing a fundamental transformation. Rapid changes, globally inter-linked, death of distance, life long learning, constantly innovating, creativity, flexibility and responsiveness, small enterprises and co-opetition, are some of the prevailing characteristics of the current economy. The dynamism of the new economy creates enormous business opportunities that necessitate people to engage in innovative enterprising activity to grasp the opportunities at the right time and using the right way.

Following the global transformation, Malaysia has made its effort to transform the economy from a production-based economy to the knowledge-based economy. In September 2002, the Institute of Strategic and International Studies (ISIS), Malaysia, released the Knowledge-based Economy Master Plan, which has identified seven critical areas and 136 recommendations to lead the economy in propelling toward the knowledge-based economy. Entrepreneurship is one of the key elements discussed in the Master Plan. It has been said that without entrepreneurs, there is no knowledge economy (V. Sivapalan, 2001). Realising the importance of entrepreneurs in the development of the knowledge-based economy in Malaysia, efforts have been taken to nurture entrepreneurship in all ways. Conferences, seminars, short courses and training on entrepreneurship are common activities organised by various organisations, along with the formal entrepreneurship education offered by higher education institutions. The related issues are: despite all the efforts taken, how many

graduates are exposed to the entrepreneurship education? What does entrepreneurship education aim to achieve? How to teach entrepreneurship? What types of skill are needed to become a successful entrepreneur? How effective is the entrepreneurship education implemented in the nation?

To attempt an answer to the above mentioned questions, this study has collected feedback from 90 randomly selected undergraduate and MBA students from public and private universities and colleges. Questionnaire consisted of three sections is designed to elicit students' comment on the effectiveness of the entrepreneurship teaching, to reveal their knowledge about entrepreneurship, their willingness to start up their own business, and factors influencing their decision to be entrepreneurs. The information collected would serve as essential inputs for universities in Malaysia and in other countries to design a more effective teaching of entrepreneurship.

WHAT IS ENTREPRENEURSHIP EDUCATION?

What is entrepreneurship education? Before we are able to answer this question, we have to first of all look at the question on "who is an entrepreneur?" Different authors use different words to define entrepreneur. For instance, Hamilton and Harper (1994) define an entrepreneur as a person who bears certain risks in order to take advantage of an invention while for Thompson (1999); entrepreneur is someone who is able to "smell" a new opportunity and is willing and able to act on it. Joseph Schumpeter, in his famous book, *Theory of Economic Development* (1911), defined an entrepreneur as the person who destroys the existing economic order to create and benefiting from the new structure through a few channels, such as by introducing new product and service, or by creating new forms of organisation, or by exploiting new raw materials. In fact, there are many expressions used to describe an entrepreneur. However, all definitions are centring on the fact that an entrepreneur is someone who has unique instinct, plan, mind, inspiration, vision, strengths, and sensitivity and willing as well as able to conceptualise ideas and to see change as an opportunity.

Based on the discussion presented above, it seems that basic personality dimensions, or in other words, personal traits, are essential factors in determining whether a person could become an entrepreneur. Therefore, a belief which is prevalent even in today's society is that there is no way to teach or train someone to become an entrepreneur as entrepreneurs are born to be entrepreneurs. Is it true?

Many people would agree that an entrepreneur is someone who is awarded with gifted quality, which depends on factors such as personal background and characteristics, life-path experiences and environmental influences, which are essentially not transferable from one to another. Hence, it is not possible to teach someone to become an entrepreneur. However, many studies that have been conducted recently have conversely showed that entrepreneurship education does play a significant role to cultivating entrepreneurship spirit among graduates.

Based on a study done by Kolvereid and Moen (1997), it is shown that as compared to other students, those who have taken a major in entrepreneurship have revealed greater interest to become entrepreneurs and these students act more entrepreneurially than other students in taking up the challenge to start up a new business. Thus, it is suggested that although it may not be possible to develop entrepreneurship from education exclusively, to certain extent, education does have an effect to alter and contribute to the formation of entrepreneurship. In another study done earlier by Webb, *et. al.* (1982), it is shown that students who participated in entrepreneurship programme were more likely to start their own business than other students. Upton, *et. al* (1995) found that 40 percent of those who attended courses in entrepreneurship have started their own businesses. According to Ibrahim and Soufani (2002), school and education system play a critical role in identifying and shaping entrepreneurial traits. Other studies have pointed out that entrepreneurship education, especially education that provides technological training, is crucial to enhance entrepreneurs' innovation skills in an increasingly challenging environment (Clarke, 1990; Menzies and Paradi, 1999).

Previous studies have indicated that despite the fact that many believed that entrepreneurship is born, there are ways to train entrepreneurship. Thus, entrepreneurship education is essential in today's society. However, there is no one definition available to explain what entrepreneurship education is. Entrepreneurship education has always been defined narrowly as education that provides the needed skills to setting up new businesses. However, Hytti and O'Gorman (2004) begged to be different as they argued that there are many ways to offer entrepreneurship education, depending on the objectives of such education. If the objective of the education is to increase the understanding of what entrepreneurship is about, the most effective way to operationalise the objective is to provide information through public channels such as media, seminars, or lectures. These methods are effective in terms of sending the relevant information to a broader population in a relative short time period. If the objective is to equip individuals with entrepreneurial skills which are applicable directly to work, the best way is to provide education and training that enable individuals to involve directly in the entrepreneurial process, such as industrial training. Lastly, if the objective of the education is to prepare individuals to act as entrepreneurs, the most effective technique is to facilitate experiments by trying entrepreneurship out in a controlled environment, for instance through business simulation or role playing.

According to Kirby (2002), entrepreneurship education is different than "traditional" management studies as the traditional management education may impede the development of the necessary entrepreneurial quality and skills. Entrepreneurship education needs a different teaching pedagogy, hence, there are studies trying to relate entrepreneurship education to work related learning (Dwerryhouse, 2001); experiential learning (Kolb, 1984); action-learning (Smith, 2001), and entrepreneurial training (Gibb, 1999).

Entrepreneurship education is more than business management, it is about "learning", i.e. learning to integrate experience, skills and knowledge, to get prepare to start with a new venture. Hence, for the purpose of this study, entrepreneurship education refers to the formalised programme to equip students with the needed skills and knowledge to:

- recognising business opportunities
- searching customers insights
- understanding the needs of the market

- creating an idea
- developing the business plan
- running the business
- evaluating environmental, institutional and political issues

FINDINGS AND DISCUSSIONS

Based on the data collected, this study attempts to provide information on the the level of entrepreneurial knowledge among students in Malaysia, effectiveness of the entrepreneurship teaching in Malaysia, and factors affecting their decision to become an entrepreneur. A total of 90 respondents are randomly selected from one private university, two public universities and two private colleges in Malaysia. 37.8% of the respondents are MBA students while others are undergraduate students. 46.7% of the respondents have experience of working full time as an employee while 11.2% have experience of running own business. Though the sample size is small, it is expected that this study would provide important pilot information on the issues mentioned above.

Entrepreneurial Knowledge among Students

Even though many universities and colleges in Malaysia have started to offer entrepreneurship as a major or a subject in most programmes since mid-1990s, both at the first degree as well as at the MBA level, only 37.8% of the respondents (12.2% are MBA students and 25.6% are undergraduate) said they have taken courses on entrepreneurship or related subjects and know what entrepreneurship is. The rest of the respondents (25.5% are MBA students and 36.7% are undergraduate) indicated they have not been exposed to knowledge on how to start their own business or how to manage the new venture. In addition, 44.4% of the total respondents believed that entrepreneurial talents are born, thus it is impossible to teach a person to become an entrepreneur through formal education.

According to the respondents' perception, 11.1% of them felt that education system in Malaysia places a great deal of emphasis on entrepreneurship while 72.3% of the respondents think that the emphasis on the teaching of how to start and running a business is still not enough and 16.7% said there is no emphasis at all on this particular issue. Among those who have gained substantial knowledge on entrepreneurship, 55.9% have obtained the knowledge from a module in a programme while 44.1% gained the knowledge from other sources, such as from work place or from real life examples (for instance, family members or friends who are entrepreneurs).

The result indicated that despite the popularity of entrepreneurship education in Malaysia, there are still great deals of students who have not been exposed to the entrepreneurship education. The finding revealed that the level of entrepreneurial knowledge among students at higher education institutions is still low despite the relative high level of interest in entrepreneurship. Thus, there is a need to revise the curriculum at the higher education institutions and to examine method of teaching in order to disseminate the entrepreneurial knowledge and skills to more students at higher education institutions.

Effectiveness of Entrepreneurship Education in Malaysia

Among the respondents who have experienced entrepreneurship education at respective institutions, 11.8% of the respondents said the courses on entrepreneurship are excellent, 44.1% said very well and 44.1% said fair. The major comments include: lecturers are not equipped with the skills to teach the subject, teaching method not appropriate and the concept of entrepreneurship has been explained in a too abstract manner which is difficult to understand, only entrepreneurship theory is taught, but no practical implications discussed in lectures.

As shown in Figure 1, the respondents have revealed that the most popular way of teaching entrepreneurship is by giving group projects to discuss topics related to entrepreneurship (91.2%). It is followed by lectures (85.3%), short essays (61.8%) and case study (55.9%). The least popular method is arranging face to face interview with successful entrepreneurs (5.9%).

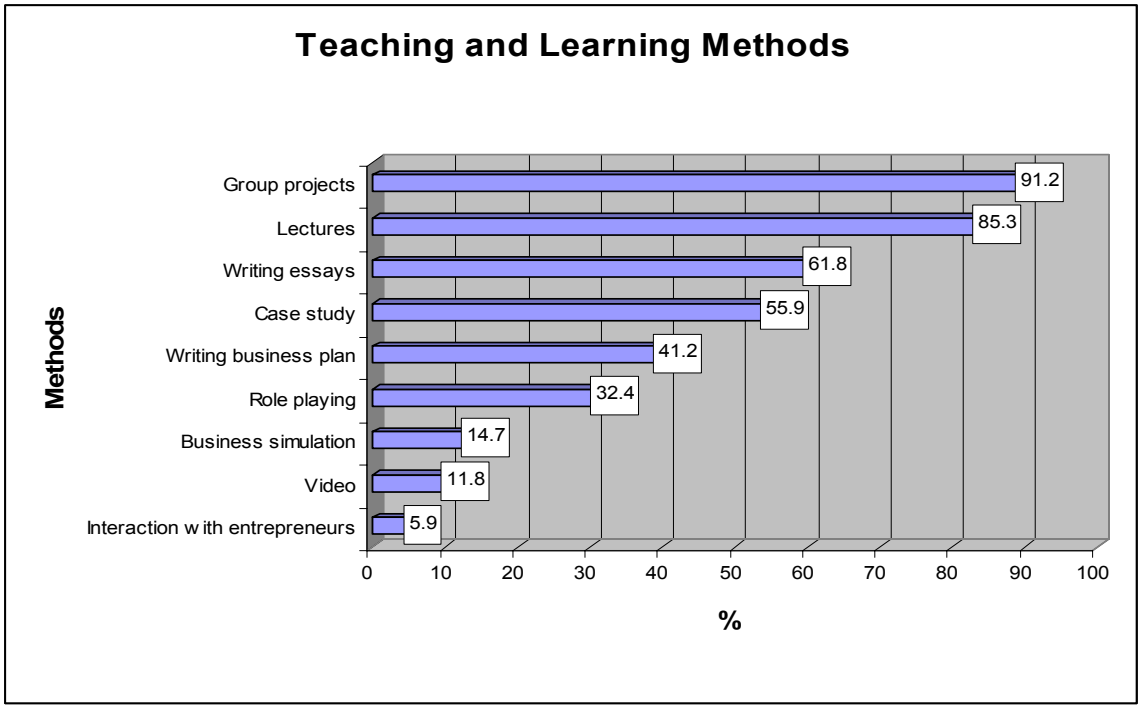

Figure 1: Teaching and Learning Method

Which teaching and learning method is the most effective way to teach entrepreneurship? As discussed by Hytti and O'Gorman (2004), different approaches are required to operationlise different educational objectives. Thus, there is a need for higher education institutions in Malaysia to examine the objectives of offering the entrepreneurship education. Without knowing what the entrepreneurship education aims to achieve, it is difficult to judge whether the methods of teaching and learning is effective.

Factors Determining the Entrepreneurship Decision

In the survey, respondents were also asked to reveal the most important reason for them to consider starting a new business. More than 50% of the respondents said higher earning

potential is the main factor that will drive them to start their own business while 11.1% wanted to have more freedom and 18.9% said only when they saw a market opportunity, then they will consider starting their own business. Figure 2 illustrates the main reasons for respondents to involve in setting up own business.

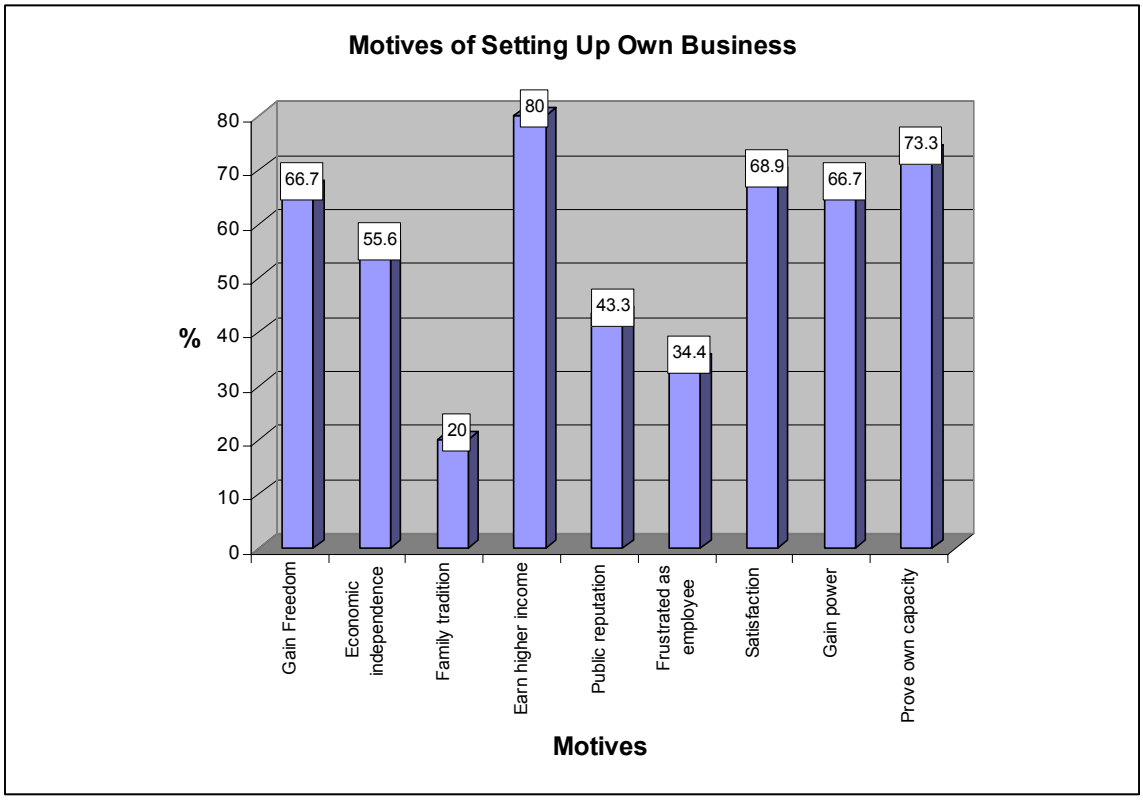

Figure 2: Motive of Setting Up Own Business

In terms of major barrier or obstacle, lack of funding is ranked at the top of the list as the most significant perceived obstacle to start a business (38.9%), followed by lack of training (21.1%) and lack of knowledge on how to start a new business (13.3%).

Based on the feedback provided by respondents regarding the ideal entrepreneurs' characteristics, 75.6% of them felt that an entrepreneurs should be someone who is visionary and creative, 57.8% said entrepreneurs should know how to work in a team, 74.4% revealed that they should possess organisation skills, other qualities include committed (63.3%); strong networking (51.1%); risk-taker (75.6%), inspirational (42.2%) and optimistic (58.9%).

When asked about their readiness to become an entrepreneur, 15.6% of the respondents said they have absolutely no intention to start up own business; 10% said they are already running a business; 11.1% are considering starting up own business now; 4.4% already in the process of preparing the start-up; 8.9% hope that they would be able to create new venture upon completion of study and 33.3% said within 5 years after graduation, they would consider to involve in their own business while 16.7% said within 10 years period, they might start up their new business.

CONCLUSION

The study provides critical preliminary information on entrepreneurship education in Malaysia, in terms of the level of understanding and effectiveness of entrepreneurship education in Malaysia to nurture the necessary entrepreneurship spirit among younger generation in order to achieve the nation's interest in developing a successful knowledge-based economy. The findings indicated that the level of understanding on "what is entrepreneurship" is still low among the respondents selected in this study. There is a need to identify the objectives of entrepreneurship education to determine the most effective teaching method. The study also showed that there is a low level interest among students to become entrepreneurs immediately after graduation. Rather, respondents chose to work for few years before venturing into own business.

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THE FEMALE ENTREPRENEURSHIP IN GREEK RURAL AREAS: THE CASE OF MAVROTHALASSA, PERFECTURE SERRES

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The development of enterprising initiatives taken by women living in rural areas is a recently emerged phenomenon. By establishing small enterprises, women make a new appearance in the family farming. Then gradually turn from assisting and volunteering members into manageresses of their own enterprise.

This survey refers to the undertaking of enterprising initiatives taken by women who live in the community of Mavrothalassa, prefecture Serres. It presents the factors – both internal and external – that determine the women's decision to set up their own enterprises. In addition, the survey displays the enterprising entrepreneurial areas of rural women take an active an active part.

The use of a questionnaire provides further information as to the features of these women entrepreneurs, the data relating to the enterprise (that is how it was formed and how it is currently operating), the problems these women face and come up with during their enterprising activities.

The results of this survey, after a statistical analysis, have shown that rural women form small individual enterprises without employing work force. Moreover, these enterprises do not yield a large profit for the women. The areas women mainly work in are stores and small industries. These women are usually not aware of the national and European Community programmes. Additional to the above, a major factor that prevents rural women from setting up their own enterprises is the lack of infrastructure support for both the elderly and the children.

CORPORATE VENTURING PERFORMANCE: ENTREPREUNERIAL MINDSETS

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ABSTRACT

This paper examines, from the perspective of corporate venturing, the internal and external determinants of entrepreneuring in the context of environmental jolts in Poland. It focuses on understanding the entrepreneurial mindsets of entrepreneurs through the meanings constructed and acted upon by the actors facing both the opportunities and the liabilities of newness in their business environment. This paper analyzes qualitative field study data to understand individual-level responses to discontinuities in routines, activities and entrepreneurial mindsets occasioned by environmental jolts. Of special relevance to the corporate venturing perspective, I suggest that environmental jolts trigger corporate venturing to cope with radical change, stimulating organizational actors to identifying and exploit entrepreneurial opportunities. Employing individual-level adaptive mechanisms, these copings are critical in facing the novelty ushered in by implementation of the new socio-economic order.

TITLE: OPENING THE BLACK BOX – THE ROLE OF ENTREPRENEURS IN CREATION OF SUSTAINABLE COMPETITIVE ADVANTAGE DURING THE SMALL FIRM'S INTERNATIONALIZATION

Navid Ghannad

For all the rich literature on separate areas of entrepreneurship, strategic management and international business, not many studies have explored the dynamism of the managerial /entrepreneurial role in creating value necessary for continued achievement during company's internationalization process. The way in which the role of the entrepreneur through time shapes these processes has yet to be fully explored. Consequently, the result from early empirical work, together with the fact that the is a lack in previous literature concerning the dynamics involved in the role which the entrepreneur plays in the firm's internationalization process, motivated this researcher to open the black box by conducting an explorative approach for understanding and describing the entrepreneurial process and the dynamics and conditions under which value is created for the competitiveness of the small and medium-sized firm during the internationalization process. More specifically, this study aims at answering questions such as what a small company's core competence (and critical resources behind it) is, and more significantly how it has it has been developed and how it contributes to the sustained competitive advantage of the firm? By focusing on the individual entrepreneur throughout the lifecycle of the smaller firm, this researcher will also be able to answer questions such as what role of the entrepreneur during the internationalization/strategy/entrepreneurial processes has been, and how it has affected the company's international competitiveness.

METHODOLOGY

This study is using a qualitative case-study approach. With a conceptual model (which is based on early empirical work and literature review of the fields of entrepreneurship, international business and strategic management) and our research purpose in mind, the data used in this study are based on three longitudinal (three years) case studies which are collected by semi-structured personal interviews with most of the individuals involved during the establishment and internationalization of the firm. By using the technique of crystallization this researcher has been able to look for a richer description and deeper understating of the phenomenon under investigation.

POSSIBLE CONCLUSIONS AND RECOMMENDATIONS

At present (November 2003) the final data has just been collected and will be analyzed during the next few months. The result of this study will have both a practical and theoretical

contribution. The final mode and in-depth descriptions will give a better understating of how entrepreneurs in smaller heterogeneous resources into idiosyncratic capabilities to achieve competitiveness during the domestic and international expansion.

DEVELOPING AND NURTURING SMMES AS A TOOL TO ACHIEVE THE 2020 VISION OF THE ROYAL BAFOKENG NATION.

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EXECUTIVE SUMMARY

This paper shares how our nation, the Royal Bafokeng, is looking at the development and nurturing of Small, Medium and Micro Enterprises as a tool to achieve our 2020 vision. The vision is: **"*We the Bafokeng Nation, the Council and Kgosi are determined to develop ourselves to be a self sufficient nation by the second decade of the twenty first century.*"**

It will introduce the Royal Bafokeng Nation and this will provide a context and understanding of how as a nation we have been enterprising for over a century and how far we have come since the days of our ancestors travelling to Kimberly to seek a better life for future generations in the late 1800s.

A S.W.O.T. analysis will provide context to where we are at the moment in relation to achieving the 2020 vision and how the decision to establish the RBEB as the economic implementing arm was arrived at. A brief synopsis of the RBEB including its mandate and governance structure will be provided.

A critical analysis of the unique challenges and frustrations facing the entrepreneurs in our nation in particular, given our particular circumstances will be shared in this paper. The strong and unwavering believe that education and practical skills are key to achieving a vibrant and self-sustaining economy has been a corner stone of this nation from the beginning. What has been done in the past and being practised now and what is planned for the future will be elaborated on here.

Though fairly new, the RBEB is now finding its feet and is changing our SMME landscape. The solutions and care that they have started implementing as well as the plans they have for the future will be shared. There are other key Stakeholders and structures that are very critical in achieving the 2020 vision in the RBN who have been involved in SMME development all along without whom the work of the RBEB would not be possible. The King, Kgosi Leruo Tshekedi Molotlegi, and his political governing structures as well as the administrative arm the Royal Bafokeng Administration lead these key stakeholders. The community at large including its formal structures the Bafokeng Women's Club, Bafokeng Youth Organisations, Disosaete (Burial Societies), Ditokofela (Informal Financial Clubs)

and others who together engage in one way or another with the formal economy and banks will be discussed in the paper.

We as a nation have long realised the need and critical role that partners play in developing the economy and SMMEs in particular. The partnerships that we currently have will be elaborated on. The quest for skills and human capital development drives us to seek even more partners all the time. Some of the partnerships that we seek urgently are discussed and details of how we can hook up post conference are provided. Ideas on how to assist in our efforts are invited from all corners of the world.

This journey started with a trip to Kimberly in the 1800s and we will share how when things seem to be too tough for our generation and for all the future generations we look back at our ancestors' vision and sacrifice for us. We are then filled with gratitude, pride and strength and we know that we cannot afford to and refuse to be discouraged. The story will be shared in this paper.

THE RELATIONSHIP BETWEEN CORPORATE CULTURE AND TQM IMPLEMENTATION IN SOUTH AFRICA

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Corporate culture has been assigned a pivotal role in the implementation of Total Quality Management (TQM). In developing countries, the effect of culture may accentuated due to the common practice of implementing management theories and techniques generated in extremely different cultural contexts – primarily the United States of America, Europe and Japan. This exploratory analysis adds further empirical results to the growing body of literature of the effect of culture on organizational behaviour. It presents the relationships between corporate culture and quality management implementation in the manufacturing industry in South Africa.

Corporate culture is measured using an adaptation of the Competing Values Model (Quinn and Rohrbaugh, 1981). Implementation levels of TQM are measured using a questionnaire developed at the University Missouri-Rolla by Wu (Wu, 1996).

The information collected is analyzed using cluster analysis techniques and canonical correlation analysis on the two variable sets (corporate culture and TQM). Cluster analysis, which is traditionally more extensively used in culture studies, gives no clear indication that culture has an effective on the implementation of TQM. In contrast, the canonical correlation results indicate that results between corporate and the TQM variable sets exist.

Several important relationships are identified that would suggest that TQM implementation is facilitated when a “People” with and/or “Outward” corporate culture is emphasized. Unclear, however, from the available results is what a ”People” culture entails in the South African context. A primary conclusion that can be drawn from comparing the results to available literature (for example, Mbigi and Maree, 1995) is that corporate culture and its effects in Southern African companies may not be understood. Recommendations for industry and future research are made.

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QUALITY MANAGEMENT SYSTEMS AND ISO 9000:2000 IN SMALL ENTERPRISES

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Abstract: On December 15, of 2000 the International Organization of Standardadization published its latest version of its ISO9000 series. The new version differs from its predecessor (the 1994 version) not only in mere semantics, but includes sweeping changes in the way that a Quality Management System (QMS) is to be perceived. The standard can longer be viewed as a set of mildly interrelated requirements. A system perspective must be taken of dependant elements. In fact, taking a systems-based approach provides the applicant with a more comprehensive understanding of the requirements than that which is provided by the traditionally applied process approach. The new version no longer applies to basic information procedures but rather to the organization as a whole.

A further intent of the changes that were made to the standard was to make it more amenable to a greater variety of organizations. This includes small and medium sized enterprises. Given that research shows that ISO 9000 increases an organization's international' competitiveness- ISO 9000 implementation is a strategy that many small organizations should be considering. Implementing a QMS, and particularly an ISO 9000-based QMS has implications for small organizations that are quite different to large organizations.

This paper presents a systems-based ISO 9000 implementation methodology for small organizations. The methodology ensures that ISO 9000 is integrated into the organization, requiring that changes be limited to those areas that are deficient according to the standard. This contrasts with most methodologies that apply ISO 9000 as a collateral function to the organization- a practice that becomes prohibitively expensive for small organizations. The ISO 9000 implementation methodology and the models have been tentatively validated through their implantation in five companies. A qualitative research methodology was used to ensure the rigor of the application. The results of the application of the methodology and methods are presented.

AGOA: AN ASSESSMENT OF THE OPPORTUNITIES FOR WOMEN'S ENTERPRISE DEVELOPMENT IN GHANA, CAMEROON, GAMBIA, SEGAL AND MALAWI

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Background: the UNDP Gender Programmed commissioned the research for this paper. The fieldwork, undertaken in each of the five countries, consisted of interviews with representatives from Ministries, NGOs, Chambers of Commerce, Women's Groups, medium and small enterprises and individual women working in the informal sector. Secondary data were also used, though the vast majority of information was obtained from open-ended interviews.

ABSTRACT

The African Growth and Opportunities Act (AGOA) was promulgated in 2000 to stimulate development of the sub-Saharan countries via trade with the US and the adoption of economic reforms that will form the basis of long-term effective trade and investment regimes. It provides tariff and quota free access to the US markets for over 6000 African product categories, with a focus on textiles and apparel. The potential gains under textile and apparel are reduced post 2005 after which inputs must originate from participating countries or from the US. The time scale for AGOA is currently limited to 2008 but negotiations are in progress to ascertain if this can be extended.

Five countries – Cameroon, Gambia, Ghana, Malawi and Senegal were selected for the study. The purpose of the study was to assess the impact actual and potential of AGOA (African Growth and Opportunities Act) on enterprise development and export sustainability of women working within the SMEs (Micro Small and Medium Enterprise) sector. The study starting from a macro and institutional perspective and working down to women enterprise owners in the informal sector examined the extent to which countries AGOA orientated, and the challenges facing women enterprise owners.

The findings demonstrated that all five countries face significant challenges in harnessing women into export production under AGOA. Women entrepreneurs lack support at all levels, and gender constraints prevent them from accessing information and available opportunities – women officials spoke of lack of gender awareness at ministry levels, and of programmers that had failed to make any real progress. Vast numbers of women are excluded from mainstream economic activities and the situation will not improve without political will and effective co-coordinated efforts. Interviews revealed that coordination between NGO and donor activities was, in many instances, weak. This led to duplication and a fragmented ad hoc approach.

Individual enterprises were found to be constrained by a large number of factors, many of which are well documented in the literature, including lack of finance, high interest rates, access to technology, inputs, storage and business know-how.

Underdeveloped and fragmented supply chains, bounded rationality and information failure were found to exist in all five countries. Lack of effective systems and structures to mobilize effective production and trust between women, together with customs and practices that dictate that women operate in low value added markets, exacerbate the challenges facing attempting to engage in export activities.

The paper analyzes the constraints discussed above and the opportunities, potential and actual that exists in the five countries before going on to discuss a range of possible interventions and mechanisms aimed at addressing the constraints. The final section of the paper makes several policy recommendations.

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GHANA MICRO-CREDIT PROGRAM CASE STUDY

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In 1999, Self-Help International, a non-profit organization in the United States, began providing micro-credit loans to groups of women in Ghana. These loans help purchase equipment to allow the women the women to mechanize palm oil processing. In the past few years, the women have been refinanced after repaying loans to improve their operations incrementally. Along with the financial assistance the women received training with each loan. Beginning with just one group, the organization is now funding 11 groups and 1 individual.

This case study intends to look at the overall program with specific focus on a group in Serebuoso. This group began with 17 members and now has 20. Self-Help has recently granted a fourth micro-credit loan that will allow for the full mechanization of the extraction process. The Serebuoso group was the first beneficiary of the new program and has been very successful in the repayment of their loans and improving their standard of living for women in the community. It is for this reason that they have been chosen as the subject group for the case study.

METHODOLOGY

Three methodologies will be used to construct the case study. First, careful compiling of the historical data is currently being complete. Secondly, each group member will answer a questionnaire for identifying additional data for the case study to be written. Finally, Self-Help International Board members and staff involved in the program will be interviewed for their insights. These three resources will provide different perspectives into the strengths and shortcomings of the micro-credit program.

CONCLUSIONS AND RECOMMENDATION

This information should provide “best practices” information for other micro-credit programs. It can also identify challenges and problems that can occur. Both aspects can be important for organizations wishing to finance micro-credit program in other countries. Having some background available can impact the success rate of future economic development operations. Entrepreneurial activities in developing countries require both financing and

training support to make them successful. Analyzing what appears to be a successful program will only enhance future efforts of Self-Help International and similar organizations.

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‘MANAGING MANAGERS IN ENTREPRENEURIAL FIRMS’

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ABSTRACT:

The role of entrepreneurship in economic development and national competitiveness has become increasingly prominent in recent years. As a consequence, definitions of entrepreneurship tend to focus on two aspects of business performance – growth and innovation. Influenced by Joseph Schumpeter’s concept of the role of entrepreneurship most current entrepreneurship policy and research tends to link the two aspects and focus on the role innovation in the growth of small and medium enterprises (SMEs), sometime swith an emphasis on the management issuesinvolved. This paper’s focus is on the management issues of entrepreneurship but more on the organizational effects of growth and how SMEs develop the new management cadre they need as a result of their growth. In particular, the paper examines the differences between management development practices and links to the firms strategy in growth-oriented entrepreneurial firms and other SMEs. Starting with a consideration of research on management development in SMEs, the paper is based mainly upon an analysis of the 401 SME respondents to a pan-European study of management development, funded by the EC’s Leonardo programme. During mid 2003, surveys were conducted among HR managers and line-managers in structured samples of 100 firms (on average25 per cent SMEs) in Britain, Denmark, France,Germany, Norway, Romania and Spain. The findings indicate that entrepreneurial SMEs (defined here as groeth-oriented firms that reported actual growth in sales and staff) are more strategic and structuredin their approach to developing their managers and engage in more management evaluation and develoment activities, to the greater satisfaction of their managers. Non-entrepreneurial SMEs are less active in managing their managers and are more likely to adopt a recruitment not an internal development approach.

WOMEN INTO THE NETWORK
A DYNAMIC MODEL FOR DEVELOPING WOMEN'S ENTREPRENEURSHIP THROUGH THE DEVELOPMENT OF SOCIAL CAPITAL

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Female entrepreneurs are an important and growing proportion of the economy, with higher than average success rates compared to their male counterparts. (Rosa et al., 1994: Lloyds TSB, 1998; Carter, 2000). The number of women starting up their own business in the UK is on the increase, reaching a level this year that has not been see since the beginning of the 1990s. Women's business start up and development is recognized as one way of enhancing the competitiveness of an economy (Bennett, 1999).

It is clear of women's ever-growing importance in the global market and the growth of women's economic activities can determine the success or failure of each country's long-term economic health. (OECD, 2001). The recent GEM report states 'Expanding the involvement of women in entrepreneurship is critical for long term economic growth' (GEM, 2003).

Networking has been demonstrated as a powerful tool for new venture creation and business development (Hall and Bennett, 2002). However, women are often excluded from traditional business networks and lack access to information (Shaw, 1998). Research conducted in the North East of England found that there were over 700 networks in the region providing support to existing and potential business women, but the majority of women were unaware of their existence and of what they offered therefore missing out on opportunities. Women Into the Netwrk (WIN) is an initiative which uses networking and associated interventions to breakdown the barriers which stand in the way of women's success in buisiness.

WIN supports the creation and management of effective businesses by women through addressing their lack of integration into mainstream Business Networks and has assisted in the creation of over 600 new jobs in women owned businesses.

The paper sets ot to identify a number of themes and raises a range of issues relating to promoting relationships building for women's enterprise.

- The paper has a background in exploring the whole issue of confidence and bow that relates and impacts on women's business development in the UK.
- It has a focus on relationship building through networking and essentially this is sees as building social capital for women's enterprise as a key component in helping to build confidence.
- The paper is based both upon practice and action research that has been undertaken over the past two years as part of activities of the broader WIN project and highlights implications for future interventions.

THE GLOBAL ENTREPRENEUR

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According to the North Amercan, Dr Ervin Williams, a new breed entrepreneur is emerging today – they are called Global Entrepreneurs (G/E). The new G/E represent the highest oof entrepreneurship and operates differently from traditional entrepreneurs of the past. These G/Es use new management skills and innovative organizations to compete in an ever-changing international arena. They may even start their global venture at birth of their enterprise. They are true cosmopopolitans in contrast to the local-oriented entrepreneurs of the past. The G/E is completely wired for business in the information, knows how to effectively harness knowledge/technology, and will often establsish a network of relationship enterprises in order to operate their venture on an international basis.

Entrepreneurship has long been recognized as the major engine of economic growth worldwide. Now nations everywhere are turning to entrepreneurship as a means of encouraging greater economic growth. Dr Willianms says the G/E clearly helps facilitate such international economic growth. The world is at a cross road, at a new turning point in history, as a aresult of a dynamic new system of creating wealth. In the new world economic, the soft assets of knowledge and technology, are greater wealth creators than are hard assets such as land, equipment and factories. As a result, management models and organizational paradigms of the Industrial Era are giving way to fresh appreciation of virtualization, outsourcing, minimizing of scale, working with competitors, strategic alliances, networking, empowerment of individuals and a new understanding that plentitude creates wealth – many factors utilized the G/Es.

The motivational force behind the Global Entrepreneur is a desire to create a challenging global enterprise which will serve as a vehicle for *creating substantial wealth.* The G/E recognizes that combining their intellectual talents with technology is the most viable way of creating wealth in the 21st Century. The author shows how knowledge and technology are the primary factors in creating wealth in today's new economic order. Dr Williams defines technology as the practical application of knowledge for the purpose of achieving some beneficial economic value. The more one uses knowledge, the more it is shared, the more it proliferates and creates additional knowledge. The author posits that knowledge/technology can create unlimited resources which allow developed countries to achieve almost anything they desire to accomplish anywhere in the world. The internet allows knowledge/technology to be available to global entrepreneurs and to others who have the capability of tapping into the new wealth creating opportunities.

Global Entrepreneurs are interested in ideas at the cutting edge of their disciplines and they seek ventures and opportunities with worldwide impact. While the internet is a vital tool, not all G/Es, business ventures are Internet- related. Most G/E's enterprises span countries and involved a network of business partners. The G/E

often utilizes a virtual organization and virtual products – all of which are created upon demand to serve both known and unknown international markets. A virtual product is one that does not physically exist at the time it is sold. The product concept, its design and production are in the mind of the G/E and can be instantaneously customized and delivered in response to the unique needs of customers wherever they are located. Knowledge/related products are recognized as valuable inputs (raw materials) to production and/or as outputs (products/services) to customers from the G/Es virtual organization.

Just who is likely to become a G/E? It is likely to be a savvy employee of large corporate organization whose new product ideas have been rejected by upper management. You will also find potential G/Es as owners of local-orientated businesses, in particular, individual who are seeking further growth through international expansion. This new concept will appeal to those individuals who are seeking to gain a better understanding of how knowledge and technology and how this these disciplines can be used to create dynamic self-employment opportunities while networking with an array of like-minded associates throughout the world. The author of the article can be reached at cheers@ervinwilliams.com

BUSINESS START-UP PROCESS: A STUDY OF MALE AND FEMALE ENTREPRENEURS

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ABSTRACT

SMEs are seen to be an important part of the UK economy with 96% of all firms employing less than 20 employees, over 99% less than 100. Only one third of 1% employ 200 or more. Self-employment in the UK has been raised by 70% since 1979, and the highest rise has been among those without employees and the female self-employed in the UK, and in different countries. The increase in self-employment and venture creation in the UK has been much faster for women at 123% compared to 46% for men since 1979. Women now account for one quarter of all the self-employment in the UK. It is clear that female entrepreneurs are of importance to the UK economy and the UK SME sector. However most of the research has focused on male entrepreneurs and researchers have ignored any research, which focuses on women entrepreneurs. Consequently, female entrepreneurship has been in the public eye recently, and the government is making different efforts to encourage women to create their own ventures. It is important to study female entrepreneurs. The researcher intends to identify any differences among female and male entrepreneurs in venture creation through the start-up process, to help and encourage female entrepreneurs in setting up more businesses in the UK. The literature review offers many different opinions concerning gender in SMEs, but there is little empirical research that has been carried out in the UK and more specifically Scotland. The purpose of this study is to assess any gender differences in business start-up process in the UK through a structured mail survey. This method was chosen because it is a cheaper and quicker procedure than interviews and more appropriate when dealing with sensitive issues because it offers respondents complete autonomy and confidentiality. The sample of companies used in this study was obtained from the FAME CD-ROM UK corporate database. The criterion for selection was whether or not the company had last updated its statement in the previous quarter. This ensured that only successful firms with up-date information on the database were included. To achieve the objectives of the study, an exploratory study was carried out on a sample of 500 Owners/Managing Directors of SMEs in Scotland. Once all the information has been received, statistical techniques were used to analyze the data collected in the study. The results of this study are expected to be useful for further improvement and acquisition of knowledge concerning SMEs start-up process and interesting for practitioners and academia that are interested with the current situation of business start up in Scotland. Results indicate that the business characteristics of male and female entrepreneurs are very different, which imply that different policies would be required to target their different needs. With regard to start-up activities that there are more similarities than differences.

CHARACTERISTICS OF SUCCESSFUL ENTREPRENEURS
DYSLEXIA, LEARNING AND ENTREPRENEURIAL SUCCESS

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ABSTRACT

This paper briefly discusses two previously unrelated things and seeks to examine the relationship between them. The subject areas are dyslexia and entrepreneurship.

Two investigations were undertaken as the foundation for th study. These were the exploration of the incidence of dyslexia in corporate and owner manager populations, and the examination of the relationship between dyslexia and success in entrepreneurs. In the process of exploring these issues, other questions have emerged such as dyslexics are absent from some industry sectors but predominant iin others.

This research study produced some interesting findings. There was a significantly higher incidence of dyslexia in the owner manager popoulation than in the corporate management population (more than four times the UK national incidence). Both dyslexic and non-dyslexic entrepreneurial respondents possessed characteristics that are accepted as being present in successful entrepreneurs. The dyslexic entrepreneurs showed significantly higher degrees of creativity, lower levels of confidence and more developed oral skills than their non-dyslexic counterparts. Another interesting finding from this study was that whilst the non-dyslexic entrepreneurs came predominantly from working class families, dyslexic entrepreneurs came from middle-class families.

ATTITUDES TOWARD THE WOMEN ROLES IN A PUERTO RICAN ENTREPRENEURSHIP ENVIRONMENT

Submitted by : Dr Noemi Alvarado and Dr Kenya M Carrasquillo, Professors

This research project is related with the culture entrepreneurship topic of your conference sub-themes. It consists of a field descriptive correlational research project with the purpose of analyzing the existence of certain attitudes and obstacles in a Puerto Rican entrepreneurial environment and its possible relation with the personal and professional development of women.

RESEARCH METHODOLOGY

The research variables are the attitudes toward the women role, attitudes toward women roles in administrative positions, obstacles related to the women roles, personal and professional development for women. These variables were used to establish nine investigative questions and six research hypothesis in order to provide guide and direction to the data search and analysis.

The research will be conducted in small business firms of the Puerto Rican entrepreneurial environment. Random samples of women and men will be used as focal groups. The data collection will be done by a questionnaire designed by the researchers to obtain the perception of the participants. The primary data collected will be statistically analyzed to provide the necessary data bank to test the hypothesis and answer the investigative questions. Measures of central tendency as well as variation will be calculated. The following non-parametric hypothesis testing will be used: chi square, consensus analysis of variance and ranking test for items. Also the following parametric test will be used: z test for large groups, t test for small groups, and correlational Pearson test.

POSSIBLE CONCLUSIONS

The perception between men and women toward women roles are different, the attitudes of men toward women roles in the entrepreneurial environment constitute important handicaps toward women personal and professional development. It really

exists certain attitudes toward women roles in the Puerto Rican entrepreneurial environment that are related with her personal and professional development.

RECOMMENDATIONS.

Promote the development of policies and programs that enhance the professional women roles.
Make aware the top management of the professional pontentialities of women as an added value to small business firms.

Motivate women to establish support networks in order to manage the professionals barriers in her personal and professional environment.

Reviews the administrative policies and practices such that women will have better opportunities in leadership positions in the small business firms.

Establish a corporate environment favourable for intrapreneurship in the organization that not only support the creative activity but also have the planning flexibility to establish new objectives and directions as needed.

Motivate women to establish their own small business.

PERSISTENCE IN INNOVATION – AN INVESTIGATION INTO THE PERSISTANCE OF INNOVATION ACTIVITY IN IRELAND, 1991 TO 2003

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Successful innovation in new products and processes is increasingly being regarded as the central issue in economic development with empirical studies demonstrating that innovating firms grow faster, have higher productivity and are more profitable than their less innovative counterparts. This tends to be a short-term advantage however, at least until competitors erode market share or profit. Proponents of the resource-based view of the firm suggest that what is more important to sustained competitive advantage is the ability of firms to constantly change (or innovate) over time, with the reconfiguration of resources, capability and competences providing temporary advantages. It follows therefore that firms, which reconfigure their resources, gain not only in terms of their short-term competitive position, but also by enhancing their ability to learn and adapt to changing market conditions.

METHODOLOGY

This paper presents an empirical assessment of the extent to which firms constantly reconfigure their resources and competencies over time, as manifest in product, process and organizational innovation. Drawing on longitudinal data on innovation activity in Irish manufacturing firms over the past 12 years, the paper examines the persistence of different types of different of innovation activity and their inter-relatedness over time, by developing a non-parametric approach, drawing on Transitional Probabilities Matrices (TPMs).

MANAGERIAL ROLES IN SMALL FIRMS

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The behaviour of managers in organizations is a frequently studied phenomenon. An examination of the literature does, however, reveal that our knowledge about \t this issue is based on studies of managers in large organizations. In most of the literature on managerial work, organizational size is not considered as a factor affecting managerial practice and when size is considered, it is seldom on the basis of systematic empirical studies of managerial behaviour in small firms. An example of this is Henry Mintzberg's contingency theory of managerial work, which includes an environmental dependence in which the size of the organization is one of the two variables (the other is industry). In his propositions on how size affects managerial work, Mintzberg draws solely on a small-scale study of three presidents in small firms observed for a period of two days each. Due to the limited scope of this study (made by Choran), it can be argued that the empirical basis of Mintzberg's propositions on managerial work in small organizations is weak.

Using the same observation method as Mintzberg, Choran, in his unpublished MBA thesis, studied if roles and activities differ between large and small companies. In his replication of Minztberg, he identified two additional roles (the specialist role and the substitute operator) – which added to the ten roles identified by Minztberg – that top managers in small organizations play that their peers in larger organizations do not. The purpose of this paper is to replicate Choran in order to verify his list of roles that top-managers in small organizations play. Drawing on the empirical description of managerial practice in small firms presented in the paper, a secondary purpose of this paper is to provide a first explanatory account of *why* small firm managers behave the way they do. In doing this, I draw on recent work by Minztberg and Hales. Empirically this study draws on direct observation (using the same method as Minztberg and Choran) of owner-managers in six small manufacturing firms (17-43) employees). Each manager was observed for one week and in all the study includes 1650 activities and about 270 hours of observation.

Although the conclusions from this study are still to be drawn, it could be said that the study carries both empirical and theoretical implications. In rejecting or supporting Choran's rather tentative description of what managers in small organizations do, this study offers a deepened understanding of managerial practice in small organizations. The study provides managers in small organizations with an empirically grounded framework based on direct observation that could be used by supporting bodies in improving their activities and initiatives aiming at developing managerial practices in small organizations. The theoretical contribution includes a first step towards an explanatory account of the generic characteristics of managerial work in small organizations raising itself above descriptions of activity patterns depicting managerial behaviour.

Entrepreneurship Training for Regional Growth and Innovation: A Swedish Case Study and Ten Year Retrospective

Magnus Klofsten and Mary Spaeth

ABSTRACT

This paper examines the underlying assumptions that have led to the development and institutionalisation of entrepreneurship training in universities and will seek to assess the benefits of this development over the last ten years in the context of those assumptions. In this paper we will take a brief look at entrepreneurship training in its recent historical context. We will also consider what current researchers are defining as the characteristics of entrepreneurs and what correlations may or may not exist between the theoretical and psychological aspects of entrepreneurship and the actual training of individuals. It is our hope that this ten-year retrospective on the ENP programme will contribute new suggestions and recommendations for entrepreneurship training and demonstrate its ability to impact regional growth through both skills development and innovation catalysis.

INTRODUCTION

As interest in the study and practice of entrepreneurship continues to grow, definitions of the entrepreneur are probably less defensible than ever. Ray Smilor in his book, *Daring Visionaries*, notes the remarkable diversity of entrepreneurs and says that the attempt "to predict who will be a successful entrepreneur has proved to be a generally frustrating and unsuccessful endeavor" (Smilor, 2001, 20) Smilor has identified one characteristic that all entrepreneurships share however. "Every entrepreneur believes his or her company will succeed" (Smilor, 2001, 21). It is perhaps this very optimism that forms the foundation of an entrepreneur's character. And, it may also be this optimism and unfailing positivism that attracts many of us to study and to teach in the arena of entrepreneurs.

In Sweden today, entrepreneurship training initiatives that were initiated in the last decade have been replicated throughout the country as the demand for this training continues to increase. One of these initiatives, developed within the Centre for Innovation and Entrepreneurship at Linköping University[1] is the Entrepreneurship and New Business

[1]The Centre for Innovation and Entrepreneurship (CIE) was founded in 1994 and is a centre within commissioned R&D at Linköping University. The basis of the enterprise is different activities and programmes whose aim is to stimulate growth and development in young and expanding technology-based firms. The intention, moreover, is to integrate this enterprise with research and teaching in entrepreneurship and new business development. SMIL stands for Business Development in Linköping and is a member organization for technique- and knowledge-intensive firms. SMIL's purpose is to stimulate business development in these firms. It was founded in 1984 and currently has 200 member firms, from one-man firms to large firms. Common for these firms is that most of them come from Linköping University. SMIL and CIE have a very close collaboration with each other. Linköping University is located in Linköping, Sweden 200km southwest of Stockholm. Its 25000+ undergraduate and graduate students follow a breadth

Development Programme (ENP). This programme, begun in 1994 in cooperation with a private network of enterprises, has catalysed the formation of more than 400 new firms, 75% of them still in existence today. What's more, 20% of these companies now employ more than five people.

While it is impossible for business development schemes to demonstrate that companies under their tutelage would not have evolved without their support, it is possible to demonstrate and suggest that more companies are catalyzed today and indeed thrive as the result of start-up support. Statistics supported through studies done by the National Business Incubation Association (NBIA) in the United States, as well as by the UK Business Incubation (UKBI), show that between 75 and 80% of start-ups supported by incubators or business support are still in existence after five years compared to only 20 to 25% of businesses that receive little or no support.

It is with similar assumptions for success that entrepreneurship training exists. Entrepreneurship programs are in some ways a form of early-stage incubation support within the walls of universities. This paper will examine some of these underlying assumptions that have led to the institutionalization of entrepreneurship training and it will seek to assess the benefits of this development by reviewing the practices and performance of Linköping University's Entrepreneurship Programme (ENP). We will present an overview of entrepreneurship training in its historical context while considering what researchers define as the characteristics of entrepreneurs and what correlations may or may not exist between the theoretical and psychological aspects of entrepreneurship and the actual training of individuals. We will not attempt to argue these points, but instead, through presenting the ENP programme, we will seek to contribute suggestions and recommendations for entrepreneurship training and to demonstrate its value for stimulating economic growth.

Entrepreneurship and Entrepreneurs

Entrepreneurship as a component of theory and economic study is not at all new to the university curriculum, but entrepreneurship education as an application-based training for new business development is a relatively recent phenomenon. Before the 1970s, it was most likely that undergraduate and graduate students enrolled in collegiate schools of business had little opportunity to study entrepreneurship. While some colleges offered a single course in small business management, it was rarely required and even more rarely respected. (Kent, 1990, p. 111) In the *Annual Review of Progress in Entrepreneurship Research: a Rationale*, David Watkins echoes this sentiment and confirms that "the field of Entrepreneurship has indeed 'emerged,'" and he notes numerous conferences, institutes, associations, and journals dedicated to entrepreneurship and entrepreneurial discourse to support his assertion (Watkins, 2003, 10). From an academic perspective, where the validation of a discipline's value is determined by whether or not it is a research discipline or scientific discipline, entrepreneurship has not yet gained the full recognition as a domain within academia (Watkins, 2003). However, by virtue of the sheer numbers of papers, articles, theses, dissertations, and university courses dotting the landscape of entrepreneurship, one could argue that it has indeed become a relevant, if not respected, research discipline.

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of liberal arts offerings including business, engineering, life sciences, mathematics/informatics, history and social sciences, medicine, teaching, languages and literature. See http://www.liu.se

How did it happen?

The 1970s and 1980s witnessed the end of the Vietnam conflict, the slowing and ultimate end of the cold war, and the realization by the United States government that traditionally-funded scientific research could be transferred into the marketplace to support and encourage new trends in economic development. As institutes contemplated ways to exploit the research commercially for both profit and economic good, they became more aware of their place, if not obligation, within the economic framework of their communities. In 1975 [in Sweden as well as in other countries] a third objective was added to the agenda of universities to "be open to influences from the outside world, [and] disseminate information about their teaching and research activities" (Henrekson and Rosenberg, 2000, 6). Today this third objective is an integrated component of most Swedish higher education (Johannisson, 2003).

By the 1980s influences both inside and outside many universities led to changes in what had been very traditional management education programs. Over the ensuing twenty years, increased interest in the commercialisation of university technology; establishment of science, research, and technology parks; and the development of business incubation programs led to an ever-heightened awareness of the need for more and better business managers of new enterprises. University business schools, some more readily than others, took up the gauntlet and introduced programs designed to train young graduates to take on the challenges of business creation. "College presidents and deans began to recognize that their most prolific and potentially biggest donors were often entrepreneurs who were willing to support entrepreneurship programs on college campuses through scholarships, contributions, endowed chairs, and centers" (Kent, 1990, p. 112). In the United States, traditional business schools such as the Kellogg School of Management at Northwestern University, could finally justify and formalize their entrepreneurship programs without fearing the threat of reduced contributions from large accounting firms which expected MBAs to be specially trained for executive management. In fact, new entrepreneurial graduates throughout the country, particularly between 1990 and 2000, were themselves becoming significant donors to their universities.

Increased global mobility and competitiveness has also catalysed entrepreneurship programs.

As early as 1988, Senator John Button, then Federal Minister of Industry, Technology and Commerce of Australia, said, "Many of our best inventions are lost to overseas concerns because Australians fail to exploit their industrial potential. If we are to capitalize on our ingenuity we must train entrepreneurs capable of developing and managing technology-based industries" (Wan, 1988, 66).

So, while it is true that many universities within the United States, Europe and Australia have offered graduate level programs in entrepreneurship, mostly theory, for many years, the recent surge in popularity has been catalysed by significant changes in technology commercialisation practices within university settings just since the early 1980s. This phenomenon in addition to increased global market competitiveness has led many academic and non-academic researchers and/or professionals to attempt to describe, define, and teach the skills and behaviours that could presumably lead to greater numbers of entrepreneurs and entrepreneurial activity. As this process has become validated within universities, government-funded business development agencies, and in private consulting firms, it has also become formalised and in fact, institutionalised.

By the mid 90's, more than 120,000 college students in the United States enrolled in entrepreneurship classes and Rice University in Houston, has required all of its students to take a full course in entrepreneurship since 1996. (Randall, D. 1997)

In 2001, the University of Kentucky looked closely at Lee T. Todd, an entrepreneur who had started, run and sold two high-tech businesses—Projectron Inc. and DataBeam Corp. Today, Todd is the President of the University and has established an entrepreneurship center, increased funding to a venture-capital fund, and working to improve the university's research capabilities—"not just to boost the school's academic stature, but to fill the pipeline for high-tech start ups" (Barker, 2003, 2).

One of the most important indicators for increased entrepreneurial activity on university campuses in North America is found in a recent survey by the Association of University Technology Managers (AUTM) which shows university revenues from technology licensing increasing from $186 million in 1991 to $1.3 billion in 2000. At the same time, university inventions led to the start of some 454 companies in 2000 compared to 241 in 1994. (Barker, 2003). Data on start ups between 2000 and 2004 reflect market downturns, but according to AUTMs 2002 survey of licensing activities, 450 new companies (reported by 214 institutions) were started in 2002 and new licenses and options executed in 2002 increased by 15.2% over 2001, showing the slow reversal of the downward trend of previous years (AUTM 2002).

Defining the entrepreneur

Smilor's suggestion that every entrepreneur wants to succeed may be the single characteristic of entrepreneurs on which many, if not most, can agree. It is possible that to ultimately *define* entrepreneurship as a disciplinary domain within the university is to render it definable—an action which in itself seems threatening to the very essence of what it may mean to be entrepreneurial. The actionable, yet indescribable nature of entrepreneurship makes it nearly Zen-like in character. Zen came into China in the first century A.D. through influences of Indian Buddhism. And while the Chinese of the so-called Middle Kingdom did not like all aspects of this Buddhism, they (especially the Taoists) were impressed by "its subtle dialectics, and penetrating analyses and speculations" (Suzuki, 1973, 1). According to Daisetz Suzuki,"Zen is not necessarily against words, but it is well aware of the fact that they are always liable to detach themselves from realities and turn into conceptions. And this conceptualization is what Zen is against. . . Zen insists on handling the thing itself and not an empty abstraction. It is for this reason that Zen neglects reading or reciting the sutras or engaging in discourse on abstract subjects. And this is a cause of Zen's appeal to men of action in the broadest sense of the term" (Suzuki, 1973, 5).

As with Zen, the *being* is more important than the *doing*. Taoism purports that being alive is more important than the meaning of life. Athletes strive to reach a state of 'being in the zone' where performance exceeds ones own expectations and one achieves a level of confidence, ability to focus, and to relax (Taylor, 1996). Psychologists, sociologists, historians, and economists are interested in researching entrepreneurs in part because of their phenomenological quality. There are those who discuss entrepreneurship from a behavioral or even gender perspective. Psychologist, Alan Jakobowitz, describes five stages inherent to the development of an entrepreneur. "He suggests that a child is often exposed to entrepreneurship in early childhood, experiences trouble in school, problems at work, enjoys an exposure to risk, and is blissfully independent" (Farris 99 in Spaeth 2004,

10). Most would agree that not all human beings are entrepreneurial. There are also studies that have also demonstrated that those who have so-called entrepreneurial traits are not guaranteed to start businesses (Huefner, J., Hunt, K., and Robinson, P.B. 1991 in Spaeth 2004). Not all would agree on the particulars of the origins behind an individual's inclination to practice or behave entrepreneurially, however. The view that something 'unusual' is inherent to the entrepreneur is a part of the fascination of its study and of the attempt to create or emulate it. Psychologists would probably be challenged by Schumpeter's notion that the behavior might actually be 'abnormal' and even by the notion that entrepreneurship could *be* a behaviour. Economists have sought a definable behaviour in the entrepreneur, for to be definable is to be measurable and to be measurable is to be predictable—allowing for greater control of organizational change that can ideally lead to a company's profitability. Today, however, what may prove to be more measurable and even understandable is the concept of entrepreneurs reacting and acting within their respective cultures and environment (Davidson, Low, and Wright 2001; Anderson, 2000; Aldrich and Martinez 2001).

These discussions will likely lead to a long future of research and debate. In the meantime, economists, investors and regional developers are content to gamble on the notion that an individual who is both entrepreneurial and managerial is worth cultivating for the development and financial well-being of a community.

The teaching of entrepreneurship as a practice is a form of practical application of existing theory or definition. As in the application of any science, practical applications can often comfortably avoid theoretical debate. The application is based on the acceptance of the general assumptions made about entrepreneurship by most theoreticians and generally resting on Schumpeter's views that, as Watkins reasserts "entrepreneurs do things other than those that are accomplished by normal behaviour" (Watkins, 2003, 32).

Certainly, enough data, qualitative and quantitative alike, has accumulated to lead most of us to believe, theoretically perhaps, that it is worthwhile to attempt to train entrepreneurs—either by giving creative and innovative individuals the skills to manage business, or giving business managers the notion and opportunity to create and innovate.

If we are to accept that some aspects of creativity, ingenuity, drive, and perhaps some financial and organizational abilities lay at the base of the entrepreneur's character, then we can assume also that entrepreneurs have existed since the beginning of humankind. How or if the entrepreneurial or enterprising person functioned or didn't within his or her community would have and still does depend entirely on the politico-socio-economic environment in which that individual lives.

Whatever genetic predisposition might lend certain entrepreneurial characteristics to any individual, he or she must also be supported by a society that does not inhibit those traits. In Russia today there exists an intellectual understanding of and curiosity for entrepreneurship. Government officials and many academics have read about and have seen the results of business development programs around the world. Still, the majority of university professors and deans in the Russian universities are baffled by the notion of their students' even 'needing' to consider 'having' to work for themselves when they can 'certainly find work' when they leave the university. On the streets, outside the halls of academia, entrepreneurs abound—most of them in the form of unofficial taxi-drivers—citizens trying to make a few rubbles, dollars, or euros from non-sanctioned forms of business.

In 1954, human psychologist, Maslow first published "Motivation and Personality." He recognized that most people seek to satisfy personal needs through their work. He suggested that there exists a predictable scale of needs that most people will attempt to satisfy in sequence. He also theorized that a person could not even recognize or pursue the next higher need in the hierarchy until her or his currently recognized need was substantially or completely satisfied, a concept called prepotency. Maslow's hierarchy of needs is often illustrated as a pyramid with the survival need at the broad-based bottom, moving up through safety/security, then social/love/acceptance, then to esteem/recognition/success and finally self-actualisation need at the narrow top.

In order for an individual to satisfy a need, he or she must be able to recognize the need. Hunger and thirst—basic survival—are relatively easy needs to recognize. Mazlow's establishment of a hierarchy of these needs, with success and self-actualization at the top suggested that these were also needs that are not necessarily achieved or even recognized by the individual as necessary. The entrepreneur is a self-actualizer. For him or her, success defined by wealth and recognition (of self and invention) is a principal motivation. The social environment in which an entrepreneur thrives is an environment that encourages or at least accepts what the American writer Thoreau called self-reliance. (Spaeth, 2001).

In Sweden, the community of Gnosjö[2] is regularly cited as a place that holds a particularly entrepreneurial spirit. Historically, Gnosjö has, unlike other Swedish communities, shunned the support of 'outsiders' including the state whenever it suffered low economic times. The citizens of Gnosjö are historically, self-actualizers. Caroline Wigren, in her most thorough doctoral dissertation on the spirit of Gnosjö examines what prove to be not so extraordinary characteristics of a community that is actually more 'enterprising' than entrepreneurial (Wigren, 2003, 202). The people are indeed self-actualizers. They have also found ways to create wealth through producing products that are in demand regardless of economic influence or cycle—"dish drainers, whips, outdoor furniture, wire baskets" (Wigren, 2003, 73). Whether they can be said to be innovative in their conceptualising of new products or needs may be questionable. On the other hand, it could be argued that a community or region is entrepreneurial if it can create wealth by successfully understanding and exploiting market needs.

If one were to evaluate Gnosjö's entrepreneurial characteristics by the same measures as the GEM[3], the distinctions made by Wigren between what she calls 'enterprising' and what she might like to have called 'entrepreneurial' become clearer. GEM distinguishes between *opportunity entrepreneurs* who take advantage of business opportunities and *necessity entrepreneurs,* those who, as the name also suggests, start a business out of a basic need to survive. In their 2003 regional profile on entrepreneurship in South Africa for example, they conclude that 63% of the entrepreneurs took advantage of business opportunities, while 37% were necessity entrepreneurs. The report suggests that "because entrepreneurs can be motivated by both opportunity and necessity or other reasons (e.g. lifestyle), the total entrepreneurial activity rate does not necessarily equal the sum of opportunity and necessity entrepreneurial activity" (GEM, 2003). If we assume that self-actualization and drive are key components for entrepreneurship, however, without the added element of creativity and innovation (i.e. *how* one actually exploits the business

[2] Gnosjö (pronounced Gnoh-whə) is a community in southern Sweden of just over 10,000 inhabitants.
[3] GEM-The Global Entrepreneurship Monitor is an annual assessment of national levels of entrepreneurial activity. Conducted by a partnership of the Ewing Marion Kauffman Foundation, Babson College, and London Business School the GEM began in 1999 and now studies approximately 30 countries each year. (see: http://www.gemconsortium.org)

opportunities and necessities), then perhaps we are not adequately distinguishing between enterprise development and entrepreneurship. It is likely that Wigren uses the term 'enterprising' rather than 'entrepreneurial' for this very reason. The entrepreneur, then, regardless of definition or environment, can be said to help stimulate economic development through the creation of new business *and* to *accelerate* economic development through creativity and innovation that leads, ideally, to higher levels of productivity and competitiveness.

Stimulating Entrepreneurship

When entrepreneurship training was in its infancy within universities twenty years ago, there was considerable doubt as to the qualification and competence of professors to offer such training. Earlier studies demonstrated that the small business person (as well as participants in the ENP programme) can harbour a certain skepticism towards organizations which perform such training (Gibb, 1990; Klofsten and Mikaelsson, 1996). Such skepticism has often been the result of misunderstandings between the worlds of academia and industry where the concepts of management, commercialization, profit and wealth are viewed or thought to be viewed from significantly different perspectives. In other words, the business person will assume that the academic has little or no experience with the so-called 'real world.'

Today, graduates and/or participants of early entrepreneurship programs and practice are, yes, middle aged. The programs themselves are mature and ever-diversifying. According to the Kauffman Foundation, more than 1,500 colleges and universities offer some form of entrepreneurship training and interest in entrepreneurship education has spread to non-business disciplines, where students in engineering, life sciences and liberal arts are interested in becoming entrepreneurs.

A recent study conducted jointly by the University of Arizona's Eller College of Business and Public Administration and the Kauffman Center for Entrepreneurial Leadership, revealed that entrepreneurship education program alumni start more new businesses, develop more products and are more likely to be involved in high technology endeavours than their peers.

In their study, published in 2000 by the Kauffman Center and titled *The Impact of Entrepreneurship Education*, Alberta Charney and Gary Libecap surveyed 2,484 Eller College alumni, including 460 who were graduates of the Berger Entrepreneurship Program. Also surveyed were department heads and other administrators from the University of Arizona (including the Office of Technology Transfer), the UA Foundation and the Eller College dean. They learned that compared to other business school alumni, entrepreneurship graduates:

- Are three times more likely to start new businesses.
- Are three times more likely to be self-employed
- Have annual incomes that are 27 percent higher and own 62 percent more assets.
- Are more satisfied with their jobs.

Furthermore, it is important to be clear that entrepreneurial activity is not a compulsory outcome of an entrepreneurship education program. (Rabbior, 1990, p. 54) Courses that inspire entrepreneurship as behaviour will foster a society of confident self-actualizers and

innovators who are equally as valuable to the economic well-being of a community as the business creators themselves. Today, some universities in Sweden have suggested that as many as 50% or more of their students should start companies—even before they complete their studies. This notion, often promulgated by local economic developers in the hope that it will encourage graduates to remain in the community where they've attended university, is one that—if it were 'successful' would likely lead to an over-abundance of inexperienced business 'managers' many of whom have had little or no exposure to business experience prior to graduation. During the nineties this may have worked for thousands of software programmers who were supported by so much money that their own lack of skills was as transparent as many of the companies they pretended to manage. Today however, hard economic lessons have demonstrated that for most entrepreneurs, the experience of working for someone else may make them better leaders when they start their own companies.

Formal training of entrepreneurs in South Africa is still relatively new. In the 1990s, "the government's Reconstruction and Development Programme (RDP) placed major emphasis on entrepreneurial awareness and training" (Ladzani and Van Vuuren 2002, 155). Inspired by entrepreneurship practices in other parts of the world, regional service providers began entrepreneurial training, but today, in spite of considerable efforts, just three of eleven, or 27%, of service providers in South Africa's Northern Province, actually provide business, entrepreneurial, and performance motivation training (Ladzani and Van Vuuren 2002).

Ladzani and Van Vuuren, in their recent study of South African entrepreneurship training for emerging SMEs, emphasize these four clear strategies necessary for reducing the failure rates of new business development:

- Existing Training Firms Should Revise their Training Materials. *It is good that business skills are offered to entrepreneurs. It is even better to introduce and strengthen entrepreneurial skills, particularly to emerging entrepreneurs, so that they know how to generate ideas, screen these ideas, identify opportunities from the generated ideas, and assess whether they have entrepreneurial characteristics that would enable them to succeed in business.*
- SME Service Providers Should Benchmark their Services with Successful Similar Institutions. *SME service providers that are successful should share the secret of their success with those that are attempting to succeed.*
- Educational Institutions Should Introduce and/or Strengthen Entrepreneurship Education. *An entrepreneurial culture should begin at home, and then proceed to higher education and training institutions. When pupils are oriented into entrepreneurship from an early age, it becomes easier when they have their own entrepreneurial ventures.*
- Emerging and Potential Entrepreneurs Should be Encouraged to Take Courses in Entrepreneurship. (Ladzani & Van Vuuren, 2002)

Given what we've learned over the last ten years, through others' experiences and our own, is that there are a multitude of different activities necessary to train or influence entrepreneurship (Klofsten, 2000). Certainly three basic activities should continue to be found at a university:

•The creation and maintenance of an enterprising culture on the whole at the university.

•Separate courses in entrepreneurship where students can learn more about entrepreneurship as a subject itself.
•Specific training programmes for individuals who feel that they may wish to start their own enterprise; for example the ENP-programme. These are primarily 'hands on' and may or may not university credit and which may be suitable for students, faculty, staff, and members of the local community (Klofsten, 2000).

What is different today from just ten years ago is that universities not only have more qualified business practitioners teaching on campus, but professors studying the phenomenon of entrepreneurship have themselves developed substantially. Universities that were criticized for lacking competency in undertaking entrepreneurship training (Klofsten and Mikaelsson, 1996) are today held in much greater esteem. Today, entrepreneurship is a 'household' word among students in business and even among those in some scientific and technology disciplines, but it remains a foreign concept to many students and professors alike on university campuses. Gibb's notion that entrepreneurship should permeate all facets of university activities invites us to consider the importance of providing not only access to business development concepts within individual departments and courses, but to foster entrepreneurial thinking across all disciplines. Students studying education, philosophy, the arts, music, history, and languages, as well as engineers, scientists, and business majors should be provided with a basic foundation of economics and business development practice in order to fully appreciate the "street value" and potential, as it were, of their work.

The ENP Programme

In the spring of 1994, Linköping University launched the Entrepreneurship and New Business Development Programme (ENP). It was seen as a critical component of a more comprehensive programme structure for business support of technique- and knowledge-intensive firms.[4] The University, together with SMIL (a private network of enterprises), already had a great deal of experience in providing support to established firms. They had a good track record of starting firms, but there was no formalized infrastructure for the 'younger' entrepreneurs to become a part of the start-up process or to ensure or improve the quality of these firms. The founders of the ENP also envisioned an opportunity to create a more enterprising university. As with many institutions new to the entrepreneurship game, the administration neither hindered nor supported the founding of the programme (Klofsten, 2000). Since ENPs inception in addition to many other related programs, the university has become an ardent defender and supporter of business development and entrepreneurship.

The first ENP workshop served as a pilot programme. Ten persons representing five companies participated, their response was very positive, and we were encouraged to continue. Over ten years the program has grown considerably. In the spring of 2004, 35 persons participated in the fourteenth programme (ENP-14). The programme has also been developed in 10 other regions throughout Sweden and among these regions a total of 35 ENP programmes have been conducted, which has resulted in approximately 400 businesses (up from 80 in 2000) that employ approximately 2000 persons (up from 800 in 2000). Since 2000 the ENP-programme has been a part of a project funded by the

[4] A firm can be considered to be technology-based or knowledge-intensive if a certain portion of the firm's budget is devoted to research and development, the employees have a high level of education (Master of Engineering or equivalent), and the firm has a technology-based or knowledge-intensive business idea.

European Commission, 'Unispin', whose aim is to support regions in Europe that lack an infrastructure for entrepreneurial development (Klofsten, 2000). The CIE ENP Programme in Sweden continues to grow (figure 1):

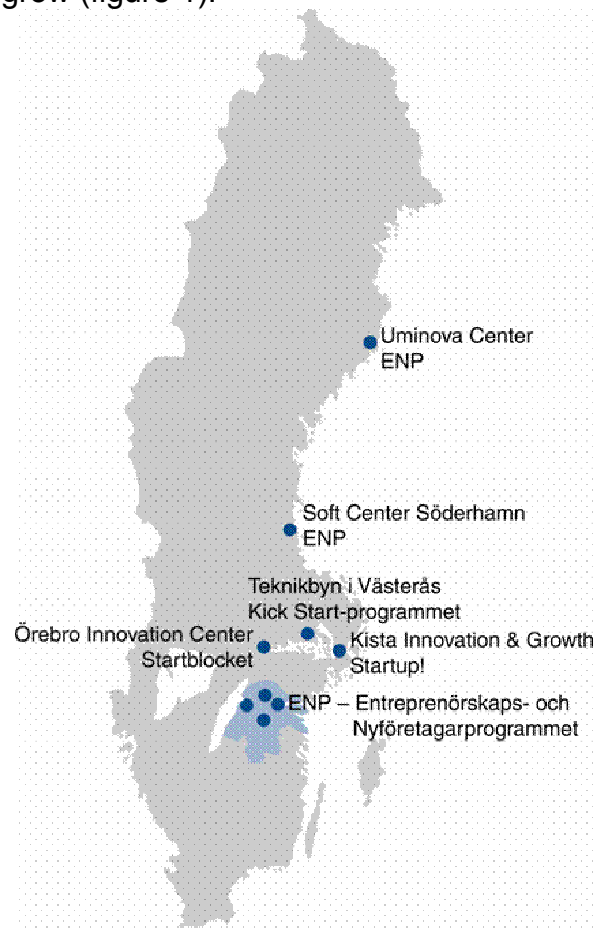

Figure 1

Content and execution

The ENP programme is based on a holistic approach in assisting the entrepreneur to grow his or her company in such a way that it attains a "business platform" (Klofsten 1998). This platform requires a business to attain some level of success in the majority of eight principal areas of their business. Aspects related to the core group of the business (for example, the founders' driving forces and competence), external provision of resources (for example, customer relations and other corporate relations), and the business itself (for example, idea, product, market, and organisation) formed the foundation, therefore, of the portfolio for the ENP programme.

Over the years, a large number of articles have been written on business support and business training. In a comprehensive literature review (Autio and Klofsten, 1998; Jones-Evans, 1996), the authors highlighted two main categories of support—configuration orientation and process orientation. Configuration orientation (which seems to be the one most studied) deals with static arrangements, for example the description of facilities, budgets, organisational charts, localisation, and institutional links. Process orientation refers to support of a more 'hands-on' nature that investigates and takes into consideration, for example a firm's actual need for management support, the heterogeneity of the population of firms, and the need to learn by doing. A third conclusion is that process orientation is preferred over configuration orientation in the training of

entrepreneurship because the former's dynamism and pedagogy is more able to meet the individual participant's need of support. With this, we do not mean to say that 'hardware', for example in the form of good premises and money, are unimportant, rather that 'software' is often a crucial resource and decisive for whether en activity will be successful (Heydebreck et al., 2000).

Instead of focussing on premises and finance ('hardware'), the ENP programme focuses on supplying a solid base of general knowledge to the participants ('software'). The ENP-training programme builds on four important precepts that support the participant's attainment of the eight cornerstones of the business platform. These four precepts include:

- A neutral approach—no investments/no interference: There is an understood 'code of conduct' among the trainers, mentors, and participants in the program so that the sharing of ideas and information can flow freely.
- A credible environment—While openness and sharing are encouraged, there is also a demand for respect of proprietary material rights.
- People, not just ideas—It is understood also that ideas change more often than people. Therefore, we focus on the development of the person more than on the idea.
- Motivated persons only—Entrepreneurship requires motivated, reliable and committed individuals with positive outlooks.

Once enrolled in the programme, each participant is to develop a business plan based on his/her own idea, but with a strategic and realistic perspective. The development of this plan is aided through:

- Workshops. In these, the most important components in the process of developing a business, for example marketing, sales, and legal issues, are discussed.
- Mentoring. Each and every one who participates is assigned a mentor who is a senior entrepreneur able to share significant experience with the participant.
- Supervision. The participants meet in person with programme management to check progress, receive advice and coaching.
- Networking. Each and every one receives free membership in SMIL the year the programme takes place.
- Use of Incubator facilities. Here, the possibility of renting premises in one of the local science parks[5] on very easy terms is offered.
- Seed Financing. If an idea is judged to be economically sound, help with good funding is offered in the form of grants or soft loans.

The main theme that holds the different sections of the programme together is that of the business plan and the platform cornerstones, whose purpose is to facilitate development work. These combined provide the framework of the programme and help to generate successful business presentations at the culmination of each ENP. Participants are supported at all times by an experienced business network. In this network, there are not

[5] Mjärdevi Science Park, Berzelius Science Park, and ProNova Science Parks are located within close proximity to the university. Mjärdevi was founded in 1984. Currently, approximately 170 companies who employ nearly 5,000 persons comprise the park, making it one of the most expansive in Europe. Berzelius focuses on the fields of medicine and medical technology. ProNova, located next to the university's Norrköping Campus, is a smaller inner city park with substantial company formation dedicated to IT and electronics.

only many entrepreneurs but also venture capital companies and other supportive organisations. The University and its entrepreneurship programs including ENP, rely on close collaborations with the local and regional science parks (2) where we often recruit candidates for ENP, conduct workshops and seminars, and where our participants can find flexible premises in which to work temporarily or long-term.

When ENP was initiated, the first programme lasted approximately one year, starting in the early spring and finishing in late fall. It became obvious that this time span was much too long, mainly because most of the eager participants started up their firms before the programme was due to finish. The participants needed access to the programme for a shorter time. Today, the ENP is conducted in fewer than 6 months, using the same content. The result has been positive and the participants are more committed for the entire programme than they had been previously. The following diagram illustrates the process (Figure 2):

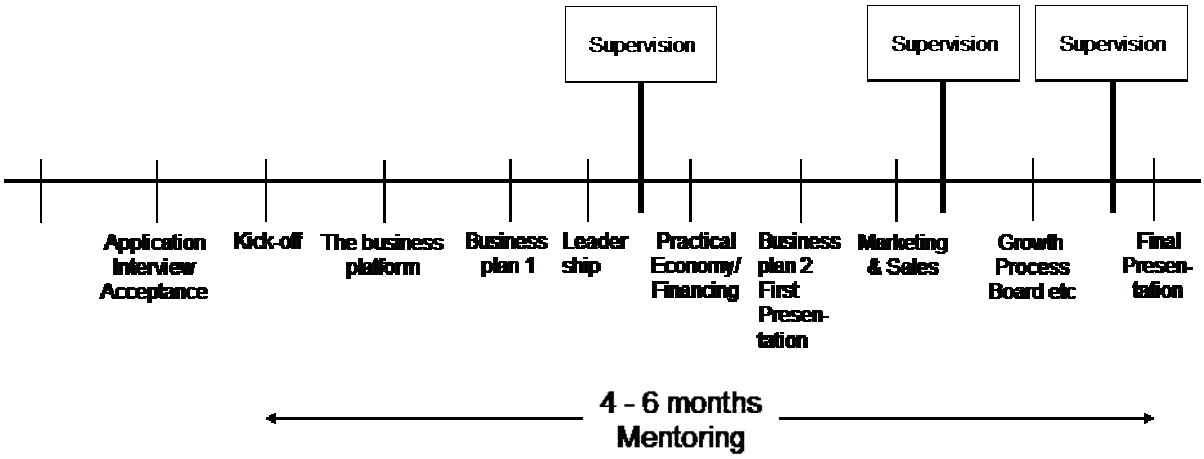

Figure 2

Target Group and Recruiting

The ENP-programme has been marketed principally through the university's internal newspaper and leaflets, distributed primarily to students in the higher years of study. Firms and other organisations which are associated with the SMIL network are invited to visit by email, fax, or the regular mail. Perhaps the most important instrument for marketing is the direct communication with the students in the entrepreneurship courses or the word-of-mouth effect that arises from satisfied participants of previous programmes. Certainly, due the success of the program and its growth, we have seen that personal references have contributed positively as well.

The ENP-programme has two main target groups and these are employees at:

- Linköping University, for example students, researchers, and teachers.
- Technology-based or knowledge-intensive firms and organisations.

The criteria that are used to recruit persons from these target groups are very simple - the person must have an idea (which does not need to be particularly well articulated) and must, as a person, be strongly motivated. Each and every one of the applicants is interviewed by programme management to ensure that the applicant fulfils these two criteria and that they have understood that the issue is that of a programme whose

purpose is to start businesses and not that of a traditional university course. The relatively simple and informal recruiting procedure was chosen based on the following:

- It is almost impossible to judge at an early stage whether an idea is economically sound, and it is not at all certain that the best idea leads to success (Timmons, 1994; Klofsten, 2003).
- The entrepreneurial process itself is distinguished by active and performance-oriented behaviour in persons in the form of being able to develop business opportunities (Bygrave, 1994, McClelland, 1961).

Consequently, the programme focuses on the individual (the entrepreneur or the entrepreneurial team) rather than the greatness of the idea. To develop an idea into a business is a process that can take a long time. It is totally dependent on the persons behind the firm and their ability to take advantage of business opportunities on the market. In the programme, consequently, active participation is expected where one, for example must take the initiative in the relationship with his/her mentor, take advantage of the network that is offered, and exploit the relations created in the programme. What is offered can be likened to an arena of activities (or opportunities) where it is a matter of the participant taking advantage of these as effectively as possible.

Financing the Programme

No fees are charged for participating in an ENP-programme. The target groups, which largely consist of students, lack the ability to pay, and it has not been considered appropriate to demand a fee for the simple reason that certain individuals with entrepreneurial potential would perhaps, by having to pay, miss the opportunity for training. Ten years ago, it had become popular to discuss taking ownership or equity in new enterprises developed through training or incubation. In creating the ENP programme, we elected to remain a neutral partner and avoid creating the image of being an investment company.

The programmes are financed with public money and the total cost of conducting a programme of 'normal' size (10-12 business start-ups) is approximately 450 KSEK (52 KUSD), and this does not include the costs of other components of the business development network such as incubator or seed capital management.

Success Factors behind the ENP programme

Over ten years' time we have learned a great deal about entrepreneurs and entrepreneurship training. Past and present participants in the ENP program have provided valuable feedback that has allowed us to continually improve our own performance and results from year to year. All participants have appreciated the discipline and pace of the programme, the structured outcome of their own ideas and plans, and the increased network of professionals who are ready and willing to support them, not only during the program, but afterwards as well.

During the spring and fall of 2003 data was gathered reflecting the program's ten year history. [6]In the first stage of research ten case studies of young knowledge-based ventures

[6] This research was conducted by the CIE under the supervision of Professor Magnus Klofsten and Semir Nouira, PhD Candidate in Industrial Organization at Linköping University.

representing different industries were completed. The purpose of these studies was to understand the process of idea generation, development and execution in terms of internal and external factors that might influence the process itself. The identification of any influences could also assist in deriving 'relevant' measures for our survey study. The case studies revealed degrees to which an idea either expanded or contracted over time in terms of the business concept and its execution. These variables of convergence or divergence provided a useful starting point for a survey which examined

1. start-up origin, localization, turnover and employment, business orientation and market aspects
2. idea development
3. financing, and
4. The founding team.

From 321 identified businesses, we selected 170 as accessible (we could identify them) and relevant (there existed some kind of activity around the idea) for the study. Using this sample as a base, we received 167 completed questionnaires through telephone interviews. The interviews reduced non-response and helped to avoid any misinterpretation of the questions.

Summary of Results

The surveys, which also looked at characteristics such as the age, size, and ownership of the firms, reflect some extremely positive trends in entrepreneurship training:

- the average firm is now 3.6 years old
- 70% of these firms employ fewer than 5 people and report turnover of less than 1.5msek or 170,000 €
- 40% want to expand
- 60% are started by teams
- 61% are spin-off firms (32% from private sector)
- 74% are exclusively owned by the founder(s)
- 60% have been located in a business incubator
- 85% offer service or combination of service and product
- 39% sell their service or product internationally

Although the assessment of idea development in and of itself proved to be an interesting outcome of the survey and forms a significant part of another work in progress, the most relevant portion of the survey for this review of the entrepreneurship training program has demonstrated that over ten years, there is a growing interest on the part of new companies to expand and an increasing number of companies started by teams. In fact, the National Business Incubator Association (NBIA)[7] has reported similar trends among companies supported by their members offering start-up support through incubation.

Based on results from the survey and from previous lessons learned, we can suggest the following twelve-step program for a successful entrepreneurship training program:

[7] See online reports at http://www.nbia.org

1) Develop a broad and holistic program. Consider the breadth of what it takes to conceive of and to start a company. For universities teaching entrepreneurship across the curriculum, it is reasonable to assume that while some students may never choose to become entrepreneurs, it is likely in today's economy that they may work for one.
2) Supply the best competence available to suit the needs of the course. Those who are entrepreneurs or have worked with entrepreneurs generally have the best competence.
3) Define the needs of each participant. Often new entrepreneurs are not fully aware of their own needs, or they have not found a voice to express them. Programme managers and mentors can help to assess these needs and propose actions and solutions.
4) Associate the programme with a network of firms. Many of the participants will not have an established network and are in great need of coming into contact with other entrepreneurs both for advice and for business.
5) Increase the participant's self-confidence as entrepreneurs and new business owners. Many of the participants lack business life experience. Help them to feel comfortable with their 'business' image.
6) Demand measurable returns. Record and document progress and deliverables including business plan stages, visits with customers, presentations, and other project specifications.
7) Use functioning 'toolboxes' that have been well-tried. Since the programme is 'hands-on', its success will largely depend on the structure and quality of the workshops. Be certain that lecturers and guests have proven 'toolboxes' for training.
8) Plan the mentorship carefully. Practice openness to what all mentors may have to offer regardless of age, color, gender or religion. Our experience has shown that the criteria for selection should consider such things as personal chemistry, competence, openness, and enthusiasm for sharing knowledge.
9) Practice versus theory. It is important to ensure a practical orientation to the programmes, but nearly any toolbox or structure will likely have some theoretical underpinnings. Remember that there is an important relationship, too, between starting a company and exiting or ending one. The business plan should not be an exercise in itself, but a concrete manifestation of idea, design, and implementation that can lead to the successful sales of the product and/or service.
10) Focus your programme on your target group. Although it can be interesting to invite participants from diverse sectors, a training program such as ENP is not the place to incite innovation between the pizza manager and the robotics engineer. We heartily encourage their meeting in order to develop a better system for pizza production, but in the context of a training program we encourage a more homogenous mix of entrepreneurs simply to facilitate conversations, commitment and contributions from the participants. The ENP program is designed for technology-based and knowledge-intensive activities.
11) Create credibility. Participants, while understandably protective of their business ideas, need to work in an open atmosphere. They must feel confident that they can do so without compromising their business and material rights privacy.
12) Balance the formal and informal. Training entrepreneurs also requires remembering to act and be somewhat entrepreneurial. While necessarily structured, the programme should allow flexibility, openness, and action. New ideas should be allowed to evolve according to their own timetable if possible.

In 1990, C.A. Kent wrote a text entitled *Entrepreneurship Education* in which he said, "Like any new venture, these new programs in entrepreneurial studies must be given room to breathe, flexibility of movement in order to develop their educational products, and protection to grow and flower into a healthy maturity" (Kent, 1990, p. 84) Maintaining the 'entrepreneurial' quality of a programme in an academic setting would be considered by some as an oxymoronic futility. But his words are worth calling to mind today. He likely could have predicted many of the lessons learned the 'hard way' by university entrepreneurship trainers. He cautions about over emphasizing marketing while ignoring product development, production, customer support or finance, for instance. He bemoans the badly written student business plan, and urges more emphasis on raising funds from informal sources. "How to approach and work with professional venture capitalists is simply irrelevant for 99.9 percent of all entrepreneurship students" he insists. (Kent, 1990, p. 85) .

Looking back over the ENP programme's ten years' of evolution, we are confident that we have kept a broad perspective on entrepreneurship. We would concur with those who have said that searching for appropriate definitions of entrepreneurship is not constructive and in fact increases the risk that narrow definitions may actually inhibit the participation of potential entrepreneurs in entrepreneurship training. (Rabbior, 1990, p. 53)

In his contribution to Kent's work on Entrepreneurship Education, W.F. Kiesner echoed some of the fears of both administrators and industry professionals alike when he said, "Courses must be totally relevant to the entrepreneurial experience, and must also appear relevant. They must be taught by faculty with actual small business entrepreneurial experience. The courses should be industry- and market-specific. Perks such as college credit are of little relative importance to the consumers of entrepreneurial education. Short, quick, hard-hitting courses, during nonworking hours, are perceived by the entrepreneurial community as being of most value. (Kiesner, 1990, p. 110) While these fears were certainly justifiable, they reflected some of the early barriers that had to be overcome by those who saw even greater value in teaching entrepreneurship—well beyond 'nonworking' hours.

Fourteen years later, this paper is but one of hundreds of testimonies that entrepreneurial studies are well on their way to healthy maturity.

"College campuses are idea incubators where people learn skills and forge work habits and relationships that serve them all their lives," said Rob Chernow, the Kauffman Foundation's senior vice president of entrepreneurship. "We know there's an entrepreneurial spirit sweeping across college campuses today, and we're thrilled to build on this momentum so that entrepreneurship becomes a natural and vital aspect of the American educational experience."

In fact, in June 2003, the Kauffman Foundation selected 15 universities[8] from among thirty schools invited to demonstrate interest by developing a preliminary concept to compete in the Kauffman Campuses initiative. Each of the 15 universities selected was awarded a $50,000 planning grant to assist with the development of a comprehensive proposal to be presented in December. At that time, five to seven universities will be awarded grants of up to $5 million each based on their creativity and commitment to make entrepreneurship

[8] Florida International University, Howard University, Purdue University, Syracuse University, University of California-San Diego, University of Illinois, University of Maryland-Baltimore County, University of Memphis, University of New Mexico, University of North Carolina, University of Rochester, University of Texas-El Paso, University of Wisconsin, Wake Forest University, Washington University

training and experiences available across college departments and to students of diverse disciplines. Universities must also demonstrate their ability to raise matching funds.

CONCLUSIONS AND IMPLICATIONS FOR RESEARCH AND PRACTICE

In this paper we have provided an overview of university-based entrepreneurship training and have focused on the training of entrepreneurs in university environments in Sweden. While not attempting to debate the origins or definitions of entrepreneurism, we acknowledge that regardless of its origin, it reflects the actions of some individuals more than others. And, we acknowledge that the acts of an entrepreneur, especially when enhanced with business skills and/or knowledge, lead to successful company formation. Hence, we, and many others cited in this paper have concluded that not only is it possible to stimulate entrepreneurial 'behaviour' but that to do so leads to an improvement in the quality and productivity of firms.

Much of the discussion in entrepreneurship education continues to focus on how to motivate young people as though these were motivations that they have never possessed. Rabbior pointed out some years ago now that people "are indeed born with ambition, motivation, and a willingness to take risks, but encounter barriers that erode this spirit of adventure" (Rabbior, 1990, p. 53) His message is one that we might still remember as we continue to develop new programs. We should examine our existing systems of education at all levels and seek to remove as many barriers, political and pedagogical, as possible that "erode self-confidence and self-esteem and, along with them, the spirit of adventure and the willingness to take initiative and risk--the spirit of entrepreneurship" (Rabbior, 1990, p.53).

The ENP model has been developed to stimulate technology-based and knowledge-intensive businesses. There is little reason to assume that it cannot be used to catalyze start-up development in other environments. As regions explore ways to encourage economic growth and greater business independence, training, not only at the university level, but at much earlier ages will be an important consideration. The opportunities are great but the implications for practice are varied given the environment, available expertise, education and backgrounds of participants, and local and regional support. Certainly as these programmes are tried and tested they will become the important models of the future and the material for further research.

The ENP programme, although begun as a university-based model is now used in 10 regions throughout Sweden. It has demonstrated its success in helping to inspire entrepreneurial behaviour among students and business professionals alike. This model has been developed to stimulate technology-based and knowledge-intensive businesses, and it has now been shown to encourage entrepreneurship in diverse environments where communities have sought to improve their business development climate.

In previous studies, including in our own past studies, it has been pointed out—despite highly positive talk about entrepreneurship—that certain barriers exist, both on the supply side and in the execution of entrepreneurship training. These barriers have ranged from clashes in internal priorities and questions about necessary competence to the credibility of

the one supplying the training. While these barriers are not completely gone, they are certainly lower—and fewer. In just the last four years, literally thousands of universities worldwide have adapted some form of business start-up training—not just to support growth and community wealth through taxation, but to provide a valuable tool to graduates who otherwise might not have even considered the possibility of creating their own wealth and/or success through the commercialisation of their ideas.

It has become clear that the successful institutionalization of entrepreneurship in universities today has generated new implications for research. Entrepreneurship as behavior has become the domain not only of business schools, but also of the social sciences, engineering, history, and even philosophy schools. The questions that face us now may be where the many facets of entrepreneurial studies belong, and why. Within business schools it seems clear that that their role is to promote the practical training of new business developers, those who are business majors as well as those who come from many disciplines at the university. We content that it remains an important task for those intending to carry out research in entrepreneurial behaviour or to stimulate individuals practically to behave entrepreneurially is to create an understanding of the mechanisms underlying the criteria for success. These criteria are not unlike the criteria of good executive business management, but the critical difference lies in scale. The one or two individuals who start up a company have no staff, no money, little support, and often little experience. Their compass is their soul—their driving spirit, as it were.

Rabbior insisted that "eentrepreneurship education programs should not be assessed based on the number of entrepreneurs that they create." (Rabbior, 1990, p. 54) It's possible that some who participate in many university programs will not actually start a company for many years, if at all. Rabbior suggests that programs are easier to evaluate and measure if they are written with clear objectives in mind. The ENP program with its emphasis on technology and knowledge-based ideas, holistic approach, and use of professional mentors and networks helps to ensure its success. Nevertheless, with each group of participants, we learn more about their needs and our abilities to meet those needs, and we are reminded to be entrepreneurial in the development of our own programme.

As we look back over the last ten years of the ENP program, we understand that while it is the goal of the program to encourage the establishment of firms, we also have learned the important values of our broader based entrepreneurship studies within the school of economics which are offered to students from throughout the university. Entrepreneurship embodies the very spirit of academia—creativity, innovation, leadership, ambition, and success.

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MAGNUS KLOFSTEN

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MARY SHEPARD SPAETH

Mary Spaeth has taught entrepreneurship and new business development at Linköping University for the last three years. Prior to coming to Linköping where she has directed internationalisation efforts for Mjärdevi Science Park and developed the incubator business plan and strategy for the Mjärdevi Business Incubator, she established the United States subsidiary of the ANGLE Technology Group, a technology commercialisation venture firm based in London, and served as Executive Vice President of ANGLE Technology LLC for three years. She also worked as the Director of Marketing for the Northwestern University/Evanston Research Park in Evanston, Illinois, and has presented numerous papers for the International Association of Science Parks (IASP), the National Business Incubation Association (NBIA), and is currently a member of the EU Paxis-funded task force Start-Up Providers (SUP). She is chairman and owner of Transmera AB and Transmera International, Inc. and just recently accepted a post as general manager of the East Sweden Development Agency—responsible for inward investment activities to 13 municipalities in the eastern region of Sweden.

Appendix:

Main Findings from GEM 2003 Executive Report on South Africa

This is the first GEM report to analyse cross-regional patterns of entrepreneurial activity in South Africa. Many of the national findings about entrepreneurship from the GEM 2001 and 2002 reports have been confirmed. However, there is considerable and significant variation in entrepreneurial activity across regions. In particular we find:

- Gauteng's total entrepreneurial activity rate of 9.9% is three times higher than the rate in Northern Cape and North West, which has the lowest total entrepreneurial activity rate. Much of this variation is due to differences in opportunity entrepreneurial activity levels across regions. In particular, high opportunity activity rates in Gauteng and the Western Cape considerably boost the overall rate of entrepreneurial activity in South Africa.
- Total entrepreneurial activity in Gauteng and the Western Cape is significantly higher
  amongst people between 18-54 years old than it is in the rest of South Africa. The pattern of entrepreneurial activity by age in these two regions more closely reflects that in developing countries than entrepreneurial activity in the rest of South Africa does. To some extent, therefore, lower entrepreneurial activity rates in South Africa

compared to other developing countries reflect lower entrepreneurial activity rates by young South Africans outside of Gauteng and the Western Cape.

- As in previous GEM reports, a positive relationship between educational attainment and entrepreneurial activity was found. This pattern is true across regions. There is, however, a notable exception in Gauteng where non-matric and matric entrepreneurial activity rates do not differ significantly. Gauteng also has significantly higher non-matric entrepreneurial rates than all other regions.
- As in previous GEM reports, this report finds that individuals located in major urban areas are far more likely to be involved in entrepreneurial activity than those in rural areas. This difference is much greater for opportunity entrepreneurship than necessity entrepreneurship. This no doubt reflects the greater availability of opportunities and higher proportion of people with matric in large urban areas.
- As in previous GEM reports, this report finds that Black Africans are far less likely to be involved in entrepreneurial activity than other racial groups. However, in contrast to this national finding, GEM 2003 finds that opportunity entrepreneurship activity rates amongst Black Africans in Gauteng are not significantly different to those amongst Whites. Furthermore, Black Africans in Gauteng have much higher opportunity activity rates than Black Africans in the rest of South Africa.
- As in previous GEM reports, this report finds that individuals who believe they have the skills to start a business are much more likely to do so. Overall, Black Africans are much less likely to believe they have the skills to start a new business, even after controlling for education.

THE ROLE OF GOVERNMENT AND PUBLIC POLICY SMTEs and the Role of Government and Public Policy in Libya

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ABSTRACT

The tourism industry in Libya consists of many small and medium sized tourism enterprises (SMTEs), with various activities ranging from tour operators to café and restaurants. The majority of these businesses operates independently and do not belong a large chain. All of these enterprises fall under the umbrella of the General People's Committee for Tourism (Ministry of Tourism), which was established in 2003 to replace the General Board for Tourism and Antiquities. The Ministry of Tourism is a Government and public sector body holding authority for public policy and development instruments for tourism-related industries. There are also public sector organizations involved in running the Libyan tourism industry below the Ministry.

The Committee was established with the aim to provided a comprehensive strategy for the development of tourism in the country and to progress its implementation. The objectives are to implement the tourism master plan, which was approved by the General People's Congress in 1998 as well as carrying out marketing and promotion of the country. This is as a destination for international tourism festivals and fairs, and to encourage intra-regional tourism through national festivals, which are organized in more than five of the Regional Municipalities. The General People's Committee for Tourism also considering a new tourism law that will take into account comments made by parties related to the tourism industry including a new classification of tourism establishments especially accommodation outlets.

The research reported involved the use of methods to access the policy environment, which currently exists in the tourism industry in Libya. The paper draws primarily on existing research, secondary data sources and a short questionnaire to key policy makers. Secondary data sources include literature in the area, which consists of both published and "gray" material (including reports from national and international bodies, universities and consultants). In addition, data has bee obtained from key policy makers involved with the Libya SMTE sector. In order to determine the nature of public policy and development instruments in relations to SMTEs, a questionnaire survey was distributed to key tourism organizations. The findings from this are to be reported in the paper and these show the importance of public policy and the development instruments in the running of the tourism industry. From the analysis of the results of the survey, the role of government and public policy in relation to SMTEs is determined and those aspects that are important for the sustainable development of the Libyan tourism industry are reported.

ECONOMIC EMPOWERMENT LEADS TO SOCIAL EMPOWERMENT OF WOMEN

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ABSTRACT

There is a popular proverb in Nepal, even the Hindu God “Shiva” opens his third eye when he sees money. It applies to our society as well.

Most of the women are involved in reproductive work a\such as becoming mothers, housewives and voluntary service providers. Even though this reproductive work is very important, it is undervalued in the society because it is not linked with monetary values. As a result women have a subordinate position in all aspects, most of which is reflected in their lack of access to economic resources, lack of mobility, lack of power and control and their own bodies and power of the family. So it is necessary for them to be involved in the economic activities so that their work can be valued and they can be independent. However, getting a job outside the house is difficult for them since they are less educated. Therefore, the economic empowerment through the micro enterprise is a perfect solution for them. Entrepreneurial development is a difficult task for women who are form the low income families, but the UNDP programme, Micro-Enterprise Development demonstrated that women entrepreneurs from low-income families can be developed if, necessary support services are provided. Based on the programme, extra income of women definitely reduces the poverty of the household. In addition to that, income in the hands of women has important beneficial effects not only for the whole family’s well-being, but also, it improves women’s status, - increases the power relationships in the home, in the community and in the market.

TITLE: THE INFORMATION SYSTEMS CONTENT OF BUSINESS EXCELLENCE MODELS

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Business excellence models like Baldrige and EFQM include sections devoted to information systems. For example, the Baldrige model has a section called “measurement, analysis and knowledge management”. This section accounts for 90 points out of the Baldrige total of 1000. However, an initial analysis of the content of both of these models indicates a tendency for them to focus on the *informing* role of data and information rather that the *enabling and strategic* role for information systems that is reflected in contemporary literature. Thus this paper will examine the information systems content of the Baldrige and EFQM models with the purpose of evaluating the content and recommending ways that such models can be improved.

RESEARCH METHODOLOGY

1. Summarise the information systems content of the Baldrige and EFQM business excellence models. Data will be collected by analyzing documents that discuss the content of each model, including material on their website.
2. Evaluate the content validity of the information systems sections of both the Baldrige and EFQM models. This evaluation will be conducted using either interviews with SME managers or a focus group of SME managers. The relevant extracts from the current versions of the two instruments will be discussed with managers of SMEs to see if they believe that the instruments adequately cover the topic. Where the content is seen as inadequate, the managers will be asked to indicate topics that need adding.
3. Summarize the above findings and discuss them in relation to current literature . This discussion will aim to identify ways to improve the information systems coverage of business excellence models.

POSSIBLE CONCLUSIONS

A major possible conclusion is that the coverage for information systems in the Baldrige and EFQM models is too narrow. The study will also identify topics that SME managers believe should be included in excellence models.

POSSIBLE RECOMMENDATIONS

It is likely that the recommendations will suggest that the excellence tools should reflect the enabling and strategic role for information systems rather than just the *informing* role. The recommendations will include specific topics that could be incorporated into instruments that better reflect best practices in small firms.

UNCONVENTIONAL FORMS OF HUMAN CAPITAL, DO THEY MAKE A DIFFERENCE FOR BUSINESS PERFORMANCE AND MOTIVATION ANALYZING THE EFFECTS OF ILLEGAL ENTREPRENEURSHIP EXPERIENCE

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Existing studies show a positive relationship between business development and conventional human capital as measured by formal education attainment, previous business experience and prior management experience. In this paper, we explore whether an unconventional form of human capital, namely illegal entrepreneurship experience (IEE) has an effect on either business performance or motivation of existing legal businesses in a transition context.

METHOD

Empirical analysis is based on a survey of business owners in Lithuania (n=399) conducted in 2000. Descriptive statistics and regression estimation models (ordinary least squares, ordered prohibit, logit models) are used to test the impact of human capital variables with control variables on three measures of business performance and two measures of business motivation. Human capital in measured in terms of conventional human capital measures such as work experience, educational attainment and age. Business performance is measured in terms of size, business turnover and business financial success. Business motivation is measured in terms of intention to continue in business and growth aspirations.

RESULTS AND IMPLICATIONS

Our regression results indicate that IEE is significantly associated with subjective measures of business motivation but not at all with performance measures such as business turnover. These results hence, do not support the notion that prior experience in black or grey market under a centrally planned economic system may provide valuable human capital for entrepreneurs in a more open market-oriented setting. It is more likely that the more motivated and enthusiastic entrepreneurs started as soon as possible or even earlier and

have maintained their motivation throughout. We conclude that IEE is not productive for entrepreneurship performance but can be seen as selection device for motivated entrepreneurs.

RECOMMENDATIONS

IEE or experience in the grey or ‘unofficial’ economy might be used as a screening device to select highly motivated entrepreneurs in emerging market economies.

SUCCESSFUL ENTREPRENEURIAL LEADER: A PUERTO RICO'S ENTREPRENEUR AND BUSINESS ADMINISTRATION STUDENT PERSPECTIVE

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The most successful enterprises around the world are those that are managed by successful leaders. Leaders with good business actions and behaviours can be characterized as prosperous and excellent. Characteristics focused on performance that leads to completing the job and obtaining the desired results. Diverse researchers identify successful entrepreneurial leader's characteristics. According to Gokenbach (2003), true leaders challenge process, inspire a shared vision, enable others to act, model the way, and encourage the heart. Successful leaders of the future will find ways of attracting and retaining good people, (Lewin, and Regine, 2000).

Whereas, Cangemi, Miller and Hollopeter (2002) argue that successful leadership is characterized by sound technical knowledge of our own's products and services, and on motivating employees to excel. Preston (2001) establishes that successful leaders set goals, reaches them and motivates followers in the process. Various leadership theories have been developed in order to offer an effective process. Amongst the most popular is the idea that effective leaders have something called emotional intelligence, (Maccoby, 2001). According to Maccoby (2001), effective leaders are able to control their actions and behaviours.

This research investigates the characteristics that successful entrepreneurial leaders of Puerto Rico possess according to the perspective of entrepreneurs and business administration students in southern Puerto Rico. The participants include entrepreneurs whose businesses have less than 500 employees and located in the southern region of Puerto Rico. Also included in an Entrepreneurship course during the 2004 Spring Semester, at various universities in Puerto Rico.

The participants will be asked to voluntarily complete a questionnaire. The sample will be obtained fro the list of bona fide members of the Ponce and Southern Puerto Rico Chamber of Commerce. Statistical analysis includes: percentages, ranking, T tests, Chi Square tests, and Cross tabulation. These results will be compared to a study performed in 2000 among Puerto Rican business leaders in southern Puerto Rico to determine changes in the past three years.

THE VERY SMALL ENTERPRISE – A PERMANENT INTERNATIONAL OPTION

Owen Leeds

ABSTRACT

There is an ever growing body of knowledge pertaining to the internalization of small to medium enterprises (SME), however there seems to be no consistency in what defines an SME (Coviello and MacAuley 1999). Existing definitions offered from a human resources perspective range from as few as 10 to as many as 500 full-time effective (FTE) employees (cf. Calof 1994). In cognisance of this, the authors suggest a benefit in the creation of a separate category called the very small enterprise (VSE), comprising of 5 or less FTE employees. Ample justification exists for this, in that over 85 percent of businesses in small economies such as New Zealand fall into this group (NZ Department of Statistics 2000), and a significant number of these are active exporters.

Of even greater interest, is the proposition of the existence of a large number of these VSE's being viable internationalizing concerns, with no desire for, or intention of, internal growth beyond this level. This should not be confused with having no plans to grow in profitability or indeed in the number of products and markets serviced. In fact, there is compelling evidence to suggest that this growth is occurring, via the use of both horizontal and vertical networks to acquire the necessary resources and capabilities (f. Axelsson & Easton 1992), and overcome liabilities of smallness and newness (cf. Adrich and Auster, 1986). With this in mind, the main aim of our study is to understand the approach that the VSE's take to enter the international marketplace, and in particular how using networks can expedite the process of internationalization, by avoiding traditional barriers (cf. Johanson and Vahlne 1977, 1990). In addition, an attempt will be made to show that this business model, has long term viability and effectiveness as an internationalization alternative, and worthy of considerably more public and private sector support than is currently available.

As the forerunner to a much larger quantitative project, a qualitative multiple case study was conducted enabling both within and cross-save analysis to be carried out, and facilitation of theoretical replication and extension (Eisenhardt 1898, 1991; Yin 1989). Data has been collected from four cases, with the specific unit of analysis being the VSE exporter. By exploiting the multiple sources of data available within each of these firms, our initial findings indicate significant reasons and factors as to "why" and "how" the VSE successfully retained their business structure in an international context. Such a methodological approach is extremely important because of the 'tap' the richer contextual dynamics that would otherwise have been missed in a quantitative study alone.

From the research conducted to date, we have found that the process a VSE follows in entering new international markets may be grounded in social exchange theory (cf. Homans 1961; Thibaut and Kelly 1959). Key reasons for remaining internally small include a desire to retain control; a perception of risk associated with human resource growth; a desire to focus on design and entrepreneurial activities, preferring to leave a production and marketing up to networks partners; and a belief that smallest equates to greater business flexibility.

Building an Entrepreneurial Organisation – A Preliminary Study in the U.K.

Satirenjik Kaur Johl

Although traditional research on entrepreneurship has very much concentrated on small and medium organizations and new business start-up there has been growing attention in research on entrepreneurship in large established organizations in recent years (Cooper and Dunkelberg 1986, Wright et al.1992, Guth & Ginsberg 1990, Zahra 1995). Many large companies are soliciting for ways in reinventing or revitalizing their entrepreneurial roots. These companies are looking for innovation, speed and risk taking that they once had but has eroded due to size, bureaucracy, complex processes and hierarchy. The practice of corporate entrepreneurship has gained increasing attention among managers and academicians as it possess the ability to create innovation, a critical element for businesses to compete in today's competitive environment. In addition, entrepreneurship within an existing organization has become an important element in organizations and economic development.

Given the importance of having entrepreneurship skills within an organization, this pilot study examines the perception of government agencies, organization and academicians on corporate entrepreneurship. In particular the study compares the findings from this study against existing literature on corporate entrepreneurship and analyses whether there any gaps that need to be addressed. Four open-ended questions were developed in analyzing the characteristics, factors, benefits and constraints in forming an entrepreneurial organization. These questionnaires were distributed to 39 selected government agencies, business organizations and academicians to gauge the level of understanding on corporate entrepreneurship before embarking on the next stage research.

The findings seem to indicate that the government agencies, academicians and organization are rather familiar about what constitutes in being an entrepreneurial organization and is consistent with prior studies. More interestingly, the survey finds that some of the less cited characteristics, benefits, factors and constraints appeared to be equally important as highlighted by some of the respondents in creating a successful entrepreneurial organization.

MONITORING THE STRATEGIC EFFECTIVENESS OF SME INFORMATION SYSTEM

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ABSTRACT

The strategic use of information and communication technology (ICT) has been involving both large companies and smaller ones. However, while large companies usually own the managerial competence and financial resources to manage innovation, a lot of research emphasizes the typical weaknesses related to small and medium enterprises (SMEs). The typical focus on production activities, together with their limited investment budgets, very often lead SME entrepreneurs to keep out Information system (IS) issues whenever planning organizational and strategic development. As a result, SMEs usually allocate insufficient resources to the IS department and, whenever they do, IS staff competence are strictly narrowed to technical issues. The consequent lack of managerial competence among the IS staff limits the exploitation of the strategic opportunities related to the effective use of ICT, and inevitably leads SMEs to develop an IS which is inadequate to their organizational needs.

Therefore, it is questionable whether within SMEs the IS development process is aligned with the business strategy: these remarks show how smaller companies could greatly benefit from an IS check-up tool supporting the monitoring of IS adequacy and the decision making process about the IS development.

Most of the previously developed IS check-up tools refer to the traditional functional view of a firm, which certainly makes simpler its analysis and representation. On the other hand, a lot of research claim that a process-based approach is more adequate to support any managerial activity, since it should help addressing a number of common organizational problems, such as fragmentation or the lack of cross-functional integration, while enabling individual workers to identify and anticipate new business opportunities. In particular, a process-based approach seems to properly fit SMEs, where employees carry out inter-functional tasks and do not precisely define their roles.

This paper will present an IS check-up model specifically designed for SMEs and based on the process based view of the company. Within SMEs, the identification of the processes

actually carried out is not always easy. Thus, starting from the literature review on process analysis procedures, the model proposes a subset of processes typically characterizing SME activities, and focuses the check-up analysis on these processes.

The main aim is the evaluation of the alignment between the company strategy and the ICT support, highlighting the possible weaknesses of the IS management process. To pursue this goal, the literature suggests considering indicators such as the **strategic importance of business processes**, the **extent to which they are supported by ICT**, as well as the **level of ICT investments**. The latter indicator will be analysed not simply in terms of ICT product prices, but considering their total cost of ownership.

At the end of the development phase the model will be tested on a set of 50 SMEs to find out possible weaknesses and fine tune it. The final paper will present the developed model as well as the first results of the test on the field, trying to underline its usefulness and its possible role as a tool supporting the effective management of the SME information system.

INTRODUCTION

The strategic use of Information and Communication Technology (ICT) has been involving both large companies and smaller ones. However, while large companies usually possess the managerial competence and financial resources to deal with innovation, a lot of research emphasizes the common weaknesses related to small and medium enterprises (SMEs[1]) (Raymond, 1985; Raymond, 1992; Burns, 1996). The typical focus on production activities, together with their limited investment budgets, very often leads SME entrepreneurs to keep information system (IS) issues out whenever planning organizational and strategic development. As a result, SMEs usually allocate insufficient resources to the IS department and most of the times the IS staff competencies are narrowed to technical issues (Palvia et al., 1994; Soh et al., 1994; Zinatelli et al., 1996). The consequent lack of managerial competence among the IS staff limits the exploitation of the strategic opportunities related to the effective use of ICT, and inevitably leads SMEs to develop an IS which is inadequate to their organizational needs (Cragg et al., 1995; Lai, 1995; Lang, 1997). Therefore, it is questionable whether the *IS development process* within SMEs is aligned with the *business strategy*: smaller companies could greatly benefit from an IS check-up tool supporting the monitoring of IS adequacy and the decision making process about the IS development.

This paper presents an IS check-up model specifically designed for SMEs and centered on the process-based view of the company. The identification of the processes actually carried out is not always easy within SMEs. Thus, starting from the literature review on process analysis procedures, the model proposes a subset of processes typically characterizing SME activities, and focuses the check-up analysis on these processes.
The main aim is the evaluation of the alignment between the company strategy and the ICT support, highlighting the possible weaknesses of the IS management process. A first version of the model presented in this paper, as well as the theoretical framework justifying the main choices on the model features, have been described by the authors in a previous

[1] This paper will refer to the current definition of SMEs provided by the European Community (EU Commission 2003), which identifies those companies with less than 250 employees, a turnover lower than 50 million €, and which are owned for less than 25% by non-SMEs, except banks or venture capital companies.

work (Faverio et al., 2003). This paper proposes an IS check-up model based on the qualitative evaluation of three main indicators: the *strategic importance of business processes*, the *extent to which they are supported by ICT*, and the *ICT organizational impact*.

CONCEPTUAL FRAMEWORK

The existing literature proposes many different IS check-up approaches, but most of them require either to assess the value of a large number of variables from a quantitative point of view or to involve a lot of people in the evaluation process. As a consequence, their application is appropriate within large companies but seems to be difficult within SMEs (for more details, see (Tagliavini et al., 2001)).

Process-based approach

Most of the previously developed IS check-up tools refer to the traditional *functional* view of a firm, which certainly makes its analysis and representation simpler. On the other hand, a lot of research claim that a process-based approach is more adequate to support any managerial activity, since it should help address a number of common organizational problems, such as fragmentation or the lack of cross-functional integration (Galbraith et al. 1986; Harrington 1991; Garvin 1998), while enabling individual workers to identify and anticipate new business opportunities (Davenport 1993; Brooke 2000). In particular, a process-based approach seems to properly fit SMEs, where employees carry out inter-functional tasks and do not precisely define their roles (Dutta et al. 1999).

The model presented in this paper refers to the company as a set of *processes*. The identification of these processes started from the *American Productivity & Quality Center's International Benchmarking Clearinghouse process classification framework* (APQC, 1995), which includes 209 processes. Because of SME peculiarities, not all these processes are typically carried out within smaller companies: thus, the APQC set has been reduced, by referring to activities that actually create value for the customers, are easily identifiable, and do not require too many resources. Finally, those activities characterized by very similar purposes (thus difficult to distinguish within SMEs) have been consolidated, obtaining a final set of 44 processes, classified in 9 groups according to the traditional model of Porter's value chain (
Table 1).

PRIMARY ACTIVITIES		SUPPORT ACTIVITIES
Inbound logistics		**Procurement**
Accept orders		Plan for and acquire the resources needed
Select and certify suppliers		
		Human Resource Management
Outbound logistics		Create and manage human resource strategies
Deliver products		Manage deployment of personnel (recruit, select and hire)
Manage production and delivery service (monitoring)		Develop and manage training programs
		Manage employee performance, reward and recognition
Operations		
Convert resources or inputs into products		**Research and Development**
Confirm specific service requirement for an		Develop new product/service concept and plans

individual customer		
		Develop prototypes and apply for patents
Marketing and sales		Refine existing products/services
Determine customer needs and wants		Test effectiveness of new or revised products or services
Measure customer satisfaction		Manage the product/service development process
Monitor changes in market or customer expectations		
Identify specific target customers and their needs		**Firm infrastructure**
Develop advertising strategy		Monitor the external environment/competition
Sell products and services		Define the business concept and organizational strategy
		Design the organizational structure and relationships between organization units
Service		Develop and set organizational goals
Invoice for customers		Evaluate and audit information quality
Provide after-sales service		Manage information system
Handle warranties		Select information technologies
Manage claims		Manage information storage and retrieval
		Manage software and hardware resources
		Manage financial resources
		Manage the tax function
		Formulate environmental management strategy
		Communicate with shareholders and manage relationships with the government
		Develop public relations program
		Measure organizational performance
		Design and implement TQM systems

Table 1. The list of the 44 selected processes classified according to Porter's Value Chain model.

Dimensions of the analysis

The IS check-up model is based on the evaluation of three main indicators: the strategic importance of business processes, the ICT coverage, and the ICT organizational impact.

- The **strategic importance of a business process** is the relevance of that process with respect to the company strategy, in order to get or maintain a sustainable competitive advantage. This indicator is useful to evaluate the "strategic alignment", i.e. the degree of coherence between the ICT support to company processes with respect to the business strategy (Faverio et al., 2003). This theory has been empirically verified, showing that the integration between business planning and IS planning can lead to widen the extent of the IS contribution to organizational performance (Teo and Ang 1999, Gottschalk 2001). The values of this indicator range on a 5 value Likert scale, from 1 (low strategic importance) to 5 (high strategic importance).
- The **ICT coverage** represents the actual extent of the support provided by ICT to business processes. It depends on both the distribution of ICT within a company and the users' ability to exploit it to fulfill the business strategy (Faverio et al., 2003). The values of this indicator range on a 5 value Likert scale, from 1 (low ICT coverage) to 5 (high ICT coverage).
- The **ICT organizational impact** is one of the most discussed topics within IS literature. The underestimation of the organizational issues has been very often addressed as one of the main reasons for the failure of IS project (Strassmann 1990; Davenport 1993, Stratopoulos et al. 2000). Many researchers claim that a competitive advantage through the use of ICT can be achieved only if organizational issues are planned and managed properly: research on the field has

emphasized that "for ICT-based change to be effective, technology, business processes, and organization need to be adapted to each other" (Benjamin et al. 1993; Malhotra 1993). To identify the issues needed to evaluate the ICT organizational impact, the authors started from the list described in (Tagliavini et al., 2001). It refers to Palvia's work, specifically focused on the evaluation of end-user satisfaction within small businesses (Palvia 1996) and to a measure by Kanellis (1999) assessing the IS fit to the organization (

- Table 2). Since the model requires to cross the ICT organizational impact with the previous indicators (*strategic importance* and *ICT coverage*), these three items should be independent variables. Thus, the authors decided to consider only those issues not influenced by the ICT coverage: *ease of use*, *timeliness*, *data security and integrity*, and *documentation quality* (the shaded rows in
- Table 2). The evaluation of each row should range on a 5 value Likert scale, from 1 (low organizational support) to 5 (high organizational support).

Organizational impact issues		**Items**
CBIS features	A1	The system precisely provides the information you need
	A2	The system provides sufficient information
Ease of use	B3	The system is user friendly
	B4	The system is easy to learn
Timeliness	C5	The system provides up-to-date information
Productivity	D6	The system has improved process productivity
	D7	The system supports acquiring and distributing information more frequently and/or with greater speed
	D8	The system supports making decisions of a higher quality
Data security and integrity	E9	The system includes features for preventing and reducing user errors
	E10	The IS user is confident that the information acquired and distributed is reliable and valid
Documentation quality	F11	The system documentation effectively supports the use of the system itself
Overall evaluation	G12	The IS user is satisfied with the system
	G13	The system adds value to the activity performed by the IS user

Table 2. Evaluation of the ICT organizational impact: shaded rows represent those items not directly influenced by the level of ICT coverage.

DESCRIPTION OF THE MODEL

Strategic alignment verification

One of the main aims of this model is to verify the alignment between the company strategy and the level of ICT support. In other words, we want to test the following hypothesis:]

RQ1: is the management of the information system coherent with the firm strategy?

The strategic alignment verification is carried out by comparing, for each of the 44 processes described in section 0, its *strategic importance* (assessed by the chief executive officer – CEO) and its level of *ICT coverage* (assessed by the chief information officer –

CIO or the person in charge of the IS). Thus, to collect more complete information, the authors suggest to separately interview both the CEO and the CIO.
The collected values allow the definition of two place-lists: one ranking the business processes according to their strategic importance, and the other ranking them according to the ICT coverage. Then, it is possible to compare the positions of a given process within the two place-lists: two very different positions would emphasize a strategic misalignment.

Table 3 outlines 12 possible results of the strategic alignment verification: each process must be positioned in one of the 12 cells according to its values of strategic importance and ICT support (table rows) and its positions within the two corresponding place-lists (table columns). For more detailed information about the meaning of the positioning on the table see (Faverio et al., 2003).

	Same positions in the Strat.Imp. and ICT.Cov. place-lists **Correct alignment**	*Better position in the Strat.Imp. place-list; Worse position in the ICT.Cov. place-list;* **Misalignment**: the level of ICT support could be inadequate according to the strategic importance of the process	*Worse position in the Strat.Imp. place-list; Better position in the ICT.Cov. place-list;* **Misalignment:** it could be convenient to allocate less resources to the ICT support of this process
High Strategic Importance *High ICT support*	**Result**: **OK**	**Result: OK** Some other less relevant processes may receive a *marginally* higher level of ICT support.	**Result: OK** Some other more relevant processes may receive a *marginally* lower level of ICT support.
High Strategic Importance *Low ICT support*	**Result: Verify** Most of the firm processes have a low level of ICT support: it could be useful to increase the ICT budget. **Verify** that other less relevant processes are not over-supported by ICT.	**Result: Critical** Some less relevant processes receive higher ICT support. The seriousness of the problem is directly proportional to the extent of the misalignment. Resources allocation audit required.	**Result: Warning** **All** the firm processes have a level of ICT support <= 3. There is **at least** one more relevant process that could have a lower level of ICT support (verify).
Low Strategic Importance *High ICT support*	**Result: Verify** If the firm has more relevant processes, verify the adequacy of their level of ICT support.	**Result: Verify** **Absence** of processes with high strategic importance. Verify the correct assessment of their strategic importance. Some other less relevant processes may receive a *marginally* higher level of ICT support.	**Result: Warning** Often the result of large process automation actions. Beware that other more relevant processes receive adequate ICT support. Verify ICT budget allocation.
Low Strategic Importance *Low ICT support*	**Result: ok**	**Result: Verify** **Verify** the allocation of ICT resources.	**Result: Verify** Possible low ICT budget. **Verify** the ICT coverage of processes with higher strategic importance.

Table 3. The results of the strategic alignment verification: by positioning each process within the table it is possible to assess the coherence between its strategic importance and the level of ICT support.

Comparing two points of view: CEO vs. CIO

Although the increasing strategic importance of the CIO's role is widely recognized (Ravarini et al., 2003), many empirical studies show that within SMEs the CIO is often focused on technical issues, such as the management of the hardware and software infrastructure. A lack of involvement with the company management may prevent the CIO from taking correct decisions about the IS development.

Moreover, the recurrent lack of technical competencies characterizing most of SME managers often makes them unaware of the strategic opportunities related to the use of ICT.

By asking both the CEO and the CIO to assess the strategic importance and the level of ICT support for each of the 44 processes, it is possible to verify the "alignment" between their perceptions of the company. On one hand, the role of the CEO is definitely the most suitable to assess the strategic importance of each business process, but he/she may not be aware of the actual level of ICT support within the company. On the other hand, the CIO is clearly able to assess the level of ICT support of each process but he/she could even ignore the firm strategic objectives. Therefore, we want to test the following hypotheses:

RQ2 (a): is the CEO aware of how ICT actually support the business processes?
RQ2 (b): is the CIO aware of the firm's strategic objectives?

To answer these research questions, it is necessary to estimate the "distance" between the CEO's and the CIO's point of view. A possible way of making this estimation is to compare their answers to the 88 questions (44 assessments of strategic importance and 44 assessments of ICT coverage) and:

- calculate the distances between the answers to the corresponding questions;
- consider the absolute values of these distances (to avoid compensation effects);
- summarize these 88 values.

The higher the final result, the greater their misalignment, hence the need to improve the level of communication and cooperation between them.
Of course, by applying this procedure only to the 44 answers about the level of ICT coverage or to the strategic importance of business processes, it is possible to answer to RQ2 (a) and RQ2 (b) separately.

The ICT organizational impact

The model requires to take into account the end users' opinions about the IS effectiveness (often referred to as "end user satisfaction") as an estimation of the ICT organizational impact. Therefore, all the end users involved in a given process should evaluate the IS support to the process itself. More precisely, the evaluation process of the ICT organizational impact is composed of the following steps:

- the users involved in each of the 44 business processes are identified;
- for each business process, each involved user is interviewed and evaluates the items described in the shaded rows of
- Table 2;
- the average of the values provided by all users involved in a given process can be considered as an estimation of the ICT organizational impact of that process.

A high value of the ICT organizational impact means that the users of the process are satisfied with the IS support. On the other hand, the reasons for a low value of the ICT organizational impact may be different:

- the users may need training activities;
- the software application may be too difficult to use;
- the IS may not adequately support the process information requirements.

The relationships between the values of the three analyzed dimensions (strategic importance, ICT coverage and ICT organizational impact) can be explored by means of Table 3. The positioning of a given process within Table 3 provides information about its strategic importance and ICT coverage; then, the process could be represented as a circle with a radius directly proportional to the extent of the ICT organizational impact.

CONCLUSIONS AND FUTURE WORK

This paper focuses on the strategic role of Information and Communication Technology (ICT) within SMEs. The authors propose a model to verify the alignment between the strategic importance of business processes and the related level of ICT support, through direct interviews with both the CEO and the CIO. Moreover, the significance of a possible misalignment in a given process is assessed according to the ICT organizational impact and examined through the answers of the IS end users involved in the process itself.

To test these hypotheses, the authors developed a questionnaire and are testing it on a first sample of 50 Italian SMEs: next research steps will be the fine tuning of the questionnaire according to the experience on the field and the statistical analysis of the collected data, in order to determine the actual strategic effectiveness of SME information systems.

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A PUBLIC SECTOR EFFORT TO ADVANCE ENTREPRENEURSHIP

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ABSTRACT

This paper analysis and evaluates the performance of a number of small enterprises established through a program sponsored by the government of Puerto Rico. This program is identified under the acronym "AAFET" which stands for ("Administraciòn para el Adiestramiento de Futuros Empresarios y Trabajadores") Administration to train future entrepreneurs and workers. The program started in 1985 to recruit and provide training to young people ranging in age from 18-28 years. Program participants who develop an acceptable business plan are provided with startup capital of $1,100 by AAFET.

An investigation of the survival rate and performance of these small businesses created through AAFET program is made utilizing two methods. One approach involves telephone interviews of approximately 120 small businesses from a listing of the enterprises obtained from this agency (approximately 400 firms with telephone numbers). The telephone interview covers aspects of employment, performance and future prospects of the firm. The second approach involves selecting a random sample of 40 enterprises from the total list and conducting an in depth personal interview. The personal interview helps to critically evaluate the business operation and its potential for success. The owners' assessment of the government program and problems faced by the enterprise provides added information.

An analysis of the data and information collected helps to draw conclusions about the performance of the enterprise initiated through this program and their contribution to employment and economic output. Conclusions about the effectiveness of the AAFET program, and the general types of problems facing these small businesses are also made. Recommendations to improve the training program, and a system to assist these small businesses to become successful will be developed.

RISK MANAGEMENT AMONG VENTURE FUNDS

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The decrease in the funding of entrepreneurial ventures and the recently published low cumulative returns among venture funds have increased the need to analyze how risks are being managed in funds that invest in SMEs. In the long-term, inadequate or by venture capital firms to fund entrepreneurial ventures. This affects not only new investments in high-growth areas but also add-on investments in existing SMEs. Traditional investors such as pension funds and insurance companies may also make less funding available to venture firms. Government programs may be curtailed if research shows lower than expected rates of political return. In addition to protecting invested capital, returns may increase if venture firms explicitly manage risks. This is a new topic in entrepreneurship that has not received any attention in the literature.

From the entrepreneurs' and venture firms' perspectives, the results of this study is important since additional funding may be directed toward venture firms that develop proper risk management programs as a part of their overall investment strategy. In addition, increased goal congruence among the stakeholders in entrepreneurial activities may also result from being able to better understand the effectiveness of certain risk management techniques and procedures. This study may also allow policy makers to design improved entrepreneurship initiatives.

Our research focuses on analyzing how venture firms manage risks. Specifically, we analyze management of risk in new investments, management of risk in existing portfolio companies, portfolio risk and macro oriented risks. We analyze not only financial risks but also qualitative risks such as agency and corporate governance related risks. The sample consists of venture firms in Europe. The sample was selected from the European Venture Capital Association and the British Venture Capital Association databases. Data was collected using a survey instrument, publicly available data and from databases available from commercial data providers in the venture industry. Venture firms in Sweden, Denmark, Ireland, Luxembourg, Poland, Holland, Austria, Portugal, Greece, Italy, Spain, France, Switzerland, Germany, the UK and Turkey participated in the study. In the countries where the survey has been completed, a combined response rate of more that 50 percent has been achieved. We estimate regression parameters in analyzing the data. Dummy variables include fund performance, investment stage, sector focus, size, geographic location and investment focus.

SPUR-OF –THE-MOMENT-THE MANAGEMENT STYLE OF SMALL ENTERPRISES

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During the nineties, the interest for the small businesses increased, and today, big hopes are put on them from governments all over the world that they take over from the large companies in employing people and innovative. A justified question one might ask in this regard is what we really know about this group that we put so much faith in. Going through articles and textbooks concerned with small business research, you find that there are a lot of statistical facts collected about entrepreneurial traits and small enterprise growth pattern and so on. What strikes you when reading is that there are very few articles that actually go any deeper and really try to find out what the leaders of these organizations (the small business managers) really do.

The purpose of this paper is to improve our understanding of the work of small enterprise managers through a literature review and an observational study (six weeks, where almost 270 hours of empirical material have been categorized) of managerial behavior in small enterprises. The deployed methodology in the observational study is inspired by the observational methodology developed by Henry Mintzberg, labeled structured observation. The methodology of structured observation provides a means to collect data that is both "grounded" in empirical observations and that is structured in order to facilitate comparison between observations in different contexts.

A conclusion of this paper is that the daily activities of the small business manager is characterized by, among other things, informality and constant interruption as the process by which their work is organized. Further, the majority of the managerial work conducted could be classified as administrative work. There are also surprisingly large similarities between the six owner managers in this study.

These findings raise some interesting questions for future research, such as if the above-described situation is the daily life for all groups of small enterprise managers or is it so that some groups (for instance growth-oriented enterprises) have managed to organize their work in some other way, which could explain their better performance and from which other managers can learn?

COMPUTER ANXIETY AMONG ENTREPRENEURS ASCRIBED TO THE CHAMBER OF COMMERCE OF PONCE AND SOUTHERN REGION OF PUERTO RICO

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Entrepreneurs commit themselves to various activities when operating their businesses. One of them being the management of technology. Information system technology changes constantly and rapidly, thus, forcing the entrepreneur to adapt day after day. Sometimes these changes may be resisted because different entrepreneurs may be affected by the system in diverse manners. While some entrepreneurs may welcome a new technological system because it brings changes they perceive as beneficial to them, others may resist the change because they believe the shifts are detrimental to their business interests.

This resistance range from computer anxiety, computer phobia, negative attitudes towards computers, frustration, among others. There are many researchers that have expressed their opinions on computer anxiety and how it may affect the individual performance and state of mind. Linda V. Orr, states "as the academic and business environments continue to move forward in computer technology, the gap is widening for those who experience computer anxiety". Computer anxiety as defined by Howard, Murphy & Thomas (1986) is "the fear of impending interaction with a computer that is disproportionate to the actual threat presented by the computer". O.V. Doronina's (1995), in her article Fear of Computers, indicates that a person in a state of computer anxiety, "a person's behavior is characterized by negative comments against computers and information science, attempts to reduce the amount of time spent using, and even the avoidance of using computers to accomplish their tasks".

This research investigates entrepreneurs ascribed to the Chamber of Commerce of Ponce and Southern Region of Puerto Rico anxieties regarding the computers and the sources of this anxiety. The researcher examined how certain variables (age, gender, computer confidence, computer ownership, computer liking, and the number of computer courses taken by the participants) can affect the level of computer anxiety in the business community of the southern region of Puerto Rico.

The participants include entrepreneurs whose businesses have less than 500 employees and are located in southern Puerto Rico. Each participant will be asked to voluntarily complete the Computer Anxiety Scale (CAS) designed by Loyd and Gressard (1984). The Computer Anxiety Scale (CAS) contains 29 Likert-styled items which present statements of

attitude toward computer and their use. The scale is designed to measure three separate factors: computer anxiety, computer confidence, and computer liking.

Statistical analysis includes: frequency and percentage distribution. Chi-square tests, Correlation, Cross tabulation, Z-Tests, T-Tests, coefficient of determination, and hypothesis testing

THE EUROPEAN DOCTORAL PROGRAM IN ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT CONTRIBUTION TO DEVELOPMENT

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ABSTRACT

The link between higher education and development has been one of the most important issues extensively discussed in multiples conferences and action proposals in a regional and international context during the nineties. (World Declaration about Education for All, Thailand, 1990; Iberoamerican Conference in Education, Argentina, 1995; Regional Conference about Higher Education in Latin America and the Caribbean, Cuba, 1996; Higher Education, 1998; Higher Education in Developing Countries: Peril and Promise, UNESCO, 2000; Constructing Knowledge Societies: New Challenges for Tertiary Education: A World Bank Report, 2002).

This issue, of increasing importance within the knowledge economy, argues that quality and relevance of teaching and research conducted in underdeveloped countries are critical to close the gap between rich and poor countries. These areas depend at the same time on the availability of highly qualified and compromised scholars in underdeveloped countries. In this context priority has been given to the necessity of international cooperation to attain the objective of faculty development.

Moreover, development requires that efforts be made to ensure that higher education institution's curricula respond to local skill requirements. In this sense the development of scholars in Entrepreneurship is of critical importance since it is linked to the creation and growth of local new firms, which will provide an economic alternative and social improvement for the country's people in order to attain autonomous development.

This paper analyzes the European Doctoral Program (EDP) contribution to development. The Program is studied from its creation in 1989 to 2002. The founder of the Program was interviewed in order for us to become acquainted with the original objectives. As part of the research methodology the enrolment for the period studied was analyzed. Participants were distributed by country of origin, gender and area of study from which they come. In addition, a survey was realized among the students who have completed their P.h.D. degrees in order to know their actual performance and contribution to their countries of origin, including the research area.

Through the years the Program's enrolment has been changing. Participants coming from countries other than the European region have been increasing. It is argued that the Program's structure and logistics facilitate the high standard development of scholars and researchers and their return to the countries of origin, besides promoting the creating of regional and international networks through which the development agenda advances.

THE IMPORTANCE OF INNOVATIVE MANAGEMENT STRATEGIES AS PART OF BUSINESS SUCCESS IN A DEVELOPING NATION: A CASE STUDY OF COMMUNICATIONS FIJI LTD.

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ABSTRACT

This paper examines one of the dimensions of entrepreneurship, innovative behaviour, and how it has been utilized to effectively manage a culturally diverse organization in a developing nation. Communications Fiji Limited (CFL) is a highly successful, publicly owned media organization originally set up in a Fiji by William Parkinson in 1986. This company has established itself as a market leader and has grown throughout the Pacific over the last decade to include radio stations in Papua New Guinea and the Solomons Islands. Much of the success of this small to medium enterprise (SME) has been due to the innovative management practices employed and encouraged by Parkinson. He has successfully incorporated indigenous traditions and artifacts into everyday management philosophy and used these effectively to build employee and management loyalty, accountability to shareholders and clients, and in overcoming the everyday issues of doing business in a developing economy, namely bureaucracy, lack of appropriate human and physical resources, and political unrest. Furthermore, Parkinson has encouraged advancement within the organization, established achievable career paths for employees and resisted the importation of expat management. Instead, he has fostered indigenous management and leadership within CFL through appropriate and culturally sensitive training and advancement. Based on the analysis of this case, it could be argued that larger, Westernised, global organizations may experience frustration in establishing successful branches in developing nations due to the required differences in the organizational culture.

About the Authors

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NON-US SMALL FIRM'S IPOS UNDERPRICING IN US FINANCIAL MARKETS

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ABSTRACT

BACKGROUND

Initial Public Offerings of equity (IPOs) are an important means of raising capital for U.S. firms and are critical to the growth of these companies. A large number of studies have focused on the characteristics of IPOs, as well as, on the phenomenon of underpricing of IPOs in the U.S. as well as in foreign countries. [1]This phenomenon has been well documented since the mid-1970s. For example, Ibboston (1975) found a 16.8% average excess return relative to the market. Ritter (1984) reported that for approximately 5,000 firms that went public during 1960-82 in the U.S., on average, they were trading at a price 18.8% higher that their offering price shortly after public trading started. A comprehensive study by Ibboston, Sindelar, and Ritter (1988) reported a 16.37% average return for 8,668 common stocks during the 1960-1987 period. In general, these papers are based on theoretical models that analyze the possible underpinnings of the underpricing phenomenon.[2] One of the most convincing explanations relies on the adverse selection consequence of asymmetric information between different types of investors or between issuers and investors.

Over the past decade there has been a dramatic increase in the U.S. The shares of non-U.S. firms that list on U.S. exchanges are traded in the form of American Depository Receipts (ADRs). Foerster and Karolyi (1999) provide a detailed discussion on the increasing number of foreign firms that chooses to list on exchanges in the U.S. They report that approximately 1,300 ADRs have listed on different exchanges in the U.S. over the past decade. Interestingly, over 30% of these new companies are relatively smaller companies with an asset size less that $2m and less than 30 employees. Forester and Karolyi extend the work of Jayaraman, Shastri, and Tandon (1993) and Forester and Karolyi (1193), and focus on the stock performance and changes in risk associated with the initial listing of ADRs. Although their data do not include, "true IPOs" (only cross-listed seasoned offerings), their results suggest relatively better performance and changes in risk associated with the initial returns compared to their U.S. counterparts at least at the time of listing. Forester and Karolyi (1999) and Ejara, Ghosh, and Nunn (1999) discuss four different types of disclosure and are considered important designations for raising capital. While the former paper uses both level II and III cross-listed securities, the latter uses only level III, the most prestigious and costly listings. The ADRs, used by Ejara, et al., were either going public for the first time or were traded previously in their home country. None of these papers however highlighted the experience of smaller companies.

HYPOTHESIS

The essential hypothesis in this paper is that foreign IPOs are characterized by a greater degree of under-pricing than domestic IPOs. In this paper, we follow a approach that includes both level II and III ADRs as our foreign IPOs sample. We specifically trace the experience of smaller companies [lowest decile (as well as quartile)]with less than 30 employees of all foreign companies seeking capital in the US initial Public Offering markets. We do not include firms whose securities were previously traded. Using a sample of domestic and foreign IPOs of smaller companies, matched by size, SIC code, offering month and year, we use the theories of IPO under pricing based on asymmetric information, to examine the key characteristics and differences of foreign and domestic firms going public in the U.S. capital markets during the 1985-2000 period. This is to date the most comprehensive attempt to understand the experience of smaller foreign companies seeking funds in the U.S.

We base our study on the analysis of Rock (1986), Carter and Manaster (1990), and others, which suggest that IPOs associated higher levels of information asymmetry are more under priced. This difference is due to the higher cost of information gathering as well as the greater level of uncertainty that is generally associated with foreign IPOs. In addition, we also examine whether or not FIPOs are deliberately under priced due to potential home equity bias.

POSSIBLE CONCLUSIONS

The initial evidence of this paper reveals that smaller foreign IPOs are significantly more under priced than their domestic counterparts although such difference does not exist for the larger groups. This evidence of higher under pricing remains after controlling for underwriters' prestige, insider's ownership, and ex-ante risk of the company. From this, we should be able to make recommendations that will reduce the under pricing of non-US IPOs to the benefit of non-US small firms.

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[1] See Logue (1973), Ibboston (1975), Smith (1986), Chalk and Peavy (1987), and Ibboston, Sindelar and Ritter (1991) on U.S., Levis (1992) on U.K., Jenkinson and Mayer (1988) on France and U.K., Dawson and Reiner (1988) on Germany, Kunz and Aggarwal (1991) on Switzerland, Finn and Higham (1988) on Australia, Dawson and Hiraki (1985) on Japan, and Dawson (1987) on Singapore, Hong Kong, and Malaysian, Koh and Walter (1989) on

Singapore, Keloharju (1993) on Finland, Pagano, M., Panetta, F. and Zingales., Luigi (1998) on Italy IPOs respectively.

[2] See Baron (1982), Booth and Smith (1986), Rock (1986), Beatty and Ritter (1986), Welch (1989), Grinblatt and Hwang (1989), Allen and Raulhaber (1989), Carter and Manaster (1990).

THE USE OF PRACTICES AS CAPABILITIES A STUDY OF THE RELATION BETWEEN USE OF BEST PRACTICES AND GROWTH IN MANUFACTURING SMES IN A REGION OF SWEDEN

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This paper reports analysis on the use of "Best practices" among manufacturing firms, in the county of Dalarna in Sweden, with ten and more employees. The study focus on the following question: Can the use of "best practices" be seen as a contributing factor in the creation of competitiveness and in that sense contribute to the growth of the firm?

Traditionally a common view on strategy has been conceptualized as a situational choice of generic strategies (e.g. Porter) assuming a type of contingency based view of the firm. During the last decade and still dominating is the focus on core competencies or distinctive capabilities assuming a resource based view of the firm (RBV). But where do the capabilities come from? It is generally acknowledged in research that these often intangible or tacit capabilities are developed through experiential learning or learning by practicing. This is the basis of a "practice based view of the firm" (PBV), often assumed in quality theories and methodologies, as a variant or specification of RBV. It is in PBV assumed, based on research findings, that there are practices that, in combination and when effectively linked together, can be expected to consistently improve operational performance and thus provide firms who adopt them with an advantage over those that do not.

Thus good business practices, and the learning and knowledge creation developed through using them, can be thought of as the base or foundation on which distinctive capabilities and hence competitive advantage is built.

Research Methodology

The basis for the analysis is a dataset (127 firms) that was collected in the beginning of 2001 through a survey (BPPS) among manufacturing sites with 10 and more employees. The survey was sent to all firms (327) meeting the criteria above and the response rate was 40%. The Business Practices and Performance Model (BPPS) have been developed from a Practice empirical investigations in New Zealand during the 1990s and recently in five regions in Sweden.

Possible Conclusion

The responses from the participating firm in this regional sample indicate that:

- Firms that hold a wide strategical focus seems to be more likely to grow.
- The likelihood for growth seems to be posive correlated with operational outcomes
- Operational outcomes are correlated with the use of practices

Possible Recommendations

A recommendation for the firm management might be:
As long as firm's products or services are interesting on their market will it be a good idea to hold a broad strategic focus and put energy to implement and maintain practices to ensure good operational outcomes that make it possible to meet the pull from the market in a successful way.

A recommendation for policymakers and support organizations might be to support the management of growing firms to implement and maintain practices to ensure good operational outcomes.

WOMEN ENTERPRENEURS IN PAKISTAN: PROFILE, PROBLEMS, AND POLICY RECOMMENDATIONS

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Women's productive activities, particularly in industry, empower them economically and enable them to contribute more to overall development of their country. The actual and potential contribution of women in all areas of development has already been recognized; but they also have a valuable contribution to make in the area of enterprise development. Assisting women entrepreneurs in achieving their full potential contributes to economic growth and to social and political development. However, in many societies such as Pakistan, women do not enjoy the same opportunities as men. Progress has been achieved in opening doors to education and health protection, but political and economic opportunities for women have remained limited.

Although many of the problems are shared by small enterprises run by both male and female entrepreneurs, women entrepreneurs face additional obstacles. This is due to deeply-rooted discriminatory socio-cultural values and traditions, embedded particularly concentrated in a few traditional areas and are characterized by low technology and low production levels. These areas are typically those which require skills that are extensions of household skills, or which reflect the different educational and employment experiences of women, as compared to men.

The research conducted by the author shows that in Pakistan, women's full economic potential is not being tapped. The main obstacles for women entrepreneurs are the lack of access to, including control over, capital, land, business premises, information and technology, as well as the lack of training, production inputs, networking and assistance from governmental agencies.

Women's enterprises tend to be the smallest of all small medium enterprises, since women often have less access to the support services which would allow their enterprises to grow. It is therefore of crucial importance to find ways to assist women's enterprises to increase their productivity and thereby their income. Concerted efforts are needed to provide them with access to credit, technologies, and entrepreneurial training to enable them to make

better economic choices and to transform their businesses into competitive enterprises, generating income and employment through improved production.

If given the right support, women entrepreneurs can improve their success rate and their contribution to the economy. Therefore, better policy environment, revision of discriminatory legal rules and practices, increased access to finance and technology, improved access to business development services (BDS), and more facilitation of national, and international networking for women entrepreneurs have been recommended to enhance women's entrepreneurship and integrate women into mainstream economic development.

The study was done by conducting a survey based on a sample of 216 women entrepreneurs in five major cities (one federal and four provincial capitals) of Pakistan. The sample was stratified according to the geographical locations, size of the enterprise, and the sector of operation. The instrument for collecting primary information was in depth one to one interviews based on a questionnaire. The in-depth interview was considered to be the most appropriate method for a couple of reasons. Firstly, the indigenous researcher was able to draw on his own understanding of how the respondents see and experience the world in supplementing and interpreting the data. Secondly, the in-depth interview enable the researcher to capture the details needed for penetrating qualitative analysis without requiring contact over a prolonged period of time with the respondents. This was particularly important given the limited resources and time available to the researcher.

The biggest challenge for conducting the study was the absence of any sampling frame of women entrepreneurs in Pakistan. The Federal Bureau of Statistics (FBS) has recently started the first economic census of Pakistan, which is expected to provide a necessary frame for future surveys but this is not likely to happen before 2004. The respondents were randomly picked from directories prepared by different support organizations such as Export Promotion Bureau (EPB), donor agencies, NGOs, and government organizations working for the establishment and development of women entrepreneurship in the country.