LEVERAGING KNOWLEDGE IN BUSINESS ALLIANCES

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ABSTRACT:

Both large and small businesses spend a great deal of time, energy and resources in setting up partnerships or alliances. But what is often lacking is the nurturing of these alliances. As a result most alliances do not live up to their original expectations and go through difficult phases or collapse completely. This paper focuses on the issues related to that of strengthening of alliances. Our analysis suggests that although strengthening alliances poses many challenges, they are in fact viable and attainable. The paper highlights the factors necessary for a healthy alliance and identifies the areas of concern needing particular attention. We argue that Knowledge Management concepts are relevant in sustaining and adding value to business alliances. The paper explores the tacit and explicit dimensions of knowledge creation and discusses the methods of leveraging the alliance knowledge throughout the organisation. It puts forward the notion that managers must stress the processes which enhance internalisation of tacit alliance knowledge to create a more enduring and effective partnership.

INTRODUCTION :

Alliances among large and small businesses are on the increase. Traditional `enemies' are now collaborating much more due to the market pressures. Some of these collaborations are opportunistic, some forced and others deliberate. However, these types of cooperations are blurring and reshaping the traditional structure and boundaries of companies. The process of designing and managing alliances confronts managers with a new task and the success of these alliances to a large extent depends on the managers ability to cope with this new task.

Why do some alliances succeed and some fail? How can companies learn from the mistakes of others and improve the odds for their own success ? Are there some conceptual tools which help managers to enhance the quality of alliances they are involved in ? This paper addresses these questions. The paper briefly outlines the nature and rationale of alliances. It goes beyond the stage of setting up alliances, which in general is the preoccupation in the literature, and focuses on maintaining and strengthening of alliances in both small and large ; domestic and international companies. The paper explores the role and scope of Knowledge Management (KM) in enhancing alliances. It concludes by identifying the factors necessary for continual strengthening of alliances and highlights the areas of concern needing particular attention. In total fifteen different types of alliances were investigated, using qualitative techniques.

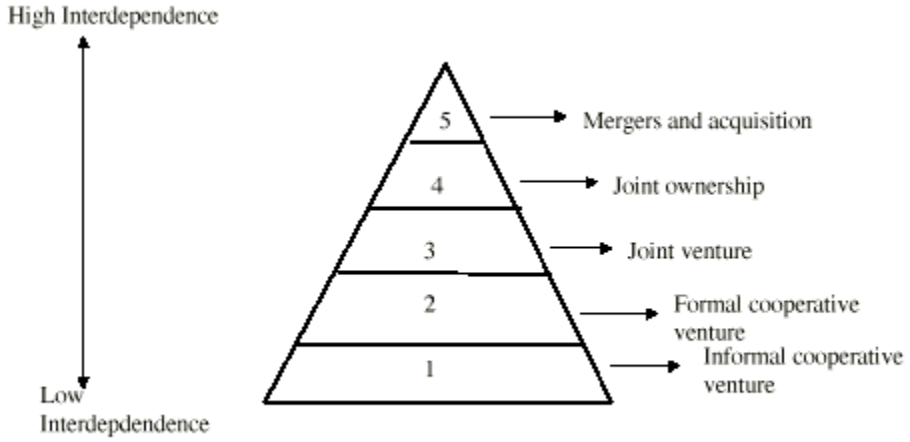
ALLIANCES: `MARRIAGE OF CONVENIENCE' ?

Generally, in an alliance situation, companies cooperate on one or more specific aspects, to build, to safeguard or to improve their market and competitive position. In particular, there have been many attempts to define an alliance (Root,1987; Contractor and Lorange,1988; Porter and Fuller,1986; Ohmae,1989). We define an alliance as a co-operative arrangement between two or more companies. Some common characteristics of this arrangement being; (1)a mutual strategy is formulated and a win-win attitude is adopted by all concerned, (2) a pooling of

resources and risk takes place for mutual gain rather than individual benefit, and (3) the relationship is based on dual need where each partner is prepared to share specific strengths, thus creating some synergy for the organisation.

Alliances can be strategic or non-strategic and horizontal or vertical. In a strategic alliance, firms cooperate on one or more specific aspects, to build or to improve their market and competitive position. Non- strategic alliances are simple cooperative arrangements. Horizontal alliances are partnerships among competitors and vertical alliances are partnerships among successive producers and distributors in the product channel. Alliances may also be defensive or offensive. Defensive alliances protect markets and competitive positions, and offensive alliances create market opportunities. Alliances can differ by functional area (e.g., R&D and purchasing), scope (i.e., domestic or international), or relative influence of each ally (Contractor and Lorange,1988). It is worth noting at this stage, that due to the dynamic nature of business environment nothing is constant. Today's solutions become tomorrow's problem. Hence, an alliance must not be seen as a partnership for life, but, rather as a partnership based only on common interests. As such, we can argue that they are a marriage of convenience, and should not be viewed as permanent arrangement. In our experience managers have problems accepting this notion as they often have the inclination to view the alliance as permanent. Like a marriage of convenience, an alliance passes through various stages, i.e., forming, storming, norming, performing and break-up (Tuckman,1965) . How each stage is handled by the manager is crucial for the alliance success or failure. How an alliance is ended is crucial to a companies future alliance activity.

Alliances are based on the degree of interdependency between the partners involved. When partners become more interdependent, it is difficult or messy to reverse the alliance. While they are less interdependent, it is easier to reverse the alliance, because of lower sunk costs, less loss of prestige, lower risk involved, less formalisation, etc.. Figure 1 shows the alliance options in terms of interdependence.



Source: Adapted by the authors from Lorange and Roos (1992)

FIGURE 1: ALLIANCE OPTIONS IN TERMS OF DEGREE OF INTERDEPENDENCE BETWEEN THE COMPANIES

The type of alliance depends on the nature of partnership arrangement between the partners. As one moves along the alliance pyramid (fig. 1) it gives rise to new scenario requiring different talent and know how. At one extreme, with informal simple arrangement, there are minor or no

linkages. As one moves forward, the alliance arrangement gets more complex, involved and risky.

TRIGGERS TO ALLIANCES:

Companies enter into alliance situation for many reasons (Peters,1991; Lorange and Roos, 1992; Treece, 1991; Forrest, 1992; Walter, Peters and Dess, 1994; Sasaki, 1993; Lei, 1993; Murray and Mahon, 1993). Some of the reasons why companies enter into an alliance are given below:

• Access to management skills.

• Developing and diffusing technology.

• Entering new markets.

• Economies of scale.

• Funding constraints.

• Geographical access.

• Reducing manufacturing costs

• Risk sharing.

• Access to complementary knowledge.

• Diversification.

• Reducing developing time for new products.

It is crucial that the partners understand what triggers an alliance. Not being capable of doing so risks a mismatch of expectations and creates strategic gaps leading to failure. Often these triggers are not the same for both partners. The impact of triggers will vary depending on the nature of the industry as well as the company within an industry.

STRENGTHENING ALLIANCES: MAIN FEATURES

Our research (Raut-Roy and Chansarkar 1995,1996) indicates that both successful and unsuccessful alliances have some particular characteristics. To sustain alliances it is vital that managers understand the implications of these characteristics. Some of the main features (among others) of successful alliance are identified as; (1) total institutional commitment as opposed to just top management or key players commitment, (2) gradual progression and evolution of the alliance, (3) building of relationships, (4) the alliance not being run as `one person show', (5) partnership being viewed as mutually beneficial, (6) partners having a clear understanding of the alliance purpose, (7) frequent staff mobility among partners, (8) exchange of alliance knowledge among partners.

On the other hand, in an unsuccessful alliance there is (among others) (1) institutional and cultural mismatch, (2) preoccupation with the issue of control rather than creating value, (3) partners have a vague understanding of the alliance purpose, (4) a failure to agree to explicit goals, (5) an under estimation of logistics involved in alliance management, (6) a tendency for partners not being on the same wavelength in terms of language and culture, (7) a propensity for decision making becoming too ` political' (8) a dependency on few individuals, (9) atendency for partners being rigid and uncompromising in the interpretation of the rules of the game.

An analysis of the various characteristics of alliances suggest that there are some key factors which enhance and sustain business alliances (Raut-Roy and Chansarkar, 1995). This can be generalised as, most alliances are built on technical or hard issues *whereas* most causes of failure are behavioural or soft issues. The factors which sustain business alliances are: (1) that definitions are not watertight (2) there is sufficient flexibility to adopt to new situations (3) there is clear understanding of the purpose of the alliance (4) there is total institutional commitment as against just top management commitment (5) the relationship between the partners are on an adult to adult basis as against being on an adult to child basis, and (6) there is wide spread diffusion of alliance knowledge among the partners.

So far we have identified the factors which strengthen business alliances along with the factors which inhibit such alliances. Our research suggests that there is a general tendency among managers to be reoccupied with initiating alliances and not paying much attention to maintenance issues. Often managers become complacent once the alliance has been established. In fact, the dynamics of alliance success is much more complex. As nurturing of alliance is quite easily overlooked, in our view managers must emphasise this aspect. It is here that understanding Knowledge Management framework can help managers to come to grips with successfully managing business alliances.

KNOWLEDGE MANAGEMENT FRAMEWORK:

Meaning of Knowledge Management (KM) vary widely as the industries or people undertaking them (Wiig, 1996; Nonaka and Takeuchi, 1995; Winslow and Bramer, 1994; Demarest, 1997). Generally, efforts are intended to retain, analyse and organise employee expertise, making it easily available anywhere, any time. Karl Wiig (1995) states three `pillars' of KM; (1) survey and categorising of knowledge (2) appraising and evaluating the value of knowledge, and (3) synthesising knowledge related activities. In other words, KM focuses on “doing the right thing” instead of “doing things right”. Therefore, KM is a framework within which the organisation views all its processes as knowledge processes. In this view, all business processes involve creation, dissemination, renewal, and application of knowledge towards organisational sustenance and survival. To capture the dynamic nature of learning, Nonaka (1994) developed the concept of a spiral of knowledge creation. In the spiral, knowledge moves upward in an organisation, starting at the individual level, moving up to the group level, and then to the firm level. As the knowledge spirals upward in the organisation, it may be enriched and amplified as individuals interact with each other and with their organisation.

The question which arises then is that how is knowledge created ? Nonaka and Takeuchi (1995) state that knowledge is created through four different modes. It is a conversion process that takes place between tacit and explicit knowledge;

(1) *Socialisation*, which involves conversion from tacit knowledge to tacit knowledge.

(2) *Externalisation*, which involves conversion from tacit knowledge to explicit knowledge.

(3) *Combination*, which involves conversion from explicit knowledge to explicit knowledge.

(4) *Internalisation*, which involves conversion from explicit knowledge to tacit knowledge.

The current conception of IT enabled KM, does not address the processing of tacit knowledge which is deeply rooted in an individuals action and experience, ideas, values or emotion (Nonaka and Takeuchi,1995). Although tacit knowledge lies at the very basis of organisational knowledge creation, its nature renders it highly personal and hard to formalise and communicate. The conversion from tacit knowledge to explicit knowledge is the mostpowerful knowledge *creating* mechanism of the four modes. It is worth noting that, while tacit knowledge, held by individuals, is core to the knowledge creating process, the creation of knowledge depends to a great degree on the dynamic *interaction* of all four modes. As these interactions increase, knowledge creation can be considered as a “knowledge amplification” process. “This effect then creates a beneficial upward spiral that grows from the personal level to the team level, onward to the organisational level, and even to the inter-organisational level” (Young,1997)

In relation to business alliances we view knowledge conversion as a multi-stage process. It begins with the formation of the alliance and partner interactions. The interactions and the manager's exposure to partner knowledge may lead to the recognition of partner skill differences. The nature and extent of managerial interactions influences knowledge creation that occurs at this stage. Knowledge acquired can be used strategically only to the extent that is distributed and interpreted within the organisation. (Jenlinek, 1979). Thus, a second stage involves internalisation of knowledge acquired by individual managers into the organisations collective knowledge base. For this integration to occur, partners must engage in efforts to transfer knowledge from the alliance to the organisation. The intensity of each organisations learning efforts reflects the degree to which the organisation is actively trying to internalise the skills and capabilities of its partner. Perhaps, managing such an intangible process is not new.

What is new is putting a language and a processes with it, highlighting it and articulating it. It is a process of identifying intellectual property that has always been there but has been hard to identify. The challenge is to be able to articulate it in simple, straight forward terms. Young (1997) states four underlying principles of knowledge management to continuously replenish knowledge; especially tacit knowledge. The four key principles that need to be in place, to ensure the optimum knowledge conversion processes are:

1. *Trust* - as the foundation in team culture.

2. *Open Communications* - using the best possible communications technologies and systems.

3. *Learn* - as an organisation, at the fastest possible rate.

4. *Share* - and develop personal, team, organisation, and inter organisational knowledge. The lessons from our study suggests that we can incorporate two other `principles' to the above;

5. *Intent* - to learn one must want to learn. When a firm seeks to internalise knowledge (from its alliance) it can be said to have a learning intent.

6. *Managerial Commitment* - managerial commitment and involvement (in the alliance) can be a critical element in exploiting alliance knowledge. Top management creates the "organisational" intentions. When analysing the features which enhance and strengthen business alliances we find that all the above elements are vital to the health of alliance (Raut-Roy and Chansakar, 1995).

IMPLICATIONS:

There are clear lessons to be learnt when we link factors which sustain business alliances to KM framework. As sustaining of alliances leads to creation of explicit, tacit and new knowledge, it follows, that management of this process with in the organisation is paramount to enhancing the success of the alliance. Using KM framework to manage the alliance will crate an effective and enduring partnership among partners. An effective alliance knowledge conversion process requires high interaction at all levels using all four modes discussed before. The capability the organisation has to convert the valuable tacit alliance knowledge into explicit alliance knowledge quickly adds to the success and value of that alliance. In this sense,building communities first within organisations is a key to alliance knowledge management.

This has been stated by Stamp (1997) as " if you start with the systems, you will end up with haunted houses - empty databases that no one visits". The issue of trust and positive attitude is essential in building communities. However, it is also rather problematic. They increase the partners tolerance for each other's behaviour and raise the general level of communication between partners. But, trust has to be earned in relationships; it is not automatic and takes time to establish. Respect in alliances does not come with rank but with knowledge and ability to get things done. Management of alliances may require different attitudes and behaviour from the management of hierarchies.

We argue that tacit alliance knowledge is an valuable form of knowledge that is created within the managers who are involved in business alliances. Consequently, it is equally important to understand how to replenish this from *within* the individual, and *through* teams and organisation. New knowledge should not just be developed from external sources or best practices.

We also put forward the idea that how an organisation internalises and externalises the alliance knowledge to the organisation mainstream and mindset is vital to the success of that alliance. In other words, unless the organisations converts of both tacit and explicit knowledge fast through the different levels, much of the real value is lost. When referring back to the characteristics of factors which sustain and maintain business alliances, we notice that these alliances are healthy because the alliance knowledge is more solidly externalised and internalised. This process results in better learning, clearer identification of core competencies, rapid capturing and transferring of best practices.

CONCLUSION:

This paper has identified factors which strengthen business alliances along with factors which inhibits such alliances. We argue that a Knowledge Management (KM) framework is relevant in sustaining and adding value to business alliances. It puts forward the idea that using KM framework, managers not only create a more effective and enduring alliance but leverage the knowledge to rapidly convert the same knowledge and intellectual capital into new products

and services.

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ESTABLISHING SME PRODUCT DEVELOPMENT NETWORKS- GUIDELINES DERIVED FROM PRACTICE -Ger

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ABSTRACT

This paper presents the preliminary results of a research concerning the process of creating and utilising organisational networks. Based on a multiple case study design lessons are learned from SME product development networks in The Netherlands. These lessons together with theoretical insights and consulting experience are combined into a comprehensive model of the network creation process. The paper focuses on the structural aspects of this model and accompanying design rules.

1. INTRODUCTION

For a number of years a growing attention for the role of organisational networks in product development can be observed. The attractiveness of the network phenomenon is considered in academia as well as in practice.

An increasing number of companies is convinced that (or has experienced that) they alone no longer can develop, manufacture and market their products without help of external partners. The 'go-it-alone' strategy of product development is more and more being frustrated by lack of (technological) competencies, high uncertainties, increasing costs and risks, and problems related to scale. The pace of technological change and the increased technological complexity of new products (products based on multiple technologies and competencies) forces companies to collaborate and to develop partnerships with companies in control of complementary skills and capabilitiesWhereas organisational collaboration is considered to be important, many companies lack ex-perience and networking skills necessary to develop successful and sustainable partnerships. Networking is a relatively 'new art' of management that must and will develop in the near future.

2. PROBLEM AND THEORETICAL RELEVANCE

As a result of many years of academic research and reflection on practical experience there is a vast array of literature on the phenomenon of organisational networks and related concepts. However, whereas much attention has been given to the 'front end' stage of networking, only a small minority of these publications deals with the actual construction and utilisation of such networks.

Management literature on organisational networks deals primarily with issues as:

- definition of the network concept/forms (what is this network phenomenon?);

- (theoretical) advantages and disadvantages (benefits and doubts);

- contingencies (when is the network form feasible?);

- strategic decision making (what trade-off's/considerations need to be made?);

- partner search (how to find and involve suitable partners);

- acquaintance and mutual trust (how to create a social basis for the network?);

- blocks, barriers and pitfalls (what problems can arise?).

As stated above, little well founded theoretical research is known that demystifies the success of some network activities and explain the failure and problems that arise elsewhere. Especially the question of how to construct a inter-organisational network is left unanswered. This paper deals with questions that go beyond the very initial stage(s) of networking. It provides an analytical framework on how to structure and utilise inter-organisational networks.

3. PRACTICAL RELEVANCE

Often entrepreneurs and managers of SME's are more or less biased concerning inter-organisational networks and collaborative issues. Especially entrepreneurs show a strong preference for a 'stand alone' strategy in product development and have hardly no attention for the potential benefits of clustering. Others are possessed by the idea of collaboration and should be better off with a stronger sense of reality and some 'down to earth' advise that puts things into perspective. Inter-organisational collaboration is no panacea. It can be a blessing when things are considered well. If not, it can turn into a traumatic experience. Organisational practitioners display a strong need for tools and practical notions that can be used in developing sustainable network alliances. Especially tools that facilitate the process of developing a collective ambition and practical guidelines for designing a network structure would be received with a warm welcome and be greatly appreciated.

4. OBJECTIVE AND SCOPE

The main objective of the research is to develop insights and tools that can be used when inter-organisational networks or clusters are to be developed. The research focuses on SME product development clusters. Forms of inter-organisational collaboration that concentrate on other business processes (e.g. shared facility management, business contact groups) are left out of consideration.

The following research questions have been formulated:

q1: What (expectations, motives) drives companies towards inter-organisational clustering and collaboration?

q2: What are the pro's and con's of clustering?

q3: Under what circumstances is clustering feasible?

q4: How can the cluster design process be equipped (best)?

q5 What cluster structure design parameters and options need to be considered?

q6: What contingencies influence the cluster design process and the cluster structure?

q7: What are the criteria for the evaluation of cluster performance?

q8 How does the design process and the cluster structure influence these performance criteria?

Answers to the above research questions must be incorporated in a theoretical framework and are to be 'translated' into a concise guidebook and operating instructions (key steps, do's and don'ts) to be used for developing inter-organisational clusters in practice. This paper focuses on the questions 1 and 4 through 7.

5. METHOD

The method is based on multiple case studies and literature research. A profound literature review did result in a preliminary model of the network development process in general and the network structure in particular . An inductive reflection on the researchers' consulting experience resulted in a number of additions and adaptations of this research model. Next, 8 cases were studied from close up and in-depth. The main criterion for selecting cases was accessibility. From a long-list of inter-organisational networks (or clusters) in which the Dutch Innovation Centres are involved a limited number of 8 cases was selected. This paper describes the preliminary findings of the analysis of 5 from these cases. Some basic information of these cases is summarised in table 1.

In each cluster 2 up to 4 persons have been interviewed, each interview lasting 12-22 hours. The main topics of these interviews are represented in figure 1. Each person was asked for some background information of the participating company they represented. Special interest was shown for the motives that drove their company towards inter-organisational clustering and the companies expectations of this collaboration.

Table 1: Main characteristics of the cases

	Case 1 **"Mainsup"**	Case 2 **"Hospinstal"**	Case 3 **"Cargas"**	Case 4 **"Paperfold"**	Case 5 **"Optilens"**
Scope	Co/main-supplier for OEM	Development, manufacturing and installation of hospital interior	Development and manufacturing of car gas systems	Development and manufacturing of paper processing machine	Development and manufacturing of machine for optical lenses
Market	Metal-electro industry OEM	Hospitals	Automotive industry	Printing industry	Optical industry
No. of partners	5	3	3	3	5
Age	7 years	3 years	2 years	3 years	2 years

Second, the interviews dealt with the cluster design process. Interest was shown in the design as it was made and the underlying (change)process itself. As for this process the interviews concerned issues like: Where did the initiative come from? Have any external parties (brokers, facilitators) been involved? What was the basis for partner search? How did the acquaintance process go?

As for the cluster design information was gathered concerning: collective ambition and strategy, cluster structure (task differentiation, centralisation, formalisation) and legal aspects of the cluster. Subsequently the functioning of the cluster was addressed. In addition to financial and eco-nomic results attention has been given to technology and knowledge transfer, social contacts and intercourse, and problem solving within the cluster. Finally, interviewees were asked to identify key success factors related tot inter-organisational clustering and business collaboration and to formulate their 'lessons learned'.

The texts of these interviews have been laid down in interview reports that have been checked and are authorised by the interviewees. For each cluster the results of the interviews have been combined into a case report. The interview and case reports have been analysed on the basis of the qualitative paradigm. Statements of interviewees that were relevant within the (evolving) framework of this research have been categorised and (if possible) analysed on interrelated patterns. A cross-case analysis of these patterns resulted in causal schemes, a comprehensive theoretical framework (descrip-tive element), and design guidelines to be used in practice (prescriptive element). In the near future - when all the required analysis have been completed - these results will be evaluated by a group of experts.

6. RESULTS (IN BRIEF)

Since the analysis of the interviews has not yet been completed some reservations must be made in drawing up generic conclusions. Yet, as throughout the cases certain research findings seemed to converge, some preliminary results might be brought into the open. A cross-section of the preliminary results will be given below. These results have been categorised into five sub-sections: motives and expectations, initial process, collective ambition development, cluster structure, and performance evaluation.

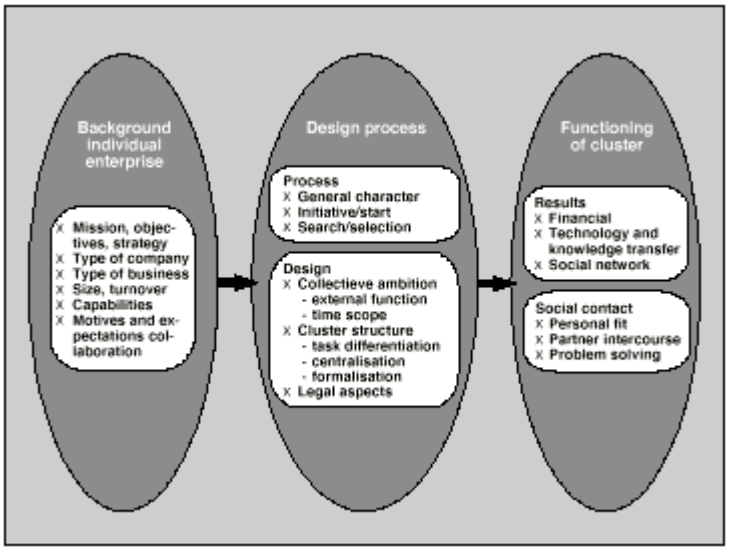

Figure 1: Research model

Motives and expectations

Simply put, collaboration and entrepreneurship are two worlds apart. The 'classical' entrepreneur would prefer the 'go-it-alone' product development strategy, since it brings along management control. Most entrepreneurs and many SME managers would only consider inter-organisational collaboration out of need. Motives for turning to inter-organisational collaboration aimed at product development are:

- splitting up costs;

- risk sharing;

- involving additional technical know-how;

- access to additional markets / market contacts;

- improving flexibility as a result of adding up R,D&E capacity;

- speeding up innovation (time to market).

In most cases a combination of the motives mentioned above is encountered. In all five cases the main driver for collaboration relates to involving additional/complementary technical know how, development skills and market contacts in a cost-efficient way against minimal risks. Acquisition and exploiting of such competencies in a 'go-it-alone' strategy would be far more demanding in terms of financial resources required. Simply relying on 'traditional' market relationships (buyer-supplier relationships) would be to risky, a significant degree of partner involvement is desired.

The cases differ with respect to companies' interests and expectations. The "Mainsup-cluster"

is ventured as a proactive and opportunity based initiative. None of the companies experiences a strong need to collaborate in order to survive. It's the challenging opportunity of an emerg-ing main supplier market that brings along the need to collaborate. Meanwhile, the "Mainsup-companies" are fully pre-occupied with bulging order books. The "Cargas-cluster" shows a completely different situation. "Cargas is an initiative of one of the participating companies that noticed that its core product had reached the last stage of the product life-cycle. Unless a new and fully revisited system was developed and launched in a relative short period of time, things would turn out bad for this company. The reasons for col-laborating on this innovation project are: involving required technological competencies and time to market. So, for this company the "Cargas-cluster" was of vital importance.

General process

Figure 2 describes the general cluster development process. The cases demonstrate that the depicted process is encountered in practice. Although the model suggests a sequential relation-ship between the different process steps, practice shows that the timing of these steps can differ significantly. Thus, the proposed model can best be understood as an ideal model that needs to be adapted to the situation in which clustering is considered. To be effective, clustering needs a tailor made approach.

Initial process

Once a company has decided to pursue the 'collaborative challenge' one of the most critical steps needs to be taken: partner search. Most theoretical contributions advocate a rational and instrumental approach of searching and selecting partners. Preferably, objective sources of in-formation should be utilised. Though some cases illustrate how a lengthy list of criteria that a prospective partner needs to meet has been drawn up and an optimisation strategy is followed aimed at selecting the best possible partner, other cases demonstrate a more intuitive and satisfying approach of ap-proaching prospective partners.

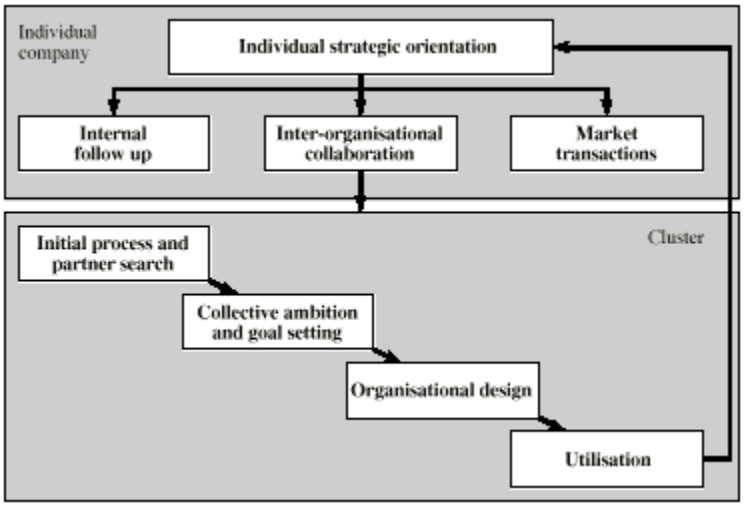

Figure 2: General process of clustering

The "Mainsup-cluster" demonstrates how an a priori list of criteria is used to make a first se-lection of prospective partners. The profile of the suitable partner consisted of multiple strengths and characteristics, such as: solid financial position, excellent quality, international

orientation, experienced with product development, complementary domains, equal size, fully authorised (no subsidiaries), geographical location, good reputation and growth potential.These criteria were used in a satisfying way. The process of partner search was facilitated by the Dutch Innovation Centres, who had a solid overview of the industrial region and good connections.

The "Paperfold-cluster" demonstrates how the process of partner search was less structured and dominated by intuition rather than synoptic rational choice. Potential partners were looked for within the initiators circle of business acquaintance and invited for an exploratory talk. If the interlocutors hit it off immediately a solid basis for collaboration was present. So, 'personal fit' was treated as an important criterion, though in an implicit way. It is likely that other - sometimes 'taken for granted' - criteria played an important role as well. But these were never made explicit during the process of partner search. The cases also demonstrate differences according to the process of acquaintance. It goes be-yond the scope of this paper and is therefore left out of consideration

Collective ambition and strategy development

Creating an inter-organisational business based on jointly product development calls for a collective notion of what needs to be achieved and how this can be done. Although the participating companies to some extend can pursue different goals and may have conflicting interests, some basic understanding of the clusters' mission, vision, objectives and strategies (MVOS) seems appropriate. The timing of the process that must lead to such understanding depends on situational circumstances and personal preferences of the involved entrepreneurs. Doers will prefer to 'get cracking' as soon as an early test for the clusters' opportunities. Not before this test turns out to be successful, the exchange of thoughts with regard to long term ambitions and strategy is considered. Thinkers, on the other hand, will prefer to consider things over and over again before getting into action.

As stated by Chandler: Structure follows strategy. The long term position and ambitions are more or less expected to determine (constraints of) the structure of a cluster. To some extent the structure and regulations of a cluster should take into account the concrete starting situation as well. Not very seldom the gap between strategy and actual starting situation will appear to be quite large. The starting situation of an inter-organisational cluster can be characterised by means of two dimensions: external function and consumer acquaintance. External function refers to the output of the cluster. The term output in this sense is used in a strategic way, not physically! A cluster can take two positions on this external function dimen-sion. It can choose to take a pro-active role in the product innovation track and take the risks that go with having a product function (freely rendered from Simon, 1989). In this scenario the cluster itself takes the initiative for product development and is responsible for the product specifications. Simply put, the cluster owns the developed product.

On the other hand a cluster can choose to have a capacity function. In this scenario the cluster offers its developmental skills and manufacturing capabilities to help other companies in creating and manufacturing new products. These buyers of the capacity function play the role of product organisation and therefore take the lead in the product innovation process. The cluster plays a reactive role from the moment that functional (and sometimes technical) specifications of the new product are passed over. The role of the cluster can best be characterised as main-supplier or co-maker.

The second dimension that determines the starting situation of a cluster is called consumer acquaintance. This refers to the degree to which a cluster is acquainted with potential consumers of the external function. Two extreme positions are possible with regard to this dimension. The cluster may have identified and contacted a lead user. If so, this (first) customer can play an important role in the initial product development process.

Second, the cluster may come to work for an anonymous market. Market research can help in defining attractive market segments and in getting acquainted with the demands and desires of this identified target group.

Figure 3 illustrates the possible starting conditions of a cluster by means of the dimensions described above. The case analysis shows that these starting conditions play an important role in the structuring of the cluster.

Cluster structure

In the majority of the cases it appears to be advisable to take 'the day of tomorrow' as a starting point for structuring instead of 'constructing for the future'. The structure of the cluster must fit the short term activities and conditions of the cluster. 'Don't make any arrangements until there actually is a reason for it', so calls the pragmatic adage heard in several interviews. It is obvious that in the long run the structure must be flexible enough to adapt to changing conditions end emerging strategies. Again structural pragmatism is the best safeguard for the future.

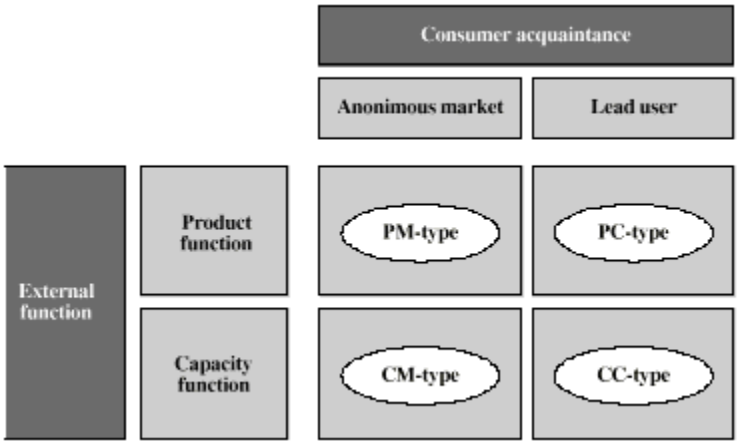

Figure 3: Starting conditions

The case-analysis points out two important structural dimensions: centrality and formalisation. Centrality has to do with the extent to that a cluster has managerial and financial resources of itself. If present in the cases studied, the 'central office' was rather small (mostly existing of one person) and played an internal co-ordinating role in gearing distributed activities as well as an external role in acquisition and marketing. In other cases these co-ordinating activities as well as external contacts are taken care of by the cluster partners. But the cases clearly illus-trate how there is a capacity limit to this co-ordination by partners.

The cases illustrate how two contingencies play an important role in the decision-making with regard to centrality: size and business ownership.

- When the number of partners is relatively small mutual adjustment is the standard mode for solving internal problems. As the number of partners increases the co-ordination task becomes more complex and the call for a central co-ordinator is heard.

- At this point we use the term 'business ownership' in a strategic way. It relates to the 'feeling' of the business being a vital part of a companies strategy. With regard to business ownership (which not necessarily means this is confirmed by formal or legal arrangements) two options are possible: focused business (when one of the partners has a dominant inter-est in the collaborative efforts) of distributed business (all partners have a similar interest in the cluster activities). The cases show how in the case of a focused business ownership the most interested partner takes care of the internal co-ordination as well as external contacts. When the ownership of the cluster business is distributed it is more likely have the co-ordination task rotating amongst the partners or to designate a central co-ordinator. The latter is recommended when the partners have limited time (or expertise) available for this co-ordinating role. Other contingencies (like starting situation) are still subject of analysis and will therefore not be discussed in detail in this paper. The options concerning 'business ownership' are illustrated in figures 4 and 5. One of the most encountered questions in consulting companies that try to develop sustainable partnerships reads: "What agreements do we lay down on paper?" This is what formalisation is all about.

As the term collaboration already implies, the balance op power in a cluster is somewhat different from the situation within the participating companies. The absence of hierarchical relations brings forward the need to make solid agreements and to put these on paper (sometimes legal contracts) as well.

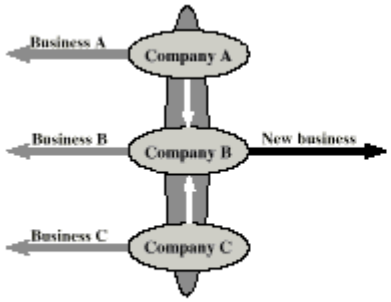

Figure 4: focused business ownership

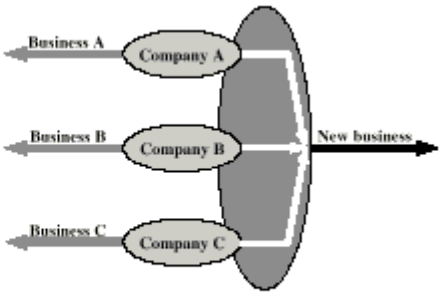

Figure 5: distributed business ownership

The cases illustrate that a cluster should refrain from extensive formalisation of internal affairs. It makes sense to make good financial arrangements and to think of possible pitfalls that may be found on the way. But it doesn't seem wise (nor possible) to enforce a co-operative attitude amongst partners by contracts and regulations only. A proper balance between personal trust and formal arrangements seems appropriate.

Performance evaluation.

Most interviewees demonstrate a multiple perspective with regard to performance evaluation of product innovation clusters. They are not only interested in bottom line results but are also triggered by other aspects of functioning. Three main categories of criteria come forward:

- Financial and operational results: partners will evaluate the clusters' performance among other things by assessing the turnover generated by the cluster, determining the time to market, calculating the operational costs and comparing these with the ex ante expecta-tions.

- Social contact: cluster partners attach significance to the internal relations. Often the necessity of personal fit is stressed. This fit seems to be influenced by personal characteris-tics, management and business style, cultural differences and other factors. Also the way in which problems are solved (or avoided) is given much attention. In fact many interviewees refer to social contact as a key performance indicator. Social contact is more or less treated as intermediate variable that enables performance in other areas.

- Network and learning potential: an important spin off of clustering is the extension of the partners external network. Getting in contact with other entrepreneurs and other clients brings along opportunities for knowledge and experience transfer. In some cases relation-ship between the participating companies have developed into a situation in which entre-preneurs consult each other with regard to issues that don't relate to the domain of the cluster. This consulting potential is greatly appreciated.

7. CONCLUSION AND FINAL REMARKS

Although not all analysis have been completed yet, the research shows that clustering as a form of inter-organisational collaboration can help small and medium sized enterprises to overcome problems of technology and scale and to gain competitive advantage. Clustering may not be considered as a second-class scenario. Clustering offers certain advantages that cannot be obtained by the 'go it alone' strategy. Cost reduction, time to market, knowledge transfer, and extension of business contacts are some benefits of clustering encountered in practice.

Joint product development requires collaborative skills and needs to be well planned. The establishment of reliable cluster relations calls for a balanced change process. The research dem-onstrates the importance of initial process of partner search and acquaintance. In this stage the foundations of the cluster are being laid. Yet in some cases it may be necessary to quickly get to work. In those situations acquaintance must be established 'on the job' and afterwards.

The cases demonstrate the importance of having a common vision of the clusters ambition, objectives and strategy. It is shown that this vision can be established at any moment during the clustering process. It is advisable to take into account the actual starting situation of the cluster as well. The starting situation seems to have implications for the internal structure of the clus-ter and the boundary spanning relationships.

Practice shows a strong interest in tools and design rules that facilitate the structuring of clusters. Most theoretical contributions stick to the initial stage of the clustering process and refrain from practical guidelines for 'getting things started'. It is shown that managerial and financial centrality and formalisation are important design parameters and how 'business ownership' must be regarded as an important contingency factor.

Further analysis of the empirical data will lead to more detailed insights and design rules and must help to improve and test the comprehensive model for establishing SME product innovation clusters.

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PARTNERSHIPS A KEY TO GROWTH IN SMALL BUSINESS

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ABSTRACT

The conventional image of the small business owner is that of a highly independent individual, taking risks and 'doing it tough' with limited assistance from others. However, research conducted in the United Kingdom and Australia with high performance small firms suggests that this is not so. A multivariate data analysis of the relationship between business management practice and sales growth performance identified the importance of partnering. This refers to the process of working in partnership with people who affect the business. Partnering involves creating and maintaining partnerships with everyone who affects your business. Working in partnership involves the creative talents and energies of everyone who can affect your business. The effect is that everyone, from staff through to supplier and customers, works together for mutual gain. These findings suggest that the owner of a small business needs to view himself or herself less as a lonely, isolated battler and more as someone who can gain from partnering. A willingness to seek strategic alliances can prove a valuable source of potential growth for small firms.

THE GROWTH CYCLE OF SMALL FIRMS

Small to Medium Enterprises (SMEs) comprise the largest proportion of businesses in most economies and frequently offer the greatest potential for job creation (Asquith and Weston, 1994). For example, in the United States small businesses employing less than 20 people were the major source of new jobs during the late 1980's (Phillips, 1993). A similar pattern was observed in Canada where the fastest growing sector of the economy was that of SMEs (DeLaurentiis, 1994). In Australia, SMEs account for about half the total employment and contribute more to job creation than many larger businesses (DFAT, 1995). It is for these reasons that many Governments have begun to take an interest in the process of growth within the SME sector.

Academic study of the growth cycle of small firms has been continuing for many years (Steinmetz, 1969). Both Churchill and Lewis (1983) and Scott and Bruce (1987) have

proposed five stage models of SME Growth incorporating 1) start up, 2) survival, 3) growth, 4) take-off and 5) maturity. During the first stage the business is conceived and established. During this period it is entirely the creation of its entrepreneur founder(s). All attention is given to finding customers and maintaining adequate cash flows to survive. The owner is the most important asset of the business, providing all its managerial skill, direction and capital.

If it survives the business will pass into a second stage of "Survival". During this period the business is financially viable and may even hire additional staff. The owner-manager usually remains in control of the business and undertakes only minimal formal planning (Churchill and Lewis, 1983). Many SMEs continue to operate in this stage for long periods of time, with a single or limited product line and any growth being driven by natural market expansion (Scott and Bruce, 1987).

From the perspective of growth it is the third stage that may be most critical. Churchill and Lewis (1983) identify two sub-stages in this "Growth" or "Success" period. The first of these is that of "Success-Disengagement". Here the business is economically strong and has sufficient size and product market penetration enabling it to sustain its current position. Its size is such as to require professional managers. In this sub-stage the owner-manager makes a decision to either grow or not. The business is usually profitable and can either continue on in its present form or even is sold at a profit (Scott and Bruce, 1987).

A successful growth strategy will take the business into the fourth stage of "Take-Off" or "Expansion". In this critical stage the business will either succeed to develop into a big business or not. As it grows the business will become more formalized in its accounting, management and other systems. The fifth and final stage of "Maturity" or "Resource maturity", sees the business with sufficient resources to conduct formal strategic planning. Its management structure is likely to be decentralised and there is a greater separation between the owner and the business in terms of financial and operational matters. Large-scale investment in marketing and production facilities during this stage may result in additional equity financing. Many entrepreneurs experience difficulties with pressure from shareholders over strategic directions.

FACTORS INFLUENCING GROWTH

Gibb and Davies (1992) have examined the growth process of small firms in the United Kingdom. This Durham Business School (DUBS) model of SME growth recognizes that growth is contingent upon the 'base potential for development' inherent within the firm. This includes the firm's resources financial, physical and human as well as the experience, leadership, ideas and control base of the entrepreneur. Growth is influenced by key internal and external factors that must be considered by the entrepreneur as they move through their growth cycle.

Although successful growth within the SME is contingent upon many factors, the most important is arguably the attitude of the owner-manager (Brockhaus and Horwitz, 1985). The decision to grow is a risky one that many entrepreneurs choose not to make. For example, a survey of 1,996 SMEs undertaken by the Japan Small Business Research Institute in 1994 found 64 per cent of respondents did not wish to grow into large corporations (Kazumi, 1995). Similar findings were produced by a *Yellow Pages Small Business Index* (1995) survey of Australian SMEs that found less than 10 per cent of respondents were growth oriented.

The reasons why so many SME owner-managers should not desire growth are numerous. Concern over having to go into debt is a deterrent to many, particularly women (Taylor, 1986). Growth can also represent a loss of personal control by the owner-manager who may dislike the idea of passing the responsibility of running the business over to professional managers (Barnes and Hershon, 1976). It is important to realize that the problems associated with growth in the SME are just as difficult as those confronting much larger firms. Effective growth strategies require careful planning and most SMEs lack the resources needed to undertake this (Shuman and Seeger, 1986).

Perry, Meredith and Cunnington (1988) examined the relationships between the personal characteristics of owner-managers and SME growth. Their findings suggest uncertainty over all relationships except the need for achievement within the owner that was indicated as significantly associated with growth.

For many SME owner-managers the decision to growth is fraught with problems (Bosworth and Jacobs, 1989). Inadequate management skills, particularly in strategic planning, can serve as a deterrent (Scase and Goffee, 1985; Boswell, 1973). Access to finance has also been identified as a major impediment to SME growth in businesses

requiring it for R&D (Jones, 1992). The inability of the SME to seek out sources of information and technology needed for growth has also been found to act a potential barrier (Rothwell and Beesley, 1989). According to Jones (1992) the majority of barriers to SME growth are found inside the business. These include a lack of technical and managerial skill, inadequate organisational adaptability and ability to acquire or use technology.

THE POWER OF PARTNERING

The lack of resources experienced by most SMEs suggests that substantial benefits might be obtained through the development of partnerships or alliances with other organisations likely to make up any shortfalls. Growth for the small firm that seeks strategic partnerships is likely to be greater than among those that do not (Wendy, 1997). For example, a Coopers & Lybrand study of 400 high growth small firms found that those with strategic alliances experienced growth rates 20 per cent higher than firms without such alliances and around 11 per cent more sales turnover (*Small Business Reports*, 1993).

In a study of small, black-owned businesses in the United States, Brown (1996) identified a 37 per cent faster growth rate among small firms that used strategic partnerships than those that did not. A further study of 451 small retail firms in the Netherlands found that membership of a strategic alliance had a positive influence on the business. Such firms were generally more profitable and took a more 'professional and active' approach to marketing (Reijnders and Verhallen, 1996).

Dent (1990) suggested that strategic partnerships would be essential for success in the future. The need to develop 'networks' capable of delivering economies of scale and greater market penetration were seen as important. However, he also pointed to the need to maintain flexibility within such alliances for the participants. For manufacturers the importance of developing mutually beneficial relationships with buyers is likely to be a critical success factor (Holmund and Kock, 1996).

Strategic partnerships enable SMEs to achieve greater levels of product innovation and can assist with expansion into new market segments when faced with rapidly changing external environments (Maynard, 1996). This is due to the benefits the firm can receive it the form of external information via its network of strategic partners. Flexible, informal networks can be just as beneficial as more formal ones (Malecki and Tootle, 1996).

For SMEs that lack the substantial resources available to the larger firm, network organizational structures built around strategic partnerships offer an alternative to vertical integration models (Larson, 1992). There is evidence in the United States of small firms using strategic partnerships with large corporations to secure access to new technologies, wider distribution networks and marketing expertise (Gilbert, 1991). This has been particularly noticed among small high technology firms that have developed partnerships with University research institutes and customers in collaborative research agreements (Forrest, 1990). However, such partnerships need to be carefully prepared to ensure that the larger partner does not dominate or stifle the very innovation it seeks from its smaller partner (Doz, 1987).

THE VALUE OF PLANNING

Despite their importance, strategic partnerships are not the only ingredient in SME success. Other key success strategies are providing value, reliability, good service, excellent quality and developing long-term relationships with customers (Simon, 1996). Success among small businesses has also been associated with an ability to use financial data, knowledge of accounting practice and support from family (Kaufman, Weaver and Poynter, 1996). Management experience and education have also been found to be positively associated with

SME success (Sage, 1993).

The role of strategic planning within SME success has also been emphasized. Lack of planning is frequently associated with failure, while growth requires careful financial planning to ensure they have adequate funds to support their market development (Brazell, 1996; Nelton, 1992). Strategic planning within SMEs is frequently informal and dominated by the owner-manager (Ghosh and Chan, 1994). The importance of formal planning to success within SMEs is the subject of continuing debate (McKiernan and Morris, 1994).

A study of 500 small firms in the United States found that those experiencing growth were distinguished from those experiencing decline by the presence of a formal written business plan (Jackson, 1994). The value of formal business plans has also been noted among small high-growth firms where such plans appear to be used more for internal management than external financing, planning and profitability appear to be linked (Baker, Addams and Davis, 1993).

THE RESEARCH

During the late 1980s a research program was undertaken by the Small Business Centre of the Durham University Business School into the growth process of successful SMEs (Hall, 1992). Using a sample of firms representing service, manufacturing and retail sectors from the Northeast and South East of England a comprehensive examination was made of their business practice over time. A final sample of 30 high growth firms were selected and studied. This took place in three stages. During the first stage in-depth interviews were undertaken with the managing directors who identified key areas for future research. During the second stage the growth cycles of the firms were examined in detail to understand what common characteristics existed between the firms. In the final stage a comparison was made of the factors which commonly characterised these firms. A follow up interview was undertaken to examine specific issues. What emerged from the study was the identification of six key areas of successful business performance. These six areas are:

1. **Focus/Direction** - Fashioning and managing the overall focus and direction of the business

2. **Customerising** - Continually delighting the customers

3. **Partnering** - Working in partnership with people who affect the business

4. **Personality -** The character of the business

5. **Quality** - A commitment to providing product quality and customer service

6. **Systems** - Establishing systems to provide information to empower decision-makers (Hall,

1992).

In 1997 the Small Business Unit of Curtin Business School commenced a study designed to test the validity of the original Durham research using empirical analysis. A questionnaire was developed which measured the perceptions of SME owner-managers as to their current performance on the six dimensions identified in the Durham study. The questionnaire contained 180 items measuring the six dimensions and used a five-point Likert scale. Additional questions measured business planning, future intentions and the firm's financial performance in terms of annual sales and gross profits over a four-year period.

An original sampling frame of 500 firms was identified and approached over their willingness to participate in the study. The owner-managers of 88 firms were surveyed as to their perceptions of the current level of business practice within the firm on six dimensions of business performance. Fifty-three firms returned useable surveys. These firms were drawn from all industry sectors with manufacturing (24.5%) and retailing (23%) making up the largest sub-sectors.

Just fewer than half the sample (48%) had less than 10 employees, although only 10 percent had more than fifty. Most of the respondents had been in their firms for at least 6 to 10 years. Eight per cent had been operating for over 20 years, twenty-five per cent for over 10 years and thirty-three per cent for less than 5 years. The average age of the owner-managers in the sample was between 20 and 40 years with less than half (47%) aged under 40 years. Few of the respondents (10%) had been educated beyond senior high school level. Only 12 per cent indicated they were engaged in exporting. This profile is largely consistent with that of the true population of small business in Australia (ABS, 1997).

ANALYSIS AND RESULTS

A stepwise discriminant analysis was used to examine the relationship between performance on the six-factor model originally identified by Durham and the firm's sales growth. The dependent variable in this analysis was an index of annual growth in sales over a four-year period. This was derived from the actual sales figures supplied by the sample for the previous four years. Two sub-populations were identified within the sample those with annual sales growth of less than $320,000 over the four-year period and those with sales growth in excess of this.

The discriminant function that differentiated the two groups was found to be significant at the 0.05 level. However, only one of the six dimensions of business performance was found to be

significant at the 0.05 level. Table 1 shows this variable.

Table 1: Final Variables in the Discriminant Analysis

Standardised canonical discriminant function coefficients

variable	Function 1	Wilk's Lambda
Partnering	.586	0.734

F statistics were computed from the relevant Mahalanobis distance measures to determine whether or not the two groups were significantly different to each other. Both groups were found to be significantly different at the 0.05 level. A total of 79 per cent of the low growth firms and 74 per cent of the high growth firms were correctly classified. An overall 76 per cent of firms were correctly classified in the model.

These results suggest that while the other five dimensions of business performance are important, there appears to be a special relationship between partnering and business growth in the sample. It should be remembered that partnering involves the development of strong working relationships with the firm's customers, staff, suppliers and support networks.

Additional analysis was undertaken using a *t*-test procedure to examine the relationship between the other independent variables in the model and the dependent variable. This found a significant relationship (at the 0.05 level) between high sales growth and the following business performance characteristics:

A high level of environmental scanning
A greater than average control over their key resources e.g. financial, human, physical.
A stronger than average level of customer commitment
An organisational structure that supports their business plan
A commitment to partnering with customers & suppliers
A strong commitment to ISO9000 standards
A clear knowledge of the critical information required to daily manage the firm
Good cash flow management
A commitment to taking action

THE IMPLICATIONS

The size of its sample and the use of sales growth as a dependent variable limit this study. A more robust measure of growth is required to fully examine the causal relationships between it and the six business performance dimensions. Despite these limitations the findings of this study support the original Durham University research and highlight the overall significance of strategic partnerships to successful business performance. As noted earlier in this paper, the power of partnering is recognised by a large body of previous research.

The dimension of 'Partnering' examined in this study is comprised of five areas 1) structure/roles, 2) customer partnerships, 3) staff partnerships, 4) supplier partnerships and 5) support network partnerships (Hall, 1992). The first area concerns whether the firm's organisational structure is correctly configured to incorporate the partnerships that it needs to establish and maintain. If the owner and other staff are not spending enough time engaged in the correct partnering activities roles may have to change. For example, how much time do owners spend with their key customers?

Developing partnerships with customers, staff, suppliers and support networks (e.g. accountants, banks, local chambers of commerce) requires a constant effort by small business owners. However, long term benefits of such partnering can be substantial. The key ingredient to making partnerships work are commitment, adopting a 'win-win' attitude, having a long-term outlook, being open and honest, developing mutual trust and seeking an integration of effort in terms of information and systems (Hall, 1992:104). SMEs facing a growth cycle will require external funding and assistance from a potentially wide range of strategic alliance partners. Few small business entrepreneurs have the resources, management skills and access to markets required to successful complete all their objectives. However, through the establishment of partnerships they can multiply their resources without the substantial costs that would otherwise be required.

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CHINESE ETHNIC AND CULTURAL TRAITS: HOW DO THEY AFFECT SMALL BUSINESS PRACTICES IN SINGAPORE

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ABSTRACT

The Chinese, the largest ethnic population in the world, have traditionally been successful business owners and various studies have been performed to assess the reasons for the success of Chinese entrepreneurs. Personal characteristics and management styles, as well as social and cultural values have been cited as reasons that contribute to the success of Chinese business owners in general, and to the prosperity of Singaporean Chinese entrepreneurs in particular. In this article, we aim to integrate the literature on such success factors.

SOCIAL AND CULTURAL VALUES

Some researchers postulate that the Chinese society to which these entrepreneurs belong has played an important role in their entrepreneurial career. Gasse (1982), for example, asserts that certain societies cultivate entrepreneurs more easily than others and cited the Chinese prewar community in Singapore as his prime example. Wang (1991) added that in Singapore, the British governors were primarily interested in the development of a modern capitalist society through promoting trade and commerce, and there were few restrictions by an agrarian bureaucratic state. The ready access of the Chinese community to good infrastructure and their ability to run their own businesses helped nurture them as successful entrepreneurs and at the same time benefited the country's economy.

The Chinese in Singapore seem to have developed more creative ideas and were willing to adapt to foreign cultures to keep up with the changing environment and technology. Singaporean Chinese were, of course, divided into groups and associations and had no intention of staying in Singapore permanently--their main concern was to engage in activities that would facilitate their earning as much as possible before returning to their homeland in China [Loh and Lee (1996)]. They thus choose to engage mainly in trade and commerce where gains were more immediate as compared to capital-intensive industries where the returns would be realized only in the long term. It seems like the more successful entrepreneurs, on the other hand, stayed in Singapore to act as community leaders and helped develop the country through maintaining law and order, looking after the needs of various communities, as well as contributing to further building of infrastructure such as schools and hospitals.

Kinship and ethnic ties seem to play an important role in the initiation and promotion of all Chinese business ventures as opportunities may be open to people of a single district only. Kirby and Fan (1995) observe the importance of family in Chinese society to be embodied in the Confucian teachings whose five basic human relationships include family relationships between father and son, husband and wife, and elder and younger brothers.

Among the various Chinese groups in Singapore, Hokkiens were the most influential due to their relatively large number, their predominance in banking, finance, and trade, and their strong T'ung An spirit interpreted by Yong (1987) as a love for independence, adventure, enterprise, and righteousness. Upon arrival in Singapore, for example, these immigrants incorporated the element of charity into the T'ung An spirit, while their adventurous and entrepreneurial spirit in dealing with foreign countries helped them develop the expertise to do business. Examples include Ling Lee Hua and Soon Peng Lam, Hokkien immigrants from the Fukien province of China who were strongly connected to the T'ung An district, had a sufficiently large support base enabling them to develop their own businesses, as well as providing opportunities to contribute to the community through building schools, clinics and other such organizations (Loh and Lee, *ibid*). In addition, these two entrepreneurs benefited from kinship and ethnically defined networks within the Chinese community, which according to Lim (1983) provided access to labor and product markets, credit, information, and security, and gave them an important economic advantage.

China, itself, has been growing rapidly and has become a popular investment destination for Singaporean firms. Marshall *et al* (1995) suggested that the booming Chinese economy blessed with abundant labor supply and cheap raw material, coupled with a relatively low entry and production costs, has motivated Singapore firms to set up shop in China. Other factors which may have led to an increase in Singaporean entrepreneurship activities in China include their shared vision with their joint venture partners, as well as the knowledge of the Chinese culture and language.

Upon comparing the list of Chinese cultural values developed by the Chinese Cultural Connection to entrepreneurial attributes identified by other researchers, Kirby and Fan (1995) attempted to link the Chinese value system and entrepreneurial characters. They found, however, that Confucian values served more as guidelines for moral and social norms as well as personal cultivation rather than promoting business and profit-making activities, and thus are not particularly supportive of entrepreneurship. Such values are not, on the other hand, totally irrelevant to entrepreneurial development as interpersonal relations, family orientation, work attitude and personal cultivation, for example, are viewed to have helped the Chinese understand the business world better, as well as having aided them in better understanding of the organizational structure and management of human resource.

Timmons, Smollen and Dingee (1977, 1985) found seven values or attributes shared among entrepreneurs: total commitment, determination, perseverance and persistence; integrity and reliability; low need for status and power; team builder not hero maker; emotional stability, high intelligence, and conceptual ability. Hornaday (1982) observed four basically similar characteristics: perseverance, diligence, resourcefulness, and the ability to get along with people. Gibb (1990) mentioned only three: moderate risk taking, hard work, and leadership. Other Chinese cultural values, however, are in direct conflict with the entrepreneurial attributes. Hornaday (1982) as well as Gibb (1990), and Tommons, Smollen and Dingree (1985) agreed that the entrepreneurial attribute of “having initiative” was not supported by Chinese cultural values. Hornaday (1982) added two other attributes, positive response to

change and profit-orientation, to the list of conflicting attributes, while Gibb (1990) also included high belief in control of one's own life. Furthermore, three of the most frequently mentioned entrepreneurial attributes, flexibility, creativity and innovation, were totally missing from the list of Chinese cultural values.

MANAGEMENT STYLE Ng and Ng (1994) surveyed the management style of the Chinese entrepreneurs and its contribution to their success. They indicated that Chinese entrepreneurs were patient and not impulsive, preferring to wait for the opportunity to arise, and then to seize it firmly. They were also more flexible and allowed their targets to vary according to the prevailing circumstances. They indicated a willingness to change and adapted to different business situations in ensuring that everything ran smoothly. This may have helped to increase their confidence in dealing with uncertainty. Ng and Ng (1994) used the round dining tables in Chinese restaurants, symbolizing “togetherness, happiness, and accomplishment”, as an example of the Chinese entrepreneurs' flexibility and adaptability. They figured that as compared to Western restaurants where the number of seats per table was fixed by the square tables, Chinese dining tables provided greater flexibility and maneuverability since the number of seats per table could vary.

By the same token, the Chinese entrepreneurs' dynamism, flexibility and resilience helped them survive in the competitive business environment. They were able and willing to serve a large number of customers at the same time, thus improving their efficiency and relationships with customers. They placed great emphasis on client relationships, therefore, were careful in their conversations and manners during business discussions so as not to offend their customers-- usually starting with warm exchanges which made subsequent negotiations easier. Also, Chinese businessmen were generally reluctant to put price tags on their products for the fear of scaring potential customers away. Their technique was to leave the price negotiable and to concentrate on promoting the products and ensuring a successful sale.

Warrington and McCall (1983), Sheng (1979) and Menkhoff (1993) similarly found that Chinese management style emphasizes human relationships. Sheng (1979) specifically noted that the business relationship for Chinese is usually based on the notion of friendship, loyalty and trustworthiness. Ng and Ng (1994)) further observed that small Chinese businesses operated like closely-knit families, operating based on mutual trust between employees and employers rather than based on contractual arrangement. There were no fixed duties and instructions for the employees, and this provided the employer with flexibility to mobilize human resources as needed, and allowed the employee to exercise his/her own judgment. Chau (1995) supports the theory that internal management of Chinese firms is flexible and postulates that the family style management would continue to exist. Lee (1996) also observed that many Chinese organizations are family-run businesses and family relationships are carried into organizations. Hsu (1984) agreed that Chinese have learnt to relate with others mainly from the family experience.

Another major factor in running a successful business is the relationship with authorities. According to Chau (1995), mutual relationships between government, state-owned enterprises, and private ventures were of vital importance as the former had a great impact on the development of the latter two. The development of private enterprises, for example, was directed by government policy while the most significant part of Chinese economy was at one time dominated by the state sector. Lombardo (1995) observed that before taking any actions, Chinese entrepreneurs usually sought confirmations from government officials as to whether their proposed management plans merit approval. Having good relationships with government

officials would, thus, put a Chinese entrepreneur in an advantageous position as compared to competitors who did not have any contacts with officials.

Marshall *et al* (1995) thought that government connections could help the Chinese enterprises in obtaining project approvals, and similarly cited the relationship with local key authorities as a critical success factor. Chau (1995) added establishing a good network of professional and technical contacts to the list of factors contributing to business success, while Rabushka(1987) indicated that interactions between Chinese and foreign entrepreneurs provided opportunities for Chinese entrepreneurs to gain access to foreign investments, technology and management expertise.

PERSONAL CHARACTERISTICS

In addition to cultural values, the personal characteristics of an individual and his management style would contribute to his entrepreneurship success. Stevenson and Sahlman (1986) indicated that entrepreneurs generally had a need for achievement, a desire to be in control and an orientation toward intuitive thinking. They were also risk-takers. Similarly, Lombardo (1995) observed that entrepreneurs had a strong desire to be in control of their fate, and Gibb (1990) added flexibility, problem-solving abilities, and hard work as other entrepreneurial characteristics. Chau (1995) found that private entrepreneurs were older, with more mature intelligence, better educated, and had the stamina, energy and willingness to take risk. Wu (1983) categorized the Chinese as hardworking, thrifty, self-reliant and risk-takers. Other Chinese personality traits cited by Mackie (1992) included frugality with high saving rates, kinship and ethnic ties, high respect for education, good business judgment, and commercial networking based on trust.

CONCLUSION

Chinese entrepreneurs, especially those in China, emphasize community and human relationships greatly. The family has the greatest impact on the individual's value system and for the ole expectations, and the community provides opportunities and infrastructures development of the business, while also incorporating cultural values that improve the understanding of the business world, organization structure and management of human resource.

Personal characteristics such as diligence, independence, and flexibility seem to have also contributed to the success of Chinese entrepreneurs. Another success factor is the management style, whereby the Chinese entrepreneurs are more flexible and adaptive, and thus would be in a more advantageous position in times of change. Finally, much emphasis is placed on human relationships, with employees, clients, and government officials alike, to ensure smoother operations of the business.

Most Chinese organizations seem to start as small businesses with limited capital and a small number of people. This is probably to facilitate control and management as it allows for closer interpersonal relationships, a shorter decision-making plan and faster decision-making. With the emergence of the China as an economic power and the rise of capitalism there, Chinese entrepreneurs are also on the rise. As Singapore entrepreneurs are looking for new markets to venture into, the Chinese market will be one of great potential.

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RETAILING: A FUTURE PERSPECTIVE IN SOUTHERN AFRICA

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ABSTRACT

Retailing plays an important role in the development of a community and in fulfilling its needs. It is also a fact that the evolution of retailing in a specific country will have a strong influence on the way it adapts to changes in its environment. Some future trends in retailing are highlighted in this text.

1 INTRODUCTION

A retailer plays a crucial role in the development of a community and in fulfilling its needs. The retailer is the last link in the distribution chain, bridging the gap between the manufacturer and the final consumer. It is in fact the most important link in the distribution chain from manufacturer to consumer since almost all of our gross national product (GNP) reaches us through some or other form of retailing. The sophistication of a country's retailing infrastructure is an indication of the level of economic development of that country (Samie 1990:31). South Africa is in the interesting position that it has both a sophisticated first-world retailing industry, especially in the urban areas and a third world retailing infrastructure in the rural areas. Thus, in this type of retailing environment numerous opportunities arise while many threats have to be circumvented.

The South African retailing industry is seen as the leading retailing body on the African continent. In 1996 retailers were responsible for a total turnover of more than R131,6 billion, they supplied goods and services to more than 35 million consumers, and they provided employment opportunities to hundreds of thousands of people.

2 THE EVOLUTION OF RETAILING

The earliest form of retailing in Southern Africa commenced with the bartering that took place between the local tribes. When the first diamonds and later gold were discovered in the interior, the first retailers such as the general dealer, hotels and brothels were opened. The general dealer, the major store retailer at the turn of the twentieth century, started to expand, opening branches in different locations. This resulted in the chain-store groups as they are known today. The next development was the introduction of the department stores. At present South Africa has a sophisticated retail infrastructure in the urban areas which compares very favorably with American retailers.

Against this background it is important to look at the factors that inhibited the development of black retailing in South Africa.

The period up to 1976. Most authors (Louw 1979; Van den Berg 1984; Rammala 1989) agreed that politics tended to dominate the lives of black people and cloud business issues to such an extent that the normal functions of black retailing became impaired. According to

Rammala (1989:4-5), the development of the black communities which settled around the country's major white cities was discouraged and even ignored. He referred to the first investigation that had been made by the Stallard Commission in 1921 into the desirability of the presence of black people in the urban areas and to the doctrine which was subsequently laid down that black people in the urban areas existed solely for the purpose of providing labor for their white counterparts. The effect of this was that black townships around white cities and towns remained undeveloped and black business of necessity suffered and was discouraged.

In 1948, when the National Party came into power, apartheid became official government policy. Mazwai (1991:26) wrote that since 1948 "black business has been hammered into punity by various enactments." After 1948 the introduction of severe restrictions hampered the entry of black businessmen into the formal business sector in the white cities. Even in the townships the freedom of entrepreneurs to establish and expand their business undertakings was seriously curtailed. Many additional restrictive measures on black business since 1959 retarded the growth of black retailers and discouraged black people from entering business. Some of the most significant measures were (Van den Berg: 1984:82-101):

- The nature of business that black people could conduct was limited as they were not allowed to carry on more than one business, even in a different residential area.
- Black businesses were confined to meeting the daily essential needs of local communities.
- The establishment of black companies and partnerships was prohibited.
- All buildings necessary for business activities were to be erected by local authorities and not by black businessmen themselves.

The period 1976 to 1985. In the years following the Soweto riots, various restrictions affecting black business were lifted. The Government felt a need to hold discussions with black leaders and acknowledged the importance of black business leaders for the first time (Butler 1989:53).

In 1976 the range of businesses permitted in urban black townships was increased to 26 from the original seven. Another important change was that partnerships in which black people held at least 51 percent of the shares were henceforth permitted.

♦ ♦ **Period 1986 to April 1994**.The desegregation of trading areas took a step forward when the central business districts in Johannesburg and Durban were opened for trading by all races in 1986. This meant that members of all population groups could now freely obtain occupation and ownership rights of premises in the proclaimed area.

♦ ♦ **The period April 1994 to date.** South Africa's first all-race election took place in April 1994. The African National Congress (ANC) won the election with the support of 62,6 percent of the electorate (Race Relations Survey 1994/1995:327). The new president of Nafcoc, Hlongwane (1994) said that Nafcoc's manifesto on black business would outline how government could play an enabling role to ensure widely spread management and ownership of business in South Africa. Favorable treatment should be given to black-owned business and joint ventures.

Tsita (1994) maintains that it is a misconception that insufficient capital is a major reason for the failure of black business in South Africa. Rather, cash-flow problems have been a symptom of a situation where a small businessman has too many debtors and an inadequate credit control system. Furthermore, he says, black businesses have a tendency to enter over-traded industries such as retail, hairdressing or transport instead of identifying gasp in the market place and taking advantage of these. In addition, black businesses lack sufficient

management and technical expertise.

♦ ♦ **The present situation of black business**. Van den Berg (1984:103- 104) argues that the discriminatory measures of the past were responsible for the present situation of a developed white economy based on a capitalistic system and an undeveloped economy in the black areas characteristic of a socialistic rather than a capitalistic order. Because the mobility of the black person was restricted, the development of black business communities had been retarded. He found that most black people associated free enterprise with apartheid and discrimination and that their perception of free entrepreneurship was confused with elements of Socialism. It was found that although the black retailers had indicated that lack of capital was the most important restriction on business success, poor management skills were in fact the real problem. The most important findings of the research (Smith 1982:12-13) concerning black retailers

were the following:

r **Location**. Retailers gave too much attention to personal preferences instead of sound business economic criteria in their locational decisions. They tended to locate where their families and friends were living.

r **Organization**. The majority of retailers were sole proprietors and they tended to centralize authority and responsibility in themselves. They did not make use of the advantages of partnerships and companies, thus hampering the mobility of capital.

r **Purchasing management**. Retailers bought small uneconomic quantities and no buying investigation trips were undertaken.

r **Financial management**. In most cases no bookkeeping was done by the retailer and no financial records were kept.

r **Marketing management**. Price was found to be one of the main selection criteria of the black consumer. However, the retailer's prices were generally too high.

Smith concludes that black retailers lack the necessary business knowledge and skill to operate a business successfully and that basic training was essential to assist them to survive, an area where institutions such as UNISA can play an important part in future.

3 THE RETAILING ENVIRONMENT

♦ Adapting to change.

The essence of retailing is the management of change. It is a fast, volatile, dynamic and exciting profession that has grown into a billion Rand industry, employing thousands of people. Retailing deals with many societal changes. If a popular singer adopts a unique clothing or hair style, this influence will almost immediately be seen in the fashion forward sections of South African stores. The rate of change is accelerating in our society, profoundly affecting the way we live, dress, socialize, communicate, and yes, think about ourselves. Political trends have worldwide influence and competition from foreign markets challenges the retailer's ability to stay on the cutting edge of these changes. Retailers face the inevitable fact that quick and

appropriate response is the only way to stay current, to differentiate from competition, and to avoid becoming a me-too retailer. Retailing is one of the most sophisticated businesses in our country –featuring state-of-the art computerized merchandise control and distribution systems, magical merchandise presentation, in-depth consumer and market research, and representation of merchandise from worldwide markets. The ever-present constant in this equation is change. Change is inevitable, and we are challenged by it every day. Growth, on the other hand is optional. Retail won't grow and expand as a profession unless we commit to trend (change) management. Retailers continually strive to understand their customers - to renew their marketing strategies or to replace them when they no longer serve their customers. Too many retailers exercise their egos by telling customers what is good for them. Marketers ask customers what they want and give it to them. Therein lies the major difference!

♦ **The macro-environment**

- **Social environment.** South Africa is characterized by a growing urbanization of the disadvantaged and the concomitant unemployment (Cooke 1990:65). To all intents and purposes the white, colored and Asian sections of the population can be regarded as urbanized. The greatest growth in urbanization is among the black population group. By the year 2000, over 70 percent of South Africa's population will be urbanized.

- **Economic environment**. The South African economy is adversely affected by violence. Schlemmer (1993:22-26) points out that there is a clear relationship between unrest and the economy. Violence has become South Africa's most critical issue and the major factor discouraging investment and tourism in South Africa and eroding economy.

- **Political environment.** Marketing decisions are strongly affected by the course of politics, especially the political pressures exerted by the ruling administration and its institutions.

- **Technological environment.** New technologies being developed with regard to retailing include electronic shelf-edge labels that are linked directly to the in-store computer so that prices can be changed automatically, wireless communications that will enable retailers to be more flexible in the layout of their stores, and Super Tag, the radio frequency identification system recently developed by the CSIR, which promises to allow users to "read" the entire contents of a truck in seconds without the need of running each item past a scanner, and it even promises to read all the differently priced items in a supermarket trolley.

- **International environment.** Technological innovation in the fields of transport and communication has brought the nations of the world closer in terms of distance and time. Organizations that operate internationally find themselves in a far more complex business environment because every country has its own unique environmental factors, with its own technology, culture, laws, politics, markets and competitiveness, different from those of other countries.

In the light of the above discussions, some future perspectives of trends in retailing in South Africa are now presented.

4 FUTURE PERSPECTIVES IN RETAILING

This discussion is largely based on the Management horizons vision of retailing to the year 2000, in its report: Retailing 2000.

4.1 The changing nature of change

The Greeks had a better understanding of change than we do. When something changed, people took notice. From the Greeks we learned that all change has two sides to it. Change brings both threat as well as opportunity. Twenty years ago, the nature of change changed. Alvin Toffler captured the changing nature of change in his book Future Shock. Toffler's basic thesis was that the pace of change was accelerating. The present was changing so rapidly and would look so different from the past that few people would recognize it or be able to cope with it. We were all going to suffer the equivalent of culture shock. Not only is change accelerating, but it is also becoming much more erratic. Change is now out of control. Where change in the past has been more predictable, controllable, simple and understandable, change is increasingly becoming unpredictable, uncontrollable, complex and incomprehensible. While many things will change over the next five years, there are two dominant forces of change that are sending the retail industry out of control. They are technology and the cost of

qualified people.

♦ ♦ **Technology and the Informationisation of retailing**. The price/performance ratio of technology is dropping by roughly 50% every 18 to 24 months. As technology permeates society, retail channels of distribution, from raw material supplier to the final consumer, are being transformed in terms of power, communication and the ability to add value. Today, the informationisation of retailing through technology is transforming the business from one driven by distribution, logistics and location to an information-driven business.

The drop in the price of technology is splitting the economy into the bit-based economy and the atom-based economy; the digital, cyberspace economy and the real, physical economy. While the real economy is subject to the traditional laws of economics, the business cycle, government control and direction, the virtual economy is not. While the physical economy will contract over the next four years, the digital economy will experience exponential growth. For retailers to survive to the end of the decade, they must grasp this global transformation and become more a part of the digital economy.

♦ ♦ **Technology and the Changing organization of work**. While the price of technology is declining the need for highly qualified people who can understand and take advantage of this technology, along with their price, is going through the roof. The price of higher education is one of the fastest growing segments over the past few years and will continue to be in future. Putting a child through school and university will be the largest single investment many middle class households will make. At the same time, the return on education has never been higher. The income differential between the university-educated and the non-educated has grown and will continue to do so. This places an extra burden on universities such as Unisa to offer education which is of benefit to society.

Within the context of the changing nature of change, the global trends with which retailers will have to contend, are now discussed.

4.2 **The Lure of Globalisation**

With the passage of NAFTA and GATT, as well as political developments in the rest of the world, the momentum towards globalisation will accelerate. The expansion of free trade will bring down tariffs, adding to the deflationary pressure in all retail channels. It is anticipated that

some South African-based retailers will look overseas for opportunities arising in the rest of the world. Retailers such as Pick 'n Pay and Pepkor are already leading the way in this regard.

4.3 **Privatization of the public sector**

With the decline in the role and ability of government to address social problems, the private sector will increasingly take over tasks that were once the responsibility of government. For retailers, this will require a larger role in education and training. Basic skills in reading, writing and arithmetic can no longer be assumed. Career education, even for the lowest levels of the organization, will become a lifelong endeavor. Education will become computer-based, interactive and more entertaining. Here not only retailers themselves but also universities will play a very active role in training retailers, especially the traditional informal retailer.

Public safety and police protection increasingly will become a private sector responsibility. Limited access to neighborhoods and malls will become more commonplace, leading to experimentation with "membership malls."

4.4 **Deflating the Domestic economy**

The most important change in the day-to-day operational business environment for retailing is the shift from inflation to deflation in the prices for goods. With fewer rands chasing more goods, prices have to fall. The growth in free trade is also contributing to deflation by expanding the sources of global supply and reducing tariffs on many of those goods as they are imported into South Africa. The growth of the digital economy as a share of the total economy is also driving prices downward. In the digital world, where the marginal cost of production approaches zero, competitive forces will drive all prices down.

4.5 **Stability, Modest Recessions, and Enormous Potential for Growth**

The notion of limits to growth is grounded in a physical view of the world. As more and more economic activity shifts from physical to digital, from atom-based to bit-based, the primary limits to growth become human attention and imagination. There are few physical limits to growth in a bit-based digital economy where the marginal cost of producing an additional unit of output approaches zero. Recessions are also growing milder because the more cyclical, atom-based, elements of the economy, like housing business investment and car sales, are becoming a smaller share of economic activity. The exponential growth of digital-based activity puts an additional safety net under the economy.

4.6 **Technology and the importance of place**

For the growing number of knowledge workers who can operate in a virtual world, technology will greatly expand the choice of where to live. Telecommuniting will liberate workers from the confines of a specific location. It will allow workers to define their own work spaces, working conditions, and even hours of work. The shift to virtual work space will reduce the importance of location for conducting businesses. It will redefine the concept of a good location. Quality of life considerations will take on greater importance in deciding where to locate. As a result, population growth will shift. Growth will occur in the cities, where access to the arts, amenities and community will attract people.

4.7 **Falling real estate prices**

The dramatic shift in consumer shopping away from the regional mall toward freestanding category killers is changing the face of retail real estate. As technology undermines the value and importance of location, commercial real estate prices in general will drop. Over the past fifteen years, retail space has grown faster than both population and consumer demand. That trend cannot go on forever. A decline in retail space will begin to restore the balance between supply and demand.

4.8 **The Malls get mauled**

The combination of industry consolidation and the shift in market share away from store retailing will produce a decline in the demand for retail space. Nowhere will that decline in demand be greater than at the regional mall. Regional malls have become sterile, overly controlled environments that have experienced a dramatic loss in market share. This process will accelerate over the next few years as the malls become magnets for teen crime, forcing mall management into even more draconian measures to control the interior environment of the mall.

4.9 **Urban retail renaissance**

Inner cities are slowly gaining population. That trend will accelerate over the next few years. Empty nesters and Generation Xers are becoming urban pioneers. The gains in population, coupled with renewed interest by developers, are putting inner city retailing on the comeback trail. In South Africa this will lead to a new type of poor working class living close to their work.

4.10 **Rise of the blade runner society**

South African society will continue to splinter into smaller and smaller groups that are more diverse in their education, wealth and income, ethnicity, characteristics, tastes and shopping behaviors. The traditional middle class family will decline in numbers and importance. The fastest growing division in society will be along the lines of educated versus not-educated. The educated will live and work in a controlled-climate, controlled-access world comminuted by information and knowledge. They will be engaged in the manipulation of images. Theirs will be a world of bit-based digital reality. The uneducated will live in a world dominated by physical labor and the physical reality of the atom-based world. Neither access to nor the environment of their world will be controlled.

The wealthy, the educated, those who live in the digital world will increasingly remove themselves from the physical world. They will control public access to where they live, where they work, where they shop and where they play. They will shop more by catalog and other electronic means.

4.11 **Rise of the single person household**

Despite all the political rhetoric about family values, the nuclear family will decline as a household unit. Rising rates of divorce, increased work demands particularly on women, declining government financial support for families, and rising costs of child care will all take their toll on the nuclear family. At the same time, the number of single person households will rise. The demographics of aging alone guarantee a rise in that number, as do a rising divorce rate and the declining level of societal trust.

4.12 **Youth: more fashion, more violence**

In addition to single person households, population groups will experience sharp growth over the next few years, with significant consequences for retailers. The number of teenagers will increase. An increase in the number of teens points to a renewed interest in fashion, an improved business environment for cars and sporting goods, a rise in the consumption of alcohol as well as a sharp increase in drug use, crime and violence. Retailers will have a large pool of entry level workers to draw from, but will face an unending challenge dealing with the problems of shoplifting and mall crime. The sharp increase in the number of young people also points to an acceleration in the use of technology. This is a generation that has been brought up on information technology and is very comfortable with it. The constant demand for what's new by this generation will accelerate the pace of technological, business and societal change for everyone.

4.13 **The middle aged: Changing needs**

The number of middle-aged South Africans will increase over the next few years. The chief barrier to greater consumer spending by this group is not so much income as it is energy. This group is more time and energy-constrained than they appear. Facing the high cost of education for their children and the need to increase savings for their own retirement, spending at retail will be a declining priority. Future corporate downsizing will be aimed at this group, forcing them to rethink their personal career group will be the source of many new business startups.

4.14 **Shifting Social values and shopping behavior**

The sharp rise in violence will change the shape of society and retailing. More violence will lead to more attempts to control access to malls and less public space that has free, uncontrolled access. The rise in violence will also lead to a decline in social trust and civility. Mall developers will be under great pressure to limit access to their malls as a means of creating a shopper friendly environment.

4.15 **Electronic cash: the privatization of monetary policy**

Electronic cash, a medium that enables individuals and businesses to make commercial transactions that are electronic as well as anonymous, will spread over the next few years. This will greatly facilitate the expansion of electronic commerce on the Internet's World Wide Web. The growth of e-cash will take the control of monetary policy out of the hands of the Reserve Bank by giving retailers the ability to create money and expanding the ability of banks to do so. It will also reduce the ability of the Internal Revenue Services to collect income taxes, further undermining the economic and financial role of government. An era of less taxes is surely something to look forward to.

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VALUE ORIENTATION: HOW REGIONAL SMEs COMPETE AND GROW

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ABSTRACT

The important contribution of small and medium sized enterprises (SMEs) to regions and regional development has been widely acknowledged. However, little is known about how regional SMEs compete and grow. This study explores strategies, characteristics and impediments of high growth SMEs in the South West region of Western Australia. Case studies were undertaken of 10 fast growing and award winning regional SMEs. One of the most striking findings is that successful SMEs are value-oriented. Their successes rely not only on their capacity and resources, but more importantly, on the implementation of a range of value-oriented and interconnected activities in the areas of product offering, service, delivery, marketing and customer relations.

This study also exemplifies the processes by which regional SMEs are building a competitive market position and achieving fast growth. It examines the value-oriented approach employed by these fast growth firms in a regional setting, offering a new perspective and greater insight to how regional SMEs compete and grow.

INTRODUCTION

With reductions in tariffs worldwide, regions, rather than countries, are becoming the relevant units for competing in the world. Australia is no exception to this. The regional economy has played an increasingly important role in Australia's economic development and well-being. In Western Australia, for example, although there is only 27.7 per cent of population living in the regions, their employment and GDP accounted for 29 and 33.7 per cent respectively of the State in 1994 (Department of Commerce and Trade, 1995). Taking these into consideration, GDP per capita in the regions was 133 per cent of that in the Perth metropolitan area in 1994. Since the early 1990's, there has been a renewed recognition, both from Federal and State government, of the importance of regional development to the Australian economy (Bureau of Industry Economics, 1994; Industry Commission, 1993; McKinsey & Company, 1994; Wilson, 1990).

Small and medium enterprises (SMEs) often suffer from several disadvantages because of their size and resources, although they have many advantages over their larger rivals, such as a simpler management structure, an innovation-oriented management style, closer relationships with their customers, and flexibility in production. Regional SMEs, particularly, not only have those disadvantages attributable to its size and limited resources, but also suffer from some unique disadvantages because of their geographic location and small market size. With increasingly fierce competition both from international and metropolitan rivals, how do regional SMEs compete and grow within a regional environment? What competitive strategies are regional SMEs adopting? What are the impediments to the growth of regional SMEs? This

paper addresses these important issues.

This paper is organised as follows. First, the concept of value and its components are defined and elucidated based on existing studies. Second, the research method employed is described.Next, findings are presented and discussed. Finally, conclusions are drawn based on the findings.

The Concept of Value

Although much research has been undertaken into the concept of value (Sweeney & Soutar, 1995), it is still regarded as “an elusive construct” (Zeithaml, 1988, p.2) and “difficult to measure”.

Zeithaml defined value as representing “a tradeoff of the salient give and get components” (1988, p.14). She further proposed that the benefit, or `get', components are multi-faceted including salient intrinsic and extrinsic attributes, quality, and other relevant high order abstractions. The sacrifice or `give' components, as she suggested, include monetary and non-monetary prices, such as time, energy, and efforts. Therefore, for product (or service) `A', its value (V) can be expressed by the following equation:

Va = Benefitsa - Sacrificesa (Eq. 1)

We name this the value equation. While Zeithaml (1988) recognises that both benefits and sacrifices involve multiple factors, the author did not discuss the effect of these factors on the perceived overall benefits and sacrifices.

What are the factors in the value equation? Where should firms search for these factors. Firms can focus their effort on their customer's entire experience, or “consumption chain”, with their products and services, rather than on the products or services themselves (MacMillan & MaGrath, 1997).

While value is recognised as comprising of activities in the whole consumption chain, the effects of each activity individually on the value can be different. In conceptualising value, Sawyer and Dickson (1984) proposed that each activity in the value equation can make a different contribution to the overall value and suggested each activity should be weighted in assessing its importance to the overall value of a product or service.

The relationships between the activities in the value equation have recently been under scrutiny in the strategy literature. Porter (1996) argued that a competitive strategy is about deliberately selecting a unique set of activities to “deliver a unique mix of value” (p.64) and that “strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage” (p. 73). He then went on to discuss and exemplify the relationships between the activities and suggested that there are three types of fit among business activities: simple consistency, reinforcing and optimisation of effort.

Not only should firms choose a set of activities to gain competitive advantages, but they can create new activities in the value equation to benefit consumers and to create new competitive edges, which is called “value innovation” (Kim & Mauborgne, 1997). Kim and Mauborgne (1997) further suggested that there are three platforms on which value innovation can take place: product, service, and delivery, which is similar to the concept of a “consumption chain”,

as suggested by MacMillan and McGrath (1997).Drawing on the extant studies of value, it can be concluded that the benefit and sacrifice components in the value equation can have different contributions to the overall value of a product or service, but also can interact with each other to produce synergistic effects. Thus, the benefit component (fb) can be expressed as:

fb = b1B1 + b2B2 + b12B1B2 + b3B3 + ... + bnBn (Eq. 2)

Where bi is the weighting for activity Bi, and bij is the weighting for the interactive effect of Bi and Bj. The values of bi and bij could be positive or negative, or if there is no interaction between activities Bi and Bj, zero. A more general form for expressing the benefit component is as follows:

$$f_b = \sum_{i=1}^{n} b_i + \sum_{\substack{j=1 \\ j \neq i}}^{n} \sum_{\substack{i=1 \\ i \neq j}}^{n} b_{ij} B_i B_j + \sum_{\substack{k=1 \\ k \neq i \\ k \neq j \\ i \neq j}}^{n} \sum_{\substack{j=1 \\ j \neq i \\ j \neq k \\ k \neq i}}^{n} \sum_{\substack{i=1 \\ i \neq j \\ i \neq k \\ j \neq k}}^{n} b_{ijk} B_i B_j B_k + \ldots + b_{123\ldots n} \prod_{i=1}^{n} B_i \qquad \text{(Eq. 3)}$$

By the same token, the equation for the sacrifice component (fs) is:

fs = c1S1 + c2S2 + c12S1S2 +c3S3 + ... + cnSn (Eq. 4)

Research Methodology

Since the focus of this research is on the competitive strategy, which is often regarded as being different from one firm to another, and little literature exists on issues relating to regional small business growth and competition, this study adopted a case study method. Although in the past case studies have been considered as only appropriate for exploratory research (Chetty, 1997), recent studies have demonstrated that they are also suitable for descriptive research and theory testing and generation (Eisenhardt, 1989).

In order to enhance the generalisability, or “analytical generalisability” with the case study approach argued by Yin (1989), a multiple-case study design was adopted. In identifying cases for this study, a regional small business awards scheme was used with all winners over the past five years considered to constitute the sampling framework. This approach is similar to those used in earlier studies examining industrial innovation (Langrish, Gibbons, Evans, & Jevons, 1972) and entrepreneurship (Jones-Evans, 1996). Specifically, a manager of a regional business enterprise centre was asked to nominate 10 award-winning manufacturing firms for inclusion in this study.

These 10 manufacturing firms were interviewed over a period of two months from January to March 1998. These interviews lasted from one and half to three hours. All interviews were taped and transcribed. The interview instrument was a series of pre-prepared questions, covering the entrepreneur's background, a brief history of business development, major business activities, business competitive advantage and market positioning and impediments to growth. These questions were developed based on the resource-position-performance framework proposed by Day and Wensley (1988). Most of the questions were open-ended. Also relevant materials, such as company brochures, promotional fliers and product catalogues, and objective data, such as turnover, number of employees and profits to triangulate the findings were collected during the interviews. In the case of five firms fieldvisits

were conducted to gain some feelings of their business operations. The profile of these 10 firms is shown in Table1.

Table 1 The Profile of the Participants and Their Businesses

No.	Owner's Education	Background	Age	Ownership	Staff	Turnover	Growth rate	Year of Start
1	1: Year 9, plus Apprenticeship 2: Year 12, plus Diploma	Technical	30-40	Partner (2)	6	540,000	55% over the past 8 years	1987
2	Year 12, plus 3.5 year's apprenticeship .	Technical & Business	40-50	Family (4)	130	14 m	22% over 30 years	1967
3	Year 12	Technical	40-50	Partner (2)	8.5	450,000	20% over the past 8 years	1989
4	Year 12	Business	50-60	Partner (2)	25	2 m	21.7% over 11 years	1986
5	Year 12	Business	40-50	Partner (2)	65	8.5 m	10-15% over the past 5 years	1980
6	Year 12, apprenticeship	Technical	40-50	Partner (2)	5	360,000	20-50% over past 6 years	1991
7	1: Year 12, 2: Year 12 plus apprenticeship	Technical & business	30-40	Partner (3)	12	1.8 m	20 % over past 2 years	1995
8	Year 9, plus 5 year's apprenticeship	Technical	30-40	Partner (2)	6	560,000	25-33% over the past 8 years	1990
9	Year 12 plus apprenticeship	Technical	20-30	Partner (2)	21	1.8 m	57% over the past 3 years	1989
10	University Degree	Technical & business	40-50	Public, Partner (6) at the beginning,	350	60 m	50% over the past 6 years	1975

The overall data analysis procedure was developed based on the work of Huberman and Miles (1994), which focused on data reduction, data display, and conclusion drawing and verification. Emphasis was also placed on map analysis procedures (Carley, 1993), which aimed to extract concepts and the relationships between them. Specifically, the interview transcriptions were analysed with a qualitative data analytical program - NUD-IST (Qualitative Solutions and Research Pty Ltd, 1997), which is used to code data, display relationships between variables investigated within a case, and to identify patterns across cases.

Findings and Discussions

To be competitive and successful, most firms, particularly small ones, have to be uniquely positioned. This requires them to choose a set of competitive activities, either consciously or unconsciously, and provide good values to their customers. Table 2 summarises theresources, markets and competitive activities undertaken by each of the 10 manufacturing firms researched.

Table 2 The Market, Resources and Perceived Competitive Advantages of the Participants' Businesses

Firm	Resources	Market	Competitive advantages
1	Technical expertise. Technical problem-solving skills	Mainly local mining industry (MI)	High quality; Quick turnaround; Good at solving technical problems; Specialisation or differentiation; high quality with full written reports. Employ young qualified staff; Easy customer access to employees (flat organisational structure); Good customer relationships
2	Technical, professional management; advanced technology. Big financial and capital resources	State-wide MI (15 large ones), processing industries, oil & gas industries.	"The only one choice" in the region; Short lead time High quality; Competitive pricing; Closeness to market Wide variety of products; Innovative; Good communication with clients; Internal IT technology; Service exchange; Enhance performance; Customer loyalty
3	Technical expertise, banking experience	Local mining and transport industries	Quick turnaround; Pricing relatively low and tailor quality to customer needs Specialisation by getting license; Good customer relationships
4	Rich knowledge about the uses and government and industry procurement procedures.	Government and large firms	Provision of a "one-stop" shopping service, including fire fighting, fire prevention, and training, to its clients.
5	Professional management, technical expertise, innovative.	Domestic & USA markets	High quality of product; Good design; Good relationship with major distributors; Export
6	Technical skills	Local government organisational and residential building and construction markets	Good design; Customer focus; Provision of a package of service to customers, including carpentry, plumbing, electrical, and purchasing services.
7	Technical skills, good contacts with users.	State-wide government organisations.	High quality; Tailor quality to customers' needs; Flexible to the client's requirements
8	Technical skills	Local MI	Quick turnaround; High quality; Low prices
9	Technical skills, professional management, advanced technology	State-wide mining and processing industries.	High quality; Advanced technology; Good cooperation with major clients (inventory control); Involving employees in management
10	Professional management, reasonably big financial resources.	State-wide MI, processing industries, oil & gas industries, nationwide	High quality; Advanced technology; Low price; Diversification.

Because the activities performed by each firm vary considerably, no patterns were immediately evident. However once a focus was placed on the relationships between activities, important patterns were identified. Indeed, it is the relationships among the activities undertaken that give firms competitive advantages. The following subsections examine and discuss the pattern of these relationships.

"Tug-of-war" Activities

One of the patterns of the activities observed is "tug-of-war". In other words, firms adopt a range of activities that are consistent with its strategy. Firm one, for example, offers repairs to mechanical parts and a rebuilding service to two large local mining firms. Given the importance of equipment to the mining industry, high quality of repaired or rebuilt parts and quick turnaround are crucial in serving this industry. The owners started their business offering rapid turnaround and high quality workmanship. To sustain these advantages, Firm one consciously employs young staff and established a flat organisational structure. Staff are not only given hands-on technical skills but are also encouraged to deal directly with clients. No appointments are needed for clients to see any workshop staff. Quality assurance has been implemented to reduce time for locating tools and raw materials. A full written report is attached to each job done stating the suspected cause of failure and the work completed. This enhances the image of high quality work. Moreover, participating actively in regional and State small business awards has also reinforced this image. We can see that all activities mentioned have been centred around the firm's position: high quality and quick turnaround. In other words, they are performing in line with the firm's strategy and acting like the team members in the "tug-of-war" game.

According to the value equation (Equation 1), the activities a firm undertakes could be oriented

to enhance customers' benefits, as illustrated in the previous example, they could also be directed to reduce customers' sacrifice. Firm six, for instance, is a family business in the renovation and maintenance industry. Because of the certified system in Australia, traditionally, house-owners who are renovating their houses have to first contact builders to have their renovations designed, then a carpenter is called in to do all the necessary carpentry work. Meanwhile, plumbers and electricians need also be contracted to arrange water system and electrical wiring. This requires much effort by the house-owners to coordinate various activities during the renovation. To make the situation worse, no one is responsible for the entire renovation project.

The owner of Firm six has recognised the inconvenience of this traditional practice to the house-owners and has tackled this problem by both making himself certified for more than one job (certified carpenter and certified plumber) and employing a certified electrician in his business. Moreover, he is also engaged in helping the house-owner design the whole innovation project. Due to the qualifications of himself and his employees, he is able to offer the house-owners a “one-shop” contract for the entire innovation project and is the only one in the local district offering this service. This “one-stop” service not only provides the firm with a competitive edge in the residential market, but also allows the firm to take almost all government contracts in maintaining local government buildings.

“Chained-up” Activities

A more competitive firm could not only undertake activities that are consistent, but also implement a set of activities that are inter-connected. Firm four, a fire-fighting equipment manufacturer, focuses on government and large organisational buyers, such as State and local government and mining companies. For fire-fighting, the buyers, particularly government and large organisational customers, usually not only need fire-fighting and fire prevention equipment, but also require an on-site maintenance service. Moreover, given that fire-fighting involves high risks for fire-fighters, training in the use of fire-fighting equipment, rescue and first aid are also important in the purchasing decision-making process. In other words, these buyers require a package of products, maintenance and training services.

Based on ten years' work experience as a government organisation fire-fighting coordinator and an industrial fire-fighting officer, the owner/manager first helped a local entrepreneur start up the firm and took over the firm two years late. Now the firm manufactures a wide range of fire-fighting equipment, including fire control equipment, fire protection and sprinkler alarm system, fire extinguishers, and breathing apparatus for fire-fighters. It also provides services of on-site maintenance, fire rescue and first aid training. The products and services the firm provided not only require good manufacturing technology, but also need solid understanding of users' needs and wants. Because of the interconnection of its products and services, competitors have found it hard to copy them. It is now the only fire equipment manufacturer providing a whole package of fire equipment and services to government and large organisations. This saves buyers much effort by reducing tendering paperwork and coordinating tendering activities.

Creating New Value-Added Activities

To be one step ahead of competition, firms also continue looking for new activities to add value for their customers. Firm two, for example, is a medium-sized engineering enterprise. It has long recognised the importance of lead time and superior quality in its customers' value chain

and positioned itself as a market leader. Competing with overseas equipment manufacturers of mining and processing equipment in the spare parts market, its geographic proximity to its clients and technical expertise have offered the company a cutting edge since its establishment. However, the company has maintained this market position by undertaking a series of important inter-connected activities. For example, state-of -the-art technologies have been brought in to maintain its high quality standard. A quality assurance system has been introduced to maintain a company-wide quality standard. An internal information system has been developed to reduce response time. The firm also employs highly qualified technical professionals to enhance its problem-solving skills and so to reduce response time.

More importantly, the firm has been pursuing the development of new products and services to add value for their clients. For instance, a new stock shop has been established to hold an inventory of those spare parts which cannot be quickly manufactured and to increase productivity of the technologies deployed, because of the economy of batch production of these spare parts; an innovative service, called “exchange service”, has been introduced over the last six years to replace clients' worn parts with new ones while the worn one is being repaired, and thus to maintain itsminimal lead time image in the industry. In addition, improved new products, called “enhanced performance products”, have been developed to extend non-failure time of the clients' equipment by improving the quality of the life-span of the possibly shortest life components in the equipment. Thus it reduce the client's overall cost of its operation. The owner/manager attributes these newly invented products and services to its competitive advantages , as he mentioned:

“Each time we'd come across somebody trying to get their market share back, we invented another system to hang on to it, so it's very much then in the mature stage where it's just battling for market share.”

Sources of Competitive Advantages, Growth and its Impediments

What are the sources of competitive advantages for regional businesses is another important area in examining their growth. Day and Wensley (1988) have proposed that one of the important sources is firms' resources. From Table 2, we can see that most of the firms interviewed have establish their competitive advantages based on their resources, both capacity and skills. This is very much in line with that proposed by Day and Wensley (1988). However, how these resources affect growth is rarely examined. Interestingly, if we look at Tables 1 and 2 together, we can see that those firms managed by owners with technical backgrounds, or “technical entrepreneurs”, have grown their firms to a limited size, usually 10-20 employees, while those firms led by owners with business background could grow to a much larger size.

Findings from the interviews have revealed that most of the technical entrepreneurs have spent most of their time working as an engineer or technician in their workplaces and generally lack managerial skills and knowledge. At the early stage of their growth, they are usually constrained with some basic management skills, such as bookkeeping and pricing. They can spend a little time learning and then solve these problems. However, as their businesses grow, they are faced with more sophisticated issues in managing their firms, such as human resources management, organisational structure and business planning. The lack of management skills and knowledge has become a severe impediment to further growth. As one of our interviewees expressed:

“We actually started with not knowing how to record times on jobs...The biggest two problems are the lack of knowledge initially and then as long as that comes - a lack of contact to go the next step... ... now the impediment is not knowing when or how to take the steps. A lot of it is intuition - we've had to rely on intuition rather than knowledge ... ... I feel we've made the right steps at the right time but that's basically because (we have) been in such close contact with the customers that we know.”

Another interviewee has the same feeling, as he said:

“Actually I was getting to the stage where I thought I'd have five people on the books, that was the ambition. I thought any more than that would probably be too much of a headache. I'll probably try and keep it around what we've got now, probably one more if we have to. It's manageable like that.”

Therefore, the relationship between technical skills and growth, particularly in firms managed by technical entrepreneurs, may be dependent on their growth stages. In the start-up stage, these technical skills are probably the most important driving forces for growth. As the firm grows, the effect of the entrepreneurs' technical skills on growth are diminishing, and managerial skills have more important impacts on their business growth. This has imposed a big challenge to technical entrepreneurs: how can they relinquish their control in the workshop and successfully transit from a `work-in-it” tradesperson to a “work-on-it” manager?

Conclusions

With increasingly tough competition in the regions, how do regional SMEs compete and grow? To answer this question, we have examined 10 fast growing and award-winning SMEs in a region of Western Australia.

Our findings show that one way for the regional SMEs to compete and grow is to understand the customers' values and to organise their business activities around these values. To do so, they need to look at their resources and position themselves against their competitors.

Value is composed of two components: benefits and sacrifice. However, there are many activities that can add value for customers. One challenge to SME managers is how to choose a set of activities that can provide their businesses with competitive edges? Although these activities can be found from the entire consumption chain of their products and/or services, it has been demonstrated that most SMEs have considered their resources in selecting the value-added activities.

With regard to the activities undertaken, regional SMEs can adopt activities that are consistent with their strategies, they can also commit themselves in a set of inter-connected activities, or they may create new value-added activities for their customers. It has been demonstrated that all these activities offer the firms competitive advantages and have positive effects on their business growth.

A significant challenge facing small business owners pursuing a value-orientation strategy is how to ensure the managers' perceived value conforms to that of their clients. There may be a significant difference between the manager's and consumer's perceptions of value, as pointed out by Morgan (1985) in the case of perceived quality.

The effect of the owners' technical skills on growth hinges on the stage of their business development. At the early stage, these technical skills have positive impacts on growth. However, managerial skills play a more important role in subsequent development stages.

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SPONSORS AND THE PERFORMANCE OF NEW VENTURES

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ABSTRACT

There has been considerable debate in the literature about the comparative performance of company-sponsored (CVs) and independent new ventures (IVs) and how corporate sponsorship affects performance. While empirical studies have shown either no difference in performance between CVs and IVs, or that IVs outperform CVs, study of the comparative performance of IVs and CVs has been based predominately on samples of surviving companies. Moreover, the resources that IVs and CVs bring to the venture at startup and their subsequent effect on performance remain to be fully investigated. This paper uses a sample of 220 companies from startup, consisting of both IVs and CVs. Their performance, measured as a market-based rate of return, was tracked over a number of years, during which some remained in the industry, some were taken over, some left the industry and some failed. For all of these companies, resources at listing of IVs and CVs were compared, and the effect of differences in resources on company persistence and performance was analysed. Amongst other matters the analysis in this paper suggests that there is potential for CVs to outperform IVs, because they generally begin with larger resource bases. However, the analysis also shows that the effect of differing resources on performance is likely to vary with the industry or the stage of development of the organisation.

INTRODUCTION

New ventures have higher failure rates than established businesses (Freeman, Carroll and Hannan, 1983). The higher failure rates have been attributed to the liability of newness and the liability of size. Early theorists suggested that new ventures that are sponsored by larger established organisations (CVs) can avoid some of the problems associated with newness and small size, and perform better than independent ventures (IVs). Empirical studies (reviewed in the next section) have shown either no difference in performance between CVs and IVs or that IVs outperform CVs. These contradictory findings may arise because these studies are based on surviving firms only. Other possible explanations are found in studies that examine the determinants of success in CVs, and suggest that corporate venturing may have disadvantages that outweight the benefits of sponsorship and result in poor performance of CVs. This paper attempts to fill a deficiency in the existing literature and focuses on two major issues that have arisen out of previous studies:

• the comparative performance of IVs and CVs, taking into account those who have not survived; and

• the resources that IVs and CVs bring to the new ventures at startup and the effect of these resources on performance.

The study uses a sample of 220 companies (54 CVs and 166 IVs) that listed during 1983-87 and were engaged in mineral exploration. Two measures of their performance are used: a *persistence measure* describes whether companies are still listed, or have been taken over, left the industry or failed; a *financial performance measure* provides an internal rate of return ratio (IRR) based on the initial price of shares, subsequent adjustments, and dividends and the market price at December 1992, expressed as a ratio of the mining index for the same period. The paper uses a combination of qualitative and quantitative methods to explore the relative performance of CVs and IVs.

REVIEW OF THE LITERATURE

It was initially theorised that businesses started by established firms would perform better than those formed by independent entrepreneurs. Hines (1957) reasoned that established firms would have more information about opportunities for profitable entry into markets than new ventures, better access to productive resources and markets, and better knowledge of the markets. When they sponsored new businesses they could therefore acquire resources, establish markets, and attain economical scales of operation more easily than firms started by individuals.

Empirical studies comparing the performance of IVs and CVs have not confirmed Hines' theory. Weiss (1981) compared the performance over the first eight years of operation of surviving firms started by large successful companies with those started by individual entrepreneurs. He found that IVs reached profitability faster than CVs, their sales grew faster, and they were more profitable in the first eight years of operation. Weiss argued that the observed poor performance of CVs was because of poorer initial strategies, less effective corrective measures, and poorer weeding out of low performing CVs. He concluded that new ventures that are treated from the start as `stand alone' are more likely to perform well.

In a study of 230 surviving equipment manufacturing firms, McDougall, Robinson, and DeNisi (1992) incorporated origin in a model of new venture performance which also included measures of strategy and industry structure. They found that new venture performance was better explained when all three factors were used in a statistical model, but origin was only a secondary factor, more important in explaining market share than higher profitability. McDougall et al suggested that the disadvantages associated with IVs no longer exist, that there has been so much written about intrapreneurship since the study by Weiss in 1981 that CVs may now be managed in a more entrepreneurial way, the availability of capital to smaller ventures may have changed, and that captive markets for the companies in the study may not have been important.

Zahra (1996) in a study of 112 surviving ventures in the biotechnology industry, found that IVs outperformed CVs on three of the four performance measures used. The reasons he suggested were that owners of IVs create an atmosphere where risk taking is encouraged, and that the costs of getting resources from company sponsors outweigh the benefits. Zahra also found that CVs and IVs appeared to gain competitive advantage from different technological strategies. Differences in technology strategies of IVs and CVs were also reported by McDougall, Deane and D'Souza (1992) in a study of the computer and communications equipment manufacturing industries.

As all of the these studies comparing CVs and IVs are based on surviving businesses, it is not possible to determine if there are difference in `weeding out' of poor performers as suggested

by Weiss (1981). Not all exits of firms are failures and there may be differences in the takeovers, mergers or voluntary exits of IVs and CVs. Hence studies of surviving companies may give misleading measures of relative performance. That is why this study assesses performance using a sample of companies formed, and assesses performance of companies who are no longer operating in the industry as well as those who have persisted.

Reasons have been suggested for the poorer than expected performance of CVs in studies that compare successful and unsuccessful CVs. Numerous possible disadvantages of corporate sponsorship have been identified. The sponsoring company may not possess or have access to skills or resources that are appropriate to the new venture (Roberts, 1980). For example, an entrepreneur to manage the new venture is unlikely to be identified within the staff of large companies (Hanan, 1976) and the sponsoring corporation may not have experience dealing with the customers of the new venture (Von Hippel, 1977). Even if the parent does possess skills and resources appropriate for the new venture, they may not be easily transferred to the new entity. The resources may not be tradeable, or they may be more valuable within the parent firm than in the new venture (Peteraf, 1993). The transfer or sharing of resources or skills between the parent and the new venture may require management skills that many parents do not have, or the style ofmanagement that would allow the new venture to cooperate with the parent may be incompatible with the entrepreneurial activity found in successful new businesses (Miller and Camp, 1985). New companies may not be able to reap the benefits of newness or smallness, namely flexibility and innovation, unless they are allowed to operate independently of their parents (Roberts, 1980) or are made to operate independently (Van de Ven, Hudson, and Schroeder, 1984). In summary, these studies comparing successful with unsuccessful CVs recognise the strengths of IVs and focus attention on the disadvantages of corporate sponsorship.

The second part of this study examines the resources controlled by IVs and CVs at formation and the effects of these resources on subsequent performance. It is not clear from the studies to date if CVs do begin operations with more resources than IVs, or if the resources they acquire are valuable to them. The second part of this study therefore compares the resources of new CVs and IVs to determine if they in fact do differ in quantity or in their apparent appropriateness to the new venture.

PERFORMANCE OF CVs AND IVs

The status of the sample of 54 CVs and 166 IVs (which listed during 1983-87) at the end of December 1992 are compared (Table 1). There are no statistically significant differences in the status of the two groups at the end of 1992 (chi-square test, using a 5 per cent level of significance). Nor are there any significant differences in the pairwise comparisons of internal rates of return ratios (IRR) of CVs and IVs who merged, left the industry, or failed, and hence no evidence of different `weeding out' of poor performers (student t tests, 5 per cent level).

Table 1 - Status of CVs and IVs at 31.12.92

	CVs			IVs		
Status at 31.12.92	No of Cos	%	IRR	No of Cos	%	IRR
Still listed 31.12.92	34	63%	.88	116	70%	.84
Left the industry	5	9%	.86	9	5%	.94
Merged /taken over	7	13%	.94	14	9%	.89
Failed	8	15%	.43	27	16%	.22
Total	54	100%	.82	166	100%	.75

The records of companies were checked to find the reasons for leaving the industry or for

merger or takeover. Some companies apparently left the industry because they had failed as explorers, but there were some that had developed businesses in the extractive industries but were no longer mining companies. Most of the companies that voluntarily left the exploration industry moved to the industrial board as property investors, equity investors, or high-technology computer industry businesses, and no major differences in destination were noted between CVs and IVs. Similarly, companies merged or were taken over not only when they were successful explorers but lacked the finance to develop a discovery themselves, but also when they were unsuccessful and could not raise funds for further exploration. Six of the seven CVs that were taken over or merged remained under the control of their original promoters. Only two of the fourteen IVs were taken over by their original promoter. The takeovers of IVs were often by larger joint venture partners or financiers. For both CVs and IVs, the takeovers probably reflected the difficulty faced by small companies in raising capital for large capital intensive projects when (business) environmental conditions were unfavourable.

Preliminary analysis suggested that the variables affecting performance differed substantially between companies who had advanced projects and those who had tenements at an earlier stage of exploration. The performance of these groups is described in Tables 2 and 3 using companies for which the detail is available. After taking into account the stage of development of the companies, there were still no apparent differences in overall performance of CVs and IVs.

Table 2 - Status of CVs and IVs at 31.12.92 – Mean Performance of Companies at an Early Stage of Exploration

	CVs			IVs		
Status at 31.12.92	No of Cos	%	IRR	No of Cos	%	IRR
Still listed 31.12.92	27	69	.90	88	75	.84
Left the industry	3	8	1.01	8	7	1.03
Merged /taken over	4	10	.88	8	7	.82
Failed	5	13	.40	13	11	.20
Total	39	100	.84	117	100	.78

Table 3 - Status of CVs and IVs at 31.12.92 – Mean Performance of Companies with Advanced Projects

	CVs			IVs		
Status at 31.12.92	No of Cos	%	IRR	No of Cos	%	IRR
Still listed 31.12.92	7	50	.80	27	59	.86
Left the industry	1	7	.52	1	2	.20
Merged /taken over	3	21	1.03	5	11	.97
Failed	3	21	.47	13	28	.26
Total	14	100	.76	46	100	.69

RESOURCES AT LISTING

In the companies selected for study, the major resources listed on the balance sheets are cash and investments, and mineral tenements. The companies have a board of directors which almost always includes the promoter or members of the board of the sponsoring company, and senior management staff are usually also board members. Mineral tenements are notoriously difficult to value, especially those at early stages of exploration (Lawrence, 1994), and the variety of valuation methods used in the prospectuses makes tenements very difficult to compare. To compare the companies at listing, attention is therefore focused on the **promoter**, the **board of directors** and the **net tangible assets** (mainly cash and investments) held at listing.

The Promoter

In examining the effect of corporate sponsorship on performance, it was recognised that there is variety in the sponsors of both IVs and CVs. There is a broad literature on the differing characteristics of individual entrepreneurs, with evidence that new ventures with entrepreneurs with a background in the industry of the new venture perform better (Brush and Hisrich, 1988; Vesper, 1990). Corporate sponsors also come from a variety of industrial industries. In the sample of companies in this study, some of the new ventures were sponsored by companies who were either not listed in Australia, or were listed on the industrial boards of Australian stock exchanges, or by individuals with no technical background in the mining industry. These sponsors were considered less likely to have access to the skills and resources required by the new ventures than Australian companies or individuals involved in the mining industry.

The new ventures were classified into different groups based on the type of industry their sponsor operated in, and the technical background of individual sponsors, and the mean performances were compared (Table 4). Companies sponsored by geologists or prospectors or those with exploration company sponsors performed significantly better than the companies with small mining company or mining sponsors. The small group of companies sponsored by large mining companies performed noticeably better than all other groups.

Table 4 - Comparison of the Mean Performance of CVs and IVs by Type of SponsorCVs

CVs			IVs		
Type of Promoter	No of Cos	IRR	Type of Promoter	No of Cos	IRR
Exploration company	27	0.82	Geologist/prospector	69	0.85
Small mining company	14	0.73	Mining professional/ mining industry person	29	0.64
Large mining company/ mining investment company	6	1.21			
Industrial/overseas company	7	0.65	Non-mining professional or businessman	56	0.71

IVs

Since almost three-quarters of the companies were at an early stage of exploration, these results may merely reflect the match between type of promoter and stage of development. The type of sponsor was therefore related to companies of different stages of development (Table 5) using companies for which the detail was available. As the table illustrates, new ventures with large mining sponsors or geologist, prospector, or small exploration company sponsors are high performing groups, regardless of their stage of development.

Table 5 - Comparison of the Mean Performance of Companies by Stage of Exploration

	Companies with Early-Stage Projects		Companies with Advanced Projects	
Type of Promoter	No of Cos	IRR	No of Cos	IRR
Geologist, prospector, or small exploration company	77	0.83	19	0.89
Mining prof., person with mining background, or small mining co.	23	0.71	19	0.62
Large mining/investment company	4	1.11	2	1.41
Non mining prof., businessmen, industrial/overseas company	44	0.78	17	0.54
Total	148	0.80	57	0.71

and

The industrial organisation literature emphasized that one of the major benefits of corporate sponsorship would be in raising capital for new ventures (eg Hines, 1957). The effect of corporate sponsorship on the acquisition of capital was examined by comparing the net

tangible assets of the CVs and IVs at the time of listing (Table 6). Since it would be reasonable to expect that the amount of resources raised would be influenced by the perceived legitimacy of the sponsor company, the assets at listing were calculated for different types of sponsors. As expected, as the sponsoring company becomes more established in the industry, the amount of capital of the new venture increases. More specifically, CVs sponsored by large mining/investment companies or by small mining companies had noticeably more assets at listing than IVs and CVs sponsored by overseas/industrial or exploration companies.

Table 6 - Comparison of Net Tangible Assets of CVs and IVs at Listing

Type of Company	Number of Companies	Mean Assets $m
IV	164	2.37
CV - Exploration company sponsor	27	2.26
CV - Small mining company sponsor	14	4.83
CV - Large mining company/ mining investment	6	12.27
company sponsor		
CV - Industrial/overseas company sponsor	7	2.84

The Board of Directors

Another way that IVs might differ from CVs is in the board of directors they bring into the new venture. The boards of CVs would be likely to larger in size, have more experienced member, and in composition reflect the interests of the parent company**.**

Public listed companies in Australia are required to have a minimum of three directors on their board. The average size of boards of the top 250 listed companies is 8-9 directors (eg Alexander and Murray, 1992), but many newly listed companies operate with only 3 or 4 directors. While board size is linked to securing critical resources (Pfeffer, 1973), optimal size may also depend on the amount of strategic change necessary to cope with environmental turbulence (Goodstein, Gautam and Boeker, 1994). Hence larger boards could be expected to raise more finance than small boards, but not necessarily improve performance of their company.

Analysis of the 220 companies used in this study shows that CVs have significantly larger boards of directors than IVs (Table 7). When both board size and sponsorship are incorporated in a regression analysis (results available from the authors on request), both are significant in explaining differences in tangible assets. Hence sponsorship affects the level of financing directly and also through the increased board size.

Table 7 – Comparison of Board Size of IVs and CVs

Sponsorship	No of Cases	Mean Board Size	Stand. Devn.	t-value
IVs	166	4.02	.91	
CVs	54	4.37	1.1	2.27*

*Difference in mean board sizes is significant at the 5 per cent level

Boards of CVs consist mainly of directors from the boards of the sponsoring company. They are therefore more likely to have members with experience as directors, and previous joint work experience than boards of IVs. They may also have more experience as managers in the industry. While intuitively it might be thought that prior experience of various types would be related to subsequent performance, empirical studies to date have reported conflicting findings (Cooper and Gimeno Gascon, 1992). However, it is quite reasonable to expect that in new ventures faced with the problems of listing on the stock exchange and looking for continuing

equity capital to finance exploration ventures would benefit from a board experienced as directors, as managers, and with prior experience working together.

As expected, the boards of CVs were more experienced as managers, as directors, and had more prior joint experience than the boards of IVs (Table 8). Previous studies provided little guidance as to how experience influences performance so two types of relationship were examined: a base level of experience distinguishing poor performers from high performers and; increasing level of performance as the experience level of the board increased. Using regression analysis (results available on request) it was found that increasing levels of experience as directors was associated with higher performance in all companies. Experience as managers was significant in explaining improving performance of companies with advanced projects but not companies with projects at an early stage of exploration. Prior joint experience was not significantly related to performance.

Table 8 - Experience of the Board of Directors Comparing IVs and CVs.

Types of Experience	IVs	CVs
Proportion of the board with experience as directors	.48	.70
Proportion of the board with experience as managers	.36	.50
within companies		
Proportion of boards with prior joint experience		
All had previously worked together	.04	.25
Some had worked together	.38	.51
No prior joint work experience	.58	.24

The boards of directors are typically dominated by lawyers, accounting or financing professionals, mining engineers or other mining professionals, and geologists or prospectors. The boards of the new venture companies tend to reflect the interests of the promoter or company sponsor. For example, the companies formed by prospectors or geologists or exploration companies are dominated by geologists and financiers. The companies promoted by mining companies have a higher proportion of engineers on their boards than any other types of companies. Table 9 highlights major differences in board composition of companies with different types of promoters or sponsors. Of these professional groups, only geologists and prospectors on the board have been related to higher performance in both early stage exploration companies and those with advanced projects (Kennedy and Drennan, 1998). On the basis of board composition, the companies promoted by geologists or prospectors, exploration companies, large mining companies, or industrial/overseas companies could be expected to be higher performers.

Table 9 – Board Composition of CVs and IVs

IVs		CVs	
Type of Promoter	At least Two-thirds of Companies have on their Boards:	Sponsor	At least Two-thirds of Companies have on their Boards:
Geologist/prospector	Geologists, financiers	Exploration company	Geologists, financiers
Mining professionals, mining industry people	Financiers and others	Small mining company	Financiers and others
		Large mining companies	Engineers, lawyers, geologists
Non-mining persons	Financiers and others	Industrial/overseas company	Geologists and others

Net Tangible Assets

It has already been shown that CVs with large established sponsors raise more finance than IVs. Corporate sponsorship also influences finance raised through the larger size of the board. This section examines whether the increased level of finance influences performance.

The effect of higher financial assets on performance is difficult to predict. Empirical studies have found no consistent relationship between financial resources and performance of businesses generally (Capon, Farley and Hoenig, 1990). In new ventures, a positive relationship has been reported between financial resources at startup and subsequent performance. More financial capital allows companies to pursue more ambitious strategies and given them flexibility that allows them to survive mistakes and buy time (Cooper, Gimeno-Gascon and Woo, 1991).

The relationship between net tangible assets raised and performance in the companies in this study is shown in Table 10. Companies with advanced projects showed generally increasing mean performances as the net tangible assets of the company at listing increased. Using the Regression analysis using the data of Table 10 (results available on request) suggests that performance improved by 0.10 for each $3.74 m increase in the level of net tangible assets atlisting. For companies with early-stage projects, there was no apparent relationship between net tangible assets and size.

Table 10 – Mean Performance of Companies by Net Tangible Assets at the Time of Listing

	Early Stage Explorers		Cos. with Advanced Projects	
Net Tangible Assets at Listing	Number of Companies	IRR	Number of Companies	IRR
Less than $1m	27	.80	13	.67
$1m - $2m.	58	.82	14	.51
$2m - $3m	35	.81	11	.73
$3m - $4m	15	.68	10	.79
$4m - $5m	10	.78	2	.78
$5m - $6m	4	.76	0	-
$6m - $10m	4	.68	4	.91
More than $10m	3	.86	4	1.17

DISCUSSION AND CONCLUSIONS

This study has explored the effect of corporate sponsorship on performance, focusing on the initial financing and the management team of new ventures. Because of the structure of the data, a combination of qualitative and quantitative methods of analysis have been used, but it is recognised that the way that parenting affects performance can only be fully understood when interacting variables are considered simultaneously. Despite its limitations, the study has produced some important findings that will be pursued in future research.

The study agrees with previous studies showing that while in theory, parents may assist new ventures to overcome liabilities of newness and smallness, parented companies do not necessarily perform better than non-parented companies. Unlike previous studies, the sample used was based on companies formed, rather than survivors, and it was established that there were no significant differences in `weeding out' of poor performers. Also, the IVs and CVs were not treated as homogeneous groups, but were classified by the industry background of the promoters. Using this classification, IVs promoted by geologists or prospectors and CVs

promoted by exploration companies or large mining companies were identified as high performers.

There is evidence that corporate sponsorship can benefit new ventures. Having sponsors, for example, who are well established in the industry does affect the financial resources controlled by the new venture at the time of listing. As we have seen, companies with sponsors who were miners or established investors in the industry had significantly more financial resources than other companies. Moreover, this increased level of financing is associated in some companies with higher performance. The analysis of boards of directors indicated CVs begin with boards that are more experienced as directors and managers, and with more prior joint experience. This increased level of experience is also associated with higher performance. The possible disadvantages of corporate sponsorship were discussed by examining the backgrounds of the promoters of both IVs and CVs. The industry background of the promoters influences the composition of the boards of the new ventures, and board composition, particularly the presence of geologists or prospectors on the board, is related to performance. These relationships are illustrated in Figure 1.

Promoter

Size of BOD

Experience of BOD

Finance Performance

Figure 1 – Relationships Between Promoters, Board of Directors, Finance and Performance

Using the information about financing and board composition, the performance of both IVs and CVs can be explained. The highest performing group was the CVs with large mining company parents who benefited from more finance at startup, more experienced boards of directors, and geologists on their boards. Companies sponsored by small mining companies also had relatively high levels of finance at listing and experienced boards of directors, but few had geologists on the boards of directors which is very important to the companies in the early stage of exploration. Companies sponsored by geologists or prospectors or exploration companies were relatively high performers because of the composition of their boards, although they were relatively poorly financed. Finally those sponsored by non-mining groups tended to lack finance, experience and appropriate board composition.

RESULTS OF STATISTICAL TESTS AVAILABLE ON REQUEST

The statistical methods used for the analysis of this study follow standard procedures outlined in Harrison and Tamaschke (1994), chapters 8,9, 10 and 15. Detailed results for the tests/ regressions discussed in the text have not been presented to save space. However, the results are available from the authors on request.

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Encouraging an Enterprising Culture in Australia

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ABSTRACT

The development of an enterprising culture in the local community has been suggested as a priority strategy in Australia in helping address the high levels of youth unemployment and job shortages. Such a strategy recognises the contribution of small business to society and its important role in employment generation. This paper reports on a study of adolescent students in secondary schools and their responses to a questionnaire designed to measure their understanding of small business and their experiences with the sector. Comparisons are made with results of an earlier study of adults in Australia and overseas studies conducted in USA and Canada.

The findings indicate statistically significant relationships between involvement in activities of an enterprising nature and a strong interest in future self-employment. The paper concludes with a discussion of the implications for those involved in developing policy to promote and enterprising culture.

INTRODUCTION

The employment market in Australia, as with most developed countries, has changed significantly in the last decade. These changes have seen the introduction of more part-time, casual and contract work, greater levels of outsourcing, and less job security. These changes, together with sustained high levels of unemployment - a minimum of 8% over the last eight years - have led to a call for new approaches to the development of employment opportunities.

Many of the policy responses have relied on the small business sector to create the opportunities necessary to address the employment difficulties. Davidsson et al (1994) reported on a number of studies in various countries that have identified the importance of the small business sector as the creator of new jobs and the economic benefits that go with them. Similarly, Kourilsky (1995) reported on the loss of big-business jobs in the United States and their fortunate replacement by new jobs created by smaller firms.

Several authors (Gibb 1989; OECD 1989, Kourilsky 1995) have argued that in order to take advantage of the opportunities the small business sector can provide, there is a need for a greater level of enterprise within the community. Enterprise has been described as

"..the characteristic of people, groups and organisations which produces a disposition to self-realisation through achievement. It encompasses the self-reliance to innovate, accept risk and act independently, if these are needed to complete tasks effectively. People and organisations

showing enterprise have the drive, energy, creativity and leadership to see tasks through to completion by individual effort or successful teamwork." Cannon(1991:2)

By developing a more enterprising culture within the community it is argued that new small business ventures will be created as the population will be more alert to opportunities and will be actively seeking to create more opportunities. At the same time an enterprising workforce in general will be more efficient and productive leading to a greater number of employment opportunities in all business sectors.

In Australia this line of argument has been followed in the recommendations of a major report to government (Karpin 1995). The number one recommendation stated

"Development of an Enterprising Culture — within formal education and training. The first initiative is the introduction of enterprise and entrepreneurship units into school, vocational and tertiary education. The primary aim of these units is to promote the need for individuals to proactively take charge of their own future" (Karpin 1995:15)

The term enterprising culture has a strong nexus with an understanding of small business and the skills necessary to successfully operate a small business. It is however not confined to small business as people can demonstrate enterprise in the context of large businesses or in not-for-profit organisations.

It is expected however, that where an enterprising culture can be developed there will be an increased level of interest in self employment and consequently new business creations and job opportunities. Therefore, one such measure of an enterprise culture is the level of interest in small business ownership.

Governments will be better able to produce strategies to develop enterprising communities if they have some idea of the current level of interest in self-employment and the factors which help to encourage such an interest. If policymakers can develop a greater understanding of these issues then strategies can be more targeted and hopefully more successful in the development of an enterprising culture. This paper describes a study that attempts to provide some answers to those questions.

This paper investigates the level of interest in self employment among teenagers at secondary school in Australia. The findings are compared with similar studies conducted in the USA and Canada as well as a study of adult Australians' attitudes to self employment. Further analysis is carried out to identify the factors which influence the interest in small business ownership.

The next section of the paper describes the survey method used and outlines the range of questions asked. This followed by a description of the findings together with a comparison of similar studies conducted overseas. A number of hypotheses are tested regarding the factors which may impact on the level of interest in self employment. Finally there is a discussion of the implications of these findings on government policy concerned with the area of developing an enterprising culture.

METHODOLOGY

A selection of teenage students in their second last year of high school (year 11) was used for this study. The students were all residents of the state of Victoria, the second largest state, as

measured by population, in Australia. The students attended a rangeof different secondary schools including state funded, privately funded and religious schools. Some of the characteristics of the sample are set out in table one below.

Table 1: Characteristics of the Sample

	No.	%
Total number surveyed	662	100.0
Male	299	45.2
Involved in an Enterprise Project at School	324	48.9
Parent Operated Business	354	53.5
Part-time job in Small Business	231	34.9
School Based Work Experience in Small Business	268	40.5
Relative Operated Business	468	70.7

Each student completed a 29 item questionnaire designed to collect background information as well as responses to questions about their understanding of and interest in small business.

Some of the background questions were designed to collect data to be used as independent variables in the analysis of the data. These included questions about the gender of the student, whether they have held a part time job in small business, or been involved in school based work experience in a small business, or been involved in a school project that operated a business or managed a function. Questions were also asked about family business experience including involvement of their immediate family or extended family.

The dependent variable in the study was the level of interest in operating a small business in future. This was assessed by a single question that asked respondents to indicate their level of agreement with the statement "I am interested in operating my own small business in future". Responses were collected on a five point Likert type scale ranging from strongly agree (1), to neither agree nor disagree (3), to strongly disagree (5).

HYPOTHESES

Birley (1996) discusses the influence of family background on entrepreneurial intentions and identifies the common occurrence of entrepreneurs coming from a family with some form of business background and concludes that the result is intuitively acceptable since such strong grounding in the business ownership ethic at an early stage is a useful and powerful driving force for children as they begin to choose future careers. Similarly Matthews and Moser (1995) found family background was a significant antecedent of interest in small business ownership among graduating business students. It is important to determine if the effect of a family background in small business is evident in teenagers intentions to the same degree that it has been shown with actual entrepreneurs and college graduates. It is also useful to distinguish between immediate family, that is parents, and extended family which covers a range of other relatives. As a consequence the following two null hypotheses have been developed.

H1. There is no difference between adolescents with an immediate family background in business and adolescents who do not have an immediate family background in business with respect to their interest in owning a small business in future.

H2. There is no difference between adolescents with an extended family background in business and adolescents who do not have an extended family background in business with respect to their interest in owning a small business in future. While the actual commencement of new ventures by females has been growing in most countries (Kourilsky 1995), it has not been determined whether this has been a deliberate choice that has grown out of a long held

intention to operate a small business or whether it has been the result of limited career opportunities in larger businesses or the need to find flexible employment arrangements to fit in with family commitments. Research by Breen et al (1994) has identified the latter factors as important reasons for women commencing a new business venture. Matthews and Moser (1995) concluded that male college seniors are more interested in owning their own business than female college seniors. In order to see if there is a gender difference in the level of interest in self-employment among teenagers the third null hypothesis was developed.

H3. Male and female adolescents do not differ in their interest in owning a small business in future.

Given the assumption that family business experience allows an individual to be close to the action of small business operations and may have an impact on their level of interest in self-employment, there may also be other activities that allow an individual to develop an interest in self-employment. These activities could include being employed in a small business environment, doing school based work experience in a small business environment or even carrying out a school project that simulates a small business environment. Such experiential activities may promote an interest in self-employment among young people.

The following three null hypotheses were developed in order to test the possible relationship between these experiential practices and interest in self-employment.

H4. Adolescents with part time employment in a small business are no more interested in owning a small business than those without this experience.

H5. Adolescents with school based work experience in a small business are no more interested in owning a small business than those without this experience.

H6. Adolescents with experience in an enterprising activity at school are no more interested in owning a small business than those without this experience.

RESULTS

With respect to the major issue, the level of interest in operating a small business in future, table 2 below sets out the responses.

Table 2: Future Interest in Operating a Small Business

Table 2: Future Interest in Operating a Small Business

	No.	%
Strongly Agree	133	20.8
Partly Agree	234	36.6
Neither Agree nor Disagree	192	30.0
Partly Disagree	50	7.8
Strongly Disagree	30	4.7
No Response	23	
Total	662	100.0

More than half of the respondents (57.4%) agree that they are interested in operating their own small business in future. When compared with similar studies overseas, the results are less positive than the US where 69% of high school students indicated they want to start their own business (Kourilsky 1995). This result is to be expected as the US is seen as the prime example of a free enterprise state where entrepreneurship is encouraged and rewarded. The

result however, is similar to the level of interest in Canada where 58% of grade 12 students reported intentions of becoming an entrepreneur (Landry et al 1996).

A study of Australian adults (Mozell and Midgeley 1995) indicated that 50% of respondents were positive in their level of interest in encouraging their children to operate their own small business in future. Thus adolescent students in Australia are more positive about their interest in operating a small business than are parents with respect to encouraging their children to operate a small business.

With respect to the possible influences on the level of interest in operating a small business in future, as set out in the hypotheses, t tests for equality of means were calculated.

Family Business Background

The mean score of adolescents with an immediate family business background ($M = 2.32$, $SD = 1.01$) is significantly different ($t = -2.09$, $df = 632$, two tailed $p<0.05$) than that of adolescents with no immediate family business background ($M = 2.49$, $SD = 1.10$). Thus the first null hypothesis is rejected and confirms that there is a difference in the level of interest in operating a small business depending on whether the adolescent has an immediate family business background. This finding confirms the results of previous studies where it has been argued that positive role models and regular contact with immediate family members involved in business are influences on the level of interest in operating a small business.

The t tests revealed there is no significant relationship between the business background of an adolescent's extended family and their interest in self-employment, therefore accepting the second null hypothesis. Usually extended family relationships are not as close as immediate family relationships and an adolescent may not have the frequent contacts with extended family that would be assumed with their immediate family. Therefore it appears that regular contact with family business role models is an important aspect of the influence on the interest in self-employment.

Gender

The third null hypothesis was accepted. This indicates that male adolescents are not significantly different from females in their interest in operating a small business in future.

This finding differs from other studies that surveyed entrepreneurs and senior college graduates. Given that women are starting new businesses in much larger numbers now than in the past, there are therefore more female role models. The existence of a greater number of female role models may be encouraging more female adolescents to consider self employment as an initial career choice, rather than view it as a last option to cope with employment or family difficulties as has been argued in the past.

Part time employment in small business

The fourth null hypothesis was accepted indicating that part time employment in small business does not influence an adolescent's interest in operating a small business. A possible reason that could be postulated is that sometimes part-time employment for teenagers is not a positive experience, but rather an activity that must occur in order for the teenager to earn sufficient pocket money to pay for social activities. Where part-time work is viewed as a

necessary means of achieving a particular end and not as an activity of choice, there is a strong argument to suggest that it will not be a positive incentive to later personal involvement in small business.

School based work experience in small business

Those teenagers with school based work experience in a small business recorded a mean score of interest in operating a small business (M = 2.25, SD = 1.04) that is significantly different (t = -2.90, df = 577, two-tailed p<.01) from the mean score of those teenagers who have not had school based work experience in a small business(M =2.51,SD=1.06). Thus the null hypothesis is rejected and the alternative hypothesis, that adolescents with school based work experience in a small business are more interested in owning a small business than those without this experience, is accepted.

School based work experience usually involves a student selecting to undertake the experience in a working environment that suits their own particular preferences. It also involves the opportunity to observe the whole business operation. Given that work experience provides the opportunity for an adolescent to gain a quality exposure to small business operations then it would be expected to have a positive impact on interest in self-employment.

Involvement in an Enterprise Project at School

The t test result indicates that students involved in a school project of an enterprising nature recorded a mean score of interest in operating a small business (M = 2.30, SD = 1.04) that is significantly different (t = -2.34, df = 626, two-tailed p<0.05) from the mean score of those students who have not been involved in an enterprising school project (M = 2.49, SD = 1.05). Thus the null hypothesis is rejected and the alternative hypothesis, that adolescents with experience in an enterprising activity at school aremore interested in owning a small business than those without this experience, is accepted.

Involvement in a school based project is usually a voluntary activity. Such projects usually simulate the activities of a small business operation. Students who choose to be involved in an activity which simulates small business operation are likely to enjoy a positive effect from such involvement and so it will have a positive impact on their interest in self-employment in future.

CONCLUSION

The above findings indicate it requires a positive experience to impact on adolescent students' interest in small business ownership and not just a casual connection with small business. This is demonstrated by the significant relationships shown with enterprise projects at school and school based work experience in a small business, but not with extended family businesses.

The results of the US study as reported by Kourilsky (1995) indicated that seven out of ten US high school students wanted to start their own business because they wanted to become their own boss. The students stated they did not know much about entrepreneurship but were keen to learn more about it at school. Kourilsky concluded that there is a need to foster the development and infusion of entrepreneurship curricula in schools in order to develop the next generation of entrepreneurs.

The Canadian study conducted by Landry et al (1996) reported that the most important

determinants of the intention to become an entrepreneur were explained through quality of contacts with entrepreneurs and a desire to engage in activities related to the business world. They concluded the government, media and educational institutions can do much to contribute to the development of entrepreneurial disposition of the students.

Given the findings of this study, which confirm much of the previous research in the area, then the recommendations of the US and Canadian studies are applicable to the Australian context. That is, there is a need for the development of more enterprising curricula in schools and schools need to foster activities which promote contacts with entrepreneurs and engagement with the business world.

While teenagers in Australia show a greater level of interest in self-employment than that indicated by parents in encouraging their children into small business, there is still a way to go to catch up with the level of interest indicated by teenagers in the United States.

This study has identified school based work experience and enterprise projects at school as positive influences on the level of interest in self-employment among adolescents. If such activities can be encouraged by government, it may be possible to develop an enterprising culture in the community and thereby promote a positive response to the changing employment environment.

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A SURVEY OF FRANCHISEE PERCEPTION OF FRANCHISOR SUPPORT IN SINGAPORE

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ABSTRACT

This study is an empirical investigation of franchisee perception of franchisor support given to local franchisees in Singapore. The six major areas of franchisor support examined were site selection, sales/field support, ongoing advice and consultation, research and development, advertising and promotion, and supplier selection. In general, it was found that franchisor support was satisfactory in all the areas surveyed. It was further shown that franchisees were generally satisfied with their relationship with the franchisors. This level of franchisee satisfaction is encouraging as it should boost the government's effort to promote franchising as a method of raising the productivity of local small and medium enterprises.

INTRODUCTION

The first half of the decade was a period of great activity in the local franchising scene. At the end of 1995, there were 85 companies with developed franchise systems or were in the midst of their franchise development programs. This number is expected to reach 125 by the year 2000.

The number of foreign franchises also increased significantly and, by June 1996, 125 foreign franchises had established their footholds in the local franchising industry. In terms of sales turnover, the franchising industry has been estimated to generate 13 percent of the total domestic retail sales volume based on data collected by the Singapore Trade Development Board.

PURPOSE OF STUDY

There have been periodic announcements of government efforts to improve the Singapore franchising industry and reports of new franchises being launched by local companies. However, there is a dearth of academic research on existing franchisees, particularly in the areas of franchisor-franchisee relationships and franchisor support programs. Foo, Chan and Quek (1993) investigated the characteristics of local franchisees that included the nature of businesses most common among franchisees, their organizational structures, reasons for acquiring franchises, etc.

The Singapore Trade Development Board (TDB) and Arthur Anderson Business Consulting jointly published the Franchising in Asia-Pacific report in 1997. This report provided some insight into the state of development of the local franchising industry by providing an overview of the local franchising industry, types of franchise agreements, practices of franchises and factors underlying the development of Singapore as an

international franchise hub, etc.

A survey conducted by the Productivity and Standards Board in the first quarter of 1997 revealed that "support services" was ranked as very important by 90 percent of the franchisees. However, there was no discussion on the quality of such support services. This research intends to discuss franchisee perception of such support services. Specifically, this research aims:

1. To evaluate franchisee perception of franchisor support in:

- Site selection;
- Sales/field support;
- Ongoing advice and consultation;
- Research and development;
- Advertising and promotion; and
- Supplier selection.

2. To discuss some factors that affect the overall level of franchisee satisfaction.

METHODOLOGY

In order to collect the data, the following data collection methods were used:

1. Survey questionnaires were delivered to more than 40 franchisees.
2. Face-to-face interviews were conducted to obtain the personal views and opinions of the franchisees.

The franchisees were asked to indicate their perception of franchisor support through the use of a 5-point numerical scale: 5 being exceptional, 4 being good, 3 being adequate, 2 being poor and 1 being the unavailability of the support program.

Descriptive analysis using averages and frequency distributions were used to analyze the support programs offered by the franchisors. In order to assess the factors affecting the overall level of franchisee satisfaction, the cross-tabulation method of data analysis was selected. This technique allowed the data to be organized by groups or classes, thus facilitating comparisons as well as allowing for the determination of the form of relationship between two or more sets of variables.

PROFILE OF RESPONDENTS

A total of 40 local franchisees responded to the survey and the profile of the franchisees are as follows:

1. The average duration of owning the franchise was 3.3 years.
2. 92.5 percent were small enterprises with less than 15 full-time employees.
3. 77.5 percent of the franchisees owned only 1 unit of the franchise.
4. 72.5 percent of the franchisees were actively managing their franchise operations on

a day-to-day basis.
5. 57.5 percent of the franchisees did not operate similar businesses before buying their franchises.

In addition to the survey questionnaire, 16 franchisees were interviewed to gather their personal opinions in order to allow the researchers to have an in-depth understanding of the responses given in the questionnaire.

The researchers were unable to solicit responses from several other franchisees due to reasons related to confidentiality and the inability of these franchisees to obtain clearance from their franchisors to release the essential information required for this research.

FINDINGS

Site Selection

One of the responsibilities of the franchisor is to provide expert advice on matters relating to site selection and store layout in order to give the franchisees a reasonable probability of success.

Table 1: Franchisor Support Program : Site Selection

Good support given by the franchisor	25.0 percent
Adequate support given by the franchisor	15.0 percent
Poor support given by the franchisor	10.0 percent
No support given by the franchisor	17.5 percent
No support needed from the franchisor	32.5 percent

Table 1 shows that 25 percent of the respondents rated site selection support to be good and 15 percent rated site selection support to be adequate. It is heartening that only 10 percent rated site selection support to be poor, particularly at this crucial stage of starting a small business. Since 32.5 percent of the respondents did not require any assistance, we could infer that 59 percent were satisfied with the support given by their franchisors.

It is interesting to observe that 32.5 percent of the respondents did not require any help because they either possessed their own premises or were already running similar businesses before buying their franchises. Several of these were conversion franchises. In line with the government's effort to improve the productivity and efficiency of small and medium enterprises, local retailers were encouraged to join the large retail chains as conversion franchises.

Sales/Field Support

The primary function of a field representative is to assist the franchisees in analyzing local market situations and conditions. The field representative is expected to give recommendations on advertising and marketing procedures to enable the franchisees to maximize their business opportunities and profits

Table 2 : Franchisor Support Program : Sales/Field Support

Exceptional support given by the franchisor	5.0 percent
Good support given by the franchisor	30.0 percent
Adequate support given by the franchisor	27.5 percent
Poor support given by the franchisor	10.0 percent
No support given by the franchisor	12.5 percent
No support needed from the franchisor	15.0 percent

Table 2 shows that 35 percent of the respondents rated the sales/field support given by their franchisors to be either good or exceptional whilst 27.5 percent rated such support to be adequate. Only 10 percent rated the sales/field support to be poor and 12.5 percent reported that their franchisors did not provide any sales/field support at all. Since 85 percent of the respondents required sales/field support, we could infer that 73.5 percent in this group were satisfied with the quality of sales/field support provided by their franchisors.

Table 3 : Availability of Technical Support Personnel

Technical support person	17.5 percent
Technical support team	45.0 percent
Franchising manager	10.0 percent
No specific technical support team	27.5 percent

The franchisors were able to achieve this level of franchisee satisfaction because they employed technical staff to support their franchisees (Table 3). In order to provide adequate support, 45 percent of the franchisors had technical support teams and 17.5 percent had technical support personnel in order to respond immediately to the needs of their franchisees. Although the franchisees were well-served by qualified support personnel, this could still be an area of concern because only 10 percent of the franchisors were willing to employ franchising managers.

Table 4: Response Time of Technical Support Personnel

Within same working day	55.0 percent
Within 2 to 3 working days	32.5 percent
Within 4 to 5 working days	5.0 percent
6 or more working days	7.5 percent

Franchisee satisfaction could also be explained by the rapid response time of the support personnel (Table 4). Among the respondents, 55 percent commented that the support personnel responded within the same working day and 32.5 percent commented that the support personnel responded within 2 to 3 working days. The ability to respond rapidly is critical because the failure to solve routine problems promptly will cause the franchisees to suffer loss of sales and customer goodwill.

- **Ongoing Advice and Consultation**

Table 5: Franchisor Support Program : Ongoing Advice and Consultation

Exceptional support given by the franchisor	10.0 percent
Good support given by the franchisor	25.0 percent
Adequate support given by the franchisor	25.0 percent
Poor support given by the franchisor	15.0 percent
No support given by the franchisor	12.5 percent
No support needed from the franchisor	12.5 percent

Table 5 shows that the respondents were generally satisfied with the ongoing advice and consultation given by their franchisors. Among the respondents, 35 percent rated the ongoing advice and consultation given by their franchisors to be either good or exceptional and 25 percent rated the ongoing advice and consultation to be adequate. However, it is disquieting to note that 12.5 percent of the franchisors did not provide any advice and consultation at all.

Table 6: Frequency of Visits to Franchisees' Outlets by Field Representatives

Once a week	40.0 percent
Once a fortnight	10.0 percent
Once a month	12.5 percent
Once every 3 months	12.5 percent
Longer than 3 months	25.0 percent

In order to provide ongoing advice and consultation, good communication has to be established between the franchisor and the franchisees. One of the effective ways to establish good communication is to have the field representatives make frequent visits to the franchisees' outlets (Table 6). Among the respondents, 40 percent had field representatives visiting their outlets once a week, 10 percent had field representatives visiting their outlets once a fortnight and 12.5 percent had field representatives visiting their outlets once a month.

Other than field visits, 50 percent of the respondents attended regular meetings held by their franchisors. Although the franchisors had done a commendable job in keeping their franchisees informed, they ignored some effective communication tools. One effective tool is newsletters but only 22.5 percent of the respondents received any form of newsletters from their franchisors. The other effective communication tools are the franchisee associations and franchisee advisory councils. Although such committees serve useful purposes in fostering franchisor-franchisee communication, no franchisors have formed franchisee associations nor have any franchisees grouped together to form franchisee advisory councils.

Research and Development

In order to provide new products and services, the franchisor must conduct research and development. The constant stream of new products and services is one way of assuring the franchisees that they will continue to enjoy value-added services from the franchisor in return for the payment of royalties.

Table 7: Franchisor Support Program: Research and Development

Exceptional support given by the franchisor	5.0 percent
Good support given by the franchisor	12.5 percent
Adequate support given by the franchisor	27.5 percent
Poor support given by the franchisor	17.5 percent
No support given by the franchisor	12.5 percent
No support needed from the franchisor	25.0 percent

Table 7 shows that 30 percent of the respondents rated the research and development programs to be either poor or non-existent and only 17.5 percent rated such programs to be either good or excellent. Among the 75 percent of respondents that required research and development support, 60 percent in this group were satisfied. Dissatisfaction would arise if the franchisees could not compete successfully against competitors who are constantly being supplied with new products. The franchisees will start to question the rationale of their royalty payments and are likely to terminate the franchise relationship upon the expiration of their franchise contracts.

Advertising and Promotion

Table 8: Franchisor Support Program : Advertising and Promotion

Exceptional support given by the franchisor	2.5 percent
Good support given by the franchisor	42.5 percent
Adequate support given by the franchisor	27.5 percent
Poor support given by the franchisor	17.5 percent
No support given by the franchisor	5.0 percent
No support needed from the franchisor	5.0 percent

It is important not only to inform consumers that the franchise has what they need, but also to communicate the message that the franchise's products and services are the most appropriate solutions to their shopping needs.

Table 8 shows that 45 percent of the respondents rated advertising and promotion support to be either good or exceptional. Only 17.5 percent rated advertising and promotion support to be poor. Thus, it would not be a surprise that 55 percent of the respondents commented that the advertising and promotion fees were either low or average. However, the franchisees wanted the frequency of the advertising and promotion campaigns to be increased. When asked what aspects of operations support the franchisors must improve immediately, the frequency of such campaigns topped the ranking list.

Supplier Selection

Table 9: Percentage of Supplies Purchased from Franchisor

All supplies	32.5 percent
Most supplies	42.5 percent
Some supplies	15.0 percent
No supplies	10.0 percent

Table 10: Franchisor Support Program : Supplier Selection

Exceptional support given by the franchisor	15.0 percent
Good support given by the franchisor	25.0 percent
Adequate support given by the franchisor	25.0 percent
Poor support given by the franchisor	5.0 percent
No support given by the franchisor	5.0 percent
No support needed from the franchisor	25.0 percent

Table 9 shows that 32.5 percent of the respondents had to purchase all their merchandise from their respective franchisors or their contract suppliers and 42.5 percent had to purchase most of their supplies from their respective franchisors or their contract suppliers. In return, the franchisors offered credit terms of up to 90 days. In some cases, the contract suppliers would bill the franchisors directly for the merchandise purchased by their franchisees. At the end of the credit period, the franchisees would pay to their franchisors rather than to the contract suppliers.

Table 10 shows that 40 percent of the respondents rated their suppliers to be either good or exceptional and 25 percent rated their suppliers to be adequate.

FACTORS AFFECTING FRANCHISEE SATISFACTION

There is a strong, positive relationship between two franchisor support factors and the overall level of franchisee satisfaction. The two support factors are sales/field support and ongoing advice and consultation.

Overall, 72.5 percent of the respondents were satisfied with their relationship with the franchisors. Among the respondents who perceived that sales/field support were either good or exceptional, all were satisfied with their relationship with the franchisors. For this group of franchisees, 85.7 percent met their sales targets and 71.4 percent achieved their profit expectations. Furthermore, 86 percent were satisfied with their current job environment and 71 percent would buy the franchise again if given the opportunity.

For those franchisors that provided poor or non-existent sales/field support, none of the respondents were satisfied with their relationship with the franchisors. Among this group of respondents, only 44 percent reached their sales targets and 89 percent did not achieve their profit expectations. Furthermore, 67 percent were dissatisfied with their current job environment. For this group of disillusioned franchisees, 67 percent would not consider buying the franchise again.

Similarly, respondents who perceived that the ongoing advice and consultation were either good or exceptional were satisfied with their relationship with the franchisors. For this group of franchisees, 85.7 percent met their sales targets, 71 percent achieved

their profit expectations and 93 percent had job satisfaction. For those respondents who perceived ongoing advice and consultation to be poor, 50 percent were dissatisfied and for those franchisors that did not provide any ongoing advice and consultation, 80 percent were dissatisfied. More importantly, 45 percent in this group failed to meet their sales targets and 82 percent failed to achieve their profit expectations.

The lack of sales/field support and the failure to provide ongoing advice and consultation reflect the lackadaisical attitude of some franchisors in helping their franchisees to improve their sales revenues and operational efficiency. When franchisees encounter operational problems, they expect immediate assistance from their franchisors to troubleshoot and to solve their problems. If these franchisees do not receive the assistance as and when needed, they would lose the motivation and zest to run their businesses.

CONCLUSION

This research aims to evaluate franchisee perception of franchisor support and to discuss some factors that affect the overall level of franchisee satisfaction. We could conclude that the franchisees were generally satisfied with the six major types of franchisor support. Furthermore, the franchisees were satisfied with their relationship with the franchisors if they received good sales/field support and ongoing advice and consultation. This level of franchisee satisfaction is significant and will definitely act as a boost towards the government's effort to promote franchising as a method of raising the productivity of local small and medium enterprises.

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LESSONS FROM A HIGH-TECH SPIN-OFF CASE
- AN ANALYSIS ON A SPIN-OFF FAILURE FROM A MULTINATIONAL ORGANIZATION

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ABSTRACT

This paper makes a presentation of a high-tech spin-off firm that failed. The case is compared with some theories about spin-offs and their relationship with their womb-firm (incubator organization). The analysis cover the driving force, the womb-firm situation, the relationship between the womb-firm and the spin-off firm. The analysis is also taking the perspective from a system theory growth model.

Keywords: spin-off, growth, high-tech, failure, womb-firm (incubator firm), entrepreneur.

INTRODUCTION

Some years ago one of us got in contact with a new high-tech firm. Four highly educated technicians had started the company with the purpose to develop a new product. The four entrepreneurs started as a spin-off firm, leaving a big multinational enterprise. The optimism was great among the new entrepreneurs. They were convinced that the market needed their product. The womb-firm [1] promised them all the support they would need with the exception of money. Eight years later they are now facing a bankruptcy.

The other one of us has during a spin-off study [2] come to the following conclusions:

· A large portion of fast growing Firms is spin-offs.
· Teams (duos or trios, and seldom a single individual) create most of these fast growing spin-offs.
· These teams have strong growth ambition already at the start up of the Firm.
· The teams are more successful if they come from the same firm, that is they had established roles and role expectations.

· Firms that are created from a spin-off are often managed more professionally than other SMEs though the dominant actor in general comes from a large firm and have been trained in an administrative environment. Although these factors seemed to be present in this case the firm failed.

AIM AND SCOPE

The purpose of this paper is to find out by means of a theoretical analysis what kind of lessons can be learned from this case in the perspective of some theories of spin-offs and a model of the dynamics of the firm.

THEORY

In this chapter we survey some aspects of spin-offs and also give a short description of a change model.

Different driving forces for spin-offs

The following types of driving forces can exist from a theoretical point of view [3]

1. Societal factors

a) Laws against monopolies and cartels force the womb-firm to split up in smaller, independent units.
b) The social responsibility of the Firm, i. e. The high costs of social security in Sweden, causes the womb-firm to support spin-offs with related and non-related operations in order to reduce its own staff expenditure.

2. Industrial factors

a) *Results from research* give rise to new opportunities within the industry and make it possible to overcome earlier obstacles for entering the industry.
b) *Growth*. The industry is fast growing which makes it easy to enter.

The spin-off entrepreneur/s is/are building the new firm based on:
· the business idea of the womb-firm
· the product concept of the womb-firm
· the production process of the womb-firm
· the means of distribution of the womb-firm

c) *Service industry*: The bearer of the knowledge is the product and the businesses are mainly built on personal relationships. The spin-off entrepreneurs bring customers and knowledge.

3. Company factors

a) Business concentration. Odd business areas are disposed of.
b) Business Development: In an attempt to create favorable environment for a new business venture the management lets it spin off.
c) Introduction to the stock market. Parts of the Firm are spun-off for introduction to the stock market in order to increase the capital assets of the Firm.

4. Individual - and group factors Innovative and entrepreneurial persons break out and build a new firm based on one or more of the following factors:

a) product innovation
b) production innovation
c) distribution innovation
d) market innovation
e) business idea innovation
f) technology innovation

Different womb-firm situations at the time of the spin-off
Ahlström Söderling [4] came to the conclusions that in future research on spin-offs it will be possible to limit the view to four different womb-firm situations, namely:

· The business activities of the womb-firm are in growth
· The business activities of the womb-firm are mature or new patterns are looked for
· The business activities of the womb-firm are in a situation of degeneration or catastrophe
· The business activities of the womb-firm are oriented towards a new venture

Possible relationships between the spin-off firm and the womb-firm
The way the womb-firm chooses to relate to a spin-off firm must be assumed to depend partly on the situation of the womb-firm at the time of the spin-off and partly on which kind of relationship the spin-off firm will have to the womb-firm in the future. The spin-off firm may become a customer, a supplier or a competitor to the womb-firm. At the time of the spin-off the womb-firm can be friendly, indifferent or unfriendly. Also, the womb-firm can be active or passive in its relationship toward the spin-off.

		The Womb-firm is	
		Active	Passive
The Womb-firms view of the Spin-off	Friendly	Supportive/ helping	Positive observer
	Indifferent	-------	Neutral observer
	Unfriendly	Contradicting/ Blocking	Negative observer

Figure 1. Possible Womb-Firm Attitudes

This can be illustrated with the figure above and gives rise to five different ways to relate:

Attitude 1 Supporting, helping behavior
Attitude 2 Positive observer
Attitude 3 Neutral observer
Attitude 4 Negative observer
Attitude 5 Contradicting, blocking behavior

An Organic Model of Change [5]
This change model is derived from the theory of organic systems [6] and divides the development of the system into higher complexity of the system structure in three distinctive

phases. These phases are:

Phase 1 - a formative phase
Phase 2 - a normative phase
Phase 3 - an integrative phase

In phase one the system emerges when elements, that are complementary, are establishing bonds of need. This happens in order to establish a pattern. In this phase the emerging system is in conflict with its environment and dominated by it.

In phase two, the normative phase, the system is searching for security by integrating elements and bonds that are similar to the ones that were found in the first phase. It is doing so in order to empower and enforce the patterns established in phase one and to reject differences thus building up an immune defense system.

The system is in competition with its environment during the whole phase. This phase can be divided into two halves since the system is experiencing dependence on its environment during the first half and independence during the second.

At the transition to phase three the system has reached a point where it uses more energy to integrate further similarities than the benefit of doing so. The system and the environment are in interdependence and have to cooperate. This gives at hand that the system begins to search for relations with dissimilarities and breaks down parts of the structural pattern in order to integrate new elements.

When the third phase is coming closer to its end, the system has to find new elements which can serve as building blocks in a new higher structure and which have the courage to transform into a new cycle. If this does not happen the system will slowly degenerate. A further condition for the possibility to transform at the end of the third phase is that the system has not continued to integrate similarities at the beginning of the phase. This is possible in the short run but leads to a catastrophe in the long run. A further condition for continued development is that the system realizes that it should maintain its old structure up to the point where sustainable combinations of relations with new kinds of elements has been found.

The reasoning above can be showed in the following curve (figure 2):

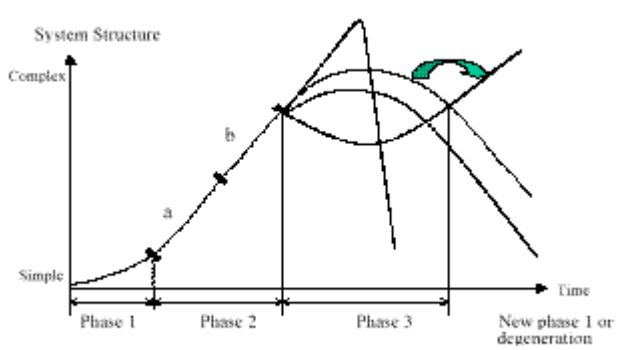

Figure 2. A growth model from living systems

THE CASE

The background of the spin-off
The spin-off referred to in the introduction started in cooperation with the womb-firm but without any ownership. The spin-off got technical support and some help and advice regarding its financial problems from the womb-firm.

The background of the spin-off was a policy decision, in the multinational womb-firm. It used a low tech vision product in its systems. During a seven year period the womb-firm had sold a low tech component with its systems but not done any research concerning a possible high-tech product. The four technicians saw a technical possibility to develop a high tech vision product and made a proposal to their employer who decided not to develop a high tech vision product. The management decided to sell their old system products as long as possible but avoid risking money on the development of a new generation. This policy decision forced the four employees to make up their mind to either start a new firm or stay with the multinational and give up the vision of a high tech system product.

They decided to start their own firm and during some years of research and development work they lived only for the goal - to succeed in the development of a new vision product.

The initial business plan
In the beginning they created a business plan with the following contents. The business concept they formulated was: "The business concept is to increase the manufacturing industry's product quality, production flexibility and production rates by material handling solutions based on optical and acoustic intelligent sensors. This is accomplished by utilizing our unique competence in basic one- and multidimensional signal processing and application know-how, together with an extensive world-wide net of contacts."

The spin-off firm had both short term goals and long term goals. In the short term they would, amongst other things, "..develop an image processing system with the correct price/performance ratio for the presumed market." As a long term goal they wanted to "become the largest supplier in Europe and North-America to the industry within the application area defined in the business concept" and "become profitable in the third year of operation" and finally "become self-financed in the fifth year of operation".

Further they had a comprehensive business strategy. They divided the market into three major parts:

· the consumer market
· small and medium sized industries
· large manufacturing and process industries

Further they stated:

"These markets have different needs as to price, performance, complexity and technology" and further "The company will grow in a controlled way always making conscious decisions about new development phases and expansions. The company will then concentrate on decided business"
The market plan was very comprehensive too. We found a market strategy which says: "The key to identifying the right industrial customers are:

· labor intensive industries

· industries with the need for high production and/or high quality products
· industries with the need to automate for environmental and personnel safety reasons.
· large companies with proven resources and capabilities to order multiple systems.
· small and medium sized industrial companies with the need for flexible manufacturing systems in order to stay competitive."

The business plan also dealt with market communication, distribution plans, promotion campaigns and visiting plans for sales people with detailed schedules. Competition was discussed thoroughly. "Previously, industrial vision systems have been characterized by high price, poor reliability and expensive engineering. But recently many competitors have released new systems with a better price/performance ratio." Every competitor was mentioned and analyzed. Our four businessmen saw both problems and possibilities and they phrased them in this way: "Many companies on the vision-market have experienced serious problems. They have suffered big losses and many companies have gone out of business, especially in North-America, but also in Europe and Scandinavia."

The possibilities, however, were: "The personnel of this company have a long experience of the market, applications and the technique behind image processing. This, together with the awareness of the marketing problems, gives a great possibility to success. Based on the experience, the products will be marketed as a sensor system which will give a solution to a customers production problem. The wide contact net of company will give a big possibility to make agreements with at least four large customers."

In the business plan the four entrepreneurs analyzed many important aspects, i. e. the time schedule for developing the product and the financial plan.

The start of the firm
Because of the promising business plan a government agency decided to financially support the new firm by awarding it grants. The financial help received from the government agency was insufficient and forced the firm to take loans from banks and other financiers.

The new firm started encouraged by the womb-firm. There was a written agreement between the two firms which guaranteed support and help from the womb-firm. The womb-firm promised them access to its world-wide selling organization and its whole international network.

This agreement gave the entrepreneurs a good start to develop the product. During the first three years they carried out the development and they started to sell the vision product through the network of the womb-firm.

The development of the Firm after the product development
From 4,2 people employed (the owners plus one part-time administrative person) at the start in 1988 the firm expanded to 13 employees in 1994. The result was zero for the first five years and then showed a profit of 143.152 SEK in 1994. In 1995 there was a loss of 92.130 SEK and a loss of 1.374.105 SEK in 1996 followed by bankruptcy in 1997. At the time of the bankruptcy the assets were 8,7 MSEK including a stock value of 5,6 MSEK. One of the founders left the firm (1991). The same year the firm employed a person that had an idea about a new product. As a result of that a subsidiary was established, with the mission to develop the product idea. The person employed owned 20 % of the subsidiary. The development failed.

In 1993 another subsidiary was established as a sales firm in the United States. One of the founders moved there in order to establish a US market. In reality he was more occupied with installations and services for the customers of the womb-firm.

The same year the firm bought the majority of a German company in order to be present on the European market.

The sales effort to get OEM-contracts with other firms than the womb-firm failed and the technicians employed as sales persons used most of their time with installations and service of products delivered as parts of the systems of the womb-firm.

Another aspect is that the womb-firm used the spin-off firm as a "shock absorber". When there was a recession it didn't buy any products. The spin-off firm was left with the cost for employees and stock. On the other hand, with an upward economic trend it expected the spin-off to deliver without delay. The spin-off firm had to take the production costs and the womb-firm had no cost for the stock. Gradually it led to a state of insolvency and the spin-off had to take emergency measures which failed. The bankruptcy was a fact in 1997.

ANALYSIS

Driving force

The driving force for this spin-off can be seen as a combination of company factors and group factors. The company factors can be seen as a Business concentration (type 2a.); the womb-firm decided not to develop and produce a new generation of the vision sub-system to their product by it self. But it may also be seen as Business Development (type 2 b.) though the management may have seen the possibility of government grants and its own risk minimization as well as a more favorable environment for the new business venture. According to the group factor a product innovation (type 4 a.) was the ground on which the entrepreneurs built their new firm.

The womb-firm situation

From our point of view the womb-firm situation indicated that the business activities was in growth and that management saw no immediate need for a new generation of vision systems.

The relationship between the spin-off and the womb-firm

From the beginning the womb-firm attitude was *actively friendly* (the top left field of figure 1). It encouraged the spin-off and supported the new business actively, at least during the first four years.

· When the new product came to existence the problems started. The womb-firm noticed that it was depending on the spin-off firm because of the uniqueness of its products. There was a change in attitudes. It started to dislike the situation and some signs of obstruction could be noticed (moving down to partly *active unfriendly* via *active indifferent* in figure 1).

The Business Development according to the Model

The model can be used as a life cycle model, a stage model, an evolutionary model or a transition model [7] . In this case it seems possible to use the model as a life cycle model though the life of the firm is over. But if we adapt the model of a successful one product life cycle we will see that the firm just managed to proceed to the first half of the second phase.

In phase one the theory claims that the forming elements of the system are dominated by its environment and are in conflict with it. In our case, of course, our entrepreneurs were partly in conflict with and dominated by their environment (the womb-firm) as long as they were employed and wanted to do something that was not in accordance with the policy of the womb-firm. But their environment (both the womb-firm and government agencies) was very friendly when they had decided to start their own firm. The entrepreneurs did not have to fight for their short term living. They took out the same salaries as if they had continued working in the womb-firm. The theory also claims that in phase one the decision making process is stimuli-response oriented. Instead of showing such a behavior the entrepreneurs continued to work in a logic way creating a detailed business plan that later on, they did not has the capacity and knowledge to fulfill.

During their first years in the firm the entrepreneurs worked hard to develop their product. This is in accordance with the model where the focus in phase one is to find a solution to the problem that the firm have chosen as its mission.

When they entered the first half of phase two (2a.) they should have changed, according to the model, their main focus to multiplying the solution - in other words the production of more products to more customers. This was also partly the case. They multiplied the product but they should also have multiplied customers of the same kind. They failed to do so and this seems to be the main reason for their lack of success.

The case in the light of the conclusions mentioned in the introduction:
A large portion of fast growing Firms is spin-offs. Initially the case firm was fast growing but did not manage to establish a real market.

Teams (duos or trios, and seldom a single individual) create most of these fast growing spin-offs. It was true in this case but the four entrepreneurs had the same profession (product development) - management, marketing, production and business administration experiences were lacking.

These Teams have strong growth ambition already at the start up of the Firm. True in this case, but they did not take the consequences of their ambitions.

The Teams are more successful if they come from the same firm, that is they had established roles and role expectations. This is not true here. They came from the same firm but were not complementing each other as they all had the same competence profile.

Firms that are created by a spin-off are often managed more professionally than other SMEs though the dominant actor in general comes from a large firm and has been trained in an administrative environment. This was not true in this case. None of the Entrepreneurs had any real management experience from their time with the womb-firm.

CONCLUSIONS

This case shows that a good business concept is not enough if the circumstances are not the right. The fact that the product was a technical success was not sufficient. It seems that the main reason for the failure was the entrepreneurs' incapability to break off their dependence on the womb-firm. In the business plan they had the vision to do business with at least four big companies, but in the end their only customer was the womb-firm. Consequently they did not

fulfill that part of the plan.

It was mainly the womb-firm that inspired the four entrepreneurs to start a firm and to develop the product. Perhaps they realized that this was for them the cheapest way to solve the problem with the new generation of vision systems.

The four starters of the new firm went from the multinational company to their own small company but used the same working methods and habits as in the big company. The possibility of organizational flexibility and sensitivity to the market was not so well utilized. Further reasons for the failure may be:

· The knowledge concerning business administration and marketing was not very good.
· The four entrepreneurs were not used to ownership and failed to handle scarce resources. They acted as if they were still working in a big company.

IMPLICATIONS

The implication of the lessons from this spin-off case might be the following:

· *for the entrepreneurs*
When starting a spin-off firm based on deliveries to the womb-firm it seems essential to get in contact with the market outside of the womb-firm in an early stage. Probably the best is to have at least a letter of intent from one other customer before the start. It might also be wise, if the team of entrepreneurs all have only knowledge of technology, to have someone with management experience at the board of directors.

· *for the womb-firms*
From an ethical point of view it seems important to clearly define the kind of support and the time span for that support given by the womb-firm if the management of the firm encourage employees to start spin-off firms.

· *for the government agencies and other support organizations*
The focus of support organizations has to be holistic. There is a risk that these organizations be impressed by the technological competence of the entrepreneurs and the fact that there is a large firm backing up them.

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FOOTNOTES

[1] The normally used phrase is incubator firm - but Ahlström Söderling have chose to use the term "womb-firm" as a description of the spin-off originator. The reason is that from his point of view incubators are used to artificially aid weak infants to survive while many embryos to future spin-offs are growing inside "womb-firms" without its awareness about it.

[2] not published

[3] Scheutz and Söderling, 1985

[4] Ahlström Söderling , R. (1998). "Small Fast Growing Firms Coming Out of Large Organizations - A Spin-off Situation Classification.

[5] The model is described more in detail by Ahlström Söderling in The Dynamics of the Firm - in search for a general model.

[6] To grow or die. George Land

[7] See Ahlström Söderling, The Dynamics of the Firm - In search for a general model.

THE RADAR METAPHOR FOR INNOVATION

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ABSTRACT

The radar metaphor draws a parallel between the working of radar with the process of innovation. Using the radar metaphor one could see innovation as a form of information processing in the organizational context. This perspective then leads to the question of how better use of information and the latest information technologies could impact the process of innovation in the information age at the dawn of the 21st century.

IS THERE A NEED FOR A NEW METAPHOR ?

Since the publication of two immensely popular books *Change Masters* and *Innovation and Entrepreneurship* in the early eighties (Kanter 1983, Drucker 1985), many authors have followed suit with books on innovation. Amongst them are popular titles aimed at both the lay person and the practitioner. Of this genre a few enjoy good popularity. *They All Laugh* is particularly enjoyable because it collects many good stories about significant innovations within the last century. This book is however, rather light reading. It is just like an appetizer for those who are more inquisitive about the intricacies of innovation. Comparatively *Breakthroughs!* (Nayak and Ketterringham 1993) is a much more satisfying book. It is about twelve cases of modern innovation of high business impact. They are at the same time full of details about chancy nature and fragility of innovation at its early stage and on the entrepreneurial struggle in the face of resistance and adversity. Stories on innovation such as these no doubt are inspiring but for many they are not explicitly instructional on how to encourage or manage the process of innovation. Especially for those who are under great competitive pressure to produce streams of innovative products on a regular basis, they want to know the process of innovation. They want to find ways and means of enhancing innovation productivity in order to beat the competitions in the game of product innovations. Hence books like *Winning at New Products, Managing New Product and Process Development,* and *Corporate Creativity* were written to address this need (Cooper 1993, Clark and Wheelwright 1993, Robinson and Stern 1997). With so many good books, not to mention hundreds of research papers written on innovation, filled with models, process charts, and check lists, is there a need for a metaphor of innovation?

The answer to the question above is -- in the realm of ideas, to paraphrase a local entrepreneur, "there is always room for one more". Besides, there are good reasons too. Most of us are now living in wired cities in a global village where citizens of the world are linked in cyberspace. Increasingly knowledge will be a primary driving force for future innovations and economic development in the 21st century. New perspectives on how information technology and knowledge management could affect the process of innovation are therefore potentially beneficial. Existing models of innovation, while still relevant, should be updated and complemented with modern extensions. The radar and radio metaphor is possibly one such extension.

RADAR PROCESSES SIGNALS, INNOVATION PROCESSES INFORMATION

Innovation traditionally has a technological bias and has often been associated with new products and processes. This however, is too narrow an interpretation of innovation. Innovation should also be interpreted as to mean business and administration process improvement, continuous improvement in the factory. It should also include new business concepts that bring forth new businesses. The Federal Express overnight delivery service using a hub and spoke air-freight system is a good example. Dell Computer's direct selling of personal computers and taking orders using the telephone is another example. Hence innovation can be broadly defined as the application of novel, but not necessarily new, ideas for gainful purpose.

If one were to study enough cases of innovation and the working principles of radar it would be easy to see that the front-end process of innovation shares an uncanny resemblance with the processing of signal in radar. This resemblance is especially vivid when looking at innovation from the perspective of information and knowledge processing. Table 1 pairs the similar concepts.

Table 1: The similarity between the front-end of innovation and radar.

Radar	Innovation Front-end
Scan and identify targets	Scan and identify opportunities
Input = Radio waves made up of weak signal buried in noise and clutter.	Input = Information made up of "a few gems buried in tons of rubbles"
Signal processing depends on • mixing of weak signal with strong local signals • boosted by amplifier • impedance level matching network • programmed by detection algorithms • possibility of human errors • antenna • multispectrum means versatility	Information processing depends on • mixing of vague ideas with strong disciplines • boosted by idea champion • entrepreneurial networking • programmed by corporate culture • possibility of computer assistance • absorptive capacity • multiperspective means flexibility

The radar was invented to scan the sky for enemy aircraft in WWII. It works by transmitting a directional beam of radio waves into the distant sky and capturing the very weak signals that bounce back from aircraft. The received signals from distant aircraft however are very weak. Usually they are so weak that they can be described as buried in noise or clutter caused by physical entities and phenomena e.g. a flock of birds, clouds, rain, hills and nearby objects.

Innovation begins with spotting opportunities. It is usually accomplished by purposeful and directional search amongst the different sources of innovation such as those suggested by Drucker 1985 and van Wyk 1997. Innovation however would also benefit from non-directional information gathering as would be explained later. As anyone who has gone through an opportunity scanning exercise would testify, the amount of information available is simply voluminous. Sieving this vast amount of information to identify the pieces that may have significant value is like spotting unpolished gems amongst tons of worthless stones.

To ensure a weak signal got detected a radar is equipped with a strong and stable local signal. The two signals are then mixed in a non-linear fashion so that the weak incoming signal could be translated into a signal that could be further processed.

Similarly a creative person draws on his knowledge and skills in order to make use of incoming information. Initial vague ideas are translated, for example through analogy, to other forms so that they could be processed further. This process of translating or transforming concepts or problems and its reliance on knowledge and skills are crucial to the creative process and are well supported by theories (Amabile 1983, Brown 1989, Root-Bernstein 1989).

Even when potential opportunities and initial ideas have been found, the difficulties of innovation do not diminish. In fact the opposite is true. Innovators must have the perseverance to see the ideas through. In radar there are amplifiers and matching networks that ensure the weak signals rise above the noise. In innovation, ideas need idea champions to attract attention and support that an idea originator is unable to muster. In fact a single idea champion is often not enough. It takes a network of entrepreneurial persons to build on the initially vague ideas, overcome resistance, and finally establish a project or venture formally. Resistance to change, disruption of existing order, and unproven ideas are just normal behavior.

Innovators and entrepreneurs do not moan about it. They just bypass, divert or outlast it (Nayak and Ketterringham 1993).

Radar engineers devise ingenious signal processing algorithms and heuristics that maximize the detection of signals and suppress noise and clutters. Similarly, organization designers should devise organiware that encourage the use of information to stimulate innovation and reduce the chance of being overwhelmed by information that represents noise and clutter. By organiware it is meant both soft and hard organizational factors. They include the basic philosophy and values of the organization, its mission and strategy, its reward system, organizational structure, norms, code of conducts and work procedures. Collectively and cumulatively these organiware create an organizational culture that helps to explain why members of the organization behave the way the do.

Radars are wonderful devices that enable the operators to see into the distance.

However, it is up to the human operator to call the shots. Many a times human operators ignore warning signals from the radars. Defenders on Honolulu chose to ignore the radar signals that indicate Japanese aircraft approaching on 7 December 1941, a peaceful Sunday morning before the first bomb fell. Radars have been improved so much that the potential for human error is greater than machine error. On the contrary, the potential of using information technology to assist people to innovate is only now being recognized. Here we are not talking about computer-aided design. Instead we are talking about using information technology to assist human in identifying opportunities for innovations or in the creative thinking process.

The capability of a radar is enhanced if it has a very large antenna. It can see more details of the target if it has a large antenna. On the other hand a single large antenna is very difficult to maneuver. So to overcome this problem engineers connect many small antennas together and their individual signals are added coherently. The result is very high resolution and agile radars. A radar's detection capability is also greatly enhanced if it is equipped with transmitters and receivers of different frequencies. The result is a multispectral radar. Multispectral radars have the advantage of versatility. They can detect a target using radio waves of different

frequency bands, in other words sensing schemes, and are less likely to be blindsided.

An organization's ability to absorb and assimilate information is called the absorptive capacity (Cohen and Levinthal 1990). The analogy between absorptive capacity and antenna is plain to see. An organization therefore should have as many of its members (antennas) to be watching out for innovation opportunities (Robinson and Stern 1997). Furthermore it should link its members in a coherent fashion in order to integrate and assimilate information more effectively. Having just a few people looking out for innovation reduce the chance of finding opportunities.

SERENDIPITY COMPLEMENTS PURPOSEFUL SEARCHING

Many great examples of innovation, e.g. Velcro and 3M POST-IT, show that serendipity often plays an important role in the process of innovation. Serendipity however presupposes sagacity. Sagacity may well be a personal trait. However, sagacity could also be raised when someone is on a purposeful journey or search.

When someone is being challenged with an objective or deeply engaged in finding a solution for a problem, chances are his sensitivity to incoming information is modified. The result is greater sensitivity to a certain kind of information that is associated with the problem. The same information would have no meaning to other observers or even the problem solver when he is not solving the problem.

In the invention of the 3M POST-IT, Art Fry was challenged to find application of a not-so-sticky glue that his colleague discovered. He finally chanced upon the idea of applying the glue to paper to make bookmark when a bookmark fell off from his hymn book in church (Nayak and Ketteringham 1993). It would be very doubtful that he would think of the need for a POST-IT type of bookmark if he was not challenged to find an application for the glue. A topical example would be the invention of the drug VIAGRA by the pharmaceutical company Pfizer. It was originally part of a research program looking for a drug to fight coronary heart disease. By chance it was discovered that the drug boosts erection in clinical tests.

Thus what started as a drug for heart disease became a drug to solve the male impotence problem (Stipp 1998). It would be debatable that this drug would be synthesized if the company was not searching for a heart drug. It is also debatable if the company would have gone into the business of making and selling drugs for male impotency.

These two examples illustrate that *the purposeful search for creative solutions and innovations would do well if it is complemented by open-mindedness towards the serendipitous gathering of information*. In other words using the metaphor, *a radar with its directional and purposeful search should be complemented with non-directional and random reception of radio signals*.

The above assertion obviously leads to the question. Could innovation be instigated by non-purposeful and random reception of information alone? After all George de Mestral was just taking a stroll in the countryside when his socks picked up some cockleburs--two random events. Yes that is true, but it was his subsequent purposeful observation of the cockleburs under the microscope that really led to the invention of Velcro. Thus innovation requires purposeful work. Innovation by luck alone is just a myth.

INFORMATION TECHNOLOGY AND INNOVATION

Computers have been helping engineers to design products faster. They also enable the design of products that are too complicated and complex to design otherwise. The value of computers and software in computer-aided design, engineering and manufacturing has been well proven. Since the introduction of groupware like Lotus Notes and the advents of the Internet and World-Wide Web, information search and retrieval have taken a quantum leap in efficiency. Some so-called enterprise knowledge management software have made their appearance also in the last few years. Such a software typically keeps a database of who knows what or where externalized knowledge are documented and kept. Furthermore, although it is not quite well known, computer-aided problem solving software have also been available for quite sometime. We are now connected by instant and far-reaching communications. So are we on the verge of computer-aided innovation and a new age called *innovation explosion* (Quinn, Baruch and Zien 1997)?.

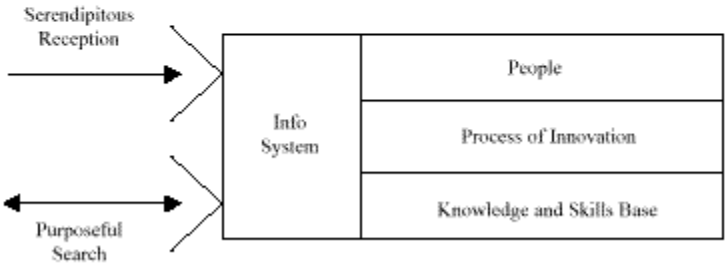
The key in answering this question lies in the understanding of innovation as a social process. It is also a trial and error process. What information technology can easily achieve are as follows.

· Increase the number of trials and enhance the cumulative probability of success.
· Widen the scope for finding creative solutions by increasing the reach for multiple perspectives and expertise.
· Increase virtual contact of people in cyberspace.

What is still not clear is whether information technology can enrich the quality of interaction. Arguably a public chat-room buzzing with random, shallow exchange of views is unlikely to be a cyberspace conducive to innovation. Nor is it a place where intellectual property rights can be protected and confidential information revealed.

What could be a design guide for an IT system that can aid innovation is the radar metaphor for innovation. Such system has to encourage purposeful search for opportunities and creative solutions and yet opens to random stimulation that induces insight. Figure 1 shows an initial schematic representation of the system.

Figure 1: Innovation as an information driven, knowledge-based social process.



However, innovation is a social process, a human endeavor with emotional motivation and attachment. IT perhaps could only play a minor role in the human aspects of

innovation.

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THE CONTRIBUTION WHICH RTOS MAKE TO INNOVATION AND COMPETITIVENESS AMONG SMES IN UK INDUSTRY

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ABSTRACT

The research and technology organizations (RTOs) represent a significant and growing part of the industrial research and development effort of the UK. The RTOs' activities span an extremely wide range of disciplines from life sciences to engineering. Their work includes fundamental research, developing and designing innovative products or processes, instrumentation testing and certification, and technology and management consultancy. Each organization is legally, financially and commercially independent and has a long-standing reputation for quality and technical excellence in its fields. The RTOs have a combined staff of over 8000 and a research turnover exceeding £400m. The RTOs seek to encourage technology transfer and exploitation by helping to develop and support government and private sector initiatives, and are working to ensure that small and medium-sized enterprises (SMEs) can share in the UK's wealth of research and technology expertise as well as larger enterprises. This paper attempts to show that RTOs help provide an extensive network for the SMEs, embodying most technologies and industrial sectors on the one hand, and strong links with manufacturing industry on the other. The RTOs collectively interact with some 30,000 SMEs annually and therefore uniquely understand the industrial demand pull for technology. The paper also argues that the RTOs play an important role in addressing one of the main weaknesses of the UK's innovation system, i.e. the inadequacy of the "bridging effect".

1. INTRODUCTION

The manufacturing sector in the UK contributes 21% towards the national GDP and creates over 4 million jobs (CBI National Manufacturing Council 1997, p.5). A recent study has shown that the manufacturing SMEs (>20 employees) do not invest sufficiently into R&D. Whilst 10% spend 10% of their turnover on R&D, 33% spend nothing. 36% employ no qualified scientists or engineers, yet SMEs rate their own internal resources as the most important source of innovation (DTI 1998). The RTOs play a vital role in helping the SMEs in acquiring the complete range of skills in order to innovate. This is shown in a recent study which has found that the links between manufacturing SMEs and RTOs have strengthened and increased between 1990-96 (CBI/Nat West Innovation Trends Survey 1997).

One of the greatest requirements of SMEs is to improve their technological base. Out-sourcing or contracting out is one way of complementing their R&D resources. Research shows a variety of reasons why companies, especially SMEs, contract out R&D work (Ringe 1991, pp.45-50). These are in broad order of importance:

- access to expertise, which includes complementary, deeper, often multidisciplinary and new skills. Also important is access to business and technical intelligence.
- access to specialist techniques and equipment.
- access to additional R&D manpower and capacity. The SMEs' own facilities may be fully utilized and/or diminished due to the recession, and RTOs may provide extra resources.

· control over R&D timescale and budget. Working with RTOs can improve the speed and share the costs of technological development.

The RTOs have an impressive track record in technology transfer and adaptation. They play an important role in the diffusion of technology, which has been shown to be just as important for the economy as innovation (The Economist 1997, p.76). This is particularly true in the transfer of technology to SMEs in basic manufacturing industry. In the case of large high tech companies, such as those within the pharmaceutical industry, the interaction between the academia and research departments in this industry is extremely good. There is a common understanding of the problems, a constant exchange of personnel and ideas, and technology flows naturally between the academia and the pharmaceutical industry. This is not the case in SMEs in basic manufacturing industry.

There is a culture gap between the academia and the personnel employed in SMEs, with very little exchange of personnel and ideas. Hence intermediate organizations are important; organizations such as the RTOs have close links with the academia and also with the SMEs, who are an important part of their membership and client base (Böttger 1987, pp.12-15).

The idea of having intermediate organizations is not unusual. In countries like Germany, great effort has been put into building extensive network of non-profit R&D institutions supporting SMEs in refining existing manufacturing technologies for key markets and in spreading this knowledge among as many SMEs as possible (Blau 1993, pp.2-3).

2. RTOs' P0SITION IN THE UK INNOVATION SYSTEM

National research around the world is undergoing profound changes. The shift towards a multidisciplinary approach in conducting research, a growing number of research collaborations amongst previously competing partners, the reformulation of group activities to reflect enterprise demands, have focused current interests in innovation into building linkages between industry and other organizations. The present environment of most business enterprises is characterized by uncertainty, by increased domestic and international competition, by the complexity of customer needs, and by the high level of knowledge required to satisfy this challenge effectively and efficiently. The development of organizational knowledge has thus become the foundation on which the firm bases its competitiveness and innovativeness. At the same time, decision-makers realize that it is becoming more and more difficult for an organization to meet this challenge alone (Raymond et al. 1996, pp. 275-279). One of the key factors in successful innovation is the firm's determination to create and establish effective external scientific, technological and related networks (Rothwell 1991, pp.95-98).

Innovation in practice is becoming more of an inter-institutional networking process. Within the context of declining industrial R&D in the UK, access to external sources of technology and related expertise becomes an even more crucial factor for companies. In other words, as internal R&D stagnates or declines, the existence of a strong, dynamic and supportive external R&D infrastructure becomes an increasingly key element in the overall innovation network. A crucial element, then, in the UK's innovation system, which includes technology supply, innovation-oriented demand, investment and risk capital and in-house R&D, is the size and breadth of the scientific and technological infrastructure and its effectiveness. A simple schematic representation of the UK's innovation system is given in figure 1. The figure shows that RTOs play a pivotal role as the UK's most comprehensive network of bridging institutions,

transferring results of infrastructural R&D, both national and international, into industrial practice. In some, mainly traditional sectors in which industrial R&D is small, RTOs are the major R&D performers. As part of the network, the RTOs can make a significant impact on the national system of technological innovation by helping in creation, generation, diffusion and exploitation of knowledge. The RTOs have a central role in the UK's innovation system by providing an incentive for networking and transfer of tacit knowledge and competencies, and comparative advantages that are aimed at both improving international competitiveness and building national advantage in domestic industries.

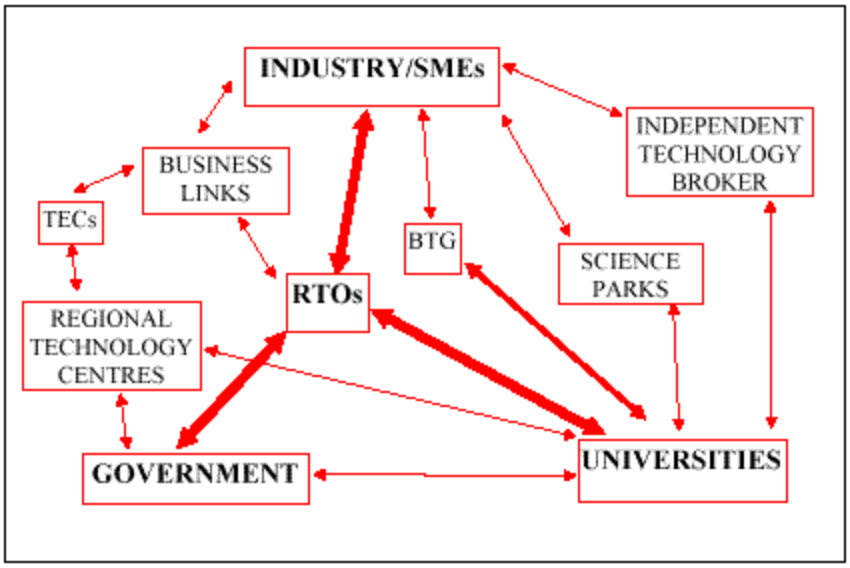

Figure 1: The UK's innovation system - Main organisations. Source: Rothwell 1991.

International linkages are an increasingly important aspect of RTOs' activities. As well as earning substantial export incomes, they act as a valuable conduit, bringing research findings worldwide into the UK's innovation system. They assist UK firms to deal with international standards and regulations, including the recent proliferation in the environmental fields.

3. ENHANCING THE COMPETITIVENESS OF SMES

3.1 Meeting the Needs of SMEs

The RTOs offer a range of sophisticated services that complement SMEs' technological activities as shown in figure 2. For example, Smith System Engineering offers high level mathematical and operations advice in areas such as system studies, procurement support and policy support as well as contract research. RTOs are not simply passive repositories of technological expertise to be drawn upon by clients. They can be original innovators in their own right. Due to the pressure over the last 10 years, RTOs have moved their R&D activities nearer the market, and the increased demand from some customers for actual rather than potential products has encouraged RTOs to sell or hire out their specialized products. These may include precision testing equipment, but may also encompass other products which the RTO has developed and decided to produce, market and license itself.

On occasion this has led to the creation of spin-off companies. By demonstrating innovativeness themselves they can vicariously trigger innovation and related actions in SMEs.

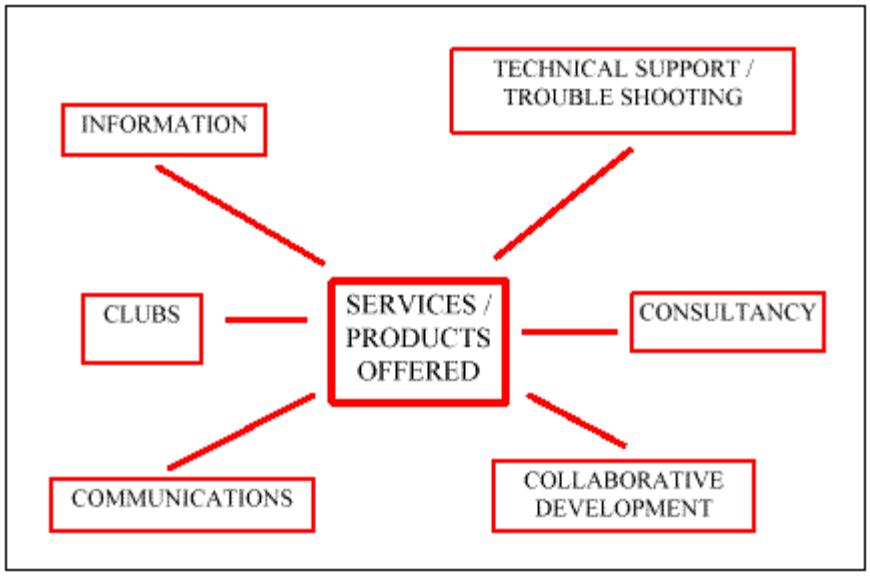

Figure 2: Services/products offered by RTOs

The types of services/products offered to SMEs are as follows (Tan 1992, pp.255-288):

· information services covering technical, commercial, regulatory, products, sources, etc.; These range from information on technical standards and materials properties to signposting services and market information. Importantly, RTOs can act as one-stop-shops to provide integrated packages of information and advice.
· technical support and troubleshooting on demand. RTOs provide access to sophisticated test and analytical equipment and related services which are beyond the financial and technological capabilities of many SMEs. Increasingly, the RTOs are acting as agents for the development of new test methods in anticipation of legislative conformance on improved performance requirements. The RTOs recognize the importance of off-the-shelf technology, as opposed to 'advanced' or 'latest' technology, where appropriate. There is evidence to show that they can assist both SMEs that have little or no in-house R&D expertise and those of high R&D intensity (Rothwell 1991, pp.93-112).
· consultancy for technical and business process improvements. The RTOs assist the SMEs in the adoption of quality-oriented processes and techniques. This is crucial today when accreditation for BS5750 and international ISO standards is an increasingly important factor in customers' decision making, both at home and abroad. RTOs are also centrally engaged in the development of new national and international standards.
· collaborative development and application of technologies. The RTOs offer advice on manufacturing management and skills development, and assistance in the evaluation, adoption and absorption of advanced manufacturing equipment. This is extremely important for UK industry which has generally lagged behind competitors like the USA, Japan, Germany and Sweden, both quantitatively and qualitatively, in the adoption and effective use of modern production technology. Furthermore, UK companies have experienced considerable difficulties in achieving satisfactory returns from their investment in these technologies.
· clubs to promote and implement e.g. benchmarking, manufacturing improvements, best practice. RTOs are active in helping to establish large/small firm partnerships. These appear to be growing in importance in a number of industry sectors, although large firms and SMEs face considerable problems in initiating and managing them. RTOs can act as brokers, both within and across industry sectors.

· communications within the sector through newsletters, reports, etc. RTOs help to translate the meaning and implications of British and foreign regulations. This is especially important for SMEs but is becoming an increasingly significant activity for firms of all sizes, especially in the case of environmental regulations.

Quite often, these services are offered on an annual subscription basis. Technical support and troubleshooting is immensely valuable to a SME but costly to provide on an individual basis. Most RTOs operate an "insurance" type scheme, at a lower effective cost per customer, whereby SMEs pay an annual amount for a guaranteed level of support which can be called upon as required and at short notice. This contribution in turn enables the RTO to maintain the necessary expertise to cover a wide range of eventualities. The RTOs also provide strategic and technology leadership to SMEs. Another additional service is the provision of access to/from external bodies such as government departments, universities/research councils, and professional bodies.

The RTOs align themselves both with populations of SMEs (i.e. within an industrial sector and its associated supply and distribution chains) and with technologies. Examples of sector targeting are printing, publishing, packaging and paper, ceramics, food. Examples of technology targeting are hydrodynamics, production engineering, welding/joining. This makes it easier to establish close contact with defined sets of customers, determine needs, define and promote common services/products, and employ high quality and relevant staff.

Targeting also enables human and capital resources of critical mass to be deployed in a cost-effective way at a lower cost per customer. Through close and ongoing contact with sets of customers RTOs identify common needs, whether these be for research, information, test methods, best practice, information, or other services. Services/products can therefore be developed whose cost is spread over a large number of customers, again lowering the cost per customer (Tan 1992, pp.151-176).

3.2 Carrier Technology Program (CTP) - Transferring Technology to SMEs

Changes in the innovation environment are a common concern not only for national policy makers but also for industrialists and technology producers. In this regard, the formation of networks and clusters of innovation is a useful concept to transform both tangible and intangible knowledge systems into embodied and disembodied technical change.

The CTP is a good example of how RTOs transfer technology to SMEs. The CTP, in which the RTOs have played an important role, was launched by the Department of Trade and Industry (DTI) in June 1992. The program was designed to ensure the participation by a significant and relevant proportion of SMEs in industry sectors. The CTP was seen as a mechanism to transfer technology across sectors and additionally, as a means of improving the return on the long term investment in research made by government and industry by enabling wider uptake (AIRTO 1997b, pp.1-3). The objectives of CTP are to provide:

· focused technology transfer in support of specific sector initiatives
· a mechanism for interacting with research programs to deliver technology adaptation, transfer and dissemination
· an effective bridge between university specialism and industrial technology needs.

Figures 3 and 4 illustrate different approaches to structuring a CTP project. Figure 2

represents a simple project based around a sector focused RTO. Having identified technology to meet a specific sector need, a consortium is formed with the sector based RTO, a technology donor organization which is generally another RTO or a university, and a group of companies from the recipient sector. The development, adaptation, demonstration and dissemination is undertaken by the consortium, with wider dissemination of the benefits of the technology to companies outside the project.

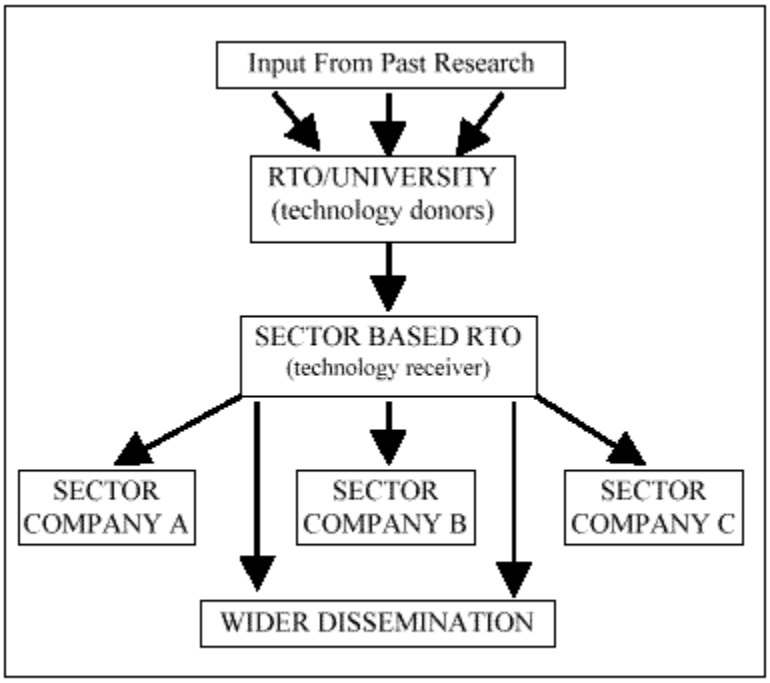

Figure 3: A sector RTO approach. Source: AIRTO 1997b.

Figure 3 illustrates a more complex structure involving the transfer of a technology to two recipient sectors. In this case, there is also a supply chain element involving collaboration between the donor RTO and technology suppliers to develop and adapt technology to be suitable for the recipient sectors. In many cases, where the technology suppliers may be small companies themselves, there is a real opportunity to help them upgrade their own technology and they themselves may receive significant technology support from the donor RTO. The consortium ensures that the technology needs of the recipient sectors have been correctly assessed and collaborates to develop an appropriate solution. Technology demonstration and assessment is undertaken by the consortium and is followed by broader dissemination beyond the consortium.

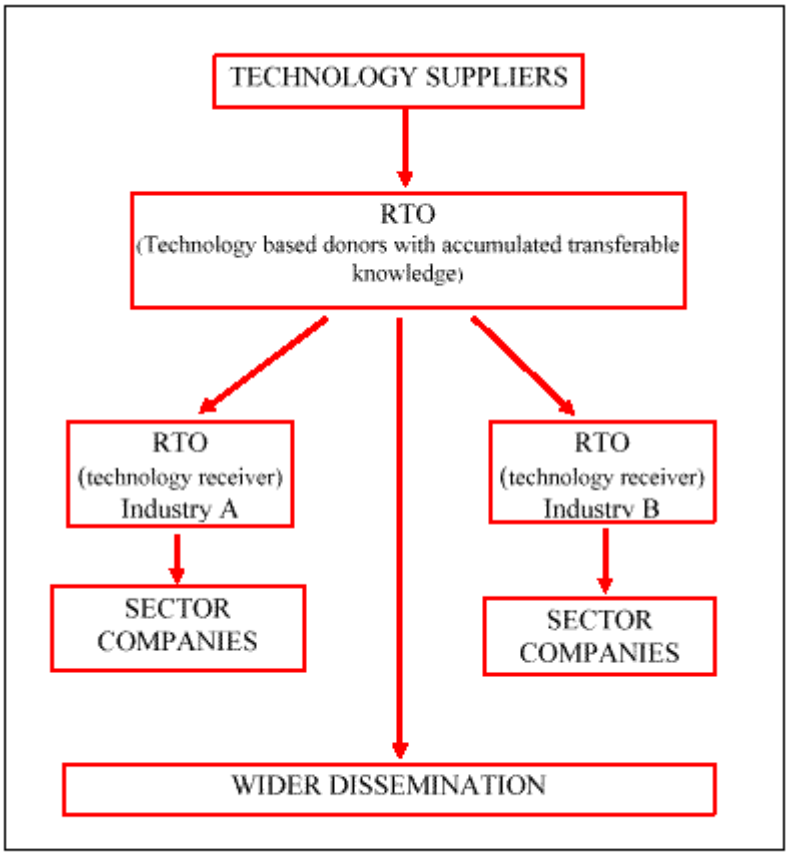

Figure 4: Multi RTOs approach. Source: AIRTO 1997b

Through the achievements of the projects undertaken to date the CTP management committee has concluded that the CTP demonstrated the effectiveness of a cross sectoral approach to technology transfer to SMEs. The 'needs-led' approach has focused the projects on real competitiveness issues. The UK framework for technology transfer has been enhanced through the new collaborations which have been formed and through the development of new collaboration structures. The committee has also proven that the CTP can accelerate the transfer and commercial uptake of technology by sectors (AIRTO 1997b, pp. 3-4).

4. CONCLUSION

This paper has shown firstly that RTOs have been assisting SMEs at all phases of the innovation process. This ranges from basic and applied research, through product design, development and manufacturing to market introduction. Also of importance is the fact that the broad range of expertise (technical, manufacturing, managerial, marketing) contained within individual RTOs means that they can play a crucial role in bridging the various interfaces often present during innovation. For example, by combining product design and manufacturing know-how, RTOs can advise SMEs on 'design for manufacturability' and 'design for quality' aspects.

Secondly, the RTOs have helped the SMEs to respond rapidly to factors resulting from the convergence of technologies, shorter product life cycles, increased competition and rapid changes in technology and market. By playing a pivotal role in the UK's innovation system, the RTOs as part of a network, have made a significant impact on the national system of

technological innovation by creating, generating, diffusing and exploiting knowledge.

Thirdly, the RTOs have helped the SMEs through the formation of innovation clusters. The CTP is a good example of how innovation clusters could be bred in order for SMEs to take advantage of technology development. This is possible because of the strong linkages that RTOs have between technology suppliers and users. The CTP has provided a stimulus to the development of wider network between users and producers of knowledge and integrates generic technology with market and economic networks.

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ON THE ROLE OF ENTREPRENEURSHIP IN SOCIETY

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ABSTRACT

Our understanding of entrepreneurship has traditionally been formulated under the lens of individual streams of literature, i.e., economics, psychology, sociology, and our understanding of the role of the entrepreneur in society has depended on the scale of magnification one chooses to view society. As we rapidly approach the third millennium, venturing further into the information economy and distancing ourselves from the production economy, major changes are occurring in society. Managing change, of course, is nothing new to the entre-preneur who has survived many changes over many centuries. This paper briefly reviews how entrepreneurship has been treated by some authors in three traditional streams of literature - economics, psychology, and sociology. Characteristics of the changing society are noted and it is suggested that each stream, alone, is not sufficient to understand the role of the entrepreneur beyond 2000. The conclusion offers suggestions for effective policy-making including: more interdisciplinary collaboration - bringing together knowledge specialists and knowledge integrators, more sharing of information, establishing research agendas, and private/public sector partnerships in research.

INTRODUCTION

Is the role of the entrepreneur in the new economy changing? How do we improve our understanding of the entrepreneur beyond 2000? As policy makers, how will we best serve the needs of both entrepreneurs and society? These are just some of the questions that come to mind as we edge closer to 2000, venturing further away from the production economy and further into the information economy.

Entrepreneurs and entrepreneurship are important to society. For example, the twenty-member Organization for Economic Cooperation and Development (OECD) reports that small- and medium-sized enterprises (SMEs) make up over 99% of enterprises in most economies, contribute 40% to 80% of employment, and are often responsible for over half of private sector gross domestic product. The *Small Business Quarterly* reports that there are over 2.5 million SMEs and 943,000 employer businesses that account for almost 45% of employment, generate 43% of private sector economic output, and represent a substantial amount of job

growth in Canada. In addition, the self-employed sector now represents about 17% of the employed Canadian labour force - up from 12.3 % in 1981. Besides economic measures such as employ-ment growth (Birch, 1981; 1987) and new business creation (Gartner, 1985), entrepreneurship contributes in other ways to society including job training (Brown et al, 1976), home-based business (Spencer Hull, 1986), national identity, and leadership (Bolton, 1971).

Society, taken from the Latin word *sociare,* means to join together. All types of society, i.e., hun-ter- gatherer societies, tribal societies, pastoral societies, agrarian societies, learned societies, feudal societies, capitalist societies, communist societies, professional societies, industrialized so-cieties, etc., share the common characteristic of being systems of interrelationships that bind individuals together in social groups (McLeish, 1993). Society is also viewed as a distinct object (Durkheim, 1966) that constrains and shapes individual actions.

Entrepreneurs have survived in many societies over many centuries. From the early days of artisanship, to the colonial and the revolutionary periods, to the industrial revolution, to the post-industrial era, and now, to the information revolution in the new economy, the entrepreneur is alive and well. However, our understanding of entrepreneurship has traditionally been formulated under the lens of disciplines such as economics, psychology, and sociology. And, while each discipline offers valuable insights into the concept of entrepreneurship, each alone fails to provide a complete understanding of the role of the entrepreneur in society.

A brief overview of some of the insights from each of the three disciplines and some of the characteristics of the new economy will be described. It will be suggested that, to better understand entrepreneurship and the entrepreneur in the new economy, interdisciplinary approaches to research and policy-making should be considered. Suggestions on how this might be achieved will be offered.

AN ECONOMICS LENS

Entrepreneurship was first described in economic terms by Cantillon (1755) who defined the components of trade - the entrepreneur, the village, the market-town, the community - and the relationships between producers, suppliers, and consumers in the market. The Cantillon entrepreneur, whether an undertaker, a land-owner, or a craftsman, is seen as an “in-between”, a speculator, who assumes the risk of buying goods, or parts of goods, at one price and attempts to sell them for profit, either in their original states or as new products.

Say (1852) defines an entrepreneur as a person who judges, combines factors of production, and survives crises. The Say entrepreneur is known for his/her value-added gained through applying knowledge-based inputs and technical ability. Knight (1921) views the entrepreneur as a sort of economic pioneer who initiates change or innovation by managing uncertainty and risk. The Knight entrepreneur does this either by effectively managing economic resources or by delegating this function to others.

Hayek's (1945) entrepreneur often functions without the benefit of perfect market knowledge. That is, the entrepreneur never has complete or perfect information to work with but merely `dispersed bits of incomplete and frequently contradictory knowledge'. Therefore, the entrepre-neur, in this sense, must be quick to adapt to market changes for survival.

The Austrian architect, Schumpeter (1961), believes that entrepreneurs `carry out new combina-tions' by innovating and continually reorganizing the economic system, i.e., creating new products, new methods of production, new markets, new sources of raw materials, or new organizations. Schumpeter (1965) also describes the important leadership and decision making roles that entrepreneurs play in terms of their contribution to economic development.

Liebenstein (1968) suggests that successful entrepreneurs are those that are able to overcome market inefficiencies such as incomplete labour controls, unspecified production functions, or lack of available inputs. According to Liebenstein, there are two types of entrepreneurs: 1) routine entrepreneurs that manage day-to-day operations and, 2) new entrepreneurs that function as gap-fillers, input completers, or R&D drivers. However, both are able to maximize profits by coordinating resources. Similarly, Casson's (1982) entrepreneur is someone that is able to make decisions about the coordination of resources; the Casson entrepreneur is able to exploit opportunities using incomplete information and knowledge.

Bolton (1971) outlines several economic functions of entrepreneurs in society including: creation of opportunities for potential economic independence, organizational efficiency, supply inputs, product and service variety, checks on monopoly profits, market innovation, and providing seedbeds from which large companies will grow. Kirzner (1973) believes that entrepreneurs' contribution to economic development stems from their alertness to both identify and exploit market opportunities. To the Kirzner entrepreneur, knowing where to look for information is more useful than merely having some market knowledge. Finally, Baumol (1993) argues that entrepreneurship is a vital component of productivity and growth. As imitators or innovators, entrepreneurs continually disturb market equilibria either productively or destructively, which gives rise to growth.

A PSYCHOLOGY LENS

Some authors in this stream suggest that there is a link between the propensity for entrepreneur-ship and an individual's personal traits. For example, Pickel (1964) believes that successful entrepreneurs possess certain personality characteristics such as: drive (responsibility, vigour, initiative, persistence); technical knowledge; thinking ability; human relations skills (sociability, consideration, cheerfulness, tactfulness), and communications skills. Hornaday and Bunker (1970) suggest that other characteristics are associated with entrepreneurship including: confidence, perseverance, determination, energy, resourcefulness, ability to take risks, versatility, creativity, ability to influence others, independence, and perceptiveness.

Others emphasize the individual's motivation and related personality characteristics. For example, Kets de Vries (1977) believes that degree of impulsiveness and adaptability are related to entrepreneurial success. Stanworth and Curran (1981) describe entrepreneurs as people who possess strong mental attitudes, i.e., those who have an intense desire for independence, or those who are extremely unhappy working according to somebody's rules or under someone else's control. And, McClelland (1976) suggests that one of the key factors of a nation's economic development is the motivation of the entrepreneur. To McClelland, whether a country is developed or underdeveloped, and regardless of variations in opportunity and social structure, entrepreneurs with high achievement needs will almost always find ways to maximize economic achievement.

Another thrust in the psychology stream of literature is Rotter's (1966) work on locus of control

which is based on the extent to which individuals perceive whether or not the outcomes of events are within, or beyond, their control. Individuals who fall in the latter category tend to believe that fate, destiny and luck control key decisions and may opt for more passive or reactive strategies. Those “internal “ individuals, on the other hand, believe that they control their own destiny and,according to theory, are much more likely to be entrepreneurs. Rotter's entrepreneur, therefore, is a high-achieving individual with an internal locus of control.

Finally, Brockhaus (1982) takes a broader approach by describing three categories that influence, omotivate, entrepreneurship: 1) psychological characteristics, i.e., need for achievement, locus of control, and personal values; 2) past experience, i.e., dissatisfaction with previous work, influence of a mentor; and, 3) personal characteristics, i.e., age, level of education. Stanworth and Curran (1981) would add to this list other significant events such as an individual's failure in traditional and/or structural roles, desertion, death, neglect and poverty.

A SOCIOLOGY LENS

Most modern day thinking originates from one of three pillars of sociology and the classical paradigms that emanates from each. Weber's (1976) work on symbolic interactionism examines how people create and use symbols and the subjective meanings that help guide their social conduct. Weber would try to understand the entrepreneur and his/her contribution to society by examining the way (s)he manages social relationships. Weber's notion of the entrepreneur also includes the concept of social marginality, and exclusion from communities, based on ethnicity or gender. Religious beliefs, in some cases, can also generate entrepreneurial behaviour by reinforcing a solid work ethic, a task orientation, and a desire to save now for later material benefits. Durkheim's (1966) concept of society is influenced by social order and stability, or structural functionalism. To Durkheim, an entrepreneur's behaviour could be both explained and influenced by the social structure surrounding him/her. And, Marx's (1968) work on conflict theory would depict the entrepreneur as the underdog caught in a dynamic struggle for economic survival against those with money and power.

Parsons and Smelser (1956) argue that entrepreneurs integrate, arbitrate, and regulate sub-systems within a society and an economy. Because societies and economies are static, and rarely at equilibrium, entrepreneurs are ideally seated to manage both changes and conflicts between individuals and systems. Barth's (1967) work on the study of social change led to his belief that entrepreneurs are agents of change because of their innovations and impact on the communities in which they live.

Storey (1982) argues that entrepreneurs play roles as creators of competition and employment, as the seed corns of tomorrow's major corporations, and as alternatives to the bureaucratic employer-employee relationship. Hagen (1960) believes that entrepreneurs are motivated to prove themselves worthy citizens in the eyes of the social elite by excelling in the business world. Hagen's entrepreneur is a rebel of sorts, a risk-taker, a problem-solver, and someone who is marginalized by the mainstream, i.e., considered to be an `outsider' by the society.

Finally, Vesper (1980) believes that other factors, such as role expectations of children and parents, social deviance, warfare and invasion, migration, attitudes toward innovation, wealth, and class distinctions with respect to work, can influence entrepreneurship.

From this brief review, one can see how entrepreneurship has been treated through different lenses. For example, through the economics lens, references are made with respect to economic growth and development, job creation, innovation, organization of resources, exploitation of opportunities, new arrangements, speculation, inputs and outputs, factors of production, marketincentives, availability of capital, supply and demand, market inefficiencies, economies of scale, and imitation. Through the psychology lens, concepts such as motivation, need for achievement, risk-taking ability, locus of control, esteem, independence, and a broad range of other personality traits and characteristics, are related to entrepreneurship. And, finally, through the sociology lens, we gain another perspective of entrepreneurship by examining social relationships, marginality, deviance, religious beliefs, social order and stability, class distinctions, conflicts and struggles, migration, values, culture, language, and regulation of the social system.

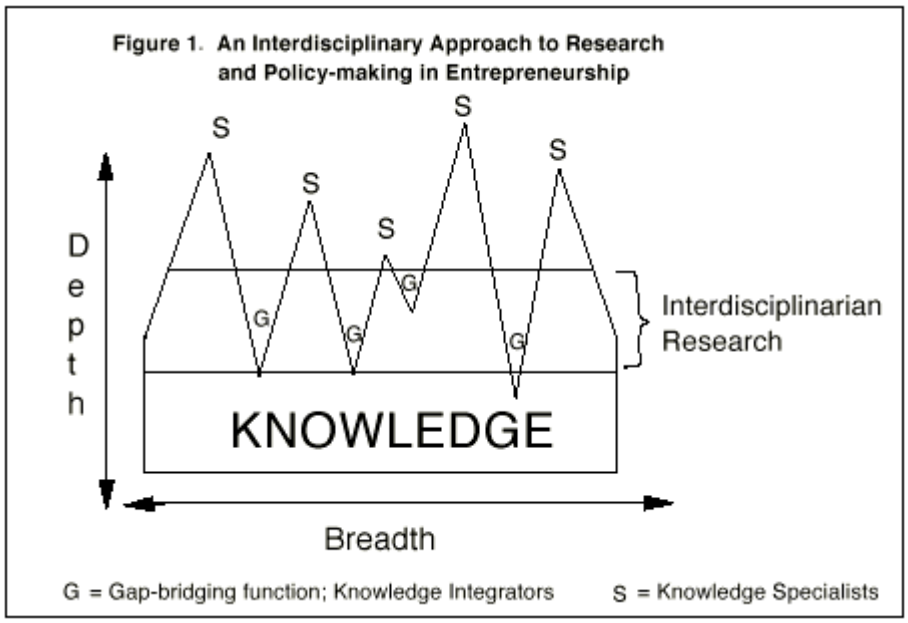
However, individually, each of these lenses is limited in scope. For example, many economists do not speak of entrepreneurs as individuals but make reference to the functions they serve or their roles in society. Similarly, viewing individual traits without some consideration of social or economic structures, or examining deviance in the absence of certain personality and economic theories, may not provide the best overall understanding. In other words, both economic and non-economic factors can be useful.

AN INTERDISCIPLINARIAN APPROACH

In this paper, the debate over which stream or discipline is most useful has been avoided. Any judgment concerning the effectiveness of a specific theory for explaining or improving our understanding of the entrepreneurial process depends upon the specific policy-maker or researcher. For example, one can view the entrepreneurial process as a machine that runs itself (Adam Smith view) or as one driven by the individual entrepreneur (Cantillon view); both are sound, and both useful.

However, although these individual disciplines provide different insights for recognizing underlying values, themes, or theories, it may not be prudent to suggest that our quest for knowledge of entrepreneurship can be fulfilled by focusing on only one school of thought. Accordingly, it seems as though the study of entrepreneurship is one that is also interdisciplinary; that is, the study of entrepreneurship spans across several disciplines.

A model of an interdisciplinary approach to research and policy-making appears in Figure 1. According to the model, there is a trade-off between the depth and breadth of knowledge - generalization versus specialization. On the one hand, an adequate breadth of knowledge in a particular subject is required before specialization can occur. On the other hand, too narrow a focus can sacrifice breadth for depth. What often results in our institutions, i.e., university faculties, government departments, etc., are artificial chimneys that block the lines of communi-cation between specialists. How often does a marketing expert communicate with an accounting expert, or an economics expert with a policy expert? And, even within a management depart-ment, how often do policy experts really communicate with organizational behaviour experts? The same can certainly be said in the government setting, both within and across departments.In order for the model to work, we must adapt an attitude similar to most entrepreneurs; that is, since many entrepreneurs do not compartmentalize their departments in day-to-day work, perhaps we should try to reduce the barriers



that often restrict our research and policy-making efforts across boundaries in entrepreneurship. The interdisciplinarian may be a specialist in a certain area, say economics, but she has the ability to communicate, to coordinate, and to bridge the gaps in expertise to contribute to a better understanding of entrepreneurship as a whole. This requires an appreciation of the various paradigms, the problems related to interdisciplinary management, knowledge of the issues, familiarity with available tools, and commitment to the need to maintain an interdisciplinary approach.

The interdisciplinarian, then, strikes a delicate balance between the breadth and the depth of knowledge, what is known and unknown, and is able to address issues and to help solve problems cutting across several disciplines as a knowledge integrator. The interdisciplinary approach would bring together people from different backgrounds, i.e., academics, policy-makers, private sector, entrepreneurs, and from different specializations, i.e., economics, sociology, anthropology, history, statistics, psychology, to learn about each other's methodologies, theories, and practices, and perhaps to build awareness, to develop new theories, or to create new applications. In this way, the benefits of specialized knowledge from specific disciplines can be better integrated with general knowledge from various fields.

THE CHANGING SOCIETY

As the world adapts to the information economy, so to is Canadian society changing. First, there

are key demographic changes. For example, Canada's population is aging due to a combination of low fertility (currently 1.7 children per woman) and increasing life expectancy (currently 81 years for women and 75 years for men). There are roughly 200,000 immigrants that come to Canada annually, a number that is growing. The four largest metropolitan areas - each with a population exceeding 1,000,000 persons - account for 35.4 % of Canada's total population while the largest 16 urban areas account for 56.2% of the total population in Canada.

Second, the nature of work is changing. Mass corporate lay-offs and restructuring have helped

boost the self-employed sector (currently 17% of the Canadian workforce) and create more part-time, contractual, and seasonal work. Effects of technology in the workplace have generally increased demand for high-skilled, knowledge workers, and reduced demand for low-skilled workers.

Third, the new economy is increasing the demand for the management of information and the required computer knowledge to manage that information. According to a Madison Avenue Demographics survey, the penetration rate of computers has increased from 19% of Canadian households in 1991 to 28.8% in 1995.

Fourth, new combinations will create new industries as technological advances and globalization make it easier and less expensive to manufacture products or to deliver services. The Internet, and other computer-based technologies, will enhance our ability to access information, expand our knowledge base, and speed up our response to clients.

Some people are extremely reluctant to accept the changes. Consider the following:

> “The world is too big for us. Too much going on, too many crimes, too much violence and excitement. Try as you will, you get behind in the race, in spite of yourself. It is an incessant strain, to keep pace...and still, you lose ground. Science empties its discoveries on you so fast that you stagger beneath them in hopeless bewilderment. The political world is news seen so rapidly you're out of breath trying to keep pace with who's in and who's out. Everything is high pressure. Human nature can't endure much more!”

However, change is a remarkably constant aspect of our lives and, as the above excerpt (Atlantic Journal, June 16, 1833) indicates, there were skeptics even some 165 years ago. In the nineteenth century, society was just as apprehensive about changes due to the Industrial Revolution. But, entrepreneurs prevailed against those great changes that gave us electricity, cars, household appliances, and entirely new industries with entirely new categories of jobs. Despite these, and many other changes, entrepreneurs will survive the shift into the information economy.

CONCLUSION

The information economy is providing us with new and better ways of doing business, doing research, and delivering services. As researchers and policy-makers, we can capitalize on these opportunities, too, by adopting interdisciplinary approaches to better understand the role of the entrepreneur in society beyond 2000.

First, we need to understand both the demographic characteristics of entrepreneurs and the market structures in their economies. This may require partnerships and collaboration with researchers, statisticians, and other policy-makers in monitoring and analysing such data as small firm dynamics (births, deaths, entries and exits from industries), general performance trends (jobcreation, net business growth, self-employed, exports, bankruptcies), and emerging markets (new industries, new products).

Second, more dialogue is needed. Interdisciplinary fora can greatly enhance the level of knowledge both within and across jurisdictions. Working committees, advisory committees, inter-governmental consortia, national and international conferences, and industry-academic-

government meetings can be effective mechanisms to bring together different people to discuss policy directions, research needs and agendas, data requirements, and other topics related to entrepreneurship.

Third, more understanding is essential. It is difficult for people across disciplines to work together if they do not know each other, or at least appreciate each other's perspective. For example, in the academic world, psychologists and sociologists can offer their expertise in using empirical techniques, i.e., surveying and interviewing entrepreneurs, to traditional economists who work deductively. Outstanding professors and scholars from disciplines related to entrepre-neurship could be invited to teach in business schools, perhaps under mutual exchanges with those who teach entrepreneurship. Experienced entrepreneurs and government officials could be encouraged by universities and colleges to act as advisors, seminar leaders, and lecturers. Interchanges between industry, government, and universities could help facilitate more interac-tion.

Fourth, creative ways of doing research need to be developed. When Arthur Harrison Cole (1942) created the *Research Centre in Entrepreneurial History* at Harvard University, he adopted an inclusive notion to entrepreneurial research, one that drew no hard boundary lines. Cole's philosophy meant that almost anything of interest to a social scientist or historian was considered relevant to entrepreneurship research. As a result, several approaches to entrepreneurship research were developed including biographies, case histories, cross-sectional analyses of the state of entrepreneurship at different points in time, in different industries, or in different functions. Later on, Schumpeter (1965) called for similar collaborative research efforts in studying entrepreneurship including general economic histories, and specific studies of economic change. The point is, after centuries, we, as a society, really do not completely understand entrepreneurship. In order to do so, it makes sense to integrate the best ideas from specific disciplines using the latest research and policy-making techniques.

Finally, as a society, we can learn a lot more about the entrepreneur if we were to adopt a proactive attitude. Regardless of the discipline or the occupation, we can only learn about entrepreneurs if we understand them, and we can only understand them if we know them. What individuals value is strongly influenced by the culture of the society in which they happen to live. Different values are an important aspect of the diversity of human culture. But, what really counts is how we recognize those differences and use them to further our knowledge:

> “The contribution of entrepreneurship to the vitality of society is inestimable. The qualities of vigour, enterprise, and ambition which characterize so many entrepreneurs have made them natural community leaders and they have been benefactors to their localities, to the arts, and in many other ways, which help to make life meaningful and pleasant. Above all, their spirit of independence is a strength to the nation” - J.E. Bolton, 1971.

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A COMPARISON OF THE ETHICAL INCLINATIONS OF MALAYSIAN AND NEW ZEALAND BUSINESS STUDENTS

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ABSTRACT

Samples of business students in New Zealand and Malaysia indicated that ethical predisposition is seemingly higher in the Asian country. Of the 14 ethical dilemmas evaluated, the Malaysians expressed significantly more concern for six of the behaviours. This compares to a single scenario where the New Zealand sample expressed greater concern. In pointing out the situational nature of business ethics, it underscores the need to perform research in host countries where an multinational corporation plans to operate. The instrument used in this study has previously been used in five other countries. Differences have always been present, but each country is typified by a different set of concerns.

INTRODUCTION

The domain of business ethics has historically encompassed the perception of the appropriateness of a variety of actions taken by business organizations. Despite the legality of such behaviour, questions have been raised regarding the propriety of strategies such as increasing prices in the aftermath of a natural disaster or targeting minority market segments with questionable promotions or products. Over the years, there has been considerable scrutiny of business regarding these and a variety of additional tactics.

Business today is more global than ever with organizations crossing national borders to attain requisite resources as well as to reach new markets. Further accelerating this trend is the increased implementation of free trade areas. The venerable Common Market, today known as the European Union, continues to expand by reaching out to former Communist bloc countries such as the Czech Republic. New consortia such as the North American Free Trade Agreement (NAFTA) have been formed. And despite its relative infancy, the NAFTA signatories (Canada, Mexico, USA) are evaluating the efficacy of expansion through the inclusion of additional countries in the Western Hemisphere. Despite such alliances, global marketing is fraught with risks. The literature is replete with examples of companies which

failed to fully comprehend the differences with which they would be confronted when expanding globally. Broadly speaking, these risks may emanate from a lack of understanding of competition, the market, and the environment. It is only logical that the assessment of business ethics in a global environment is an important, yet tenuous, process. In fact, it has been stated that it is this combination which represents the most difficult challenge which will confront today's multinational corporations (Duerden 1995).

A recent survey of business faculty in the UK, Asia, and the USA, indicated that there is general agreement that the purview of business ethics must include insight which focuses on companies and insights outside the US domain (Cowton and Dunfee 1995). Despite this, global business ethics has been given little emphasis in the typical curriculum of most business schools. The same may be said regarding recent research endeavours. There have been numerous studies which have evaluated the ethical inclination of some relevant group within a single country. Unfortunately, there have been relatively few efforts to compare residents of two or more countries via the administration of identical surveys. Conversely, there have been many cross-cultural studies evaluating the differences in overt behaviourial characteristics of the various countries' consumers. This study represents the continuation of an effort to address this deficiency. It includes the evaluation of responses by university students from New Zealand and Malaysia.

BUSINESS ETHICS

A basic premise in business today is that ethical behaviour on the part of the marketer is advantageous to all parties involved (Abratt and Sacks 1988). This is especially true in today's environment which is moving toward the implementation of relationship marketing. It is only logical that the surest way to bring any relationship to a premature conclusion is for one of the parties to commit a perceived breach of ethics (Edwards and Goodell 1994). Unfortunately, there is no consensus on just what constitutes such a breach (Fullerton 1993); in fact, there is not even agreement on a definition of business ethics. This lack of consensus, however, has not inhibited research efforts in this area. For example, significant research in the United States has focused on tactics used to market to minorities. Critics have condemned a litany of products and promotional efforts directed toward African-American consumers. Unfortunately, the critics generally fail to acknowledge the benefits of such target marketing, an example would be the introduction of new `Afro-centric' products. The criticisms also intimate that such minority groups are incapable of making informed, rational decisions regarding product purchase (Warner and Goldenhar 1992).

Many critics point to the emphasis on the bottom line as the fundamental driving force which relegates ethical behaviour to a secondary priority behind economic performance. A recent survey of Harvard MBA graduates was further cited as proof that our next generation of business leaders will readily forgo behaviour which is morally correct if other more tangible benefits are likely to accrue (Badaracco and Webb 1995). Yet the bulk of the studies which have focused on college students indicates that they are generally ethically predisposed, especially when evaluating the conduct of others (Betramini et al, 1984). Among the studies which have described the characteristics of university students are those which have found that males, business majors, and younger students are less ethically predisposed (Fullerton 1993). The students, in general, are somewhat cynical in that they anticipate others will behave in a less ethical manner. For example, they express doubt that executives when faced with a decision which reflects a trade-off between ethical behaviour and the bottom line, will respond with ethically consistent behaviours (Stevenson et al, 1995). But executives feel that

they have been unfairly maligned and that such negative assumptions about their actions are not congruent with their actual behaviour (Laczniak et al, 1995). Despite their claims, lawmakers and regulators have sought to impose standards of conduct in an ongoing effort to assure ethicalbehaviour. It is evident that many people doubt the ability of business and business people to consistently do the right thing.

BUSINESS ETHICS: A GLOBAL PERSPECTIVE

While there has long been an emphasis on the evaluation of business ethics, it has become an increasingly important initiative in recent years. It is showing up in the curriculum of many business schools, in special sessions of academic conferences, and on the pages of leading journals. Perhaps this emphasis can be attributed to concerns articulated by university program accreditation bodies (e.g. AACSB); perhaps it is a consequence of intense media scrutiny; or perhaps it is a proactive attempt by businesses which seek to establish and perpetuate relationships with their customers. It should surprise few that the majority of the efforts have focused on American business practices. Still, there has been a spate of recent research which has focused on a number of other countries. Another trend has been a movement toward comparative studies which have included a look at two or more countries.

SINGLE COUNTRY STUDIES

Australia has been the focus of recent cross-sectional studies used to assess prevailing attitudes within a single country. For example, in assessing `commercial activities' in Western Australia, it was reported that the populace was quite indifferent to these alleged abuses (Small 1995). The concern emanating from this study provided the impetus for initiating a series of lectures to business students where the desire was to reduce the incidence of such perceived transgressions. In a second Australian-based study, Skubik (1995) delineated an array of characteristics which make the development of an international code of ethics difficult if not impossible. Balancing the concerns, and sometimes the laws, of the host and home countries often leads to decisions which inevitably alienate some of the involved parties.

Germane to this project is a study which took place in Malaysia. The disconcerting results indicate that the Malaysian market considered business ethics to be of `secondary' importance. More promising, however, was the sample's indication that business curricula should place greater emphasis on ethical values in an attempt to influence management's decision-making process (Alam 1995). Similar results were evident in South Africa where it was concluded that the integration of business ethics into everyday business practice is a worthy goal, but one which will not be easily achieved (Rossouw 1994).

In many countries, Japan being a good example, ethical norms are significantly impacted by social as well as religious considerations (Taka 1994). The implication is that cultures with divergent customs and social mores might well possess different attitudes about the efficacy of certain behaviours (Kohls and Buller 1994). Such differences interject a significant element of risk for marketers who are seeking to make inroads in the global marketplace.

Comparative studies are starting to surface in greater numbers today. An interesting premise is that there is an ethics gap between the United States and the rest of the world (Fullerton, Taylor and Dodge 1998). It is logical to assume that such a gap also exists when comparingdeveloped to less developed countries across the globe. A look at the literature will allow for the above premise.

COMPARATIVE STUDIES

One recent study took a detailed look at Singapore, New Zealand, and the United States. Using some 14 scenarios, or ethical dilemmas, meaningful cross-cultural differences were detailed. From a broad perspective, however, it was evident that the Americans professed a higher level of concern about ethical transgressions. Compared to the Singaporeans, respondents from New Zealand exhibited a slightly higher ethical predisposition, however, differences were documented in only two the the 14 scenarios (Ghosh, Fullerton and Taylor 1997). Yet another example of the ethics gap was documented when comparing Russia to the United States. As the Russians have moved further in the integration of market reforms, many have expressed dismay regarding perceived breaches of ethical behaviour on the part of business. Also expressed is the belief that ethical standards in Russia fail to attain levels exhibited by Americans (Puffer and McCarthy 1995). The practical implications of the presence of this gap were delineated in a study which assessed the ethical predisposition of mangers from the UK, the Republic of Ireland, and the United States. The study, reputed to be the first formal study of Irish ethical inclination, highlights the facts that differences among the three countries exist and that these differences raise questions about the ability to establish an international code of ethics. To remedy this problem, it was recommended that multinational management teams would perhaps ameliorate the differences which exist (Alderson and Kakabadse 1994).

Japan, Hong Kong, Taiwan, and Canada were the sites of a study which identified differences of opinion among business students questioned about the propriety of specific actions taken by business (Nyaw and Ng 1994). De George (1994) delineated the operationalization of an international code of ethics by companies headquartered in Japan, the United States, Europe, and the traditional Eastern European bloc. This study provided a rationale for similarities - rather than differences - when certain comparisons are made. It supports the premise that countries which are in close proximity to each other, because of similarities in culture and religion, will cluster together when assessing ethical inclination. Managers in Europe seem to exhibit attitudes which differ from those of their American counterparts, yet there is a great deal of homogeneity among the Europeans irrespective of the country of citizenship (Schlegelmilch and Robertson 1995). These results we not consistent with those of a similar study which compared the US and three Asian countries. In this case, the patterns exhibited by Japanese, Korean, and Taiwanese managers, despite their relatively close proximity, were quite diverse (Fritzsche et al, 1995).

Returning to Australia, a survey of business managers cited the use of gifts, entertainment, and favours as undue influences within the business-to-business market (Armstrong 1992). In drawing conclusions, the author indicated that the perceived severity of any transgression is probably dependent on the culture of the country where that transgression takes place. This assumption lends credence to the belief that there are differences from country to country and further supports efforts to perform cross-cultural studies which will facilitate the comparison of populations from different countries in our increasingly interrelated global market. Interestingly, not every study has documented this difference. In comparing students of Western Australia, Israel, and the United States, Small (1992) concluded that the three groups“tended to share similar or identical values toward business ethics” and further indicated that these “commonalities support the view that business ethics and business practices are similar throughout the western world”. Whipple and Swords (1992) found that the differences between men and women were more pronounced than those found when citizens of the UK were compared to Americans. Thus, there is a body of evidence which refutes the belief that ethical

predisposition will vary significantly from country to country, thereby creating a dilemma for researchers and practitioners alike.

Despite some evidence to the contrary, the literature tends to support the premise that there are meaningful differences in ethical inclination from one country to another. But as indicated in the previous paragraph, there are some contradictions. Perhaps the citizens of different countries sharing a common heritage and religious orientation possess attitudes which are congruent. Thus, we might anticipate similar attitudes when comparing the British with Americans. Conversely, differences would be expected when the comparison shifts to Australians and Egyptians. Regardless, it highlights the importance of continuing this stream of research by evaluating various behaviours in countries throughout the world.

RESEARCH OBJECTIVES

The logical conclusion which emanates for the review of the literature is that fundamental differences in the opinion regarding the appropriateness of certain behaviours exist when crossing national borders. A number of studies have indicated that additional research should be directed toward gaining a better understanding of the ethical predisposition of individuals in the global market place. It is this recommendation which provides the impetus and direction for this project.

The basic objectives of this research are threefold. The initial objective is the assessment of the sample's acceptance or rejection for each of the behaviours under scrutiny. Second is the desire to measure the general ethical predisposition of the two strata from which the samples were drawn. Last is the identification of specific scenarios where the two strata exhibit significantly different opinions regarding the appropriateness of the behaviour in question.

METHODOLOGY

The initial step involved the development of a data collection instrument which could be used to ascertain ethical predisposition. Scenario-based surveys are deemed appropriate in that respondents are put in the position of evaluating a dilemma and making a decision which may involve a compromise between what is good for the organization and the degree of harm incurred by the market. The starting point for the survey was the 19 scenarios originally used in a study by Fullerton (1993). The set was reduced to 14 items because of the elimination of scenarios deemed irrelevant for the countries being studied. Language was changed in order to be appropriate for each market. Interestingly, it involved minor modification to change from “American English” to “New Zealand English”; examples include apartment versus flat, and behavior versus behaviour. Ethical inclination was operationalised by using a six-point Likert-type scale. On the scale, one was deemed acceptable while six was unacceptable.

The sample consisted of two strata- citizens of New Zealand and citizens of Malaysia. Selection was predicated upon accessibility to the researchers. The initial objective was evaluated via the calculation of the means for each of the 14 scenarios under scrutiny. For this calculation, country of residence was not considered and the resulting statistics utilised the entire sample. General ethical predisposition was measured by computing the grand means for each country. For this calculation, the individual scenarios were not considered, just the aggregate measure. The final objective required the stratification of the sample and the calculation of means for each of the individual scenarios. Significant differences were identified using a standard t-test for the difference between two sample means. An alpha level of .05

was used as the critical measure for rejecting the null hypothesis of equal means.

RESULTS

The sample of students from New Zealand totalled some 148 respondents, while the Malaysian sample was comprised of 35 students. A review of the aggregate results confirms many earlier studies which indicated that university students are generally inclined to reject questionable behaviours on the part of business. On the six point scale, seven of the 14 scenarios exhibited means which exceeded 3.5, the midpoint of the scale. Some might be concerned that seven actions were deemed acceptable and that the grand mean for the fourteen items was 3.4, or slightly on the acceptable side of the scale. A more detailed evaluation reveals that of the acceptable actions, three were only slightly acceptable (2.5<= mean _ 3.5) while four were deemed acceptable without reservation (mean _ 2.5). To provide some insight into the acceptable behaviour, the two lowest means (most acceptable actions) involved the use of a celebrity endorser in advertising and moving production operations offshore in order to reduce costs, legal activities which will concern only those prone to condemn business in general.

The breakdown of the unacceptable actions produces somewhat different results. Of the seven unacceptable behaviours, fully six would be characterised as slightly unacceptable with means between 3.5 and 4.5. Thus only one, the sale of unsafe products in overseas markets which do not have the consumer protection orientation of the firm's home country, was strongly condemned (mean _ 4.5). These aggregate results are skewed in the direction of the New Zealand sample because of the disparity in the representation of the two countries. Still, the grand means do provide some insight into general ethical predisposition. These results are presented in Table 1.

For the purposes of this study, a more meaningful result involves the comparison of the responses from the students of the two countries. When comparing Malaysian responses to those from New Zealand, some interesting insights surfaced. The initial evaluation was meant to provide a general measure of the ethical inclination of the two markets; this evaluation was operationalised by computing the grand means for the two countries. With the sample from New Zealand producing a grand mean of 3.29 and the Malaysian sample's grand mean of 3.75, there is rudimentary evidence that the Malaysian students are more ethically inclined. To say the least, they exhibit more concern about potential breaches of ethical standards on the part of business. The more detailed analysis of the 14 individual scenarios provides additional insights into the nature of this difference, yet it also delineates the fact that the two groups have much in common. These similarities are assumed by virtue of the fact that there was not a significant difference between the sample means in fully half the scenarios under scrutiny.

Table 1 - AGGREGATE SAMPLE MEANS OF ETHICAL SCENARIOS

ACTION	SAMPLE MEAN
Selling unsafe product overseas	4.77
Deceptive sales price	4.44
Illegal pharmaceutical product	4.15

No sold sign for real estate	4.14
Higher prices in poorer neighbourhoods	4.03
Raising prices after natural disaster	3.91
Selling up from advertised special	3.86
Tax shift/transfer pricing	3.16
Kids' toll number for Santa Claus	3.15
Comparison advertising	3.10
Delay new product introduction	2.39
Exclusive distribution	2.26
Cheap foreign labour	2.10
Celebrity endorser	1.90

The earlier analysis of the grand means of the two countries provided evidence that the Malaysians were more ethically included. The analysis of the individual scenarios reinforces this evidence. Of the seven significant differences, the Malaysian sample produced a higher mean in all but one case. The Kiwis expressed more concern about the practice of moving production operations offshore in order to capitalise in lower labour costs. It is noteworthy that both groups found that practice to be acceptable; however, the Malaysian sample indicated stronger support than did the New Zealanders. In two of the remaining documented differences, both countries voiced approval of a practice, but the support by the Malaysians was not as strong. The Kiwis were more supportive of advertising appeals using celebrity endorsers and delaying the introduction of a new product until existing inventories of the old product it replaces have been sold. In three scenarios, both groups indicated that they disapproved of a behaviour with a stronger level of disapproval exhibited by the Malaysians. The three are charging higher prices in retail stores located in poor neighbourhoods, advertising a bargain-price item but trying to sell a more expensive item to the consumer, and shipping a product which has been deemed unsafe by a home country regulatory body to another country which does not provide a comparable level of consumer protection. The final difference is one where the New Zealanders profess support for a practice which the Malaysians deem unacceptable. This is the practice of comparison advertising in which the competitor's brand (and comparative weakness) are explicitly stated in the advertisement. Table 2 provides an overview of these results.

DISCUSSION

It is not sufficient to simply conclude that Malaysians exhibit a higher levels of ethical inclination than do their New Zealand counterparts. There should be an effort to provide

plausible explanations for the observed differences. Previous cross cultural studies on ethics have documented a myriad of reasons for differences among countries; among them are pragmatism, religion, culture, and government regulation. Regardless, it appears that there is a situational component to ethical behaviour. The instrument used in this study has been utilised in seven countries, and its application has identified a number of differences across the seven countries.

But it is situational in that the differences are not systematic. The differences found in comparing Germans to Americans are not the same as those found between the Kiwis and the Malaysians. Indeed, the differences between the New Zealanders and the Malaysians differ in many respects from those found in an earlier comparison of Kiwis and Singaporeans. The implication is that companies cannot assume that a study performed in one country is generalisable to another country. The risk associated with crossing national borders must be assessed, or poor decisions are likely to be made.

Table 2 - COMPARISON OF SAMPLES

SCENARIO	NZ Mean	Malaysian Mean	Sig.
Raising prices after natural disaster	3.90	3.94	.880
Exclusive distribution	2.24	2.34	.654
Tax shift/transfer pricing	3.11	3.34	.390
Deceptive sales price	4.34	4.89	.254
Kids' toll number for Santa Claus	3.26	2.69	.095
No sold sign for real estate	4.06	4.49	.090
Illegal pharmaceutical product	4.06	4.57	.089
Cheap foreign labour	4.19	1.71	.028
Celebrity endorser	1.76	2.46	.007
Delay new product introduction	2.23	3.09	.004
Selling unsafe product overseas	4.62	5.37	.001
Selling up from advertised special	3.68	4.60	.001
Comparison advertising	2.88	4.03	.001
Higher prices in poorer neighbourhoods	3.79	5.00	.001

Are any of the observed differences found in this study intuitive? A review of the seven differences may help answer that question. A good starting point is the single scenario where

the mean response for the New Zealanders indicated that they were less amenable to the use of cheap, foreign labour. Why might the Malaysians be more prone to accept this action on the part of business? Perhaps it is predicated upon perceived benefit. Those from New Zealand are more likely to be the workers who are displaced by such a strategy. Thus, the Malaysians are more likely to be the beneficiaries and this tangible benefit is viewed more favorably. Next, we will consider the six scenarios where the Malaysian mean (significantly) exceeds the New Zealand mean. The Malaysian condemnation of charging poorer customers high prices which reflect the higher level of risk and costs associated with retailing in economically depressed neighbourhoods may be explained by issues inextricably related to income. Thus, one potential explanation is that the Malaysians may envision themselves and their countrymen as being victimised by such a strategy. The rationale of victimisation may also hold for the scenario where the New Zealanders do not as strongly condemn the exporting of unsafe products to a foreign market where strong consumer protection laws are not in force. Consequently, it is conceivable that the Malaysians are expressing a greater concern that the citizens of their country are more susceptible to such an action and they are voicing this displeasure accordingly.

Now consider. the delay of the entry of a new product until existing inventories of the soon-to-be obsolete products are sold. Respondents from both countries expressed general acceptanceof this practice, but the Malaysian support was considerably weaker. Since more new products are likely to be developed by New Zealand businesses, it is logical to assume that the New Zealand sample would view this action as financially expedient, that their businesses and their country would benefit in the long run from employing such a tactic. The final two issues involve the use of mass media, specifically the use of comparison advertising and the use of celebrity endorsers. Why do the Malaysians express more concern about two practices which are commonly used across the globe? Perhaps, this concern is based more upon speculation. If such strategies are less common, if television advertising is more highly regulated, then perhaps the concern evolves from the relative lack of exposure to such strategic initiatives and the concurrent speculation about the potential exploitation germane to these practices.

CONCLUSIONS

There are significant differences in the ethical inclinations of Malaysians and New Zealanders. Yet, on many issues there is a consensus of opinion in that no discernable difference exists. The fact that differences exist highlights the reality that crossing national borders incorporates a substantial element of risk. The finding that ethical predisposition is situational rather than systematic implies that research must be performed or the multinational corporation must rely on local partner knowledge in an effort to better understand the nature of the market in the host country.

In this research, several plausible explanations for the observed differences were presented. These explanations were intended to stimulate further enquiry. There is an acute need to identify cross cultural differences. It is also important to go beyond a simple acknowledgment that differences exist. Obstacles can be overcome and opportunities can be exploited only when the marketer understands the basis for those differences.

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EXECUTIVE PAYS AND THE GOAL OF THE MANAGEMENT: A COMPARISON OF AMERICAN AND JAPANESE AUTOMAKERS

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ABSTRACT

In general, the corporate governance structure in Japan is believed to be totally different from its American counterpart. The perceived differences in governance structure are usually associated with different firm's objectives. Blinder (1992) and Tabeta and Wang (1996) explain what happens if Japanese managers adopt revenue-maximizing strategy. In this paper, we further examine the relationship between executive pays and the goal of management (i.e., the growth of market share vs. short-run profitability). Our main hypothesis is that executive pays of Japanese automakers are highly depend upon growth of the market share, while those of US automakers are associated with the short-run profitability. Empirical findings are: (1) the correlation coefficient between the logarithm of the executive compensation and that of sales is very high for the Japanese automakers, while the correlation coefficient is very low for American counterparts; (2) the executive's compensation incentive scheme of the Japanese automakers is based on the growth of sales revenue, while it is based on both growth of sales revenue and short-run profitability for US automakers; (3) the executive compensation of US automakers is more sensitive to short-run profitability than to growth of sales revenue. These results support the hypothesis.

INTRODUCTION

In general, the corporate governance structure in Japan is believed to be totally different from its American counterpart. The perceived differences in governance structure are usually associated with different firm's objectives between US and Japan. The behavior of the Japanese firm looks puzzling when it is viewed throughout the prism of profit maximization dogma. Unlike US firms, Japanese firms do not maximize profits, either short- or long-run. Instead, Japanese firms seek to maximize growth, market share, or employee welfare.

Over the past few decades, orthodox microeconomic theory postulates that the sole objective of a firm is profit-maximization. This dogma has been criticized by a number of economists, such as Baumol (1959), Cyert and March (1963) and Galbraith (1967). In the US, Larner (1966), for instance, found that "there are no dominant owners" that merely maximize their profits, as described in the traditional microeconomic textbook. Rather, giant corporations usually require a huge amount of capital that causes extensive dispersion of their ownership among many investors. In Japan, Uekusa and Caves (1976: 10-12), Komiya (1987, 1994) have reported that the separation of ownership and controls causes a deviation of

management from the "pure" profit-maximization principle. In fact, many experienced Japanese executives have suggested that this separation between shareholders and professional management provides a considerable degree of decision-making autonomy for managers.

In an oligopolistic market like the auto industry, each firm may set up its own goal: maximizing sales revenue or maximizing profit. This difference in strategy may be explained by corporate culture, institutional arrangements, and executive incentives. For example, Kagono et al. (1985: 27-28) pointed out that Japanese firms show relatively strong growth-preference, while US firms emphasize more on investment returns and capital gains. According to *Keizai Hakusho* (1992: 228-231), the principal objectives of American companies are: (1) return on equity or investment [ROE], and (2) capital gains for stockholders; while those of Japanese companies are: (1) gaining market-share, and (2) introducing new products. In the case of the Japanese auto industry, Shimokawa (1994: 38) pointed out: "Japanese automobile company unions settled for a consensus approach with the aim of raising wages and welfare," and employers were concerned more about employees' welfare so as to establish a better cooperative long-run labor-management relationship.

Komiya (1988a, 1988b) has stated that management is a representative of employees and that the behavior of Japanese firms can thus be explained in terms of a "labor-managed" firm. Itami (1987) calls the Japanese system, "peoplism" or "human-capitalism." Miyazaki (1993) calls it, "employeeism." If the firm's goal is to maximize employees' utility, then what happens to the executive strategy of the firm? Blinder (1993) has developed a model to show that a typical large Japanese firm will behave like a revenue-maximizer if it seeks to maximize employees' utility or welfare, in addition to profit [See the proposition and its proof in Appendix].

Tabeta and Wang (1996, 1997) shows some evidence that Japanese automakers are revenue-maximizers, while US automakers are profit-maximizers. However, Tabeta and Wang's studies do not explain how the pecuniary gains of a top executive is determined if a firm is completely under the control of its top executive. In this paper, we, thus examine the relationship between executive pays and the goal of management (i.e., the growth of market share vs. short-run profitability). Our main hypothesis is that executive pays of Japanese automakers are highly depend upon growth of the market share, while those of US automakers are associated with the short-run profitability.

This paper is organized in the following manner. In the next section, we discuss the goals of large Japanese firms. The basic empirical models and our main hypothesis are developed in section 3. Empirical results and discussion are presented in section 4. Section 5 summarizes and concludes this paper.

THE GOALS OF JAPANESE AUTOMAKERS: ARE THEY SEEK TO MAXIMIZE MARKET SHARE?

Are Japanese Automakers revenue-maximizers?

As is discussed in the previous section, Japanese large firms, and automakers in particular, seem to set up their goals to maximize their market share. Tabeta and Wang (1997) have found that from 1963 to 95, the average growth of US automakers are 8.96%, whereas that of Japanese automakers is 17.53% [See Table 2]. Using a t-test, the average growth rate of sales in US and Japan is statistically different at the 5 % level of significance. The average

profit rates over the same period is 0.0448 for US, and 0.0365 for Japan. Thus, Japanese companies appear to be much more interested in growing fast and gaining market share than in generating profits, compared to US counterparts[1].

As a company comparison, Honda (i.e., 18.89%) and Toyota (i.e., 18.55%) are growth-oriented firms among them. These results seem to be consistent with Abegglen and Stalk's survey results (1985) and it also supports Blinder's statement (1992) that Japanese managers maximize growth, not profits. One may ask why Japanese firms, or automakers in particular, seek to maximize growth.

Table 1 Growth Rate of Sales (1963-1995)

Period/ Firm	Overall Periods 1963 - 1995	1963 - 1972	1973 - 1982	1983 - 1995
GM	.0849 (.1349)	.0903 (.1894)	.0789 (.1420)	.0855 (.0802)
Ford	.0958 (.1174)	.1028 (.1299)	.0696 (.1295)	.1104 (.1034)
Chrysler	.1130 (.1779)	.1600 (.1490)	.0191 (.1889)	.1490 (.1744)
American Industry	.0896 (.0118)	.0983 (.1256)	.0664 (.1312)	.1009 (.0892)
Toyota	.1855 (.1085)	.2487 (.0855)	.1467 (.1225)	.1666 (.0986)
Nissan	.1719 (.1181)	.2659 (.1229)	.1571 (.0994)	.1110 (.0832)
Honda	.1889 (.1036)	.2187 (.0946)	.2189 (.1076)	.1429 (.0972)
Mazda	.1526 (.1539)	.1781 (.1351)	.1706 (.1751)	.1192 (.1563)
Japan Industry	.1753 (.0875)	.2378 (.0682)	.1614 (.0956)	.1380 (.0717)

Source: "Global 500 (200)," *Fortune* (Various issues).
Note: Standard Deviations are shown in ( ).

Why do Japanese Firms in General Act Like Revenue-Maximizers?

There are several reasons to explain why Japanese firms seek to maximize growth of market share. First of all, in Japan, expansion in firm-size is a necessary condition to maintain the life-time employment system and internal promotion. In order to provide more jobs and promotion opportunities for employees, firm-size must be continuously expanded. Most of the firms are managed and controlled by managers who do not posses corporate-stocks and have been promoted from within. As a result, the managers' top priority is to maintain harmony in the firm. This can be achieved only through providing more jobs and promotion opportunities, and hence a continuous expansion in firm-size. Secondly, under the seniority system where both the wages and the position of an employee are dependent on the years of service, hiring more graduates from colleges or high-schools is more crucial to reducing costs, as it eventually leads to a build-up of advantages in respect of labor costs by keeping the average age of the employees young. Obviously, this process must be accompanied by a faster growth of the firm. Thirdly, Japanese firms pursue the growth-orientated strategy also because there is little external pressure for short-term earnings. It is true that "the duty of management [for both American and Japanese managers] is to use their funds effectively and to give them a return on their investment greater than they could have realized (Morita, 1987: 190)." This does not, however, mean higher dividend returns in the case of Japan. It is more important for managers to pay attention to the growth of the value of the stocks, since tax rates on capital gains are lower than tax rates on dividends. Thus, Japanese companies could reinvest retained earnings to expand plant capacity, instead of paying out higher dividends to shareholders. Furthermore, in Japan, stockholders' influence on corporate strategy is rather weak, and the threat of a take-over on the public stock exchange is negligible due to the cross-share-holding of common

stocks. Especially, after the dissolution of the *zaibatsu*, a decline in shareholders' influence on management allows professional managers to act on motives other than profit-maximization. Lastly, there is some possibility that administrative guidance and controls lead Japanese firms to act like revenue-maximizers.

In the case of US-Japan auto industries, Tabeta and Wang (1997) find that there is a positive correlation between the firm's long-run profitability and its growth rate of sales. In Japan, the firm's long-run profitability will be higher as the growth rate of the firm size increases. On the other hand, in US, there is a negative correlation between them. This indicates that Japanese automakers enjoy a merit of "economies of scale," while American automakers may be taking on the position of "diseconomies of scale." As an alternative explanation, since learning may be a function of cumulative output in the case of Japanese auto industry. By producing more output than its rival firms, average costs might be declined in the long-run. Therefore, those who can manage to gain their market share will earn higher long-run profits in Japan. This will provide the answer of why Japanese automakers go after an increase in share of market. If Japanese automakers seek for an increase in market share, then what is the incentive scheme for executives? Are top executive pays in Japanese auto industry directly related to the strategic choice; namely, the revenue-maximizing strategy? In the following section, models of executive compensation and the main hypothesis are described.

DATA, EMPIRICAL MODELS, AND THE HYPOTHESIS

Data

Our data base is derived from three primary sources. For the Big Three (i.e., GM, Ford, and Chrysler), information on the CEO's compensation (i.e., salary plus bonus) are obtained from *Forbes*' annual CEO survey over 1985-1995. Information on sales, profit, and total asset are obtained from *Fortune Global 500* (various issues). For Japanese Top Three (i.e., Toyota, Nissan, and Mazda), CEO's and firm's characteristics are obtained from the *Annual Corporate Reports* (*Yuka Shoken Hokokusho*) over 1970-1987. Because some data on CEO's compensation for Honda are missing, we exclude it from the sample. Since the *Annual Corporate Reports* report the aggregated expenditures of salary and bonus for executives, we use the average board of directors' compensation (i.e., total expenditures of salary and bonus payments for the board divided by the total number of executives in a firm) as a proxy of the executive compensation.[2]

It is important to note that stock option for the executives are not a common business practice in Japan. Thus, other income such as stock option is ignored as a measure of the executive compensation.

Models of Determining Executive Compensation and the Hypothesis

To answer the question of how the pecuniary gains of a top executive is determined, several authors have attempted to develop executive compensation models. In general, their basic models are a function of sales revenue and profit. However, it is difficult to avoid multicollinearity since the level of profit and sales are often highly correlated with each other. Using profit rate instead of the level of profit can be one way to avoid such multicollinearity. Indeed, early studies made by Roberts (1956) and McGuire et al. (1962) used the following estimation model:

(Compensation) = *a* + *b* (Sales) + *c* (Profit Rate): (1)

However, Lewellen and Huntsman (1970) criticized Roberts' and McGuire's models since the residual variance about the regression function very likely increase with compensation; executive compensation, sales revenue, and profits are all larger as the firm size increases.

This may create a problem of heteroscedasticity. Thus, Lewellen and Huntsman (1970) proposed to have the equation deflated by the size of the firm (i.e., total book-valued assets). They estimated an equation of the form:

(Compensation / Firm Size) = *a* + *b* (Sales / Firm Size) + *c* (Profit / Firm Size) : (2)

In our estimation, to reduce a possibility of heteroscedasticity, the pooled time series data are used. We then model the CEO's compensation as a function of revenue growth and profit rate.[3]

The basic compensation equation is hence specified as:

ln (Compensation) = *a* + *b ln* (Revenue Growth) + *c* (Profit Rate) + *d* (Company Dummies) + error term : (3),

where *Revenue Growth* at time t is defined as *ln* (Rt /Rt - 1), and *Profit Rate* is net income over total asset.

As we discussed in the previous section, Japanese automakers are taking the revenue-maximizing strategy, while US automakers are taking the profit-maximizing strategy. If so, one may ask how the firm's strategy affects its top executive compensation. Since the top executive determine the behavioral rule of the firm, the executive compensation must be related to his or her strategic choice. Therefore, we derive the following testable hypothesis:

Hypothesis: If Japanese automakers take the revenue-maximizing strategy, then their executive pays must be determined by gains of market share, or revenue growth. On the other hand, if US automakers are concerned about their stockholders (i.e., paying attention to obtain higher dividend returns), then their executive pays must be closely related to short-run profitability.

More specifically, in eq. (3), we expect the coefficient of revenue growth, *b*, is larger than the coefficient of profit rate, *c* (i.e., $b > c$) for the Japanese automakers, while $b < c$ for the US automakers.

EMPIRICAL RESULTS AND DISCUSSION

First, we have estimated eq. (1) and eq. (2) but there is multicollinearity for Japanese automakers. Table 2 thus presents the correlation coefficients between the logarithm of the executive compensation and the logarithm of sales revenue. The values of executive compensation have been adjusted by consumer price index (CPI), and those of sales by whole-sale price index (WPI). The CEO's compensation and sales are found to be highly correlated in the case of Japanese automakers (i.e., the correlation coefficient is 0.724), whereas they are weakly correlated (i.e., the correlation coefficient is 0.072) in the case of US automakers. This result is consistent with the fact that Japanese automakers seek to maximize

their sales.

Table 2 Correlation between Sales Revenue and Executive Compensation

Japan	US
0.7241*	0.0721
Sample Size: 54	Sample Size: 33

Note: *ln* (Comp) vs. *ln* (Revenue)
* indicates p > 0.05

Table 3 shows the estimation result of eq (3)[4]. We use *TSP* to estimate this equation with the time-series and cross-sectional data.

Table 3 Regression Results of Eq (3)

	Japan* (1970-87)	US* (1985-95)
ln (Revenue Growth)	0.2690** (2.3975)	1.7782** (2.4746)
Profit Rate	0.4491 (0.6493)	3.5227** (2.0383)
DTO	3.2366** (26.7791)	---
DNI	3.1339** (29.8500)	---
DMZ	2.4324** (23.9279)	---
DGM	---	7.0755** (2.0383)
DFD	---	7.5783** (53.0136)
DCR	---	7.1848** (50.7001)
DW	1.6004	1.4140
Adjusted R^2	0.9451	0.5090
Sample Size	51	33

Note: **OLS* is used in US, while AR(1) is provided in Japan.
t-values are shown in ( ).
** indicates 1 % level of significance.

Since the first order serial correlation is observed for Japan, the *AR(1)* process is provided in the regression. On the other hand, there is no serial correlation for the US counterparts. Therefore, the *OLS* result is reported. The CEO's compensation incentive scheme in the Japanese auto industry is based solely on the growth of sales revenue, while it is based on both growth of sales revenue and profit rate in the US auto industry[5].

This has been evidenced by the insignificance of the profit rate in eq (3) for Japan. In the case of the US auto industry, the CEO's compensation is more sensitive to profit rate (3.53) than to revenue growth (1.78). This implies that the stockholders in US are stronger, and for the sake of higher dividend returns, the management must be more sensitive about profitability, even if the separation of ownership and management causes the diverse objectives of managers. On the other hand, managers in Japan are more free from the restriction of short-term perspectives (i.e., profit-maximization) and they can set a long-term goal (i.e., growth of the firm). This is a very interesting fact-finding. The other point to note is the size of revenue growth elasticity of the CEO's compensation for Japan.

Although revenue growth for Japan is as statistically significant as that for the US, the size of the elasticity is much smaller than that for the US. This may be due to the fact that the data on CEO's compensation for Japan is the average compensation for a group of CEOs, while the data for the US is the compensation for a single top CEO. However, a more important explanation lies in the difference in enterprising culture: incentive schemes and reward mechanism are far more important for the US than for Japan.

SUMMARY AND CONCLUSION

Our empirical findings are: (1) the correlation coefficient between the logarithm of the executive compensation and that of sales is very high for the Japanese automakers (i.e., 0.7241), while the correlation coefficient is very low for American counterparts (i.e., 0.0721); (2) the executive's compensation incentive scheme in the Japanese auto industry is based on the growth of sales revenue, while it is based on both growth of sales revenue and short-run profitability in the US auto industry; (3) furthermore, the executive compensation of US automakers is more sensitive to the short-run profitability than to growth of sales results. This result implies that the stockholders in US are stronger, and for the sake of higher dividend returns, the management must be more sensitive to short-run profitability. On the other hand, managers in Japan are more free from the restriction of the short-term perspectives (i.e., profit-maximizing strategy), and they can set a long-term goal (i.e., growth of the firm). This is a very interesting fact-finding. In sum, our empirical results support the main hypothesis that executive pays for the Japanese automakers are mainly determined by a factor of the long-run growth or gaining market share. On the other hand, executive pays for the US automakers are associated with factors of both the short-run profitability and growth of sales revenue.

APPENDIX

Proposition: If a firm concerns about workers' welfare, then the firm will behave relatively as a revenue-maximizer. That is, the firm will employ more workers than the profit-maximizing level of employment, and will produce more output than the profit-maximizing level of output.

Proof: Assume that a firm considers not only about profit but also the utility of employees or workers' welfare, which is assumed to depend on their earnings, $LU(\mathrm{w})$, where $U(\cdot)$ satisfies concavity and twice differentiability, and w, and L are the wage and the number of workers, respectively. Note that this utility function is similar to the one used by McDonald and Solow (1981). The firm then solve the following optimal problem:

max$L$, , **b** (1 - **b**)**p** + **b**LU(w) = (1 - **b**)[R(L) - wL] + **b**LU(w) where **b** is the weight attached to the workers. Thus, a large value of **b** indicates that the firm concerns more on workers welfare. Note that **b** takes between zero and one. First-order conditions are obtained as:

(A1): (1 - **b**)[R¢ (L) - w] + **b**U(w) = 0

(A2): - (1 - **b**) + **b**U¢ (w) = 0.

Substituting (A2) into (A1) to eliminate **b**, we obtain:

(A3): R¢ (L) = w - [U(w) / U¢ (w)] ¹ w.

This simply shows us that the firm is not a profit-maximizer, since the marginal revenue

product of labor is not equal to the marginal factor cost of labor (i.e., MRPL ¹ MFCL). Surprisingly, the value of **b** is irrelevant to this conclusion. if only the manager consider a small portion of **b** in the objective function.

If we further assume that the utility function is isoelastic function, then *U*(w) /

U¢ (w) > w is true. In this case, *R¢* (*L*) = w - [*U*(w) / *U¢* (w)] < 0. This case indicates that the firm will even hire more workers, and will produce output more than the profit-maximizing level (i.e., MRP = MFC) at the cost of negative profit.

If the utility function of workers is assumed to be *U*(w*L*), instead of *U*(w). In this case, the workers' utility function, *U*(w*L*), indicates that earnings are pooled and shared equally among workers.

We then obtain the following first-order conditions:

(A4): (1 - **b**)[*R¢* (*L*) - w] + **b**w*U¢* (w*L*) = 0

(A5): - (1 - **b**) + **b***U¢* (w*L*) = 0

Substituting (A5) into (A4) to eliminate **b**, we obtain: (1 - **b**)*R¢* (*L*) = 0. Since 0 < **b** < 1, *R¢* (*L*) = 0. That is the marginal revenue product, MR·MPL = 0, and hence MR = 0.

This simply means that the firm maximizes revenue instead of profit. (QED)

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FOOTNOTES

[1] For example, GM set up the target-return pricing strategy, fixing the mark-up rate at 15 to 20% till the end of the 1970s (Kawahara, 1995:103).

[2] Note that the *Annual Corporate Reports* do not report the total expenditure of the CEO's base salary after 1988.

[3] This model is similar to Xu (1992) and Joskow and Rose (1994).

[4] In eq (3), we tried to include other explanatory variables, such as age or tenure years of the CEOs, and total employment but they are not statistically significant at all.

[5] Note that the CEO's incentive scheme in Japan seems to be close to the view of Williamson's managerial theory of the firm (1964), stressing the growth of sales revenue as a major firm objective, rather than Baumol's view (1959), suggesting that the manager-controlled firm is more likely to have sales revenue maximization as its main goal.

HOW DO SMALL BUSINESSES MANAGE THEIR MOST VALUABLE RESOURCE? A STUDY OF HRM PRACTICES IN A SAMPLE OF NEW ZEALAND SMALL BUSINESSES.

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ABSTRACT

This paper is part of an on-going study of HRM / 'people management' practices of New Zealand small businesses. The primary aim is to provide an understanding of how small businesses manage their human resource. Three main areas of HRM / 'people management' practices were explored in the study: i) the extent to which owner managers operate formal HRM policies and procedures, ii) how owner managers deal with an increasingly complex legal environment and iii) how owner-managers deal with 'people development' issues. Data was gathered from semi-structured interviews with the owner-managers of 70 businesses employing between 3 - 40 staff. The research suggests that the economic and social significance of a small business can only be understood in terms of its particular context and that the extent to which small businesses operate formal recruitment and selection varies not only with their size but also with the organization's needs within its environment.

The research found that small businesses rarely operate formal performance management systems but that owner-managers operate informal performance assessment procedures best described as 'performance by observation' and the cost of training is generally borne either by the individual employee or by supplier-manufacturers. The majority of owner-managers surveyed considered that they now had to manage within a far more complex legal employment environment.

INTRODUCTION

This paper reports the findings of a continuing study of the Human Resource Management (HRM) or 'people management' practices of small enterprises in New Zealand. Owner-managers of small businesses were interviewed about their approach to managing their 'most valuable' resource. In particular they were asked how they recruit and select employees, how they evaluate individual performance, what contribution they made to employee training and development and how they coped with an increasingly complex maze of legislative requirements.

The first part of the paper provides a brief comment on definitional problems associated with the concept of a small business followed by an overview of the small business environment in New Zealand and HRM within this context. The second part of the paper discusses the study of small business owner-managers and reports on the findings. The third part of the paper discusses these findings and draws conclusions.

'Small Business' - Definitional Problems

There is no precise definition of what constitutes a small business for two main reasons. The first is that there is no single measure of size that would suit the purposes of all those concerned to identify small businesses. Measures could include asset base, sales turnover or number of employees. The second problem is that the threshold for what signifies the upper limit of 'smallness' will reflect the relative scale of the economic context in which the small businesses are being studied. For example, Golhar and Despande, for their comparative study of HRM in large and small Canadian firms, use the U.S. Small Business Administration definition, which defines a small business as one which employs fewer than 500 employees (Golhar and Deshpande 1997). However, this measure would be too large by a factor of ten to be useful as a definition of small business in the much smaller New Zealand economic context. For the purposes of this study of HRM in small businesses in New Zealand, the logical determinant of size is number of employees. Based on Gilbert and Jones assessment, which argued that as over 98% of New Zealand enterprises have fewer than 50 employees, a small business, for the purpose of studying HRM/'people management' practices in this context, is defined as one which employs fewer than 50 people (Gilbert and Jones 1996).

Human Resource Management Within the Small Business Context

Economic and technological changes of the last two decades have stretched beyond breaking point simplistic neo-Human Relations 'be-nice-to-your-employees' approaches to people management practices. This is just as much the case for small as it is for large business, yet there is no compelling evidence of a clearly articulated small business framework for 'people management', as a surrogate for HRM, being developed. Such a framework for small business should not be a scaled down version of HRM practices in large organizations and should address small business needs i) for appropriate systems and procedures, ii) to be able to cope with legal requirements relating to employment and iii) to develop 'people-management' skills. Like large organizations, small businesses have to recruit and select employees, assess and reward performance and provide opportunities for training and development. Small businesses are limited in terms of financial resources and managerial skills for the development and operation of even the simplest of 'people-management' systems and procedures. Even large organizations with extensive HR sections are often dilatory in maintaining up to date versions of such basic requirements as job descriptions and it is not hard to find amongst large organizations either poor or non existent performance management systems. Therefore, if large businesses with all their resources find HR difficult to manage well, it does not make much sense to suggest that small business should embark on an attempt to develop the same elaborate systems and procedures. Small businesses need basic systems and approaches which include:

i) simple but clear job descriptions and person specifications
ii) practical guides to recruitment together with a sound and manageable approach to selection
iii) a basic employment contract which covers the essential requirements of the employment relationship within a small business context
iv) a practical guide to appropriate induction requirements
v) guidelines for the management of job performance within the context of a small business, which provide a framework for the discussion of performance and the identification of development needs
vi) a clear guide to a defensible warning and dismissal procedure.

With regard to the legal aspects of the employment relationship, New Zealand underwent a fundamental change in 1991 with the introduction of the Employment Contract Act. This

legislation altered the nature of the employment relationship from one based on status to one based on a contract 'negotiated' at the enterprise level. Small businesses in New Zealand also have to comply with a raft of additional legislation which impinges on the employment relationship - the Privacy Act 1992, the Human Rights Act 1993 and the Health and Safety in Employment Act 1992. The latter act has proved particularly problematic, transferring responsibility for workplace safety and hazard management from central agencies, such as the Department of Labor, to individual enterprises. The potentially onerous costs of compliance, or more particularly the significant consequences of non-compliance, have resulted in many medium to large organizations creating specialist full-time positions to develop the necessary safety standards. Such responses are beyond the resources of small businesses, for whom the consequences of non-compliance may be relatively more dramatic.

To be effective 'people managers' the owner-managers of small businesses have a need to develop sound 'people-management' skills, which may include inter-personal skills, decision making skills, leadership skills and team management skills. While many small business owner-managers may have good technical and entrepreneurial skills, the tend to have had few opportunities to develop similarly effective 'people skills'.

The findings of the survey described in the following sections provide some indication of the extent to which a small business framework for HRM/'people-management', as described above, has either developed or is in need of development within small businesses in New Zealand.

THE STUDY

Objectives

The study explored three aspects of HRM/'people management' practices in small businesses:

i. The extent to which owner-managers operated formal HRM policies and procedures.
ii. How owner-managers coped with an increasingly complex external environment including legislation in employment relations, health and safety, human rights and privacy.
iii. The approach owner-managers took towards 'people development' including their own development.

Sample and Data Gathering

Data was obtained from two sources:

i. Owner-managers of retail pharmacies, printeries and restaurants.
ii. Owner-managers of small businesses in a variety of industries; manufacturing, professional (legal, consulting), hairdressing, retail, panel beating, transport and building.

Approximately half the sample were owner-managers of pharmacies, printeries and restaurants in one of New Zealand's most populous regions, the Waikato. The second sample was made up of businesses from a range of industries in the greater Auckland region. Businesses in both samples employed from 3 to 40 staff.

Seventy semi-structured interviews of 1 to 2 hours were conducted with owner-managers. The questions deliberately avoided using HRM terms or jargon. For example, no mention was

made of recruitment or selection. Instead respondents were asked to describe what they did when an employee resigned or when, as a result of business expansion, additional staff were needed.

Findings

Section One: The Use of Formal HRM Policies and Procedures

1. Recruitment and selection.

Owner-managers were asked how they went about finding a replacement when an employee resigned or, if they required extra staff as a result of business expansion. The recruitment channel chosen depended on the type and level of the position being filled (skilled, semi-skilled or unskilled), the nature of the business and geographic location. Increasing specialization in the printing industry, for example, meant that owner-managers were likely to seek applicants with higher skill levels, qualifications and relevant experience.

To do this they advertised locally and nationally, using letters of application and requiring a CV. Because of low turnover in the industry, however, recruitment was not a major issue.

The hospitality industry, on the other hand, experiences high turnover and relies on casual, part-time, often low-skilled employees. Consequently, recruitment occupied more of the owner-manager's time. The nature of the business meant that restaurateurs relied on 'word-of- mouth' and 'walk-ins' for front of house staff, but used conventional avenues such as local advertising when seeking specialized staff, for example, a chef. The skill requirements of the position were a major factor in the recruitment decision. Attracting a qualified pharmacist to a rural town meant that the owner-manager had to use the services of a specialist recruitment agency or resort to national advertising, both of which were expensive options.

The approach to recruitment was influenced not only by the skill requirements of the position and the nature of the business but also by geographic location. A small business in a rural town could rely on 'community networking' rather than advertising whereas this would not work for a similar sized business in the same industry in the greater Auckland region.

Across the sample, the selection process was generally informal regardless of industry, nature of business, geographic location, skill level or size of organization. Only a minority of owner-managers had developed and used a formal job description at the recruitment stage and these tended to operate the larger businesses in the sample (30 - 40 employees) or to have had formal management training.

The degree of formality at the interview stage depended largely on the nature of the position being filled, for example, skilled or unskilled. When filling an unskilled position, the process was highly informal with the owner-manager taking a 'satisfying' approach. For skilled positions, the unstructured, one-on-one interview was the most common selection technique used, involving the owner-manager, frequently assisted by a spouse or partner. Pre-selection involved sifting through letters of application (often hand written) before deciding who should attend the interview. No formal criteria was likely to be used. The interview itself tended to be driven by a series of unwritten questions rather than a systematically developed interview schedule, resulting in a conversational style of interview.

Considerable importance was placed on selecting an employee with the 'right attitude' and 'personality' with these often being ranked ahead of qualifications, skill or experience. With the 'right attitude' it was believed there was a better chance of getting the behavior required in the business even though no formal selection tools were used to assess either attitude or personality. Assessment of a potential employee's attitude and personality was based on the owner-manager's intuition and experience.

When the selection decision was made, an employment offer followed in the form of an employment contract. Little negotiation took place about the terms or conditions of the contract with this being seen as implicit in the interview.

2. Induction

Formal induction was rarely practiced. A new employee was usually shown around the business, introduced to fellow workers and left to 'learn-on-the-job'. A number of businesses operated a 'buddy' system, but this depended on the size of the enterprise and the previous work experience of the new employee.

3. Employee performance

Although the management of performance occupies a central place in contemporary HRM literature, few businesses in the study operated any formal performance appraisal procedures.

Rather, they operated what could best be described as 'appraisal by observation', assessing employee performance 'every six minutes rather than every six months'. Being in the thick of the action, owner-managers considered themselves well placed to appraise employee performance supported by whatever data was available, such as point-of-sale returns or customer feedback. When a problem surfaced, such as errors or poor workmanship, owner-managers would intervene, taking the employee aside to discuss the problem.. 'On-the-job' training might take place but if this was not effective, the employee's continued employment with the business might be re-considered.

A number of owner-managers in 'larger' small businesses indicated dissatisfaction with this 'after-the-fact' approach to managing employee performance, suggesting that should the business expand further, it was an area that would need attention and the development of a formal system of managing performance.

4. Training

All owner-managers claimed that training, of some form, took place with the type of training depending on the nature of the business. It was, however, predominantly 'on-the-job'. Some organizations in the study had developed 'innovative' approaches to training. For example, the 'strategic' direction taken by the owner-manager of a pharmacy - whether the 'core' business was traditional dispensing or retailing - determined the type of 'in-house training undertaken. Pharmacies with an 80:20 split in favor of retailing rather than traditional pharmaceutical dispensing - a clear development in the industry - relied on manufacturers and cosmetic houses to conduct their training. Retailers operating a Lotto agency made use of the training programs operated by the Lotto organization such as financial management, customer service and inter-personal skill development.

Owner-managers were often ambivalent about training viewing it as a cost to be borne by the employee rather than by the business. For courses or programs undertaken at a polytechnic, an owner-manager might contribute to the cost or reimburse the fees on the successful completion of the course. Training was, however, often seen as 'personal development', increasing an employee's marketability and therefore, a cost that she or he should bear.

Section Two: Small Business and the Employment Context

The New Zealand economy has undergone major change since 1984, affecting organizations large and small. Respondents were asked how the following recent legislation had influenced their approach to managing staff:

i. The introduction of the Employment Contracts Act 1991
ii. Safety and hazard management requirements of the Health and Safety In Employment Act 1992
iii. The Industry Training Act 1992
iv. Human rights provisions included in the Human Rights Act 1993
v. Individual privacy requirements laid down in the Privacy Act 1993.

The Employment Contracts Act 1991 fundamentally changed the nature of the employment relationship, replacing a centralized bargaining system based on national awards with a system based on legally-binding individual or collective contracts.

The consequences of the Act were profound. Owner-managers were responsible for negotiating legally binding employment contracts with their employees but, unlike their counterparts in large organizations, lacked resources such as consultants to draw upon.

The predicted chaos did not happen and seven years on, few owner-managers considered the Act to be an issue. Most used standard, pro-forma contracts developed by professional or trade associations or, employer groups such as the Employers and Manufacturers Associations. Managing within a legal, contractual context has become a norm for small business.

A number of owner-managers had experienced problems with the operation of the Act, having had Personal Grievance cases taken against them by employees. Many of these cases ended at the Employment Tribunal. These businesses tended to have higher levels of staff turnover and employed casual or part-time employees.

The Health and Safety in Employment Act 1992 presented small businesses with their greatest challenge. The Act transferred responsibility for safety and hazard management from the Department of Labor to individual employers and employees. All businesses in the study indicated that the legislation had affected them, requiring them to identify hazards in the workplace and develop appropriate procedures. This involved considerable effort and money in developing systems and procedures to comply with the Act. Unlike large organizations, small businesses were in no position to employ someone to do this for them.

Owner-managers showed limited understanding of the other major pieces of legislation. The Industry Training Act 1992 was considered to have little or no relevance to them. Knowledge of the Human Rights Act 1993 was scant even though it has important implications for small businesses - for example, avoiding discrimination in the workplace. Even more surprising was

the lack of concern about the Privacy Act 1993, which protects individual privacy – for example, when gathering information at the recruitment stage. In a number of cases the HRM/'people management' practices in the study breached a number of these Acts.

Section Three: Small Business and 'People Development'

The mainstream HRM literature argues that human capital is the source of potential competitive advantage, capital that is capable of growth and development. Implicit in this view is the role of the manager as developer and 'shaper' of the organization's human resource.

The owner-manager's view of his or her employee as a source of competitive advantage depended largely on the nature of the business and the employee's position in it. For example, recruiting an unskilled employee in a manufacturing business was often a 'hit or miss' process with the decision seen as unlikely to have a significant effect on the business. When recruiting a skilled or professional employee, however, the potential value to the business was considered significant, requiring not only the 'right' decision at the recruitment stage, but also requiring that the employee be 'maintained' in order to ensure that she or he stayed with the business. This might mean supporting training through the completion of professional or technical examinations.

The owner-manager's approach to his or her own professional or management development depended on factors such as age and the competitive nature of the industry. Owner-managers frequently mentioned the increasingly competitive nature of business in New Zealand and of the need to be effective and efficient. This included being current with developments taking place in the industry. For smaller businesses, however, even when the owner-manager recognised the value of 'taking time out' to assess changes taking place in the industry or to develop his or her own knowledge through attending a course or seminar, it was often difficult to do with no one available to provide cover. Larger businesses in the study were better able to do this with a partner or supervisor covering for the manager.

Of a number of managers who had set out to develop their managerial skills and knowledge through attending courses and seminars, most tended to be younger and entrepreneurial by inclination. They were also more likely to have used this knowledge to develop more formalized systems and procedures in their businesses.

Section Four: Discussion

1. 'Small business': a misnomer

The small business literature invariably attempts to define *what* constitutes a 'small business'. How many employees does a 'small business employ? Is there a cut-off point between 'small' and 'medium' sized businesses? While this might be necessary for research purposes, it fails to capture the *nature* and *value* of a 'small business' within its particular context. For example, a pharmacy employing eight full-time and four part-time staff in a rural town is not a 'small' business at all but is a relatively 'large' enterprise within the context of its 'rural town' location. It will be a major employer and generator of income and a significant contributor to local advertising, transportation, cleaning services, etc. Its failure would have a major impact on the local community whereas a pharmacy of similar size in a large urban setting would make a proportionately smaller contribution and in the event of failure may go un-noticed.

The term ‘small business’ belies the nature of the contribution such an enterprise makes in its particular context. In reality there are ‘small’, ‘medium’ and ‘large’ small businesses dependent upon their setting.

2. The use of formal HRM/’people management’ systems and procedures.

Few businesses in the study operated formal HRM systems or procedures. Recruitment and selection was predominantly informal, relying on the owner-manager’s intuition and experience for making the ‘right’ decision. Induction was treated in much the same way. Although employee performance was considered critical to the success of the business, owner-managers relied on informal and subjective methods of assessment. Few had established formal criteria, relying instead on observation or surrogate indicators such as sales figures.

Training was informal, carried out ‘on the job’ to meet short term needs and frequently was viewed as a cost to be minimized. Rarely was the effectiveness of training evaluated. Where owner managers had instituted formal HRM procedures they were, more often than not, responding to external pressures rather than as a proactive move. In one case, the owner-manager of a small manufacturing business had been forced to invest time and money into developing ISO 9000 accreditation in order to continue supplying a major customer. Small businesses often developed formal employment-related procedures to comply with legislation, for example, health and safety requirements.

For organizations employing up to 20 staff, the lack of formal procedures was not a problem. With a small number of employees the owner-manager could keep ‘in touch’ and literally observe individual behavior. It was when the business expanded, with a concomitant increase in the number of employees, that this reliance on a ‘hands-on’ approach tended to break down.

With increased size came increased complexity and the need for more systematic ways of managing. This manifested itself in the development and use of formal job descriptions, structure at interviews, more objective performance criteria and an increase in the use of written policies and procedures.

3. The relationship between the use of formal HR systems and procedures and management training and development.

Where formal HRM systems and procedures were evident, they were related not only to relatively larger size and greater complexity of the business, but also to the owner-manager’s exposure to formal management training. A number of owner-managers in the study had undertaken management training programs offered by universities, polytechnics, professional associations or the New Zealand Institute of Management. This experience led them to re-consider their organizational systems (or lack of them) and the need to develop appropriate frameworks. In some cases, particularly where the business was expanding, this had led the owner-manager to re-consider his or her role, moving from ‘hands-on’ involvement to a more ‘professional’ managerial role. This involved planning the longer term ‘strategic’ direction of the business, marketing, identifying sources of competitive advantage, researching industry developments overseas and the effective management of staff. Managers who had pursued managerial rather than further technical or professional training, were often younger and entrepreneurial in inclination.

Exposure to academic management knowledge invariably led to a questioning of the way

things were done in the business, including the limitations of informal methods, particularly in terms of consistency, validity, reliability and legal defensibility. In an era of legally binding contracts, exposure to HRM knowledge raised doubts about how legally defensible some currently employed methods might be - for example, dismissal based on poor performance.

CONCLUSION

Little evidence was found of 'hard' HRM policies and procedures among businesses in the sample. Instead, most relied on informal, subjective, sometimes ad hoc practices for managing their employees. This informality, however, worked for the majority of businesses due mainly to the small number of employees. When the number of employees increased, the effectiveness of these practices came under pressure, leading to a more formalized approach.

Establishing effective HRM/'people management' systems and procedures for small businesses does not mean borrowing, holus-bolus, from those found in large organizations. For example, rather than 'downsize' conventional performance appraisal models, it requires the development of systems that fit with the nature of small business. In the matter of HRM, small businesses simply are not large businesses 'writ small'.

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HIGH IMPACT ENTREPRENURSHIP EDUCATION: THE ROLE OF FACULTY-GUIDED, STUDENT-BASED FIELD CASE CONSULTATIONS

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ABSTRACT

Small, entrepreneurial, and family businesses have long been regarded as important contributors to the growth of a nation's business development, as well as a significant driving force in the nation's overall economic development. Unfortunately, it has been estimated that a good number of these businesses will fail within the first several years of operation. A meaningful part of this nurturing these firms will require recognition by business schools to develop programs which are 1) tailored to the specific needs of students who represent the next generation of small, entrepreneurial, and family business owners; and 2) focused on the needs of the firm owners themselves. In recent years, business schools worldwide have begun to use faculty-directed, student-based consulting programs as a teaching/learning tool in their undergraduate and MBA programs to address this dual need. This research uses the highly successful faculty-guided, student-based Small Business Institute (SBI) field case consultation program in the United States to examine two key questions: 1) the receptiveness of the small businesses to student teams' inputs; and 2) what factors affect the receptiveness of small businesses' to implement students' recommendations. Initial findings from a sample of 500 firms in 45 states suggest that client firms are very receptive to student team analysis and recommendations. Discussion includes issues to refine the effectiveness of existing faculty-directed, student-based consulting programs and increase the contribution of these programs to the small business success and survival. Recommendations for future research are made.

INTRODUCTION

Small, entrepreneurial, and family businesses have long been regarded as important contributors to the growth of American business, as well as a significant driving force in the nation's economic development (Steward and Boyd, 1988). Currently, more than 16 million small businesses operating in the U.S. are responsible for approximately 47 percent of the total U.S. production of goods and services (Steward and Boyd, 1988). There is no question that small firms are, over a long period of time, the major source of new jobs in America. From 1970 to 1990, the number of jobs in the U.S. grew by almost 50 percent and of this figure, small businesses accounted for as much as two-thirds of the net job creation (Dunkelberg, 1995).

While the SBA predicts that the number of self-employed will increase to approximately to 12.2 million in 2001, a good number of these new businesses will fail within the first five years. It is

estimated that nearly 40 percent of small business failures in the United States in 1986 were companies less than three years old. An additional 40 percent of business failures were companies between four to ten years. Given that business failure is potentially damaging to the efficient operation of a market economy (Storey, Keasey, Waton & Wynarczyk, 1987), it is desirable to explore avenues that address increasing firm survivability.

Research on small businesses by Martin and Staines (1994) shows that smaller organizations frequently suffer from “resource poverty” and are more vulnerable to mistakes and variations in their economic performances than larger ones. Small businesses are also more likely to engage in informal management practices than to adopt sophisticated planning and control techniques. A recent survey of small business owners conducted by Minolta Corporation cites the failure of most small businesses is due to lack of capital, little or no business knowledge, poor management, inadequate planning, and inexperience (Martin and Staines, 1994).

In spite of the high initial failure rate of small businesses, the importance of its role in the U.S. economy suggests that the small business system is something to be nurtured. A meaningful part of this nurturing process will require recognition of the need by business schools to develop programs that are tailored to the specific needs of small business and to be actively involved in providing students a strong teaching/learning experience with regard to small, entrepreneurial, and family businesses. In recent years, more and more business schools worldwide have begun to use faculty-directed, student based consulting programs as a teaching/learning tool in their undergraduate and MBA programs (Lamond, 1995). Such a program not only offers students an unparalleled learning opportunity and a real world experience, but also offers insightful andpragmatic recommendations to the small businesses in the community. Education of this nature can benefit students interested in future self-employment; those who are currently working in small, entrepreneurial, and family firms; and those who will be working in firms that will interact with small, entrepreneurial, and family firms.

As the acceptance of faculty-directed student-based consulting programs continue to diffuse, attention to the effectiveness of the program should grow accordingly. Therefore, it is important for business schools to understand the receptiveness of these small businesses to the student team input and what are the underlying determinants that motivates these small businesses to implement the student team's recommendations. The understanding of these underlying determinants will enable business schools to: 1) further refine their existing faculty-directed, student-based consulting program; and 2) enable schools to select clients based on the anticipated need as well as the potential benefits that the student consulting program can provide to the small businesses. Given the lack of research to date on the factors which can influence the decisions of small businesses to implement student team recommendations, this research will assess: 1) the receptiveness of the small business to the student team inputs; and 2) the factors that affect the receptiveness of the small business to implement the student team's recommendations. For the purposes of this paper, the term “small business” will be used to include small, entrepreneurial, and family firms and will be operationally defined to encompass business ventures that employ less than 100 employees.

LITERATURE REVIEW

Anecdotally, most small business owners run their business on the basis of past experience and common sense. In fact, research suggests that the majority of small business owners have no professional or other formal qualifications, and only a small number have specific qualifications in management (Stanworth and Gray, 1992). This common sense approach may

be very effective as long as the scale of the business remains small enough for one or few people to control effectively and so long as there is no serious crisis that overwhelms their pragmatic management. However, if faced with significant growth or a need to consider drastic changes in the business policy, it is very likely that the situation will reveal a need for certain specialized management or business skills which are most unlikely to be found within the average small business.

In recent years, there has been an increasing interest in the development of small business in many countries (Gibb, 1996). Many of these countries see the potential growth in these indigenous small businesses as very promising. Anecdotal and research evidence, however, suggests that many of these small businesses are prone to failure. Frequently, the quality of management in these small businesses suffers from small numbers and a lack of professional managerial training (Stanworth and Gray, 1992). Unfortunately, many of these businesses are unable to afford hiring professional managers or business consultants. Without such assistance, many of these businesses are at a higher level of risk for failure, which results in lost tax revenue, fewer jobs, and a general negative economic impact in the community.

At the same time, interest in entrepreneurship and small business management education has grown remarkably during the decade of 1980 (Solomon and Fernald, 1991). In general, entrepreneurship and small business education are important to students who intend to be self-employed, those who currently own or are running a small business, and those students who will work in firms that will directly interact with small, entrepreneurial, and family business ventures. With regard to training and professional education, however, there can be little doubt that small businesses are less likely to seek the benefits of training, both technical and managerial, than larger firms (Stanworth and Colin Gray, 1992). For instance, it is generally recognized that most small businesses could benefit from training in financial control, business planning, marketing, new forms of technology and time management. Yet, for a number of reasons such as time pressure, fear of classroom failure, lack of financial resources, failure to see the relevancy of theories taught in the classroom, etc., relatively few owners or their staff undergo training.

From an educational perspective, perhaps one of the most important roles that a business school could play is in the long-term development of small businesses in the community. The challenge to university business schools is therefore to treat small business/entrepreneurship education as a necessary tool to help students who aspire to be self-employed, and also to nurture and support the development of the local small businesses in the community. To address this challenge, business schools have aggressively initiated entrepreneurship/small business classroom courses, as well as programs that provide some form of “in-house” training and/or consulting for the small businesses in the community.

A faculty-directed, student-based consulting program is one form of entrepreneurship education that provides “in-house” training for small firms while simultaneously providing students an unparalleled entrepreneurial learning experience. Such a program essentially serves three goals: first, it benefits students by exposing them to a “real world” working situation; second, it takes the training to the small business owners and employees who many times cannot afford the resources to attend formal training in a classroom setting; and third, it provides an excellent opportunity for business schools to become more aware of and embedded in local and regional networks and to position themselves closer to the local business community. In addition, the clinical orientation of a field-based program provides a substantial opportunity for business school to widen their focus for research and publication.

Over the past decades, entrepreneurship and small business programs in many business schools have shifted from the emphasis of normal content-oriented passive learning situation to one in which the student has ownership of, and involvement in his/her learning (Shuman and Hornaday, 1975). Recently, many of the MBA information brochures from institutions in various parts of the world suggest that faculty-directed, student-based consulting programs are being used increasingly as a teaching/learning tool in MBA programs as a meaningful opportunity for students to put into practice what they have been learning in theory (Lamond, 1995). For example, at the University of Toronto, the faculty of management studies argued that to teach a program in entrepreneurship, students must “learn-by-doing” with some, if not all, instruction of a clinical nature. They found that many of the small businesses in the program surveyed indicated that the implementation of the student recommendations has led to some form of revenue increase, cost decrease, or employment increase and the process enabled the client to learn new skills and technology (Haines, 1988). Similarly, an Australia study notes the clients found the consulting program to be valuable and that it exceeded the clients' expectations (Lamond, 1995). In 1972, the United States Small Business Administration (SBA) and a number of leading business schools in the United States sought to address the growing desirability of small firm's need for management assistance. Realizing that many small businesses do not employ modern management techniques, the SBA and business schools developed the Small Business Institute (SBI) Program to address this situation and, in turn, sought to reduce business failures (Burr and Soloman, 1977). Originally, the SBI Program was conceived as a contract arrangement between the Small Business Administration and participating colleges and universities to provide student counseling assistance to small business owners. After initial misgivings about such a program, the SBA and many business educators began to recognize this approach as a learning and teaching innovation of major importance for the future of all business schools (Burr and Soloman, 1977). A faculty-directed, student-based consulting program also provides students the opportunity to work on actual problems in the work place and focuses on both the students' knowledge, insight, creativity and the ability to identify and provide recommendations to solve these real life problems (Kirby and Mullen, 1990).

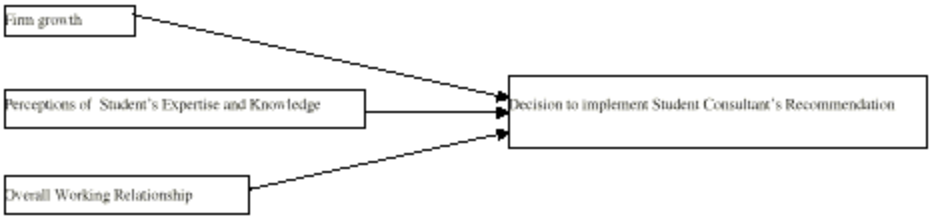
In essence, the student extends his or her role to that of “relationship counselor” in a quasi-consultancy mode. Much of what the student consultants do in the small business could best be described as not only a learning experience for the team, but as an “in-house” training program for the owners/managers. This can be in a form of inducing the owners to examine their situation objectively and honestly, exposing them to new ways of solving problems, and overcoming their prejudice against unfamiliar techniques. Clearly, the advantages of this program for the small business owner include an opportunity to make use of the energy and skill represented by the local student and faculty population; and to acquire valuable business techniques as well as assistance for projects or problems which the small business owner may lack in resources to implement or resolve (Kirby and Mullen, 1990). Perhaps most importantly, it gives owners of small businesses a much needed dose of perspective from outsiders or “fresh insight” (Kalser, 1995). The interactions that the students have with the owners and the dynamics within the consulting group quite often provide a valuable education experience that, simply put, a classroom cannot recreate.

FACTORS INFLUENCING IMPLEMENTATION.

As advantageous as faculty-guided, student-based field case consultancy is, it is important to better understand what factors influence small businesses to implement the team's recommendations. Given resource limitations, it is important that business schools channel

their efforts to small businesses that will take the consultation seriously, as well as to those small businesses which will most likely benefit from the students' recommendations While the literature is relatively silent as to which factors are most important, this study will focus on three general factors that influence the small business owner's decision to implement the student teams' recommendations: 1) client interest in firm growth; 2) the perceived level of the student consultants' expertise and knowledge; and 3) the overall working relationship which these student consultants have established with the firm owners and/or managers. These relationships are shown in figure 1.

Figure 1: General Model: Factors That Influence Decision to Implement Student Recommendations



HYPOTHESES

Client interest in firm growth

It would be a mistake to assume that all small businesses actually want to expand and/or grow or are necessarily keen to improve their management skills. Many individuals become self-employed due to their desire for independence and autonomy rather than profits or growth (Stanworth and Curran, 1973; Bechhofer and Elliott, 1976; Carland, Hoy, Boulton and Carland,1984;Gray and Stanworth, 1986). In fact, most small businesses have only local horizons, a weak grasp of technological and business principles, and have little to desire to expand (Binks and Jennings, 1986; Storey, 1986a). While entrepreneurial ventures generally are more concerned with growth objectives than small business ventures, it is reasonable to assume that even small business ventures have marginal growth objectives, especially in terms of revenue. It follows that in order to facilitate this firm growth, the firm owner would be more interested in implementing student team recommendations. Therefore,

H1: The greater the client interest in growth, the greater the likelihood of implementing the student consultants' recommendations.

*The overall working relationship between student consultants and client***.**

The establishing and management of a trust relationship between student consultants and clients is addressed by a number of researchers (e.g., Porter and McKibbin, 1988; Corey, 1990; Matthews, 1991). The level of confidence the owners of small business have in the student consultants can only be maintained if a good relationship is established. It is essential, therefore, that the student consultants create a relationship with the clients such that the clients will become less concerned about their personal risk and be more willing to become partners with the consulting team in diagnosing and dealing with the problems (Stanworth and Gray, 1992; Lamond, 1995). Thus, H2: The stronger the overall working relationship between the clients and the student consultants, the greater the likelihood of implementing the students' recommendations.

Students' Knowledge and Expertise

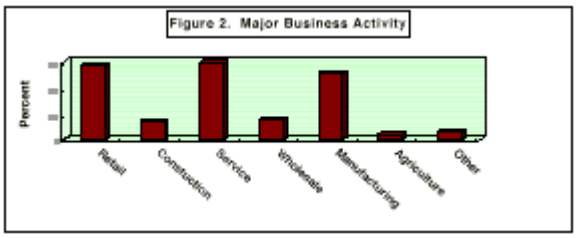
The student consultants and the faculty need to have interdisciplinary management skills due to the wide range of problems that may present themselves in each project. The student team must integrate the various disciplines the individuals have studied across the curriculum so that they can examine and understand the diversity of topics in each client's business. Hence, student consultants who are able to demonstrate an understanding of the company and the industry and try to relate their knowledge to other industries and companies that they may have studied in the classroom (Corey, 1990), are more likely to convince their clients that their recommendations are useful. Therefore,

H3: The greater the perception of the students' knowledge and expertise by the client, the greater the likelihood of client implementing the student consultants' recommendations.

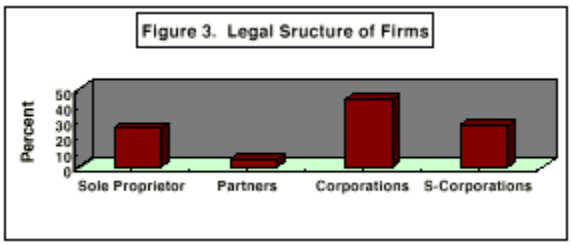
METHODS

Sample

A sample of 500 clients participating in the Small Business Institute (SBI) Program in the United States in 1993 was obtained by asking the SBI Directors to send a one page survey to their client companies. (More information on SBI and SBIDA can be found at the SBIDA web page: http://www.cba.uc.edu/cbainfo/sbida). The 500 completed surveys represent 45 of the 53 states and U.S. territories to which the surveys were sent. The survey was anonymously completed and returned. The respondents included retailers, service organizations, wholesalers and manufacturers (see figure 2).



The average number of full-time employees in 1993 was 18 (SD=63.29), with an average hourly wage of $8.556 (7.305). The average sale revenue in 1993 were $1.7million (SD=5.4). The average length of time in business was 3.10 years (SD=1.0). In this sample, approximately 43.4 percent of the respondents' businesses were in corporations, 27.1 were in S-corporation, 25 percent were sole proprietorships, and 4.5 percent were partnerships (see figure 3).



Measures:

Length of time in business is an observable variable that may influence small business owners'

decision to implement the student recommendations (Storey, Keasey, Watson and Wynarczyk, 1987; Stanworth and Gray, 1992. Given potential importance of length of time in business it is included in this study as a control variable. This variable is measured using the question, “About how long have you been in business?” Responses were coded as (1) less than one year; (2) 1 to 3 years; (3) 4 to 6 years; and (4) over 6 years.

Implementation of recommendations (dependent variable) is measured by asking the question, “After you received the SBI counseling, did you make any changes in your business operations?” Response choices were either (0) no or (1) yes.

The percentage of change in gross sales during the same period was obtained from each client as an indicator of growth intention (independent variable) by each firm. The percentage change in gross sales is calculated using the following formula:

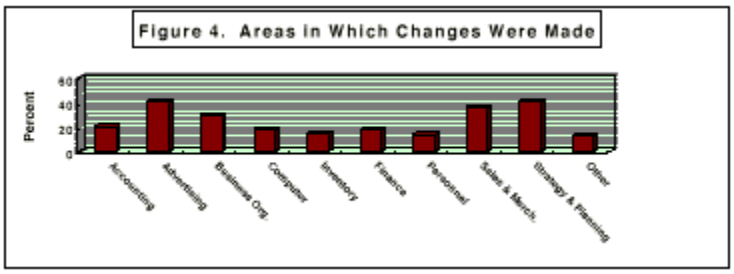
[{(Gross sales in period 2/gross sales in period 1) 1/2 }-1] *100%

Working relationship (independent variable) is measured using a one-item measure, “How would you describe your overall working relationship with the SBI consultants assigned to assist you?” Response choices were (1) excellent, (2) above average, (3) average, (4) below average, to (5) poor.

Knowledge and expertise (independent variable) was measured using the item, “Recalling the consulting you received from the SBI, how would you rate the knowledge and expertise of the SBI consultants assigned to help you?” Response choices were (1) excellent, (2) above average, (3) average, (4) below average, to (5) poor.

RESULTS

Approximately 86 percent of the SBI clients who responded to this survey indicated that they made changes recommended by the student consultants. Figure 4 shows the specific areas in which the clients made changes. Business and strategic planning and marketing activities, such as advertising, promotion, sales, and merchandising, were the areas in which most of the clients indicated they made changes.



Means and standard deviations for the control dependant and independent variables are given in Table 1. A correlation analysis of the variables is done by correlating length in business, interest in growth, overall relationship, knowledge and expertise, and decision to implement the student consultants' recommendations. The results reported in Table 1 show that the overall working relationship between clients and students shows a positive correlation with students' knowledge and expertise ($p<.05$). Overall relationship between clients and students also shows a positive correlation with decision to implement the student consultants'

recommendations (p<.05). The results also indicate that length of time in business is positively correlated with overall relationship between clients and student consultants (p<.10). Interestingly, length of time in business shows a negative relationship with sales growth (p<.05). Finally the results also suggest that students' knowledge and expertise show a positive relationship with decision to implement the student consultants' recommendations (p<.05).

Table 1 : Correlation and Descriptive Statistics

	Implement. recommendation	Relationship with client	Knowledge and Expertise	Sales Growth	Length in business
Implement. recommendation	1.000	0.415**	0.342**	-0.50	0.044
Relationship with client		1.000	0.707**	-0.48	0.089*
Knowledge and Expertise			1.000	-0.49	0.038
Sales Growth				1.000	-0.283**
Length in bus.					1.000
Mean	1.14	1.45	1.71	18.23	3.10
Standard Deviation	0.35	0.73	0.79	56.1	1.00

*** Correlation is significant at the 0.01 level (2-tailed).
** Correlation is significant at the 0.05 level (2-tailed).
* Correlation is significant at the 0.10 level (2-tailed).

A logistic regression model is used to test the three hypotheses regarding the client's decision to implement the student consultants' recommendation. As reported in Table 2, Hypothesis 1 is not supported. This suggests that there is no association between the client interest in the growth of the small business and the decision to implement the student consultants' recommendations. Hypothesis 2 is supported. The results show that there is a significant positive association between the overall relationship between clients and students, and the decision to implement the student consultants' recommendations (p<0.01). The results indicate the likelihood of the clients' decision to implement the student consultants' recommendation is greater when the clients have a strong overall established working relationship with the student consultants. Hypothesis 3 is also supported by the result. The results show that the clients' perception of the students' knowledge and expertise have a positive association with the clients' decision to implement the student consultants' recommendations (p<0.1). This suggests that the higher the client's perception of the student consultant's knowledge and expertise, the greater the likelihood of the client implementing the recommendation made by the student consultants.

The results of the logistic regression also show that the control variable is not an important predictor, as there is no significant association between length of time in business and the decision to implement the student consultants' recommendations.

Table 2. Logistic Regression
Dependent Variable: Implementation of Recommendations

	Beta	S.E.	Sig.	B	Odds Ratio
Sales Growth	-0.0023	0.0049	0.6365	0.0000	0.9977
Knowledge & Expertise	0.5178*	0.2938	0.0779	0.0611	1.6784
Relationship with client	1.3079***	0.2999	0.0000	0.2395	3.6982
Length in bus.	0.0730	0.2215	0.7415	0.0000	1.0758
Constant	-5.2672	0.9311	0.0000	NA	NA

R-square = 22.99
*** Significant at the 0.01 level.
** Significant at the 0.05 level.
* Significant at the 0.10 level.

DISCUSSION AND FUTURE RESEARCH

This study was designed to examine the receptiveness of small business to the analysis and recommendations of faculty-guided, student-based teams and also to assess the factors that affect these small businesses' decision to implement the students' input or recommendations. In this study, we found that the vast majority of responding business ventures are very receptive to faculty-guided, student-based field case consulting and the clear majority report that they have implemented the students' recommendations. Overall this study documented that the faculty-guided, student-based consulting programs have made a positive impact on these small businesses. It was also found that a stronger overall relationship between student consultants and the clients is positively related to clients' decision to implement the student consultants' recommendations. The results also indicate that the clients' perception of the students' knowledge and expertise is positively related to clients' decision to implement the student consultants' recommendations. Overall, the findings of this research reveal that small businesses take the student consultants' input seriously. The high implementation rate of recommendation by the clients further supports the usefulness of faculty-guided, student-based programs in assisting the ventures' development of competencies and aptitudes relevant to their businesses. This is consistent with findings from previous research from various countries which also verified that faculty-assisted, student-based field consultation is an excellent vehicle for assisting the small business in the community (McMullan and Boberg, 1991; Lamond, 1995; Haines, 1988).

Findings in this study also suggest that in order for faculty-guided student-based consultation program to be effective in assisting small businesses, it is important for business schools to acknowledge the importance of developing good interpersonal skills in student consultants. Business schools must ensure that they are not only rigorous in providing the student consulting teams with the necessary knowledge and expertise but also address the issues pertinent to the management of relationship between the students consultants and their clients.

As part of the course curriculum, student consultants should be introduced to the political (Iutcovitch and Iutcovitch, 1987; Mclemore and Neumann, 1987) and irrational (DeYoung and Connet, 1982) aspects of the consulting process. More broadly, the student consultants should understand that very often the clients may not know what the problems are and may need help to identify them. This process of student consultants working closely with the clients is what Schein, 1990, calls a “mutual inquiry process that creates a shared sense of responsibility.” Evidently, the successful management of the student consultants' relationship with the clients

is critical if student consultants are to maximize the chances that their input and recommendations will be utilized.

One limitation of the current study is that due to the confidentiality of the clients, it was not possible to follow up with the non-respondents. Also beyond the information reported in this survey, other explanatory data that could be important was not systematically analyzed. For example, one reason that hypothesis 1 is not supported could be due to the fact that even small, non-growth oriented business would find the faculty-guided, student-based consultation program valuable in terms of enhancing operational effectiveness. Future studies should further operationally define the type of venture as either a small business venture or entrepreneurial venture (Carland, et al., 1984) order to more fully explore this question.

Despite the above limitations, the results of the research presented here offers a tremendous amount of important and usable data for educators, researchers and public policy makers. The growth of small businesses and entrepreneurship is a phenomenon that is not likely to disappear in the near future. In fact, its growth can be expected to increase. Recent data on new and small business has indicated a substantial and expanding role for small businesses and other such entrepreneurial efforts in the global economy (Reynolds, 1997). The resulting demands will require that college and university faculty continue to develop new and exciting methods and programs to facilitate the teaching/learning in this dynamic field of study. One area for future research is to determine the level of success enjoyed by these small businesses as a result of the students' recommendations.

McMullan and Boberg (1991) compared the project method of teaching entrepreneurship with the case method by evaluating the opinions of a sample of past and present MBA students at the University of Calgary. The results indicated that students typically preferred project-based course for development of skills related to knowledge, comprehension and evaluation. Preshing (1991) did a study at University of Alberta on the advantages of project-based learning based on the evaluation of both students and clients, and concluded that project-based learning was best suited to teach entrepreneurship

It is clear from this study presented here that faculty-guided, student-based consultation programs can be a valuable addition to the armory of business education tools. With continued refinement and faculty-student involvement, such a program has the potential to become one of the most powerful programs in business schools. References available on request.

Thinking & practicing on improving the quality of Township Entrepreneurs

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Abstract

With the fast-changes of the outside operational environment, many town-owned enterprises have been suck into the difficult position because of the alternation from the sellers' market to buyers' market. One of the most important reasons of this phenomenon is that the enterprises' leaders used to win the market by their “bravery." They are now hardly adapting to the transference of using “wisdom” to create market.

How to improve the township enterprise managers' capability of effective decision making is an urgent task for those enterprises to free themselves from straits. The Township Entrepreneurs Mobile Training Station (TEMTS) has the successful efforts to foster the all-round quality of the township enterprise managers by using the investigation on-the-spot case study, special training on strategic thinking methods.

Key words: Township Enterprise Managers,

Capability of Effective Decision-making,

On-the-job training

Thinking & Practicing on Improving the quality of Township Entrepreneurs

We are living in a contradictory and unpredictable management times. The fast changing market situation and the business risk everywhere make the enterprises confront more complicated and disordered business environment than ever. So the key point is these managers should have the “sensitive smell," deep insight to catch the business opportunities and place their market state advantageously in the fast-changing outside environments. Which relate to the existence of those, especially small & medium size enterprises

To break from the straits is the urgent problem needed solving by the town-owned enterprises. The town-owned enterprise deep-rooted in the countryside is a great originality of millions of Chinese farmers and it does bring vigor and energy to China Economy. The Su-Nan (south of Jiangsu province) Town-owned Enterprises, which have two-thirds of the total number of township enterprises in China. They have the reputation of “secret weapon” that can push the East-Economy forward even the whole National Economy. According to the statistic number from 1981- 1993, the gross output value of the township enterprises had increased at the speed of 33.6% annually. Their industrial output value every year has developed at the speed of 33.4% in increase rate. The tax paid to the government has reached the increase range of 33.2%. The violent development of the township enterprises makes them become the main body of China small & medium size enterprises.

However, those splendid township enterprises in former days have sunk into the straits: stockpiled products, decreasing profit, slow capital turnover rate, heavy debt, increased deficit area. Some of them had to stop production, or be shut down, even went bankrupt.

According to the statistics, the increasing rate of the national township enterprises' output vale is 18% in 1997. It was the first time that the increasing rate was lower than 20%. The deficit area has reached 15%, 7% higher than last year. The growing speed of Su-Nan Township Enterprises began to close to or even lower than the local economical growing speed. It seemed that the past glorious and prosperous township enterprises do not exist any longer. People are now wondering: What has the problem happened? How to enable them to early walk out the deep valley?

As to the discussion of how the town-owned enterprises break from the difficulties, there are many opinions; deferent people have deferent views, which is so called “benevolent see benevolence, wise see wisdom." Some people say that the old module of the Town-owned enterprises which was described as the small boats (since it is easily to shift) can no longer stand the wild wind and huge waves at present. Thus only combination to become larger can beat the wind and waves. Someone thinks that the rigid system of “planned-market within the community, and the second state-owned," which just appeared in Town-owned enterprises, is losing its vigor at present. The fundamental way to re-survive for town-owned enterprises is to create a new system; others believe that, the right way of choosing suitable people is evolved to the uncommon situation, which is described like the cadre sitting in the “iron chair” and the staff members having the “iron rice bowl," only the reforms of mechanism can become the means of livelihood. Through the investigation and research on the Town-owned enterprises, we, the writers, think that the above opinions are undoubtedly right. Meanwhile, we need to stress that the quality of the managers of the town-owned enterprises is the important thing that should be laid more emphasis than any time in the history.

To Improve the Quality of the Managers is a task of top priority. Economy has very close relationship with entrepreneurs, to some extent, economy is determined by the entrepreneurs, especially to the small enterprises. In a large enterprise, power and knowledge usually extend to the whole organization, not only centralized in one person. The small enterprise is on the contrary. The driving force of its development is mainly relied on the managers themselves. It is the dedication, creativeness of the managers that give impetuous to the development of the enterprises. Their vigor is the most important element of the economical growth. If we go into the development history of the town-owned enterprises, it will not be difficult for us to find out the way of the town-owned enterprises growing in fact a hardship struggle history of Chinese farmer entrepreneurs. There are lots of examples of an able person establishing enterprise, an unable one destroying an enterprise. At then, it was those outstanding farmers, whose ancestors working in the fields under the scorching sun, that made the best use of the chance in reforms and open policy. They left the fields, cleared the obstacles on their way. Many stories are told about them. They drug roads when they met mountains; they set up a bridge when they were held by a river; they traveled a lot; experienced innumerable difficulties, tried every means. These make their enterprise distinguished from others and grow out of nothing even develop from small to big in the crick of the planned-economy. It could be said that, without them, there is no success of town-owned enterprises today. These “able persons” achieved the brilliant success of town-owned enterprises in the past. It is the same thing that they also determine the success or the failure of town-owned enterprises today.

When we talk about the development of town-owned enterprises, a fact can not be ignored.

That is, the rising and growing of the Town-owned enterprises are accomplished under such circumstance when the competition is mild. At that time, the state-owned enterprises were fettered by the system of planned economy; thus the domestic demand is insufficient, which provided a market chance for the town-owned enterprises. Almost is the fact that you can make money if you do any kind of things; and if you are willing to work, you are sure to develop in that special business times. Just because this, the farmer, who left the fields to establish the factories, with the courage and the faith of producing what is needed by the market broke into the business market, and became the pioneers of the market. At present, the ideal period has gone forever. With the transfer from planned-economy to market-economy and the alternation of the market from the sellers' to the buyers' market, the competition is becoming more and more intense. Now, only by “courage," one could not do business successfully, only relying on the strategy of producing what the market need could not bring out a market. The products of low quality and low technology can no longer share a certain market. On the converse, the intense competition demands for the managers to take their own actions to effect the market, to control it, even to create a new market.

The great outside operational changes make the town-owned enterprises lying in the historical and strategic transfer phase. This strategic phase may be the chance for the farther development of township enterprise, or a pitfall possibly. Just as what the Organizational Management Theory indicated that the violent changes in modern society require every organization enhancing the adaptability to fit for the social changes and making out a correct response to it in time. Only this can increase the organization's survival ability and obtain the “capability of catching the opportunity, and fit for the sudden changes.” This organizational adaptability comes from the correct decision firstly. In other words, the key point is whether or not can they formulate and readjust their strategy in time. Meanwhile do right things and do the needed things. Most of the enterprise managers come from farmer families. Their limited knowledge, poor intelligent and quality structure restrict some of them. They are lack of scientific forecast and acute consciousness. They followed the old ways staying on their old experiences and dare not to make any breakthrough, innovation and exploration. They were dreaming to get a piece of meat in the eastside and get another one in the West Side. Finally they got nothing, on the contrary, broke their teeth and suck into difficult position.

The facts remind us that the contradiction between the quality of the managers and the township enterprise development is now growing sharp. The current urgent thing to do is to improve the quality of township entrepreneurs, specially their capability of decision making, management skills and innovation spirits.

The on-the-job training is the exploration and practice on improving the entrepreneur's quality. To complete the alternation from “bravely” to “wisdom” needs enhancing the town-owned enterprise manager's ability. And the great improvement of the leader's quality depends on the further study and training. So the efficient and realistic way to improve these leaders' quality is to strengthen the on-the- job training. Under the organization of the Academy of Management Science in China and Township Enterprise bureau of the Ministry of Agriculture of China, we have established the “ Township Entrepreneur Mobile Education Station”. This Education Mobile Station uses the joint form united by Government, Industry and University. The main education content is to investigate the famous township enterprises and do the specific research on the special area by using case study and strategic thinking method. This education method has received very efficient results. Since the educational background of that township entrepreneurs are not very high, it determines the main education form should use the case study. During the determining procedure of teaching content, we think, on the basis of

complete discussion, one of the important quality should be owned by the modern managers is the ability to solve the problem successfully in the sharp competition environment. As modern entrepreneurs, his main task is to think strategically besides dealing with the daily business. We have made an investigation on almost one hundred township enterprises in south of Jiangsu province. The investigation data shows: Most of the township managers are busy with daily trivial things and is good at dealing with them. But they do not pay enough attention on the big events. Their abilities of decision making and management skills are very poor. The Entrepreneur Investigation System of China has made an investigation on " The most necessary quality needed by the entrepreneurs" submitting us:

	Order	Medium size	Order	Small size
Decision making ability	1	47.3	2	42.7
Management skills	2	43.4	1	49.5
Market experience	3	40.2	4	36.4
Employment ability	4	38.2	3	38.6
Technology forecast	5	29.8	5	30.1
Creation ability	6	23.0	6	24.3
Concept Renew ability	7	20.5	7	20.9
Public Relation ability	8	13.8	8	16.1
Policy understanding	10	11.3	10	8.6
Adventure spirit	9	11.4	9	10.8
Thinking quality	11	5.8	12	5.6
Education background	12	5.7	11	7.8
Democracy	14	4.5	14	3.7
Sense of law	13	4.7	13	4.9
Others	15	0.4	15	0.0

* The Entrepreneur Investigation System of China

So we focus on how to develop and increase the manager's decision-making abilities.

Decision-making is essentially a complicated thinking process. The quality of the decision-making is influenced by many factors. For the managers of town-owned enterprises, the negative influence of the inertia which might resulted from their thinking mode and habit should not be ignored.

Town-owned enterprise is consist of farmers that people have a deep feudal traditional thought. It founded & established in the rural areas. Under the specific environment, the managers are deeply influenced by the traditional habits and thought. The details are as follows:

Lock-step: People adore their experiences and ignore the rational thinking owing to thousands of years of small-size production history. Many managers of the town-owned enterprises would like to keep their old ways of doing things and believe their old experiences and dare not bring forth new ideas and innovation. They are in fear of taking a risk.

Shortsightedness: Shortsightedness of the managers of the town-owned enterprises due to small-size production is especially obvious. They are satisfied with small success ,only think about the present situation instead of making a long-term plan. There is commonly phenomenon: "OK, I'll do whatever you ask me to do without any consideration, and I only do the present things but not care about the future things." Therefore, they can not make a long-term plan for their enterprises. Developing relatives relationship: Being influenced by the feudal system on the basis of blood relation in the long-term, Non-rational characters influenced by feelings are clearly seen. The leaders of the enterprises arrange for their close relatives to be

charge of all important position in the enterprises to avoid non-relatives taking their position. As a result, town-owned enterprises become family enterprises and the decision-making are not acute in reacting to market demands.

Ignore management: It is said: Chinese people have a common weakness for being gmoney but not good at organization and management. We are not ood at seeking for to judge whether the viewpoint is correct or not here. At least the managerial confusion in town-owned enterprises is a fact. Most of the managers are used to their managerial styles of small workshop, unable to make the internal organization run effectively or to arouse the employee's initiative.

The quality and standard of the decision-making are undoubtedly reduced and influenced by the above thinking styles and action habits. The only way to change this situation is to give a special key which can help to make decision to the trainees. Therefore, the town-owned entrepreneur training station should not put themselves back to the old education way. Our training station focus more on fostering them to be more flexible and creative so as to make the mode of our trainees' thought reasonable, standard, technical. In our training, we educate our students on three key links which help to make correct decision: “should know, should make, should have.” It means you should know the basic knowledge, make sure the basic work done and have the basic skills. Especially those very important awareness as decision-making, team-work spirit, strategic mode of thought should be strengthened. According to research on typical cases like Sunshine Group, Shuang Liang Group, we have converted those decision making procedure into the steps, processes, courses, which is easy for our trainees to understand. And it works very well.

Jiangsu Sunshine Group is the one of the best in those town-owned enterprise of China, Its success is partly related to its slogan made by the decision makers “Improve ourselves and be well qualified” The general manager of Sunshine Group, Mr. lu only finished the senior middle school education and knew little about woolen spinning & weaving when he become the director of the group in 1986.But he thought at that time; “It's not a problem if you don't know it, but it would be a problem if you are nor willing to know. From that time he put all his hearts into piles of books. These knowledge gives him courage and wisdom. At the early time of the factory's establishment, they found Barathea (a kind of cloth material) welcome and profitable after market research. Many other factories withdrawn for the production difficulties. But the Sunshinenees did it and made it finally. Latter, due to the exceptional courage and the correct market forecast. The Sunshinenees have made lots of similar correct decision again and again . And every correct decision ,make the company catch the development opportunity and stand in a higher stage.

Jiangsu ShuangLiang Group, established in 1983, with 8 peasants in scale and 1085 US dollars. Now after more than ten years development, the enterprise has grown up as the one with the size of 3,000 workers, 72,300,000 USD total sales and net profit reaching $ 19,280,000 US dollars. The general manager Mr. Liao Shuang Da said the success of the enterprise is that when the enterprise facing the critical moment of development, every member of the enterprise would think these three following questions seriously:“ what is the current situation of our enterprise now?” “What will our enterprise be in the future?” “What should our enterprise be in the future?” They will consider it carefully to find the answers and make out the relevant strategies; The practices make the Shuang liangnees to feel that a scientific decision can make an enterprise be prosperous . Now the Shuang liang enterprise has its own Scientific & Wisdom decision group (SWG). When the enterprise meet some

important decision problems, they will ask for the ideas from SWG firstly and then the leaders will make the final decision according the ideas from SWG. It makes the decisions more correct and in time.

We have asked some experienced persons to introduce how they gather the information in what matter, what time, what place and in which degree? How to think and judge the operational surroundings? How to listen to the ideas from SWG carefully and make decisions by the leaders themselves? What's the procedure and according to what? The trainees all reflect that the training is very helpful for those topics are very closed to their life and very practical. What inspired us most is that most of the township entrepreneurs use the knowledge learnt in this mobile education station their restructure the company, They have been the top guys in new type of business operation.

Although the town-owned enterprise's development has met the temporary difficulties, we believe: with the general enhancing of the entrepreneurs' quality, the town-owned enterprise will show it's splendid tomorrow again.

ENCOURAGING ENTREPRENEURSHIP IN BRUNEI DARUSSALAM

Education and Training for Enterprise Development

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ABSTRACT:

The importance of small business and private enterprise sector in an economy is now widely recognized and the roles of education and training in stimulating entrepreneurship is also appreciated wordwide. In recent years, Brunei Darussalam has started promoting entrepreneurship. In an attempt to diversify the economy and stimulate private enterprise development, government agencies and private institutions are participating in different entrepreneurship development activities. This paper provides a brief overview of the emergence of entrepreneurship education and training followed by a review of related programmes and activities in Brunei Darussalam aimed at fostering entrepreneurship and small enterprise development. The paper also suggests how to enhance the efforts related to entrepreneurship education and training in the country.

Introduction

The overall purpose of this paper is to review the role of entrepreneurship education and training in fostering enterprise development in Brunei Darussalam. Beginning with a brief review of the emergence of entrepreneurship and small business education in the world, including a perspective on the Asia-Pacific region, the paper describes the programmes and courses currently available in Brunei Darussalam and recommends ways to further enhance enterprise development in the country. Although there are differences in the concepts of entrepreneurship education, enterprise education and education for small business management (Gibb, 1993, 1996a, 1996b; Gorman, Hanlon and King, 1997), for the purpose of this paper all these terms are used interchangeably. An integrated entrepreneurship development programme includes many extension and support services such as, providing access to capital, developed industrial estates, access to labour and skills, access to information and technology, import substitution and protection from foreign competitors, facilitating access to markets both local and international and so on. However, this paper primarily concentrates on efforts to enhance entrepreneurial skills and attitudes through education and training in Brunei Darussalam and suggests that education and training can play a major role in fostering an enterprising culture in the country.

Brunei Darussalam Emphasizes Entrepreneurial Development

Negara Brunei Darussalam (The Nation of Brunei, The Abode of Peace) is located at the northern Borneo and covers an expanse of 5,765 square kilometers. It faces the South China Sea and shares a common border with the East Malaysian state of Sarawak. The population of

Brunei Darussalam in 1996 was estimated to be at 305,100 which showed a growth rate of 3.1% over the previous year's figure. Over three-quarters (75.8%) of the population are the Malays and indigenous groups, followed by the Chinese (15.2%) and other ethnic groups (12%) (Borneo Bulletin, 1998). Like in the neighbouring countries of Malaysia and Singapore, relatively more Chinese are involved in entrepreneurial activities in Brunei Darussalam than the Malays (Heeks, 1998).

Although the economy has been based on gas and oil, has one of the best developed infrastructures and a high standard of living in the region, Brunei Darussalam has recently stepped up its efforts to diversify the economy. One objective of this drive is to turn the country into a Service Hub for Trade and Tourism for the east ASEAN region by the year 2003 (Borneo Bulletin, 1998). Brunei wants to be a bridge for the East ASEAN Growth Area (EAGA) member countries to the regional and global markets. EAGA groups Brunei Darussalam, parts of Indonesia's Kalimantan and Sulawesi, parts of southern Philippines and the Malaysian states of Sabah and Sarawak.

Another focus of the diversification programme is small and medium enterprises, which is expected to form the base of the economic built up (Borneo Bulletin, 1998). In order to achieve the diversification and transformation of the economy, His Majesty's Government recognizes the need to develop small and medium enterprises in the country. Thus **entrepreneurial development** has been emphasized in both the Sixth (1991-1995) and Seventh National Development Plans (1996-2000).

In order to facilitate the achievement of the Government's aspirations for entrepreneurial development, several organizations in Brunei Darussalam have started providing education and training and a few of them are currently considering enhancing their efforts. This paper will briefly review these recent developments coupled with suggestions for further action in this direction.

Why Should We Encourage Entrepreneurship

Entrepreneurship contributes to the economy of a community in many ways. Since the late sixties there has been a growing awareness of the important social and economic roles of the small enterprise sector and of the importance of entrepreneurship to the growth of the economy. This has been true both in developed and developing economies of the world (Loucks, 1986). For the society and communities entrepreneurship provides means for achieving the level of diversity, innovation and independent decision-making required for survival, development and freedom (Shapero, 1985). Researchers (Neelankavil, 1994; Syrett, 1995) have also identified that some graduate programmes in business administration do not teach their graduates leadership, creativity and innovation and entrepreneurship. In fact, entrepreneurship education and training can result in some unique benefits which may not be usually obtained in other types of higher learning. McMullan and Long (1990) suggest that, first of all, payoffs are not only longterm and diffuse as is typical in higher education but also short term and measurably focused. Secondly, the payoffs are also substantial as there are large in-process payoffs which can be obtained from student contribution to community ventures (McMullan, Long and Graham, 1986) and there are jobs which graduates frequently create. The authors maintain that perhaps most significant of all, entrepreneurship education is becoming a component of new economic strategies for fostering job creation. The outcome of entrepreneurship education is a new generation of entrepreneurs who create jobs not only for themselves but also for others.

Emergence of Entrepreneurship Education and Training

Since the sixties, entrepreneurship education has been spreading around the world at an ever-increasing pace (Vesper, 1985). In the 1980s (Shapero, 1985) and in the 1990s there has been a substantial, worldwide growth of interest in entrepreneurship and small and medium enterprise (SME) development (Birley, 1985; Gibb, 1993, 1996a; Gorman, Hanlon and King, 1997; Patel,1986; Nafukho, 1998).

Applied education in entrepreneurship can be traced as far back as 1938 to Shigeru Fuji, Professor Emeritus, Kobe University in Japan (McMullan and Long, 1990). By 1970, there were approximately 25 institutions of higher education in the US offering courses in the field. This number grew to over 150 by 1980, and by 1985 there were 253 (212 business, 41 engineering) schools with entrepreneurship courses located at 245 institutions (Vesper, 1985). Today that number has increased to over 500 in the US and schools are reporting a record number of students enrolling in such courses (Kuratko and Hodgetts,1995). Twenty-two of these universities offer between 5 and 14 courses in entrepreneurship and small business (Vesper, 1993).

During the last two decades many Canadian universities have also established programmes and introduced courses in entrepreneurship and small business management. University of Calgary, Ryerson Polytechnic Institute, University of Toronto, Memorial University of Newfoundland, McGill University, York University, and Concordia University are some of the leading institutions in the field.

Europe

The 1970s and 1980s have also witnessed considerable attention and effort in promoting entrepreneurship and small business education in Europe. Today the major institutions of higher learning offering courses and or programmes are the University of Durham, University of Stirling, Cranfield School of Management, Warwick Business School, London Business School, Manchester Business School and University of Ulster in Northern Ireland. In 1997, the University of Stirling established a Department of Entrepreneurship, probably the first in the world.

Since the mid 1980s several programmes have been developed and implemented in the UK aimed at encouraging students to set-up their own businesses. Few such national initiatives have impacted the development and growth of graduate entrepreneurship in Britain (Birley, 1985; Fleming, 1994).

New Enterprise Programme was launched in the late seventies several Business Schools in UK, sponsored by the Manpower Services Commission (MSC), a government agency in the country. In 1981 MSC published figures showing that out of 263 candidates who participated in 19 programmes, 96 percent started a business, with the average number of jobs created being eight (Birley, 1985).

The Graduate Enterprise Programme (GEP) was initiated in Scotland in 1983 and launched in England in 1984. The objective of GEP was to assist first new graduates with business ideas to start their own businesses. Participants were provided with support from academic counselors for completing business plans. An evaluation of GEP for the first three years (1985-87) by Brown (1990) found that out of 125 participants, between one-half and two-third were

still at business. The main conclusion of the study was that 90% of the graduates would have deferred their entrepreneurial activities for at least five years without the help of GEP.

The Enterprise in Higher Education initiative was launched in 1987 in Britain. The main objective of this programme are that every undergraduate student should be provided with the opportunity to develop enterprise competencies as an integral part of their undergraduate programme. Implementation of the programme began in 1988 when universities and polytechnics were invited to join. Successful bidders receive funding for five years and at present these are being carried out at fifty six Higher Education Institutions (Fleming. 1994).

The Enterprise Development Programme (EDP) was started in Ireland in 1990 with the objective to equip young graduates with necessary entrepreneurial skills to set-up, run and develop their own businesses. The Programme administered by the Dublin Institute of Technology is designed to support young graduates for one year to research and develop their business idea. The overall success of the programme can be judged by the fact that 55 companies out of 70 start-ups are in existence and 219 new jobs have been created (Fleming, 1994).

Southeast Asia and other countries

Along with the recognition of the importance of the small and medium enterprise sector, there has been the advent of entrepreneurship development programmes in many developing Asian countries too. In Thailand, the National Institute for Development of Skilled Labour, which is in the Department of Labour, trains people in the fields of welding, mechanical and electrical skills, radio-television repair, drafting and surveying. All these preemployment training is aimed at boosting the supply of skilled workers to small enterprises. Entrepreneurship development programmes are also available in Vietnam, Laos, and Myanmar (Brockhaus, 1991).

In Malaysia and the Philippines, specific entrepreneurship development programmes are organized to select, train and assist entrepreneurs in initiating and operating small enterprises (Nelson: 1986). Many universities in Southeast Asia now have courses in entrepreneurship and small business at undergraduate and MBA levels. The School of Management at the Asian Institute of Technology has also started teaching such courses. Even a number of institutions and universities have established centres for entrepreneurship and small business such as the Institute for Small-Scale Industries at the University of the Philippines, the University Pertanian Malaysia (Meredith, 1986), Malaysian Entrepreneurship Develovment Centre (MEDEC) at Institute Technology Mara in Malaysia (Shariff, 1997); and Nanyang Technological University. Through its various activities such as teaching and research, organization of conferences and seminars, publication and consultancy works, the Entrepreneurship Development Centre (ENDEC) at the Nanyang Technological University has emerged as a pioneering institution in fostering entrepreneurship in the region. Recent years have also witnessed the publication of two journals from the region: the Journal of Enterprising Culture from the ENDEC and The Malaysian Journal of Small and Medium Enterprises (MJSME) from the Universiti Pertanian Malaysia.

Education and training for entrepreneurship developement have also been initiated in other countries such as Australia and continental Europe (Vesper, 1986) as well as in Bangladesh, China and France (Shapero, 1985) and in Bahrain (Khan, 1991, 1994). In a recent research, Brockhaus (1991) has identified many countries outside North America and their programmes in entrepreneurship education. He provides details of their efforts and programmes in Japan,

Korea, Egypt, South Africa, Kenya, India, Australia and New Zealand aimed at fostering entrepreneurship. The University of New England, the University of New Castle and the5 University of Melbourne are primary sources of entrepreneurship education and research in Australia while major university efforts in New Zealand are at Massey University and University of Waikato. Brockhaus also reports that an increasing number of governments in developing countries are including special sections on small enterprise development in their development plans and designing targets for the sector's contribution in the areas of employment generation, value added, export potential and regional development.

In many African countries like Gambia, Nigeria, Malawi, Zimbabwe, Swaziland, Uganda, and Kenya Entrepreneurial Skills Development Programmes have been introduced (Nafukho, 1998). The belief of these countries is that unemployment problem can be solved by promoting small business enterprises. For these enterprises to be started and sustained, people with entrepreneurial skills are needed. The author concludes that it is important that African governments provide appropriate business environments which favour entrepreneurship and small business development.

International Organizations

There are international organizations such as the International Labour Organization (ILO), and many Non-Government Organizations (NGOs) involved in promoting small business and entrepreneurship in different parts of the world. The ILO has been a major participant in promoting small enterprise development in many developing countries for more than three decades. Through its Management Development Branch, and particularly the Small Enterprise Development Section established in 1977 in Geneva, the ILO has assisted countries in the design of programmes, provision of expertise and preparation of training materials (Loucks, 1986). Since then, the number of technical assistance projects and related research work have increased and there are at the moment some 30 small enterprise development projects going on in different parts of the world (Brockhaus, 1991).

Developments in Brunei Darussalam

With this brief worldwide perspective of the development of entrepreneurship education and training, this paper now provides a review of developments in Brunei Darussalam. A few of the public, international and private organizations, as shown in Table 1, are currently involved in entrepreneurship education and training.

University of Brunei Darussalam (UBD) currently offers two courses at the Bachelor of Business Administration level: Small Business Management, and Entrepreneurship and Business Development. It also offers Entrepreneurship and New Ventures as an elective in its newly launched MBA Programme. Besides, students are also encouraged to write their projects in any aspects of small business and entrepreneurship.

Table 1
Institutions with current and future roles in Entrepreneurship Education and Training in Brunei Darussalam

a. Government Institutions	Courses offered in Formal/Regular Programmes	Training courses, Seminars, Short Workshops
University of Brunei	BBA Programme:	Start Your Own Business

Darussalam	Small Business Management Entrepreneurship and Business Development MBA Programme: Entrepreneurship and New Ventures	and Manage Your Own Business
Ministry of Industries and Primary Resources (MIPR)	-	1997: 20 seminars 2 workshops 1 workshop (with Asean-EC Management Centre) 1998 Plan: 5 seminars 5 workshops 19 short courses.
Ministry of Culture, Youth and Sports: Youth Development Programme	-	Skill Development Training and Personal Development Training (including some aspects of small business and entrepreneurship).
Institute of Technology, Brunei Darussalam (ITB)	One course in Small Business and Entrepreneurship will be offered in future	-
b. International/ Private Organizations		
Brunei Shell Petroleum	-	Regularly held for their suppliers since 1985
ASEAN-EC Management Centre, Brunei Darussalam	-	1997: one seminar
SAMEO-VOCTEC, Brunei Darussalam	-	1997: one workshop

Source: Compiled by author.

UBD is very keen to enhance its role in promoting enterprise development in the country and is currently considering a proposal to set up a Centre for Entrepreneurship Development. One major objective of the Centre will be to provide comprehensive training to potential and existing entrepreneurs and owner-managers. At the initial stage, the Centre intends to offer two programmes for entrepreneurship development: **Start Your Own Business** and **Manage Your Own Business**. While Start Your Own Business will be targeting potential new entrepreneurs, Manage Your Own Business will be for existing owner-managers. Following are some details:

Start Your Own Business This programme is designed for potential entrepreneurs, such as, school leavers, unemployed, retired people, undergraduates or any other persons who are willing to pursue an entrepreneurial career. A committee will interview the potential candidates and assess their motivation and commitment to entrepreneurial careers and identify the candidates for participation in the programme. The duration of the programme is 16 weeks. During the first 8 weeks, participants will gain insights into the fundamentals of small business and entrepreneurship, finance and marketing and business planning process. The subjects to be covered during the first 8 weeks are:

1. Entrepreneurship and New Ventures

2. Finance and Accounting in Small Business

3. Sales and Marketing in Small Business

4. Planning and Starting a New Business

5. Managing a Small Business

The participants will attend 3 hours a session in the afternoon, for each of the above subjects a week. During the last 8 weeks each participant will develop his/her business plan for start-up under the supervision of a faculty member at the Centre. Some of the better business start-up plans will be submitted to the Government Agency such as the Ministry of Industries and Primary Resources (MIPR) or financial institutions for support. There should also be a follow-up support network for the Centre's participants so that even after they complete the programme and set up their businesses, they continue to receive advice from the Centre.

Manage Your Own Business The target audience of this programme is the owner managers of existing SMEs and family-owned businesses. From previous meetings between the Department of Management Studies, UBD and some government agencies and Brunei Shell Marketing Sdn. Bhd., it became obvious that there is a need to enhance the managerial capability of existing SMEs in the country to improve their performance.

Keeping this in perspective, several courses have been identified which will be offered at the Centre in close coordination with the Resource Centre, at the MIPR and other agencies and organizations. Because the existing owner-managers are busy with their business operations, the duration of these focused training will be relatively short, between 3 to 5 days, 3 hours a day in the evenings or weekends. The identified courses to be offered are:

Managing and Achieving Growth in SMEs

How to Internationalize your Business

Financing a Growing Business Sales and Marketing in a Growing Business

Managing a Family Business

Human Resource Management in SMEs

Planning for Growth of SMEs

Using Computers in SMEs

Production and Operations Management in SMEs

The training materials for these courses will be developed and compiled at the Centre especially to meet the needs of the owner-managers of SMEs in the country.

The Ministry of Industries and Primary Resources (MIPR)

Two units set up at the (MIPR), Resource Centre and Brunei Industrial Development Authority (BINA), are involved in the promotion of entrepreneurship and SME development in Brunei Darussalam. In 1997, the Resource Centre organized 20 seminars and 2 workshops for the owner-managers of SMEs. Their plan for 1998 include 5 seminars, 5 workshops and 19 short courses (Rose, 1998). International experts are invited to offer these seminars and workshops which are available to the local participants free.

The Ministry of Culture, Youth and Sports has a Youth Development Programme where young people who are unable to continue higher education because of their poor performance, are given training in skills and personal development including some aspects of small business and entrepreneurship (Bahari, 1998). The Institute of Technology, Brunei Darussalam (ITB) offers post secondary programmes and HND degrees. Its Business and Management Department is currently planning to launch a course on Entrepreneurship.

Apart from the above government agencies and institutions, ASEAN-EC Management Centre and (Southeast Asian Ministers of Education Organization Vocational and Technical Education (SEAMEO-VOCTEC) have also offered seminars in entrepreneurship and small business in Brunei Darussalam. Brunei Shell Petroleum (BSP), the largest private sector employer in the country, also participates in entrepreneurial training and development. In 1985, as part of its drive to develop local contracting workforce, BSP introduced Local Business Development policy, which gives preference to locally registered contractors to conduct certain type of business with BSP. BSP provides training to these contractors to provide insights into their requirements, processes and procedures, quality and standard required so that they can do the job well. This training process also contributes to the entrepreneurial development in the country.

Discussion and Concluding Remarks

Several organizations, as stated above, have initiated programmes and activities to offer entrepreneursip education and training in Brunei Darussalam. The UBD is obviously in a better position to play a pioneering in this endeavour. Entrepreneurship and Small Business courses are already offered in its BBA and MBA programmes. When its expected (currently under consideration) entrepreneurial training programmes of Start Your Own Business and Manage Your Own Business are launched in near future, UBD will have the most comprehensive programmes and activities to stimulate entrepreneurial development in the country. Its library is being equipped in entrepreneurship teaching materials including books, journals and magazines. There are faculty members with interest in entrepreneurhip and small enterprise development. And above all, the UBD administration is very keen and has support to enhance its role in entrepreneurship education and training.

Despite the current involvement of several institutions in entrepreneurship education and training, there appears to be a lack of coordination among them. Each organization has its own activities independent of others, and it is not clear how effectively all these will contribute to the national aspiration of entrepreneurial development. There is a need to coordinate these activities and probably the MIPR can take this initiative to develop strong links among educational institutions, chamber of commerce, and other private sector representatives to strengthen and expand education and training for current and potential entrepreneurs in Brunei Darussalam.

We need to take into account the recent suggestion by Gibb (1996b) that entrepreneurship

education may benefit from a broader model that takes into account the three sets of factors influencing and stimulating entrepreneurial behaviour: culture, task environment and learning environment. When this model is accepted, he argues that, in the educational context, a prime task of the “teacher” is to equip students or participants on programmes to cope with culture, task environment and learning modes in so far as they impact upon survival and development issues of the business, combining knowledge, skills and attitudes.

Finally it needs to be mentioned that education and training for any successful entrepreneurship development programme should include the following three related phases:

• Pretraining: identification, selection and intitial motivation of potential entrepreneurs;

• Education and training of potential and existing entrepreneurs by experienced and trained instructors, with especially developed and compiled training materials; and

• Post-training support and follow up services.

Some programmes have suffered because of lack of integration of activities between these three stages (Patel, 1986). Therefore, government agencies, private sector enterprises, the chamber of commerce and industries, and the educational institutions need to work together, in close co-operation and coordination, to provide a strong stimulation primarily to the young generation of the country for an entrepreneurial career.

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Training to Support the Diversification of the Bahraini Economy

Entrepreneurship at the Threshold of the 21 st Century

Training to Support the Diversification of the Bahraini Economy

Approach of the Bahrain Training Institute

by

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ABSTRACT

Bahrain Training Institute is a semi-autonomous vocational and technical training organization working under the Ministry of Labour and Social Affairs of the Government of Bahrain. The function of the BTI is to support the human resources development policies of the Ministry by developing and delivering training programmes to strengthen current trends in the Bahraini economy. This is a critical juncture in the life of the six Gulf Cooperation Countries: Bahrain, Saudi Arabia, Qatar, Kuwait and Oman. They face significant economic challenges associated with high domestic resource gaps and dependence on external resource flows. All the GCC countries are making strenuous efforts to reduce dependence on oil and diversify their economies. Development of human resources capable of meeting the challenges thrown up by the new economic realities is a major challenge before the Gulf countries. One of the major HRD thrusts in Bahrain is the development of an entrepreneurial spirit amongst the Bahrainis to foster in them a culture of self-earning rather than dependence upon jobs. The paper describes the effort made by the Bahrain Training Institute to provide to its trainees systematic training in the area of entrepreneurship development and the lessons the experiment has provided for the future conduct of such courses.

THE CONTEXT

The economies of the six countries constituting the Gulf Cooperation Council – Saudi Arabia, Bahrain, Qatar, Oman, the UAE and Kuwait – are characterized by high levels of oil and gas reserves, small populations, generous welfare systems based on Islamic ideals and a tightly-knit social fabric. The experience of rapid growth in this region during the 1970s and its reversal during the mid-1980s challenges traditional perceptions of how economic development occurs. Economic development issues in a region that holds 40 percent of world crude oil reserves (estimates vary between 40% to 53%) and produces 20 percent of world oil supplies will be of critical importance to the global economy well into the twenty-first century. As a recent study 1 points out

> The Gulf Cooperation Council (GCC) bloc plays a leading role in the World Energy market. Its members – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) hold nearly 46 percent

1 The Emirates Centre for Strategic Studies and Research (1997)

Gulf Energy and the World : Challenges and Threats

ECSSR: Abu Dhabi, UAE.

> of the world's crude oil reserves and 14 percent of the global natural gas reserves. In 1994, these countries accounted for approximately 45.7 percent of the world oil trade.

This is, however, a critical juncture in the life of the GCC countries. They face significant economic challenges associated with high domestic resource gaps and dependence on external resource flows. Fiscal deficits are generated by high levels of government spending on wages and subsidies, fuelled by rapid population growth and high public expectations. Structural changes in the oil market generated by technological innovations are likely to maintain low oil prices in the medium term and heighten external pressure on Gulf producers. All the GCC countries are making strenuous efforts to reduce dependence on oil and diversify their economies. Development of human resources capable of meeting the challenges thrown up by the new economic realities is a major challenge before the Gulf countries. The requirements of economic reform also strain the social fabric of Gulf societies. Patrilineal networks and traditional norms are adapting to new economic conditions with profound implications for educational and training curriculums, welfare systems, gender relations and the role of the media.

There can be little doubt that the GCC region is an area with a strong current and future economic strengths. A study of oil based economic activities 2 comes to the following conclusions:

• World oil demand is on a steady rise. IEA 3 expects world oil demand to rise at an average rate of 1.5 (C.C./ 1.4 (E.C.) per annum until 2010.

• In the next two decades, OPEC, Arabian Gulf producers in particular, will become even more important than they have been.

• Oil demand increase will be particularly strong in East Asia, particularly South Korea, China and India. China and India alone would need a total 119 million barrels of oil a day.

This would indicate that people in the GCC countries would continue to enjoy a high standard of living. This trend will be further strengthened by the realistic policies being pursued by the GCC countries to diversify their economic base. Already, in Bahrain 80.5 percent of the GDP comes from non-oil sectors. In the UAE the figure is 65 percent. Oman derives about 67 percent of its GDP from non-oil sources. Kuwait's hydrocarbons sector contributes 44.5 percent to the GDP, leaving the other 65.5 percent to other sectors.

The region hosts an extremely large number of foreign work force. It has been estimated that more than 60% of the workforce consists of expatriate workers. Unlike some countries on the African continent, GCC has chosen a rational and humane path to replacing foreign labour. The region shuns a political approach to the issue and urges its

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2 Hooshang Amirahmadi (1997) Oil at the Turn of the Twenty-First Century: Interplay of Market Forces

and Politics

The Emirates Centre for Strategic Research and Studies: Abu Dhabi, UAE

3 International Energy Agency (1995)

World Energy Outlook

OECD: Paris, France.

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nationals to replace expatriate workforce by obtaining the necessary skills, knowledge and a positive work ethic.

All the GCC countries are putting into place policies to afford their nationals a greater role in their economies. To this end, all these countries are observing localization policies to ensure that nationals progressively replace expatriate workers in all economic spheres. The region today invests heavily in training and human resources development and studies commissioned by the Bahrain Ministry of Labour and Social Affairs show that a staggering amount in excess of US $ 3 billion is spent annually on training and HRD.

All these facts demonstrate one clear trend – that training and human resources development are areas of extremely large potential in the GCC region. By contributing to the development of high quality human resource, education and training can not only empower the GCC nationals to partake in the regional prosperity but also give them the potential to contribute to the world economic development.

DIVERSIFICATION OF THE BAHRAIN ECONOMY

Exports of oil have always occupied a major role in the economies of Bahrain and other Gulf countries. However, a marked change has been taking place in this trend in the last decade. An examination of available data indicates that Bahrain's efforts to diversify its economy have been bearing fruit (see tables below). The data indicate that the share of Bahrain's non-oil exports is substantial and that even the origins of the Gross Domestic Product are getting diversified. The largest non-oil industrial unit in Bahrain is Aluminium Bahrain (ALBA), which has a production capacity of 500,000 tonnes per year. The Government attaches great importance to the development and growth of small and medium scale industries in Bahrain and has established the Small and Medium Enterprise Development Unit (SMEU) at the Ministry of Oil and Industry. Currently, the SMEU is implementing a specially designed Industrial Investor Development Programme (IIDP). Under this programme, specially selected Bahraini entrepreneurs will be given an opportunity to develop project ideas through a handholding service. The Government is also taking other steps to enhance the industrial infrastructure. At present there are eight designated industrial areas in Bahrain, spread over 586 hectares, where industrial land with infrastructural support services are available to investors on competitive lease terms. These areas accommodate more than 300 industrial units. A new industrial area at Hidd, which is part of the new superport project, will add another 640 hectares of services industrial land within the next few years. All these developments will lead to a substantial increase in the industrial activity and generate demand for skills. An announcement by the Ministry of Oil and Industry states that the overall composition of industries in

Bahrain is likely to be:

• Aluminium

• Petrochemicals

• Iron and steel

• Plastics

• Engineering

• Information technology• Communications

• Food processing

• Tourism

• A services sector comprising of ancillary and support industries.

Bahrain Merchandise Trade (*Source: Bahrain Monetary Agency, Quarterly Statistical Bulletin.)*

($m)

	1996			1997	
	1 QTR	4QTR	Total	1QTR	2QTR
Exports fob	1,115	1,253	4,602	1,115	N/a
Oil	770	893	3,157	753	N/a
Non-oil	345	360	1,445	362	374
Manufactured goods	250	274	1,066	261	N/a
Chemicals	31	23	113	39	N/a

Bahrain : Origins of Gross Domestic Product 1995[4]

Origins	%
Manufacturing	22.0
Public Utilities	19.4
Finance and Real Estate	17.6
Construction	5.6
Trade and Catering	10.7
Social and Personal	5.3
GDP at factor cost incl others	100.0

Given the nature of Government policies, there is every reason to believe that efforts to diversify the economy will be intensified in the next few years.

IMPACT OF SOCIAL AND ECONOMIC POLICIES ON THE DEMAND FOR TRAINING

A combination of factors – new economic developments and the need to Bahrainize the economy – has resulted in a heavy demand for training in Bahrain. There is also widespread dissatisfaction by owners and managers of companies in all sectors throughout the Bahraini economy with the current education and training systems for the indigenous workforce. Barring a few exceptions, existing providers of training are not delivering or have on offer the relevant and required types of industry specific courses for Bahraini job-seekers and the employed, to satisfy the needs of the market place.

DEVELOPMENT OF ENTREPRENEURIAL SPIRIT

Development of human resources capable of meeting the challenges thrown up by the new economic realities is a major challenge before the Gulf countries. One of the major

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4 The Economist Intelligence Unit (1997)

Country Report, 3 rd Quarter 1997: Bahrain, Qatar

HRD thrusts in Bahrain is the development of an entrepreneurial spirit amongst the Bahrainis and foster in them a culture of self-earning rather than dependence upon jobs.

FEATURES OF THE BTI SYSTEM

Bahrain Training Institute's 5 strategy to achieve these objectives has the following major features:

• Integration of the technical and entrepreneurial training components by requiring all trainees to study the theory and practice of entrepreneurship along with their major specializations like information technology, electrical/electronics technology, instrumentation technology, mechanical technology, building technology, business studies and garment technology.

• Identification of special areas suitable for female trainees in an Islamic environment: IT, business studies and garment technology

• Inclusion of on-job training as a required component in all areas

• Establishment of simulation units on the campus

• Systematic participation of practitioners in developing and delivering programs

• Use of National Vocational Qualifications system of the UK in providing simulated workplace experience.

Integration of the Technical and Entrepreneurial Training Components

A variety of technical areas are available to Trainees at the Bahrain Training Institute. These include information technology, instrumentation engineering, mechanical engineering, automobile engineering, electrical and electronic engineering, building and construction engineering, garment technology and business studies. In order to encourage technical graduates to undertake self-earning activities, all trainees in the second year of their National Diploma (accredited by the EdExcel / BTEC in the UK) are required to study a special module in entrepreneurship development. The aim of the module is to inculcate in the trainees a positive attitude to entrepreneurial activity, clarify its relation to national economic objectives and to provide an introduction to the skills necessary to succeed in an entrepreneurial project. Trainees are required to develop viable business plans and submit them to appropriate financial institutions. From the first batch of trainees, about 5% of the trainees succeeded in making viable plans, obtaining funding and starting their own business activities. Significantly, 50% of these were women. While this is not an exceptional success rate, its significance has to be understood in the context of Bahrain. Most Bahrainis prefer risk-free jobs in the public sector and women, in

particular, are not very prominent in the overall economic activity. Given these conditions, and the fact that virtually everyone who completes the national diploma gets a job quickly, this is a significant, if not an exceptional, success rate.

Identification Of Special Areas Suitable For Female Trainees

Bahrain is an Islamic country and its human resource policies give special attention to the needs of the women. To encourage women to participate in the economic life, a number

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5 A booklet explaining the main features of the Bahrain Training Institute is distributed separately

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of special measures have been adopted, including working hours limited to the day. There are increasing signs that women are keen to participate and there is enough evidence in the private sector that they do not expect any special consideration, work long hours and are keen to obtain further training. So far as entrepreneurial activity is concerned, BTI decided to concentrate on the following areas: information technology, garment technology and business studies. An informal survey of the first group of trainees indicated that these have been correct choices and women trainees have responded enthusiastically. As pointed out earlier, a number of women trainees succeeded in starting modes entrepreneurial activities and all these have been in the area of information technology. There are enough indications that garment technology is an area of considerable potential. Further work is currently in progress to identify suitable areas in the field of business studies.

Inclusion of On-Job Training As a Required Component

It is well known that the chief aim of the on-job component of a vocational training programme is to provide trainees with exposure to the real world of work. BTI's programme added one more facet by requiring trainees to understand and appreciate the business aspect of the organization they were assigned to obtain on-job training at. Trainees were encouraged to study the marketing and sales system and provided opportunities to interact with the Chief Executive. While the on-job system succeeded in providing about 80% of the trainees with jobs in the organizations they were assigned to, the impact of this experience on the entrepreneurial activity is yet to be felt. It is also important to realize that a vast majority of the trainees are in their early twenties and not fully mature to be able to tackle independent business activities.

Establishment of Simulation Units on the Campus

As a part of the effort to provide trainees with exposure to the world of business, BTI encouraged private organizations to establish simulation units on its campus. The local representatives of the UK trading house British Home Stores has established a unit on the BTI campus and trainees are required to run it as a normal business enterprise. At present, this is restricted to trainees of business studies and steps are being taken to involve trainees of other disciplines to learn the basics of business from this experience.

Systematic Participation of Practitioners in Developing and Delivering Programmes

One of the major thrusts of the training activity in Bahrain is to develop human resource capable of

quickly contributing to the productivity of the employers and owners of enterprises. To this end, the emphasis is on inculcating in the trainees not only the necessary skills and knowledge but also the right work ethic. Part of this effort is to ensure that the content of the training programmes is determined through the involvement of the practitioners in the field. To this end, BTI has established Programme Development Committees, which include prominent personalities in a particular field of training. This has helped to ensure that the programmes do not deviate from the practical orientation necessary for the trainees to learn competencies required by the workplace. For the same reason, eminent practitioners are invited to speak to the trainees to enable them to see the entrepreneurial spirit behind business organizations. BTI is confident that this approach would support its effort to foster the entrepreneurial spirit in the traineesand although initially the trainees may prefer to work as employees, subsequently, they would opt to start their own businesses.

Use of the National Vocational Qualification System

A number of countries in the Gulf region are choosing the UK NVQ system as a preferred mode of training. The advantage of this system is that standards of competencies are established by the professional bodies and emphasis is on learning workplace oriented skills, knowledge and attitudes in the real work environment. Assessment is performed by workplace supervisors and the mode is continuous assessment rather than a single examination. BTI is attempting to use this approach to introduce trainees to the essential entrepreneurial spirit behind business organizations.

CONCLUSIONS

The aim of the entrepreneurship development component of BTI programmes is to foster an entrepreneurial spirit in the trainees and to encourage them to undertake self-learning activities. The experiment has been about one year old and a number of lessons have been learned from it. Some of these are as follows:

Emphasis on the Dignity of Work

Any self-earning activity will require an individual to undertake a variety of tasks. They may range from the most menial and simple to the most complex in the managerial sense of the term. Many young people from Bahrain believe that any entrepreneurship activity will lead to the establishment of a big business and their role will be restricted to the performance of managerial functions. It is therefore most essential that any course aimed at developing an entrepreneurial spirit systematically inculcates the concept of dignity of work.

Emphasis on the Reactivation of the Traditional Work Ethic

It is a misconception that Bahrainis have never had a positive work ethic. A number of developments, including the sudden onset of prosperity due to the discovery of oil, militated against the traditional work ethic, which emphasized loyalty, hard work and realistic returns for work performed. The emphasis, when the issue of the work ethic is tackled, must be on the fact that traditionally Bahrainis have always had a positive work ethic, which needs to be renewed in the modern context.

Addressing the Trainees' Families

It is recommended that in addition to providing training to the trainees, an effort must be made to orient their families and relatives towards productivity and the importance of self-earning activities. Young trainees are influenced tremendously by their relatives and this aspect needs to be exploited positively.

Use of the Mass Media

Training organizations can achieve a great deal but there are limitations on what they alone can do. It is therefore important to mobilize the mass media and capitalize on their potential to form social attitudes to self earning.

Involvement of Practitioners and Entrepreneurs

BTI's effort to involve practitioners in developing and delivering programmes have achieved considerable success. This practice should be continued.

Need for Train-the-Trainer Activity

Teaching entrepreneurship development programmes requires special skills and credibility. It is therefore important that special training is provided to those conducting such courses.

Systematic Linkages with Funding Agencies

Most young people keen on starting their own businesses lack funds. They can have good and practical ideas and may possess the willingness to work hard. However, if there is no funding, their ideas cannot be translated into practice. In Bahrain, an effort is being made to develop what are called *incubation centres* where budding entrepreneurs are helped to develop their ideas into practical projects. This includes support to them to obtain funding. The incubation centres also provide consultancy throughout the initial phases of the project.

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THE SURVIVAL OF NEW FIRMS

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ABSTRACT

The role of new firms, for example in the promotion of employment and as producers of innovations, cannot be utilized until they demonstrate their ability to remain in business after the critical first years. This follow-up study seeks to clarify which factors are connected with the success of new firms. The research topic was widely investigated from the viewpoint of the trait model and of contingency theory. Factors influencing the success of newly established firms were looked for in the characteristics of the entrepreneur, the success of the start-up project, and the characters of the firms themselves. The subjects of this study were Finnish metal products manufacturing firms and business-service firms established in 1990.

The firms were interviewed for the first time at the turn of the year 1992. Follow-up data was gathered by means of telephone interviews yearly in the period 1993-96. According to the results, family firms clearly continued in business more often than firms formed through reorganization. On the whole it was typical of firms which had closed down in the critical operational phase that they had transferred problems connected with the start-up situation to the critical first years of their operation. After the critical operational phase, the firms which had closed down put resources very heavily, in the critical first years, into product development, and at the same time expanded their market area. The high specialization of these firms had led to growing risks, which they had tried to level down through their connections with the business world outside.

INTRODUCTION

How to improve the survival rate of new firms is an international problem. It is well-known fact that only a small proportion of new firms survive, and few of them grow to be big companies. In Finland, about 59% of the firms operating in 1986 and employing less than five persons had closed down by the year 1993. At the same time, the establishment of new firms with less than five employees created about 68 500 new jobs during this period (SME Report 1996). In the UK, up to 85% of firms are estimated to disappear before their fifth year of operations (Bennet 1989). Surviving and rapidly-growing firms, however, are of great importance both locally and nationally: it is these that really create employment, since their share of new jobs has been estimated to be as high as 16%, according to a recent study (Foley and Green 1989). The first 1-3 years are the most critical operational phase for firms as regards their survival; when firms have survived three years they can with good reason be described as having passed through the valley of death (Gibb 1990).

The question of how to approach the success of firms can be seen from the viewpoint of a firm's goals and its ways of realizing them. The goals of a firm are established by its interest groups, such as the entrepreneur himself or other proprietors; the employees, and the firm's financiers. Instead of defining the goals of firms, a common approach is to define the preconditions which ensure the continuity of business activities. In order to succeed, a firm has

to achieve some kind of rapport with its environment, and obtain sufficient financing in order to be able to stay in business. A certain minimum profitability is a necessary precondition for survival. Once the firm has been established, continuing in business proves that the firm has, at least to some extent, been able to meet the expectations of all of its interest groups. In the start-up phase of the business it is essential that the firm is able to cope with the costs directly caused by its operations (Rhenman 1972). Continuing in business can, in the critical start-up phase, be interpreted as the minimum aim of the entrepreneur. In this study, empirical results are presented which show why firms manage to stay in business during two development phases. These are, the critical operational phase (from one to three years) and the established phase of operations (from four to six years). The question is approached by studying how business activities have developed in firms, which, after the critical operational phase, have set goals, and try to obtain a stable development course in firms continuing in business.

AIMS OF THE STUDY

The study is a follow-up study based on interviews with business managers. The study approaches the success of new firms mainly in three phases; these being the firm's birth, the critical operational phase, and the established phase. The first phase scrutinizes various situational factors which affect the birth of a firm. The second phase studies the development features and processes which affect the survival of a firm in the critical operational phase. In the third phase attention is focussed on the development of activities according to the goals set inside the different firms, and on survival after the critical operational phase. The establishment of a firm is here interpreted as a process advancing in phases which end with a particular business idea, and on the basis of this, in the establishment of a firm (Lehti 1990). The attached figure presents the research schedule of the present study.

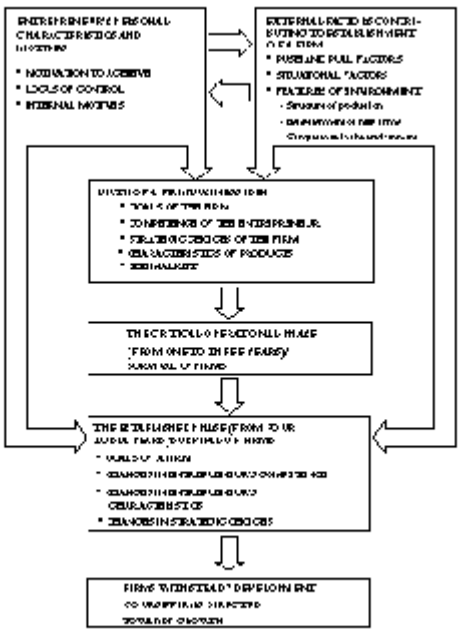

FIGURE 1 Research schedule charting factors in the survival of new firms

To interpret the establishment of a firm as a process means that in order to be able to predict whether a firm succeed in staying in business, knowledge of the entrepreneur's personality and degree of motivation are not enough. For this reason the present study examines the topic extensively from the viewpoints of the trait model and contingency theory. However, through the strategic choices made by firms and their business thinking, there are also links both to the frame of reference of strategic thinking and through the interaction of entrepreneurs to the network theory.

In this study, the characteristics of the entrepreneur's personality were measured both through their achievement motivation and their control expectations. As the theoretical basis of the study are the theories of McClelland (1961) and Rotter (1966). The achievement motivation of entrepreneurs was measured by four different dimensions each consisting of four different items, that is, work ethic, pursuit of excellence, mastery and dominance (Cassidy and Lynn 1989). The locus of control of entrepreneurs was measured by three different dimensions: change attributing, internal attributing and powerful others (Levenson 1982). The characteristics of personality are formed in interaction between an individual and the environment where the individual's life situation, experiences and the changes taking place in his life have a central position (Rotter, 1975, 1990). The characteristics of entrepreneur's personality were measured in this study two times in the start-up phase and in the fourth follow-up phase. When starting from the frame of the reference of the contingency theory, the characteristics required in the personality of an entrepreneur are tied to the action environment and the prevailing situation of the firm (Gilad and Levine 1986). This can be interpreted firstly, that the personal characteristics of an entrepreneur as such are not sufficient to explain continuity in business. The external factors affecting the start-up situation of a firm link the start-up situation with the manner in which entrepreneurship is realized. External factors can be divided into two groups: push factors and pull factors. Examples of push factors related to the environment are, unemployment or the threat of it, external spurring on or re-organization of business activities. Pull factors related to the environment include the opportunities offered by the market situation or previously created customer contacts.

The frame of reference of the contingency theory also connects the birth and success of new firms with the factors related to the start-up situation. Situational factors lead to entrepreneurship and connect the individual to situations preceding the start-up and the actual start-up itself. In the start-up situation, various situational factors connect the success of new firms with the knowledge and skills of the entrepreneurs, both of which are crucial to the success of new firms. In the start-up situation the situational factors can be interpreted as mainly related to the compatibility requirement between products, customers and the path of action (Norman 1976). The path of action is connected with the strategic choices that firms make. The contingency theoretical frame of reference links the business ideas of firms with the situations preceding the start-up of the firm and with various start-up situations. The factors prior to start-up affect the birth of business ideas.

From the viewpoint of a firm, the aim of different interest networks is ultimately to support the operation of the firm. The advantages of production networks lie in the fact that they create closeness, certainty and a belief in the firm's opportunities to act. These networks are needed to transfer information and to create pressure to develop activities. Through personal interest networks a firm is able to create new models of action and find connections with supporting persons and organizations (Johannisson 1985). According to Curran etc. (1993); whose view deviates from network theory, the intensity of co-operational relations tends to vary: and thus excessive networking is a threat to the independent position of the entrepreneur. According to

this viewpoint, small entrepreneurs have contact with their surroundings, but the importance of these contacts is more limited than network thinking implies (Curran etc. 1993).

SUBJECT AND METHODOLOGY

The subjects of this study (n=200) were Finnish metal products manufacturing firms and business-service firms established in 1990. The interview data concerning the firms and entrepreneurs were gathered as part of a follow-up study. The firms were interviewed for the first time at the turn of the year 1992. Follow-up data gathered through telephone interviews during the years 1993-96, about three and six years after establishment, has also been used in this study. The last interviews will be made in 1998.

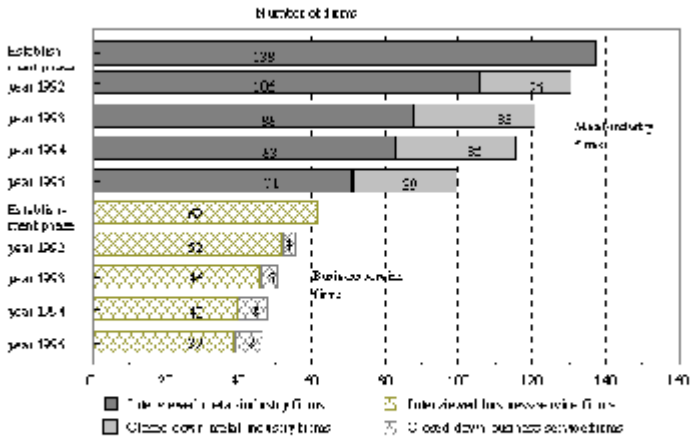

FIGURE 2 Interviewed and closed-down firms

The subject firms are mostly small firms dependent on the entrepreneur's own work and on the work of his family. The connection between the firm and the entrepreneur is strong. The strategy of the firm is chosen by the entrepreneur. The goals that the entrepreneur considers worth pursuing in his own life are also easily reflected on the activities of the firm. About 60% of the interviewed entrepreneurs acted in firms of less than five employees, and the rest in firms of more than five employees. Over 45% of the entrepreneurs included in the study had a basic education no higher than elementary school. The entrepreneurs who had established a metal-industry firm usually had technical education of the level of a vocational school. The most critical phase of new firms as regards their survival occurs from two to three years after the start-up. Older firms have usually found their own customer groups, and their activities have become well established, and therefore it is very seldom that their business activities are closed down. Of the firms interviewed in the follow-up study, about 76% of new metal-industry firms and about 93% of business-service firms continued in business after three years from the start-up. The share of firms with a short life-span was bigger in metal-industry firms than in business-service firms (figure 2).

The interviews of the first phase of the study constitute the basis for the investigation of the success of the firms. The results of the follow-up study are analyzed by grouping the features

of the entrepreneurs and firms by means of cluster analysis. The aim of the groupings is to simplify the interview data, which owing to its versatility is necessary. The results of the follow-up data obtained through interviews are grouped in the same way. The survival of firms in the critical operational phase and in the established phase of activities was explained by a logistic regression analysis. The logistic regression analysis is a suitable method when the variable to be explained is a dichotomy variable (Hosmer and Lemeshow 1989). The logistic models produced by means of the regression analysis predict with a certain probability the success of firms. The explanatory models describing the survival of firms were drawn up in two phases in the different development phases of business activities. In the first phase, the survival of firms was explained; and in the second the factors explaining the survival of firms were analyzed. In the following the models used are not described; but the results produced by them are interpreted. In addition to the logistic regression models used, the differences between means were scrutinized in various groups by means of an one-way analysis of variance, and the differences of personal features between two measurements with the t-test.

RESULTS

The majority of entrepreneurs come from small and medium-size firms; something which emphasizes their importance in the birth process of firms. At the same time it can also be seen that the results reflect the opportunities and motives of entrepreneurship. In small and medium-size firms it is easier to form an overall picture of the firm's activities, which offers the opportunity to consider entrepreneurship as a personal alternative.

The development of the business activities of new firms is strongly tied to the establishment situation of the firm. A well-planned business idea realized according to plans is a precondition for the development of business. The success of the firm's start-up increases its chances to survive during the critical early years. In the firms which have closed down in the critical operational phase, the plans and the development realized were not proportional to each other. In cases where the start-up had failed, the firm had been established on the basis of unrealistic expectations, and the profitability of the firm had been poor all the time it had been in operation. Unrealistic expectations were linked with lack or resources or insufficient planning. The timing or basic the investments deviated from those planned, investments were carried through on a lower technical level, or financing arrangements did not materialize in the planned manner. On the other hand, familiar customers and an absence of competition in the firm's background meant that firms which had closed down had insufficiently examined the alternatives in the market. In the firms which had closed down in the critical operational phase, the share of owners' personal loans in the financing of basic establishing investments was nearly twice as high as in firms which continued in business.

Thus the costs of establishing a firm and starting its activities had been falsely estimated in relation to the firm's income. In the critical operational phase, family firms employ several forms of action in order to maintain continuity, which deviate from those of other firms. The family which owns a family firm commits itself in many ways to the development of the firm, and seeks new channels for its activities in order to develop the business idea. The activities of firms which have been born through reorganization are discontinued in the first years of business, if the firm does not attain the relatively demanding goals.

[illegible] IN BUSINESS	[illegible] IN THE CRITICAL OPERATIONAL PHASE
[illegible]	
[illegible]	[illegible]
[illegible]	
[illegible]	[illegible]
[illegible]	
[illegible]	[illegible]

FIGURE 3 New firms in the critical operational phase (from one to three years)

The knowledge and skills of the entrepreneur are important in the establishing situation of a firm. The nature of the entrepreneurs' professional education explains the survival of firms in the operational phase of business activities. The entrepreneurs who in the establishment phase had a professional (= technical or commercial) education usually continued their activities after the critical starting phase. The special characteristics of the entrepreneur's personality explained, through professional education, the continuity of business in the critical operational phase. The desire to lead and to solve problems was emphasized among entrepreneurs who had professional education at the time the firm was established. According to the results, the entrepreneurs' professional education strengthens the entrepreneurs' aim, and provides opportunities to affect the factors influencing the firm's working environment. On the other hand, there was no direct connection observed in the co-operation between firms and other interactive relations, and continuity in business.

The established phase of a new firm

The business idea, goals and action model of a new firm often presuppose changes in the operational phase of business activities. According to the results, controlled changes had been made to business in firms which had passed the critical operational phase of business activities. The firms continuing in business often specialized in the operational phase of business, but the risks they ran were under control. The firms had "margin" to meet with unforeseen changes e.g. in the market situation, and they had been able to resist overestimating the demand. The innovation of a firm can be defined as a change in a product, in marketing, or in the system or organization which develops the performance of the firm. Innovative firms often have success and growth. With active firms the control of customers was often based on key customers, and the innovativeness of the firms on careful product

development in the starting phase of business.

FIRMS CONTINUING IN BUSINESS	FIRMS CLOSING DOWN AFTER THE CRITICAL OPERATIONAL PHASE
THE BIRTH AND START-UP PHASE OF A FIRM	
Internal motives and opportunities for entrepreneurship *Establishing process well-conducted The financing structure of establishing process in balance *Opportunities of the market situation	*Strong internal motives *Establishing process well conducted *The financing structure of establishing process in balance *Opportunities of the market situation
THE CRITICAL OPERATIONAL PHASE OF A FIRM	
*Profitability good during the first years *Moderate growth targets – controlled growth *Special product development *Development investments *Changes in the market under control *Balance in financing and sufficient income financing	*Profitability weakened during the first years *Rapid growth targets and changes in business *Strong specialization *Heavy non-discretionary investments *Strong expansions in the market area *Investments in high relation to income financing
ENTREPRENEUR	
*The entrepreneur's background, education and work experience have no connection with the success of the firm	
*Management flexibility *Group management – the firm's internal network	*Management unrealistic *Economic operational models – co-operation between firms does not compensate the entrepreneur's competence

FIGURE 4 New firms in the established phase (from fourth to six years)

The results concerning the influence of the entrepreneur's professional education and his work experience and experience as an entrepreneur on continuity in business were divergent when compared with the results concerning the critical operational phase. The entrepreneur's education and work experience no longer had a direct connection with the success of his firm when firms which had passed the critical operational phase were looked at, whereas the management style of the firms, on other hand, had a clear connection with continuity in business. On the basis of the results it could be observed that most of all the internal networks of firms bring competitive advantage, innovation and efficiency to these firms' operation. Group management was emphasized in firms which continued in business. In a typical family firm, ownership, management and family are combined into one entity. In other group management firms the firm's stakeholders participate in the firm's strategic management.

When aiming at growth, a new firm has to re-estimate the grounds of its action, since the requirements of business activities grow. In the firms which closed down there had been in the critical operational phase especially heavy emphasis on product development, and the market area had been strongly expanded. The firms had made a lot of changes in their operations, and so uncontrolled risks had led to business failure. After a successful start-up between the fourth and sixth years of operation, the firm at first grew rapidly on the basis of its business idea, but the rate of growth was too hard both for the financing of the firm and for its management. The goals for growth were too demanding in the firms which had closed down in view of the resources of the firms and the entrepreneurs (figure 4).

According to the results, the entrepreneur's external control (powerful others) had clearly decreased in the fourth follow-up phase compared with start-up phase of the firm. On the other

hand, the entrepreneur clearly emphasized solving problems (mastery) more than in the start-up phase.

CONCLUSIONS

In this study we clarified the success of new firms in three different development phases, i.e. the birth of a firm, the critical operational phase, and the established phase of business activities. The subjects of the study were 200 metal-industry and business-service firms established in 1990, and the data was collected through interviews with business managers. The study is by nature a follow-up study based on interviews with business managers, where in addition to the basic data, four sets of follow-up data were also collected during the years 1993-96. According to the results, a strong work ethic was connected, through the systematic character of the process of establishing the firm, with the closing-down of the business. The result is contrary to McClelland's (1961) theory, and supports Khan's (1986) critique of this. A strong work ethic may lower the threshold relative to the start-up of a firm, but does not guarantee the preconditions for action if there are shortcomings in the entrepreneur's competence. The dimensions describing the locus of control did not directly explain continuity in business but, through the entrepreneur's training, were connected with this continuity.

According to the frame of reference of contingency theory, the factors connected with the establishment situation of the firm and with the personality of entrepreneurs together explain continuity in business in the firm's critical operational phase. The importance of earlier work experience was clearly seen in the characteristics of the products. Family entrepreneurs who had experience in many fields and products which differed from those of the competitors usually continued their activities after the starting phase. Professional education explained continuity in business. On the basis of the framework of contingency theory, the personality characteristics required for entrepreneurship are tied with the environment of the firm. The empirical results of this study support the contingency-theoretical view that entrepreneurship involves moulding the characteristics of the entrepreneur's personality. In the phase of established activities, the entrepreneurs emphasized problem-solving noticeably more than they had done in the firm's start-up phase. On the other hand, the external control orientation (powerful others) had clearly been reduced from the establishment phase of the firm. The emphasis on the entrepreneur's ability to solve problems, and the decrease of external control can, according to Rotter's (1966) theory, be interpreted as meaning that the experience of entrepreneurs had developed along with their entrepreneurship.

Small firms have many kinds of relationships with their environment. No connections in the degree of co-operation between firms and entrepreneurs' other interrelationships, with whether the firms stayed in business could be seen in the critical operational phase. When variables describing interrelationships were introduced into the models explaining continuity in business, the models became significantly weaker. The results can be interpreted as showing that interrelationships do not increase the opportunities of entrepreneurs to continue in business if there are gaps in the competence of the entrepreneur. Another interpretation was that the gaps in the entrepreneur's competence may be reflected as exploitation of interrelationships in business activities. The results rather supported the view that the network theory of connections was of restricted importance in explaining continuity in business (Curran etc. 1993). The results of the influence of the entrepreneur's professional education, and work experience and experience as an entrepreneur on continuity in business were divergent from

the results concerning the critical operational phase of business. The entrepreneur's education and work experience were no longer directly connected with the success of firms when firms which had passed the critical operational phase were looked at; whereas the management style of firms had a clear connection with their continuity in business.

On the basis of the results it was observed that in the first place, the firms' internal networks bring competitive advantage, innovation and efficiency to the action of the firm. Group management was emphasized in the firms which continued in business. In a typical family firm ownership, management and family are combined as one entity (see. Hoy and Verser 1994). In other group-managerial firms the stakeholders participate in their strategic management. The results of this study on the whole can be connected in different phases of business with the results of Argenti's (1976) study. A firm has been established based on unrealistic expectations, and its performance does not during its whole active period get a better mark than weak. The gaps in the entrepreneur's competence were emphasized in failed firms. A firm which after a successful start-up has failed in the establishing phase of business at first, grows rapidly in the operational phase thanks to its product idea, but the rate of growth is too fast both for the financing and the management of the firm. Financial parameters at first give messages of favorable development, but after the turning point they fall, and the firm goes into liquidation.

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BUSINESS OWNERS' FUNDAMENTAL TRADEOFF: FINANCE AND THE VICIOUS CIRCLE OF GROWTH AND CONTROL

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"No, no, no … I will give it to the banks first"

Canadian business owner, November 1997.

ABSTRACT

One of the more widely discussed barriers to SME growth is access to capital. Finance theory argues that in well-developed capital markets, business' preference for financing follows the so-called "pecking order" theory. According to this theory the financing source of choice is earnings retention, followed by external debt. External equity is the last resort. The research described here documents that this pecking order is also true for small firms. However, the preferences of SME owners arise from owners' desire for autonomy. Owners view external sources of equity finance as threats to autonomy to such an extent that most owners would forfeit growth opportunities rather than accept external equity capital. Consequently, bank borrowing is the most common form of external financing sought by SME owners. The ensuing reliance on debt results in high levels of systematic risk and exaggerated exposure to economic cycles. This risk, in turn, deters lenders from providing debt capital. Taken together, business owners do not want external equity and have trouble obtaining external debt. Consequently, growth is inhibited and lenders are held in contempt.

BUSINESS OWNERS' FUNDAMENTAL TRADEOFF: FINANCE AND THE VICIOUS CIRCLE OF GROWTH AND CONTROL

INTRODUCTION

There is little doubt that the growth of small businesses contributes materially to economic development and job creation. Governments at all levels have therefore undertaken initiatives to promote the growth of small firms. In general, these initiatives have sought to address the more obvious barriers to growth, barriers such as access to capital. Yet, at the turn of the millenium, other barriers to growth remain. Some of these barriers are subtle and difficult to alleviate. This paper addresses one such barrier: business owners' unwillingness to relinquish control of their firms. This reluctance militates against acquisition of the external equity capital that is so frequently necessary to fuel substantive growth.

It is not news that business owners do not wish to surrender control. Previous research in entrepreneurship has firmly established that people who own their own businesses value

highly the autonomy associated with doing so. This control, however, can be a double-edged sword. Autonomy is a reward that many business owners derive from management of their firms. This is coupled with the sense of achievement that attends success and growth. On the other hand, the unwillingness to cede control can limit access to external equity capital, thereby constraining growth.

Other research reveals that only a minority of firms exhibit rapid growth. Indeed, no more than fifty percent of business owners even express a desire for growth. This paper documents empirical evidence that seeks to add to our understanding of how owners' need for control limits growth by restricting access to capital. Unwillingness to accept equity capital leads to an over-reliance on debt, high systematic risk, and, eventually, less access to debt. Such firms therefore tend to be undercapitalized and therefore are more likely to fail. This leads to a vicious cycle.

To accomplish its goal, the next section of this paper reviews previous research literature on access to capital and owners' needs for dominance. The subsequent section describes the research hypotheses. An account of the data employed and the methodology follow. The empirical findings ensue and the paper closes with a brief discussion of implications.

LITERATURE REVIEW

Overview of the Market for Capital in Canada

The Market for Debt

In Canada, the demand side of the small business debt marketplace comprises more than 900,000 small businesses. Six (soon, perhaps, to be four) national multi-branch banks have historically dominated the lending market, a market in which small firms have more difficulty obtaining bank capital than large firms (Grant, 1988; Orser, Riding, and Swift, 1994; and others[1]).The banking system is such that one or more bank branches are visible from almost any downtown street corner. When they do receive credit, small businesses face higher interest rates and more stringent terms than larger businesses do (Thornton, 1981; Grant, 1986; Haines, Riding, Thomas, 1991; Wynant and Hatch, 1991; Orser, Riding, and Swift, 1994). Owners of smaller firms are also more often dissatisfied with their banking relationship (CLMPC, 1995; Wynant and Hatch, 1991; Orser, Riding, and Swift, 1994).

Canadian business owners place great reliance on bank financing - perhaps too high a reliance. Petersen and Shulman (1987) report that Canadian business owners rely on bank financing to a greater extent than do business owners in any of twelve other industrialized nations. Perhaps this reliance stems from the visibility of Canadian bank lenders. Alternatively, however, business owners may simply prefer debt to equity. Yet the relationship between banks and business owners is problematic.

From the lenders' perspective, smaller firms are less cost-efficient and possibly more risky. Risk stems from the asymmetry of information that exists between lenders and borrowers. The result is that lenders do not observe borrowers' time and effort. Nor are they able to assess the value of collateral as accurately as can firm insiders. To protect themselves, banks face material costs of evaluation and monitoring. For small lending balances, such costs are not justified by the contribution to profit and overhead from the loans. Hence, rather than incur significant evaluation and monitoring costs, lenders may simply decline the loan request.

This situation of asymmetric information leads to two problems for the financial marketplace: adverse selection and moral hazard. Asymmetric information likely reflects the reality of the Canadian marketplace. Loan account managers typically manage of the order of 100 accounts (Wynant and Hatch, 1991). Given training, administrative duties, vacation, etc., this leaves the account manager with approximately one working day per year per client. This may not be sufficient time to perform either the necessary due diligence to distinguish good from poor risks or to carry out effective monitoring.

Nonetheless, there is a large supply of potential debt financing. Lending rates by Canadian banks are at historical peaks; asset-based financing firms are increasingly active and aggressive, and competition in the small business debt market is intensifying with the entry of such foreign lenders as Wells Fargo.

The Markets for Equity
The equity marketplace in Canada is not as highly developed as the debt market. On the one hand, Canada boasts a disproportionately large supply of institutional venture capital. The growth of labor-sponsored venture capital funds, capitalized from tax-exempted contributions from individuals, has established a situation such that the supply of such risk capital arguably exceeds the pool of investable firms. Moreover, from 1993 through 1996 the rate at which capital became available to labor-sponsored funds exceeded the rate at which the funds were investing it. The result is a pool of institutional venture capital that is far from fully invested.

At a lower level of the equity market, governments have facilitated the supply of equity capital from informal investors (angels[2]). Short and Riding (1988) estimated that the supply of private, informal, investment at least exceeds the pool of institutional venture capital. Private investors, according to Thompson-Lightstone (1997) hold considerable capital but express concern about the management abilities of many business owners.

THE RESEARCH PREMISE

From the literature survey, two realities are apparent. The first is that small business owners lament the difficulties they face raising sufficient capital. The other reality, however, is what appears to be a plentiful potential supply of both debt and equity financing. This study tests a series of hypotheses that attempt to address this apparent paradox.

One potential explanation of the apparent "gap" is that business owners, as a group, are not sufficiently aware of the spectrum of financing sources available. The prominence of banks, coupled with a lack of awareness of equity sources, if supported, could explain why business owners rely on debt.

Hypothesis 1: *Canadian business owners are highly aware of sources of debt financing but relatively unaware of sources of equity capital.*

Awareness, however, may not be the only factor contributing to owners' reliance on debt. Even when aware of alternative sources of capital, owners may consciously elect to forgo growth capital if they perceive that it might compromise their goals for their firms.

Accordingly, it is hypothesized that:

Hypothesis 2: Canadian business owners generally prefer control over their business to growth

of their business.

Support for this second hypothesis, however, does not necessarily mean that business owners would forgo equity capital. For this to occur, owners must also perceive that use of equity capital implies a threat to control. Hence, this study will investigate whether or not the following hypothesis is supportable:

Hypothesis 3: Canadian business owners view suppliers of equity capital as threats to control.

To analyze these hypotheses, this paper employs data as described presently.

DATA DESCRIPTION

This study employed data derived from an extensive telephone survey of business owners in the Province of Ontario, Canada. Between October and November of 1997, Thompson-Lightstone Ltd., a national marketing research firm, on behalf of the Canadian Bankers Association, telephoned 9,841 business owners. From these, 2,295 were successfully surveyed as to their financing histories [3] and needs [4].

In addition, ninety-four of the respondents were re-contacted for a follow-up interview. Each of these follow-up interviews was asked, in an open-ended query, to describe their most significant recent financing experience. The interviewer probed with questions that related to the owners' goals, awareness of various financing sources, and the extent to which they would accept alternative forms of capital. These qualitative responses ("financing narratives") were recorded and verbatim transcripts prepared. The transcripts were analyzed using standard qualitative data analysis techniques using NUD*IST [5]

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EMPIRICAL FINDINGS

Use of Capital Sources

The telephone survey asked business owners about current and intended use of alternative financing sources. Table 1A lists debt sources as a proportion of total capital structure and Table1B lists equity sources as a proportion of total capital structure. The reliance on debt is striking.

Table 1A – Debt Sources as a Percentage of Total Debt and Equity

	(%)
DEBT	
Personal Assets	19
Bank Financing	19
Supplier Credit	8
Internal Company Sources	6
Loans from Friends/ Relatives	5
Equipment Leasing	4
Other FI Financing	3
Loans from Individuals (Angels)	3
Credit Cards	2
Total Outstanding Debt (Net)	69

Table 1B – Equity Sources as a Percentage of Total Debt and Equity

	(%)
EQUITY	
Personal Equity	15
Retained Earnings	8
Venture Capital Firm	2
Investments by Friends/ Relatives	2
Total Equity Investment (Net)	27

Table 2 breaks current businesses' use of debt and equity down by lifecycle stage, age of business, number of employees and annual sales.

Table 2 – Businesses' Usage of Debt and Equity

LIFECYCLE STAGE	Start-up n = 66	Fast n = 79	Moderate Growth n = 163	Maturity n = 117
Average Debt Load ($ '000)	$79.7	$79.2	$91.4	$44.5
Average Equity Position ($ '000)	$17.2	$46.2	$21.1	$38.3
Current Average Debt/Equity Ratio	**4.6:1**	**1.7:1**	**4.3:1**	**1.2:1**
AGE OF BUSINESS	<1 yr. n = 48	1<5 yrs. n = 86	5<10 yrs. n = 90	10+yrs n = 229
Average Debt Load ($ '000)	$78.2	$55.4	$91.7	$73.0
Average Equity Position ($ '000)	$22.2	$15.4	$43.1	$30.3
Current Average Debt/Equity Ratio	**3.5:1**	**3.6:1**	**2.1:1**	**2.4:1**
NUMBER OF EMPLOYEES	<5 n= 246	5-9 n = 112	10-19 n = 64	20-49 n = 31
Average Debt Load ($ '000)	$97.3	$97.1	$134.8	$121.2
Average Equity Position ($ '000)	$32.9	$41.2	$25.8	$100.3
Current Average Debt/Equity Ratio	**3.0:1**	**5.0:1**	**2.4:1**	**1.2:1**
ANNUAL SALES	Under $250K n = 158	$250K-<$1MM n= 170	$1MM-<$5MM n =125	
Average Debt Load ($ '000)	$41.4	$78.9	$143.4	
Average Equity Position ($ '000)	$11.6	$21.2	$87.2	
Current Average Debt/Equity Ratio	**3.6:1**	**3.7:1**	**1.6:1**	

From this table, it is seen that younger and faster-growing firms exhibit particularly high debt-equity ratios. As noted by Wynat and Hatch (1991, p.217), lenders view firms with high levels of debt as risky relative to those which make greater use of equity capital. These tables, confirm that many Ontario business owners may place undue reliance on debt. The rest of this paper explores why this may be so.

Business Owners' Awareness and Acceptance of Sources of Capital

To explore owners' awareness of debt and equity, the 94 financing narratives were examined. During the narrative, if respondents had failed to mention debt (equity) as a potential source of capital, the interviewer probed: "You did not mention any sources of debt (equity). Is there any reason why you would not use debt (equity)"? The respondents' reactions this question was coded with respect to both awareness of debt (equity) sources and their acceptance of these sources. Table 3 summarizes the extent to which owners of businesses exhibited both awareness and acceptance of debt vs. equity.

Table 3

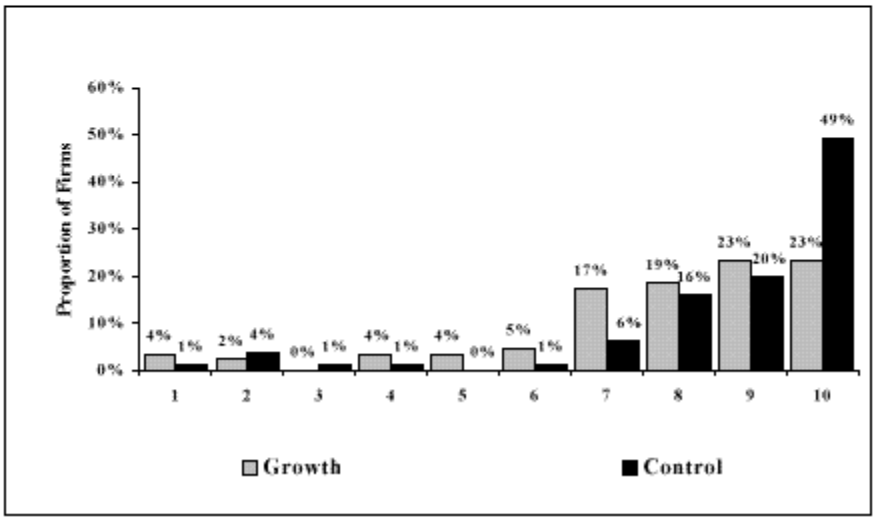
		GROWTH-ORIENTED FIRMS (n =53)	FIRMS THAT ARE NOT GROWTH ORIENTED (n =30)
USAGE			
	Debt	63%	57%
	Equity	37%	43%
AWARENESS			
	Debt	58%	72%
	Equity	42%	28%
ACCEPTANCE			
	Debt	58%	70%
	Equity	42%	30%

In this table, growth firms are differentiated from others. To obtain this differentiation, owners had been asked, during the original survey, about their goals for their firms. This was done by asking them to rate (on a ten-point scale) the importance of each of nine potential goals, growth and control being among them. More business owners rated control as more important than growth. The contingency table between goals of growth and control is shown in Table 4A. Overall, 50 percent of business owners rated control over growth; 15 percent rated growth over control; and 35 percent rated growth and control equally.

Table 4A Growth versus Control

	HIGH GROWTH	MEDIUM GROWTH	LOW GROWTH	ROW TOTAL
HIGH CONTROL	162.00	55.00	25.00	242.00
	47%	16%	7%	
MEDIUM CONTROL	29.00	45.00	6.00	80.00
	8%	13%	2%	
LOW CONTROL	1.00	6.00	13.00	20.00
	<1%	2%	4%	
COLUMN TOTAL	192.00	106.00	44.00	342.00

Table 4B Respondents' Ratings of Growth and Control as Goals



The use of financial narratives also allowed insight into the emotional component of the growth-control tradeoff. Richness to the data described in tabular form above is derived from

the direct words of respondents. These are illustrated in Table 5.

Table 5 Growth and Non-Growth Firms Narratives Pertaining to Equity

Growth-Oriented Firms	Businesses that were not Growth Oriented
… I want to remain in control	Independence. Very independent … you gotta control.
I wouldn't have a partner. I'd go out of business first because that's where you end up.	Maintaining control is important…whatever increase in earnings that we experience, I want to enjoy.
I did have a partner before. I bought her out … maintaining control … is important for me.	I wouldn't want to give up any control. At least with the banks, they … don't want ownership.
I have had partners and I'm comfortable being on my own. I'm not prepared to relinquish any control of the business. Not at this stage in my life anyway because I've seen myself through hard times and I see some good times right now <respondent laughs> so I'm not about to sell out and I don't have to.	… to maybe sell shares in the business but to do that , then you're relinquishing equity in the business and your control, and that's a worry to me.
	No, no, no!!!…I will give it to the banks first.
I wouldn't want another partner … I would go to family members	Because I would like to keep control over my business. I wouldn't want to give a partner too big of a share that they are running what we're doing rather than us.

SUMMARY AND CONCLUSIONS

Access to capital is a major barrier facing small businesses in Canada. This paper showed that although there is an abundance of equity capital available to small businesses, owners opt for debt capital. The result is that there is an over reliance of debt capital, which leads to higher systematic risk and ultimately, less access to debt. This often results in firms that are under capitalized or that rely excessively on debt. Such firms are more likely to fail and the vicious cycle prevails.

One of the main reasons that owners' choose debt over equity is their need to maintain control. Even though external equity capital may be required to enable substantial growth, owners are unwilling to relinquish control because they perceive a threat to their autonomy. Several implications follow from these findings.

First, policy-makers might usefully place greater emphasis on facilitation of equity capital. Additional equity provides a base for further borrowing, reduces businesses' sensitivity to economic cycles, and provides business owners with access to the experience, contacts, and syndicates of private and institutional venture capital suppliers. Attempts to enforce greater lending activity, by the same token, increases systematic risk and may well be counter-productive. For the same reasons, business owners who are seeking growth of their firms might usefully consider widening their use of alternative financing sources beyond institutional lenders.

Finally, for academics, trainers, and consultants, it may be beneficial to help business owners access equity capital and to work at structuring deals that minimize perceptions of threats to control.

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FOOTNOTES

[1] Six national multi-branch banks account for more than 80 percent of the small business lending market in Canada. At the time of publication two pairs of these institutions have indicted their intentions to merge. The event, however, awaits government blessing

[2] For example, the creation of the Canadian Community Investment Program has established 22 sites nationally. Each site is tasked with working with businesses to bring them to the point

of being "market-ready", bringing such firms to the attention of local potential investors, and post-investment, working with business owners and investors to nurture the development of the firm.

[3] Most non-responses occurred because interviewers were unable to make contact with the right person in each firm. Only 26 percent of potential respondents refused to co-operate. This refusal rate is materially less than that which is typical of mail-based surveys. This results in mitigation of non-response biases.

[4] The businesses included 5.6% with zero annual sales (primarily start-ups), 60.3% with annual sales of up to $500,000 and 14.8% with sales between $500,000 and $1,000,000. The rest reported annual sales of between $1 and $5 million. Sixty percent of firms reported fewer than 5 employees, 31.3 percent employed 5 to 19 persons, and 8.7 percent employed 20 to 49 employees. The focus of this study, therefore, was on very small businesses. The questionnaire examined a wide variety of financing issues.

[5] NUD*IST is an acronym for Non-Numeric Unstructured Data Indexing, Searching, and Theorizing. The program is a research standard.

Criteria Used by Private Bank Officers to Evaluate New Ventures: An Analysis of Gaps and Shortcomings

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Abstract

This paper is an analysis of the criteria used by private bank officers in Norway when evaluating and validating new venture proposals. A questionnaire was administered to 130 private bank officers in four Norwegian banks to determine the criteria they use to decide on funding new ventures. The response rate was 83.1%. A list of forty-two criteria was developed, building on previously developed lists. The criteria fell into six groups: the entrepreneur's personality, the entrepreneur's experience, characteristics of the service or product, characteristics of the market, characteristics of the organization/network and financial aspects. Two basis questions were given to the bank officers: i) How important are these criteria when deciding on funding new ventures? and ii) To what extent do you feel capable of evaluating and validating these criteria? Answers were given on seven-point rating scales. Looking at the relative importance attached to the different criteria, the entrepreneur's personality is at top, and four of the top ten criteria have to do with personal characteristics. Financial aspects are ranked as the second most important group of factors, and four of the top ten criteria are related to finance as well. Characteristics of the product/service and the organization/network are ranked at the bottom. In the latter part we discuss the gaps and shortcomings in private bank officers' evaluation of new ventures. A gap is a discrepancy between the importance attached to a criterion and the perceived ability of evaluating and validating this criterion. The results show that private bank officers appear capable of evaluating the entrepreneur's personality and experience, as well as the financial aspects of the business. Negative gaps (low ability relative to importance) are identified for numerous criteria, mostly related to the organization/network, the product/service and the market. Private bank officers perceive their ability to evaluate important criteria like market potential, verified customer need, production and distribution/sales network and competitive advantages to be rather low relative to the importance attached to them. Moreover, indications are that private bank officers have a bias against new technology-based firms and firms operating in new markets in their evaluation. Implications for private banks as well as for entrepreneurs are discussed, and several avenues for future research are identified.

Introduction

Raising capital has always been a challenging task for many new ventures and small and medium sized enterprises (SME's). A large range of different finance sources are existent, ranging from personal savings, via capital from friends and family, business angels and venture- and investment capital through private banks and diverse public funds. In Norway there is a large public fund called the Industrial and Regional Development Fund which is dispersed geographically, with head office in the capital Oslo. Moreover, a nation-wide seed capital fund is under establishment, partially funded by the government and partially by private investors. All in all, the capital base in Norway is rather large, and indications are that it has increased during the latter part of the 1990s.

Nevertheless, it is still the case today that smaller firms find it difficult to obtain small sums of equity capital and feel penalized by an inability to obtain, or to obtain only at high rates of interest, loan capital (Storey, 1994; Hansen *et al.*, 1996; EBAN, 1998). Already in 1931 the MacMillan committee identified what has been known as "the MacMillan gap," which refers to the lack of long-term equity capital for new ventures and smaller firms (MacMillan committee, 1931). This has since been a subject of debate in many countries (Harrison & Mason, 1996), also in Norway (Boye *et al.*, 1993; Hansen *et al.*, 1996; Waagø *et al.*, 1997). In Norway this discussion is kept alive for two reasons. First, during the late 1980s Norway faced a recession and the banks were beginning to experience mounting losses on their small business loan portfolio. The result is that they have become more cautious in making further loans to small businesses (Boye & Kinserdal, 1992; Boye *et al.*, 1993). Increasingly, concern about the implications of this "credit crunch" has emerged on an international scale (Harrison & Mason, 1996). Second, the venture capital industry, which had already shifted its investment focus away from early stage investments, was encountering increasing difficulties in raising new funds from the institutions. In 1986 there were 30 venture capital funds in Norway, while in the early 1990s there were only 12 funds operating on the marketplace (Boye & Kinserdal, 1992). In the latest years we have seen a gradual upturn in the market for seed and venture capital. This is not a unique situation for Norway. The same trend is found in most European countries, and new ventures and SME's therefore face quit similar problems in raising capital.

In spite of these developments, banks are still the dominant source of finance for new ventures and SME's in Norway - and on a European scale as well. In Norway, the first investigation was undertaken in 1979. It reported that 60.5% of the need for capital for new ventures was financed by private banks (Waagø *et al.*, 1979). Recently, Hansen *et al.* (1996) confirmed the dominant role banks play in Norway in the new venture creation process. As much as 95% of the entrepreneurs are in contact with their local bank both before and after they managed to stitch together the "financial package" for financing the venture. The same percentage is well below 50% for public funds, including the very important Industrial and Regional Development Fund. Moreover, banks show the largest interest for helping the entrepreneurs at an early stage and provide the best follow-up according to the entrepreneurs themselves. Hansen *et al.* (1996) report that while 25% of the entrepreneurs indicate a lack of follow-up by private banks, the percentage was 60-90% for public funds and institutions.

Banks and entrepreneurs

Studying what goes on between banks and new ventures is almost tantamount to investigating relationships between businesses. After all, a bank is an enterprise that derives its right to exist from its generating added value. Banks have always had a special role in relation to entrepreneurs and small businesses, and the well-developed private banking system is beyond doubt the most important source of capital for new ventures in Norway. This represents a

major challenge for the private banks, as new ventures are strongly encouraged and needed (Waagø *et al.*, 1997), but a lack of finance might be a reason for failure for a significant proportion of new ventures (Bruno *et al.*, 1987; Vesper, 1990).

Generally, banks find new ventures to be particularly challenging clients. The entrepreneurs act as principals for the banks, and their interests are not identical. The bank's control over the actions of the entrepreneur is only limited. Moreover, there is a problem of asymmetric information, which refers to a situation where the entrepreneur has more/better information about the performance of his/her firm than the bank. This phenomenon makes the bank more vary of lending to this type of firm, on the ground of greater uncertainty (Storey, 1994). Some have argued, however, that the wholly new firm of venture may contravene this assumption (Jovanovic, 1982). The individual starting a new firm has an extremely imperfect idea of whether or not it will become a success. The argument is that only by learning from experience does the successful or surviving entrepreneur get distinguished from the less successful or non-surviving. Similarly, the bank officer can have a better idea of whether or not the business will be successful that the entrepreneur. This is because bank officers are likely to have derived their own experience from dealing with similar customers at a similar stage of business development. They may also have benefited from bank training and decision rules that formalize bank experience in this area.

Overall, there is little doubt that, by objective measures, bank lending to smaller businesses is more risky than to otherwise comparable large firms (Storey, 1994). The bank can respond to this in three ways. First, it can seek to reduce the risk by making loans only to firms with a low probability of failure. This implies that the bank has to obtain information prior to the bank making a decision as to whether or not to make a loan. Monitoring and assessment costs can be considerable if an accurate decision is to be made on the viability of the project. The loan applications wanted by private bank officers become increasingly similar to ordinary business plans, with an overview of not only the financial aspects of the business, but also the product, market, organization, network and overall strategy for ensuring success.

Second, the bank can seek to ensure that, even in the event of failure, it obtains some return. This is made by providing collateral, the central mechanism in adjusting for risk in private banks. Collateral may be in the form of either the personal resources of the entrepreneur, such as housing, or some identifiable assets of the business over which the bank asserts a prior claim over other creditors. In essence, collateral protects the bank in the event of default. For new ventures, providing collateral represents a major problem. Not all entrepreneurs have access to collateral and so some are excluded from the marketplace. In this sense a "gap" in the marketplace exists for those viable business ventures which lack access to security to insure against downside risk. In short, collateral does not overcome moral hazard and adverse selection problems because not all individuals have equal access to it. It may also seriously disadvantage certain types of projects, such as high-technology start-ups or capital-intensive projects where the sums to be borrowed are high. In this sense, the second mechanism discussed here will almost automatically lead to a bias against new ventures in general, and high risk/high potential new ventures in particular. In a recent report from EBAN (1998), the providing of security or collateral was rated as the most significant problem for financing new ventures and SME's in EU. 89% of the EU-countries reported this to be a major problem in their country. On the "Top 10" list of problems were also high bank charges (67%), high interest rates charged by banks (67%) and little competition between banks (67%).

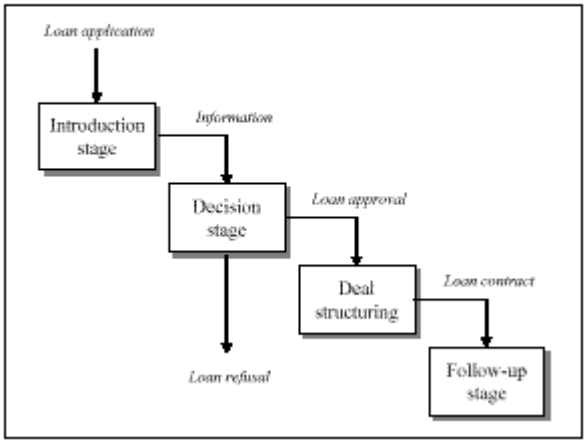
A third mechanism that can be used by private banks to reduce the risk by financing new

ventures, is to increase the returns from investment through the raising of interest rates. Storey (1994) argues that the banks' preferred reaction is not to raise interest rates, since this would lead to a diminishing demand. Such a strategy, as demonstrated by Stiglitz & Weiss (1981) could also prove counter-productive. This happens because low-risk, but low-return borrowers no longer find it worthwhile borrowing from the bank because of the higher interest rates. The high-risk, high-return borrowers stay in the market however.

Evaluating new ventures

The focus in this paper is upon the first mechanism mentioned above: obtaining information and evaluating the new ventures thoroughly before deciding on whether the application should be granted or not. The credit evaluation process undertaken by private banks is illustrated in Figure 1. Our focus in this paper is on the first stage of this process; the introduction stage and the evaluation criteria used in the screening of loan applications from new ventures. We do not focus in this paper on the information gathering activities, which can be based on both internal and external sources, or the content of the information evaluated.

Figure 1: *The credit evaluation process*



Evidently, numerous criteria can be used when evaluating new-venture proposals. Most of the studies reported previously in this area deal with venture capitalists, and very few studies have been specifically related to banks. As sited in Mattson (1993): *"Very few studies of bank decision making have been made public."* We therefore build upon a stream of studies undertaken in the context of venture capitalists. An early contribution is given by Bruno & Tyebjee (1984), who found that the evaluation stage in venture capital firms could be divided into three. First is the screening, in which four major categories of criteria are important: (1) market attractiveness, (2) product differentiation, (3) management capability and (4) resistance towards external threats. Second is the risk-reward evaluation, and third is the decision to invest or not. Market attractiveness and product differentiation largely determine the evaluation of the reward side, with market attractiveness being the most influential, while management capability and resistance towards external threats largely determine the risk side, with management capability being the most influential.

MacMillan *et al.* (1985) surveyed over 100 venture capitalists regarding the criteria used when evaluating new ventures. They developed 28 criteria, and grouped them into six major categories: (1) the entrepreneur's personality, (2) the entrepreneur's experience, (3)

characteristics of the service or product, (4) characteristics of the market, (5) financial aspects and (6) the nature of the venture team. They found that ten of the criteria were most frequently rated as essential when reviewing new-venture proposals. These are reported in Table 1. Six of these ten relate to the entrepreneur personally, three deal with the investment in and growth of the project, and one relates to the venture's patent or copyright position. The study also found that many venture capitalists would reject proposals when two of the above-mentioned criteria were missing.

Table 1: *Ten criteria most frequently rated essential in evaluating new ventures (MacMillan et al., 1985)*

Criterion	Percentage
Capable of sustained effort	64
Thoroughly familiar with market	62
At least ten times return in 5-10 years	50
Demonstrated leadership in past	50
Evaluates and reacts to risk well	48
Investment can be made liquid	44
Significant market growth	43
Track record relevant to venture	37
Articulates venture well	31
Proprietary protection	29

Other researchers have uncovered similar results. For example, Schilit (1987) found that 90 percent of venture proposals are rejected due to significant deficiencies in: (1) the nature of the product or service, (2) the quality of the business, (3) the capabilities of the management, and/or (4) the preparation of the business plan. In a more recent approach, Knight (1994) divides 25 criteria that he finds relevant in the credit rating process into five different categories. These are the same five categories as used by MacMillan *et al.* (1985) except from the nature of the venture team.

One of the few studies reported from a bank environment highlights the high importance of the entrepreneurs personality (Mattson, 1993). He argues that the only real evaluating criteria is the personality of the entrepreneur, and adds that human interaction in the credit rating process is of crucial importance.

Methods

A pre-tested questionnaire was administered to 130 private bank officers in four Norwegian banks to determine the criteria they use to decide on funding new ventures. The response rate was 83.1%. Missing data on one or more criteria reduces the response rate for the analysis performed in this paper. The banks were picked due to their interest in the subject matter, as they were all in the process of evaluating and improving their credit rating process.

The mean age of the private bank officers was 39.9, with a majority being male (85%). They had an average of 12.5 years experience from the private banking system, ranging from ½ year to 36 years. The average amount of experience was 17.7 years, which indicates that most of the respondents have acquired the majority of their experience inside the banks. Nevertheless, 44.4% has some experience from other business sectors, mostly the service industry. 15% of the respondents were bank directors, 37% middle managers and 47% advisers. 63.7% had only economic education, 19.6% had no education and 5.9% had an agricultural education. 6.9% had a combined education, where agriculture, technology or law supplemented their economic education. Overall then, nine out of ten of the educated private

bank officers in this survey had an economic education.

The questionnaire was developed in close contact with a test panel of private bank officers from the four banks. The result was a list of forty-two criteria, building on previously developed lists (MacMillan *et al.*, 1985; Knight, 1994). The criteria fell into six groups:

(1) the entrepreneur's personality
(2) the entrepreneur's experience
(3) characteristics of the service or product
(4) characteristics of the market
(5) characteristics of the organization/network
(6) financial aspects

Appendix 1 provides the full list of criteria. Two basis questions were given to the bank officers: i) How important are these criteria when deciding on funding new ventures? and ii)To what extent do you feel capable of evaluating and validating these criteria? Answers were given on seven-point rating scales. Two kinds of analysis are displayed in this paper. First, the importance attached to the main categories of criteria as well as the forty-two single criteria is displayed. Appendix 1 displays full information of the importance attached to the 42 criteria. Second, a gap analysis is undertaken. A "gap" is defined as a discrepancy between the importance attached to a criterion and the perceived ability to evaluate and validate the same criterion. A "negative gap" is found when the perceived ability to evaluate and validate a criterion is lower than the importance attached to it. Appendix 2 displays information about the perceived ability to evaluate and validate the 42 criteria included in the study.

Results

The result section is divided into two. First, an overview is given of the importance attached to the criteria. Second, a gap analysis is performed, where the importance attached to the criteria is compared to the perceived ability of evaluating and validating the same criteria.

Importance attached to the criteria
The relative importance of the six major categories of criteria is displayed in Table 2. All the six categories report high scores, well above the mid-point of the scale (4). In accordance with previous research in this area, the two most important categories are the entrepreneurial personality and financial considerations. Somewhat surprisingly, the private bank officers rank the category characteristics of the product or service as least important. Bruno & Tyebjee (1984), for example, found this category to be very important in determining the potential reward from a new venture.

Table 2: *Importance attached to the six categories of criteria*

Criterion	Average	SD	Range	N
The entrepreneur's personality	5.62	0.70	3.75-7.00	73
Financial aspects	5.58	0.59	3.88-6.63	70
Characteristics of the organization/ network	5.25	0.74	3.29-7.00	74
The entrepreneur's experience	4.97	0.70	3.17-6.17	73
Characteristics of the market	4.91	0.72	1.83-6.50	73
Characteristics of the service or product	4.62	0.69	2.71-6.14	75

Table 3 reports the ten single criteria ranked as most important by private bank officers. The

most important criterion is a personal characteristics: whether the entrepreneur can be trusted or not. Moreover, psychological characteristics such as an orientation toward results, planning capability and capability of sustained effort are all included among the top ten criteria. Familiarity with the market/industry is also regarded as very important in this study.

Table 3: *Top ten criteria for evaluating new ventures – the private bank officer's view*

Rank	Criterion	Importance (1=low, 7=high)
1	Can be trusted	6.22
2	Market potential	6.00
3	Orientation towards results	5.99
4	Have a "financial package" for financing the venture	5.99
5	Familiar with the market/industry	5.95
6	Willing to invest him-/herself	5.93
7	Be a safe payer	5.84
8	Identified customer need	5.64
9	Demonstrate good future revenues	5.64
10	Planning capability	5.62
10	Capable of sustained effort	5.62

Financial aspects are of course very important for private bank officers. They find it very important that the entrepreneurs can provide a financial package for financing the venture, and that the entrepreneur is willing to invest in the business him-/herself. Moreover, the entrepreneurs must be regarded as a safe payer (based on previous experience with the person). The business plan or loan application should also demonstrate a clear potential for future revenues. Private bank officers rank market potential as the second most important criterion. Another characteristic of the market is also included among the top ten, namely an identified customer need. None of the top ten criteria are related to characteristics of the product or service or to the organization/team behind the venture. Moreover, only one criterion is related to the entrepreneur's experience. In other words, private bank officers are more concerned with *who* undertakes the effort and the projected *results* from the effort than *how* the effort can and will be undertaken.

The bottom five criteria for evaluating new ventures are given in Table 4. Three of these criteria are related to the product or service. Private bank officers do not find the criteria new technology, appropriability or degree of newness as particularly important. Moreover, they are neutral on whether the entrepreneur should have an economic education or not. The fifth criterion on the bottom five list is low competition.

Table 4: *Bottom five criteria for evaluating new ventures – the private bank officer's view*

Rank	Criterion	Importance (1=low, 7=high)
38	Low competition	4.32
39	Degree of newness	4.25
40	Economic education	4.03
41	Appropriability	3.97
42	New technology	3.69

Gaps between importance attached to and the ability to evaluate the criteria

In the second part of the survey, we asked the bank officers to indicate to what extent they felt capable of evaluating the different criteria. A negative gap means that they felt less capable of evaluating the criteria than the importance attached to it. Table 5 displays the gaps for the six

major categories. All in all, the gaps are rather small when averaged for the major categories. The largest negative gap is identified for characteristics of the organization/team and the entrepreneur's personality, while a positive gap is identified for the entrepreneur's experience.

Table 5: *Gaps identified for the six major categories of criteria*

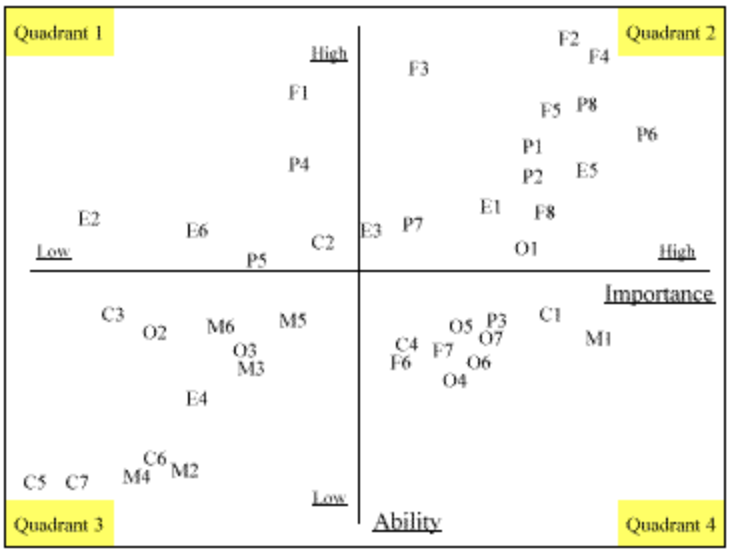
Criterion	Average gap	SD	Range	N
The entrepreneur's personality	-0.46	0.82	-2.50-1.88	66
The entrepreneur's experience	0.12	0.82	-1.17-2.17	67
Characteristics of the service or product	-0.21	0.84	-2.43-2.00	71
Characteristics of the market	-0.36	0.97	-2.67-3.33	70
Characteristics of the organization/ network	-0.50	0.96	-2.14-2.14	71
Financial aspects	-0.01	0.64	-1.25-1.50	65

More information is given when calculating the gap for each of the 42 criteria included in the survey. Figure 2 illustrates the result for each single criterion. See Appendix 1 and 2 for detailed information on each criterion. The vertical and horizontal lines illustrate the average among the respondents. The average rating for importance over all criteria and all respondents were 5.21. The average rating for capability over all criteria and all respondents were 4.96. The figure yields four quadrants:

Quadrant one: High ability – low importance
Quadrant two: High ability – high importance
Quadrant three: Low ability – low importance
Quadrant four: Low ability – high importance

Quadrants one and two can be seen as rather unproblematic, since the bank officers judge their own abilities as high. Most of the criteria related to the entrepreneur's personality and experience are found in quadrants one and two. The same also applies for financial aspects, which is not surprising given the fact that the majority of bank officers have an economic degree. Only two of the criteria in quadrants one and two are related to other aspects, and these are both ranked only marginally above average on ability to evaluate. These two criteria are documented sales and the existence of a team with complementary skills. None of these criteria can be regarded as particularly challenging to verify.

Figure 2: *"Gap analysis" – importance vs. perceived ability**



* For coding, see Appendix

P=personality E=experience F=financial aspects
M=market O=organization/network C=product/service

Quadrants three and four are more problematic in a private bank officer's perspective: here the perceived ability to evaluate is below average. Most of the criteria related to the product/service, the market and the organization/team are found here. Five criteria are particularly low on the ranking of ability to evaluate. These are at the same time judged to be less important than most of the other criteria, i.e. in quadrant three. These five are:

- new technology
- appropriability
- demonstrable concept (for example prototype)
- little competition
- new market

The former three are characteristics of the product or service, while the latter two are characteristics of the market. The most remarkable about this is that four of these criteria are closely related to new technology-based firms (NTBF's) and to firms operating in new markets. Private bank officers do not find the characteristics of these companies important in their evaluation, and they do not feel capable of evaluating them either. It has been suggested that private banks favor firms which are "safe-bets" with low risks (cf. Storey, 1994), and the results given here seem to support this view. Indications are that private bank officers have a bias against NTBF's and firms operating in new markets in their evaluation of new venture proposals.

A key part of Figure 2 is quadrant four. Here we find the criteria which the private bank officers rank as important, while at the same time judging their own abilities as low. In this quadrant we find ten criteria. Four are related to the organization/network, two are related to the product/service and two to financial aspects. The last two criteria in this quadrant are related to personality and the market. These ten criteria are (in order of importance attached to the criterion):

· market potential
· identified customer need
· ability to evaluate and react to risk
· competent board of directors
· production network
· distribution and sales network
· competent and cooperative employees
· positive result within 5 years
· competitive advantages
· positive result within 2 years

Private bank officers are not especially capable of evaluating the market potential of new ventures, whether there is a need for the product/service, whether there is an established network surrounding the business, or whether the product/service has competitive advantages. Moreover, they do not feel capable of evaluating whether key personnel, either employees or members of the board of directors, can complement the skills, network and experience of the entrepreneur. In light of this, it is not surprising that they feel incapable of determining the appropriate payback period of the investment.

Discussion

This survey has cast light on the criteria used by private bank officers in evaluating new venture proposals (loan applications). Looking at the relative importance attached to the different criteria, the entrepreneur's personality is at top. Four of the top ten criteria have to do with personal characteristics. Financial aspects are ranked as the second most important group of factors, and four of the top ten criteria are related to finance as well. Characteristics of the product/service and the organization/network are ranked at the bottom, and criteria like the competitive position, appropriability and new technology are attached relatively low importance. In the latter part we discussed the gaps and shortcomings in private bank officers' evaluation of new ventures. A gap is a discrepancy between the importance attached to a criterion and the perceived ability of evaluating and validating this criterion. The results show that private bank officers appear very capable of evaluating the entrepreneur's personality and experience, as well as the financial aspects of the business. Negative gaps (low ability relative to importance) are identified for numerous criteria, mostly related to the organization/network, the product/service and the market. Private bank officers perceive their ability to evaluate important criteria like market potential, verified customer need, production and distribution/sales network and competitive advantages to be rather low relative to the importance attached to them. In other words, the information asymmetry is perceived to be largest for aspects related to the business strategy, including product/market and network.

This is a serious challenge for entrepreneurs wanting to acquire finance from private banks. Moreover, indications are that private bank officers have a bias against new technology-based firms and firms operating in new markets in their evaluation.

Implications for private banks
The results given here can be seen as both positive and negative for private banks. First, it is apparent that private banks are very capable of evaluating the persons applying for loans, including their personalities and their experience. This is positive, since a range of authors contends that *"irrespective of the horse (product), horse race (market) or odds (financial criteria) it is the jockey (entrepreneur) who fundamentally determines whether ..... will place a*

bet at all" (MacMillan et al., 1985, p. 128). Similarly, Knight (1994) refers the fact that *".....rate the entrepreneur and his characteristics more important than the attributes of the venture itself"* (Knight, 1994, p. 36). In banks, much emphasis has been placed on the person evaluations, and this seems to have been a success. Moreover, private bank officers are very good at evaluating the financial aspects of the business, which is no surprise given that this is their main activity and that their education is for the most part economic.

Nevertheless, this study points to a need for more competence among private bank officers in evaluating the attributes of the venture itself, most notably the strategic aspects related to venturing such as the organization, network and the market. Since private banks are the most frequent source of both advice and finance for new ventures in Norway (Hansen *et al.*, 1996), the role played by private banks is extremely important in the new venture creation process.

Although some banks are restrictive in providing finance in the very early stages, they still define their role as advisors for entrepreneurs. To play this role satisfactory, private bank officers need to know more about the realities behind the business proposals. Exactly 80% of the private bank officers included in this survey state a need to learn more about new ventures in general, and 49.5% want to learn more about specific types of new ventures – for example NTBF's. More than half (54.7%) of the bank officers feel that a special kind of competence is needed for evaluating new venture proposals, and as much as 76.8% would like to have persons with this kind of special competence as a colleague to complement their own evaluation.

An alternative to emphasizing competence development is to develop formal cooperation with outside companies providing services related to new venture evaluation, such as independent business consultants, management consulting firms, science parks, universities/business schools, etc. In Norway, several private banks have developed such ties to strengthen their capacity and skills in the evaluation and validation of new venture proposals.

Implications for entrepreneurs

The results given here points to some serious challenges for entrepreneurs seeking finance from private banks. There is a large perceived information asymmetry in the areas of product/service, market and organization/network. This leads to an unnecessary high perceived risk related to financing new ventures. Thus, there is clearly a need to provide private bank officers with credible information in this area, and highlight these aspects in the loan applications. The preparation of a business plan should aid in this respect, but we strongly feel a need for the entrepreneur to obtain advice from outside parties when preparing this plan. The entrepreneurs should preferably be confronted with all the "difficult questions" before applying for a loan from the bank. Obtaining finance is to some extent a skill, and not all has access to these skills in their personal or business network. Second, the entrepreneur should view the private bank as a strategic relation to the same extent as key customers. A close working relationship to the bank officer(s) can reduce the perceived information asymmetry considerably, although perfect information is a goal that cannot be achieved (Crijns, 1997). Such a close relationship enables the bank to become familiar with the needs and capabilities of the entrepreneur and to find the most adequate way in which such needs can be satisfied. As far as enterprises are concerned, an active participation also contributes towards a realistic conception of what they can expect from their bank. As stated by Crijns: *"Such a partnership between bank and enterprise will consolidate the role of banks in the small enterprises network and will for all the parties involved generate value on an ongoing basis"* (Crijns, 1997, p. 14).

Future research avenues
This analysis can be expanded in several ways. First, the criteria used by private bank officers can be linked to their information base as well as the information gathering activities undertaken internally and externally. One might expect differences in the importance attached to certain criteria as well as differences in the perceived ability of evaluating certain criteria simply due to differences in the available information. Moreover, one might find that some information sources are systematically underutilized. Second, it can be informative to differentiate this analysis between groups of private bank officers. Hansen *et al.* (1996) successfully proved that the practice of private bank officers depends upon their previous experience and education background. We might therefore find differences in the gaps between importance and ability for groups of bank officers. This can in turn lead to important implications for the recruitment as well as the competence development in private banks.

Third, there is clearly a need to be more specific on what kind of new venture we are talking about, since the current analysis is undertaken based on "the normal case." One might expect that other criteria are important when evaluating NTBF's than when evaluating retail businesses or handicraft firms. Undertaking a controlled experiment, in which the bank officers are given the exact same new venture proposal, could inform this analysis further. Maybe it can be particularly worthwhile to divide the respondents into two groups, and provide one of them with a low-tech proposal and the other with a high-tech proposal, to highlight the aspects connected to evaluation high-risk, high-potential new ventures. Finally, there is clearly a need to tie the analysis of screening criteria and the information gathering activities to the ultimate decision of financing in the venture or not.

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Appendix 1: Importance attached to the 42 criteria

Table 6: *Importance attached to the entrepreneur's personality*

Criterion	Average	SD	Range	N
P1: Capable of sustained effort	5.62	1.37	1-7	77
P2: Planning capability	5.62	1.10	2-7	76
P3: Ability to evaluate and react to risk	5.55	1.15	2-7	78
P4: Ability to present/sell the business concept	5.11	1.29	1-7	76
P5: Open for alternative views	5.05	1.11	2-7	75
P6: Can be trusted	6.22	1.20	1-7	78
P7: Working capacity	5.34	1.21	1-7	76
P8: Orientation towards results	5.99	1.18	1-7	76

Table 7: *Importance attached to the entrepreneur's experience*

Criterion	Average	SD	Range	N
E1: Experience of relevance for the venture	5.54	1.28	2-7	76
E2: Economic education	4.03	1.26	1-7	75
E3: Education relevant for the product/ service	5.21	1.33	1-7	76
E4: Demonstrated management abilities	4.63	1.09	2-7	75
E5: Familiar with the market/industry	5.95	1.26	1-7	76
E6: Good references	4.64	1.26	1-7	74

Table 8: *Importance attached to characteristics of the product/service*

Criterion	Average	SD	Range	N
C1: Identified customer need	5.67	1.36	1-7	76
C2: Documented sales	5.13	1.09	2-7	76
C3: Degree of newness	4.25	1.34	1-6	75
C4: Competitive advantages	5.30	1.12	2-7	77
C5: New technology	3.69	1.31	1-7	75
C6: Demonstrable concept (for example prototype)	4.41	1.47	1-7	76
C7: Appropriability	3.97	1.33	1-7	75

Table 9: *Importance attached to characteristics of the market*

Criterion	Average	SD	Range	N
M1: Market potential	6.00	1.38	1-7	77
M2: Develops a new market	4.53	1.30	1-7	75
M3: Growth market	4.95	1.09	2-7	76
M4: Low competition	4.32	1.10	1-6	75
M5: Clear target group(s)	5.07	1.27	2-7	76
M6: Not too dependent on a few customers	4.73	1.23	1-7	74

Table 10: *Importance attached to characteristics of the organization/network*

Criterion	Average	SD	Range	N
O1: A team with complementary skills	5.61	1.23	1-7	76
O2: Employees that work well together	5.45	1.37	1-7	75
O3: Clear agreements between the entrepreneurs	4.85	1.38	2-7	75
O4: Well functioning board of directors	5.53	1.16	2-7	76
O5: Related firms in proximity (cluster)	4.41	1.34	1-7	76
O6: Verified sales-/distribution agreements	5.47	1.23	1-7	76
O7: Verified production agreements	5.50	1.01	3-7	76

Table 11: *Importance attached to financial aspects*

Criterion	Average	SD	Range	N
F1: Solid private economy	5.07	1.05	2-7	74
F2: Willing to invest him-/herself	5.93	1.34	1-7	76
F3: Ability to provide collateral	5.33	1.02	2-7	75
F4. Have a "financial package" for financing the venture	5.99	1.04	2-7	76
F5: Be a safe payer	5.84	1.09	1-7	75
F6: Positive result within 2 years	5.27	1.21	2-7	74
F7: Positive result within 5 years	5.40	1.54	1-7	73
F8: Demonstrate good future revenues	5.67	1.21	2-7	75

Appendix 2: Ability to evaluate and validate the 42 criteria

Table 12: *Ability to evaluate and validate the entrepreneur's personality*

Criterion	Average	SD	Range	N
P1: Ability to sustained effort	5.45	0.88	3-7	94
P2: Planning capability	5.33	0.98	2-7	92
P3: Ability to evaluate and react to risk	4.83	1.22	2-7	92
P4: Ability to present/sell the business concept	5.42	0.96	3-7	93
P5: Open for alternative views	4.99	1.21	1-7	93
P6: Can be trusted	5.47	1.28	2-7	93
P7: Working capacity	5.11	1.24	2-7	93
P8: Orientation towards results	5.61	1.02	2-7	93

Table 13: *Ability to evaluate and validate the entrepreneur's experience*

Criterion	Average	SD	Range	N
E1: Experience of relevance for the venture	5.24	0.96	3-7	95
E2: Economic education	5.16	1.25	2-7	94
E3: Education relevant for the product/ service	5.10	1.01	3-7	94
E4: Demonstrated management abilities	4.41	1.13	1-7	95
E5: Familiar with the market/industry	5.35	1.08	2-7	95
E6: Good references	5.11	1.09	2-7	94

Table 14: *Ability to evaluate and validate characteristics of the product/service*

Criterion	Average	SD	Range	N
C1: Identified customer need	4.86	1.06	2-7	95
C2: Documented sales	5.01	0.96	2-7	95
C3: Degree of newness	4.84	1.09	2-7	95
C4: Competitive advantages	4.73	1.06	1-7	94
C5: New technology	3.87	1.11	1-6	95
C6: Demonstrable concept (for example prototype)	4.17	1.28	1-7	95
C7: Appropriability	3.87	1.29	1-7	95

Table 15: *Ability to evaluate and validate characteristics of the market*

Criterion	Average	SD	Range	N
M1: Market potential	4.74	1.12	2-7	95
M2: Develops a new market	4.16	1.19	2-7	95
M3: Growth market	4.67	0.99	2-7	95
M4: Low competition	4.02	0.99	2-7	95
M5: Clear target group(s)	4.81	0.93	2-7	95
M6: Not too dependent on a few customers	4.78	1.05	3-7	95

Table 16: *Ability to evaluate and validate characteristics of the organization/network*

Criterion	Average	SD	Range	N
O1: A team with complementary skills	5.01	0.98	2-7	95
O2: Employees that work well together	4.75	0.93	2-7	95
O3: Clear agreements between the entrepreneurs	4.68	1.19	2-7	95
O4: Well functioning board of directors	4.58	1.26	2-7	95
O5: Related firms in proximity (cluster)	4.81	1.18	2-7	95
O6: Verified sales-/distribution agreements	4.66	1.19	2-7	95
O7: Verified production agreements	4.79	1.26	2-7	95

Table 17: *Ability to evaluate and validate financial aspects*

Criterion	Average	SD	Range	N
F1: Solid private economy	5.68	0.90	3-7	95
F2: Willing to invest him-/herself	6.05	0.79	4-7	94
F3: Ability to provide collateral	5.83	0.82	4-7	94
F4: Have a "financial package" for financing the venture	5.95	0.91	2-7	94
F5: Be a safe payer	5.57	0.89	3-7	94
F6: Positive result within 2 years	4.72	1.01	2-7	94
F7: Positive result within 5 years	4.77	1.29	2-7	92
F8: Demonstrate good future revenues	5.17	0.99	3-7	92

Squeezing the Asian entrepreneurial engine
Paper to the ICSB 43rd World Conference
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Entrepreneurship at the threshold of the 21st Century

Squeezing the Asian Entrepreneurial Engine;

the impact of the credit squeeze on sustainable entrepreneurial job creation in Asia.

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Firms in Japan, China, Indonesia, Korea, and most of the rest of Asia, are now facing a prolonged period of very tight credit. Because many banks in the region need to increase their capital adequacy ratios and reduce their risk exposure, most are now unwilling to lend to small, fast growing firms. However, mounting evidence from OECD suggests that the bulk of net job creation comes from a relatively small proportion of fast growing SMEs. The ability to create new jobs will be especially important in Asia in the coming years, and it is unlikely that government infrastructure projects and large firms will be able to provide the job growth required.

This paper seeks to:

1. Give a better understanding of the process by which entrepreneurial activity contributes to job creation and economic renewal; the "entrepreneurial engine". A mosaic of published and unpublished evidence from different sources is used to build up a picture of the way the entrepreneurial engine seems to work. The entrepreneurial engine is made up of three closely linked components, all with different cycles. The main driving force is made up of about 25% of SMEs that are growth oriented, of which 5% to 10% fast growing, mostly medium sized firms contribute most to gross and net employment creation. These firms are increasingly likely to be internationally active. The majority (75% or so) of SMEs contribute little to growth, but still play an important cyclical role, in conjunction with large firms.

2. Examine the extent of the credit restrictions in Asia on SMEs, and assess the likely impact on the operation of the entrepreneurial engine. It is argued that if credit restrictions continue to discriminate against fast growth SMEs, there may be serious long term consequences for the growth and competitiveness of the region.

3. Review the policy implications for national and international organizations. Bank restructuring and better prudential management is essential, but so also is the development of more sophisticated regional financial markets which facilitate SME growth.

INTRODUCTION

One of the more desirable consequences of the Asian crisis is that it is leading to financial markets in Asia being moved onto more solid foundations. Banks are being forced to improve their capital adequacy ratios and risk management, and regulators are reviewing their prudential management procedures. However, one area of financial reform is being largely ignored - and this may have some very serious long term consequences for growth in the region. The move to low-risk, high-quality loans by formal financial providers, coupled with tight monetary policy designed to limit the inflationary pressures of high inflation, has caused a significant and prolonged credit squeeze in the region. This is affecting SMEs, especially fast growing SMEs, which provide the main engine for sustained growth. The financial markets that serve these SMEs are still primitive in Asia, and there is little by way of coordinated efforts to improve them.

Section 2 seeks to provide a provide a simple but general framework for understanding how the "entrepreneurial engine" works. The starting point is evidence from a variety of sources which suggests that some SMEs contribute more than proportionally to net job creation.

Section 3 then looks at the impact of the credit squeeze on SMEs, and the likely longer term impacts on sustainable growth and competitiveness of the Asian region.

Finally, section 4 examines the options that need to be addressed in financial market reform.

2. THE ENTREPRENEURIAL ENGINE

At a micro level, much of the debate on the contribution of SMEs to growth has focussed on large versus small. This misses the point. Not all SMEs are equal when it comes to contributing to growth. At a macro level it has been known for a long time that most economic growth is attributable to TFP (total factor productivity) improvement, not increased inputs. Although there are few attempts to decompose this TFP improvement by size of firm, SMEs are generally assumed to contribute little because their average productivity is only one third to one quarter of large firm productivity. Again, this misses the point. Not all SMEs are equal. Growth seems to be best explained by an interplay of three parts of the economy....

1. Small firms and start ups.

There are many SMEs, - typically firms with less than 100 employees make up over 95% of all firms, and most of these have less than 5 employees. Most of these firms do not grow much, - they are best envisaged as small stores and "lifestyle " businesses - and although they often grow quickly (eg from one to two or four employees) this is not sustained. There is considerable "churning" of the population, so many only survive for 5 to 8 years or so. This means that the net contribution to growth is mostly a balance between exits and start ups. This balance changes for cyclical and structural reasons, but usually the addition of new SMEs contributes about 30% of net growth at the most.

2. Fast growth Firms

Some firms are growth oriented - and successful in growing. As a proportion this is only small; perhaps 25% of all SMEs are serious about seeking growth, but only 5% are successful in actually achieving sustained growth. These firms seem to contribute around 70% of all net job

growth, though their contribution to value added growth may be less. These firms are not necessarily SMEs, and may be a part of a larger company (or may be taken over to become a subsidiary of a larger company). Their growth path does not necessarily follow a consistent trajectory, and the set of high growth firms changes continuously. Many of these firms emerge from the pool of small firms as successful start ups. Their success is often enhanced by entrepreneurs stepping out of larger firms to "do their own thing", and their success is dependent upon management skill and finance that can sustain continued growth. Many of these fast growth firms are now able to operate internationally.

3. Large firms

Large firms typically have more than 500 employees and contribute at most about 30% of job growth, although they often contribute to job reductions, depending on the point in the business cycle, and depending on structural changes in the economy. A significant proportion of these large firms are MNCs. Large firms employ half the workforce and provide an important industrial infrastructure for start up and growth of smaller firms. Larger firms are important at increasing the efficiency of smaller firms by rationalizing and providing efficient distribution channels, R & D sources and funds for development.

The entrepreneurial engine

The following figure schematically summarizes the interaction of the three main elements of the entrepreneurial engine.

Size and numbers	dynamics	growth contribution
Large - only about 1% of firms are large and they	..survive for longer by starting up new ventures or absorbing promising smaller firms, but ...	...they usually make a negative contribution to job *growth* as large firms rationalise
Fast growth - only about 5% to 10% of firms succeed in achieving sustained...	...growth, surviving 8 years or more, and expanding to a point where ..	...they make a large contribution to job growth - probably 70%+ of all growth
Small - 90+% of firms are small with less than 100 employees	Start up rates vary from 5% to 20% pa. Most firms do not grow much above 5 employees, and most exit within about 7 years	Some contribution to job growth in conditions where start ups exceed exits - typically this occurs when cyclical and structural conditions are favourable

The evidence....

Although a considerable amount of research has been done on job creation and the role of SMEs, it is difficult to get a coherent, overall picture of how the entrepreneurial engine works. There are a number of reasons why it is difficult to develop a simple conceptual framework for understanding the entrepreneurial engine:

· Comparisons are made difficult by structural differences between countries, and in the same country at different times of the business cycle, or in different industries;

· Comparisons between countries are difficult because of different statistical definitions and methods of collection;

· Comparisons between different studies is often difficult because of varying methodologies (eg longitudinal versus comparative statics);

· Many studies focus on specific issues, and these are not easily put into a broader context. Nevertheless, from a policy viewpoint such a picture is an important step in understanding the limits of policy in improving the effectiveness of the engine. Existing macroeconomic models tend to miss some of the important aspects of the entrepreneurial engine because they aggregate out the small proportion of high growth firms that seem to contribute most. What follows summarizes the evidence from a mosaic of sources on the entrepreneurial engine.

1 In developed economies there are about 50 SMEs per 1000 population, but many Asian economies have a "missing middle"

In most developed economies there seems to be some consistency that there are about 50 non-agricultural SMEs per 1000 population, or about 1 SME per 20 people. Less developed economies have fewer SMEs per head of population. The following table illustrates this.

Economy	Population million	SMEs '000	SMEs per 1000 people	People per SME
USA	260	14,800	56.9	17.6
Japan	122	6,500	53.3	18.7
Australia	17	840	49.4	20.2
Taiwan	20	743	37.1	26.9
Singapore	3	69	23.0	43.5
Korea	44	1,345	30.6	32.7
China	1,196	8,000	6.7	149.5
Thailand	58	102*	1.7	568.0
Indonesia	189	105*	0.6	1800.0

*understates real numbers - Thailand is manufacturing only.

Structural features have an effect; for example Singapore is highly developed, but has relied more on large multi national corporations; despite their development Thailand and Indonesia still have large numbers of agricultural SMEs and fewer non agricultural SMEs. Some care should be taken in interpreting the figures. The statistical definition of an SME varies widely as to the size of the SME, its degree of formality, and its economic activity. For example, the US figure above includes all firms registered for tax purposes, while the Indonesian one excludes many informal and unregistered SMEs.

In some developing economies the core of middle sized, dynamic, growth-oriented firms seems to be missing; there is a "missing middle". This is particularly the case for Indonesia. Medium sized firms (with between 20 and 99 employees) tend to be unrepresented – they make up only 8% of output in Indonesia. This can be contrasted with similar firms contributing about 32% of output in Japan, and 41% in Chinese Taipei. Similarly, the pool of medium sized firms from which high growth firms emerge is smaller in Indonesia than in other Asian economies. In Indonesia, of about 1.6 million enterprises in manufacturing, only 0.8% are in the medium sized category, whereas in Chinese Taipei 3% of enterprises are in this grouping, in Japan 21% are and in Singapore 42% are.

The missing middle - Percentage contribution to output, employment and structure, by size class in selected Asian countries - manufacturing

	small and cottage <20	medium 20 -100	large 101 - 500	very large >501	n=
Japan					415,109
% establishments	74	21	3	1	
% output		32	19	48	
% employment		53	18	28	
Singapore					4,013
% establishments	41	42	14	3	
% output	3	12	26	59	
% employment	5	26	27	44	
Chinese Taipei					738,914
% establishments	96	3	1	0.1	
% output	25	16	20	39	
% employment	46	18	16	20	
Indonesia					1,600,000
% establishments	99	.8	.2	.06	
% output	17	6	22	55	
% employment	67	*	*	33*	

Japan: - 1992 Small Business in Japan. Manufacturing only. medium is up to 300, large is 300 +.
Singapore: -1994 Manufacturing only . Census of Industrial Production.
Chinese Taipei (Taiwan): - 1991 Census of Industry and Commerce, figures are for non agricultural sector. Micro sector is for firms less than 30 employees, small is 30 -99 employees.

Indonesia: - estimated - Manufacturing only, 1990. Applies to formal (ie registered firms only).

Estimated from BPS data and from Thee (1994) and Hill (1995) and Basri (1994). * included in large category.

2 The SME population grows at about the rate of growth of real GDP over the long run

The rate of growth of the non agricultural SME population is quite low, and appears to be about that of real GDP growth in the long term, although it varies because of cyclical and structural factors. For example, the US growth rate appears to be about 2.6 % pa over the period from 1976 to 1990. In Australia from 1983/4 to 1989/90 the SME population grew at 3.9%. Interestingly enough, over the 26 years from 1976 to 1991 the Japanese SME population grew at only 0.7% pa, though this may reflect structural differences and lower average start up rates in Japan.

3 Start up rates vary from about 5% to 20% pa

Estimates of start up rates can be drawn from a range of sources, as illustrated in the following table. Comparisons are difficult, and the estimates vary widely. Cyclical and structural factors have a big effect, but start up rates seem to average out at around 10% pa over the longer term.

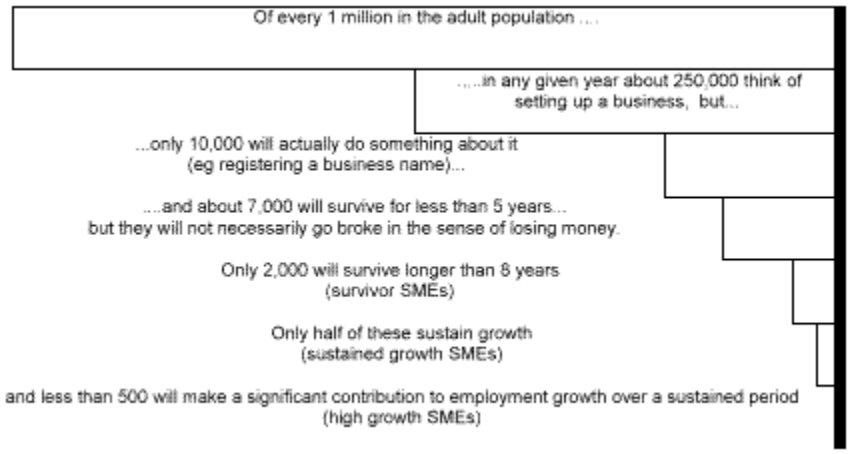
Figures in Japan are lower than most other countries, and are declining. In addition, Japanese SMEs are becoming less likely to start up as an original independent business, and more likely to be the result of an existing entrepreneur spinning off a new business from an existing one.

Economy	Start up rate	Source, comments
USA	12%	Kirchoff 1994 p 146, 1977 - 78.
	20%+	Reynolds 1995a (estimate based on 2% pa of adult population initiating a business)
Japan	7%	SME Agency 1994 p 62, 1966
	4%	1991
Australia	9%	BIE AIT October 1993 p51, 1992 - 93
	16%	BIE AIT October 1994 p103, 1993 Registrations only
Europe		
Belgium	13%	Preliminary figures on new registrations
Denmark	14%	from European Observatory 1995.
Finland	16%	Based on 1993 only.
France	14%	
Germany	17%	
Italy	7%	
Netherlands	12%	
Portugal	4%	
Spain	5%	
Sweden	11%	
UK	7%	

4 In any given year about 4% of the adult population are thinking seriously about starting a firm, but that less than 2% actually succeed in doing something about it

US studies by Reynolds (1995a) indicate that 3.9% of adults are actively doing something about establishing a new enterprise in any given year, and that about half of these actually succeed. In France, about 27% of the adult working age population have considered setting up a business, and about 1% actually succeed (European Observatory (1995)).

The following schema gives some idea of the relative magnitudes, based on limited US and European evidence.



5 Evidence on exit rates varies widely, but to be consistent with observed SME population growth and start up rates, about 75% of SMEs exit within 8 years of start up

Exit rates are the converse of survival rates. It is important to note that exit rates are referred to, not failure rates. Just because an SME ceases to exist in a legal sense does not mean that it has failed in a financial sense. Often the firm which ceases to trade does so by choice, it does not go bankrupt and it does not leave any outstanding debts. Estimating survival rates

requires longitudinal tracking of individual firms. This is difficult to do, and so available data is limited.

Early research tended to emphasize high failure rates amongst SMEs; as a rule of thumb it was commonly believed that four out of five firms did not survive more than five years. More recently, researchers have been at pains to show that the survival rates are higher, with 20% to 30% of firms surviving about eight years. The survival rates for entrepreneurs (or owners of SMEs) are much higher than the survival rates for the firms themselves.

Estimates of exit rates and survival rates vary widely, but usually indicate that:

· over 85% of start ups survive the first year;
· about 60% to 70% survive for three years;
· about 50% survive for five years;
· about 25% to 30% survive for eight years or more.

These survival rates are broadly consistent with known start up rates (around 10% pa) and the growth of the total population of SMEs (about 2% pa). If the total population only grows at around 2% pa, then a start up rate of 10% in any given year requires that about 75% to 80% of firms exit over an eight year period. If start up rates are significantly higher than 10% pa, then either the SME population must increase more rapidly, or the failure rate must increase, or some combination of the two must occur.

Economy	Survival rate 1 year %	Survival rate 3 years %	Survival rate 5+ years %	Time period, Source
USA	85	60	38 (6yrs)	1977 - 8. Kirchoff 1994
Australia	65	33	17	varies 1975 + Williams (1990)
Europe				European Observatory (1995)
Belgium	84	-	-	1990
Denmark	-	69	58	1985 a
Finland	91	63	55	varies
France	84	62	48	1987
Germany	86	70	63	1985
Italy	87	66	54	1987
Netherlands	90	74	-	1988
Portugal	76	56	47	1986
Spain	-	70	-	1986
Sweden	-	70	59	1988
UK	87	62	47	-

6 The bulk of job creation is from expansions, not from start ups

Most gross job creation is from expansions, not start ups, as illustrated by the following table (OECD 1994). Similarly most job losses are from contractions, not closures. France is an exception.

This suggests that it is more what happens *after* firms are established, rather than their start up per se, which is important for net job creation. This is consistent with the general pattern of start up sizes; most start ups are relatively small, with over 95% employing less than 19 people at start up (Kirchoff (1994) p176). Provided a firm survives its first few years (and about 70% do) it is more likely to contribute to employment growth via its expansion than via its initial start up.

The table also illustrates the high labour turnover of around 25% pa. This "churning" is consistent with the majority of SMEs surviving only about three to five years.

Economy	jobs from start up % pa	jobs from expansion % pa	job losses closure % pa	job losses contractions % pa	net job growth % pa	job turnover % pa
Denmark 83-89	6.1	9.9	5.0	8.8	2.2	29.8
Finland 86-91	3.9	6.5	3.4	8.7	-1.6	22.4
France 84-92	7.2	6.7	7.0	6.3	0.4	27.1
Germany 83-90	2.5	6.5	1.9	5.6	1.5	16.5
Italy 84-92	3.9	8.4	3.8	7.3	1.3	23.4
Sweden 85-92	6.5	8.0	5.0	9.6	1.5	29.1
UK 85-91	2.7	6.0	3.9	2.7	-1.2	15.3

7 Although contentious, evidence suggests that SMEs contribute more than proportionally to net job growth; and that about 70% of net jobs are attributable to a small group of only about 5% of fast growing SMEs.

Evidence on the contribution of SMEs to net job creation is still a matter of contention. Much of the dispute on the topic seems to have missed a key point; it is not so much an issue of small versus large, but rather the process which is going on between the two, and which firms make the biggest contribution. Some of the dispute (eg Davis et al 1993) is based on cross sectional analysis which cannot resolve the issue. What is contended here is that much of the job growth comes from firms which start off being small, but contribute most as they become larger. The only way to really assess this is by longitudinal studies - and these are relatively limited, especially in Asia.

The balance of evidence seems to suggest that some SMEs contribute more than proportionally to net job creation, especially when more reliable longitudinal approaches (as against cross sectional approaches) are used. Depending on the circumstances, as much of 70% to 100% of net job creation is attributable to SMEs. Swedish longitudinal studies by Davidsson (1995 European Observatory) suggests that about 63% of growth comes from SMEs, about two thirds of this is from expansions and the other is from start ups. Almost all the growth comes from about 15% of firms. SMEs in Australia contribute between 60% and 70% of net employment growth. Preliminary analysis of the longitudinal GAPS data (a major longitudinal study) shows that in 1993/4 78% of job growth came from SMEs, (36% from medium sized firms), and in 1994/5 63% came from SMEs.

Contribution to total net employment growth by size of firm Australia

	Australia 93/4	Australia 94/5
micro	4%	20%
small	37%	14%
medium	36%	28%
SME	78%	63%
Large	22%	37%
Growth rate %pa	4.28	3.74

source - preliminary statistics from GAPS - ABS

Similarly, evidence from the USA (Kirchoff (1994) p193), UK (Storey (1994) p113 - 119) and Australia (Phillips and Papadopolous (1989)) suggests that a relatively small percentage of high growth firms contribute most of the net employment change. The size of this contribution,

and the percentage of firms differ, but it would seem that about 5% to 20% of firms are responsible for as much as 70% to 80% of gross job creation. More recent, but as yet unpublished studies coordinated by the OECD reinforce this.

Evidence from Asia is more difficult to obtain. A longitudinal study of SMEs in Singapore (Department of Statistics 1997) from 1984 to 1994 showed that those SMEs which grew in employment and output or sales over the period made up about 29% of the surviving businesses, (or about 13% of the original enterprises). These growth SMEs increased their employment from 78,000 to 184,000 over the period, while SMEs that of other non growing SMEs declined from 149,000 to 105,000. This suggests it is a relatively small proportion of surviving, growing, SMEs that provide the bulk of job growth.

Hill (1995 p 12) shows that Indonesian firms in the 20 - 99 and 100 - 499 employee categories tend to contribute significantly more to value added when classified according to their starting size. For example the following table shows the contribution to total value added in 1990 of firms of different size classes. The current year figure is based on the firms being in that category in 1990, and shows that firms with 500 or more employees in 1990 contributed 66% of value added. The "initial year" figures classify the same firms according to their size in 1975, or when they were included on the BPS database if it was after 1975. Firms that had 500 employees throughout the period only contributed 42% of value added. By contrast, the 20 - 99 employee category contributes more than three times as much when viewed from an initial year perspective (7%) as it does from a current year perspective (25%), mostly at the expense of the larger firms. This suggests that there *is* an entrepreneurial engine working in Indonesia, and that some of the firms that start off with only 20 - 99 employees (and some with 100 - 499 employees) grow quickly, so their contribution to value added is proportionally greater a few years later.

Contribution to value added (% of total value added) Indonesian manufacturing

	20 - 99	100 - 499	500+
1990 - current year	7	27	66
1990 - initial year	25	33	42

source - Hill (1995) Table 3. These figures are based on longitudinal data at firm level from BPS. They are based only on firms with more than 20 employees, and so the percentages are different from those cited in table 2 below which covers all firms.

Evidence from Japan (SME Agency 1994 p 128) and Australia (Williams (1990) p67) suggests that the main contribution of these firms comes *after* they have been in existence for about 8 - 10 years. By this stage, only about 25% of the original cohort of firms (ie those which started up 8 - 10 years ago) can be expected to still be in existence. After eight or ten years of rapid growth, these firms are most likely to be medium sized, even though they may have started off as quite small. This is reflected in the Singapore study as well, - more than half of the growing SMEs had been in business for 15 years or more.

8 These high growth firms are more likely to be more innovative, but only a small proportion will be in emerging leading edge industries. Most are in niches in industries in growth or restructuring stages.

Although high growth firms are more likely to be leading edge firms in their industry, the industry itself does not have to be an emerging, leading edge, fast growth industry in order for a successful firm to achieve rapid growth. Industries tend to go through a life cycle (Jovanovic

and MacDonald (1994)), starting with a few innovative firms in an emerging stage, moving to a growth stage where there are many firms, and then to a rationalisation and shake out as the number of firms declines and the industry moves to a core of a few larger firms surrounded by a periphery of other smaller firms. Finally the industry may move to a declining stage. Most of the jobs created by fast growth SMEs seem to occur at the growth and shake out stages, although the evidence on this is weak.

Kirchoff (1994 p 182) analyses high growth firms in terms of innovative industries; about 16% of firms in innovative industries experience high growth, about twice as many in percentage terms as in industries classified as low innovation. However, in terms of sheer numbers, there are thirteen times as many firms which experience high growth in low innovation industries. In short, being in a high growth innovative industry helps, but most fast growing SMEs tend to be in relatively low growth or even declining industries.

3. THE ASIAN CREDIT SQUEEZE

This section seeks to address four main questions:

1. what evidence is there of a credit squeeze in Asia?

2. how is it affecting SMEs?

3. how long will it persist? and

4. how will it affect the contribution of SMEs to sustainable growth in the region?

Although there is a reasonable amount of anecdotal evidence pointing to a credit squeeze affecting SMEs in Asia, it is difficult to document clearly, partly because of a lack of available statistics, and partly because it has different characteristics in different economies. To try and build up an overall picture, the following table provides an assessment of the likely extent and duration of the credit squeeze as it affects SMEs, based on the available evidence, and on the policy measures being adopted:

§ *Available statistics.* Statistics on SMEs are not easy to obtain in Asia, and it takes time to get them. For example, most banking statistics (loans, applications etc) are not available by size of borrower or applicant, so it is impossible to monitor the direct impact of a credit squeeze on SMEs. Statistics on bankruptcies and on start ups are available in the more advanced economies, but there is often a lag of six to twelve months before they are available. Three measures are used. First, short term interest spreads relative to long term rates are used as a proxy for tight monetary policy, and where possible the Interbank 30 day rate is used. Second, the level and percentage of non performing loans in the banking sector is used to give an idea of the structural level of the banking problems underlying the credit squeeze. Third, where it is available, evidence on trends and levels of start ups or bankruptcies, especially amongst SMEs gives an idea of the impact of the credit squeeze.

§ *Policy measures.* There are two main policy drivers of the credit squeeze in Asia. These are, first, tight monetary policy needed to control inflation in the wake of sharp devaluations in some economies, and second, policy at individual bank and Central Bank levels to address non performing bank loans and undercapitalization. The devaluations have ranged from about 70% in Indonesia's case to less than 15% in that of Taiwan. This has created inflationary pressures

which can be controlled by credit restrictions, which also have the added advantage of discouraging further short term currency speculation. The main policy issue of relevance to SMEs is how tight the credit restrictions have to be and how long they will have to be maintained. On the second driver, many of the banks in the region have upwards of 20% of their loan book non performing, and many are below the minimum capital adequacy levels required by the Bank for International Settlements. This has not been assisted by declining asset values as property markets collapse. Policy to address this involves banking sector reform by restructuring balance sheets, writing off bad debts, and reforming prudential regulation of banking systems. In the intermediate term at least, this requires lending institutions, especially banks, to "shift to quality" and to avoid risky loans. This affects SMEs because even though they may not actually be more risky propositions, it is often more difficult to assess the risk of lending to them. The main policy issue of relevance to SMEs is the time frame for achieving banking sector reforms.

Summary of the impact of the credit squeeze on SMEs in Asia

	extent and duration	statistics	policy
China	Severe:- no bank finance available to SMEs. To date:12+ months (there have been restrictions on credit since 1993, but more recently SME credit has been restricted further). Likely to continue for 18 - 24 months or longer, but depends on policy decisions.	IBR - na npl - $200b ~ 20%	Official policy to restrict credit to SMEs and restructure banks by allowing debt write off over 10 + years. Bank balance sheets being restructured to meet 8% capital adequacy in 1998 by issuance of bonds.
Japan	Significant: Only limited credit from some of the better palced banks is available for SMEs. To date: 24 - 36 months. Likely to continue for another 12 months at least.	IBR - 0.75% npl - $500b SME bankruptcies now highest on record, but this is partly due to depressed demand rather than tight credit.	Banks have written off about $80b in bad debts, and most banks now have balance sheets showing capital adequacy above 8%, but this is partly because of a change in accounting to allow book valuation of stocks (shares) held by the banks.

Indonesia	Very severe - few funds available to SMEs. To date: 9 months. No improvement in foreseeable future, so severe credit squeeze may extend for another 24 to 36 months.	IBR - 47% npl -$10 b + ~ 24%+	Some limited closing down and merger of banks. No program yet in place to address bank debt restructuring.
Korea	Significant: SMEs have access to a set proportion of loans, so most impact is from demand side, not credit side, though cost of credit is high. To date: 6 months Unlikely to ease much inside 18 months.	IBR - 23.6% npl - $20b ~ 20% Evidence of a 300% increase in business failures in 1997/8.	Some injection of government funds and restructuring of major bank balance sheets, closure of some merchant banks. Other banks have two years to meet capital adequacy requirements.
Thailand	Severe to moderate: To date: 10 months. Credit is now easing, but tight money likely to continue for about 12 months.	IBR - 24.5% npl - $26b ~ 27% Rate of new registrations of companies (not SMEs) down by 40%- 50% on 1996 levels.	Rapid action to restructure means that most bad loans are now written off, but further regulatory reforms and reforms of the Bank of Thailand still in progress.
Philippines	Moderate to significant: To date: about 6 months. Likely to continue for at least 12 months.	IBR - 18% npl - $5b ~ 13% Anecdotal evidence of a sharp rise in bankruptcies and tight credit affecting SMEs.	Banks generally do not require major recapitalisation, but policy is limited to restructuring and merging a few of the most troubled banks.
Malaysia	Moderate to significant To date: 9 months Likely to continue for another 9 months at least.	IBR - 12% npl - $9b ~ 17%	Some tightening of regulatory controls over banks and disclosure of npls, but no immediate move to restructuring or mergers, and some lack of transparency as to which banks are being supported in efforts to restructure.
Taiwan	Fair to good	1 month dep - 5.2% npl - about 5%	effective preemptive policy
Singapore	Fair to good	IBR - 4.25% npl - na, but low	effective preemptive policy
Hong Kong	Fair	IBR - 5% npl -na but low	effective preemptive policy

Notes:

Good	Fair	Moderate	Significant	Severe
no additional restriction on credit availability	credit restrictions only on export market finance to high risk SMEs	credit still available to most SMEs, but at more than normal risk premiums	Most SMEs have difficulty obtaining credit at all, banks not rolling over loans	SMEs unable to obtain credit at all, loans called in.

Duration - gives an idea of the period to date (April 1998) of credit squeeze and likely expected duration.
IBR - interbank 30 day rate at 2 April 1998 Far Eastern Economic Review
npl - estimated non performing loans in the banking sector at February 1998, in $billion US and as a percentage of all loans - Jardine Flemming Research, plus various other sources.

The key conclusions that can tentatively be arrived at are as follows:

1. There is a definite and extensive credit squeeze in Asia....

Of the economies in Asia, only Singapore, Hong Kong and Taiwan have escaped the main brunt of a credit squeeze. Indonesia, Korea, Philippines and Thailand are all in the grip of very tight monetary policy, and have been for more than six months. Although initially precipitated by currency devaluations, the credit squeeze is likely to be prolonged by the need for financial sector reforms. The non performing loans in these economies amount to about 20% of all loans, so major debt restructuring is required. This means that the squeeze is likely to last 18 to 24 months in most economies. Nominal short term interbank rates are currently between 18% and 55%. At these levels an SME (who would expect to pay even more) is thus unlikely to

be able to finance any working capital, let alone undertake any longer term investment. Even when these rates decline to more reasonable levels bank restructuring is likely to mean that SMEs will face difficulty obtaining credit because a rationing effect is likely to come into play. What is especially significant is that both Japan and China, economies so far largely untouched by the sharp devaluations and immediate monetary crisis, are both deep in a credit squeeze which affects most of their SMEs. In total this puts a squeeze on around 17 million SMEs in Asia.

2. It is seriously affecting SMEs,....

Most SMEs in the region either cannot afford debt finance, or cannot obtain it even where rates are relatively low (such as is the case in Japan and China). The lack of access to working capital is making many SMEs fail, even when they have confirmed orders and good cashflow. The lack of availability of risk capital is making it harder for firms to start up and to expand. Corporate failure rates in Korea and in Japan are the highest on record. Bank debt is not the only source of finance for SMEs. Fast growing SMEs must usually also draw upon equity and retained earnings for their finance, so why is a bank credit squeeze a problem for them? There are five points to consider:

§ First, most firms use a mix of debt and equity, so rising debt costs raise the average cost of finance.

§ Second, rising returns on debt also force up investor expectations of returns on equity. The combined effect of the this and the first point means that hurdle rates for most SME investments in Asia are above 25% to 30% pa, which intrinsically limits potential investment to only more risky and speculative activities.

§ Third, debt is often more appropriate to tide a firm over short term problems, such as a shortage of working capital caused by a failure or delayed payment from a client (now a common occurrence). Tight credit increases the probability that a small cashflow problem will turn into a major financial crisis, and lead to the unnecessary failure of an SME even when it has strong long term prospects.

§ Fourth, many of the banks have de facto acted as risk (or equity) takers by dint of their lending practices. The bank restructuring is cleaning this up, but it is leaving a gap in the market which some firms (admittedly those usually well connected) have become used to using.

§ Fifth, equity markets for smaller firms are not very well developed in Asia, and lack sophistication and depth. The processes of intermediation are thus inhibited, - it is harder for an entrepreneur to tap into willing investors, so when debt costs rise, it is harder to seek alternative sources of finance.

3. it will persist for at least another 12 to 18 months and possibly longer, and ....

This credit squeeze is not just a short term response to currency speculation. It will not abate until major restructuring has reduced the risk profile of banks. Addressing problem loans (or non performing loans) takes time, and not all governments have been quick to address the problem. China for example has issued bonds as a means of restructuring bank balance sheets to meet a nominal 8% capital adequacy target, but longer term write offs of bad debts

may be expected over several years. Indonesia has taken only limited steps so far to restructure the banking system, and so it seems likely that the squeeze will persist for at least another 18 months or longer. Japan's "big bang" may accelerate the process of restructuring, but it may take another 12 to 18 months before banks, especially those that mostly service SMEs, are in a position of strength again. In Korea, most of the banks are technically insolvent, and it will take at least 12 to 18 months to restructure. All this points to a prolonged credit squeeze which might last for 24 months or longer in total and which will affect all the SMEs in all the major economies in the region at the same time.

4. it threatens the longer term sustained entrepreneurial engine in the region.

The impact of a prolonged credit squeeze on SMEs and on their contribution to growth is hard to quantify, but there are two main effects likely.

First, there will be a sharp increase in company failures and a reduction in the total number of SMEs. In good conditions, about 30% of net job growth comes from increases in the number of SMEs. Under the present conditions there is unlikely to be any growth contributed from this source, and instead there will be net losses. The effect is likely to be immediate, but when conditions improve, and interest rates return to more normal levels, hopefully in 12 to 24 months time, this may be reversed fairly quickly.

Second, there will be a more delayed effect. The pool of SMEs will shrink, and the probability of fast growth firms emerging from the pool of SMEs will decline because those fast growth firms that do emerge will have more difficulty obtaining the necessary finance for growth, and will face higher opportunity costs of finance. Many Asian economies already suffer the problem of the "missing middle", so there are fewer SMEs that are potential candidates for fast growth than might be expected in more developed economies. About 70% of net job growth comes from about 5% to 10% of SMEs that are fast growth, and most of these have usually been in existence for five to eight years already. Not all of their contribution to growth will be lost immediately as a result of the credit squeeze; many existing fast growth firms are internationalized and can access other sources of finance (such as from international partners, from Nanyang societies etc), so their contribution will continue, albeit at a diminished level. However, the entrepreneurial engine seems to rely on a continual renewal process, and a whole generation of new fast growth firms are likely to be severely inhibited. Simulation studies of the entrepreneurial engine (Hall 1993) show that this sort of disruption can have a significant effect on the longer term growth contribution. In effect there will be a period of 24 to 36 months where entrepreneurs will not be able to grow businesses successfully, even where there are opportunities to do so. Many potential entrepreneurs will simply find the risk and opportunity cost of trying to fast-grow a business in Asia to be too high, and will seek alternatives. The main impact on growth may not be felt for another four of five years, or longer. This suggests that the recovery, when it does come, may be much less strong than Asia has been used to, unless something is done to address the problem now.

4. RESTRUCTURING FINANCE MARKETS FOR SMEs IN ASIA

What can be done to address the problem? Some serious attempts are now being made throughout Asia to restructure banking and prudential management systems. This restructuring is necessary and inevitable, but as shown above, the effect of it is to create a serious credit shortage for SMEs which may last for 24 to 36 months and may have even longer term consequences for the entrepreneurial engine in Asia. Solving one problem is possibly creating

another.

There are three broad options to deal with the problem facing the Asian entrepreneurial engine:

1. Try to accelerate bank restructuring so the problem does not drag on
The longer it takes to restructure banks and prudential systems in Asia the more serious is the likely long term impact on the entrepreneurial engine. It thus makes sense to try and restructure as quickly as possible. However, as shown in the table above, most of the major economies will not have achieved this restructuring inside 24 months and some are stretching it over much longer periods.

2. Try to reduce the undesirable effects of bank restructuring on SMEs
There are a number of ways that the more undesirable effects of credit squeeze could be attenuated, but this option leads to a dangerous slippery slope of special pleading for SMEs. For example, it has been a practice in some economies (Korea and to a lesser extent the Philippines) to reserve a quota proportion of bank credit for SMEs. Indonesia, under the latest reform package, is proposing special soft loans to SMEs to buy goods distributed via the State Logistics Agency (Bulog) and PT Goro. Such practices usually distort the markets and do not work effectively anyway.
However some suggestions that may be worth considering are to:

§ rescind arbitrary directives to banks which limit their ability to lend to SMEs, so that banks have some discretion based on risk and future performance of SME customers;

§ improve credit guarantee and loan guarantee systems to reduce the average risk profile of SMEs, thus allowing banks to lend without compromising their capital adequacy and prudential guidelines;

§ set up short term bridging loan facilities to be lent at commercial rates by financially secure banks, and possibly underwritten by government, for SMEs that cannot get working capital from their present banks.

3. Try to restructure and improve equity markets for SMEs.
There is not a lot of point restructuring debt markets unless efforts are also made to improve the efficiency of equity markets. This is a longer term process, but the current crisis provides a good opportunity to address the issue. Equity and financial markets *generally* need restructuring in Asia, for example to increase levels of disclosure, and transparency, to make it easier to take listed companies over, improve the depth of government and corporate bond markets etc. SMEs will benefit from these general moves, if and when they occur, but there are still likely to be market failures in those equity markets of relevance specifically to SMEs.

The main concern here is more with the middle range of equity markets, below that of listed companies, but above that of family businesses. There are several key options that could be pursued which would make equity capital markets more efficient from the standpoint of SMEs, especially the fast growing SMEs so crucial to the entrepreneurial engine:

1. *Encourage more SME FDI*. Recent research by UNCTAD (1998) shows that Foreign Direct Investment (FDI) by SMEs makes up only about 10% by value of FDI in the region, but there is considerable scope to increase it. SMEs from developed economies investing in promising

SMEs in Asia can bring benefits such as access to markets, technology, and management expertise, as well as access to capital. In the current credit squeeze, FDI is a very attractive proposition for fast growing SMEs in Asia, but it is not always encouraged by governments, and the SMEs that need it do not always understand how to get access to it.

2. *Encourage more regional venture capital markets*. Venture capitalists are essentially intermediators who draw on pools of funds and invest those funds in portfolios of promising fast growth SMEs. In most developed economies, the venture capitalist takes an equity stake and plays an important role in the strategic management and development of the enterprise. In most developed economies, especially the USA, such venture portfolios are dominated by high technology stocks. Such approaches are less common in Asia, partly because of a lack of venture management skills, partly because technology stocks are less common, and partly because of the lack of depth of national markets. What is needed is the development of a regional venture capital providers and markets suited to the fast growth firms in the region.

3. *Encourage informal equity markets*. The Nanyang societies have been an important source of funds for SMEs in Asia for many years. Typically they involve a group of people linked by ethnicity, family or close business connections. The group meets periodically, say monthly, and pools funds. One person then is selected to take the pooled funds and invest them in a business venture. At a national level these sort of informal processes should be encouraged. These informal processes usually work well, because they are based on trust, but as the region grows it will need more formalization of these processes.

4. *Encourage OTC markets*. Over The Counter, NASDAQ style, and Internet market places have emerged in developed economies as an important source of funds for companies which are at a size and potential that they need to go public. Such markets are underdeveloped in Asia, and are unlikely to work at a national level because the markets are still too small. International cooperation is needed to develop regional markets and regulatory frameworks.

5. *Encourage conformance and transparency in reporting*. One of the major problems is developing more efficient equity markets in Asia is a lack of accepted standards for reporting in a transparent way. Such standards need to be developed, and although they may remain voluntary, they would help reduce the effective costs of capital for those firms willing to comply with them.

5. CONCLUSION

Long term sustained growth in Asia will increasingly rely on the smooth operation of the entrepreneurial engine. The present credit squeeze has the potential to seriously disrupt longer term growth and competitiveness. The present squeeze is unusual in that it is affecting almost all 17 million SMEs in Asia at the same time, and is likely to continue for a prolonged period of 36 months or more. Dealing with the problem thus requires much more cooperation between governments in the region and international agencies (such as IMF, APEC, ASEAN etc) to:

§ acknowledge that there is a potential problem, and gain a better understanding of it;

§ examine ways to accelerate the restructuring of debt markets so as to bring an early end to the squeeze; and

§ take advantage of the current situation to lay the foundations for more efficient regional

equity markets, especially equity markets suited to the needs of fast growing SMEs that are central to the entrepreneurial engine.

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DECISION SUPPORT FOR PRICE MARKDOWN OF FASHION ITEMS JOHN WALKER

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ABSTRACT

Retailers of fashion items often face the problem of selling a fixed inventory over a short selling season. For a small retailer, with sunk investment in inventory, a major objective is revenue maximization. This paper is concerned with the provision of decision support for the tactical problem of dynamically marking down the price of fashion items in order to increase revenue. A heuristic procedure is developed for quickly identifying, and highlighting for review, fashion items, which are "slow selling" and "economically viable for price markdown". It is shown how a retailer can use such information in determining the timing and magnitude of price markdowns.

INTRODUCTION

Over the past three decades, an increasing number of fashion items have been sold on sale and at higher percentage price markdowns. Research on price markdown policies for fashion items has been undertaken by economists and operational researchers from a range of perspectives.

(Pashigan, 1988) and (Pashigan and Bowen, 1991) provide empirical evidence of the increasing use of price markdown policies (and also increasing initial percentage markups on the unit costs). One of the important reasons noted for these increases is the growing importance of styling and color. In an environment of increasing style and color diversity, a retailer faces corresponding increasing possibilities of pricing and demand forecast errors. Increasing use of price markdown policies is the result of this increasingly uncertain environment. (Wolfe, 1968) and (Feng and Gallego, 1995) consider the optimal timing of a single price change from a given initial unit price to a given lower second unit price. Both papers assume *known demand rates specific to the prices, prior to the start of the selling season*. The assumption is that these demand rates may be estimated by analogy to the sales history of similar fashion items sold in previous seasons. However, as noted above, demand forecasts prior to the start of the season include considerable uncertainty stemming in part from the nature of fashion items having a high degree of style and color content. It would seem, from the empirical evidence given by (Pashigan, 1988) and (Pashigan and Bowen,1991), that increasingly retailers are finding it difficult to determine the correct balance between the specification of the initial unit price, the associated demand forecast prior to the start of the season and subsequent sales. Consequently, in this paper a decision support system is developed for systematically and pragmatically reviewing the timing and magnitude of price markdowns over the season. A heuristic procedure is developed for quickly identifying, and highlighting for review, fashion items, that are "slow selling" and

"economically viable for price markdown". It is shown how a retailer can use such information in determining the timing and magnitude of price markdowns.

THE FASHION ITEM INVENTORY PROBLEM

The essential characteristics of the fashion item inventory problem considered in this paper are as follows.

A Short Selling Season

There is a relatively short selling season (8 to 12 weeks) usually with a well-defined beginning and end, e.g., spring, summer, autumn, winter seasons, particular sports seasons, etc. The end of the season, for a given class of fashion item, may be defined by a retailer as the point beyond which any units that are left in inventory will be considered obsolete and consequently have little disposal value.

A Single Purchase Order

There is a relatively long ordering lead-time (3 to 9 months). With the short selling season and long ordering lead-time, retailers, for all practical purposes, have to commit themselves to a single order to purchase or produce, prior to the start of the season. For example, (Gallego and van Ryzin,1994) describe a major New York fashion producer-retailer that designs, produces (via subcontractors) and sells fashion apparel through its own line of retail outlets.

The process of designing, production and delivery of the garments to the individual retail outlets takes from six to eight months to complete, yet the firm plans to "sell-through" the garments in as little as nine weeks. Similarly, in the case of retailers purchasing direct from trade vendors, the buyers normally review items presented by, and subsequently place orders with, the vendors at trade fashion shows. The trade fashion shows are normally held six to nine months prior to the start of the selling season.

Pre-Season Demand Uncertainty

Demand forecasts for fashion items have to be made many months prior to the start of the selling season. The choice of items involves a great deal of judgement, intuition and "feel for the market". The forecast of the demand for a chosen item is determined in part by analogy to the sales history of similar fashion items sold in previous seasons. Clearly, demand forecasts made prior to the start of the season include considerable uncertainty stemming from the nature of fashion items having a high degree of style and color content and compounded by the long period of inactivity (no sales) between the seasons and ordering lead-time. During these inactive periods, the economic conditions or style considerations may change considerably.

Subsequent High Demand

When the total demand in the season is greater than the inventory made available, sales are foregone and profits lost. With the short selling season and long ordering lead-time, retailers, for all practical purposes, have no re-supply option during the season. Also, once a price is quoted at the start of the season, retailers are normally reluctant to increase the price for fear of losing goodwill. As a result, initial unit prices are set with considerable markups, one reason being to achieve substantial revenues if the demand rates are greater than or equal to the forecasts. A second reason, of being able to allow for subsequent price markdowns, is discussed below.

Subsequent Low Demand

When the total demand in the season is less than the inventory made available, surplus inventory results. There are stocking costs in carrying surplus inventory over to the next appropriate season and, of course, there is no guarantee that such inventory, which may be obsolete, will sell in the new season. Therefore, the surplus inventory is normally disposed of at the end of the current season. However, the unit disposal values of surplus inventory at the end of the season is likely to be far below the unit costs and in many cases are considered to be zero. With the high initial markups noted above, retailers have the opportunity of marking down the unit prices during the season in the expectation of increasing demand. The timing of the price markdowns will depend on the amounts sold to-date and the expected sales over the remaining weeks of the season. Since the season is short it is essential for retailers to identify slow selling items and make decisions on price markdowns as quickly as possible, usually within the first three weeks of the season.

Revenue Maximization

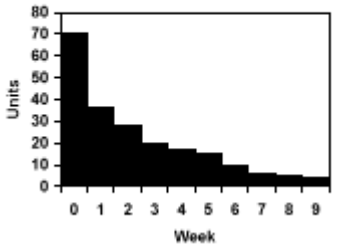
It is clear from the above discussion that after the initial receipt and display of an item, the purchase decision represents a sunk investment in inventory, and a retailer's main objective is revenue maximization. The major difficulty in considering an optimal price markdown policy for revenue maximization is the need for *accurate demand forecasts for different price levels prior to the start of the season*. It would seem, from the empirical evidence of (Pashigan, 1988) and (Pashigan and Bowen, 1991) that increasingly retailers are finding it difficult to determine the correct balance between the specification of the initial unit price, the associated demand forecasts prior to the start of the season and subsequent sales. Accordingly, in this paper, a heuristic procedure is developed for quickly making price markdown decisions. The heuristic is based upon actual inventory levels for the current unit price and has the limited objective of increasing revenue over the remaining weeks of the season above what would have been expected without a price markdown.

Empirical Analysis of Fashion Item Sales

(Wolfe, 1968) conducted an empirical analysis of fashion item sales in women's dress and sportswear departments. Figure 1 illustrates a typical "exponential" inventory level history of an item. (Wolfe, 1968) states that this type of exponential inventory level appears to fit most of the sales histories of fashion items. See also (Lilien, Kotler and

Moorthy,1992, pp. 464 -466).

Figure 1. Weekly Inventory Level



A HEURISTIC PROCEDURE FOR PRICE MARKDOWN

In outline the procedure may be stated in the following manner.

AT THE END OF EACH WEEK
IF (the item is identified as *slow selling*) THEN
IF (the item is identified as *economically viable for price markdown*) THEN
highlight the item for *review* of price markdown
ELSE
highlight the item for *review* of other possibilities
END IF
END IF

In order to make the procedure operational, it is necessary to introduce some notation, the inventory forecast model and to define the terms "*slow selling*", "*economically viable for price markdown*" and "*review*".

Notation and Inventory Forecast Model

n	=	The number of weeks in the selling season.
I_0	=	The initial inventory at the beginning of week 1.
j	=	The index of the week prior to the last price markdown, ($j = 0$ if no prior price markdown).
I_j	=	The inventory at the end of week j.
k	=	The index of the current week.
P_c	=	The current unit price.
F_c	=	The current inventory proportionality factor, $0 < F_c < 1$, associated with P_c.

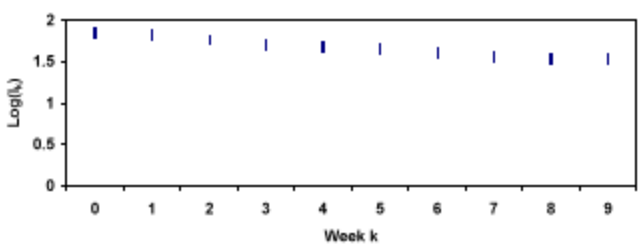
$$I_k = F_c^{k-j} I_j. \quad (1)$$

$$F_c = (I_k/I_j)^{1/(k-j)}. \quad (2)$$

$i(k,I_k,F,t)$ = The forecast for the inventory level at the end of week t given an inventory I_k at the end of week k and an inventory proportionality factor F.

$$i(k,I_k,F,t) = F^{t-k} I_k. \quad (3)$$

Figure 2. Inventory Proportionality Factor



The proposed heuristic procedure is based on the inventory forecast model given by Eq. 3. Eq. 1 provides a simple means of checking the assumption of a constant inventory proportionality factor F. Taking logs, a plot of log(Ik) against k-j should indicate a series of points with a near constant slope of log(Fc). Such a plot for the data of Figure 1 where j = 0 is illustrated in Figure 2. The assumption of a constant inventory proportionality factor appears to be reasonable.

Dynamic Definition of Slow Selling

The dynamic definition of a slow selling item is one such that at the end of week k, with inventory Ik and inventory proportionality factor Fc, the forecast for the inventory level at the end of the season is greater than a retailer desired upper bound for ending inventory, i*kn. A retailer's choice of i*kn will depend partly upon the sales history of similar fashion items sold in previous seasons. Also in the current season upon considerations of the cumulative profit contributions of units sold by the end of week k and required budgeted contribution to profits for the season. Thus, if at the end of week k: i(k,Ik,Fc,n) > i*kn
then the item is defined as a slow selling item and, therefore, highlighted for review.

Dynamic Definition of Economically Viable for Price Markdown

The dynamic definition of an item that is economically viable for price markdown is one such that at the end of week k, the forecast of revenue over the remaining n-k weeks of the season, given a unit price markdown, is greater than or equal to that given by the current unit price. In considering the price markdown, the unit disposal value for surplus inventory at the end of the season is considered to be negligible. The effect of the unit price markdown from Pc to Pm is to change (hopefully decrease!) the current inventory proportionality factor from Fc to some implicit, but unknown, Fm.
Let r(k,Ik,P,F,t) denote the forecast for revenue over weeks k+1, ..., t given an inventory Ik at the end of week k, a unit price P and an inventory proportionality factor F.

$$r(k,I_k,P,F,t) = P[I_k - i(k,I_k,F,t)]. \quad (4)$$

In order for an item to be defined as being economically viable for price markdown:

$$r(k,I_k,P_m,F_m,n) \geq r(k,I_k,P_c,F_c,n).$$

Using Eq. 4: $$P_m[I_k - i(k,I_k,F_m,n)] \geq P_c[I_k - i(k,I_k,F_c,n)].$$

Using Eq. 3: $$P_m[I_k - F_m^{n-k}I_k] \geq P_c[I_k - F_c^{n-k}I_k].$$

$$1 - F_m^{n-k} \geq (1 - F_c^{n-k})/(P_m/P_c).$$

Note that if $P_m/P_c \leq 1-F_c^{n-k}$, a "break-even" inventory proportionality factor for the given fractional markdown P_m/P_c does not exist. Assuming that $P_m/P_c > 1-F_c^{n-k}$ then:

$$F_m \leq \left[1 - \frac{1 - F_c^{n-k}}{P_m/P_c}\right]^{1/(n-k)}.$$

$$\frac{1 - F_m}{1 - F_c} \geq \frac{1 - \left[1 - \frac{1 - F_c^{n-k}}{P_m/P_c}\right]^{1/(n-k)}}{1 - F_c}. \quad (5)$$

Let $\rho(k,I_k,F_m,F_c)$ denote the ratio of the forecast of sales (sales with a price markdown/sales without a price markdown) for the forthcoming week k+1.

Using Eq. 3: $$\rho(k,I_k,F_m,F_c) = \frac{I_k - F_m I_k}{I_k - F_c I_k} = \frac{1 - F_m}{1 - F_c}. \quad (6)$$

Let $\sigma(n,k,F_c,P_m/P_c)$ denote a lower bound on $\rho(k,I_k,F_m,F_c)$ necessary for

$$r(k,I_k,P_m,F_m,n) \geq r(k,I_k,P_c,F_c,n).$$

From Eq. 5: $$\sigma(n,k,F_c,P_m/P_c) = \frac{1 - \left[1 - \frac{1 - F_c^{n-k}}{P_m/P_c}\right]^{1/(n-k)}}{1 - F_c}.$$

Eq. 5 can now be rewritten:

$$\rho(k,I_k,F_m,F_c) \geq \sigma(n,k,F_c,P_m/P_c). \quad (7)$$

A retailer's judgement and "feel for the current market" can now be utilized in the following manner.

"For a proposed price markdown from Pc to Pm, do you believe sales next week with the price markdown would be at least **s**(n,k,Fc,Pm/Pc) times greater than that without the price markdown".

If so, then the item is defined as being economically viable for a price markdown and,

therefore, highlighted for review.

Note that the inventory proportionality factor Fc can be estimated from Eq. 2 and if an estimate of Fm could be provided then the identification of an economically viable item could be carried out using Eq. 6 and Eq. 7. If records are kept of the details of price markdowns of similar items in previous seasons it may be possible to build regression relationships to predict the inventory proportionality factor. Such predictions could be used to support a retailer in the estimate of the sales ratio for the new fashion item in the current season.

Review Of Markdown And Other Possibilities

The heuristic procedure outlined above allows the quick identification of items that are slow selling and economically viable for a price markdown. However, there are circumstances when a retailer may decide not to implement a price markdown. For example, if a slow mover is identified sufficiently early in the season it may be possible to exchange or return the item to the vendor. Also, the procedure allows for the sequential price markdown of slow selling items. That is, when increased sales achieved by earlier price markdowns are not sufficient to remove the slow mover status in later weeks. Yet, a retailer may prefer a more stable policy of two price markdowns, one mid-season and one end of season clearance sale. The use of the lower bound sales ratio could be used to assess the viability of the proposed price markdown at the mid-season sale.

The heuristic procedure outlined above also allows the quick identification of items that are slow selling but not economically viable for price markdown. Again it may be possible, if the item is identified sufficiently early in the season, to exchange or return the item to the vendor.

If a return or exchange is not possible a retailer may consider other possibilities, e.g., do nothing until the end of the season; announce an immediate clearance sale with substantial price markdown, promotional advertising, increased display; etc.

In both cases, the use of the procedure in quickly identifying slow sellers provides the basis for rationalizing review decisions.

NO PRIOR PRICE MARKDOWN

In this section specialized results are given for case where there has been no prior price markdown, i.e. j = 0.

Definition of Slow Selling

In this case the definition of a slow selling item is redefined. Let f(k,Ik,Fc,I0,n) denote the forecast for the inventory level (expressed as a fraction of initial inventory I0) at the end of week n, given an inventory level Ik at the end of week k and an inventory proportionality factor Fc. A slow selling item is one such that at the end of week k, with

fractional inventory Ik/I0,the forecast for the fractional inventory at the end of the season is greater than a retailer desired upper bound for ending inventory, f*n. Thus:

For a slow seller: $f(k,I_k,F_c,I_0,n) > f^*_n$.

Using Eq. 3: $F_c^{n-k}(I_k/I_0) > f^*_n$.

Using Eq. 2: $(I_k/I_0)^{(n-k)/k}(I_k/I_0) > f^*_n$.

$$(I_k/I_0)^{n/k} > f^*_n.$$

$$I_k/I_0 > f^{*\,k/n}_n.$$

Let $\gamma(k,n,f^*_n) = f^{*\,k/n}_n$ denote a lower bound on the fractional inventory at the end of the week k necessary for an item to be classified as a slow seller. Thus, if at the end of week k:

$$I_k/I_0 > \gamma(k,n,f^*_n)$$

then the item is defined as a slow selling item and, therefore, highlighted for review.

Table 1 tabulates $\gamma(k,n,f^*_n)$ for n = 12, a range of values of f^*_{12} and k = 1, 2 and 3.

Table 1. Lower Bounds on I_k/I_0 for Slow Sellers

k	f^*_{12}								
	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9
1	0.83	0.87	0.90	0.93	0.94	0.96	0.97	0.98	0.99
2	0.68	0.76	0.82	0.86	0.89	0.92	0.94	0.96	0.98
3	0.56	0.67	0.74	0.80	0.84	0.88	0.91	0.95	0.97

Example 1 A retailer defines a slow seller such that f*12 = 0.30. Then any item with fractional inventory greater than or equal to 0.90, 0.82 and 0.74 at the end of weeks 11, 2 and 3 respectively is identified as a slow seller.

Definition of Economically Viable for Price Markdown

From Eq. 7 and using Eq.2:

$$\sigma(n,k,F_c,P_m/P_c) = \frac{1-\left[1-\dfrac{1-(I_k/I_0)^{(n-k)/k}}{P_m/P_c}\right]^{1/(n-k)}}{1-(I_k/I_0)^{1/k}}.$$

Table 2 tabulates **s**(12,k,Fc,Pm/Pc) for a range of values of Ik/I0, k = 1, 2, 3 and fractional price markdown Pm/Pc = 0.90, 0.75, 0.50. The range of Ik/I0 covers the lower bound fractional inventory indicated in Table 1 for defining slow selling items within the first three weeks of the season. Similar tables could be constructed to allow considerations of price markdown viability at the end of weeks 4, 5, ..., 11 as the season progresses.

Example 2 Consider the slow selling items identified in Example 1.

For a fractional inventory of 0.90 at the end of week 1 there is no break-even sales ratio in week 2 for a price reduction of 50%. For a 25% (10%) price reduction a break-even sales ratio of 2.01 (1.22) is required in week 2.

For a fractional inventory of 0.82 at the end of week 2 there is no break-even sales ratio

in week 2 for a price reduction of 50%. For a 25% (10%) price reduction a break-even sales ratio of 1.77 (1.20) is required in week 3.

For a fractional inventory of 0.74 at the end of week 3 there is no break-even sales ratio in week 2 for a price reduction of 50%. For a 25% (10%) price reduction a break-even sales ratio of 1.68 (1.19) is required in week 4.

CONCLUSIONS

A heuristic procedure has been developed for supporting retailers in dynamically marking down the price of fashion items in order to increase revenue. The procedure quickly identifies, and highlights for review, items that are slow selling and economically viable for a price markdown. The incorporation of the procedure in a retailer's point-of-sale information system would allow a database and analysis of the inventory proportionality factor ratios of similar items to be maintained. Computer prediction of the inventory proportionality factor ratio could support a retailer's "feel for the current market" in estimating the current sales forecast ratio for determining the economic viability of a price markdown.

Table 2. Lower Bound on Sales Ratio for Forthcoming Week k+1*

	k								
	1			2			3		
	P_m/P_c			P_m/P_c			P_m/P_c		
I_k/I_0	0.50	0.75	0.90	0.50	0.75	0.90	0.50	0.75	0.90
0.70						1.39		1.85	1.21
0.71						1.36		1.80	1.20
0.72						1.34		1.75	1.20
0.73						1.32		1.71	1.19
0.74						1.30		1.68	1.19
0.75						1.28		1.65	1.18
0.76					3.23	1.26		1.62	1.18
0.77					2.46	1.25		1.60	1.17
0.78					2.20	1.24		1.58	1.17
0.79					2.03	1.23		1.56	1.16
0.80					1.92	1.22	4.73	1.54	1.16
0.81					1.84	1.21	3.90	1.52	1.16
0.82			1.78		1.77	1.20	3.49	1.51	1.15
0.83			1.58		1.71	1.19	3.22	1.49	1.15
0.84			1.47		1.66	1.18	3.02	1.48	1.15
0.85			1.40		1.62	1.18	2.87	1.46	1.14
0.86			1.35		1.59	1.17	2.75	1.45	1.14
0.87			1.31		1.56	1.16	2.64	1.44	1.14
0.88			1.27	4.06	1.53	1.16	2.55	1.43	1.14
0.89		2.36	1.25	3.41	1.50	1.15	2.48	1.42	1.13
0.90		2.01	1.22	3.06	1.48	1.15	2.41	1.41	1.13
0.91		1.82	1.21	2.83	1.46	1.14	2.35	1.40	1.13
0.92		1.70	1.19	2.65	1.44	1.14	2.29	1.39	1.13
0.93		1.62	1.18	2.51	1.42	1.13	2.25	1.38	1.12
0.94	5.47	1.55	1.16	2.40	1.41	1.13	2.20	1.37	1.12
0.95	3.30	1.50	1.15	2.31	1.39	1.13	2.16	1.37	1.12
0.96	2.76	1.45	1.14	2.23	1.38	1.12	2.12	1.36	1.12
0.97	2.46	1.42	1.13	2.16	1.37	1.12	2.09	1.35	1.12
0.98	2.26	1.38	1,12	2.10	1.35	1,12	2.06	1.35	1.11
0.99	2.11	1.36	1.12	2.05	1.34	1.11	2.03	1.34	1.11

* A blank entry indicates that no lower bound exists, i.e. no break-even sales ratio

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AN EXPLORATORY STUDY OF HOW RURAL FEMALE ENTREPRENEURS VIEW SUCCESS

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ABSTRACT

Previous studies examined the gender differences of entrepreneurs regarding performance, goals, and management practices and found mixed results. In particular, researchers examined why women start their own business and how these women view success. This research builds upon past work by examining this topic among female entrepreneurs operating business in an economically depressed rural area. Results from logistic regression suggested that female entrepreneurs who had business training were more likely to define the success in business as financial. Female entrepreneurs who invested more money in their business startup were more likely to define the success as personal rewards and/or satisfaction.

INTRODUCTION

Recent studies investigating women's entrepreneurial motivation sought to explain women's view on success in business (Buttner and Moore, 1997). These studies suggested that motivation can determine the entrepreneurial priorities and the direction of firm growth. Investigation of women's self-reported definition of success in business and entrepreneurial initiatives is the first step in providing insights into women's views on the subject. Some information is available about female's view of business success. However, these studies focused on a somewhat well-educated and urban sample (Loscocco et al., 1991; Taylor, 1988). These females are more likely to access to business training than those who are in rural area. Recent studies on self-employment in entrepreneurial ventures have focused on contributions of self-employment and entrepreneurial ventures to developing rural economies (O'Malley, 1994; Miller, 1991; Lin et al., 1990; Wartman, 1990).

Little attention has been paid to self-employment activities receive from their communities in rural areas by minorities, females, and the disadvantaged (Loker et al., 1995). More needs to be known about rural female's perception of success because the role of entrepreneurship plays in providing these women an entry into the market economy and sometimes the only viable economic means of earning a livelihood (Rosa and Hamilton, 1994).

During 1980s, the number of self-employed females increased five times faster than the number of self-employed males and three times faster than the number of female employees

(working for others). Successful female owned businesses make up about 26% of all U.S. businesses yet only 4.5% of total businesses receipts (U.S. SBA, 1994). Several studies focusing on females have pointed out that small business owed by females is not as economically successful as those owed and operated by males (Loscocco et al., 1991). This could explain the discrepancy between the percentage of female owned business and their percentage of earnings.

Females own about 26% of all businesses in the US, with one out of every four American workers employed by a female-owned business (NFWBO, 1996). However, the female owned business contributes only 4.5% of the total business receipts. Although the percentageof the national GDP receipts from these businesses is lower than their number relative to all other businesses, the number of females engaging in self-employment and entrepreneurial activities is growing. A study conducted by the National Foundation for Women Business Owners revealed that females currently own 7.95 million companies across the nation, with a 78% growth rate since 1987 (as compared to a 47% increase for all U.S. firms). However, and perhaps not surprisingly, the majority (52%) of female-owned businesses nationally is in the service sector. Traditionally that is one of the lowest-paying industrial sectors and one in which female labor tends to be concentrated. There also has been “explosive growth” in some nontraditional industries – e.g. the number of female-owned construction companies rose 171% between 1987 and 1996. But the fact remains that female businesses are in less profitable industries and occupations (Bureau of Census, 1992; NFWBO, 1996). Perhaps, reasons for this concentration of female businesses in the less profitable industries can be attributed to the need for large amounts of capital expenditures when starting up these new businesses, and or limited work experience of the owners.

Questions arising are “do female entrepreneurs define success in non-financial terms?” and “what are the factors that influence their definitions?” To answer these questions, the objective of this study is to investigate how female entrepreneurs define success and evaluate the factors that influence their definitions. Specifically this study will delineate the definition of success into financial and non-financial and evaluate the factors that influence that distinction.

LITERATURE REVIEW

Most of previous studies used an economic perspectives (e.g., size of the business, change in profits and income) to estimate the success in business (Loscocco et al., 1991). Based on the objective measures of success, previous studies reported mixed results regarding gender differences (Buttner and Rosen, 1992; Pellegrino and Reece, 1982; Schwartz, 1979; Fabowale et al., 1995). Several recent studies have noted that the literature on entrepreneurship in general is quite fragmented. Also, that additional research should include the business owner's views of success, as well as both the environmental and personal factors that influence individual females' decisions to engage in entrepreneurial activities (Gnyawali and Fogel, 1994; Boyd and Vozikis, 1994; Dolinsky et al., 1994). The literature review that follows is organized to describe reasons why females engage in entrepreneurial activities, definitions of business success, and attitudes and socio-demographics information associated with successful entrepreneurs.

Why Females Engage in Entrepreneurial Activities

Entrepreneurial motivation differs by gender. Females face different situations in the workplace environments that motive them to start a business. Liou and Aldrich (1995) claim

discrimination, segregation, and institutionalized barriers cause differences in business opportunities for male sand females. The “glass ceiling” that women presumably face is well documented (Good for Business, 1995). Fisher et al.(1993) argues that social factors, including family obligations, limit opportunities for women. Some previous studies examined the relationship of various variables such as limited advancement opportunities, job frustration, personal achievement and role conflict between family and work on entrepreneurial motivation. These studies found that women's motivations differ from those of men regarding the relationship between entrepreneurial motivation and success measures including women's views on business success (Buttner and Moore, 1997).

From the sample of 129 women executives and professionals, Buttner and Moore (1997) examined the reasons why they leave large organizations to become entrepreneurs and how they view success. Female entrepreneurs rated in the study self-fulfillment as the most important measure of success, followed by achievement of their goals. And traditional economic measures of business performance found in the entrepreneurship literature, including profits and growth, were rated third and fourth respectively among six measures. These findings suggested that something beyond economic gain motivate females to start and operate businesses.

Taylor (1988) identified various reasons that females engage in entrepreneurial activities. The reasons were: traumatic events such as being fired from or losing a job; boredom with a current job; change in personal circumstances such as divorce or pregnancy; a growing need for financial independence; and desire for new professional challenges. The sample for this study primarily consisted of females with fairly financially secure and educated backgrounds. Buttner (1993) described the socio-demographic profile of female entrepreneurs as middle-upper class, married with children, and 30-45 years of age at start-up.

Definitions of Business Success

Most of previous studies measured success in business by employing only economic perspective (Loscocco et al., 1991; Loscocco and Leicht, 1993). Loscocco et al. (1991) compared factors affecting female and male success in business by including the structural and personal factors. They measured business success by estimating the profitability as indexed by sales volume and personal income as a result of business revenues. They found that male-owned businesses tended to generate two and one half times the sales volume as do female-owned business.

Using the Schein Descriptive Index on dimensions of leadership autonomy, risk taking, readiness for change, endurance, and levels of emotionalism, Buttner and Rosen (1992) examined the characteristics of successful entrepreneurs to determine whether or not female business owners were perceived in terms of similar those describing male business owners. They estimated the success based on the external perceptions of success, and did not include the business owners' own view of success. They found that characteristics, such as leadership, risk taking, readiness for change, endurance, attributed to successful entrepreneurs more often were ascribed to men than to women.

Some of recent studies focused on the relationship between entrepreneurial motivation and success in business employed various definitions for estimating the success in business. Buttner and Moore (1997) employed both economic aspects (business performance, and profits and growth) and personal aspects (self-fulfillment, achievement the goals, balance

between family and work, and social contribution) to measure the entrepreneurial motivation and success in businesses.

Attitudes and Socio-demographic Information Associated with Successful Entrepreneurs.

Previous experience and job training

Loscocco and Leicht (1993) examined both business and individual characteristics in relationship to male and female earnings, and found that male business owners were more likely to success in business in terms of business size. Based on their findings, Loscocco and Leicht concluded that females typically had less human capital and relevant work experience than did males. Loscocco et al.(1991) found that females' relative lack of business experience and/or training was related to gender discrepancies in financial success of male and female-owned businesses.

Support from the communities and family

Fabowale et al.(1995) focused on the relationship between the credit terms and gender differences to explain the gender differences in credit terms in banks. Loker et al. (1995) examined the length of living in a particular community, zoning residential restrictions, and traffic variables to explain the role of local communities vis-a-vis entrepreneurial activities. They found that when communities had adequate services and fairly stable economies, individuals might be more inclined to start their own businesses. Their research did not ascertain whether or not community approval was incorporate into definition of business success. Other factors were identified as determinants of success for female business owners. They included adequate initial capital, usually from family, friends or personal savings (Pellegrino and Reece, 1982; Schwartz, 1979); supportive government policies and favorable socioeconomic conditions (Gnyawali and Fogel, 1994); support from family and local communities (Kao, 1993; Mokry, 1988; Vesper, 1990).

Socio-demographic characteristics

Some of previous studies on success in business employed socio-demographic variables to compare the characteristics of male entrepreneurs and female entrepreneurs. They found that while females were more likely than males to be single, female were less likely to be educated than males (Loscocco and Leicht, 1993; Scherer et al., 1990). Some of studies used socio-demographic variables to control the model, and focused on the relationship between the attitudes, such as motivation, business training, and personal experience, and success in business (Buttner and Moore, 1997).

CONCEPTUAL MODEL

The conceptual model for this study is based on the relationship between entrepreneurial motivation, previous experiences, and business training and success in business, as seen in Figure 1. Each individual entrepreneur has different view of success in business depending on his or her entrepreneurial motivation. The motivation is influenced by family background, previous personal experiences with running a business, experiences with having (or participating) a business training, and socio-demographic and attitudes characteristics. Based on the entrepreneur motivation, experiences and business training, each entrepreneur can

have different attitudes toward running a business. The attitude

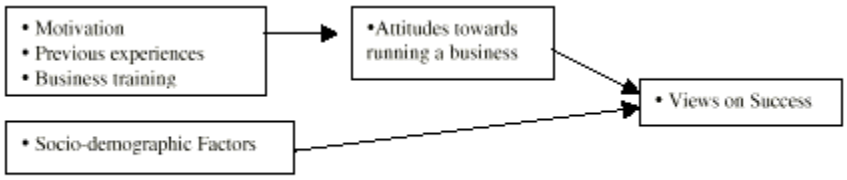

Figure 1. Conceptual Model for This Study

variables as intermediate variables are influenced by entrepreneurial motivation, previous personal experiences, and experiences with having (or participating) a business training and affect the view of success. Through this process, each individual female entrepreneur will have different view on success in business. In this study, socio-demographic factors include age, education, and marital status. The entrepreneur motivation is measured by asking “What was the major reason that you started a business?” The previous experience is measured by asking whether or not the female entrepreneur ran the business before current business, but not included in this analysis because of small sample size. The experience of business training is estimated by asking “Did you have any business training that helped you establish your business? If so, where did you get the training?” The attitudes towards running a business can be measured by using variables asking about whether or not they borrowed money from bank, government, or family or friends/relatives, and whether or not they have any female entrepreneurs as role models. Because of missing response, the source of invested money of starting-up is not used, instead invested amount in starting-up is included in this analysis.

RESEARCH METHODOLOGY

Data and Sample

Preliminary data on the essential variables for successful entrepreneurship were collected from four focus groups in the northeastern part of Vermont (referred to as the “Northeast Kingdom”). Identified as the most rural state in the U.S., Vermont has a high incidence of poverty of 12.6% in 1995 (Center on Hunger, Poverty and Nutrition Policies, 1996), one that is especially prevalent among females and in more rural areas. The “Northeast Kingdom” is the most economically depressed area in Vermont.

To conduct the exploratory study on the variables that are essential for rural female entrepreneurial success, focus group interviews were used to assess the respondents' motivation to start their businesses and their beliefs about how they perceived success as well as what programs and institutions contributed to their success. The focus group interview format allowed the participants to interact and discuss the concepts and issues in depth. The focus groups were randomly selected from a list of female entrepreneurs purchased from Dun and Bradstreet. The population of our focus group study consisted of the registered female businesses in northeastern Vermont. The region, called the Northeast Kingdom, consists of three counties: Caledonia, Essex, and Orleans. The sample was drawn from the list of females who own their own business in the region. The list was sorted by towns geographically surrounding the four focus group locations. From the list, each third name was called and asked if she started her business. Those who started their business and accepted our request participated in the focus group located nearest to their business. The sample size of focus group was 25.

Based on the review of the literature, the following questions were included in our focus group study: (1) What was the major reason that you started a business? (2) How would you define business success? (3) How did your family background influence your decision to start a business? (4) Did you have any business training that helped you establish your business? If so, where did you get the training?

Methodology

A logit model was employed in order to identify effects of demographic and business characteristics on the definition of success. Suppose that yi* and Xi have a linear relationship

$$yi^* = Xi\,\beta + ei, \quad (1)$$

where yi* is a latent variable indicating entrepreneur i's preference for defining success in business, Xi is a vector of individual characteristics that affect defining success, β is a parameter vector to be estimated, and ei is an error term that denotes an unexplained part of the behavior.

Since yi* is not observable, it is necessary to introduce a binary variable, yi, as yi = 1 if yi*>0, i.e., entrepreneur i define success as personal reward/satisfaction= 0 otherwise, (2) which is observed from the survey how female entrepreneurs define success in business.

When the error term, ei, is assumed to have the logistic distribution, i.e.,

$$\text{Prob}[y_i = 1] = \text{Prob}[X_i\,\beta + \varepsilon_i > 0] = \frac{\exp(X_i\beta)}{1+\exp(X_i\beta)} = \Lambda(X_i\beta), \quad (3)$$

where L(.) denotes the logistic cumulative distribution function, the model with a binary dependent variable becomes the logit model. Then the parameter vector, b, can be estimated by maximizing the log-likelihood function

$$\ln L = \sum [y_i \ln \Lambda(X_i\beta) + (1 - y_i) \ln(1-\Lambda(X_i\beta))]. \quad (4)$$

The predicted probabilities of defining success as personal reward can be defined as

$$E[y_i|X_i] = \frac{\exp(X_i\beta)}{1+\exp(X_i\beta)} = \Lambda(X_i\beta) \quad (5)$$

(Maddala, 1988) and estimates of the parameter vector b show the direction that corresponding independent variables affect the probability.

Variables

Dependent variable

Female entrepreneurs in the focus group were asked: “How would you define business success?” Females in the focus group reported first two definitions of business success as “personal rewards and satisfaction,” and “economic self-sufficiency or independence.” Additional definitions included “satisfying customer needs,” “having a growing business,”

Table 1. Description of Variables

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Variables	Description
Dependent variable	
Success	Dichotomous, 1 if defined as personal rewards and/or satisfaction, 0 if defined as financial
Independent variables	
Age	Dichotomous, 1 if age between 40 and 59, 0 if age less than 40 or age greater than 59
Education	Dichotomous, 1 if college graduate and more than college graduate, 0 if less than high school, high school graduate, college drop-out
Marital status	Dichotomous, 1 if married; 0 if otherwise
Business training	Dichotomous, 1 if have an experience of business training; 0 if not
Role models	Dichotomous, 1 if have any female entrepreneurs as role models; 0 if not
Major reason to start-up business	Dichotomous, 1 if major reason is external; 0 if major reason is internal or others
Invested amount of start-up	Dollar amount
No response on invested amount	Dichotomous, 1 if not responded; 0 if responded

and “developing and producing a quality product or service.” Dependent variable for the analysis is coded as 1 if female entrepreneurs view success as personal reward and/or satisfaction (e.g., personal rewards and satisfaction, satisfying customer needs, developing and producing a quality product or service) and 0 if they view success as financial (e.g., economic self-sufficiency, having a growing business).

Independent variables

Independent variables are categorized into two groups: business related factors anddemographic factors. Demographic factors include age, education and marital status. Business related factors included: (1) what was the major reason that you started a business? (2) Did you have nay business training that helped you establish your business? (3) Do you have any female entrepreneurs as role models? (4) How much money did you invest on your business when you start up the business? The major reasons of starting the business are created as dichotomous variable, 1 if reason is external reason such as job loss, and financial needs, 0 if reason is internal such as not satisfied with previous job, balance between work and family. Table 1 summarizes the description of dependent and independent variables.

RESULTS

Characteristics of the Sample

Using the information from focus group interviews, this study investigated the female entrepreneurs' demographic characteristics, self-reported major reason to start up the business and how they viewed success. The respondents' definitions of success were categorized as primarily financial or primarily personal rewards and/or satisfaction. Results from the study suggested that female entrepreneurs who defined success in business as primarily financial were younger (44.8) than females who defined success as primarily personal rewards and/or satisfaction (48.1). Females who preferred a financial definition of success had less education and were less likely to be married than females who preferred a personal rewards and/or satisfaction definition of success. Among females who defined success in business as financial, about one-third of the women started their business because of potential income generation or as a result of job loss. Table 2 presents the descriptive

statistics for sample.

Factors relating to view success in business as personal reward and/or satisfaction

Estimates of the logit model were shown in Table 3. The first column showed estimates of coefficients in the model and the last column showed significance levels (p-value). And the F-test statistics, on the last row, measuring of goodness-of-fit and correct predicted rate (concordant) indicated that the model of success in business was well fitted to the sample. As seen in the table, two independent variables were significant. Results from logistic regression suggested that female entrepreneurs who had business training were more likely to define the success in business as financial. Female entrepreneurs who invested more money in their business startup were more likely to define the success as personal rewards and/or satisfaction.

DISCUSSION AND CONCLUSIONS

Results from this preliminary study of rural female entrepreneurs' definition of business success present some interesting findings. First of all, the description of females preferring

Table 2. Descriptive Statistics for Total Focus Group and Dichotomized Sample by Success in Business

Variables	Total sample (N=25)	Financial Success (N=8)	Personal reward/or Satisfaction (N=17)
Age			
Age less than 40	32.0%	37.5%	29.4%
Age between 40 and 59	56.0%	62.5%	52.9%
Age greater than 59	12.0%	0.0%	17.6%
Education			
College graduate and more	48.0%	37.5%	52.9%
Others	52.0%	62.5%	47.1%
Marital status			
Married	68.0%	62.5%	70.6%
Other	32.0%	37.5%	29.4%
Business training			
Yes	48.0%	75.0%	35.3%
No	52.0%	25.0%	64.7%
Role models			
Yes	48.0%	25.0%	58.8%
No	52.0%	75.0%	41.2%
Major reason to start-up business			
External reason	28.0%	37.5%	23.5%
Internal reason	52.0%	62.5%	47.1%
Other reason	20.0%	0.0%	29.4%
Invested amount of staring points	$5,180.0 (12,250)	$7,812.5 (11,910)	$4,867.6 (12,652.2)
No response on initial amount	68.0%	62.5%	70.6%

Standard deviations in parentheses.

Table 3. The Estimated Results of Logit Analysis for Success in Business (N=25)

	Estimated coefficient	Standard errors	Sig. level	
Age (between 40 and 59)	-7.3952	4.8261	0.12	
Education (College graduate and more than college)	-6.1771	4.2608	0.14	
Married	5.5565	3.6529	0.12	
Business Training	-7.7232	4.2248	0.06	*
Role Models	4.7988	3.1760	0.13	
Major Reason to Start-up a Business (If external)	0.8999	1.9068	0.63	
Invested amount of start-up	0.2714	0.1696	0.10	*
No Response on the invested amount of starting-up	12.0923	7.9747	0.12	
Constant	-3.4468	3.8519	0.37	
Model Chi-square	14.085		0.07	
Correct predicted rate (concordant)	89.7%			

* P< .10.

a financial definition of success as younger (44.8) than those (48.1) preferring a personal rewards and/ or satisfaction definition of success was consistent with Butter's (1993) socio-demographic age profile. The result that those who preferred a financial definition of success were less likely to be married than those who preferred a personal rewards and/ or satisfaction definition of success was inconsistent with Butter's description but supports Loscocco and Leicht (1993) finding that single female heads of household faced greater pressure to generate higher incomes than females in other family structures. Additionally the fact that approximately one-third of females preferring the financial definition of success started their business to generate income and or replace income from a job loss supports the reasons Taylor (1988) identified as why females engage in entrepreneurial activities.

Regarding the results of the logistic regression analysis, two variables were associated with defining business success as financial. The variables were (1) the amount of business training and (2) money invested in the business. The identification of a greater the amount of business training as a significant predictor of a financial success definition is consistent with the results of the Loscocco et al. (1991) study that found lack of business experience was related to gender discrepancies in financial success. Thus, with proper entrepreneurial training females are able to view business success as financially rewarding. The identification of more invested money in business start-up as a significant predictor of a personal rewards and/or satisfactionsuccess definition. This result is not consistent with the findings of Pellegrino and Reece's (1982) and Schwartz's (1979). They found that the adequate start-up capital could be a determinant of business success.

Results from this pilot study of rural female entrepreneurs' have indicated that females view business success as either financial or personal reward and/or satisfaction. Additional research is required to determine if these definitions change over time and how they impact business survival rates.

Moreover, findings from this study argue that business training encourage females to view their businesses as financially successful. This suggests that entrepreneurship training targeted towards females may increase their ability to create and perceive financial success in their businesses.

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CHARACTERISTICS OF ETHNIC WOMEN ENTREPRENEURS IN AUSTRALIA

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ABSTRACT:

The past decade showed that women owned businesses made a significant contribution to the Australian economy with *approximately 10-15 percent of output in Australia, around half of private sector employment, and 20% of net employment.* There has been little detailed research into the female business ownership in Australia and virtually no research into the ethnic-women business until the late 1980's, although the number of self employed ethnic women have increased at a faster rate than men and are more successful than men. It may be quite pertinent to say that gender aspects of small business relating to women as (a) employers or self employed, (b) partners in family businesses, or (c) spouses of the owners of male owned businesses, have not been given the attention that they deserve in Australia's literature on small business.

The experience of ethnic entrepreneurial women is relatively a new area for business research in Australia. With substantial growth in the number of ethnic women-entrepreneurs a research investigation was carried out to identify the factors and characteristics associated with their emergence and success in small business across different cultural backgrounds.

This empirical paper contributes to the understanding of the position of ethnic women with regard to small business. It focuses on the background of ethnic women entrepreneurs and their emergence and entry into the small business.

This paper concludes that increasing number of ethnic women in Australia are minding their own business and the figures show that the women are starting businesses at a greater rate than men, and make up a third of the small business proprietor force. The women entrepreneurs showed greater satisfaction than their male counterparts, had unique strategies, leadership skills and talents. Australian ethnic business women are in their 30's and 40's, have children, put their own savings into the business, take out modest bank loans, and feel that they are weakest on finance and marketing skills and strongest in the area of dealing with people. Culture, family and ethnic ties were important to 90% of the ethnic women in small business. Businesses owned by women are open for fewer hours, report a lower turnover and find it harder to make a profit than male owned businesses. About 50% started with $25000 or less and a third got by with $5000 or less. The findings of the research indicate that the women-owned businesses show more success than failures. Lack of confidence was the ethnic women's biggest starter hurdle, followed by money, location, and business information problems. But once established they loved being their own bosses because of the satisfaction of being independent. They had high level of pride in their achievement being solely responsible for their business outcome.

INTRODUCTION

It has been predicted that women in small business will outnumber their male counterparts by

the year 2000 (Employment, 1994 & Australian, 1996). There is, therefore, apparent enthusiasm among researchers with regard to the potential economic contribution of small business owned by women. However, much of the confidence and rhetoric surrounding women in small business rests on largely untested assumptions about the nature of growth in the sector, the nature of barriers which constrain small business women and the advantages small business offers to women namely, flexibility, financial independence and security. The trend for increasing feminization of Australiansmall business is evident in the Australian Bureau of Statistics data which shows that the number of women who own a business is increasing at three times the rate for men. The most rapid growth of women in business was in the construction, community services and business services industry, although there was a slight decline in the retail and wholesale sectors. (Department, 1991).

The past decade showed that women owned businesses made a significant contribution to the Australian economy with *approximately 10-15 percent of output in Australia, around half of private sector employment, and 20% of net employment.* There has been little detailed research into the female business ownership in Australia and virtually no research into the ethnic-women business until the late 1980's, although the number of self-employed ethnic women has increased at a faster rate than the self-employed ethnic men with the former being more successful than the latter. It may be quite pertinent to say that gender aspects of small business relating to women as (a) employers or self employed, (b) partners in family businesses, or (c) spouses of the owners of male owned businesses, have not been given due attention in Australia's literature on small business.

The experience of ethnic entrepreneurial women is relatively a new area for business research in Australia. Considering the substantial growth in the number of ethnic women-entrepreneurs, a research investigation was carried out to identify the factors and characteristics associated with the emergence and success of ethnic women in small business across different cultural backgrounds.

RESEARCH ON ETHNIC WOMEN IN BUSINESS

Research points to two different levels of involvement by ethnic women in small enterprise: (a) Ethnic women co-owning and operating their business with their spouses, where male is the dominant decision making partner. The role of women in these ethnic small businesses, it is suggested, is often one of unpaid labourer. In addition to their working in the business, they are also responsible for most of the domestic work for the family, and (b) Ethnic women partly or wholly owning the business and having entire control of the operations and decision-making.

A study of the period 1984-1990 by Allen also showed that there had been an increase in the proportion of part-time female employment in the Australian small business sector as female-owned small businesses tend to hire women; nearly 90% of the employees in the female-owned small businesses were female. This study estimated that in December 1990, 38% of small business owners/managers in Australia were female, as were 35% of full time workers and 48% of part-time workers. It is estimated that if trends of the 1980's are repeated, by the mid-1990's females will outnumber males in small business, both as proprietors and employees. (Williams, 1992).

Statistical data indicates that the incidence of ethnic women in Australia's small business sector as owner managers is quite significant. For example, Lennon, Sprott and Gatton (1994) find that women who have migrated from the Non-English Speaking (NES) countries are more

likely than other women to be employers or running their ownbusiness. Of the total number of women from NES background in the workforce in 1992, 4.3% are classified as employers. This compares with 3.6% of the Australian born women and 2.9% of women who have migrated from other English speaking countries. Furthermore, 8% of the NES migrant women are self-employed compared with 7.4% of Australian born women and 6.2% of English speaking migrant women (Employment, 1994). Lenon et al. (1994) estimated that 9.2% of the women born in Korea, 5.7% in Netherlands and 5.6% in Cyprus are likely to be self- employed.

These figures indicate that a significant proportion of small businesses are entirely or partly owned and managed by women born in countries other than Australia. In fact most of these women are born in NES countries which suggests that there would be differences between them and the Australian born women entrepreneurs in areas such as language proficiency, educational attainment, and family and domestic obligations.

Castles et al (1991) find that 60% of the surveyed ethnic small firms are controlled and run by males as compared to 11% of firms where the wife or woman is the dominant and controlling partner. This study involves five ethnic groups- Greek, Italian, Lebanese, Latin American and Indo-Chinese. Similarly, Kermond et al (1991) find that women run only 6% of the ethnic small businesses in their sample. The study of Carr (1993) confirms the tendency for women in certain ethnic groups is that they enter male dominated family businesses rather than start their own.

In contrast, Lever and Tracy et al (1991) in their study of ethnic small business in the Chinese and Indian business communities of Brisbane and Sydney find that in nearly 40% of the small and medium businesses interviewed, women are centrally involved and played a primary or equal and often innovative and responsible role in management and decision making (Ip and Lever-Tracy, 1992, p.12).

There is also a growing body of research that contemplates the use of self-employment by women as a means of job creation, and of combating poverty. In the United States, Women's Initiative for self-employment (WISE) has promoted research into self-employment as a means of economic improvement for low-income women. Also in the United States the HUB Co-ventures for Women's Enterprise, and the Women's Economic Development Corporation (WEDCO), have initiated schemes to improve women's access to small businesses. Working on a local level WEDCO has concentrated on building good relations with the banks, developing supportive contacts within the business community, creating a fund for small loans and organising training-schemes of particular relevance to areas of weakness identified for women.

In Western Australia, the HUB Committee, using the American model, has prepared a report for the Women's Enterprise division of the Department of Employment and Training. The report aims to identify the main barriers to women wanting to start their own business. The Committee made a number of recommendations to improve the quality of resources and information available both to women currently involved in their own business and to those who are contemplating starting an entrepreneurial career. Particular reference was made to targeting services to women who are socially and economically disadvantaged.

ETHNIC WOMEN IN THE AUSTRALIAN WORKFORCE:

There are over 1 million NES background women with ethnic background in Australia.

Between the Second World War and the early 1990's, successive generations of NES background women have settled in Australia, integrating into the workforce and the society in specific identifiable ways. Several intractable problems for ethnic women have emerged during the period, as a result of their particular economic and social positioning, many of which have formed the focus of community organization and struggle by ethnic women themselves. Economic restructuring, both after the 1973 global recession, and since the mid 1980's, has alleviated, or in other cases exacerbated, some of those problems, and has also created new ones- the most momentous of which have been very high relative levels of unemployment and underemployment and the evolution of isolated home based small business.

Throughout the post war era of mass migration, women who have emigrated from relatively poor countries and regions to rich ones have experienced inferior working conditions compared to locally born workers. Positioned at the intersection of class, ethnic and gender-based relations of power, immigrant women from less developed countries living in Western industrial countries like Australia have tended to constitute the most vulnerable and hence exploitable of social groups, after the indigenous (Aboriginal) population. The integration of the NES background immigrant women into post war Australian society is no exception to this pattern. It is chiefly through their recruitment within the lower ranks of the working class that they have been integrated into the Australian society.

The background of many NES immigrant women in the 1950's-1970's significantly contributed to their vulnerability to exploitation in the Australian context. Many were from a peasant background, with low levels of formal education, and few of the industrial skills that would be converted into real value in the Australian society. For example, Storer (1982) found that emigrated young women from Italy in the 1950's had no more than five years of schooling prior to arrival. Although some had worked in paid employment in Italy, few had formal vocational qualification. *This background is crucial to explaining their initial positioning within the economic structure. There is significant evidence that what has kept them in these positions was the nature of Australian society itself.*

Of importance here was the way women were challenged on arrival in Australia. The racism within the working class, the labour movement as well as among employers and the role of the state in limiting access to the social resources of migrant women with little English relegated them to a subordinate social position. Significant too has been the patriarchal social relations within the migrant households, whereby women's individual interests were continually subsumed to those of the family unit and the patriarchally defined interests of the family. The patriarchal structures of theAustralian Labor market and workplace often reinforced the social relations within migrant households, and vice versa.

THE EMERGENCE OF ETHNIC SMALL BUSINESS WOMEN

During this time, migrant women from NES countries were heavily concentrated in blue-collar jobs in manufacturing, where in some regions they formed what has been described as Occupational Ghettos. (Lever-Tracy and Quinlan, 1988). These women had markedly different work experiences in Australia than immigrants from English speaking countries, or locally born women, forming relatively separate segments of the labor market.

In 1976, while 40% of the Australian born women who worked in Melbourne's manufacturing industry were in clerical occupations, and 96% of the NES women who did so were in production or process worker jobs. (Storer, 1976). Many non-British migrant women, perhaps a

majority, would scarcely meet Australian or British women at work in other than a supervisory category. (Lever, 1991)

Employment outside the home with an independent income was new experience and indeed valuable for many women immigrating to Australia from countries and regions where these opportunities were not readily available to women. The friendship of the factory floor, the companionship of paid work and the regular wage, compared with the loneliness and boredom of being at home, are regular themes describing the lives of the ethnic women of this period.

In addition, the status and achievement of the family were of immense importance to NES background women migrants (Vasta, 1991). Long hours of arduous work for husband and wife led to a degree of financial security that provided pride and comfort; by the 1980's southern European immigrants of the post-war period were more likely to be home owners than Australians generally.

A 1980 survey of immigrant women workers who had arrived in Australia after 1952 found that upward occupational mobility from a lower skilled job in manufacturing to the aggregate category covering managers, administrators, professionals and para-professionals was a path taken by only 5% of the women (Webber, Campbell and Fincher, 1992). The reasons for this restricted mobility include the inadequacy of English language teaching provisions, exclusion from vocational on-the-job training, non-recognition of immigrant women's overseas qualification, stereotyping and direct discrimination against NES background women, and the low priority given to women's needs and the career options within ethnic families.

WORKFORCE EXPERIENCES IN THE 1980'S-JOB SCARCITY AND UNWELCOMING LABOUR MARKET:

The Australian government responded to the economic crisis in the early 1970's by a major cutback in the migration program. While in the period 1966-1971, the net intake of immigrants averaged over 120,000 people a year, between 1971-76, the average was justover 56,000 annually (Collins, 1994). Although unemployment rates rose generally, as workers were displaced from most industries, migrants suffered an unequal impact of the recession by virtue of their concentration in the troubled manufacturing sectors.

While estimates vary, it seems that manufacturing workforce fell by around 13% between a 1972 high point of 1.3 million workers, and 1984 (Webber, Fincher and Campbell, 1992). In the early 1970's this job loss disproportionately affected production workers in uncompetitive industries such as clothing, displacing migrant women from the workforce very rapidly. The unemployment rate of overseas born women increased during the recession, and from then on always remained higher than that of women born in Australia.

It is hard to underestimate the seriousness of this changing labor market for ethnic women immigrants. From this period on, some of the more secure jobs available in the past to the newly arrived ethnic women began to disappear, with consequent increases in unemployment, underemployment and casual employment in the informal labor market of home based piece-work and domestic services work.

This was the beginning of small business amongst ethnic migrant women, and indeed the development of ethnic women entrepreneurs, in Australia.

CHARACTERISTICS AND PROFILE OF THE ETHNIC WOMEN ENTREPRENEURS IN AUSTRALIA:

A research study was undertaken to study the Entrepreneurship development amongst the ethnic community in Australia. Responses from the female respondents both from the interviews as well as questionnaire survey have been analysed to provide an insight into the factors and characteristics associated with the emergence, operation and success of small businesses operated by ethnic women. A summary of the findings is given below.

1. Overall profile- Just over one quarter of all small business proprietors are female, although 57% of them are operating the business in conjunction with a spouse. Women are more likely to operate the smaller rather than the larger businesses. The survey suggests that the female ownership of small business is on the increase. Whilst just 26% of small businesses started over five years ago are managed by women, 31% of newer (last five years) small businesses are female operated.

2. Female proprietorship by sector- Women proprietors are more likely to be found in the retailing, recreational, personal services sector, the transport and storage sector, and the building construction sector, where they operate the business with a spouse tradesman. 80% of ethnic women run businesses in retailing or services.

3. Age Breakdown- Ethnic women in small business are on an average about six years younger than their male counterparts. Their median age is 39 years. This is usually explained by women having more time after the children grow up and are therefore lessaffected by the demands of the family/or domestic commitments at a later age. It confirms the findings of Brush and Hisrich (1984 and 1988).

4. Qualifications Achieved- Ethnic small businesswomen had higher educational profile compared to their male counterparts. The average number of years of education completed by ethnic women was 13 years. However, women are just as likely to have taken courses or training programs in the past year as men; 30% of females and 27% of males have increased their expertise in this way in the 12 months prior to the interview.

5. Business Experience- Not many ethnic women were found to have had any managerial or business experience. The main reason for this difference is that whereas the men are more likely to have been employed in large companies, the women in the government or small businesses and/or home duties.

6. Training- They were willing to take opportunities to improve business skills, both as a preparation for going into business as well as to improve areas of weakness while operating a business. Their main constraint in this area was time. It confirms the findings of several studies that while women are more likely to lack relevant experience and education, they are far more willing to take opportunities to improve business skills.

7. Home-based Businesses by Sector- One key difference between men and women business proprietors lie in the area of home based businesses. Whereas 43% of females operate their business from home, this drops to 23% for male business proprietors. Women are responsible for around 41% of all home based businesses, although they operate just 27% of small businesses overall. The incidence of home based businesses does, however, vary considerably across the business sectors. Female proprietors in the building construction,

transport, storage and business services sectors are most likely to operate home based business.

8. Family Responsibility- 51% of the ethnic businesswomen have dependent children at home compared with 56% of the ethnic businessmen. However, it is significant to note that 90% of the women with dependent children see themselves as the main caregiver, compared with only 44% of men. Overall, almost one in two (47%) of the ethnic businesswomen and one in four (25%) of the ethnic businessmen are main caregivers to the dependent children.

9. Financial Conditions of Parents- In respect of the businesses operated by immigrant women, 46% rated financial condition of their parents as average, 18% rated as having frequent problems, 22% rated as poor and 14% rated as fairly well off. 70% of the ethnic women had one or more close relatives in business. 82% of the ethnic women were married compared to 70% of males. 80% of ethnic women reported that they had good marital and family support for entry into a career in small business.

10. Reasons for Starting the Small Business- The most common response related to motivation and reason for starting the business by the ethnic women was financial security and being their own boss.

11. Motivations to Succeed- Ethnic small businesswomen were highly motivated to succeed in the role of owner manager as compared to men. Women are more confident and motivated to succeed than men are, with a 12% difference in favour of women.

12. Skills and Abilities- Ethnic women feel that they are weak in finance and marketing skills and strong in the area of dealing with people. 59% of the women are confident that their skills in managing people are more than adequate as compared to 37% men. 22% of the women were confident that their skills in finance and marketing were more than adequate. However, about 60% of them feel that their skills in Finance and Marketing are less than adequate.

13. Hours of Work- Business owned by ethnic women are open for fewer hours as compared to the businesses owned by the ethnic men.

14. Network and Ethnic Ties- Ethnic network ties, culture and family are important to 90% of the ethnic women. Ethnic chambers of commerce were perceived to be helpful by the ethnic businesswomen.

15. Attributes of Success- Women are more likely than men to attribute their success to good customer service and willingness to work hard. On the other hand, factors leading to the success for men are experience, product knowledge, determination and persistence. The main barriers to success of the ethnic businesswomen emerged as being male chauvinism, preferential treatment by banks and perception that women lack knowledge.

16. Barriers to Success- Obtaining finance has been one of the crucial problems for ethnic small business for both men and women. It was found that the ethnic businesswomen lack skills in financial planning, accounting and marketing. They also demonstrated lack of confidence as business owners and managers.

17. Source of Start-up Capital- The ethnic migrant women start their career with low paid jobs thus finding it difficult to accumulate personal wealth, as majority of their income is

contributed towards their family. The source of start-up capital is their savings. Women like men do not have easy access to the start-up funds from banks and Financial institutes.

18. Recommendations Made by Respondents- During the survey, many additional points were made that would assist ethnic women to unlock their potential as entrepreneurs. Recommendations include: (a) The establishment of support agencies and advisers for ethnic businesswoman; (b) the provision of accessible childcare facilities, (c) the removal of the discrimination against women in the Australian finance sector; (d) providing access to training specific to women and their needs, on-the-job training, the changing of community attitudes which work against women in business; (e) attempts to improve business networks for immigrant small businesswomen and (f) conducting more research into women in small business (including immigrant small business women. Difficulties facing the potential and the current small businesswomen, including ethnicwomen, can be divided into two areas: (a) barriers affecting women considering or planning a career in small business and (b) problems experienced by women managing their own business. There is also potential for greater co-operation and support for ethnic small businesswomen through contact and interaction between women.

CONCLUSION

In the light of this analysis, this study recommends that the government in Australia should do more to assist ethnic women to unlock their potential as entrepreneurs. Ethnic small businesswomen would do better by networking with other women of their kind. The ethnic women entrepreneurs have arrived. Gender is clearly an important factor in small businesses in Australia today. Wives played in the past an important unpaid and often unrecognised role of direct or indirect support in the family business, are doing it today and are doing it better. Thus the story of small business in Australia must include an appreciation of the gender aspects at all levels.

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Women Entrepreneurs in Home-based Business

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ABSTRACT

This paper examines the confluence of three contemporary economic trends: the rapid growth in the number of home-based business operations; the dramatic increase in female entrepreneurship; and the growing importance of information technology in the operation of a modern business. The research reported in this paper was directed toward determining an overview of women owners of home-based businesses, in particular those involving information rich operations.

INTRODUCTION

The decade of the nineties has witnessed a dramatic increase in the number of individuals choosing to work from the home rather than from commercial locations (Collins, 1994). Of course, home-based commerce is not a new concept - witness some of business's best folklore involving accounts of entrepreneurs who launched their empires in a basement or garage. In fact, until the industrial revolution stimulated the construction of factories in the early 1800's, most work was accomplished in the home (Shammas, 1990). In the two hundred years that followed, home-based enterprises continued to survive, kept alive largely by women involved in piece work, laundry, child care, baking, and so on. But now, home-based businesses are not only "enjoying a renaissance" (Gray & Gray, 1989, p.3) in terms of numbers, but the very character of such operations is changing. The purpose of this paper is to profile the women behind these emerging enterprises and to contrast them with their contemporary male counterparts.

The Home-based Business Revolution - Why Now?

Home-based business (HBB) activity represents, “...[a] muddle of incompatible data....” (Pratt, 1987, p.50) indicating both the difficulty of obtaining information on this segment and the use of different sector definitions (Clark, 1994). For example, in reporting on the Canadian scene, one source states that over three million individuals engage in business activity in the home (Senett, 1991) while a second observer reduces this number to 1.5 million (Cohen, 1994). Comparable estimates for the United States are equally diverse ranging from 19 million (Cheney, 1996), to 32 million (Watts, 1994) and even up to 41 million (Beiswinger, 1994). One fact that is not in dispute, however, is that the home-based sector represents a vital avenue for entrepreneurship in the contemporary economy. There are at least four, interrelated factors that appear to have contributed to the increasing popularity of home-based business.

* Many **environmental changes**, such as the emergence of a service-based economy and globalization, have served to stimulate the HBB sector. Many consultants, for example, have become "road warriors" and enjoy the convenience of an office based in the home. Other opportunities are found in the service sector and concern the creation and manipulation of information, activities that are relatively location independent. A further factor relates to

environmental protection laws in areas such as California where pollution from automobiles haspromptled legislation requiring large firms to phase-in a telecommuting capability. Such laws have served to stimulate the development of technologies that are readily adaptable to many HBB operations including software development, technical writing and data analysis.

* The recent spate of **reengineering by major corporations** has created employment needs for those who fall victim to downsizing. Many of these displaced individuals, often mid-career and at a relatively high rank, have opted to start their own business rather than remaining in the corporate world and taking a job that is neither challenging nor fulfilling. In a more positive sense, the movement to “accordion management” (Kelly, 1993), wherein the labor force is expanded or contracted to suit current business conditions, has generated demand for consulting and other types of contract work, much of which can be accomplished from the home (Cohen, 1994).

* Changing **entrepreneurial values** have also influenced growth in the HBB sector. Olson (1989) and Costello (1989) report that women, in particular, have embraced home-based entrepreneurship because it affords greater freedom in devoting time to their families. A second possible change in entrepreneurial values concerns the cocooning phenomenon, a lifestyle centered around the home (Popcorn, 1992). A related factor concerns the apparent shift to rural living (Greising, 1995). Whether due to a perceived more leisurely pace of life or forced out of metropolitan areas by high real estate costs, scores of former urbanites have adopted communication technologies that enable them to maintain commercial contacts while living in relatively remote settings. Finally, newly emerging types of businesses allow many, including disabled entrepreneurs and disenfranchised minorities, to operate successfully from a home location (Murphy, 1992).

* The development of the HBB sector is inexorably tied to the development of **new technologies** - computers, the Internet, fax machines, cellular phones - that are relatively inexpensive and easy to use, making them readily adaptable for use in the home. As noted in *Business Week*, "computers, software, and other electronic gear are dropping in price even as they get more powerful and versatile" (Baig, 1995).

Women's Involvement in HBB Entrepreneurship

Women now own approximately one out of three sole proprietorships in the United States (Murphy, 1992) and in Canada they are starting businesses at more than three times the rate of men (Mackay, 1994). The most frequent location for these businesses is the home. One report suggests that eighty percent of female entrepreneurs begin by establishing a home-based business (Capowski, 1992), while Mirabella (1988) reported that sixty percent of new female entrepreneurs work from their home. Additionally, women appear to be enjoying great success in their undertakings. Whilst only one quarter of businesses started by men are still operating after five years, half of all female owned ventures remain in business after a five year period (Gay, 1994). Although the literature in the area is sparse, several reasons have been identified as to why women choose to engage in entrepreneurial ventures rather than working for others and why a home-based setting is especially appropriate.

* **Flexibility** can be an important issue for women and entrepreneurship may serve to meet this need. Whereas corporation employees must typically adhere to a 9 to 5 routine, when women venture out on their own they are better able to dictate their own hours of work. In so doing, they can accommodate to their own needs and to the demands of their families,

especially when operating from the home. Such concerns may signal a return to family values and the desire for a different and perhaps better lifestyle.* Many women have looked to entrepreneurship for **opportunities** they were unable to find in the corporate world. Entrepreneurship can provide for more varied and meaningful work. Also, by working for themselves, women are able to receive recognition for their accomplishments and avoid the perceived discriminations often associated with big business environments (Rowlands, 1993). The initiation of a business from the home typically facilitates entrepreneurship by lowering the barriers to entry.

* By choosing to run their own business, female entrepreneurs are able to escape **the glass ceiling** that allegedly characterizes the corporate world and prevents women from rising to the top. Often it is family considerations, cultural and gender biases, and inadequate training and education that have kept women out of the top corporate positions (Gregory & Kleiner, 1991). Successful entrepreneurship provides job security and unlimited advancement in ways that positive employment performance in big business does not always guarantee.

The Information-based Home Business

Expressions such as the `third wave,' the `death of distance,' the `digital age' and the `information highway' are continual reminders that we live in revolutionary times. The emerging information age represents, " .. a world where telecommunications permeate every sector, private and public, and strongly influence organizations' efficiency, effectiveness, service, and innovation" (Keen and Cummins, 1994, p.672). Drucker (1959), Machlup (1962), and Bell (1974) were among the earliest to call attention to this fundamental shift in global economies but even after several decades, key definitions have been slow to evolve. For example, Naisbitt marks 1956 as the beginning of the information age when "... for the first time in American history, white-collar workers in technical, managerial, and clerical positions outnumbered blue-collar workers" (1982, p.12). Based on this distinction, Naisbitt described a "megatrend" associated with the growth in employment among those that were charged with, ".. the creation, processing, or distribution of information." Others, too, have discussed the separation between those who supply products from those who deal in ideas and information (e.g., McClenhen, 1995; Snider, 1992) or, using Negropontes' terms, the distinction between atoms and bits (1996). Recently, several authors (e.g., Burrows, 1994) have called for a distinction between those who simply "handle" data (e.g., clerical or "pink collar" workers) and those responsible for its creation (e.g., marketing researchers, accountants). This line of thought has been extended by Davis and Botkin (1994) who further distinguish between data ("the basic building blocks"), information ("data arranged into meaningful patterns"), and knowledge ("the application and productive use of information.")

Profiling Women-owned HBB Operations: Issues and Methods

The purpose of this study was to collect empirical data relating to the home business sector and, in particular, to determine if women entrepreneurs represent a distinct sub-group of this sector. To that end, the following questions were posed.

1) Do the demographic characteristics of women HBB entrepreneurs differ from their male counterparts?

Information was collected concerning age, marital status, education, and the number of children present in the home.

2) Do female and male HBB entrepreneurs differ in their motivations for starting a home-based business?

The purpose of seeking the answer to this question is to determine whether the traditionalreasons given for HBB ownership still hold in an era of rapid change. To this end, study participants were asked to respond on a seven point scale concerning the importance of a variety of items (gleaned from the literature and from preliminary interviews) as they related to the decision to establish a home-based business. The resulting factor analysis revealed two not unexpected dimensions - personal values ($\mu = .67$) and economic reasons ($\mu = .58$). Personal values take into account those factors in the owner's personal life that motivated him or her to start a business; examples include proximity to family, flexibility, and personal challenge. Conversely, economic reasons refer to monetary factors such as lower overhead, reduced commuting time, and tax savings.

3) Do women HBB entrepreneurs display a style of operation that differs from men?

A good deal of literature is devoted to a comparison of management styles as between men and women. An equally rich field of investigation concerns the supposed differences between male and female entrepreneurs. It is likely that gender differences will be particularly pronounced in home-based entrepreneurship in that women have for generations managed the home while men engaged in outside economic activity.

Although the issue of what constitutes “entrepreneurship” remains a hotly debated topic, for the purposes of this research study a conceptualization was adopted that involved three key dimensions: innovativeness, risk-taking and proactiveness (Morris, Lewis, & Sexton, 1994). *Innovativeness* encompasses favoring change and the adoption of new product or service processes in order to obtain a competitive advantage. *Risk-taking* involves taking business related chances, such as committing resources to situations that have the potential to fail. *Proactiveness* refers to the adoption of a forward-looking stance when competing with other firms (Naman & Slevin, 1993).

Entrepreneurial style was measured using a scale developed by Covin and Slevin (1986, 1988) based on work by Miller and Friesen (1982) and Khandwalla (1976/77). The construct is conceptualized by the authors as being an aggregate of innovativeness, proactiveness, and risk-taking behaviors. The reliability for the scale in the current study was calculated to be .84, which is similar to the value of .81 that was obtained by the previous researchers.

4) Are women HBB entrepreneurs as successful as their male counterparts?

For many decades, the vast majority of HBB's, mostly operated by women, could be considered marginal entities at best. Although the HBB sector has demonstrated remarkable growth over the past decade, it is not evident that those operations that are run by women have enjoyed similar success. Compounding this problem, of course, is that such operations are initiated for a variety of reasons thus complicating the measurement of success.

In view of the difficulty in obtaining detailed financial figures from small business owners, respondents were asked to rate, “.. how well your *home-based* business is doing ...” on a series of items, each scored on a seven point scale. Factor analysis revealed three components: traditional measures (financial strength, sales growth, etc.); the ability of the HBB to respond to its customer's needs (day-to-day operations); and the personal freedom afforded

to the business owner. In addition, respondents were asked to rate the overall performance of their HBB operation.

Approximately 71 percent of the total variance in home-based business success was accounted for by the three factors. Construct validity is assumed due to the pattern of the factor loadings for the various scale items. Additionally, the scale was correlated with the overall measure of performance to provide insight into the validity of the measurement scale. The overall scoreproved to be correlated to a higher degree with each of the three factors than the factors are correlated with one another. This suggests that the three factors together provide a fairly good measure of overall performance. In assessing the reliability of the scale, coefficient alphas were calculated for each of the factors. The coefficient alpha for the Performance factor was .81; for Customer Service, it was .73; and for Personal Freedom, coefficient alpha was .60.

5) Are information-based HBB's as likely to be owned by women as by men?

Over the past decade, the introduction of new information related technologies and applications has occurred with bewildering frequency. In many cases, observers of the diffusion process for these innovations have noted and commented on “the gender gap” with women being relatively laggardly in their adoption. Further, even the developers of such innovations are predominately male and, in North America at least, the percentage of women college graduates in computer science has fallen from 37% in the early 1980's to 28% in 1994-95 (Edupage, 1998). If such a trend extends to home-based business, the results could mean a significant disadvantage to those operations owned by women.

For the purposes of this paper, an information-based HBB was defined as a business operation, based in the owner's home, that depends for its primary competitive advantage on the creation of information involving the collection, manipulation, presentation, and/or dissemination of data. Examples of businesses in this category include consulting, travel agencies, desktop publishing, accounting services, computer programming, and training. The definition contains two key elements; the distinction between data and information and, secondly, the centrality of information to the organization. Accordingly, traditional home-based businesses are not *centered* on the handling of data although information may be used in support of other types of activity. Examples of traditional HBBs include: manufacturing, sales, handicrafts, beauty stylists, property management, and home repairs. This bi-polar distinction is convenient for the stage of empirical research undertaken in this paper but is somewhat artificial as it forces a distinction between, say, a typing service (traditional) versus desktop publishing (information-based). In total, 107 respondents could be assigned to the traditional category; 137 to the information-based group. The assignment of respondents to categories was undertaken by the authors, who sorted the questionnaires independently based on the previously defined categories. A comparison of the allocations revealed only two disagreements.

METHODOLOGY

Relatively little academic research has been directed to HBB, due in part, no doubt, to the methodological problems associated with the study of this sector (Orser, 1991). In commenting on the issues of definition facing would-be researchers, Pratt (1987) notes the, “multiple meanings of the word `work' .. [and that even]..`home' has embedded meanings.”(p.57) Not surprisingly then, it is very difficult to identify a sampling frame that contains an unambiguous

list of HBB owners. As a result, researchers in this area are frequently restricted to the use of convenience samples - a possible explanation for wide ranging findings. To help ameliorate this concern, this study employed samples selected from five separate listings: the membership of the Canadian, Vancouver, and Saskatoon Home-Based Business Associations, the participant list from a home-based business conference, and individuals licensed to operate a home-based business by the City of Regina, Canada. The cooperating agencies were requested to mail a copy of a questionnaire to their members according to a prescribed sampling scheme. Because of the nature of the data collection procedure, no follow-up mailings were possible. Of the 1000 survey forms sent, 39 were non-deliverable; of the 250 replies received, six were from ineligiblerespondents resulting in a working sample of 244.

The research objectives required the measurement of numerous constructs. Most scales were adapted from published sources; however, it was necessary to develop two new measures - the motivation for starting a HBB and a measure of the operation's success. In developing these scales, the procedure followed was that recommended by Churchill (1979). In brief, items with apparent face validity were collected from a variety of sources and pretested prior to use in the final questionnaire. The survey results were subsequently analyzed with coefficient alphas being calculated as the first step in purifying each instrument. Factor analysis (principle components with varimax rotation) was then undertaken to determine the number of dimensions underlying each specific construct and to provide feedback concerning the construct validity of the scales. Eigenvalues were used to measure the explanatory power of each factor with the cumulative percentage of explained variance used to assess the apparent explanatory power of the combined factors.

RESULTS

The following paragraphs address the research questions.

1) Do the demographic characteristics of women HBB entrepreneurs differ from their male counterparts?

Table 1 presents a comparison of HBB entrepreneurs based on gender. As might be expected, women HBB owners do have more children in the household. More surprising, they also appear to be younger and better educated. These differences cannot be explained by the longevity of the business as the average age of firm was approximately five years for both groups. This suggests that women initiate their operations at an earlier age than men.

2) Do female and male HBB entrepreneurs differ in their motivations for starting a home-based business?

As indicated in Table 2, the economic motivations for starting a home-based business are all but identical between the genders. There is, however, a substantial difference with respect to the attempt to satisfy personal values. As predicted, women are more likely than men to establish a HBB for non-economic reasons.

3) Do women HBB entrepreneurs display a style of operation that differs from men?

The data presented in Table 2 reveal no difference between men and women in terms of their entrepreneurial style. Although the conclusion must be confirmed through the use of more

elaborate instruments, the preliminary conclusion is that women are as proactive, innovative, and as likely to take risks as their male counterparts.

4) Are women HBB entrepreneurs as successful as their male counterparts?

The information relating to this research question is presented in Table 2. As indicated, there is relatively little difference between the genders on any of the success measures with the possible exception of feelings of personal freedom. On this latter measure, women scored somewhat higher ($p<.10$) reinforcing the impression that non-economic factors are more salient for this group.

Table 1
Comparison of Demographic Characteristics of HBB Entrepreneurs

Characteristic	Women (n = 109)	Men (n = 129)	Test: p value
Age: < 35	26.6%	23.5%	Chi-Sq:
35 - 54	67.0%	54.5%	**p = .0033**
55 +	6.4%	22.0%	
Marital Status			
single	12.0%	10.9%	Chi-Sq:
married	75.0%	80.5%	p = .5112
other	13.0%	8.6%	
Education:			
high school or less	6.4%	23.2%	Chi-Sq:
post secondary	78.0%	61.2%	**p = .0014**
graduate work/degree	15.6%	15.5%	
Children in Home:			
none	38.8%	55.2%	Chi-Sq:
one child	22.3%	22.0%	**p = .0184**
two or more	38.8%	22.8%	

5*) Are information-based HBB's as likely to be owned by women as by men?*

As indicated in Table 2, women are every bit as likely as men to be engaged in an information-based business. This suggests that women in HBB operations have recognized and sought out opportunities consistent with the information age. Other findings (not reported in the Tables) are consistent; importance ratings assigned to information technology were similar as between women and men nor did either group report greater or lesser degrees of difficulty associated with their use. On the other hand, when respondents were queried on their use of 30 different telecommunication and information-related types of equipment and services, a somewhat more troubling pattern emerged. Although men and women were equally likely to utilize well established technologies such as personal computers and/or laptops, photocopiers, fax machines, pagers and dial tone services (e.g., call display), men tended to demonstrated heavier ownership of leading edge equipment. For example, men were more likely to be online (chi-sq; $p<.05$) and hence, more likely to own modems, use e-mail, have a web site, etc. Men were also more likely to own desktop publishing equipment, to subscribe to call forwarding, and to own a scanner. Of the 30 technologies tested, women reported greater ownership of only one - laser printers (these same relationships were observed when the analysis was restricted to information-based firms). No effort was made to determine the appropriateness of

such products for the task at hand so perhaps a "boys and their toys" phenomenon is at work. Another explanation is that since men are typically older when they start their HBB, they may have a larger nest egg to put into technologies. Nevertheless, the fact that women are as likely to be involved in information-based HBB's but are less likely to be as well equipped may be worrisome for the longer term

Table 2
Comparison of Women and Men HBB Entrepreneurs
(mean scores with 7=max [standard deviations])

Characteristic	Women (n = 109)	Men (n = 129)	p value
Motivation for Start-up			t-test
- economic	5.25 [1.50]	5.21 [1.48]	p = .833
- personal values	5.11 [2.00]	4.11 [2.00]	**p = .000**
Entrepreneurial Style	3.55 [1.05]	3.57 [1.24]	p = .882 t-test
HBB Success			t-test
- financial performance	4.25 [1.31]	4.27 [1.21]	p = .887
- customer service level	6.06 [0.87]	6.03 [0.87]	p = .820
- personal freedom	5.26 [1.18]	5.00 [1.10]	**p = .092**
- gross sales			p = .463 (chi-sq)
Type of HBB Operation			chi-sq
- information-based	57%	56%	p = .951
- traditional	43%	44%	

CONCLUSIONS

This study attempted to profile women operators of home-based businesses. Women constituted 46% of the sample of HBB owners, a proportion that dwarfs the 28% of women that are owners of businesses in general (Rowlands, 1993). This empirical finding reinforces the observations presented in the business press that women have been particularly active in establishing such firms. Further, it is apparent that the motivations for these ventures extend beyond monetary concerns, especially in situations involving family considerations and career growth.

Several unexpected results emerged from the study, especially the fact that women as a group appear to be younger and better educated than their male counterparts. Perhaps the more surprising finding relates to the similarities between the two groups. The groups differ little in their entrepreneurial style or in their financial success scores notwithstanding the fact that both mean measures masked large intra-group variations. It was also of interest that women have been as quick to establish firms centered on information but, of concern, do not appear to be as well equipped as those HBB firms owned by men.

The conditions that have given rise to the recent explosion in the home-based business sector are not likely to change for the foreseeable future. This suggests that researchers with an interest in small business and entrepreneurship will devote greater attention to this sector and, in so doing, will encounter numerous methodological problems. This study was no exception with the major problem being to identify an appropriate sampling frame. The resulting sample, combined with an inability to test for non-response bias, suggests that the conclusions reached must await verification. For example, the high incidence of female ownership found in the study

may be an artifact of a different propensity to respond to questionnaires, a greater tendency to participate in the home business associations and their functions or to comply with the licencing requirementsof local governments. Further, all the respondents in this study are located in Canada suggesting that the study should be repeated elsewhere.

The rapidly growing and evolving world of the home-based business promises to have a major impact on the very nature of small business. The entrance of large numbers of well educated, technology receptive, and relatively young entrepreneurs to the HBB sector suggests that it will account for an increasing proportion of self employment and represent an increasingly important economic force for some time to come. For researchers and academics in the area of small business, the home-based business sector presents a challenging and exciting source of research ideas and teaching topics.

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SME DEVELOPMENT AS A CONSEQUENCE OF PRIVATIZATION AND RESTRUCTURING OF THE STATE PROPERTY IN TRANSITION ECONOMIES

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ABSTRACT

The paper analyzes the impact exerted by the privatization of state-owned enterprises on the development of small and medium-sized firms in the Central and Eastern European countries basing on the Polish experience. Poland is one of leaders of the privatization process and it uses many different privatization paths. This issue will be discussed separately for different forms of privatization. In our opinion, the impact of privatization on SMEs is bigger than it could be suggested by the official statistics. SMEs take over redundant assets, trained employees, know-how from privatized state-owned enterprises. In this paper we are trying to show why the factors of production, which are useless and ineffective in the privatized enterprises become useful when taken over by private SMEs. We are presenting the causes of such situation including: low prices of purchassed assets, more effective utilization of employees, low overheads, ability to act elastically, skills of reaching potential customers, starting up a business activity in the fields characterized by low capital-output ratios, evasion of taxes and employee social insurance (operation in the informal sector). Our conclusion is that small and medium-sized enterprises achieve a competitive advantage over the privatized state-owned enterprises in the field of costs and winning customers. On the other hand, they do not have a technical advantage. SMEs have secured a good position for themselves in these segments of the domestic market, in which customers do not have large disposable incomes and do not make high technical and qualitative requirements in relation to suppliers. In order to strengthen their competitive position SMEs have to invest more. Their investment outlays have been growing rapidly for several years now, but these are still too low outlays.

INTRODUCTION

The economic reforms implemented in Central and Eastern Europe in the 1990s aim at departing from the command-type economic system based on the public ownership and introducing a market economy system, in which the most important role is played by private firms.

There can be distinguished two ways of privatizing the economy:

1) setting up new private firms from scratch,

2) privatizing state-owned enterprises.

In practice, the first way played the biggest role. Between 1990 and 1996 the share of workforce employed in the private sector in Poland increased from 48.9% to 65.1%, that is by 16.2 percentage points (Small Statistical Yearbook, 1997, p. 352). Meanwhile, the workforce in the enterprises under privatization represented only about 2.5% of the total workforce in 1996

(in 1990 it was quite a negligible share).

However, the real impact exerted by the privatization of state-owned enterprises on the changes occurring in the economy, including the structure of ownership, employment and production, is bigger than it can be suggested by the above data, which can be explained in the following way:

• statistical data do not make allowances for the fact that many state-owned enterprises tend to split up, with integated parts of their assets and workforce being transformed into private firms (as a rule, small ones);

• private firms take over skilled employees and parts of fixed assets such as machines and equipment, buildings and plants, means of transport from state-owned enterprises being liquidated or shrinking their activity. Quite a big supply of unnecessary factors of production causes that private firms can purchase them at a relatively low price, which creates favourable conditions for the establishment and expansion of SMEs.

The legal foundations for the privatization of state-owned enterprises were laid by the Privatization Act of 13th July 1990, but the process of gradual privatization of state-owned enterprises had started already in the late 1980s. The legal regulations allowing to privatize whole enterprises were still missing at that time, but the then government was encouraging the managers of state-owned enterprises to set up partnerships leasing certain parts of fixed assets and hiring the employees of these enterprises. It was believed that such partnerships were able to use more effectively (owing to their ability to reduce costs) especially these parts of fixed assets, which were involved in broadly understood auxiliary services (for instance, tool-rooms, construction and repair sections, transport, canteens, security, cleaning). Such operations were expected to 'slim-down' state-owned enterprises and release them from very costly auxiliary activities. The partnerships in question - apart from providing services for their parent enterprise whose assets they were leasing - were permitted to provide services also for other customers. It is frequently believed in Poland today that the authors of this conception of setting up partnerships were primarily interested in protecting the nomenclature, that is in safeguarding the financial interests of managers linked with the communist party in the face of an inevitable necessity of passing powers to the opposition. Irrespective of the fact whether such were the intentions or different, the partnerships became the first link in the process of privatization. Once the legal opportunities appeared a part of the partnerships bought the assets used by them, while others continue to be lessees, and particularly those which concluded long-term agreements advantageous for them. In this way not more than several per cent of assets possessed earlier by state-owned enterprises were privatized. The SMEs set up in result of this process had relatively convenient starting conditions: they bought the assets cheaply, took over skilled employees, could tap the experience of their parent enterprises and frequently also their technical infrastructure.

PATHS OF PRIVATIZATION

However, the main stream of ownership transformations in state-owned enterprises did not begin until 1990, and they proceed along two paths:

• through the liquidation of a state-owned enterprise as a legal entity and disposing of its assets (sale, contribution in kind to a partnership, leasing out),

• through transforming a state-owned enterprise into a commercial company (a joint stock company or a limited liability company), and next distributing its shares.

Several methods of privatization can be used here. They are: direct privatization, capital privatization, programme of the National Investment Funds, bank conciliation process, liquidation of state-owned enterprises as a result of their economic weakness. The first and the last methods create the most favourable opportunities for setting up SMEs.

Direct privatization is very popular in Poland and it is used in relation to small and medium-sized firms. It consists in liquidating a state-owned enterprise and next disposing of its assets. They are most frequently passed to employee-owned companies, which can use them in return for definite payments on condition, however, that at least a half of employees from a liquidated state-owned enterprise will be employed by them. Individual external investors are sometimes permitted. By the end of 1996 1,041 state-owned enterprises were were transformed in this way (Small Statistical Yearbook 1997, p. 363). The employee-owned partnerships buy the public assets used by them from the State after several years.

This privatization method makes it easier to win the employees' acceptance for the privatization process and it does not involve considerable capital outlays. The unavailability of sufficient domestic capital reserves in Poland is a major barrier to privatization, which is all the more acute as foreign investors do not display a big interest in the acquisition of Polish companies. It is obvious that the setting up of employee-owned partnerships does not solve the financial problems of these partnerships, but only postpones them in time (Jaroszek, 1996, pp. 91-95).

A popular way of disposing of the assets of privatized enterprises is their sale (475 cases till the end of 1996). So far they have been bought primarily by domestic investors. There are still about 2,900 small state-owned enterprises in Poland, which can be privatized by means of the direct method. If foreign investors display a much bigger interest than till now, it can be expected that they will be given preference by the Polish Government in buying the assets of state-owned enterprises instead of passing them over to employee-owned partnerships.

The direct privatization programme has created a possibility of setting up and strengthening (among others, owing to preferences given by the State) small and medium-sized private firms employing several dozen or a hundred and more persons and - what is more important - involved in manufacturing or construction activity (ca. 60%). Such structure is desirable at least for this reason that it diminishes an unfavourable trend of avoiding manufacturing activity and giving preference to trade being characteristic for the majority of SMEs in Poland. Namely, every second SME in Poland deals with trade as compared with only every fourth one in the Czech Republic.

Favourable conditions for small business start-ups are created by the liquidation of state-owned enterprises coping with a difficult economic situation and being permanently unable to fulfil their financial obligations. By the end of 1996 2,200 enterprises were liquidated for this reason (including 563 non-agricultural enterprises). First of all, there are liquidated SMEs employing under 200 persons (80% of all liquidation cases) (Bochniarz and Krajewski, 1997, p. 17). The information received from the Treasury Ministry and research findings show that the property of liquidated enterprises is sold primarily to private investors. In most cases they buy only a part of liquidated enterprises, which causes that one liquidated state-owned enterprise is replaced by several private ones (Gray and Holle, 1996, Pawlowicz, 1995).

It is characteristic that quite few of all liquidated large enterprises were involved earlier in the manufacturing activity. Such enterprises can still prolong their existence, although in accordance with the present legal regulations they should be liquidated.

On the other hand, the liquidation of a predominant part of large state-owned trade enterprises dealing with wholesale trade or having chains of retail stores, as well as enterprises supervising transport, catering, tourist, service and other networks proceeded very fast. They proved to be unable to generate profits, and neither did they have a political leverage allowing them to survive.

After the collapse of these enterprises almost all their useful assets and markets were taken over by small and medium-sized private enterprises, which was relatively easy, among others, due to a rather low value of fixed assets possessed by the liquidated enterprises, as well as financial facilities and reliefs given to private buyers (lessees), and especially the former staff of stores, bars, and so on.

Owing to this policy, already in 1995 over 94% of persons employed in trade earlier found jobs in private firms (Bochniarz and Krajewski, op.cit., p.21).

On the other hand, the capital privatization exerted a smaller direct impact on the development of private SMEs. Its fundamental characteristic is selling whole enterprises or their integrated parts to external investors (domestic or foreign). The Polish Government would like this privatization method to play a leading role, but the practice shows that such is not the case. Only 186 enterprises have been privatized in this way till today (Bochniarz and Krajewski, op.cit., p.18). These are, however, large enterprises in most cases with a good financial standing. The incomes from their privatization are the most important source of budgetary revenues from privatization.

With regard to the development opportunities of private SMEs, the capital privatization creates two possibilities:

1) Acquiring these parts of the property of privatized enterprises, which were considered redundant in the course of preparations for privatization or already after privatization (when they do not meet the requirements of strategic investors).

2) Cooperation with dynamically expanding privatized companies. The high growth dynamics is characteristic, in particular, for companies with major participation of foreign capital.

Another privatization method is the mass privatization programme implemented in Poland (although on a limited scale). In comparison with the other Central and Eastern European countries, the Polish programme was launched with a big delay (which was primarily due to the political controversies). Namely, it was not until 15th December 1994 that 15 National Investment Funds grouping 512 state-owned enterprises (mainly industrial and construction firms) were established in the form of joint stock companies belonging to the State Treasury. In April 1997 the shares of the National Investment Funds began to be traded on the Warsaw Stock Exchange.

There are relatively few enterprises with a good market and financial situation in the programme (such enterprises found other possibilities of privatization earlier). There predominate enterprises, which cope with major difficulties and carry out their restructuring on

a limited scale due to the shortage of funds. So far (that is till April 1998) 130 joint stock companies have been privatized, of which 35 are listed on the Stock Exchange. The liquidation or bankruptcy proceedings were initiated in relation to 21 companies (NFIs. Effects of Therapy, 1997).

The programme of mass privatization has not affected, to any more significant degree, the development of small and medium-sized enterprises. Already before it was started most enterprises had sold or leased out redundant assets and reduced employment, which had been taken over by small private firms. In the immediate future small private firms will most probably take over a part of assets (and employees) from 21 companies to be liquidated or declared bankrupt. However, its effects will most probably be marginal on the country's scale.

DEVELOPMENT OF SMES AND RESTRUCTURING OF STATE-OWNED ENTERPRISES

In the years 1993-1995 there was carried out in Poland a large scale programme of financial restructuring of state-owned enterprises (that is, remission of most, sometimes almost 100% of debts, and postponing the repayment of remaining financial obligations) combined with solving the problem of bad debts in the banking system. The programme is known as 'bank-led restructuring', and it allowed to write-off or postpone the repayment of debts incurred by 214 enterprises (large enterprises for their biggest part). Those were debts towards the budget (due to unpaid taxes), banks (credits), and suppliers (Gray and Holle, 1996).

The programme led to the worsening of financial situation of small and medium-sized private enterprises, which were creditors of state-owned enterprises undergoing the financial restructuring programme.

On the other hand, an advantage for SMEs was a possibility of purchasing at a low price the fixed assets of such enterprises which were useless or unprofitable for them. The supply of different assets of the enterprises undergoing financial restructuring was relatively bid for the following reasons:

• All enterprises under financial restructuring were obliged to work out their restructuring programme including the property restructuring, which was synonymous, in practice, with shedding their fixed assets.

• Some creditors obtained the right to take over the assets of enterprises unable to fulfill their obligations. Those were most frequently the assets carrying a chance of selling them in the market. The assets offered by restructured enterprises and their creditors were purchased primarily by private SMEs.

In this paper we have focussed more of our attention on these enterprises which have been already privatized (especially when discussing the capital, direct and liquidation methods) rather than on the enterprises undergoing their privatization (and such situation is characteristic for the mass privatization and financial restructuring programmes). It should be remembered that the privatization of an enterprise can take even several years, and the processes taking place during this time should be taken into consideration when analyzing the impact exerted by privatization on the SME sector.

At the beginning of 1997 the capital privatization process was carried on in 372 state-owned enterprises, 334 were in the course of liquidation, and several hundred enterprises were

preparing themselves for setting up employee-owned partnerships. When making preparations for privatization almost all enterprises worked out and implemented the restructuring programmes, including the property restructuring (Pinto et al., 1993). The progammes contained, among others, the tasks concerning:

• selling or leasing the redundant parts of fixed assets,

• shedding auxiliary services (transport, building repairs, security, canteens) and, consequently, selling (or leasing) the assets connected with such activities to partnerships providing appropriate services.

These aspects of fixed assets restructuring contribute to strengthening the SME sector, because: a) they lead to the setting up of small private firms providing services for state-owned enterprises undergoing privatization; b) they increase the supply of cheap factors of production useful for small firms.

WHY ARE SMES MORE EFFECTIVE THAN STATE-OWNED ENTERPRISES?

It is also necessary to answer the question why SMEs purchase (lease) a part of privatized enterprises and different parts of their assets, and they can use them effectively, whereas the previous owners were not able to do it and did not perceive such possibilities in the future. The following factors seemed to be at work here:

1. After 1990 the supply of redundant assets was very big in Poland, while the demand for them was limited. The demand was generated primarily by private SMEs, which grow fastest and supplement the gaps in their assets from the period when they could not buy them due to administrative constraints. Meanwhile, large private companies buy, as a rule, new machines and equipment, and they more frequently decide to construct new plants and buildings rather than adapt old premises. State-owned enterprises have excessive assets and they much more frequently act as sellers than buyers.

All in all, the market situation is unfavourable for enterprises selling their assets, which causes that their prices are low and remain below the book value.

Consequently, small and medium-sized private firms can purchase the necessary assets at low prices. It must be remembered, however, that these are partly worn out and obsolete assets of a relatively low quality.

2. Private SMEs can reduce the costs of labour more effectively than enterprises being privatized, which is, among others, due to:

• an easier and more efficient direct supervision of employees by owners,

• a bigger intensity of work,

• an unjustified shortening of working time is not tolerated (late arrivals at work, long breaks for meals and smoking, trade union meetings),

• working hours can be longer - sometimes without an additional compensation,

• working hours are adjusted elastically to needs and possibilities, among others, through flexible working time and part-time employment,

• dead-time due to production cuts as a result of declining demand more seldom occurs in these firms, in the case of longer periods of dead-time employers tend to fire faster the redundant labour,

• in private SMEs no working time, in principle, is lost due to strikes,

• a part of employees in private SMEs are employed illegally, which allows to avoid high social insurance costs,

• private SMEs respond rapidly to employment stimulation instruments used by the Government (it refers, for example, to the hiring of unemployed or handicapped persons, miners changing their occupation - the Government compensates a part of their pay to employers),

• wages in private SMEs are below the mean wage in the national economy.

3. Overheads are low, which is among others due to the fact that:

• private owners prevent the overgrowth of administrative personnel and they themselves (together with their family members) handle administrative tasks,

• private SMEs do not have unproductive assets, and they provide socio-welfare services on a very limited scale,

• private SMEs do not have idle production assets either.

4. Ability of private SMEs to operate elastically and their ability to reach potential customers. Such approach can be seen already at the time a decision is made about establishing small firms. Entrepreneurs seek places, in which the supply of cheap state-owned assets is big, where it is easy to find employees (in 1994 the unemployment rate in Poland reached about 16.0%, today - about 10.6%), and the access to supplies and markets is facilitated.

Their elasticity can be also seen in frequent changes of product range and its adaptation to opportunities resulting from:

• changes in supply in a given segment of the domestic market as a result of the liquidation or major production cuts in state-owned enterprises, with such fluctuations in supply being very frequent in the 1990s (between 1990 and 1992 the production of state-owned enterprises dropped by almost one-third),

• changes in regulations concerning the domestic market protection against imports; also in this field radical changes have been taking place in the 1990s - trade liberalization does occur but its pace tends to vary in particular market segments.

Another advantage of small firms is their ability to reach dispersed customers buying small quantities of products (services), as well as those employees of large companies, which take decisions about the choice of suppliers. In relation to the former they pursue an elastic pricing

policy and elastic terms of delivery, and the latter are offered hidden premiums and rewards. Large enterprises have grown too much accustomed to their convenient situation resulting from their market advantage and contacts with large state-owned enterprises. A sudden change of this convenient position in 1990 should have forced out a greater effort and elasticity, but successes in this field are still quite modest. It is especially difficult to organize a new distribution network following the collapse of large state-owned customers and the enhanced role played by small, dispersed customers. The managers of large state-owned enterprises find it difficult to negotiate elastic terms of sale or offer illegal rewards, because they can be suspected of harming their firm's interests or reaping personal benefits.

5. The level of indispensable capital outlays is one the main criteria taken into account by private entrepreneurs, when they choose a business activity characterized by a low capital-output ratio. That is one of the reasons why a half of SMEs in Poland deal with trade.

Meanwhile, the possibilities of choosing a business activity type in the 1990s were very big for two reasons:

• Very few private SMEs had been operating in certain fields of economic activity in Poland before 1990.

• A part of state-owned enterprises were either liquidated or they considerably reduced their activity in the 1990s.

Even taking into consideration the drop in global demand private entrepreneurs had big possibilities of choosing an attractive market segment.

6. A part of private SMEs operate in the so-called informal sector. They do not disclose their full employment and all incomes, their cost estimates are excessively high to hide their real profits. Consequently, they pay lower taxes and social insurance fees, which improves their competitive position in the market (they can offer lower prices or achieve a higher profit margin).

It is estimated that about 17-18% of GDP in Poland is generated within the informal sector, and primarly in small private firms, which have the best possibilities of hiding their illegal activities (Informal Sector in Poland 1996, p. 28).

Such vast scale of informal economic activity is possible, because:

• quite a common view among private entrepreneurs in Poland is that tax evasion is a correct attitude even if it involves illegal actions; such approach is almost completely absent in state-owned enterprises,

• the system of controlling business activity in Poland is not fully developed yet, and particularly in relation to small firms,

• employees of the control organs are poorly remunerated and it is, among others, for this reason that they are susceptible to taking bribes from entrepreneurs in exchange for concealing the revealed irregularities,

• owners of small firms frequently keep the accounting books themselves and, hence, they can

manipulate information or reap benefits more easily.

The central and local authorities do not strive outwardly to eliminate such informal business activity, because they believe, among others, that a consistent following of legal regulations could impose too heavy financial burdens on small firms leading ultimately to their bankruptcy. This tolerant attitude of the authorities will most certainly diminish with time.

The operation in the informal sector facilitates the existence of small firms, but - which looks apparently paradoxical - it also poses a barrier to their growth. After surpassing a certain threshold firms cannot keep double accounting books and hide true information. In turn, revealing reliable information leads to the growth of financial burdens (taxes, social insurance of employees) and to the deterioration of the firm's market position.

It is for all the above mentioned reasons that private SMEs achieve a competitive advantage in relation to state-owned enterprises in the field of costs and customers. On the other hand, they do not achieve a technical advantage, which finds reflection in the modernity and quality of their products and services.

Making such an offer SMEs managed to secure a good position in many segments of the domestic market, and particularly in these segments where customers do not have big incomes and high technical and qualitative requirements. It is an offer allowing them to achieve successes also on the markets of the Community of Independent States. Meanwhile, they cannot expect major successes in their exports to the countries having high technical and qualitative requirements (Western Europe, North America, Far East). It is confirmed by research findings.

The successes scored by private SMEs in Poland can be jeopardized, however, unless they raise considerably the technical standard and quality of their products and services. Two causes of threats should be pointed at here:

• The Polish market is becoming more and more open for imports. The protection of domestic production disappears, which is due to the process of Poland's integration with the European Union.

• The privatization of large Polish enterprises causes that they become increasingly more effective and competitive also in relation to small and medim-sized private firms.

In order to strengthen or, at least, maintain the compatitive position won by them SMEs need, first of all, to invest. Only every fourth SME existing in 1995 made investment outlays in 1994. In Central and Eastern Europe the share of firms making investments was lower only in Rumania, and it was the biggest in Slovenia (three-fourths). The average share for the entire region reached 35% (Private Firms without Investments, 1997).

However, SMEs in Poland more and more commonly perceive the necessity of making investments. It is confirmed by a very high pace of investments growth, but their general level continues to be too low. For private entrepreneurs to achieve a stable competitive position they have to change their strategy.

From a desire to achieve short-term profits without involving a big capital SMEs should switch to the strengthening of their long-term position in a given market segment. Such change of

approach an be already seen among many entrepreneurs in Poland.

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EUROPARTENARIAT NORTHERN SCANDINAVIA 1996

EFFECTS AND EXPERIENCES

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ABSTRACT

In this paper we will summarise two research reports, one at Swedish level and the other at Nordic level, concerning the Europartenariat Northern Scandinavia (EPNS), held in Luleå, Sweden, on the 13th-14th of June 1996. We have, during a period of one year, been evaluating and following up the results, effects and experiences of the event in the so-called host companies, as well as at Swedish and Nordic levels. We have also looked at and been trying to estimate the regional effects of such an event. The purpose of the research and the findings was to find new and better methods for evaluating similar events in the future. Several of our findings are somewhat paradoxical as, for example, the fact that the host companies wanted to sell their products at the event, even if the objective of EP is to stimulate co-operation agreements rather than to only sell and buy, that the host companies actually got irritated when visiting companies tried to sell their products to them. The EPNS was, in general, successful for the host companies but, it is shown that the organisers, and people responsible for this type of programme at an EU level, have different opinions from the host companies about `successful' means. We also show how the host companies in Norway, Finland and Sweden, respectively, had different experiences throughout the EPNS project.

INTRODUCTION

The Europartenariat (EP) is a meeting place for small and medium-sized enterprises (SMEs). The programme started in 1988 as an initiative by the European Commission in order ”to stimulate the development of less-favoured regions by encouraging small and medium-sized businesses from all over the Community to establish business relationships with their counterparts in these regions”(Catalogue of EPNS). EP is held twice annually as a two-day seminar and a large number of SME managers gather to negotiate future business co-operation.

To participate in EP, a company has to fulfil certain requirements. First of all, the company has to qualify as an SME, according to the official definition of SMEs used by the European Union1 . There are also other requirements for participation, especially when it comes to the host companies. The host companies represent and come from the host region selected by the European Commission. These companies should be of a certain size, have been in business during the last three years and have at least one specific proposal for international co-

operation.

The EPNS was unique in many senses: It was the first occasion on which regional activities of this magnitude, and within the EU co-operation programme, were arranged in Scandinavia. It was the first occasion on which the host region comprised three countries – Finland, Norway and Sweden. It was the fist occasion on which there was a special Host Company Day, where host companies were given an opportunity to establish contacts with each other. The host companies at EPNS came from the northern parts of these countries and amounted to 374 companies: 144 Swedish, 115 Norwegian and 115 Finnish companies.

To make sure that the host companies would get as much as possible out of EPNS, they were offered special training programmes by the organisers of EPNS. The purpose of those was to develop competence in how to use the EPNS area effectively, understand the booking system, negotiation and meeting techniques, cultural differences, aspects of international business, language training and preparation of display material and stands. The special training programmes were more or less similar in all countries but, when it came to additional preparation activities, they differed somewhat in the three countries. The Norwegian part of the EPNS project had, for example, a longer preparation phase for their host companies than Sweden and Finland thanks to a parallel internationalisation project initiated and financed separately by the Norwegian Trade Council. This special effort towards the Norwegian host companies also affected the follow-up work of the contacts made during EPNS.

EPNS attracted a great number of people during the days in Luleå. Over 9 000 business meetings took place and almost 1 100 visiting companies from 50 different countries participated.

METHODOLOGY

During a period of approximately one year after EPNS took place, researchers from Sweden, Norway and Finland have been following the host companies. For each of the three countries the results of the individual national research have been published but, as there has been extensive co-operation between the researchers, mainly to create a questionnaire and to discuss methods, it has been possible to make a useful comparison between the nations. The individual nation-based reports differ somewhat as, for example, the official assignment given by the national authorities regarding the follow-up and evaluation.

In the case of Sweden, the host companies were involved in a one and a half year process. During this period, the Swedish host companies answered three questionnaires, the third of which was issued by the Swedish Foundation for Small Business Research (FSF) in co-operation with the Finnish and Norwegian researchers. The other two questionnaires were distributed by Nutek, the official organiser of EPNS, shortly before and directly after EPNS took place. The Swedish host companies were also visited by consultants about 5-6 months after the EPNS event. We have also interviewed 36 national counsellors,representing visiting companies from different countries, two persons at EU level and six persons from the Swedish part of the organisers. The national counsellors' final reports have also been investigated. All this information has been collected by FSF for a total understanding of EPNS.

Several statistical tests have been made to find significance's between `successful' and `unsuccessful' companies.

THEORETICAL FRAMEWORK

The Swedish report is based on different theories and assumptions concerning SMEs, for example, programme theory for schemes and incentives to stimulate the development of SMEs (Vedung, 1991; Hjalmarsson, 1997), the internationalisation of SMEs (Lindmark et al., 1994; Johannisson et al., 1996), intercultural communication theory (Samovar et al., 1994; Phillips-Martinsson, 1992; Lundberg, 1991). The ASCI model (Fornell et al., 1996) has been used in a modified way to measure customer expectations (that is the host companies' expectations), perceived quality of EPNS, perceived value of EPNS, overall customer satisfaction (ASCI) and customer loyalty, that is, whether the host companies will be loyal to the EP event, recommending others to participate or themselves participate again in EP. For the regional-economic analysis we have used a model by Andersson (1995). The modified Fornell model and the Andersson model were also used in the Nordic report.

THE RESULTS OF EPNS AT SWEDISH LEVEL

In Luleå, 144 Swedish host companies from the four northernmost counties participated in EPNS. They were represented by over 300 people. The three largest groups of Swedish host companies came from the following sectors: electrical engineering and electronics (15 per cent), wood industries, carpentry and joinery (15 per cent) and vehicles, agricultural and forestry machinery, equipment and accessories (11 per cent). The companies had an average export rate of 25 per cent. EP is a project to facilitate the internationalisation of SMEs and to give them the opportunity for making initial contact with SMEs from other countries. One interesting observation from the evaluation is that EPNS seemed to be most effective for more internationally orientated Swedish SMEs. On average, Swedish host companies had 27 business meetings, meaning that they spent at least half the time at their disposal on business meetings.

Of the Swedish host companies, 116 answered the third questionnaire. Roughly, one-quarter of the companies claimed that they expected EPNS to fulfil their demands to a high degree. One-third of the companies had an opposite opinion and the rest had no special expectations. To summarise, this means that a majority of the companies had fairly low expectations concerning the business relevance of the meetings. The majority of the host companies thought that their own opportunities for success were good, since they thought that they had internationally competitive products, that EPNS was a good opportunity to meet other potential partners, that EPNS was useful for creating future co-operation, thatEPNS was relatively cheap and effective and that it was not a waste of time participating. On the other hand, the majority of the host companies thought that the contacts they had during EPNS were not of any special importance when compared to other internationally orientated activities and contacts, that the results were not important as regards the international success of the company, that they did not increase their knowledge of their competitors nor that they had made contracts with interesting partners.

A Swedish host company spent, on average, roughly 180 man-hours on EPNS, including the special training activities and participation during the days of the EPNS event. The time spent on preparations was about 35 per cent of these hours; time spent on the event days was over 40 per cent and the remaining hours were spent on follow-up activities. We have also calculated the total cost, including the cost of the hours spent, to be 87 000 Swedish kronor (SEK) on average of which one-quarter was spent after the EPNS event. We estimate that the average cost of participating in EPNS for a host company is 15 per cent of the total annual cost

of internationalisation.

The regional effects for the Luleå region have also been calculated. These effects are calculated on the basis of how much money was spent in the region during the EPNS'96 days. We have taken into account the alternative costs for the event since we really are interested in the difference between what was spent in the region and what would have been spent had there been no EPNS'96 event. Firstly, the host and visiting companies and other participants can be estimated to have spent about 11 million SEK (MSEK) during the EPNS'96 days. Furthermore, of the total budget for EPNS'96, roughly 18 MSEK were invested in the region, giving a total figure of 29 MSEK. The net effect is then calculated by reducing that sum by the alternative costs. If we do that we get a net effect of 25 MSEK. These 25 MSEK can be estimated to consist of increased salaries (17 per cent), increased taxes, both governmental and local (50 per cent), increased revenues to company owners (15 per cent) and, finally, increased imports to the region (18 per cent). If we examine different sectors, the results are divided mainly between hotels and restaurants (27 per cent), other services (35 per cent), buildings (24 per cent) and transport (11 per cent). For other sectors, only marginal effects could be seen. To summarise, the net regional effect is estimated to have been a surplus of 25 MSEK. Half of that sum is various forms of taxes which will be spread outside the region, while the other half will stay in the region.

At the end of June 1997, when the last evaluation was made, there were 43 agreements made by 25 companies and 68 `expected' agreements. This means that out of the approximately 3 400 business meetings that the Swedish host companies accomplished, only 3 per cent resulted in agreements. The organisers had set as an objective for EPNS that 50 per cent of the host companies should have some kind of co-operation agreement one year after EPNS in Luleå. In the case of the Swedish host companies, this objective was not fulfilled. This does not mean that EPNS was unsuccessful for the host companies. The observations point out that the Swedish host companies in general are satisfied with participating in EPNS considering the costs and quality of the event.

It is interesting to look at what kind of companies the Swedish host companies made agreements with and what kind of agreements were made between them. Half of the agreements made by Swedish companies are with other Swedish companies or companies from other parts of Scandinavia. The rest follow the usual distribution for the most common Swedish export markets, that is, companies within the EU, often from Germany, Great Britain and France.

The Swedish host companies seemed satisfied with their internal competence concerning international businesses. From an intercultural communication point of view, this is interesting as the Swedish companies stated that they did not experience any problems in negotiating with companies from different cultural settings. Probably there must have been difficulties as there are actually very few agreements with `far-away nations'. Or maybe the Swedish host companies did not have any interest in getting agreements with countries and markets far away. An explanation of this attitude is that there is a concentration of agreements (and expected agreements) in the Nordic market and therefore follow-up and control have probably been easier for the companies as this market is quite well known to them already and there is also a cultural similarity.

The purpose of EP is to stimulate co-operation between SMEs from different countries all over the world. By co-operation, the EU Commission means, for example, R & D partnerships rather

than traditional buying and selling relationships. From the Swedish host companies' point of view, this is actually not what they wanted to get out of EP – they want to sell their products! Furthermore, they seemed to be irritated by the fact that other companies they were meeting had the same aim, despite the purpose of EP. Of the agreements made by the Swedish host companies, 60 per cent concerned buying and/or selling relationships.

When it comes to following up the contacts made after EPNS, the average Swedish host company has spent approximately a working week on such activities. In comparison to the time spent on preparations before and during the EPNS event days, this is proportionately little (see above). The Swedish host companies were offered the help of consultants to follow up their contacts, but showed little interest.

In general, the EPNS was a project appreciated by both the Swedish host companies and other people interviewed. Comparing the answers from the Swedish organisers with the answers from the national counsellors and people responsible at EU level, it seems that most people are very satisfied with the implementation of the main activities of the event. The Swedish organisers, however, are somewhat more negative about certain aspects of the organisation of the event. That may be because of knowing about the internal problems they met during the process, which were not known about by people outside the project organisation.

THE RESULTS OF EPNS AT NORDIC LEVEL The Norwegian host companies had, on the whole, a higher ratio of valuable meetings to number of meetings (57 per cent) than the Swedish host companies. The Norwegian companies also had twice as high a rate for successful meetings than other host companies. One explanation of this is that the Norwegian companies invested more in preparation and follow-up activities.

Table 1 The number of meetings for the host companies

Country	No of meetings(M)	Valuable meetings(V)	Successful meetings(S)	V/M (%)	S/M (%)	S/V (%)
Sweden	3 400	1 400	111	41	3	8
Norway	2 500	1 425	173	57	7	12
Finland	1 568	n a	47	n a	3	n a
Total	**7 468**	**n a**	**331**	**n a**	**5**	**n a**

Since the success of the companies depends upon their ability to convert these potential contacts into partnership agreements or projects, it is very interesting to see how the companies have performed. Concerning the number of host companies securing agreements or negotiating such agreements, 28 per cent of all host companies have an agreement after one year. The highest proportion of host companies with partnership agreements is found in Norway where 40 per cent of the companies have obtained partnership agreements. The corresponding numbers for Sweden and Finland are 22 per cent and 20 per cent. The main objective set by the organisers was that 50 per cent of the host companies should have an agreement one year after EPNS. This is not the case in any country. Norway has nearly twice as high a proportion of agreements than Finland and Sweden.

As 21 per cent of the companies could have an agreement in the future and, if we estimate that 50 per cent of them are to be completed, roughly a further 10 per cent of the companies will make an agreement in the future, increasing the percentage of all host companies with agreements to 38 per cent, getting the Norwegian companies fairly close to the goal. The differences between the host countries are shown in Table 2. If the estimation is correct, we can also conclude that roughly at least one-third of the host companies in each country will

Table 2 The proportion of successful host companies

Country	Agreements	Under negotiation	Total estimated proportion
Sweden	22 %	24 %	34 %
Norway	40 %	18 %	49 %
Finland	20 %	22 %	31 %

have an agreement in the near future.

Another conclusion that can be drawn from the above table is that, on average, one out of twenty meetings could be a successful meeting. For the Swedish and Finnish companies, the figures are one out of thirty-three. Therefore, it is important as a host company to have realistic assumptions concerning the probability of success with an event such as EPNS.

Cross-national differences between host companies

In the Nordic report we investigated to what degree there are national differences between host companies in Sweden, Norway and Finland, concerning opinions and money invested. We have chosen to divide the conclusions in different phases of the EPNS process: preparation and participation, follow-up and evaluation.

Preparation and participation

The Norwegian host companies spent nearly twice as many hours on preparation activities as the Finnish host companies and 60 per cent more than Swedish host companies. The same relationships are valid for money spent on preparation. Many of the Norwegian host companies, for example, participated in the EP event in Portugal which was the one before EPNS. When it comes to money invested in marketing material, Swedish and Norwegian companies had invested nearly twice as much as the Finnish companies.

Follow-up activities

The Norwegian companies are more satisfied than the Swedish and Finnish companies with the follow-up activities from EPNS consultants. They also to a higher degree think that these activities yielded results. We also see the same pattern as before, namely, that the Norwegian companies invested more hours and money than other companies. One interesting result here is that the Finnish companies to a higher degree than other companies neither thought that it was difficult to negotiate with companies from other cultures nor that they had lack of international experience.

Evaluation

The results concerning the evaluation of EPNS show that Norwegian and Swedish companies to a higher degree than Finnish companies would recommend other companies to participate in EP. They are also more satisfied with EPNS. The companies especially did not agree that the results of EPNS are very important for the future internationalisation of their firms. Companies also did not agree that EPNS increased their competence for co-operation with other companies or that EPNS was very valuable to the companies.

`Successful' companies

By `successful' we mean companies with agreements and possible agreements.

The number of hours spent on preparation by Norwegian successful companies are at least twice as many as those spent by successful Finnish and Swedish companies. There are also big differences in the amounts of money spent by the Norwegian companies compared to the other companies. For the participation phase there are no significant differences. Concerning the follow-up, Norwegian companies are more satisfied with the follow-up activities from EPNS consultants. However, here there are no differences of opinion whether this follow-up yielded any results. The successful Norwegian companies have worked more hours on follow-up activities and also spent more money on such activities.Also, these companies did not think that they lacked international experience. Neither Norwegian nor Finnish companies thought that it was difficult to negotiate with companies from different cultures. The Swedish companies agreed that it took longer time than expected to establish partnerships. Swedish and Norwegian companies were the most positive about statements concerning whether they would recommend other companies to participate in EP or whether EPNS in total was very valuable for the companies. These companies were also, to a higher extent than the Finnish companies, very satisfied with EPNS. However, no group of successful companies, in general, agreed that the results were very important for their future internationalisation.

`Unsuccessful' companies

By `unsuccessful' companies is meant those without agreements of any kind. Although, it does not mean that the company cannot have gained other positive effects apart from agreements or possible agreements from EPNS.

Even among unsuccessful companies, the Norwegian companies spent more hours than other unsuccessful companies on preparation. However, they did not spend more money than other companies on preparation. There was no difference between the groups for the number of hours spent during the EPNS event, but the Norwegian and Swedish unsuccessful companies spent more money than the Finnish companies during this phase. As regards the follow-up phase, the Norwegian companies are more satisfied than the others concerning the follow-up activities of the EPNS consultants. The same pattern of replies could be seen if the follow-up yielded any results. The unsuccessful Swedish companies stated that they spent more hours and money than other unsuccessful companies on following up potential partners. The unsuccessful Finnish companies were the ones that to the greatest extent said that they neither lacked international experience nor had difficulties negotiating with companies from different cultures. All the successful companies agreed to a great extent that ”it took a longer time than expected to establish partnerships”. All the companies more or less disagreed with the statement that EPNS was very valuable for them. They were even more negative about the statement that the results were very important for their future internationalisation. The same negative answers could be seen for the statement that ”EPNS increased our competence in co-operation with other companies”. In general, most of the firms were also not very satisfied with EPNS. However, most of the unsuccessful Swedish and Norwegian companies would recommend other companies to participate in EP.

Differences between successful and unsuccessful companies

The results can be stated as follows:

<u>Successful companies</u>

spent more hours on preparation for the event

spent more hours on follow-up activities

invested more money on visiting partners

invested more money on other follow-up activities

are more positive about results of follow-up activities

to a greater extent agree that EPNS was very valuable for them

recommend other companies to participate in EP

are in general more satisfied

Successful companies did not

spend more money on preparation

work more hours during the EPNS event

invest more in marketing material

For the other statements there are no significant differences.

Some final remarks concerning host companies' behaviour

The Norwegian host companies are the most successful, followed by the Swedish host companies. Some possible explanations are given in the Nordic report, namely, that the Norwegian companies spent many more hours on preparation and follow-up activities. At the same time, we could see no differences in the number of hours spent during the EPNS event. Therefore we conclude that it is of vital importance not to regard an EP event as happening only on the days when the meetings occur but as a process with scheduled training, education and follow-up activities. Norway stated from the beginning that this was to be a process over a period of three years. The effects of this are that a lot of the agreements were made by the Norwegian companies. On average, Norwegian unsuccessful companies spent more hours on preparation than Swedish and Finnish successful companies. Another explanation of national differences could be that the host companies were from different sectors in Norway, Sweden and Finland and/or of different sizes. Obviously, the Norwegian contracts were mainly for companies in the food and food processing industries, while the Swedish companies in the electrical engineering and electronics sector were the most successful and, in Finland, companies with most contracts were in the wood products, carpentry, joinery and furniture sector. One possible explanation that could indicate such a difference is that Norwegian and Finnish companies to a much greater extent than the Swedish companies have sales agreements. The conclusion could be that it is more difficult to create sales agreements in sectors like electrical engineering and electronics than in sectors like food and food processing industries or wood products.

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1 From 1st of January 1997, the EU has changed the definition of SMEs to business with 1-249 employees but, in 1996, the definition was businesses with 1-499 employees.

2 By the Luleå region is meant the cities of Luleå, Piteå, Boden, Älvsbyn and Kalix

NEW ENTREPRENEURS FOR THE 21 ST CENTURY.

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ABSTRACT

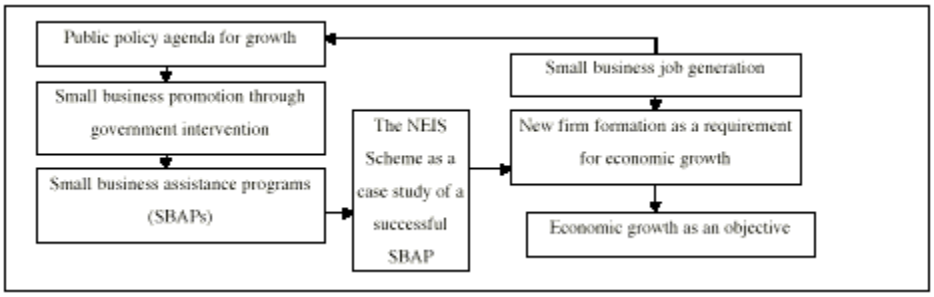
While large business continues to shed labour through downsizing and outsourcing due to structural change and the demands of international competition, small business has been increasingly regarded as the major source of employment growth for the future. If small business as a sector is to shoulder this burden, it will require government support in certain areas. Small Business Assistance Programs (SBAPs) provide that government support in areas of perceived need. One area of perceived need is the creation of new small businesses by previously unemployed persons. This has a twofold effect of creating employment and reducing unemployment rates, both priority agenda items for national governments. The most successful program of this type in Australia is the New Enterprise Incentive Scheme (NEIS).

INTRODUCTION

There is a growing body of literature on new firm formation, however this has rarely been lionked with SBAPs (Howard and Hine,1997). The data indicates the success of this particular SBAP through its longevity, changes in government and the actual results with regard new business established and employment created through these businesses. Transferability to other countries and other programs is explored so that benefit can be gained outside Australia.

The authors of this paper attempt to provide a theoretical framework to explain and justify the existence and success of the NEIS program in Australia. The following diagram displays the links between the major concepts contained in the paper:

Figure 1. The purpose of NEIS



The economic significance of small business

It is becoming increasingly difficult to question the burgeoning role of small business in the economy (Birch,1987;1996; Reynolds,1996; Kirchhoff,1995; Revesz and Lattimore,1997). In response there has been an increasing public policy and industry emphasis on assisting small business. This has been evidenced by the Small Business Ministry being elevated to Federal Cabinet, and the raft of reports and commissioned studies focusing on small business' contribution through job generation, internationalisation and innovation (LEK,1994; McKinsey,1994; NBEET,1994; Revesz and Lattimore,1998).

A number of notable researchers (Cannon,1996; Reynolds,1996; Birch,1987) have indicated the onset of a new era, which will improve the competitive position of those small firms which do not rely upon the infrastructure of the industrial era. The growth of new firms must have a starting point. We then must explore the literature on new firm formation to highlight the importance of the establishment of new business to the economy. As it is through both the growth of existing small businesses and the emergence of new firms that job generation and economic growth can be maintained.

New Firm Formation

Literature abounds on the exploration of the factors which influence the birth of new businesses (Haverman,1997; Aldrich,1990; Specht,1992; Howard and Hine,1997). This literature tends to take a life cycle approach to the pre-birth and birth of new firms. This is an area of public policy focus in Australia, on how governments can support the growth and development of existing small businesses and new firms in the economy. This is obviously a reaction to the overwhelming evidence of the positive impact small business can have on job creation and economic growth. In order to provide theoretical support for the role of intervention in firm formation, the life cycle literature is briefly explored.

Life cycle stages are critical to the exploration of new firm formation. The major studies include:

• For Christensen and Scott (1964), firms progress through three stages as size, number of products and market coverage expands.

• With Steinmetz's (1969) stage theory of business development, small business survival becomes a function of its progress through four stages, namely, direct supervision, supervised supervision, indirect control and divisional organisation.

• Greiner (1972) continued the focus on managerial style and competence in a five phase model. In each phase, business evolves until a crisis point is reached when transition to the next phase is achieved by `revolution'. The crises emerge as the firm grows more mature and larger.

• Kroeger (1974) distinguishes between the entrepreneurial function and the managerial function. Whereas the entrepreneur conceives the initiation of the enterprise, this is not the same as running a successful growing business which requires different and specific management skills. The entrepreneur then must either incorporate the required skills within the enterprise either personally or via recruitment.

• With Schollhammer and Kuriloff (1979) six stages are envisaged for the small enterprise life cycle including launching the venture, take-off, drive to maturity, maturity, decline, and

revitalisation and renewal.

• Hanks et. al.(1994) provide an excellent taxonomic summary of the available literature on organisational life cycles. As their taxonomy portrays four configurational stages which appear to reflect start-up, expansion, maturity, and early diversification stages'(1994,23).

Klofsten (1994), looks broadly at the Organisational Life Cycle and, based upon a thorough review of the literature, proposes eight aspects of early development:

1. Formulation and clarification of the business idea 5. Core group expertise

2. Development of finished product 6. Commitment of the core group and prime mover of each actor

3. Definition of market 7. Customer relations

4. Development of an operational organisation 8. Other corporate relations

The first four of these relate directly to the early formation of an enterprise, as is the case in the NEIS program. Each of these life cycle approaches indicate the need to recognise the early start-up phase of the enterprise and the skills required. In recent years a new approach to life cycle analysis has emerged based upon biology which looks at founding rates in populations - known as population ecology.

The population ecology approach to life cycles and founding rates

By far the most notable of authors in this field of research is Howard Aldrich (1979;1990;1993). Aldrich has helped transpose the concepts of population life cycles from the scientific discipline of ecology, to business research. The basis of the concept of population ecology is competition for environmental resources. Aldrich (1990) found in his literature search that `most articles in the JSBM and the IJSB from 1976 to 1985, focused on going concerns, not new business' (Aldrich,1990,8).

`Founding rates are constrained by death rates in two ways. First, existing organisations tie up resources, so that foundings only have access to them when they dissolve. Second, potential founders may be frightened by relatively high or increasing death rates' (Aldrich,1990,9). This has been empirically tested by Delacroix and Carroll (1983) in their study of newspaper foundings in Ireland and Argentina. Halliday, Powell and Granfors (1987) also found that prior deaths had a negative effect on the subsequent founding rate of state bar associations.

In discussing the intra-population processes Aldrich states that:

`An S-shaped pattern results, combining the effects of two changing processes: increasing dissolution rates and decreasing founding rates. Together these processes lead to fewer net additions to a population as it approaches the carrying capacity of its environment'(1990,9).

Five studies have found a curvilinear relationship between prior and subsequent foundings:

`Delacroix and Carroll (1983) reported a curvilinear relationship between prior organisational births and subsequent foundings for newspapers, as did Hannan and Freeman (1987) for

unions. Staber (1989) reported significant curvilinear effects for two of the three populations of co-operative she examined in Atlantic Canada. Carrol and Hannan (1989) found support in five of the eight newspaper populations they tested, but not in three others. Barnett and Amburgey (1990) found that prior foundings of telephone companies were positively associated with subsequent foundings' (Aldrich,1990,10).

The critical point deriving from the above quotation is that when new businesses are formed, others follow. This means that there must be a very positive economic impact of this formation, through job creation and wealth creation, particularly as more businesses move into the niche. This relates to Aldrich's (1990) concept of *density dependence*

Learned (1992) in his work on firm formation, though with a concentration on the individual founder, believes that the evidence is strong that the environment plays a very significant enabling/constraining role in new venture formation collectively. The environment may affect the situation(s) that stimulates intentionality (e.g. a poor economy causes the potential founder to be dismissed) and certainly affects the sense making dimension (e.g. a healthy economy may improve the potential for raising capital) (page 44). It is research such as this which provides the foundation for SBAPs.

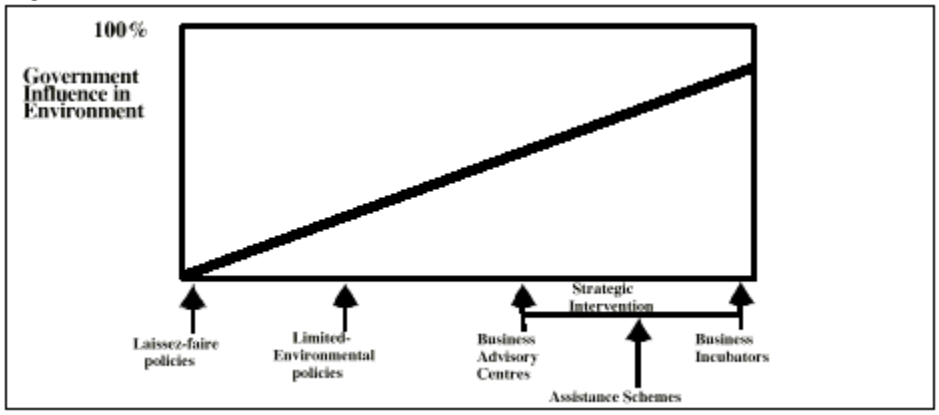
Small Business Assistance Programs (SBAPs)

The literature explored so far has indicated the critical role small business plays in the economy and the need to ensure new firm formation and founding rates are strong. There has, however, been some debate as to how best to deal with small business promotion, a debate often concerned with government intervention in the economy (Lal 1985) . This paper considers some of the issues associated with this debate, with particular reference to small business assistance programs (SBAPs) which represent a public policy approach of direct intervention.

Small Business Development Policy

Various researchers have identified broad public policy approaches to small business development (see, for example, (CEDA 1977; Peterson 1988; Theocarides and Tolentino 1991)). Peterson envisages a continuum. (Figure 1 summarises the continuum.) At one public policy extreme is the *laissez-faire* approach which views government activity as an impediment to spontaneous private, entrepreneurial activity by individuals and firms.

Figure 1 Peterson's intervention continuum



Peterson's middle of the continuum is the "limited-environmental policy approach" which presents the government's role as active stewardship of the economy, in creating the right climate for small business through policy instruments controlling factors such as price and wage inflation, interest rates, and taxation.

The other policy extreme on Peterson's continuum is the "strategic interventionist" approach. This approach envisages government policy activism through direct aid to small businesses in the form of financial aid packages, counselling programs, procurement policies and business advocacy programs. Strategic interventionism thus contemplates direct intervention at the level of the firm through special small business assistance programs (SBAPs). Often the target of SBAPs will be disadvantaged groups (such as women or the unemployed), disadvantaged industries (for example, traditional cottage industries under threat from modern technology), and economically disadvantaged regions (such as where catastrophes have occurred - war, famine).

Defining Forms of SBAPs

The physical manifestation of SBAPs takes a variety of forms. One form is that of the small business advisory service or bureau, such as the Business Enterprise Centre (BEC) network in Australia. BEC activities are mostly in providing advice, for example, on market opportunities, where to go for legal advice, regulatory requirements, and so on. The effect of such agencies is largely that of a multiplier agent (Meredith 1987) .

Another form is that of programs which provide more in the way of training or perhaps financial assistance, in terms of specific needs of the client. So, for example, the New Enterprise Incentive Scheme in Australia, or the Enterprise Allowance Scheme in the United Kingdom (OECD 1989) , provide business training, along with financial support to unemployed people wishing to establish a small business. Another increasingly popular form is that of the business incubator (sometimes called managed workspaces). These can provide a comprehensive range of services to clients including rent subsidies, administrative support, ongoing consulting, marketing, research and development support, new technologies, subsidised labour, training, and indeed, as many services as are considered necessary to ensure successful small businesses among the client group, resources permitting (Smilor 1986) .

Bruch and Hiemenz (1984) suggest that "government action and public institutions cannot serve as a panacea for all deficiencies in the functioning of private enterprise or markets". Difficulties that small business owners face may reflect the market selection processes taking place and not necessarily bias in the system. The implication is that government intervention should not be interfering where markets are selecting naturally against small businesses, else new inefficiencies may arise. The issue is therefore one of determining what benefits SBAP are expected to provide, and how this can be maximised.

Benefits of Small Business Assistance Programs (SBAPs)

Wood (1994) distinguishes between two types of benefits that SBAPs provide, *primary* and *secondary*. Primary benefits are the improvements that flow to the client's business as a consequence of the support provided. Thus the firm may be better able to compete in the market, meet statutory obligations, increase its profits, and grow in size.

The secondary benefits of small business assistance are those that flow to the economy as a

whole, such as in job creation. Wood suggests that, although SBAPs may report job creation as a consequence of their intervention, additional jobs or sales created in the client's business may have come at the expense of other firms, representing "a reshuffling of economic activity and not an overall increase. In terms of the economy overall, it has been a zero-sum game" (p66) and secondary benefits are cancelled out (although policy objectives associated with redistribution of resources may well have been achieved). It remains to be determined when secondary benefits arise from intervention by SBAPs. In the following case example, secondary benefits are identifiable and tangible.

The NEIS Case

In the following sections of the paper, a history and précis of the New Enterprise Incentive Scheme is provided as an example of a successful SBAP in Australia, as evidenced initially in its 13 year existence. The program itself has moved through two identifiable evolutionary periods. As these periods are outlined in ensuing sections a picture of the operation and purpose of the NEIS program will emerge. Details are then provided of the major features of the program and indicators of its success.

NEIS 1985-1989

NEIS was introduced as a pilot program by the Commonwealth Government in March 1985. Its objective was to create new employment opportunities by providing income support and training to those unemployed persons who have the capacity to establish a small business. At that time the labour market in Australia was sluggish following the recession of the early 1980s. Self-employment was seen as a viable alternative for unemployed people who were encountering difficulties in obtaining paid employment.

Schemes of this nature had already been implemented in other countries and indeed within Australia some of the State governments had established schemes which provided capital assistance in the form of loans and/or grants. NEIS was planned to be introduced on a complementary basis with State and Territory Governments prepared to commit resources along the lines of existing schemes.

NEIS was available to unemployed people aged 18 years and over who, at the time of application, were registered for full-time work with the Commonwealth Employment Service and in receipt of unemployment benefits. Applicants had to submit a researched business proposal indicating prospects of business viability. Details of the assessment procedures varied between States, reflecting local views and circumstances. However, common eligibility requirements for the NEIS Allowance applied. Only new and independent enterprises would be eligible for support and proposals to establish enterprises in saturated markets or which involve activities which could bring the program or Governments into disrepute would not be funded.

Participants were paid a flat rate allowance, broadly in line with the unemployment benefit entitlement (income support). The allowance was paid for up to 52 weeks. The NEIS Allowance was not indexed but subject to annual review. NEIS Allowance was taxable, however an income test would not apply in respect of the Allowance to ensure a guaranteed and constant level of income support for the operation of the enterprise in the first year.

Participants were advised and encouraged to attend appropriate training courses to make

them fully conversant with the range of issues and responsibilities associated with establishing a small business enterprise. An evaluation of the program in 1987 found that NEIS was having a positive effect on sustained self-employment. 69% of NEIS participants were still in self-employment in their NEIS assisted businesses three months after the NEIS Allowance ceased, with a further 7% of respondents in other employment.

NEIS made a further contribution to employment by generating employment for others. The evaluation found that NEIS businesses had created one additional job for every 1.5 businesses in operation. In comparison, the informal group had only generated one additional job for every 2.6 businesses in operation. The net impact of the program compared favourably with net outcomes of other labour market programs. In 1987-88 the Government formally established the program.

NEIS 1990 to present - introduction of Managing Agents (MAs)

In 1989-90 the Federal Government decided to encourage private and non-government organisations to participate as intermediaries in the delivery of the program. Delivery by these organisations, MAs, was to supplement, and in some cases replace, the joint delivery of the program by the States and the Commonwealth. The decision was seen as being consistent with the Commonwealth's objective of greater involvement of the business community in the Government's employment, education and training programs. Delivery of the program through MAs was designed to enhance its equity, efficiency and effectiveness.

In general, it was envisaged that the administration of the program would closely reflect that of the existing Commonwealth/State scheme, with more local delivery through the MAs. Participants continued to receive income support and training from the Commonwealth, loans from State governments and private institutions. MAs roles were to assess business viability and deliver training and mentor support.

Since that time the role of MAs in the delivery of the program has increased markedly, while the continued involvement of State governments has varied. This evolution can be explained by the rapid expansion of the program in the early 1990s. Places available to the unemployed under the program have increased almost 1,400% from 467 in 1989-90 to the current allocation of 7,000 in 1996-97. This increase has forced many State governments to consider the increased financial and resource implications of continued involvement in the program. Currently, all NEIS places are delivered through MAs. Details on NEIS program places and budgets since 1989-90 are contained in Table 2 below

Table 2: NEIS Program Places and Budgets From 1989-90 to 1996-97

Year	1989-90	1990-91	1991-92	1992-9	1993-94	1994-95	1995-96	1996-97
Program Places	467	1,134	2,752	3349	4,890	5,914	10,190	7,492
Budget ($m)	5.248	12.184	28.167	44.151	59.974	80.729	104.059	112.000

MAs are appointed following competitive open tendering exercises conducted in each State/Area and are required to submit extensive tenders which detail their experience in the small business field, previous experience with unemployed people, number of places they wish

to deliver and a unit cost price per place delivered. They are paid an agreed fee based on achieved outcomes, i.e. for each unemployed person that is approved for the NEIS Allowance. This fee covers all costs incurred by MAs and takes account of the attrition rate between training and placement onto NEIS Allowance. Contracts are Standing Offers for a three year period.

There are currently over 130 organisations around Australia contracted to act as NEIS MAs. These include national networks such as Business Enterprise Centres, accountancy firms, private business organisations and public and private training companies. A number of MAs specialise in clients from specific categories or with specific business ideas, including:

Young people (18 to 25 years old);
Women;
Migrants;
Rural; and
Clients with business ideas in the field of Arts.

Program Eligibility and Entitlements

To be eligible for NEIS, clients must be:

registered with Centerlink for full time employment;
18 years of age or over and less than the Age Pension age during the period of NEIS Allowance; and
receiving a Department of Social Security pension/benefit/allowance. In addition, a client's proposed business must be:
new, independent and not in competition with existing businesses;
assessed as likely to be commercially viable after 12 months of NEIS assistance; and
reputable, non controversial and legal.
The NEIS program contains three distinct elements:

* training in small business management and small business skills;

* NEIS Allowance (income support paid at a rate equivalent to unemployment benefits) for up to 52 weeks;

* mentor support during the first year of business operation.

Applications are accepted from eligible unemployed people. Those with a viable business idea are accepted for initial training during which a detailed business plan is developed. This business plan is considered by an Advisory Committee which makes an assessment of business viability. The Advisory Committee must contain a DEETYA representative and at least two independent business people.

The decision to progress onto the income support and mentor elements of the program after training is made by DEETYA following the recommendation of the Advisory Committee. It is also dependent on the availability of NEIS places. Around 20% of applicants who receive NEIS training do not continue onto the income support element, they may decide to withdraw from the program or they obtain employment.

Evaluation

The Commonwealth Government has undertaken three evaluations of NEIS, in 1987, 1990 and 1993. The findings of the first two evaluations were limited in that the numbers surveyed were too small to deliver reliable data due to the small number of clients that had completed the program (398 in 1986-87 and 467 in 1989-90). NEIS will undergo a further evaluation in 1997.

In 1993 the Commonwealth commissioned a major evaluation of the effectiveness of NEIS, with particular reference to assessing the delivery and administration of the program following the introduction of MAs. Overall the evaluation found that NEIS was successful in assisting participants into self-employment. The secondary job creation effects of the program were also found to be significant. However, the net impact of the program, i.e. the change in participant outcomes that can be attributed directly to program intervention, could not be assessed as there was no comparison group used in the evaluation.

The main findings of the evaluation were three months after cessation of NEIS assistance;

• 64% of participants were self employed;

• a further 9% were in other employment; and

• for every 10 NEIS businesses an additional one full-time and four part-time jobs were created.

These figures did not match those of 1987, however by 1993 the scheme was 12 times larger than in 1987. Within NEIS there were inevitably programs which varied in their success rates. The figures represent the minimum percentage of participants in self-employment as it was assumed that participants who could not be contacted (i.e. 19% of the three month group and 31% of the twelve month group) had ceased operating their business. Due to firm birth and death, some of these former NEIS participants may be operating another business from the original. Again this is a common phenomenon, that many successful business owners have operated another business previously, usually in the same industry as their current business (Hine,1997).

It must be remembered that the figures above are only after 3 months of the formation of the business, and more particularly the formation of a business by a previously unemployed person. The results of this then compare favourably with the majority of small businesses, most of which do not commence employing staff until their second year of operation.

The evaluation also indicated that MAs were more effective in delivering NEIS (as measured by positive program outcomes) than under the previous inter governmental arrangements. MAs appeared to have improved delivery of the program through their location in local communities and therefore their ability to keep in contact with participants to provide business advice and mentor support, and their expertise in enterprise development.

This opens debate in another area of SBAPs, as indicated earlier and highlighted by Peterson's intervention continuum (See Figure 1). Though this is a form of intervention in the market, the use of MAs ensures the intervention is as close to the market model as possible, as it is the private sector providing for the private sector.

In addition to the formal evaluation of the program DEETYA also conducts continuous Post Program Monitoring (PPM) of all clients three months after completing a labour market program. The most recent available data shows that 81% of former NEIS participants are in employment (72% self employed and 9% in other employment) three months after the end of NEIS assistance, (generally 15 months after business start-up). In addition to participant employment outcomes, NEIS also generates secondary employment. The PPM survey shows that, three months after cessation of NEIS assistance, every 10 successful NEIS businesses, on average, create an additional eight new jobs.

Contributing environmental factors

There are a number of factors which can directly influence the success of new business. Direct intervention in developing the skills of new entrepreneurs can be the most beneficial influence on those whose skill levels may be deficient in small business management. It is important to raise these skill levels to a point where the NEIS participants are equivalent to the typical first time business owner. If their skills surpass these levels then some degree of success can be claimed.

Small business competencies

A complex set of factors goes into making a successful entrepreneur or SME owner/manager. The following section investigates selected authors' views on the managerial competencies required in small business management. Gartner (1989) supports a competency-based approach to defining and developing the role of entrepreneur or small business manager. The entrepreneur should be seen as an individual undertaking a set of activities involved in organisation creation.

Boyatzis takes the argument one step further by considering *specific* actions and behaviours leading to *effective or superior performance*. It is argued by Boyatzis and Delahaye (1992) that only such competencies should be considered in an education and development program for managers (including entrepreneurs and small business owners/managers). Such competencies can be developed through formal and experiential training.

Training

The development of management competencies is critical to the success of the NEIS participants as new business owners. The provision of practical training to NEIS participants has been highlighted as one of the key elements of the program. In line with Commonwealth policy to improve the quality and national consistency of training, an accredited NEIS curriculum was developed in 1994.

The curriculum consists of a nominal 200 hours, made up of 160 hours of core modules and 40 hours for the development of the NEIS business plan. The curriculum is aligned to the Australian Standards Framework Levels 3 and 4 established by the Australian National Training Board. It contains the broad management competencies that are consistent with NEIS businesses which are developed under a competency based training (CBT) model.

The curriculum offers a range of learning outcomes to be met and was designed to accommodate the various delivery strategies of MAs. It also contains mechanisms for the ongoing assessment of participants' business plans. Successful completion of the curriculum

by a participant leads to the awarding of a Certificate in Small Business Management (NEIS).

The core NEIS curriculum modules are:

Small Business	Marketing	Operations Plan
Business Planning	Financial Planning	Record Keeping
Small Business Law and Tax	Pricing, Costing and Break-Even	

The business plan

It has been previously indicated that business planning is one of the important areas of training for the NEIS participant. The purpose of this is twofold:

1. To provide the basic competencies required in formulating a business plan

2. To support the development of an assessable document which will be use to gauge whether the participant proceeds to later phases of the support program.

Access to the NEIS Allowance remains contingent on an assessment of the viability of the participants business plan and availability of NEIS places. In addition, the Commonwealth has also developed and accredited a Preparatory Small Business Training Course for assistance in pre-NEIS training. The curricula offers 40 nominal hours and covers:

Personal Development and Small Business Success Factors
Business Feasibility
Introductory Market Research Strategies
Awareness of Australian Business Practices
Introduction to Computers for Small Business

This is an essential early ingredient which many new business owners lack. In fact only 27% of small businesses in Australia had an operator with some training in small business management (DWRSB,1998).

Mentor Support

Mentor support provides business advice and counselling for participants during business plan development and the first year of business operation in order to maximise the success of the business. MAs may decide whether to provide mentor support directly or recruit mentors. Mentors are expected to discuss business performance with participants on a one-to-one basis at least five times during the first year of business operation. Mentors are encouraged to arrange group meetings of NEIS participants in order for participants to benefit from the experience of others, to develop a network of business contacts as well as receive general advice and guidance on a range of business issues.

Research on business networking (Hine et.al.,1996; Holmes,1996; Buttery,1996) indicates that many of the higher order competencies required to operate a successful small business are learned from other successful businesses. The combination of these approaches in the program provide it with greater substance and diversity than most intervention programs which tend to concentrate on one or two approaches. A holistic approach to the development of these new businesses is aimed at the development of a holistic approach to the running of the business. In effect it is `hot-housing' for new owner/managers.

Self Employment Development

In March 1995 Commonwealth legislation was passed which enabled unemployed clients who have been in receipt of income support for more than six months to develop self or group employment ventures (whilst continuing to receive income support) for up to 12 months. A process has been developed for assessing clients' applications for Self-Employment Development (SED) and Group/Community Co-operative Enterprises (GCCE) using the expertise of NEIS MAs in small business management, training and familiarity with the client group. This initiative is seen as complementing NEIS and generating increased demand for the program.

Recent Developments - New Resources

From September 1996 the following new resources were made available for MAs to further assist developmental efforts:

An information pack containing curriculum support materials and delivery mechanisms associated with the Certificate in Small Business Management (NEIS);
Strategies for Delivery of NEIS Training to Rural and Isolated Participants;
Preparatory small business training curricula and models for delivery;
Visual aids such as brief videos and material on success stories in particular featuring women role models (including non-English speaking background, carers and indigenous women);
A Total Quality Framework for NEIS Mentors;
Two practical workbooks to assist unemployed people and business advisers to establish Cooperative Enterprises; and
Guidelines for Best Practice to assist women.

Implications for other countries and other programs.

What has been presented in this paper is far from unique. The approaches outlined could be easily transferred to any country or international region. It is hoped that this case will provide the incentive for other governments to consider this form of intervention. The figures support the success of a program many had little faith in early. It has taken a number of years to expose the true level of success of the program. Any government which initiates similar programs should not expect overnight results. New approaches and new ideas are often difficult to gain support for. From the educational perspective this program provides effective competency based training as well as experiential learning through mentoring and through the development of business plans and the actual establishment of a new business. There is not much more a government can do but to allow those who were previously unemployed, the opportunity to employ others in their own business.

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Entrepreneurship: An Exploratory Study into Recently Established Businesses in Regional New South Wales, Australia.

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Abstract: This empirical exploratory study involved intensive interviews, based on the framework developed by Timmons, with twelve entrepreneurs from the Coffs Harbour area of New South Wales, Australia. There is significant growth in small business in this area because it is generally considered a very desirable place to live and many entrepreneurs are drawn to the area because of life style considerations. The sample of twelve small businesses was selected from sixty-three recently established businesses with between ten and twenty employees. The paper identifies aspects of the start-up phase and examines the business, as seen by the entrepreneur, over its first two years. The twelve case studies are analysed and conclusions drawn that can be used in the education of entrepreneurs. A number of areas for future research are also identified.

Introduction

The purpose of this paper is this paper is twofold: firstly, to identify aspects of the start-up phase of twelve businesses with between ten and twenty employees, over the first two years of their existence, and secondly, to identify any factors that could be peculiar to starting a business in Coffs Harbour, a regional area, that could have application to regional development generally.

The research will be of use in education and training programs for entrepreneurs entering the area with business plans. Coffs Harbour is a tourist centre with an idyllic climate attracting many people to the region as superficially, at least, it promises a superior life style. The reality, particularly if a new resident is attempting to start their own business could be very different with barriers to entry and a general reluctance by the community to support new businesses. Unemployment is among the highest in Australia.

The paper records the findings of the interviews, based on an outline provide by Timmons J A (1994) and analyses the responses. The questions were modified, in an effort to take into account the argument in Karpin (1995, p178) that *Australian enterprises and managers would be assured of a local stream of high quality and relevant research rather than relying on the efforts of overseas researchers who may operate in a quite different economic environment.*

Discussion

The businesses surveyed in this study fall within the definition of small business in Australia,

being less than 20 employees in non-manufacturing and less than 100 in manufacturing industries.2

The central question is *what makes an entrepreneur or small business owner?* To attempt to answer this question it is necessary to look at the developments in entrepreneurship which come from three sources: firstly, from the contributions of economic writers and thinkers on the role of the entrepreneur in economic development and the application of economic theory; secondly, from the psychological trait approach on the personality characteristics of the entrepreneur: and, thirdly, a social behavioural approach which stresses the influence of the social environment as well as personality traits (Deakin 1996, p7). In this paper, consistent with that of Timmons (1996), the emphasis will be on the entrepreneur as a *person* with particular emphasis on the personality traits that enables the small business owner/manager to cope with the challenges that are faced in the start-up phase.

The *entrepreneur* or *one who undertakes* has been defined by many researchers including Casson (1982) as someone who specialises in making judgmental decisions about the coordination of scarce resources. Say, one of the first writers on entrepreneurship saw the entrepreneur as the person who both owns and runs a business (Drucker, 1985). Timmons (1994) defines entrepreneurship as a human creative act involved in finding personal energy by initiating and building an enterprise or organisation, rather than by just watching, analysing or describing one. Other writers have emphasised the role of creativity and innovation as an intrinsic part of the entrepreneurial process.

Another area of concern in the start-up phase is that because Coffs Harbour is seen as a pleasant place to live many people are tempted, because of the lack of employment opportunities, to start their own business even though they may not have the necessary management skills to survive. Consequently, many new firms are doomed to failure and the possibility of incurring high social costs including the loss of the family home and the break down of families.

In this study a vast number of variables in business start-up were explored, however in this paper the following are seen as particularly relevant:

The significance of any role models to the entrepreneur and how this has influenced them in the start-up phase.

The nature of any relevant experience in the industry and how this has helped the entrepreneur cope with the challenges of start-up.

The importance of selecting the right staff and the contribution they have made to the success or otherwise of the business. What sorts of employee attributes seem important?

The role of business partners in the start-up phase and any attributes particularly sort after in a business partner.

The way and the extent to which the entrepreneur has used professional advisers in the business.

The entrepreneur's assessment of his/her strengths and weaknesses and how they affected the business start-up.

The entrepreneur's assessment of the satisfaction achieved in building the business thus far.

• Any other observations that the entrepreneur would like to share in setting up a business in the Coffs Harbour district?

Methodology

With the aid of the Business Enterprise Register (BER) located at Southern Cross University (SCU), a random selection of small enterprises, having between ten and twenty employees, was conducted for the purpose of interviewing entrepreneurs. Leedy (1993, pp127-128) states that to bring any research planning and design into clear focus it is important to resolve the following four questions with respect to the data:

• What are the data needed?

• Where are the data located?

• How will the data be secured?

• How will the data be interpreted?

Sarantakos (1993) refers to the symbolic interactionism as an object-directed methodology, meaning that the investigator conducts research through observation, questioning and document analysis.

The questionnaire was designed to provide a structure and reduce the time taken with the entrepreneur. The questionnaire was adapted from Timmons' (1996: p35-37) with minor alterations to reflect local conditions. Jobber (1991) stated that the main strength of the face-to-face questionnaire is its ability to cover complex issues. Next in the process was setting up times to tape the responses from the entrepreneurs. The questionnaire was delivered to the entrepreneur in advance so that they could consider the issues more fully.

The reasons why a case study approach was used include the arguments of Smith and Dainty (1992) where they consider that qualitative research using the case-study method is often more appropriate for tackling the important research problems of management. Research cases are used to build theory. Qualitative research, according to the canons of positivism, is fine for exploratory studies, but quantification is necessary to establish the validity of any findings. Concerns with representativeness may be irrelevant because this is the only pilot for further developments. Results may be representative of small business performance in the location surveyed, but the sample results do not generalise and hence cannot legitimately be extended to a broader population (Holmes et al:1991:p182). Sarantakos (1993) states that there is no such thing as a right or wrong research method, rather all methods are useful, relevant and effective.

By not having a complete range of questions with boxes or Likert scale, the interview was left open for the entrepreneur to expand on the points and gave the opportunity for serendipity. The questionnaire was structured in such a way that the entrepreneurs answer all of the questions and was given the opportunity to provide further comments, if appropriate. Holmes et al (1991) reports that naturalistic research would have no prior theory base, would be unstructured and would use case studies that employed flexibility and subjective methods.

Sarantakos (1993) states that the questionnaire is a popular method for the following reasons: it is relatively inexpensive in terms of development time and production cost; it produces quick results; can offer assurance of anonymity and can avoid the bias or any errors caused by the presence or attitude of an interviewer. Jobber (1991) argues that the potential for using open-ended questions is more limited than with face-to-face or telephone interviews since their presence increases response rates.

From the BER two percent of small enterprises were selected in a particular region, with six percent being interviewed. After the initial contact with the respondents, a copy of the interview was faxed to them, before the interview was conducted. Berdie, Anderson & Niebuhr (1986:p12) suggest that telephone interviews usually start to deteriorate in quality after ten or fifteen minutes. It is their recommendation that “surveys requiring an abundant number of questions be conducted either by mail or by personal interview. The interviews were conducted in person and took between twenty and forty-five minutes. Leedy (1993) argues that the nature of data, written or observed, is an important consideration in selecting the appropriate research methodology (qualitative or quantitative).

On completion of the interviews the responses were analysed. The questionnaire could provide a basis for similar studies, with minor adjustments, to be conducted in other regions of New South Wales, Australia or New Zealand. It could provide the basis for comparative studies or even longitudinal studies. Sarantakos (1995) argues that questions can be divided into the following categories:

• primary questions that are questions that elicit information directly related to the research topic;

• secondary questions those items that do not directly relate to the research topic, but are helpful for checking consistency of opinions and reliability of the instrument used; and,

• tertiary questions that have neither primary nor methodological significance, but are used to establish a framework that allows convenient data collection.

Research Findings

Entrepreneurs & Role Models

A high percentage of entrepreneurs did not identify a role model, which is surprising in the light of Timmons findings (Timmons: l994). Those who did identify a role model, said it was the former employer or family member. Some of the entrepreneurs reported that former employers had provided a very sound training ground in the methods of doing business.

Previous work experience

The region studied had a high percentage of unemployment (approximately fourteen percent). Some of the entrepreneurs commenced their businesses by using their redundancy payments or moved from the metropolitan areas for a better life style. One entrepreneur decided to buy a small business with her husband because he could not find work, today she employs more than ten people and has bought the husband out of the business and runs the business on her own. Another entrepreneur interviewed said that he actually left the region to find work in the metropolitan area. After a period of time he returned and set himself up in a business, which

has proved to be very successful. The entrepreneur said that on moving back to the region people treated him like an outsider making establishment of the business more difficult. He commented “It is known in small towns that to become a local you have to be there longer than fifteen years to be accepted.”

Furthermore, some entrepreneurs related to professions. Some entrepreneurs started out in a profession like their parents and other family members. They became bored or needed a challenge in life so they did something entirely different. A couple of entrepreneurs reported that by playing a sport, they ended up purchasing the centre where they played. They also reported that the buying of the business was for an interest, not as a business venture. The result for those entrepreneurs is that they made those businesses, into thriving concerns.

A couple of entrepreneurs commented that they were working in Sydney not feeling fulfilled, so they started their own businesses in Coffs Harbour. One has been very successful with the business being one of the biggest in Coffs Harbour and the other has been successful but has tried to contain the business because it was getting too big. He virtually moved to Coffs Harbour for the life-style, not to put in the long hours that were expected in Sydney - seven days a week twelve hours a day. The comment made was that“Everybody else manages on a wage, we can do the same. Your tastes never change but the money changes, ”he now employs eleven people.

Some entrepreneurs said that having a business in Sydney in the early 70's was different. Money was there to be earned, if you worked the long hours. It is not so easy these days, with all of the government red tape and the thought of bad debts. Some believed it would have been easier to establish their business in Sydney and growth would have been quicker. Even with a recession the entrepreneurs made the comment that money is still there to be made.

It was interesting to note that the majority of entrepreneurs just *fell* into the businesses. A good percentage of them had been employed by multinationals somewhere in their working career. They have moulded their businesses on what they had learnt. They found that working for multinationals very limiting in terms of having goals and achieving them and suppressed their ability to use their creativity and innovation and consequently got frustrated with the job. One entrepreneur made this comment, “Having corporate policy that was totally withheld from staff, you only had to achieve your sales objectives and was very frustrating. When a distributorship for an association with the fuel company came due on the north coast, it had a few properties involved with it as well, I thought it was a good opportunity at the time to, after three years of working for someone”.

In addition another entrepreneur reinforced the issue by stating “When working for these big companies, you get a fair insight and learn the aspects of the company policy. So when leaving that company and starting your own business you have the necessary skills to embark on the same course as your former employer”. That entrepreneur owned three agencies in another region, having grown up in the country he decided to sell up and move on to Coffs Harbour.

Personal strengths of entrepreneurs

All of the entrepreneurs interviewed where friendly, approachable and made time to respond to the questionnaire. They held high expectations for their staff and expected them to uphold the image of the business, to be neat and tidy by wearing their correct uniform, have the right

attitude and provide good service.

It was reported that the majority of entrepreneurs had a good administrative base. Typical of most entrepreneurs is to take a good look at identifying opportunities and making them happen.

Not surprisingly, entrepreneurs considered their strength their technical expertise. A couple of the entrepreneurs interviewed made statements about the importance of their staff. One entrepreneur was very adamant when he made his comment, “We have expertise right through the company, we are not running with idiots, less chance of making mistakes. If a mistake is made, it's a mistake because they didn't mean to make it. Where most of the others (competitors) make a mistake because they are incompetent, and that is the difference”.

Entrepreneurs keep a positive attitude. Have a willingness to learn and adapt to changing circumstances. There is a need not only to have ability in your particular field but to also have perseverance, reliability and integrity.

Personal weakness of entrepreneurs

In order to be successful the entrepreneurs responded to the areas that created problems for the business to grow such as, cash flow problems, not having the appropriate equipment, and not having the staff. Having the right staff for the job was expressed as an area of major concern.

There was concern expressed about the oversupply of builders in Coffs Harbour. Some even argued for some controls over new businesses planning to set up in the area.

Some entrepreneurs expressed their concern about lack of experience in certain areas. They also raised the issue of having to keep abreast of government regulations and changes to relevant laws.

Entrepreneurs reported that the provision of credit was of concern. The usual casual approach to credit in rural areas has become in recent times unacceptable because of the high cost of providing credit. This has led, it is claimed, to a less personal approach to business.

Another weakness recognised by a number of entrepreneurs appears to be time management and lack of attention to detail. They recognised the need for competent staff to assist in these areas. Also, some entrepreneurs recognised that they tended to be over optimistic when it came to sales forecasting.

Entrepreneurs on selecting employees

The majority of entrepreneurs looked for an appropriate attitude and technical ability in their employees. Another important attribute was the ability of the employee to work with a minimum of direction. Some entrepreneurs had serious doubts with respect to their ability to select the right staff and recognised their need to get professional help in this area. Others delegated the responsibility of employee selection to another staff member.

Entrepreneurs on partners positive attributes

Entrepreneurs had high expectations of their partners and expected them to make a significant contribution to both the business and be involved in community activities. Capital contribution was also seen as most important. In small regional areas it is generally recognised that small business should be involved in their community and make a contribution.

Entrepreneurs generally recognised the need for absolute integrity in their partnerships and expected their partners to complement their own skills and abilities. It was important that the partners had a good working relationship.

Entrepreneurs and their advisers

All of the entrepreneurs expected a high standard of professional advice. They particularly required accurate and useful advice on taxation and on how they might more efficiently manage their business. They were concerned with strategies as to how they could minimise overheads.

Where the business employed an accountant there was the expectation that the accountant would participate in the management of the business, not be just the bookkeeper. Some felt that their accountants were not aggressive enough in advising the partners on the progress of the business.

In the case of franchised businesses the franchisee's look to the franchisors for their advice. They are generally satisfied with this arrangement.

Some entrepreneurs expressed concern about their accountants and saw them as particularly useful for tax advice, however, were extremely critical about their general apparent lack of interest in the business generally. Some expressed concern about the conservative nature of the advise given by their solicitors.

Personal rewards for the entrepreneur

Entrepreneurs expressed the importance of having a high profile in the community and said that they enjoyed their status. Reputation was important to them and they felt that the community expected them to take on leadership roles. Some expressed the importance of public recognition where they had received awards for their contribution to the community and for the success of their businesses. They felt that this was positive recognition, not only for their efforts, but for their staff also.

Entrepreneurs said that they enjoyed watching their staff develop with the firm, and found growth in employment opportunities within the firm most rewarding. They felt good about providing work in the community. There found great enjoyment in working with their staff and felt that they made a significant contribution in the success of the business. One entrepreneur commented that if a wrong appointment was made they tended to dismiss that person fairly promptly to preserve the team spirit, which he felt was so important to his firm's success. Most of the entrepreneurs said that they encouraged their staff to become involved in the business and make a contribution over than just merely doing their job.

Only one entrepreneur placed lifestyle considerations over monetary rewards, the remainder were concerned that their businesses would grow and make reasonable returns.

Conclusions

This exploratory study has highlighted a number of ares for further research. At the outset it was stated that the purpose of this paper was firstly, to identify aspects of the start-up phase of 12 businesses with between 10 and 20 employees, over the first two years of their existence, and secondly, to identify any factors that could be peculiar to starting a business in Coffs Harbour that could have a more general application to regional development generally.

With respect to the first question the following areas would be of interest in a more intensive research study:

The extent to which appropriate role models influence the behaviour of the entrepreneur?

The relevance of experience in a large corporation vis-à-vis experience in a small business and how it influences the start up decisions?

The education requirements with respect to the selection and development of employees in small business?

The role of partners and their interactions and the need for professional advisers to act as counsellors in areas of potential tension?

The expanded role of professional advisers in regional areas where the traditional specialisation has been taxation? This would particularly apply to accountants.

The provision of education/development programs for entrepreneurs, an assessment of needs and content?

An assessment of the `barriers to entry' in regional areas and consideration of means to counteract them?

Limitations of the Research

The research was in the nature of an exploratory study and the intention was to isolate areas of particular interest for more intensive study. The results of the study would not necessarily have wide application because of the sample size and the limitations of the analysis. Notwithstanding some interesting aspects of entrepreneurship in a regional context were identified and these will form the basis for future and more rigorous research.

Transcribing the interviews was a time-consuming process and was considered worthwhile because it certainly brought the researcher close to the phenomenon under investigation (Bonoma, 1985).9

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Size Really Does Matter (When You're Small): The Critical Success Factors behind Boutique Hotels in Singapore

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ABSTRACT

A "shakeout" has occurred in the hotel industry in Singapore. In the past few years, the Singapore tourism industry has started to show signs of maturity as tourist arrivals have dipped, lengths of stay have decreased and spending figures have declined. The figures for 1997 are expected to be even lower as the Asian contagion cuts into tourist arrivals for the 3rd and 4th quarters of 1997. Hotel owners who did not heed the early warning signs continued to surge ahead with the opening of new hotels. That surge has now turned into a glut. Faced with falling occupancy rates, an increasing number of hotel owners have had no choice but to convert their hotels into condominiums, serviced apartments and office buildings. Against this backdrop of oversupply and declining tourist arrivals, one sector of the hotel industry beckons to the astute entrepreneur. This is the category of the "boutique" hotel. No exact definition of a "boutique" hotel exists and it is not possible to classify such hotels according to the list of services which they provide. The only similar feature which all such hotels share is their small size and low staff-to-guest ratio which enables them to provide personalized service and attention to their guests. No longer do hoteliers "think big". The catch phrase now is "small is beautiful".

The purpose of this paper is to identify the reasons behind the success of boutique hotels; what exactly is their appeal to guests and whether opportunities still exist for more such hotels to be set up in Singapore.

INTRODUCTION

From January to June 1997, Singapore registered a total of 3.69 million visitor arrivals, an increase of 3.7% over the same period in 1996. According to the Singapore Tourism Board ("STB") Singapore is expected to maintain a similar growth rate for the whole of 1997 with visitor arrivals increasing at 3% to 5%. This steady rate of increase in the number of tourist arrivals augurs well for the hotel industry in the long run.

Historically, the number of hotel rooms in Singapore has increased annually since 1986. In recent years, however, the rate of growth has declined along with the average length of stay as the tourism industry in Singapore begins to show signs of maturity. The Asian financial crisis which started making itself felt from the middle of 1997 and the haze which shrouded the region for several months caused regional visitors and tour groups from Europe to cancel their trips to Singapore. Industry forecasts predict that 1998 would be a tough year with a price war breaking out amongst hotels as competition intensifies.

In an effort to keep ahead of the competition, some hotels have focused on improving their

service standards as a means to capture a particular niche of the market. These hotels have come to be known as "boutique" hotels.

This paper discusses the boutique hotels industry by firstly providing an overall view, followed by a detailed analysis and concludes with a discussion of the challenges facing boutique hotels and their future.

THE RISE OF THE BOUTIQUE HOTEL

Unlike other categories of hotels, neither the Singapore Tourism Board nor the Hotel Licensing Board has any standard definition of what a boutique hotel is. There is also a dearth of information on this topic. One reason could be that the rise of boutique hotels has occurred only in the past few years and captured the attention of developers and business travelers recently.

In the 1960s and 1970s, the hotel industry in Singapore took off when the Government realized the importance of the tourist dollar to the economy. It approved the construction of luxury hotels in the Tanglin and Orchard areas thus triggering off the rapid growth of the Singapore hotel industry.

As South-East Asia developed into a popular tourist destination, Singapore became a logical transiting point for many tourists. There were also increasing numbers of business travelers coming to Singapore which by that time had developed into one of the major financial centers in the region. By the late 1970s and early 1980s, there was a real need for hotels of good international standards to cater to the needs and wants of such visitors who were generally Westerners. This led to a large number of internationally renowned hotel chains setting up shop in Singapore.

At the same time, there was a rapid increase in the number of backpackers and other budget travelers coming to Singapore. These budget travelers who were usually from countries like China and India had relatively lower spending power then their Western counterparts. This prompted the Singapore Tourism Board (then called the Singapore Tourist Promotion Board) to call for the development of a greater number of lower-end hotels, commonly known as budget hotels. Budget hotels usually have minimal facilities and emphasize greatly on being good value-for-money. Several hotel developers heeded the call and this resulted in a large number of budget hotels sprouting up in Singapore over the past two decades.

In recent years, however, tourist arrivals in Singapore have shown signs of slowing down due in part to the strength of the Singapore dollar relative to the other regional currencies. The average expenditure per visitor per day has also declined from US$588 in 1993 to US$530 in 1995, partly because the visitor mix has increasingly shifted from high-spending westerners to value-conscious Asian tourists.

This downturn has been exacerbated by the regional financial crisis. Hotels of all grades throughout Singapore were hit by poor occupancy in the fourth quarter of 1997 with STB figures showing the average occupancy between January and November 1997 falling to 80.4% against 82.2% for 1996 (Straits Times, 1998a). The industry foresees that 1998 would be an even tougher year as hoteliers fight to fill their rooms. As a special promotion, some hotels have even lowered their first night rates at to an unbeatable US$1 per night (Straits Times, 1998b)!

Because of the poor prospects in the industry, some hotel owners have decided to convert their hotels into condominiums and serviced apartments. Some of these hotels include the Melia at Scotts, Cairnhill, Boulevard, Cockpit, Ladyhill, Marco Polo, Equatorial and Imperial Hotels. This trend prompted the government to issue a ruling stating that hotels in the downtown and Paya Lebar areas cannot be converted to other uses. This is to ensure that there will be enough hotel rooms in Singapore (Straits Times, 1997).

This trend has highlighted the fact that there is a glut in the supply of large 4 and 5-star hotels in Singapore and that these hotels are apparently no longer as appealing to visitors as they used to be. A number of enterprising hotel developers who were able to see this oversupply of large hotels as well as the rapidly increasing number of budget hotels, realized that there was a gap in the upper-middle sector of the market which had great potential. A new breed of hotels thus emerged in this previously untapped sector of the industry, catering to the needs of jaded travelers tired of staying in large, impersonal luxury hotels. Such hotels commonly called "boutique hotels", provide visitors with a cosy and homely environment while providing the service and convenience travelers have come to expect of the standard 5-star hotel.

FACTORS CONTRIBUTING TO THE RAPID EMERGENCE OF BOUTIQUE HOTELS IN SINGAPORE

The growth of boutique hotels in Singapore can be attributed to the astuteness of the entrepreneurs who were able to recognize the burgeoning demand for it. The bulk of this demand comes from business travelers on work related visits. These travelers might be working for multinational corporations or businessmen who though based in other countries, carry out sourcing activities in Singapore.

Many in the exhibition industry are drawn to Singapore because of its reputation as an information hub and its high-tech infrastructure. The large number of international trade fairs and conventions hosted in Singapore such as the World Trade Organization Convention held in Singapore International Convention and Exhibition Center (SICEC) have greatly increased the percentage of business travelers. Between 1994 to 1995, Singapore hosted approximately 210 international trade exhibitions which attracted over 32,000 foreign exhibitors and 414,000 foreign trade visitors. As can be seen from Table 1, the number of business visitors who arrived in Singapore for business visits and MICE (Meetings, Incentives, Conventions and Exhibitions) increased from 22% in 1996 to 35% of the total tourist arrivals in 1997, an annual growth rate of 9.5% per annum.

Many of these business travelers look to boutique hotels as an alternative source of accommodation. This is due to the increased sophistication of such travelers who require more personalized service and yet, at the same time, do not wish to splurge on expensive hotels for just a few days' stay in Singapore. Boutique hotels have proven to be a cost-effective choice for these travelers. The success of these hotels can be seen from their numbers which have increased dramatically. From two in 1992, the number of boutique hotels in Singapore has doubled to five in 1995 before tripling to fifteen at present. They have also enjoyed consistently high occupancy rates averaging 85% for the last 5 years, with the exception of 1997 when the estimated average occupancy rate has dropped to approximately 75% due to the regional economic crisis and the haze.

Table 1

Purpose of Visit	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
*Business	456	531	610	692	760	792	863	929	1011	1134	1439
Business and Leisure	160	172	187	205	214	199	200	213	212	198	161
Total	628	718	815	906	959	992	1070	1142	1223	1332	1600

Source: Singapore Tourism Board
(*Includes visitor arrivals for MICE)

WHAT MAKES A BOUTIQUE HOTEL?

The idea of boutique hotels originated from Europe and America where there are numerous inns and hotels which provide cosy accommodation with all the amenities and services of a five-star hotel and yet with the character and ambience of a home. In Singapore, the STB does not have a standard definition of boutique hotels. However, for the purposes of this paper, a working definition of a "boutique hotel" in Singapore would include hotels which have an average of 100 rooms or less; charge an average tariff of S$100 per room night and provide facilities like room service, concierge and business centers. The last feature is usually the one which distinguishes boutique hotels from budget hotels which also operate on a small scale.

In Singapore, only a few hotels can satisfy the above criteria. These hotels include The Duxton and The Royal Peacock, However, there are several other hotels like The Elizabeth and Albert Court which despite having more than 100 rooms, operate like boutique hotels in that they emphasize more on service and provide that personal touch lacking in most large hotels. These hotels have therefore been included for the purposes of this paper to give a more comprehensive picture of the local boutique hotel industry.

Even with the expanded definition, there were still only a small number of hotels which could be classified as boutique hotels. Besides the Duxton and Royal Peacock, the Albert Court, Chancellor, Regalis Court and Inn-of-Sixth Happiness were able to fit into this category. A list of all the boutique hotels in Singapore as at 31 December 1997 can be found in the Appendix.

It is possible to analyze these hotels according to their location, guest mix and facilities.

LOCATION

For the purposes of the analysis in this paper, the boutiques hotels in Singapore have been divided into locations, namely Chinatown, the city area, Geylang, Joo Chiat, Little India, River Valley and Tanjong Pagar.

The majority of boutique hotels are located in the Chinatown (47%), city (13%) and Little India (13%) areas. These locations have been chosen because they are close to the financial district and popular with business travellers who prefer to spend as little time travelling as possible. Their central location; the wide range of facilities and services provided and the willingness of corporate clients to pay a little more for the added convenience of staying somewhere near

their place of work, all add up to the highest tariffs amongst boutique hotels in Singapore. Hotels in Chinatown charge up to S$115 per room night while the second highest tariffs (S$105) are charged by hotels in the city and River Valley areas. The remaining hotels charge an average tariff of between S$70 to S$92.

FACILITIES

To allow for an easy comparison to be made between individual boutique hotels based on the types of facilities and services offered, they have been grouped into one of the three following categories:

Table 2

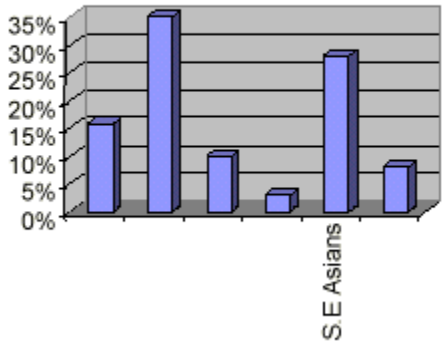
Category 1	1) Guest Services - Laundry Service - IDD Services - Security Guards - Room Service - Wake-up calls - Hotel Doctor - In-House Video Programmes	2) Guest Facilities - Swimming Pool - Business Centre - Restaurants - Lounges/Pubs - Fitness Centre	3) Facilities provided in a unit - Air conditioning - Tea/Coffee making facilities - Television - Mini-Bar - Fax machine - Safe - Hair-Dryer - Laptop electrical adapters
Category 2	1) Guest Services - Laundry Service - IDD Services - Room Service - Wake-up calls	2) Guest Facilities - Restaurants - Lounges/Pubs - Fitness Centre	3) Facilities provided in a unit - Air conditioning - Tea/Coffee making facilities - Television - Mini-Bar - Safe - Hair-Dryer
Category 3	1) Guest Services - Laundry Service - IDD Services - Room Service	2) Guest Facilities - Cafe/Coffee Shop - Restaurants	3) Facilities provided in a unit - Air conditioning - Television - Hair-Dryer

Of the hotels surveyed, 42.5% fall into Category 1, 37.5% are in Category 2 and the remainder are in Category 3. Classifying hotels in this way serves an important purpose when it comes to identifying the competitors of boutique hotels. This point will be discussed later in this paper.

GUEST MIX

Boutique hotels located in the Geylang, Joo Chiat and city areas serve mainly guests from the ASEAN region. The majority of hotel guests staying in the Chinatown, Little India, River Valley and Tanjong Pagar areas are from countries outside the ASEAN region viz the United States, Australia, Japan and Europe. By nationality, the majority of boutique hotel customers came from the United States and Europe, with Europeans making up 35% of the total survey respondents (Table 3).

Table 3



The typical boutique hotel customer is a Westerner in his late thirties and early forties who is in Singapore for business. He will be the main decision-maker in the choice of hotels, although someone else would have made the reservation for him (usually a member of the staff of his company). His stay in Singapore will be short, averaging 2.5 days but he will usually try to make some time to take in the sights. He would have learnt of the hotel through brochures and pamphlets or his business associates. Local boutique hotels should concentrate on promoting their hotels to European and American companies. Although tourists from these countries account for 20.18% of total tourist arrivals in Singapore, only a small percentage of them actually stayed in boutique hotels while they were in Singapore. Hence there is still great potential in the European and American tourist markets. On the whole, customers were generally satisfied with the level of service provided by boutique hotels, with only a small 8% of the hotel guests feeling that there is still some room for improvement. This could be due in part to the relatively high staff-to-guest ratio of 1:1.2, and the boutique hotels' emphasis on providing excellent service with a personal touch.

Most of the hotel guests surveyed also liked the fact that the boutique hotels were located in pre-war shophouses, in surroundings which gave them a feel of the Singapore of the 60s and 70s. This is probably because they generally come from countries where such buildings and surroundings do not exist. The corporate guests were especially pleased with the fact that their hotels were located just a stone's throw from their place of work, enabling them to cut back on travelling time.

Customer appraisals of boutique hotels generally indicate that the hotels are on the right track in emphasizing service and exclusivity, and that they should continue promoting their hotels to corporate customers, especially those from Europe and the United States. However, several of the guests surveyed felt that the hotels should provide more comprehensive facilities for their corporate customers, like additional fax machines or secretarial services, to ensure greater convenience for their guests. There were also some guests who indicated their preferences for more recreational facilities like a gymnasium. These are all suggestions that the boutique hotels should consider when trying to improve their facilities.

CHALLENGES FACING THE BOUTIQUE HOTEL INDUSTRY

As there are only a small number of boutique hotels in Singapore, the competition amongst them is very intense as each seeks to gain a larger share of the market. According to the STB, Singapore seeks to achieve its target of attracting 10 million visitors by the year 2000. But only

36,240 rooms in gazetted hotels are expected to be ready by then. This means that the supply of new rooms will grow at an average rate of 5.8% a year which is lower than the projected annual visitor growth rate of 6.4%. This leaves more room for the boutique hotels to compete with each other and enjoy relatively high occupancy rates for the next few years.

However, it should be noted that the hotel industry will become even more competitive as more land will be released for hotel development over the next few years. For example, the Urban Redevelopment Authority's Development Guide Plan (DGP) for the Robertson and Clarke Quay areas includes more than half a dozen sites reserved for new hotels. Altogether, these riverside plots alone are likely to yield more than 4,000 rooms.

Negative media reports on the haze and weakening economic conditions in ASEAN have continued to adversely affect holiday arrivals to Singapore. These declined by 28.8% in November. However, the business (+8.0%) and MICE (+134.8%) segments have continued to grow favorably and continuing efforts must be made to target this group of visitors.

Another challenge to boutique hotels comes from the many alternative forms of accommodation available in Singapore. Not only is there a plethora of top class hotel accommodation in Singapore but serviced apartments, budget hotels and even resorts in neighboring countries are all competing for the same dollar. Boutique hotels with better facilities and services (Category 1 and 2 Ratings) perceive "Four and Five-Star" hotels such as the Oriental, Marriott, Ritz-Carlton, Conrad, Westin and Raffles as their main competitors apart from other boutique hotels located near their vicinity.

Although the room rates charged by these top-end hotels are almost twice as much as the room tariffs charged by boutique hotels, the former can provide a wider range of facilities and services as compared to the boutique hotels.

On the other hand, boutique hotels with a Category 3 rating see serviced apartments and budget hotels as their closest competitors. A few boutique hotel managers also indicated that resorts in neighboring countries were their competitors as they charged lower room rates. With the opening up of the regional economies, more business travelers are making their way to China, Vietnam and Myanmar as they begin to offer more opportunities. Tourists are also attracted to these destinations as Singapore does not offer a wide variety of attractions unlike Malaysia or Indonesia which have beautiful beaches and mountains. With more than five thousand 3 to 5-star hotel rooms being developed on the neighboring islands of Bintan and Batam and easier transportation and access to these islands in future, tourists could choose to further decrease their length of stay in Singapore. Along with the rest of the hotel industry, boutique hotels suffer from the shortage of labor especially skilled labor in Singapore. Running a hotel is a service oriented business which is heavily dependent on labor. Not surprisingly, hotel managers cite the high staff turnover rate and difficulties in recruitment as recurring problems. Currently, the average staff to guests ratio in boutique hotels is 1:1.2. Many hotel managers hope they can improve on the ratio in order to provide more personalized service.

In an attempt to overcome this problem, many boutique hotels even resort to importing foreign workers. However, there is a limit on the number of foreign workers a hotel can engage. The government has specified that the ratio of foreign workers to local employees be kept at 1:15. Therefore, the two strategies which most boutique hotels embark on is to offer higher wages and automate wherever possible. Some labor saving innovations include self-cleaning toilets, automated check-ins and check-outs.

THE FUTURE OF THE BOUTIQUE HOTEL INDUSTRY

Like the tourism industry as a whole, boutique hotels are very dependent on buoyant visitor arrivals to Singapore. Singapore's strategic location and excellent infrastructure continue to attract visitors both business and tourists alike. Singapore has not been as badly affected by the regional economic crisis as its neighbors and the latest Political and Economic Risk Consultancy ("PERC") Comparative Country Risk Report lists Singapore as the least risky economy in Asia (Business Times, 1998). On a worldwide scale, a recent International Institute for Management Development ("IMD") report ranks Singapore as the second most competitive economy in the world after the United States (Straits Times, 1998c). For these reasons, Singapore continues to be an excellent place to do business for the business traveler. In an effort to attract more such visitors, the STB recently launched an ambitious three-year world-wide campaign called Global Meet 2000 to attract 200% more MICE travelers compared to 1996. This campaign which was launched amid the slowdown in tourist arrivals in 1997 can be seen as a move to gear up for the opening of the mega-exhibition center, Singapore Expo in Changi in late 1998. It also aims to increase Singapore's share of the MICE market which is currently facing some competition from the neighboring countries which have become more attractive price wise because of the recent currency crisis. To achieve its goals, the STB will be giving incentives such as discounts on room-rates and air tickets for organizers who book events early.

The STB's unrelenting efforts in promoting Singapore as the best place for holding trade shows will definitely increase the number of business travelers to Singapore. With demand for their services assured by this constant influx of visitors, boutique hotels with good locations, facilities and guest mix can be confident that their niche in Singapore's tourism industry will not be eroded.

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APPENDIX

BOUTIQUE HOTELS IN SINGAPORE (as at 31 December 1997)

Name	Location
1. Albert Court Hotel	180 Albert Street, S(189971)
2. Damanlou Hotel	12 Ann Siang Road, S(069692)
3. Dickson Court Hotel	3 Dickson Road, S(209530)
4. Dragon Inn Chinatown Hotel	18 Mosque Street, S(059498)
5. Duxton Hotel	83 Duxton Road, S(089540)
6. Four Chain Hotel	757 Geylang Road, S(389659)
7. Inn-of-six-Happiness	33-37 Erskine Road, S(069333)
8. Keong Saik Hotel	69 Keong Saik Road, S(089165)
9. Metropole Hotel	41 Seah Street, S(188396)
10. Regalis Court Hotel	64 Lloyd Road, S(239033)
11. Robertson Quay Hotel	15 Merbau Road, S(239032)
12. Royal Peacock	55 Keong Saik Road, S(089158)
13. Sunshine Hotel	57 Tras Street, S(098122)
14. The Chancellor Hotel	183 Joo Chiat, S(427454)
15. The Inn	36 Temple Street, S(058581)

WINE TOURISM: AN AUSTRALIAN/NEW ZEALAND CASE STUDY OF CELLAR DOOR DECISION MAKING AT SMALL AND MEDIUM SIZED WINERIES

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ABSTRACT

Wine tourism is a substantial income earner for Australia and New Zealand. To gain full potential from this market there is a need to understand the attributes influencing decision making of wine tourists in selecting wineries to visit, purchasing wine and retail repeat purchasing. To date the decision making processes of this customer group have been neglected amongst marketing researchers. This paper develops wine tourism decision making models on the basis of exploratory research undertaken in Australia and New Zealand. The models incorporate the concepts of limited and extended decision making; decision making for known and unknown brands; compensatory, non compensatory and combination decision making processes and the relationship between expectations, performance and satisfaction. The models are applied to the wine industry and further research is discussed and recommended.

INTRODUCTION - THE AUSTRALIAN AND NEW ZEALAND WINE INDUSTRIES

Wine is a growing and increasingly significant export earner for the Australian and New Zealand economies. Annual Australian wine sales are projected to reach $4.5 billion by 2025 "... by being the world's most influential and profitable supplier of branded wines, pioneering wines as a universal first choice lifestyle beverage." (Australian Wine Foundation, 1996).

James Halliday (1997) stated that this 2025 vision would see Australia achieve 6% of world wine sales and a 12.5% share of world export sales, identifying the newly emerging Asian wine market (including East and West Asia and India) as Australia's primary growth area in the longer term. New Zealand, though a smaller player in the international market, still makes an important contribution to the wine industry. In 1996/7 total wine sales of 51.7 million liters, represented an 8.4% increase in domestic sales, an 18.9% increase in export sales and a 10.9% increase in total sales over 1995/6. Wine exports grew from 2% of total wine sales in NZ in the mid-1980's to 25.4% of total sales in 1996/7 (ASWE, 1997).

An associated parallel growth in wine tourism has pursued this growth in the Australian/New Zealand wine industry. Wine tourism in Australia is currently valued at approximately $400 million with a potential value of $1100 million. Victoria has actively promoted wine tourism as a niche market. Through cooperative promotion and marketing of wine tourism, Victorian wineries generated in excess of $100 million to the Victorian economy and attracted 1.9 million visits in 1994/95 (almost 16% over the previous year). Strong growth has motivated wineries to extend cellar door operations to include food with some offering specialized quality menus to complement their wines and accommodation (Tourism Victoria 1995). These actual and potential economic benefits are indicative of what could be achieved by other wine growing

regions throughout Australasia.

For Australian/New Zealand wineries to sustain and build an international reputation as premium wine producers and preferred wine tourism destinations, the support and reinforcement of all key players in the total wine industry is needed. The winery cellar door makes a vital contribution to establishing this reputation and should not to be underestimated.

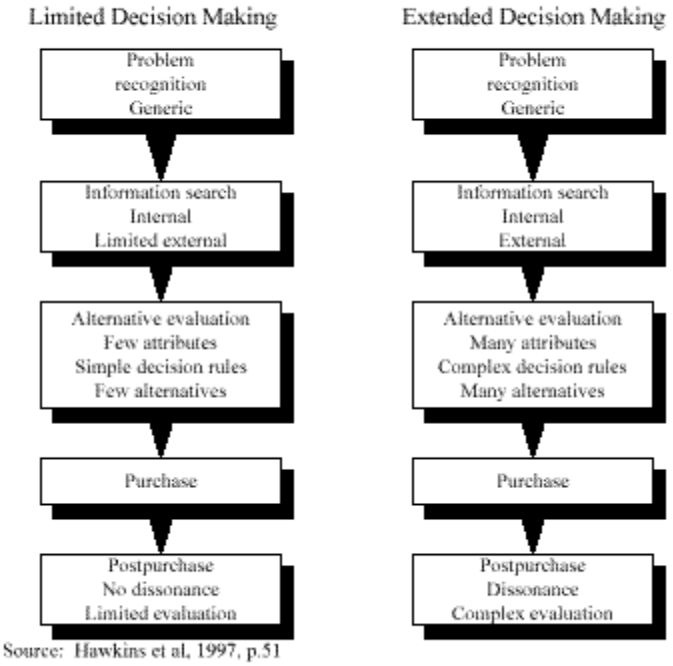
This paper examines the perception of wine visitors (intrastate, interstate and international) in the Augusta-Margaret River region of Western Australia to determine factors influencing wine tourism decision making. With no research undertaken on wine tourism decision making to date, this research was exploratory resulting in the development of consumer decision making models that were subsequently tested in the South Island of New Zealand.

DECISION MAKING IN RELATION TO WINE TOURISM

Consumer decision making attributes, processes and purchase behavior interest all marketers and consumer distribution outlets such as winery cellar doors. Both purchase and non-purchase decisions are important as both involve attracting consumers to the cellar door to trial the wine. The distinctive marketing strategy of offering wine tasting entices consumer traffic reducing risk, increasing familiarity and hopefully resulting in both immediate purchase as well as ongoing purchases and brand loyalty. In relation to wine tourism, consumers make many decisions; which wineries to visit, whether to purchase wines at the wineries and to return to the wineries and make repeat purchases of the wines. Depending on existing knowledge and prior experiences, at each stage this decision making can be limited or extended (see Figure 1).

Figure 1

Types of Decision Making



Source: Hawkins et al, 1997, p.51

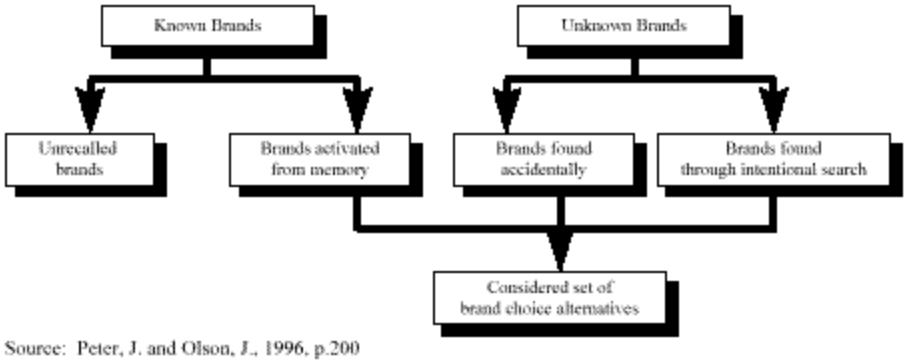
Wine tourists with some knowledge of the product and/or the wineries engage in limited decision making involving primarily internal search and only limited external search. Extended decision making relies on mainly external search with less emphasis on prior or existing knowledge. This decision making process tends not to be habitual as decisions to visit wineries involves some level of planning and information search with most trips involving considerable travel.

Brand Selection, Decision Making Criteria and Integration Processes

Consumer decision making involves some level of information search (internal or external or both) depending upon prior knowledge. The extent of brand familiarity i.e. known and unknown brands, influences consumer decision making. Figure 2 illustrates how brand familiarity influences the development of a set of brand choice alternatives. Unknown brands require more information and trial than known brands.

Figure 2

Brand Choice Alternatives



Source: Peter, J. and Olson, J., 1996, p.200

The visit to the region and its wineries influences brand choice. Brands can be considered for purchase due to existing knowledge, intentional search and accidental discovery. Once recognized, consumers develop a set of criteria for evaluation and purchase decisions. The criteria are usually multi-attributable with many aspects of wine to consider such as taste, quality, price (value) and environmental aspects as the cellar door itself. Consumers set minimum standards of acceptability for each criterion. These attributes can be compensatory (that is one criterion can be compensated for by another), non-compensatory or a combination of both processes (Peter and Olson, 1996). For wine, the product itself would be non-compensatory. If the quality was not at a minimum acceptable level then no other attribute would compensate for this. Environmental factors could be compensatory i.e. if the staff were unfriendly or unhelpful this may be compensated by knowledgeable staff. Thus wine purchase could be a combination process.

Expectations, Performance and Satisfaction

Consumers undergo a process of brand evaluation. The product, the distribution outlet or both may be evaluated in making purchase and repurchase decisions. The interaction of product performance relative to customer expectations influences the decision to buy. The importance of total integration of the total cellar door experience cannot be understated as it influences satisfaction and the resulting perception of the winery and its products. The relationship between expectations, performance and satisfaction is illustrated in Oliver's Measurement and Evaluation of Satisfaction Processes Model (1981) presented in Figure 3.

Figure 3

Measurement and Evaluation of Satisfaction Processes

	Expectation Level	
Perceived Performance Relative to Expectation	**Below Minimum Desired Performance**	**Above Minimum Desired Performance**
Better	Satisfaction	Satisfaction
Same	Nonsatisaction	Satisfaction
Worse	Dissatisfaction	Dissatisfaction

Source: Oliver, 1981.

Customer expectations created through the different elements of the cellar door experience can influence the decision to buy, particularly for unknown brands and wine types. For example, highly attractive external physical attributes at the cellar door can build expectations

of a highly satisfying experience. If expectations are not subsequently matched by high quality service/products, the outcome can be dissatisfaction impacting on purchase decisions.

These foregoing concepts, models and theories of decision making were applied to wine tourism decisions through surveying cellar door visitors to the Augusta-Margaret River wine region and qualitative research undertaken in New Zealand.

CELLAR DOOR SURVEY

In 1996/97 a cellar door survey was conducted in the Augusta- Margaret River wine region. The study (Morris & King, 1997) aimed to identify key market segments, the needs of specific segments and factors influencing wine tourism decision making, and to examine the match between customer expectations and the core and augmented services.

Methodology

Exploratory research in the form in-depth interviews with owners/managers of accommodation houses, general tourists and cellar door visitors, and a focus group with winery owners/managers was undertaken. This explored the nature of the wine and tourism industries and identified salient factors to include in a winery visitor questionnaire. A survey of the 42 winery owners/managers (with a 67% response rate) and a full survey of cellar door and Tourist Bureau visitors followed. In total 583 consumers were surveyed, 466 at the cellar doors and 117 at the Tourist Bureau. A comparative analysis tested for differences in perceptions of the importance of the wineries to the region and the cellar door and its services between two visitor groups. A total of 41 wineries were visited by respondents.

Wine tourism literature and information obtained from in-depth interviews were used to develop the winery questionnaire. Key components influencing decision making were determined by asking consumers to complete a questionnaire identifying:

- visitor demographics, reasons for visiting and if they were new or repeat customers;
- evaluation of winery, promotional and tourist information;
- the importance of product augmentation such as restaurants;
- evaluation of service quality;
- factors influencing the decision to purchase wine at the cellar door.

Consumer decision making models were developed employing the survey results. These were subsequently tested by three wine marketing researchers at 12 cellar doors in the South Island of New Zealand. This research is now being duplicated in South Australia and New Zealand and is being extended to examine the relationship between wine tasting at the cellar door and its influence on purchase at retail outlets. Questionnaire responses were analyzed using a SPSSX social science statistical package. Anovas, t-tests, cross-tabulations, with significance tests and reliability tests were conducted on the data. Reliability tests indicated a minimum of 76% reliability. Due to the exploratory nature of this initial research, the analysis is based on the perceptions, attitudes and ratings by cellar door visitors. Current duplication of this research in other Australian States and New Zealand should enable a more sophisticated level of statistical analysis.

RESULTS

The findings relate to the two components of the research undertaken; the survey of 583 wine tourists in the Augusta-Margaret River wine region in Australia and the evaluation of the decision making attributes at 12 cellar doors in New Zealand.

Cellar Door Survey

Demographically the wine tourist market was highly homogeneous however significant differences existed in monthly wine expenditures amongst respondents. Cellar door visitors were primarily well educated, professional and aged 25 years and over, with 77% having tertiary qualifications and 68% employed in professional or managerial positions. Overall the cellar door visitor was a large purchaser of wine with 82% buying wine on a regular basis and 25% spending more than $100 per month, mostly from retail outlets although 11% were made at wineries and 8% from wine clubs. Statistical analysis indicated that the "at wineries" and the "at Tourist Bureau" visitor groups surveyed formulated a single population. No significant differences existed on any components of the survey. Most respondents (93%) had visited or intended to visit the wineries, identifying them as the major reason for visiting the region. The wineries were the most important attraction for 54% of respondents and 86% considered them amongst the three most important attractions. Even though the region is a major tourist destination with a wide variety of attractions including wineries, caves, attractive coastline and surfing beaches and karri forests, these responses highlighted the importance of the cellar doors to the wineries and to the region. Sixty five percent of respondents were repeat customers and 73% indicated they would definitely return to the region with another 23% stating they would probably return.

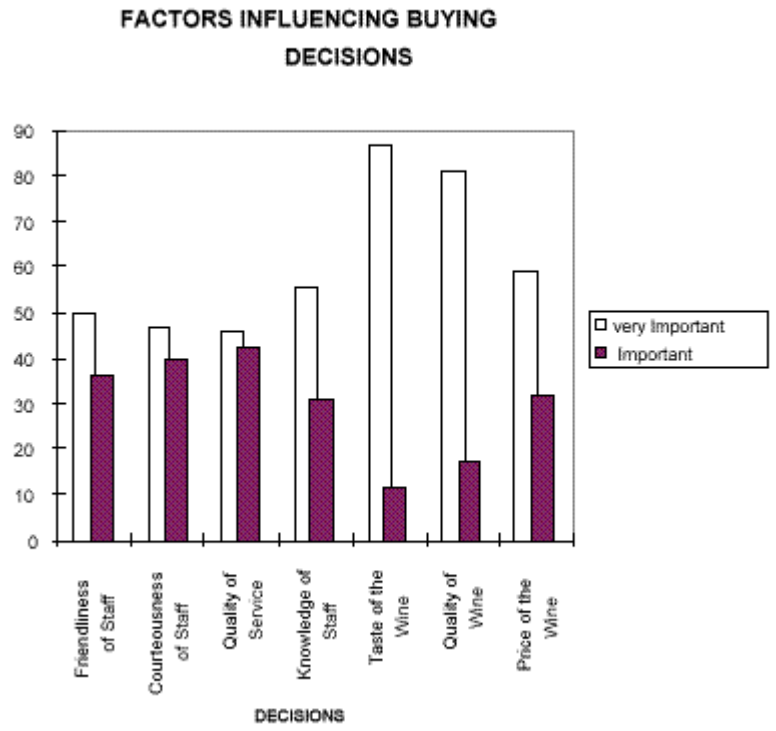
The high level of repeat visits to the region means the opinions of this customer group deserves a high level of consideration in developing strategies for reducing customer attrition and building customer loyalty.

Factors Influencing Winery Selection
While the wineries were the major reason people visited the region, the choice of specific wineries to visit depended on:

· Information and communication - this related to availability of quality tourist maps detailing location, distances and wineries; road signage; cellar door opening times; new and current tourist activities; tasting notes; restaurant and accommodation guides and tourist information availability interstate.
· Wine tasting - this referred to the existence of a cellar door tasting area at the winery.
· Restaurants - this included both formal and informal eating facilities.
· Physical attributes - this related to the welcoming statement, cellar door signage, internal ambience, cleanliness and the availability of public facilities.

Factors Influencing Wine Purchase
The wine purchase decision at the cellar door was divided into two aspects; product attributes and environmental factors (see Figure 4).

Figure 4



· The product - taste, price (value) and quality. Respondents rated price as expensive and an influencing factor but identified the wine as good value considering the price to reflect the quality of the wine. The relationship between price and value of the wine was therefore important, thus we have replaced price with value.

· The environmental factors - staff knowledge, friendliness, courteousness. The depth of staff knowledge expected varied with consumer familiarity with wine. Customers expected staff to be able to answer all their questions, with staff inability to answer questions reflecting poorly on the winery service. The in-depth interviews identified satisfaction with previous experiences impacting on the decisions to return to the wineries and repeat purchase. With two-thirds of respondents reporting their visit as repeat and 75% stating they would definitely return and another 23% stating they would probably return, high levels of overall satisfaction with the cellar door experience are evident. The elements of return visits and repeat purchase are being further investigated in current research being conducted by the authors.

The New Zealand Study

In testing the cellar door decision making models the decision to visit specific wineries were again based on information and communication, wine tasting, restaurants and physical attributes. Factors influencing the decision to purchase wine at the cellar door were further reinforced and refined on the basis of known and unknown brands. Product taste, quality and value remained the primary attributes influencing purchase decisions but the relative importance of the environmental factors changed in relation to whether the brands were known or unknown. With known brands, personal knowledge, prior experience and staff friendliness and courteousness were the major attributes. Staff knowledge only became significant in decisions relating to new wine types/varieties. For unknown brands, staff knowledge became a

major factor influencing selection and purchase decisions. The friendliness and courteousness of staff were also contributing factors.

This research revealed the importance of meeting customer expectations through a total integration of tangible and intangible elements of the cellar door. These factors influenced satisfaction and the resulting perception of the winery and its products. The decision to visit wineries and to purchase wines at the cellar door were highly interrelated.

The appealing, attractive and welcoming physical attributes of the cellar door created an expectation of excellence. Service performance at some cellar doors failed to meet this expectation resulting in dissatisfaction and a decision not to purchase. Creation of a high expectation at the cellar door increased the minimum acceptable standard of attributes, resulting in a lessened acceptance of compensation when some of the attributes did not meet the desired performance. This demonstrated the interaction between expectations, performance and satisfaction and its impact on product purchase decision making. This outcome highlights the importance of establishing a system for gaining customer feedback. Unless winery managers become aware of factors contributing to customer dissatisfaction they cannot take action to overcome these areas of inconsistency.

DISCUSSION

Development of Wine Tourism Decision Making Models

The models developed have been determined on the basis of wine tourists already visiting the region and do not investigate the choice of wine region destination. The objectives were to determine the attributes which influence the decision to visit specific wineries, the decision to buy wine at the cellar door and factors influencing repeat visits and purchases. The major decision making processes of consumers visiting the region were divided into three elements; the decision to visit the wineries, the decision to purchase wine; the decision to return and repeat purchase. The components of each stage of decision making as determined by the survey are presented below.

1. Decision to Visit

· Information and Communication
· Wine Tasting
· Physical attributes
· Restaurant

2. Decision to Buy Wine

· Taste/quality of wine
· Value of wine
· Staff knowledge
· Friendliness of staff
· Courteousness of staff

3. Decision to Return &Repeat Purchase

· Experience of cellar door visit

· Prior experiences
· Establishment of customer relationships

The decision to visit related to factors influencing the wine tourist's selection of specific wineries. These were identified as a need for a good quality, detailed tourist map, good signage, easy road access, a wine tasting room and appealing physical attributes. Many visitors considered a restaurant an important selection criterion. Wineries with no restaurant were visited if in close proximity to those with eating facilities but were generally not the primary selected destination.

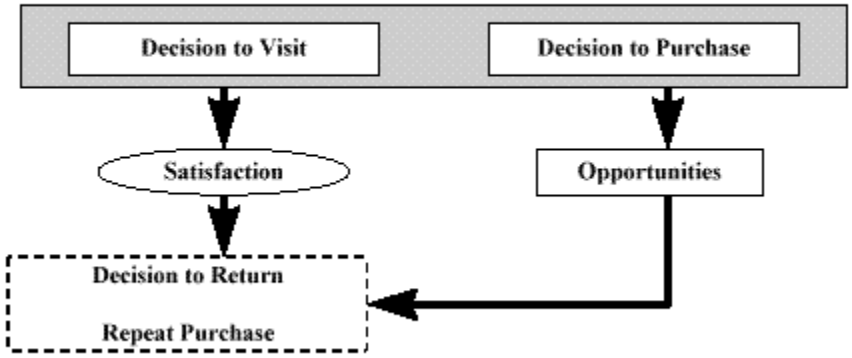
The decision to buy wine came next. The essential criterion in making choices was the product itself. It was vital that the taste, quality and value of the wine met expectations. No compensatory attributes in the decision making process existed regardless of whether the brands were known or unknown. The environmental factors of staff knowledge and service played a significant role with poor performance on one attribute being compensated through high performance on another service element or an outstanding product.

The decision to return was examined in the qualitative research and the cellar door survey. Satisfaction with the initial cellar door experience resulted in respondents indicating they would definitely or probably return. The decision to repeat purchase is currently part of continuing research into onselling and retail sales, so is presented in the model as a broken line (see Figure 5). The relationships between each of these elements of the decision making process are presented in Figure 5.

The cellar door provides opportunities as an excellent channel for communication and feedback. It enables wineries to collect marketing intelligence about wines and customer satisfaction with the cellar door experience; a marketing channel for sales, both direct and mail orders; and the opportunity to develop a database as a marketing strategy to enhance customer relationships by providing information and individualized ongoing communication. Capitalizing on these opportunities reinforces the decision to return to the cellar door and repeat purchase through both winery and retail distribution channels.

Figure 5

Cellar Decision Making Model



Comparison of Known and Unknown Brand Decision Making Attributes

The decision making attributes relating to the "decision to purchase" will vary according to whether a brand is known or unknown. For a known brand the decision is predominantly internalized i.e. based on previous knowledge and experience. An unknown type or variety of wine for this brand could be an exception in which case staff knowledge becomes a significant decision attribute. For unknown brands external factors i.e. staff knowledge and service, become the primary decision criteria. Poor performance in any of these areas could result in non-purchase regardless of the quality of the wine. (See Figure 6).

Figure 6
Decision to Purchase Model

Decision Making Attributes	
• Taste and Quality of Wine	• Perceived Value of Wine
Known Brands • Personal knowledge • Prior experience • Friendliness/Courteousness of staff **Unknown Wine Types** • Staff knowledge	**Unknown Brands** • Staff knowledge • Friendliness of staff • Courteousness of staff

Visits to the cellar door provide the opportunity to experience unknown brands and types of wine. These products are not currently in the evoked set for these wine consumers. If the cellar door experience is highly favorable this brand will be transferred from a position of brand unawareness to one of brand awareness. This acceptance strategy (Hawkins et al, 1997) positions the product to become part of the consumer's evoked set and potentially a preferred brand.

Creating Satisfied Customers by Meeting Expectations

Creating satisfied customers means ensuring the expectations of cellar door visitors are met. These expectations can be preconceived or established at the cellar door. All decision making attributes (the product, physical attributes and environmental factors) must be integrated to ensure minimum acceptable standards for the criteria set by customers. Knowledge of the performance of these criteria relative to expectations can only be achieved if marketing information is gathered from customers about their expectations and experiences. In both the Australian and the New Zealand studies, wineries lacked a substantial client database and did not collect this marketing intelligence. When wineries reported having a client database, it was found that these were not current and the extent of information gathering inadequate and outdated.

CONCLUSIONS

Wine tourism is of growing importance as an emerging market both within Australia and New Zealand. It is of significance both domestically and as an international export earner but to date has attracted little attention amongst marketing researchers. This study is amongst the first to examine the consumer decision making processes associated with wine tourism. It is primarily exploratory in nature enabling the development of consumer decision making models which subsequently need to be tested in other locations and over a longer period of time to establish if these decision making attributes change due to geographical location and over time.

Wine tourists make a variety of key purchase and non-purchase decisions; to visit the wineries, to purchase wines at the cellar door and to return and purchase again. The decisions to visit and purchase wine have been examined in detail based on findings from self reporting surveys undertaken in Australia and New Zealand. The decision attributes relating to return visits and repeat purchase are undergoing further in-depth research across a number of geographic locations. The relationships between visits to the cellar door, repeat purchase and retail sales have been identified by wineries as issues of major significance. If a strong link exists between wine tourism and subsequent purchases then this increases the role and marketing significance of the cellar door and the decision making attributes identified in the models developed.

The application of these decision making models requires wineries to ensure customer evaluation on these attributes. Wineries therefore need to establish a system for collecting customer information on an ongoing basis and must also be prepared to accept criticism and act on areas of poor performance that contribute to nonsatisfaction or dissatisfaction. This enables them to maintain customer communication, build loyalty and remain competitive.

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MARKETING: THE STATE OF THE ART IN SMALL AND MEDIUM SIZED ENTERPRISES IN NEW ZEALAND, 1992-1997

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ABSTRACT

The New Zealand economy has experienced considerable deregulation and economic liberalization since radical reforms were first introduced in 1984. As a consequence, it would be expected that marketing would have an increasingly important role in the operations of firms of all sizes. It has often been stated that marketing is a key, if not the key, determining factor in the survival and success of any commercial enterprise (Brooksbank et al 1992a). Research has shown that effective marketing operates at both an attitudinal/philosophical level as well as at a practical/functional level within the firm. This paper presents a quantitative assessment of the 'state of the art' of marketing at both levels within a sample of small New Zealand enterprises in 1997 and compares results with an earlier study undertaken in 1992. Results show that overall, marketing practices and attitudes have, somewhat surprisingly, changed relatively little during the five year period under review.

INTRODUCTION

The New Zealand economy has been subjected to deregulation and economic liberalization for the past 14 years and as a result it has become a much more open and competitive economy.

According to the World Competitiveness project at the International Institute for Management Development (IMD), Lausanne, between 1993 and 1997, New Zealand's overall ranking increased from 18 th to 13 th . In this situation it is interesting to explore to what extent marketing practices and attitudes have changed over this period of time. The current study is an extension of one undertaken in 1992 which has been described in Taylor and Brooksbank (1995).

METHODOLOGY

The 1997 study comprises a much larger sample base and the questionnaire covered a much wider range of topics than the 1992 study. However in the paper we focus only on manufacturing firms who employ 50 or less employees. The 1992 study had an effective response rate of 35% and a base of 60 respondents, whereas for the 1997 study the response rate was 22% and the sample base was 427. For a full discussion relating to the range and content of the questions see Brooksbank et al (1992b). In this paper we focus only on the analysis of a selected number of questions which throw light on 'state-

of-the-art' of marketing in New Zealand.

FINDINGS

Table 1 shows that the marketing approach adopted by 61 percent of respondent businesses in 1992 was to "place emphasis on prior analysis of market needs, adapting products and services to meet them if necessary", whereas the equivalent response in 1997 was 45%. In contrast, 16 percent and 37 percent of the samples (respectively) would appear to adopt a production oriented approach. A chi square test shows that the differences between 1992 and 1997 are highly significant. This suggests that in absolute terms there is a relatively wide appreciation and adoption of a marketing oriented approach. Interestingly, however, these response profiles indicate that, if there has been a hardening of more 'traditional' attitudes over the five year period, with a production-oriented approach strengthening its position within many firms. This may be due to the fact that under difficult trading conditions there may well be a tendency for firms to fall back on more traditional attitudes and approaches to doing business.

Table 1 - MARKETING APPROACH: 1992 AND 1997 COMPARED

DESCRIPTION	1992 %	1997 %
Make what we can and sell to whoever will buy	16	34
Place major emphasis on advertising and selling to ensure sales	23	12
Place more emphasis on prior analysis of market needs	61	54

Chi-square = 30.6. significant at the 0.05 level

Respondents were also asked how the role of marketing compared with the other business functions in their overall corporate planning activities. Table 2 shows that the clear majority of companies in both 1992 (60 percent) and 1997 (52 percent) regarded marketing as forming a leading or at least a joint leading role in corporate planning activities, with only a small minority of companies (6 percent and 10 percent respectively) claiming it played little or no role.

Table 2 - THE ROLE OF MARKETING IN CORPORATE PLANNING: 1992 AND 1997 COMPARED

DESCRIPTION	1992 %	1997 %
Leading Role	16	17
Joint Leading Role	44	35
Supporting Role	35	37
Little or no Role	6	10

Chi-square = 2.35. N.S.

With regard to the attitude of the chief executive (CEO) towards marketing, respondents were asked, as previously, to choose between three alternative descriptions, reflecting

an essentially functional view of the role of marketing, or the broader, more cross-functional role of an overall business philosophy. Table 3 shows that most companies in both 1992 (65 percent and 1997 (63 percent) describe the CEO's attitude to marketing as "an approach to business that should guide the company's operations", and that there was little change of opinion in the five-year period. It is interesting to note how responses in this table are a little at odds with those in Table 1.

Would it not be expected that respondents who believe that marketing is a 'philosophy' would also emphasize the need to undertake prior analysis of market needs?

Table 3 - ATTITUDE OF CEO TO MARKETING: 1992 AND 1997 COMPARED

DESCRIPTION	1992 %	1997 %
Marketing is best left to the marketing people	8	9
Marketing is really selling	27	29
Marketing is an approach to business that should guide all operations	65	63

Chi-square = 0.15, N.S.

A number of questions were asked concerning marketing strategy in their organizations. When asked the main way in which objectives were achieved, respondents replied as shown in Table 4.

Table 4 - MAIN WAY COMPANY ACHIEVES OBJECTIVES

DESCRIPTION	1992 %	1997 %
Expanding total market by stimulating primary demand	11	11
Entering new emerging market segments	11	26
Winning market share from competitors	53	33
Focusing on cost reduction	22	28
Other	4	2

Chi-square = 10.56, significant at the 0.05 level

As the table shows there has been a movement away from the strategy of attacking competitors head on and towards finding new and emerging markets, and improving productivity. This could be interpreted as 'smarter' marketing and perhaps signals a move away from expensive and potentially crippling price wars and similar tactics.

When asked to identify their company's marketing approach it is clear that some form of segmentation was the most popular strategic option utilized as Table 5 shows.

Table 5 - WHAT IS YOUR MARKETING APPROACH IN THE MAIN MARKET IN WHICH YOU OPERATE

DESCRIPTION	1992 %	1997 %
Go for whole market	17	16
Focus on segment(s)	41	58
Target specific individual customers	40	27
Other	2	-

Chi-square = 5.52, N.S.

Although the differences between 1992 and 1997 are not statistically significant, it is clear from examining the data in Table 5 that some form of segmentation is now by far the most common marketing strategy used by respondents.

When it comes to how firms deal with competition in their main markets, respondents were certainly not adverse to tackling the competition head on as Table 6 shows.

Table 6 - WHAT IS YOUR APPROACH TO COMPETITION IN YOUR MAIN MARKET

DESCRIPTION	1992 %	1997 %
Ignore competition	14	12
Take on any competition	53	61
Avoid head on competition if possible	30	23
There is no competition	2	2
Other	2	2

Chi-square = 1.73, N.S.

Again while the differences are not statistically significant, a desire to protect markets and segments is readily apparent in the data.

"New product development is the process by which companies survive in the long term" (Hart 1996). New product development is critical in all organizations irrespective of size. When new product development among small manufacturers is examined, again we can see a more proactive approach. Table 7 below illustrates a move to recognize the importance of new product development as a means of maintaining or enhancing firms competitive positions. The differences between responses are statistically significant.

Table 7 - WHAT IS YOUR APPROACH TO DEVELOPING AND MARKETING NEW PRODUCTS

DESCRIPTION	1992 %	1997 %
No product development	20	8
Watch competition and imitate	7	11
Actively develop and market new products	72	81

Chi-square = 8.96, significant at the 0.05 level.

At a more tactical level, Table 8 shows how the ranking of the most important factors in gaining business have changed over the relevant time period. Respondents were asked to rank their five most important factors. Table 8 represents the ranking of the mean scores for each factor.

Table 8

FACTOR	RANKINGS		
	1992	1997	Diff.
Company and Brand Reputation	1	7	6
Product Performance	2	1	1
Product Quality	3	2	1
Personal Selling	4	5	1
Pricing	5	3	2
Product Design	6	4	2
Distribution	7	8	1
Advertising and Promotion	8	10	2
Prior Market Research	9	6	3
After sales service	10	9	1
Finance and Credit	11	11	0

Overall the rankings are quite similar over the period, however there has been a major shift away from the perceived importance of company reputation and increased importance attached to product quality, design, and pricing This perhaps reflects a swing towards the more tangible, controllable elements of the marketing mix.

A number of questions were asked in the areas of organization, control and performance. Table 9 shows that during the 5 year period, the importance which organizations attached to market training has remained relatively stable, although the percentage of firms who rank training as of little or no importance has decreased from 32% to 25%.

Table 9 - WHAT DEGREE OF IMPORTANCE DOES YOUR COMPANY ATTACH TO MARKET TRAINING

DESCRIPTION	1992 %	1997 %
The utmost importance	16	20
Some importance	52	55
Little importance	23	19
No importance	9	6

Chi-square = 1.89, N.S.

Over the intervening time period, no significant change has occurred in the way marketing is organized. The most popular structure was having all products under one manager. Given the nature of the sample, this result is perhaps not unexpected . However there appears to be some increasing use of a combination method of organization.

Table 10 - HOW IS YOUR MARKETING ORGANISED

DESCRIPTION	1992 %	1997 %
All products under one manager	59	46
Separate product managers	12	11
Separate market managers	10	9
Combination	18	34

Chi-square = 5.28, N.S.

How organizations evaluated their performance was another area of investigation and the results in Table 11 show that the rankings of criteria have remained identical over the time period this paper covers.

Table 11 - HOW IMPORTANT ARE THE FOLLOWING IN EVALUATION PERFORMANCE IN YOUR COMPANY

PERFORMANCE	1992 %	1997 %
Absolute	2	2
Relative to planned objectives	1	1
Compared to previous year	3	3
Relative to competitors	4	4

When the bases for actually measuring performance are examined, once again no change in ranking has occurred, with overall profit being regarded as the most important by 61% of respondents in 1992, increasing to 66% in 1997 (see Table 12). It is interesting to note the low ranking accorded to market share in both surveys.

Table 12

HOW PERFORMANCE IS MEASURED	1992 %	1997 %
Overall profit	1	1
Sales volume	3	2
Market share	5	5
Return on investment	2	3
Cash flow	4	4

When asked how their company performed competitively in the last financial year, respondents reported a fairly positive outcome as Table 13 shows.

Table 13 - COMPANY PERFORMANCE: 1992 AND 1997

RELATIVE TO MAJOR COMPETITORS		Better %	Same %	Worse %	Don't Know %
In profit terms	1997	41	18	8	32
	1992	28	13	9	49
In R.O.I.	1997	36	16	11	37
	1992	25	9	13	52

In terms of financial performance, the 1997 respondents certainly seem to be reporting a somewhat healthier situation than in 1992

DISCUSSION

This study has shown that, since 1992, many of the small manufacturing businesses surveyed have not changed their attitudes to marketing and how they implement marketing practices to any significant extent. It has been shown that the importance of a company-wide marketing philosophy continues to be fairly widely accepted. Contrary to expectations, however, there was evidence lacking to show that marketing had become anymore important since 1992. This could suggest a case of the "trappings v. substance situation" advanced by Ames (1979), where "lip service" is often accorded to marketing but little time and effort is expended on implementation.

The fact that we are concerned in this study with small firms raises questions of the role of marketing in such organizations as discussed by academics Carson et al (1995) and Romano and Ratnatunga (1995). As Carson (1990) has eloquently said, "marketing theorists should be careful not to criticize small firms marketing for not being properly structured and adhering to classic marketing approaches". This line of inquiry has recently been taken further by an excellent critique of marketing in small firms (Kirby and Sui 1988). As far as is known this is the first longitudinal study looking at marketing in a specific industrial sector in New Zealand and it will be interesting to look at the findings when the investigation is hopefully repeated in four years time.

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ENTREPRENEURSHIP IN THE GLOBAL ECONOMY

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ABSTRACT

While there are many entrepreneurs and managers that claim to have global firms, in reality many are just pursuing international or multi-local strategies instead. Understanding characteristics of the "global" firm and entrepreneur, then, is the focus of this paper. The paper looks at a conceptual framework and draws upon interviews with business people who have started their own firms to assess its applicability to entrepreneurial ventures. The discussion focuses on several points: Defining "global entrepreneurial firms"; Assessing entrepreneurs' level or extent of "global thinking"; Instructing students and managers how to be global entrepreneurs and how to enhance the learning process of global entrepreneurs. The paper provides case examples of three firms to show the development and extent of "global characteristics."

INTRODUCTION

What is a "Global" company? What is the difference between this and a Multi-National Corporation? Why would a company want to be called a "Global" company and how does it become such? These are very good questions of which this paper shall try to expound adequately to answer them.

During an International Business Seminar, the speaker asked the question "What is a "global" company?" The answers that came from the audience ranged from a company that exported products from one country to another to a firm having a physical presence in several different countries.

The idea of being a "global" company is really a frame of mind, a way of looking at the whole world as a supplier and a buyer. When a company is totally global, it looks at the entire world as the supplier of its inputs and a buyer of its outputs. The company is willing to serve the market, the world, when the demand is needed. It puts the different business functions in the most strategic areas in the world, where they will be most profitable. That might mean a firm moving its manufacturing plan closer to its resources, or move its Research and Development (R&D) center to the area that has most of the needed technology to improve the product.

A few definitions are needed to better differentiate between an international and a global company. An International company is one that just deals with importing and

exporting between its domestic country and another country. A Multi-National Corporation, MNC, is a type of company that has its headquarters in one country, but sets up wholly owned subsidiaries throughout the world, an example of this would be Hewlett-Packard. A Multi-domestic company has many companies or units set up in different countries. For instance, a company would set up in Europe and to do its marketing, R&D, manufacturing, selling and distribution, and customer service all in this one country.

The question then is asked, “What makes a company decide to go entirely global?” There are three main forces or drivers that can push a company towards a global strategy (Yip, 1995). These are Industry drivers, Global levers, and Global Organizational factors.

Industry Drivers

Industry drivers are the “underlying conditions in each industry that create the potential for using global strategy” (Yip, 1995 p. 27). Basically it is the structure of the market and its potential. Some of these drivers may be determined by answering the following questions. Are there similar needs among the customers around the world? Can costs be lowered by going to another country that has better technology, cheaper raw materials, or lower labor prices? Are there favorable trade practices or agreements with the firm's domestic country and others (e.g. The United States and Mexico with implementation of NAFTA). The last, but definitely not least of the drivers is Competition. Are other competitors going global? If so, why? If it is to lower costs or exploit untouched markets, a firm might consider this as a viable means to develop a global strategy.

One of the benefits of analyzing these industry drivers is to exploit opportunities when they come. If a firm has a fairly standardized product it can get its name or image recognized worldwide. If a firm's product is perceived as being high in quality, the firm may promote it that way worldwide. I believe this is the reason Toyota is so successful. Customers recognize its quality and image around the world. One can see Toyota vehicles from Japan to the United States, from Germany to the Safari hunts in Africa. Another benefit is to take advantage of lower costs whether that is in raw materials or in lower labor costs or technological advancements.

Some of the disadvantages of having a global strategy would be coordinating management and defining their responsibilities. A global strategy is more complex and requires in-depth planning and follow-up. Exchange rates can be a financial risk, but they can also help strategically by doing activities in the countries that will benefit you from exchange rates. This could raise costs because of additional transportation needed to get the product from the new location or country to the end consumer. If the costs of going global and rearranging a company's functions are more than what the benefits offer the company, then a global strategy should not be implemented.

Global Levers

One of these levers would include the firm's market share. If the market share will increase, a firm should consider adopting a global strategy. Competitive moves are another global lever. This pertains to the extent which a firm makes competitive moves across several countries, not just focusing on one individual country. The firm must also be willing to serve untouched markets, to be the “first movers”. A worldwide marketing plan can be implemented focusing on product standardization.

A word of warning about global strategies, a firm runs the risk of increasing competition. The more people that know about the product will increase the probabilities that other competitors may try to copy or use the firm's ideas. A global entrepreneur who operates a business in Boise, Idaho agreed that going global is definitely a risk because he can't stop competitors from copying his products. In response to a question about protecting his products through patents and trademarks, he said “Yes, but patents only keep the honest people honest.” Plus, it is difficult to protect these patents internationally as seen with thesoftware industry of the United States with other countries copying their products.

Global Organizational factors

These factors pertain to what an organization to have to successfully implement a global strategy. A firm would need to look at its process, people, culture, and structure. Processes deal with effectively budgeting and allocating resources, management's roles and functions. These processes influence the behavior of the company. People pertains to the firm's belief in whether it should employ local citizens or ex-patriots? The firm would have to determine if the local citizens have the technical ability, a global vision, and the education needed to make the company successful. Culture determines if a particular business has a culture that would be difficult to include others. Can the firm's culture be molded? Can it handle culture barriers? Structure looks at the reporting relationships of the firm whether it is formal or informal, the hierarchial structure, and the difficulty of following rules.

Analyzing a Global Strategy

If a firm recognizes that it does have global potential, it may want to consider following certain steps recommended by Yip (Yip, 1995). First of all a global team needs to be organized to include the different functions throughout the firm. All functions need to be able to have an input so all facets may be addressed. This team should meet to define the business. It should focus on one particular piece of the business not the entire operation if the firm produces many different products. This will aid in narrowing down the conversion process from a domestic to global firm more effectively.

Next, the key markets by region should be carefully reviewed (e.g. North America, Europe, Asia, etc.). The countries in each region should be examined to compare: disposable income, local content requirements, labor costs, government purchases, importing and exporting habits, trade barriers, and of course, exchange rates and the stability of the countries currency.

Once the team has looked at the key markets, it will want to look at the strongest competitors. They should be looked at in three different categories: all global competitors that have significant market share, local competitors, and potential global competitors. This global team will also look to see if the country has the capacity to stand alone and adequately take care of its needs. This could also open up other markets in which a company could further proceed to enter. The team will check to see the market drivers, cost drivers, government drivers, and competitive drivers.

At the end of all this a global program will need to be created. This will include the upper management's vision, the processes of the company, and the effectiveness of communication in the firm. Benefits and costs will need to be compared. Upon the benefits being greater than the costs, a global strategy can be implemented.

TEXTBOOK V.S. REAL LIFE

These steps just outlined give a textbook definition of how a global strategy should take place. But is it an easy process? No! There are several steps a firm could take to become global: to be involved in a joint-venture, invest in a wholly-owned subsidiary, create an alliance with another company, or go all out by yourself with no help from others. The following are examples of companies that are either new in a global process, or are pretty well established.

The first one to look at is a company located in Boise, Idaho called Sun Valley Ski Tools, or SVST. The president of the company is named Jim Vermillion. SVST manufactures and distributes tools designed for professional and casual skiers. SVST has been in business for six years and in 1997 it has made its first one million dollars in sales. They supply anything from grinding stones for ski edges to nose protectors for snowboards. What forced SVST to go into a global market were industry drivers of many markets not being served.

Mr. Vermillion felt that there were five key factors in becoming a global company. 1) Having a global mind set to be able to learn or already speak another language or many languages. This helps to show a country that the company really wants to be a part of their country and serve their needs. 2)Having access to liquid capital. This has been one of SVST's biggest challenge. SVST has tried to do as much as it can without financing huge amounts of money. Mr. Vermillion definitely believes in the old saying “You have to have money to make money.” 3)The need to maintain total quality in what ever country entered, which is a top priority for SVST. 4)Agressive marketing plans are needed to get product recognition quickly and to as many people possible. 5)Probably the most important factor in being successful globally is that the global entrepreneur or upper-management must have a vision of where the company is going. They must be willing to hire the best in the field so as to have the needed experience to be successful.

As a company begins to expand globally, it might consider establishing subsidiaries out in countries to do business and try to be as successful as the parent company. Knowledge must be capable of being transferred efficiently from the parent company to its subsidiary. This is especially true if a firm decides not to use a high percentage of

ex-patriots and uses more local citizens for management positions. Senior managers should not be afraid to travel abroad to the subsidiary and mingle with the workers and managers.

Subsidiaries must have some kind of autonomy to be able to adapt to the local environment. Kentucky Fried Chicken (Japan) Ltd. is an example of how important it is for a subsidiary to have autonomy. KFC allows the local subsidiary to have some of the control over what it does, even if it means changing a couple of things about the product or the way it is delivered. For example, when Loy Weston was asked to go to Japan to open up a KFC restaurant (Bartlett and Ranagan, 1986), he gladly accepted. The only direction he received from the owners was to "Build a store and make it work, then build another and another." Weston only received two weeks of training, $200,000 for start-up capital, and a promised $40,000 annual salary. When he arrived in Japan, he followed through with a test market to see how the local Japanese would respond to the American food. He realized that the Japanese didn't like mashed potatoes which were considered a standard menu item with KFC. Also, he noted that the coleslaw was too sweet. Because Weston was allowed certain powers to make changes that were needed on a local level given him by headquarters, he substituted french fries for the mashed potatoes and reduced the sugar content in the coleslaw. Weston said he saw what was needed and did it. With this type of entrepreneurial attitude in Weston, this is probably one of the reasons KFC was successful in the Japanese market.

One option a firm could consider is to join an alliance. Swissair is located in Zurich, Switzerland. By 1990 it had formed alliances with Delta Airlines, Singapore Airlines (SIA) and a European Quality Alliance (WQA) with Scandinavian Air Services (SAS), Finnair, and Austrian Airlines (Vayle, 1994). The whole reason for this alliance was to create a service that would make it easier to serve the customer by broader sharing activities.Swissair needed partners to develop better economies of scale in purchasing, marketing, and maintenance. It needed to gain access to the U.S. market. It also needed to gain strength politically to better negotiate in the aviation service agreement (ASA) between the host government and the airline's country.

Trends in the airline industry were pressuring Swissair. Europe was deregulated in 1992. This helped to encourage U.S. airlines to expand into European markets which forced a cost pressure on these European airlines. It was also believed that International airline travel was beginning to become more of a so called "commodity". This put a price-lowering pressure on Swissair because it was believed that businessmen may not be willing to pay higher prices with more global business travel needed.

Because of these pressures, Swissair had to make the decision to either merge or create an alliance with other companies. Delta"s's Executive Vice- President of Marketing, W. Whitley Hawkins, commented on why they were more receptive to the alliance than a merge. He said, "An alliance, rather than a merger, keeps each of us from having to sacrifice our corporate culture and style."

In analyzing alliances Professor David B. Yoffie of the Harvard Business School noted that there are advantages and disadvantages of alliances (Yoffie, 1993 pp. 9-10). First

of all, advantages: 1)Alliances are “Marriages of convenience”. They help to reduce uncertainty resulting in lowering transaction costs. They provide a way to share risks with others. They provide a way to improve your economies of scale in purchasing, maintenance, marketing, and other functions. They also help to create a better political strength so as to help negotiation powers with governmental leaders. 2)Alliances help to offset “country-based” disadvantages. This allows Swissair to have access to a bigger market share than its seven million people at home. 3)Long-term advantages: drawing closer to competitors and customers which hopefully will help gain more knowledge of how to serve them better.

Also, you can become a partner with a competitor of a major competitor. Disadvantages of an alliance would include: 1)The easiness of a company reneging on its agreements without any major repercussions. 2)It can be very costly to negotiate multiple alliances. 3)There is a fear of losing independence or control over what will happen. 4) The failure rate of joint-ventures is between 30-70% depending on the way one defines a joint-venture.

TEACHING GLOBAL ENTREPRENEURIALSHIP

Some have criticizingly asked “Why study International Business?” They don't see the need for government money being spent on such “foolishness” as to teach it at universities. My response to them is that is very necessary. If one didn't study International Business and just Business in general it would be like going to a Podiatrist to have heart surgery. The foot doctor went to medical school, but he didn't specialize in heart surgery, and therefore couldn't be as successful.

Likewise, an individual that is considering doing business internationally must learn important information that will strengthen his/her skills. A global entrepreneur must not only study the basics like Accounting, Statistics, Economics, Marketing, etc., but he/she must study culture, language, and important inter-personal skills. It takes a certain type of person to be a global manager. A person that is outgoing, self-motivated, and can handle many cultural differences of management.

So the question arises, “How do Universities adequately train students to be good replacements for top-executive of global companies?” This is a valid question. In discussing this with my fellow colleagues, we decided a few things that would be important subjects that need to be addressed to students of International Business. These ideas are: 1)Help teach them the vision of a global manager. Teach them to be open minded about cultures. Teach them that good ideas can come from all areas of the company, from any country or culture. There is no “one superior race” that has all the answers. 2)Students should realize that there is no “one” right way to do things. Each situation may require different responses. 3)Effective communication skills should be taught. An example of this is how to show gratitude to the host country or company. Don't just use the textbooks to teach this principle. Use real life examples of individuals that do this on a day-by-day basis. Role playing with others can be a beneficial tool. 4)A definite tool to teaching students is to involve them in as many internships as possible. Internships should be required, not merely suggested. There should be a program

designed to assist students in finding these internships.

These ideas have shown areas to train and teach students to be globally minded, but how can a student turn around and teach these ideas to others in a classroom setting or in a business environment? If a student is hired to train others in a company how to be better globally minded, what are ways the student can do this?

First of all, the individual must have knowledge of the material and must feel confident enough to teach the material. Next, the trainer should limit the amount of information available for those in the training meeting. Don't provide too much information right at first, toss it in subtly. All participants should be encouraged to participate in the discussions. By doing this, others will be able to draw upon shared ideas. The leader of the discussion should try to draw information out of the people, let the discussion loose, and then bring it back at the appropriate time.

One thing top-executives need to realize is that even though they are doing a great job, the time will come when a replacement is needed. It is wrong for one to think they are irreplaceable. Knowledge needs to be shared from the leader to his/her replacement. It has been said, and I firmly believe it, that the best leaders are those that have their replacements previously trained.

Conclusion

The world is moving more and more towards a global environment. Businesses, whether entrepreneurs just starting up a business or are already globally engaged, must be willing to make the necessary changes so they might be able to better compete in a global world. If a company isn't thinking globally, its competitors will be. As someone once wisely stated, “If we don't take care of our customers, someone else will!” Your competitor is globally minded, are you?

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FACTORS THAT INFLUENCE EXPORT CHANNEL SUCCESS OF AUSTRALIAN AND SINGAPOREAN SMEs

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ABSTRACT

This study examines the market entry strategies for small to medium enterprises (SMEs) from Australia and Singapore. Its aims was to examine the relationship between the independent influence of factors identified in previous literature on the choice of an entry made between Australian and Singaporean SMEs, and their success in foreign markets. The data from a sample of 104 SMEs from Australia and Singapore suggests that four market entry modes – licensing, manufacturing/wholly-owned subsidiary, franchising, and acquisition significantly impact performance. Licensing, franchising, acquisition and wholly owned subsidiaries were more closely associated with successful firms than other forms of entry mode. Furthermore, Singaporean firms were more likely to make use of such strategies than their Australian counterparts. Singaporean SMEs were also found to be significantly more internationalised than Australian firms. The study also highlights the importance of various factors influencing SME choice of market entry mode.

INTRODUCTION

The opening up of the world's markets via new legislative, technological and management developments, has resulted in an increased focus on international trade and competitiveness. These trends have been particularly felt in countries such as Australia and Singapore. Both economies are relatively open to the forces of international competition. As a result of these pressures, government policies in the two countries have focused upon encouraging international trade as a means of enhancing economic growth.

Considerable research attention has been given to the internationalisation strategies of the larger multi-national company (Agarwal and Ramaswami, 1992; Hill et.al., 1990). By comparison the international market entry modes of SMEs have hitherto received scant attention. Small firm characteristics such as limited financial and managerial resources, personalised objectives of owner/managers, and informal centralised planning and control systems, indicate that the international strategies and structures of SMEs may differ from those of larger firms (Cavusgil, 1984; Roth, 1992).

This study examines the market entry modes of a representative sample of Australian and Singaporean SMEs. It identifies several significant differences in their choice of

market entry mode, and examines the possible explanations for these differences.

THEORIES OF INTERNATIONALISATION

Over the last two decades there has been a growing body of research examining the internationalisation of firms. This literature tends to be broad, pluralistic and poorly integrated (Johanson and Weidersheim-Paul, 1975; Dunning; 1980; Hill, et.al., 1990). Nevertheless, two major opposing perspectives have emerged. The first of these is the internationalisationperspective as expressed by the Uppsala Internationalisation Model (Johanson and Vahlne, 1977). This suggests that a new foreign market entrant should gradually become involved in the foreign market through a set pattern of entry modes beginning with exporting, moving through the establishment of an overseas sales subsidiary, and finally the establishment of an offshore production facility (Johanson and Wiedersheim-Paul, 1975). An alternative view is that encompassed by the contingency perspective by Dunning 1980 and Williamson 1985 (ie. Eclectic Paradigm and Transaction Cost Analysis). This suggests that a firm may choose any type of foreign market entry mode based on key variables.

THE INTERNATIONALISATION PROCESS FOR SMEs

Several studies suggest that the factors which determine international marketing effectiveness for Multi-National Corporations (MNCs) cannot be directly transferred to smaller firms (Kirpalani and MacIntosh, 1980; Baird, Lyles and Orris, 1994). While the internationalisation literature on MNCs is substantial, little research has been devoted to the SME sector. A major focus of research into the international business activities of SMEs has concentrated on their propensity to export (Dichtl et al., 1984; Cavusgil and Nevin, 1981). Another focus has been on export performance, particularly the factors that may contribute to export success (Aaby and Slater, 1989). One commonly employed approach to export performance has been to use some dimensions of success such as export as a proportion of total sales (Bijmolt and Zwart, 1994; Czinkota and Ursic, 1991; Moini, 1995); growth in export sales (Cooper and Kleinschmidt, 1985; Kirpalani and MacIntosh, 1980); export profitability (Kaynak and Kuan, 1993; Beamish, Craig and McLellan, 1993); and absolute export sales volume (McGuiness and Little, 1981; Bello and Williamson, 1985). However, there appears to be no general consensus regarding the importance of many variables that have been identified as determinants of export success.

Four main groups of variables have been associated with export performance. The external environment of firms, firm characteristics and firm competencies are three of these. The fourth is firm strategy, which, in the form of market entry mode, has been recognised as an important filter for firm characteristics and competencies in determining export success.

MARKET ENTRY MODES ADOPTED BY SMEs

Papadopculos (1987) argues that large firms have an unlimited number of foreign market entry options, while SMEs are limited to exporting in their international

operations. This is attributed to a lack of human resources, capital, production capacity and access to sophisticated market research information (Kaufmann, 1995; DFAT, 1995; Baird et.al, 1994; Hansen et. al, 1994). This may result in a restriction being placed on the growth of SMEs in the internationalisation process. Other than exporting, foreign market entry modes are used by SMEs include: sole venture, agents, distribution networks, strategic alliances, licensing and joint ventures (DFAT, 1995). Licensing has been found to be a relatively common entry mode for SMEs in Australia (Carstairs and Welch, 1982). Joint ventures and other cooperative arrangements can be a useful way of commercialising products in overseas markets where firm resources are scarce (Shan, 1990; Van Horn, 1990). However, such cooperative arrangements are not frequently adopted by small firms (D'Souza and McDougall, 1989). Direct exporting via agents or distributors appears to be the most popular form of market entry mode for non-service SMEs (Miesenbock, 1988; Vandermerwe and Chadwick, 1989). However, there is evidence to suggest that a higher degree of export success is likely via jointventure alliances rather than sole venturing among smaller firms (Baird, et.al., 1994). Most of the research into foreign market entry mode has been concentrated on the large firm. It is questionable whether the strategies employed by large firms are appropriate for SMEs.

A SURVEY OF AUSTRALIAN AND SINGAPOREAN SMEs

During 1995 a survey was undertaken to examine the foreign market entry strategies of SMEs in Australia and Singapore. A total of 415 SMEs were contacted by telephone and fax following their identification in the Austrade Australian Exports Directory and Singapore Exporters' Directory. The final sample of 104 firms comprised 76 SMEs from Australia and 28 from Singapore. The survey measured market entry modes as well as firm performance and degree of internationalisation. Performance was measured using a ratio of foreign sales to total sales (FSTS), and a ratio of foreign profits to total profits (FPTP) over the previous three financial years. This measure of firm performance was originally used by Moini (1995). Further, foreign growth in the past three years was selected because this criteria has been shown to be an important determinant of internationalisation behaviour (Lee and Yang, 1990; Moini, 1995). Using these measures firms were classified into the following categories. A good performer shows an average growth of greater than 10 per cent of either FSTS and/or FPTP over the previous three financial years. A poor performer shows an average growth of less than 10 per cent of either FSTS and/or FPTP over the last three financial years.

No significant differences were found (to a level of 0.05) between Australian and Singaporean SMEs in terms of performance following a chi-square test.

STRUCTURAL DEGREE OF INTERNATIONALISATION

The study measured internationalisation as a ratio of its growth in foreign assets to total assets (FATA) over the previous three years. Recent research has shown that firms are departing from the incremental approach to internationalisation as they seek to by-pass the steps to commitment, resulting in an acceleration of the process (Sullivan and Bauerschmidt, 1990; Norvell, et.al, 1995; Millington and Bayliss, 1990).

The study found significant differences (at the 0.05 level) between Australian and Singaporean SMEs in their structural degree of internationalisation. It was found that Australian firms were mostly in their early stages of internationalisation with 85 per cent having a relatively low level of FATA. By comparison, Singaporean firms were more internationalised with 36 per cent having moderate levels of FATA, and 25 per cent having high FATA levels.

The reason for this higher degree of internationalisation among SMEs in Singapore is subject to some conjecture. It was first considered that the Australian firms may have been less internationalised due to the heavy concentration of Australian firms in the agribusiness sector (18% of total). However, a chi-square test of the relationship between industry category and degree of internationalisation found no significant relationships (to a 0.05 level).

One explanation for the higher degree of internationalisation among Singaporean firms may be the success of the "regionalisation push" of the Government of Singapore during recent years. The Government of Singapore has also devoted efforts to the establishment of industrial parks in other Asian countries in the region (MOF, 1993). This may offer an infrastructureconducive to the internationalisation of SMEs. Singapore's government has also actively encouraged internationalisation via a combination of tax and financial incentives (EDB, 1995).

CHOICE OF INTERNATIONAL MARKET ENTRY MODES

A range of market entry modes was examined in the study including: direct export, licensing, strategic alliances, franchising, manufacturing/wholly-owned subsidiary, use of foreign distributors and overseas agents, joint ventures and direct acquisition. Respondents were asked to rank these on a seven-point scale in terms of their importance to them.

A *t* -test of the differences between the mean scores for these scales found significant differences (at the 0.05 level) between Australian and Singaporean firms in their choice of market entry mode. Singapore SMEs were more likely to consider licensing, franchising, wholly owned subsidiaries, joint ventures and direct acquisitions as important. Although these entry modes range on a continuum in terms of both resource commitment and risk, firms in Singapore were found to be significantly more likely to employ entry modes which require relatively more resource commitment and risks. No significant differences were found for the other market entry modes, including direct export, strategic alliances, use of foreign distributors and independent overseas agents. Table 1 summarises these findings.

Table 1: Comparisons of Australian and Singaporean SMEs Market Entry Modes

[* indicates a significant difference at the 0.05 level between the mean scores] [Scale measured importance of

market entry modes to the respondent, where 1 = totally unimportant and 7 =

extremely important].

	Australia		Singapore		
Market entry mode:	mean	std. dev	mean	std. dev	*t* - value
Direct exporting	5.80	1.81	5.64	1.77	0.70
Licensing	**2.13**	**1.82**	**3.29**	**1.98**	**2.52***
Strategic alliances	3.64	2.22	4.33	2.06	1.30
Franchising	**1.85**	**1.64**	**3.62**	**2.08**	**3.58***
Manufacturing/subsidiary	**2.20**	**1.88**	**4.43**	**2.18**	**4.65***
Foreign distributor	3.95	2.49	4.33	2.39	0.63
Independent agent	3.34	2.27	3.86	2.15	0.93
Joint venture	**2.93**	**2.17**	**5.38**	**2.04**	**4.81***
Acquisition	**1.72**	**1.48**	**3.48**	**2.11**	**3.57***

Why firms in Singapore should be more likely to make use of these forms of market entry requires explanation. This finding could be attributed to two factors. The first is that many Singaporean SMEs seek to globalise by accessing market opportunities and alliance partners in Malaysia and Indonesia. This is in line with the Government of Singapore's policy of cooperation on a regional basis. Another possible reason is the concentration of Singaporean SMEs in the retail and services sector (25% of total). This allows for a wider range of market entry choices as compared to their counterparts in Australia, many of whom were in agribusiness and may therefore be limited to exporting or using agents.

EFFECTS OF MARKET ENTRY MODES ON PERFORMANCE

In investigating the choice of international market entry modes used by good and poor performers, it was found that there were significant differences among them. It was found that good performers were significantly more likely to make use of franchising, licensing, manufacturing via a wholly owned subsidiary, and acquisition as foreign market entry strategies.

DIFFERENCES BETWEEN AUSTRALIAN AND SINGAPOREAN SMEs

The study found no significant differences between Australian and Singaporean SMEs in terms of employee size, turnover, years of international experience, export performance level or choice of overseas market. However, significant differences were found in industry types, structural degree of internationalisation, and choice of foreign market entry.

It was postulated that Australian SMEs were less internationalised (ie. had lower foreign assets as a proportion of total assets - FATA), and selected less risky modes of market entry (ie. direct exporting, use of foreign distributors or agents) due to their concentration in agribusiness. To examine this issue the relationship between industry type and degree of internationalisation was subject to a chi-square test. This found a significant relationship (at the 0.05 level) between FATA and industry type for Australian SMEs, but not for those in Singapore. Within the Australian sample 84 per cent of agribusiness and mining firms; 91 per cent of manufacturing, building and construction firms; and 84 per cent of services and related firms had average foreign assets to total assets of less than 5 per cent. By comparison Singaporean SMEs were more evenly spread in their degrees of internationalisation for all industries. These findings suggest

that Australian SMEs may be less inclined that their counterparts in Singapore, to commit relatively more resources and risks in their expansion overseas.

MANAGERIAL AND POLICY IMPLICATIONS

The implications for this study can fall into two categories: managerial and public policy. What types of strategy do the firms need to ensure success in entering a particular marketplace? How do governments or public organisations assist SMEs in increasing their commitments to internationalisation?

The results indicate that Singaporean SMEs are significantly using market entry modes that have a major positive impact on performance. Therefore in order to achieve a higher growth in international sales and profits, Australian SMEs should review their present strategies. In particular, licensing and franchising should not be seen as a loss of control over a firm's technological knowledge and expertise, but rather as a springboard to other forms of more sophisticated market entry modes such as joint venture, manufacturing or acquisition.

Interestingly, Singaporean SMEs are found to be seeking information about international marketing significantly more than their Australian counterparts. Market knowledge is a driving force for any firm to commit more resources to its foreign market in the internationalisation process (Johanson and Vahlne, 1990). In order that Australian SMEs gain confidence in selecting more advanced alternative market entry modes, establishing a formal information acquisition system to acquire information about foreign markets, techniques of foreign operations, and ways of doing business and is considered to be highly essential.

As psychic distance is considered to be an important influencing factor in affecting performance, it is important that the owners/managers of SMEs develop strong relationships with their overseas partners. This may involve making frequent overseas visits, showing a firm commitment to a long term working relationship, and showing a keen interest to learn and understand the overseas partner's culture. According to a large scale survey of businessleaders in five Asia-Pacific countries, Australian managers are generally viewed as inferior to their major competitors in such aspects as their ability to look well into the future, and their willingness to spend time building relationships when negotiating business deals (Savery, Mazzarol and Dawkins, 1995).

As information about foreign markets is essential in instilling confidence in SMEs to encourage the use of more advanced market entry modes, government agencies like Austrade and the Department of Commerce and Trade must ensure that the following data is easily accessible to them.

A study commissioned by the Department of Foreign Affairs and Trade (1995) has found that although there is no shortage of database or publications on information about export markets, they are often too detailed, expensive and not suited to the needs of SMEs. Therefore there is a need to tailor such information to suit SMEs which often do not have the time and resources to sift through such a plethora of data.

To encourage SMEs to pursue market entry modes that require relatively more resources commitment, there is a need to facilitate easier access to finance. One of the major factors impeding the international activity of Australian SMEs has found to be difficulty in accessing finance (DFAT 1995). As it is often an onerous task in persuading bankers and financial advisers to be flexible in meeting the financial requirements of internationalised SMEs, the Government must take the initiative in establishing funding for such firms. Government action might also include attempts to promote regionalism along the lines of the Government of Singapore. The focus of such attention might be upon the following:

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The ROLE OF SMEs IN JOB CREATION: SOME EVIDENCE FROM MANUFACTURING INDUSTRY IN KOREA

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ABSTRACT

In recent times, Korea is faced with massive unemployment problem in the process of structural adjustment of industrial structure in manufacturing industry. This paper analyzes the role of SMEs in job creation for manufacturing industry in Korea. Main conclusions of this study are as follows. First, SMEs play an important role of job creation in manufacturing industry as well as in whole economy. Second, the role of SMEs in job creation increases over time as evidenced by the secular growth of share of employment of SMEs during 1980-1995. Third, in particular, the small enterprises are the most important component of job generation. Accordingly, the policy implication in terms of job creation is to promote and encourage the creation of venture firms.

INTRODUCTION

In recent times, Korea is faced with massive unemployment problem in the process of structural adjustment of industrial structure in manufacturing industry. Traditionally, SMEs are labor intensive and thus alleviating unemployment problem by absorbing jobless workers and new entrants in job market. The literature on SMEs in the 1990s emphasizes the role of SMEs in job creation. The trend in developed industrial countries shows that the role of economic growth in job creation weakens, as the industrial structure of domestic economy matures. The economic authorities in each government are faced with the urgency to search for policy instruments generating employment. In this regard, small plants and firms are increasingly seen as the vehicle through which jobs are created.

Recent studies on this issue are divided. Pioneering work of Birch (1987) shows that small plants and firms are responsible for most of the new job creation in the United States. Baldwin and Picot (1995) for the Canada, find that net job creation by smaller establishments is greater than that by large establishments. In case of Germany, Wagner (1995) suggests that small firms create quite a large share of all new jobs. Hart and Hanvey (1995) also highlight an important role of new and small indigenous firms in the job generation process in United Kingdom for the period 1986-1990.

On the other hand, Davis, Haltwinger and Schuh (1996) argue that large plants and

firms account for most newly created and newly destroyed manufacturing jobs. While gross job creation rates are substantially higher for smaller plants and firms, they do not find strong or systematic relationship between net job growth rates.

Previous studies mainly focus on the role of SMEs in job creation in advanced industrial countries. The studies analyzing the role of SMEs in employment growth are relatively rare in developing countries. The purpose of this paper is to analyze the role of SMEs in job creation in Korean Manufacturing Industry. Main findings of this study are as follows. First, the role of SMEs in job creation is important in Korean manufacturing industry during the period, 1990- 1995. Second, the small enterprises are the most important component of job generation, although there is no meaningful difference between SMEs and Large business in terms of net job creation..

DATA AND METHODOLOGY

Most of researches on SMEs have the difficulty of data limitation to investigate the relationship between job creation and employer size. The reliable data about size distribution of employment by establishment size are gathered and published in the Ministry of Labor in the case of Korea. This paper uses the data base obtained from Report of Monthly Labor Survey. The Ministry of Labor surveys 3,900 establishments out of total number of establishments. The sample period used in this research is 1990 - 1995 to trace the recent trend of size distribution of employment in Korean manufacturing industry. In Korea, enterprises are classified into small, medium and large business based on the number of employees in the firm. Firms employing less than 21 workers are defined as small businesses and those with 21 to 300 workers as medium sized businesses (see Seong (1995)). In terms of the classification of SMEs, this study is different from others, since the available data on the size distribution of employment collected from the Ministry of Labor consist of five components: 10-29, 30-99, 100-299, 300-499, and More than 500 workers. To preserve the internal consistency of the empirical results, firms with 10 to 29 workers are classified as small firms and those with 30 to 299 workers as medium-sized firms in this study. Firms employing larger than 300 workers are classified as large businesses.

EMPLOYMENT PATTERN

Davis, Haltwinger and Schuh (1996) point out that especially in a period of downsizing, firms move rather frequently downwards in the size distribution, leading to an observed increase of the share of SMEs. To avoid the problem, this study chooses 1995, which is a peak point over the business cycle, to overview the employment pattern in Korea. According to the 1995 census, plants (i.e, establishments) with fewer than 300 employees accounted for more than two-third of employment of the workforce; 23.0 percent of the workforce was employed by plants with 500 or more employees in non-agricultural sector. In case of manufacturing industry, establishments with fewer than 300 employees accounted for 64.1 percent of the workforce; 29.9 percent of the workforce was employed in plants with 500 or more employees (see Table 1). On the other hand, the concentration of employment is considerably lower in the service sector, which means that many services are small-scale activities that can be successfully

operated by smaller units. These figures support the view that SMEs are important channel through which the unemployment problem is solved.

Table 1. Distribution of Employment by Establishment Size in Korea, 1995, Percentage Shares

	Manufacturing	Services	All Sectors
10-29	19.1	23.3	21.7
30-99	26.2 (45.3)	30.4 (53.7)	28.3 (50.0)
100-299	18.8 (64.1)	22.3 (76.0)	20.2 (70.2)
300-499	6.0 (70.1)	7.9 (83.9)	6.8 (77.0)
500+	29.9 (100)	16.1 (100)	23.0 (100)

Note: Cumulated Values in Brackets.

Source: Own calculation on the basis of Report on Monthly Labor Survey, 1995(12).

TREND IN THE DISTRIBUTION OF EMPLOYMENT BY ESTABLISHMENT SIZE

Dynamic Pattern of Employment Distribution

The establishment size structure for manufacturing and non-agricultural sector in Korea is shown in Table 2 and Table 3. The concentration of employment in large business declines over time. In particular, the percentage shares of plants employing 500 or more workers evidently decline across the whole period, 1990 - 1995. In contrast, the percentage shares of small plants employing 10 to 29 workers steadily increased from 7.7 percent in 1990 to 19.1 percent in 1995. Consequently, the distribution of employment by establishment size indicates that the role of SMEs in employment is increasingly important, while the role of large business in employment weakens during the period of 1990 to 1995.

One notable finding is that medium-sized enterprises maintain the largest shares in employment distribution over time. in manufacturing sector, followed by establishment with 500 or more employees. In non-agricultural sector, medium plants occupy more or less half of workforce. Furthermore, the share of establishment with 500 or more employees is 23.0 percent which is almost equivalent value with the share of small plants in 1995.

Table 2. Change in Establishment Size Structure, 1990 – 1995, Manufacturing sector

	SMEs		Large Business		Total
	Small (10-29)	Medium (30-299)	Large (300-499)	Very Large (500 +)	
1990	7.7	42.5	7.6	42.2	100
1991	14.6	42.3	7.7	35.4	100
1992	14.8	42.4	7.7	35.1	100
1993	16.8	43.3	6.7	33.2	100
1994	17.9	44.2	6.6	31.3	100
1995	19.1	45.0	6.0	29.9	100

Note: OECD (1985) defines SMEs as firms employing fewer than 500 workers. On the other hand, Japan and Korea define SME as firms employing fewer than 300 workers.

(See Hondai (1995))

Source: Own calculation on the basis of Report of Monthly Labor Survey, Various issues.

Table 3. Change in Establishment Size Structure, 1990 – 1995, All Sectors

	SMEs		Large Business		Total
	Small (10-29)	Medium (30-299)	Large (300-499)	Very Large (500 +)	
1990	12.6	46.1	8.1	33.2	100
1991	16.2	46.8	7.9	29.1	100
1992	16.3	47.3	7.8	28.6	100
1993	18.8	47.4	6.9	26.9	100
1994	20.4	47.8	7.0	24.8	100
1995	21.7	48.5	6.8	23.0	100

Note: We acknowledge that the division of Large Business into two parts is subject to the industry structure of each country Source: Own calculation on the basis of Report on Monthly Labor Survey, Various issues.

Secular Trend In the Distribution Of Employment By Establishment Size

The secular pattern of employment shares of SMEs during the period 1980-1995 is shown in Figure 1. The trend pattern can be divided into three periods: period 1 (1980-1984), period 2 (1985-1989), and period 3 (1990-1995) in manufacturing as well as non-agricultural sector. In general, the percentage shares of employment of SMEs increase, except of period 2. However, employment shares of SMEs in non-agricultural sector steadily increase upward during last fifteen years. In other words, the role of SMEs in employment distribution is increasingly important over the whole span of period in Korea.

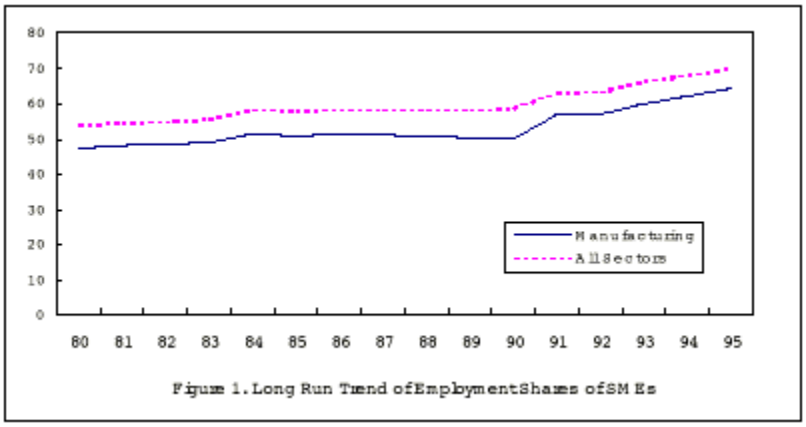

Figure 1. Long Run Trend of Employment Shares of SMEs

JOB CREATION AND THE ROLE OF SMEs

Gross Job Creation And The Role Of SMEs

Previous sections mainly analyze the distribution of employment by establishment size. As suggested by many authors who study the role of SMEs in job creation, the size

distribution of employment does not provide the direct evidence of the contribution of SMEs in job generation. Studies in Western countries utilize the panel data to analyze the job creation of SMEs. The availability of those sophisticated data base is limited in Korea. This section analyzes the gross job creation using monthly average data of newly hired employees by establishment size in Korea during 1990 - 1995. Since the size distribution of newly hired employees directly shows the pattern of employment growth contributed by establishment size, the analysis of Newly Hired Employees provides a more concrete evidence of the role of SMEs in job generation.

Table 4. Change in Newly Hired Employees by Establishment Size in Korea, Percentage Shares, 1990 – 1995, Manufacturing Sector

	SMEs		Large Business		Total
	Small (10-29)	Medium (30-299)	Large (300-499)	Very Large (500 +)	
1990	13.6	55.9	6.4	24.1	100
1991	23.4	50.1	6.0	20.5	100
1992	22.5	51.3	6.1	20.1	100
1993	24.1	53.2	5.1	17.6	100
1994	25.8	52.3	5.3	16.6	100
1995	27.5	49.6	4.8	18.1	100

Note: Storey (1995) shows that the share of employment of firms employing larger than 500 workers is 65% in manufacturing sector in United States.

Source: Own calculation on the basis of Report on Monthly Labor Survey, Various issues

The analysis of gross job creation is characterized by two facts. One evident fact is that, as shown in Table 4, the medium plants have the largest shares of employment growth during the period, 1990-1995. The order of second largest share has changed during the period of 1990 -1995. The small plants with 10 to 29 workers occupy the second largest share during the period, except of 1990. In Korea, SMEs accounted for more than two-third of employment growth in manufacturing workforce. Second characteristic is that the shares of small plants steadily increase, while those of large plants with 500 or more employees continuously decline during the whole period. The role of medium-sized enterprises is corroborated by the phenomena found in Table 2 and Table 3.

Net Job Creation And The Role Of SMEs

This section analyzes the net job creation which is proxied by the difference between newly hired employees and retired or fired employees, following Armington and Odle (1982) and Birch (1987). As shown by Table 5, the amounts of net job creation of SMEs and Large Business are almost equivalent with each other. Accordingly, we conclude that there is no basic difference of net job creation between SMEs and Large Business in Korea during the period, 1990-1995.

Table 5. Net Job Creation By Size of Establishment, Manufacturing, 1990 – 1995

	SMEs		Large Business	
	Small (10-29)	Medium (30-299)	Large (300-499)	Very Large (500 +)
Newly Hired Employees	93,737	210731	22762	78782
Retired or Fired Employees	92,543	220896	24834	84690
Net Job Creation	+ 194	- 10165	- 2072	- 8908
Total	- 9971		- 10980	

Note: Data of newly hired employees and retired or fired employees are monthly average values, which are obtained from Report on Monthly Labor Survey, 1990-1995.

Source: Own calculation on the basis of Report on Monthly Labor Survey, Various issues

One caveat is that the role of small enterprises is important in net job creation during the period of 1990-1995 (See Table 5). As suggested by Chon (1996), small venture firms are viewed to be increasingly important to solve the unemployment problem in Korea.

CONCLUSION

This paper analyzes the role of SMEs in job creation for manufacturing industry in Korea. Main conclusions of this study are as follows. First, SMEs have dominant shares of employment in manufacturing, services, and non-agricultural sectors. Second, the role of job creation of SMEs over time increases as evidenced by the secular growth of share of employment of SMEs during 1980-1995. Third, in particular, the small enterprises are the most important component of job generation, although there is no meaningful difference between SMEs and Large Business in terms of net job creation. Accordingly, the policy implication in terms of job creation is to promote and encourage the creation of venture firms.

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WINE OVER WATER:

SMALL WESTERN AUSTRALIAN WINERIES AND THEIR EXPORT CAPACITY.

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ABSTRACT

The aim of this project was to determine the level of export readiness of small West Australian wineries. In identifying successful strategies, external cultural issues as well as internal factors such as preparedness to export, were addressed. The suitability of government assistance programmes and policies for small wineries were also examined in this context. The project sought to determine if small wineries were well placed to export and take advantage of the growing South East Asian market.

Wine drinkers are still a minority in Asia however this is starting to change. If only a very small percentage of Asian drinkers turn to wine, this would provide a substantial market forWA. Wine is perceived as a luxury item in most South East Asian Countries and therefore is sought after as a prestige product.

Although exporting has normally been the domain of large companies, the 2025 Wine Industry Vision foresees strong growth occurring in the premium segment and “on a micro scale there will be a paradoxical interest in premium wines with a specific regional and sub regional identity” (Strategy 2025 p6). This provides an opportunity for the numerous smaller `boutique' wine companies in Western Australia.

INTRODUCTION

Australia's exports of wine have increased dramatically over the last decade. Exports increased from about 8 million litres in the early 1980's to 125 million litres in 1993-94, despite Australia being one of the world's smaller wine producers (2% of world production). The value of exports rose from around $13 million to $368 million, comprising nearly 30% of the volume of sales of Australian wine producers. (WWIA, 1995, p.87).

Despite the domination of the ten largest wineries which produce 84% of the national crush, the contribution of small producers to the industry's success has been out of all proportion to their size. Small wineries (crushing < 1000t) comprise 77% of all

Australian winemaking businesses but produce only 4.6% of the nation's crush (ABS Cat. No 1329.0 1995/96 p15). These producers are not in the global brand market, but contribute greatly to Australia's premium wine image in the export arena.

The Australian wine industry is recognised globally as being a technologically advanced industry showing growth in the export sector. “Of those small and medium enterprises (SME) manufacturers who had successfully responded to market opportunities and modernised, approximately one third were experiencing export growth of greater than 50 per cent during the period 1991 to 1993. (AMC, 1994, p39)

According to *Winegrapes - Projections of Winegrape Production and Winery Intake to 1998/1999*, an increase in wine grape production of 19% is predicted nationally from 1996/97 to 1998/99. The largest predicted percentage increase of any Australian state is WA at 30%. Most of this increase will have to be sold on the overseas market. Bottled wines currently comprise 70% of exports placing Australia at the premium end of export markets (WWIA, p88). Although WA produces only 2% of the nation's wine, it is estimated in the *Western Australia Strategic Plan 2025* that WA produces between 20 and 25% of the premium wine market, making it well placed to target this market segment. (1997, p.7)

“The nation's small to medium service exporters may not have made big waves in terms of revenue, but as a group they do make a big contribution to employment and innovation” (Lek in Mazzarol, Choo & Ramaseshan, 1995, p32). In a study looking at predictors of export strategy and performance of SME's, Naidu and Prasad studied a range of variables as predictors of export success. Management priority and industry experience proved to be correlates of export performance (1994, p113). These findings parallel the information from this study.

METHODOLOGY

Our sample comprised ten small West Australian wineries, as well as the Market Development Branch of Commerce and Trade (WA), and a small importer from Singapore. The wineries were chosen according to size and location and their level of exporting. They range from 60 tonne producers through to over 500 tonne. They come from each region in WA; one from the Swan Valley, two from Great Southern, five from Margaret River, and two south coastal wineries. They export between 5% and 50% of their product and they employ from one person through to approximately 40.

The interviews were semi-structured so that a number of set questions were asked of each interviewee. Most of them were fairly informal and the interviewees were allowed a free reign to allow further issues to arise whilst still answering the key questions. All interviews were prearranged by telephone and took place either in the winery or a company office.

Each interview was taped with permission of the interviewee and transcribed. Most interviews lasted between 45 and 90 minutes and were held between June and August 1997. The transcriptions were coded using the Qualitative Research Analysis Software -

NUD*IST 4.

ASIAN MARKETS

Asia is an attractive and opportune market for the WA wine industry as illustrated in the table below.

Country	Population	1000 hl/vol	consumer spending US$m	
Japan	125 m	1300	1583	
Malaysia	20.7 m	72	n/a	61% of population are Muslim
Singapore	3 m + 7.1m tourists p.a.	480	n/a	French wine dominates, Aust No2 in market share 19% of volume, 10% of value
China	1.2 billion	1200	185	
Taiwan	21 m	900	110	Aust has 2% of market share

Source: Export Market Development Grid, 1997. FIVS 1996

"Asia is the fastest growing region in the world, has an emerging middle class and is on Australia's doorstep." (Andrews, G. 1994)

IMAGE

It is well documented that image is an important factor in determining and enhancing credibility. "The images which others carry of us [Australia], influence their attitude towards us, [and] the export of our goods and services..." Harris, S in Smyth, R., 1996) A high level of credibility increases the chance of selling the product. The findings from this research confer with this concept. If the product has gained a high level of prestige and lots of favourable press in Australia this can be used by overseas buyers for promotional purposes and as a guide to quality and value. A product that has not gained credibility in its own country may find it difficult to gain a premium image overseas. "I think you've got to have a decent domestic market particularly in the area of medals and recognition and things like that ..... to achieve a good export, you need to have credibility." (Winery 8)

"... the Thais think perhaps our wines are not that good because it is not expensive enough." (Winery 7) One winery found that by charging a Taiwanese agent for some samples they gained a prestige image and consequently the contract.

"We are not big enough to threaten many countries, we are not rich enough to bribe many countries, we've got to persuade them. Persuasion is called diplomacy" (Costello, M. in Smyth. R., 1996)

Credibility in one country can be used to sell in another. "Without the credibility of being in Europe I doubt we would have got so much penetration into Asia with so much success." (Winery 2)

As the 2025 Vision stated, a region's image could play a strong part in a winery's

marketing strategies. This has been well recognised in Old World wine producing countries but has been used very little in Australia until recently. Now more Australian producers are understanding the marketing benefits of an appellation system. “We've worked out in our own minds where Margaret River is in the scheme of things, it's definitely at the top, everything that goes with that has to be at the top...” (Winery 6)

WA's small size and isolation, has proved to be an advantage because of the necessity to `export' a large percentage of product to the Eastern States. Naidu and Prasad's (1994, p114) results show that export regularity comes also as a result of longer experience with export activity, giving WA an advantage over other states as they have been `exporting' to the east for many years.

“That's the other point, you've really got to get everything going and set up properly first, test it, ... Perth, then the Eastern States, has to be a five to ten year project first, before you even dream of jumping on a plane and tackling the world ...(Winery 5).

MARKET INTELLIGENCE

“Market knowledge is a driving force for any firm to commit more resources to its foreign market in the internationalisation process (Johanson and Vahle, 1990 in Mazzarol, Choo and Ramaseshan p44).

While working in markets with different cultures to Australia's base culture, our sample found that export success was not an immediate outcome and required a commitment to developing relationships and knowledge of the market. Often this was learnt the hard way with related costs to new market entrants who forged paths and now share their experience and knowledge to the advantage of the industry.

“Seriously I thought we'd fly into Japan [1989], meet with the importing company, we knew they liked the wines, we'd sign a deal, eat some sashimi, drink some saki, and fly out first class ... and all would be rosy. We were very depressed when we came [back] because we'd spent a lot of money and had nothing to show for it.” (Winery 1)

This naivet**é** was common amongst those who were pioneering new markets. Marketing plans were then developed in response to these initial experiences and success stories followed.

In the premium market segment particularly, it emerged that it was necessary to be cognisant of price points and the competition within that segment. The price points can dictate the margin available to the producer and are often influenced by economic and financial aspects of the chosen market. Such aspects include:

• tax systems,

• expected commercial margins in the prospective market place and

• export barriers such as tariffs and quotas.

“What's it going to enter at and what's it going to retail at the other end, can give you some awful frights because countries like Singapore tax like all hell, so it's very important to find that out ... you might have spent another $15 a case to get a wine ready, that's the profit most people are making ...” (Winery 4)

Wineries appeared to be satisfied with the availability of information in the Export Market Grid. This, however, was not the only market intelligent system used. Others include;

• government organisations

• wine industry organisations

• newspapers and journals

• local knowledge of distributors in the export market.

“For existing markets we rely on our distributors, they're the ones that know the market best” (Winery 3)

The continual process of market intelligence cannot be underestimated in relation to the economic environment of the importing country.

“... the market in Japan is changing fairly dramatically and in the middle of all our negotiations the Emperor died. Culturally that was quite dramatic ... when the Emperor dies, new business doesn't occur for six months at all ” (Winery 1)5

“... because the King of Thailand said everyone must drink red wine, we were rung up from Thailand” (Winery 7)

There is a danger of inadvertently subsidising export markets with domestic profit. “I've got to be able to sell them at a reasonable amount of money that is greater than I'm asking on the domestic market, so that I can afford to service that market and I can also afford to improve what I'm doing on a yearly basis. I might add this is a sliding scale, relevant to the relationship with the agents.” (Winery 2)

MARKETS

Wineries have long realised in the domestic market that a strong relationship needs to be developed between distributor/agent and wine producer as most small wineries rely heavily on hand selling of their product. This was also found to apply in the export market but was discovered by trial and error for some of our sample. The process of developing this relationship can be split into three stages:

1. Making the initial contact

Methods that small wine producers have used to develop these relationships include: •

Using old contacts eg; school friends, relatives. This was used by our sample for European markets but this style of contact was not possible for the Asian markets as these contacts are only in the process of being developed due to the newness of relationships.

• Use existing contacts and networks through business relationships, agents, and distributors. “We have a young lady who is a [Japanese] winemaker and has done two vintages with us. She is representing us to a large wine importer [in Japan] next week ...” (Winery 3)

• and to a lesser degree, using government organisations and wine industry organisations and trade shows. Our respondents spoke very highly of Department of Commerce and Trade WA who organised very successful trade fairs in Japan and Singapore where the wine producers made good contacts.

2. Finding the right person

In developing a relationship it appeared important to ensure it was being developed with the “right” person.

“It's very hard to find the right style of company for the product and then once you get into that company to find the person who will drive it.” (Winery 1)

“Because I am a boutique producer there is no point in me getting in with a volume distributor. You've got find someone who's interested in you ... because they like you and like your wines” (Winery 10)

“the Chinese are very hard nosed business negotiators and I want to be able to crack that market, so I have put a lot of time and effort into finding the right people over there...” (Winery 2)

The needs of the importer and the producer can be met to mutual satisfaction. “Because, I mean, they have to make money out of us and they can't make money out of us if we're only going to sell them a thousand cases. .... That's why this [current] bloke is so good because he's looking at the top end of the market.” (Winery 10)

3. Working the Market

Most wineries found it was essential to support the importer by visiting the market at least once a year (more often would be preferable) but it is an expensive exercise in terms of both time and money. This was recognised as a very important part of the marketing strategy as, although there are lots of people demanding Australian wine, there is an overall world wine glut and an expensively achieved market position can be easily lost.

The greater the distance the market is, the more costly it becomes. This makes the Asian market far more attractive to Western Australian exporters due to the close

geographic proximity.

BUSINESS PLANNING

Most wineries had minimal planning with only two having five year plans. Our findings showed an emerging trend towards developing business and marketing plans as export business grew and the need developed. “We started selling some wine overseas many years ago but .... it wasn't really planned, ... these days I think you've got to have a defined plan of what you're going to do in that market, as you might do with your domestic market, to us they're all part of a marketing and distribution plan that we have ..” (Winery 6)

MARKET PLANNING

“Combinations of marketing mix elements form the basis of marketing strategies and some combinations sit more naturally together than others. One frequently used combination would be: high quality product, high service levels, branding, relatively high price, specialist distributors and testimonial advertising.” (Austrade, Export Planning p47) This mix is compatible with the quality prestige products that West Australia's small wine producers are exporting.

GOVERNMENT ORGANISATIONS

The assistance offered by government organisations proved to vary in it's level of usefulness for small wine producers. On the whole it was found that the national bodies, both government and wine industry, were less useful than the corresponding state body. This was due to the strong orientation of the state body towards small organisations and commitment to the wine sector along with good knowledge of Asian business practices.

The most useful sources were:

• Commerce and Trade (WA) - financial aid, exhibitions and promotion, business planning, contact with potential distributors. There was high praise across the board from the interviewees for the assistance given by this organisation.

• Export Market Grid - Viewed as a valuable resource allowing for post publication regulation changes.

LABELLING

Labelling regulations were considered as tedious but a necessary evil to be dealt with. “You abide by the rules and its OK. The wine industry is probably over governed but I don't have a problem with that. It keeps it tight and it keeps it tidy.” (Winery 10)

As Asian countries do not have the stringent labelling regulations of other groups of countries (eg European Union), often the normal domestic label is valid with only minor

adjustments.

Different methods used to abide with the requirements of the importing country:

• Stickers. These were used to display the importers details and can used to overlay the labelling requirements of the importing country over unnecessary or illegal information.

• Use of marketing and legal labels. The legal labelling requirements can be in one field of vision on the `back' label thus becoming the `front' label in a legal sense. The `front' label can then be designed from a marketing point of view.

• Only label stock as required for a particular market.

• Use a secondary label for an uncertain market. If the market is new and there is the possibility of damaging the image of the primary label, a secondary label can be used to `test' the market.

• Submit labels beforehand for approval from government authorities and/or importer.

• National language labels enable the wineries' `story' to be understood more easily. The `story' may need to adapted to suit the regulations of the importing country.

It was generally considered that the Export Market Grid was a useful resource for labelling regulations and advice.

CULTURE

“I think the other great need for a successful exporter is to have an intelligent understanding of different cultures. You have to be cognisant that other people do business differently from you. You have to learn how to behave in different social situations.” (Winery 3) He was not alone in this belief as most people found that cultural differences were not insurmountable if the effort to understand cultural differences was made.

The major issues that were considered important were:

• **Cultural Morés**

Different cultural morés need to be taken into consideration. “In Singapore you've got to be schmick and on your best behaviour and in Malaysia you have to stop them putting lemonade in your wine.” (Winery 1)

Training for meeting procedures and cultural behaviour was sourced by wineries from the government bodies and private providers with varying degrees of satisfaction.

• **Language**

English is the universal business language not making it necessary to learn the language of the chosen market, however making the effort to learn the language enhanced closer business relationships.

“We've got our own translator in Japan” (Winery 3)

What does `yes' mean? In Australia `yes' means the deal is made. “Yes doesn't mean yes in Japan. Yes means thank you very much, yes I hear what you are saying, it's all fantastic and yes we will let you know.” (Winery 1)

• **Titles**

“[The] agent/importer..., said “could you bring some new cards back when you come because I'm the President I don't deal with Managing Directors. I only deal with Presidents.”” (Winery 1)

• **The role of women in other cultures**

“If I go [to Japan] on my own I'm treated like the Vice President. If I go with [my husband] I'm the wife and that is fine. We play that game, you have to, there's no point in bucking them.” (Winery 1)

SIZE

Limitations due to size were recognised by most wineries. However Naidu and Prasad found that “... larger firm size does not guarantee regular export activity (p113, 1994). Production based limitations included infrastructure limitations of the winery, land limitations and access to grapes of suitable quality often made it hard for wineries to enter into contracts.

Although many requests from China for large quantities of cheap wine were made, they have not pursued this market segment but are targeting some niche markets in China for their premium product.

The small size of all companies did not allow for export markets to be staffed by own people. This gives away a portion of the marketing control of the product. “It's a worry, you are hoping they will be able to sell your product .... But they can do a lot of damage to your product ... three years down the track they can go and dump it somewhere.” (Winery 2)

CO-OPERATIVE MARKETING

The two opposing points of view were identified:

“I don't see it working, wineries are made up of individual characters. The thought of half a dozen getting together, going to a market, appointing the same distributors, adopting the same marketing tactics, things like that, I can't see how it would ever

work." (Winery 5)

" ...we've always been encouraging other wineries and other people to go out and do things as a group and then from that group you take the opportunities when you're standing in front of people. I would argue that a lot of the people who have been involved in this have seen the level of success that we have seen." (Winery 2)

Western Australia's wine producers have an advantage - close to Asia, premium product, exporting experience developed through `exporting' to the Eastern States of Australia.

CONCLUSION9

This research project has confirmed that the state of Western Australia has real advantages and opportunities for exporting premium wine to Asia. It is a growing market, interested in prestige products, in close proximity with similar time zones. The West Australian wine producers that have gained expertise and experience are poised to take on the burgeoning Asian market with confidence, vigour and purpose.

"It doesn't matter how big or small you are there is always a place for export. ...in 1986 one of the first things that my fellow board members said `you shouldn't be thinking of export, you're too small, just concentrate on the home market'. Why shouldn't we diversify too? We had a niche market. There was no reason why a small producer shouldn't export. All you have to do is learn the whys and wherefore and rules and regulations and off you go. If someone comes to you says I want to buy your wine why should you refuse to sell it? And that's basically how it started." (Winery 9)

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THE PROCESS OF BUSINESS DEFINITION FOR THE SMALL MANUFACTURING FIRM

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Abstract

Small manufacturing firms (SMFs), as components of larger manufacturing chains, are often subject to the vagaries of technological and market changes. As such, they are often unclear as to their strategic directions and have to learn to work their way into their businesses rather than develop master plans or grand strategies. The objective of this paper is to address the challenge confronting these firms and examine an aspect of how SMFs seek the underlying logic and purpose of their businesses.

INTRODUCTION

A dimension to the efficient operation of a manufacturing firm is the informal network of other manufacturing firms that provide it with the ancillary products, parts, sub-assemblies and supporting services. Networks in general are regarded by Thorelli (1986) as something between markets and hierarchies. As a form of organization, this informal network of which many SMFs are important links is considered as a manufacturing chain. Such chains are complex arrays of relationships among firms that are required to set up, control, coordinate and maintain the bi-directional flow of information and materials that enable products to be made. The products of SMFs are usually parts of other products which in turn are components of yet other products or systems utilized by end-users and customers. The roles of the SMFs usually cannot be related without reference to the other major firms in the manufacturing chains as the primary activities of any chain are focused on the products of these major firms.

The manufacture of products is an interdependent complex of activities and firms seek the most efficient suppliers or vendors in order to maximize the value-added elements in the process. This interdependency is workable only if the linkages in the chain are efficient. Essentially, economic feasibility and cost considerations determine the functioning of a chain because firms trade-off or balance the advantages and disadvantages of in-company manufacture against buy-in of their parts and sub-assemblies. Firms would undertake those activities for which they have the most competitive and comparative advantages so that the overall costs of manufacture of their products is minimized.

A chain can only be feasible if the contribution by each supplier makes the final cost of the product lower. Thus, considerations of efficiency and cost-effectiveness motivate the major firms to seek the best parts, components, sub-assemblies and services for their

operations. In order to obtain continuous and good support to serve their performance and profitability objectives, they encourage open competition and new entrants into the chains. Greater competition encourages a freer flow of information and compels SMFs to exercise sound judgement and be more prudent in material management policies.

For the major firms in a manufacturing chain the development and introduction of new products is an inevitable means of sustaining business growth. Further, with the need to introduce new products at a rapid pace and with products on short life cycles, technological innovations are important aspects of their corporate strategies.

The pressures to respond to customers and competitors exacerbate the need for cost effectiveness and manufacturing efficiency. Often, changes in product technology or in the process of making a product invariably change the environment for the SMFs. The resultant disruptions reverberating through the firms in a chain are sometimes so severe that many SMFs are forced to exit the network. Notwithstanding the disruptions, over time, a manufacturing chain is sustainable if the bonds among firms arise from a desire for long-term commitment. Integrating into a manufacturing chain to generate that bondage requires an understanding of the logic or purpose of the basic business. However, as the SMFs get caught in a web that demands continuous innovation to adapt to accelerated technological changes in a fluid environment of uncertainty and expanding competition, this is an issue which is difficult for many of them to define.

Accordingly, the notion of defining a business is next explored. An overview of the dynamics of the business processes of SMFs is then broached. This is followed by a rationalization of the flow of their business activities. Some pertinent remarks conclude the analysis.

DEFINING A BUSINESS

Porter (1987) regarded that the direction of a business can be set when a firm knows and decides what business it is in. This is corporate strategy and it is also concerned with how the business is to be managed. Competitive strategy relates to how a firm can generate advantage for itself by matching its resources and capabilities with the opportunities created in the environment. Without a conceptual frame of reference, the natural tendency for a SMF is to compete directly for a project or business order by matching its resources with the opportunities offered by the major firms in a manufacturing chain. For the SMF, corporate and competitive strategy is one.

Indeed, a survey of the business purpose and direction of some SMFs (Figure 1) revealed that the firms are unable to identify the basic aims of their businesses.

Making a product or being in a particular industry delineate rather than define the nature of their business. They are unable to relate to any specific strategy in achieving their goals, except to indicate the need to provide a service to an industry or to be productive and profitable. The impact of technological changes on their operations have ranged from mild to radical. With technical, engineering and concomitant managerial adjustments they have been able to reorganize, adapt or diversify. They emphasized

reliability, dependability and trust as the keys to sustaining any strategic relationship within their chain. The process of strategizing in business must be founded on the basis of the existence of the firm; what it ought to do, what it can do, what is its present position and where it is headed. (Andrews, 1987). Defining a business is concerned with the identification of the central concepts that give the business its meaning. It relates to the purpose and aspirations for which the business was conceived and what it aims to achieve. There must be a continuous emphasis to maintain that meaning because it is the prerequisite for ensuring stability and growth of the operations of a firm.

Firm (abbreviated names)	Nature of Business (Product Categorisation or Customer Description)
AE	Environmental control, clean room products and systems, semiconductors
DF	Precision engineering, disk drive, computer peripherals, electrical, plating
FA	Machine design and fabrication; electronics, food, automation
FE	Parts and services for electronics, computers firms
JA	Automation, manufacturing, electronics, computers, plating, conveying
KS	Precision engineering, metal grinding, electrical, computers
LSI	Metal and plastic mouldings, mechanical engineering, electronics
LSM	Moulds, metal works, electrical engineering
ME	Precision works, aluminium components, disk drives and computer peripherals
MH	Automation, handling, conveyor systems, electronics and computers
PDA	Aluminium works, buildings, architecture, structures, electrical
SI	Tool design and manufacture, automation, telecommunications, electronics, computers
SYMP	Chemical, petroleum, control and instrumentation, electrical
TNH	Metal works, precision engineering, computers, mechanical engineering
TT	Plastic mouldings and fabrication works, machine programming, all industries
YC	Metal works, bearings, precision works,

Figure 1: Business Perspective of Some SMFs

The difficulty with addressing this basis in a fluid environment hinders the setting of business directions and the formulation and planning of commensurate actions for achieving long-term operating objectives. This futility in strategizing by SMFs hinges on the fact that their interactions with the major firms in a manufacturing chain are too broad in scope and too narrow in effect. But, the SMFs can draw consolation from Mintzberg and Waters (1985) who pointed out that formulated or intended strategies may not be realized. Often, unplanned patterns of the environment may emerge and force changes in the intended strategies. Ultimately, realized strategies might not have any bearings with the initial intentions at all.

THE BUSINESS PROCESSES OF SMFs

Observations of industrial practice suggests that SMFs undergo three phases in this process. Initially, they strive to secure orders or contracts and then work toward the achievement of immediate performance objectives with respect to the tasks or projects in hand. Then they consolidate their resources and knowledge to strengthen their positions and transactions with respect to the customers. The accumulated experiences, both successes and failures, next motivate the firm to expand or contract,

seek new businesses or exploit emergent opportunities. This flows back onto the phase where the firm having struck new transactions, work hard to attain the new objectives.

To achieve communication impact and learn about their customers, direct marketing through a combination of business brochures, technical catalogues and fine-tuned sales letters is an important approach utilized by SMFs. Through extensions of this approach the SMFs strive to achieve a good understanding of the value chain of the customers' operations and to identify therefrom the best opportunities to contribute positively to the main business of these customers. They understand that beyond the supply of a product or service and the completion of a project, there is the consideration for the development and maintenance of a long-term relationship.

This leads to the cyclical process of defining and redefining the business domain for a SMF.

In each of these phases, a mix of marketing approaches is usually used with varying levels of emphasis to develop and enhance customer relationships. They include the use of sales force connections and network; the customized sales letter to fine tune specifications on product attributes, functions and options as well as to reinforce customers' understanding and knowledge of the SMFs' products and services. Others include promotions, specialized services and after sales communication. Utilized prudently, such approaches have enabled them to facilitate the difficult and amorphous process of defining their business.

The cyclical process of this set of activities is depicted as a flow process in figure 2, and the main modes of conducting the activities in figure 3.

Figure 2. Flow of Activities in the Business Process of SMFs

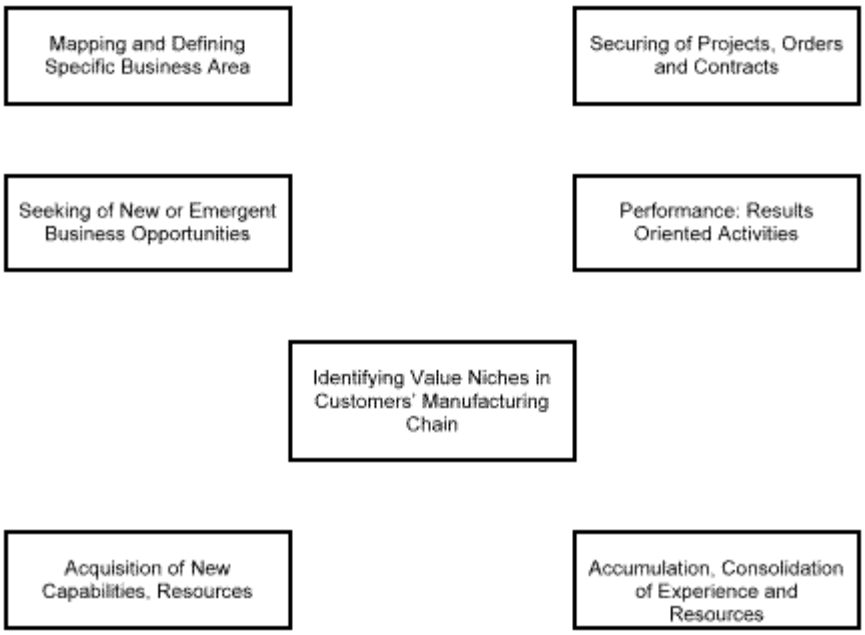

Figure 3. Patterns of Transactions in Business Development

Activities in the Business Process	Essential Modes of Conduct of the Business Process
Securing of Projects, Orders and Contracts	Customised, directed, business letters, drawings, specifications, quotations, tenders
Performance: Results Oriented Activities	Progress reports and meetings, completion reports, letters for future projects, letters of appreciation
Accumulation, Consolidation of Experience and Resources	Improvement and updating of specifications, manuals, brochures, operating standards
Acquisition of New Capabilities, Resources	Exploratory, introductory, unsolicited technical letters, enquiry on expected needs, areas of future cooperation, joint skills development
Identifying Value Niches in Customers' Manufacturing Chain	General Business letters, technical brochures, specific business letters, vendor classification, qualification
Seeking of New or Emergent Business Opportunities	General business letters, technical pamphlets and brochures, pre-qualifications, introductory letters
Mapping and Defining Specific Business Area	Customised letters, design proposals, specifications, letters of intent or understanding
Securing of Projects, Orders and Contracts	Designed and customer-specific correspondence

Note: all the firms emphasized the importance of people to people contacts to ensure understanding, commitment and continued interest for all the activities.

RATIONALISATION AND INTERPRETATION

Lacking a strategic framework and the skills and resources for concerted marketing efforts, SMFs have to rely on a prudent deployment of designed business literature and correspondence, technical bulletins and brochures, personal contacts and communication to convey commitment as well as to bridge the interface between words and actions.

Value for the customer is an imperative for the SMF. It is only by creating or enhancing value for the customer will the firm be able to sustain its operations. The necessity for good communication in specific forms serve well in this respect. The preparation of customer-based business letters to discern and offer a better package than their

competitors' is crucial to securing a project or order. They are also essential and cost effective steps to search for unique opportunities or to detect the signals for the latest developments in their customers' requirements. The costs incurred by some major firms in a manufacturing chain in searching for suppliers and vendors can be substantial. Well designed brochures and adequate personal representation contribute to an information base that helps reduce this cost and improve the efficiency of the chain. The SMFs believe strongly in addressing this issue with a mix of communicative correspondence and information exchange.

Competition amongst SMFs to win an order or a contract is usually keen. While they must explicitly articulate any moves to procure projects, they must also take the risks of incurring up front commitment. With quick and conscious efforts, they can minimize this risk through better evaluations of the customers needs and avoid mistakes of mispecifications. Once an order is won, cooperation between the customer firm and the SMF is essential.

If the SMF has not undertaken any projects for the customer before, a certain amount of downstream performance risk is inherent in the transaction. The ability of the SMF and its level of commitment is not entirely known to the customer. The conduct of the customer, on the other hand, can weigh on the ability of the SMF to engage another project or order. On a positive note, the benefits a SMF gains from the project depend on its performance. Windows of opportunities are opened as they perceive gaps that develop from this performance. The SMF which has successfully completed a project normally has priority for subsequent projects. This is the breakthrough most SMFs seek.

An important element of communication and coordination frequently centers on the timing and degree of involvement of a SMF in a project. The effective performance of SMFs are dependent on their abilities to organize and integrate their support for the customers. It is the responsibility of SMFs to build up this support and give consistency to their network of customers. With a balanced emphasis on the use of communicative tools at various phases of the business process they provide the means to achieve greater effectiveness and efficiency in a manufacturing chain.

CONCLUDING REMARKS

The future for SMFs is bright but they must enhance their innovative and competitive capabilities. Their main consideration is to manage focus amidst disorder and to take calculated risks to develop long-term relationships within a manufacturing chain. Current developments underscore the need for them to achieve technological progress and to broaden their customer base with useful technological management systems. Given the global perspective of the major firms, vast opportunities abound along the whole stream of manufacturing activities.

These include R and D, product design and development, process improvement and advancement, production and distribution. The SMFs will have to confront the challenges and demands of exploiting these opportunities.

As the manufacturing chains will grow in importance and become more dynamic, SMFs need to continuously invest and invigorate their operations in order to tap opportunities as they arise and to integrate more fully into their respective manufacturing chains as market conditions prevail. An SMF need not be a mere supplier. As industry rivalry moves toward the level of competing chains, the roles of SMFs necessarily elevate to one of partnership. Then the logic and purpose of their business becomes clearer.

This new stage for the advancement of the status of SMFs remains a vision. There are major obstacles to overcome. However, in an information intensive age with inter-organizational transactions becoming less bounded, the stage is already set. And if SMFs respond with greater flexibility and adaptability, the move towards that vision can begin.

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Conceptual Capability and Family Business Survival: An Application of Jaques' Stratified Systems Theory in Family Business

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ABSTRACT

Historically, only a small percentage of family businesses survive the transition from founder to successor generations. The significance of this problem is underscored by the estimate that in the next decade and a half the value of such transitional businesses, in the United States alone, will approximate 12 trillion dollars. The present research tests the hypothesis that business performance following succession is in part attributable to the successor's current and future conceptual capacity at the time of the succession. Using a procedure derived from Jaques' Stratified Systems Theory, predecessors and successors' capabilities were assessed and then a regression analysis was conducted to determine the extent to which their capabilities were related to the performance of the business.

Predecessor conceptual capacity was significantly related to the size of the business at succession, but not to subsequent change. Successor conceptual capability was significantly related to change in business gross sales. This finding supports the value of using such an assessment in succession planning. These results do not dispute that factors other than a successor's conceptual capability are important. There was some evidence that the successors' future potential may also be a significant consideration in the selection decision. As a result, the research is an important step toward helping family business in their succession planning.

INTRODUCTION

The founders of a large number of entrepreneurial businesses started after World War II are now reaching retirement age (Ibrahim & Ellis 1994). During the next 10 to 15 years, approximately two-thirds of these businesses will transfer control within the family to the next generation (Anderson 1995). Historically, only a small percentage survive beyond the first generation (Ibrahim & Ellis 1994), a troubling fact for the families and a major issue for the economy.

In most cases the owner-manager, with the family's influence, is responsible for implementing the succession process (Danco 1980; Levinson 1974; Sonnenfeld 1988). The owner decides who will take over the management and/or ownership, when the transfer will take place, and how the succession process will be implemented. Since those decisions may often be based on the family's needs, rather than on the requirements of the business, problems occur when the needs of the family do not correspond with the requirements of the business (Frishkoff 1994; Goldberg & Wooldridge 1993; Jonovic 1987; Rosenblatt et al. 1985). For example, an owner-manager's choice of a successor may have more to do with the family's values than the chosen successor's capability (Aronoff & Ward 1992; Frishkoff 1994; Ibrahim & Ellis 1994). To the extent that the family wants to keep the business under its control, an owner-manager may select a child rather than a non-family member who may be more capable (Frishkoff 1994).

Opinions differ as to the specific leadership characteristics important for predicting whether an individual will be successful after taking over the family business. Although it would seem clear that a successor's conceptual capability is important, the problem is that neither a meaningful definition of "capability " nor precise and usable methods for assessing it have been widely available. Jaques and Cason (1994) have suggested a possible "capability" construct (potential capability -- PC), based on his Stratified Systems Theory, and have recently validated a measurement method. Jaques (1996) argues that a leader's PC will determine the level of business complexity that a leader can create and sustain.

JAQUES STRATIFIED SYSTEM'S THEORY

Jaques found a universal underlying pattern of stratification in managerial hierarchies. The number of accountable managerial layers required for an organization is based on role complexity and the number of business functions that must be delegated (Jaques 1996). For example when a business is small, an owner-manager may be able to handle all but a few functions of the business.

However, as the business grows and becomes more complex, the demand for role specialization increases and the owner-manager may need to delegate the specialized roles. Therefore, as specialization increases and the number of delegated roles grows, the number of required managerial layers and role complexity also grows. Jaques suggests an individual's PC refers to the maximum level of role complexity at which an individual can work based on his/her particular stage of development. It is a function of an individual's current level of mental complexity.

Therefore, when individuals are placed in roles that match their level of PC, they will be able to realize their full potential, provided they have been given the opportunity to acquire the necessary skills and knowledge and the work is perceived to be of value. It is the level of work in which people aspire to have and feel satisfied if they can get. "When people have work at their current PC, they feel [believe] they have an opportunity for the full expression of their capability." (Jaques 1996: 134) However, whether or not individuals actually apply their PC is also a function of their level of commitment, skills

and knowledge. PC is assumed to mature in "a broadly predictable manner throughout life into old age" as complexity of mental processing increases (Jaques 1996: 134), thereby enabling individuals to work at higher levels of role complexity. Jaques proposes that measurement of PC at a given age permit predictions about the rate at which complexity of mental processing will increase, and the upper limit of complexity an individual is likely to eventually attain. Consequently, once an individual's PC is determined, it is possible to determine both an individual's current and future potential capability.

PC Measurement

Jaques and Cason developed a procedure for assessing a person's complexity of mental processing (PC) using tape-recorded interviews in which the subject is fully engrossed in discussing a problem (Jaques & Cason 1994). The methodology is based on the assumption that an individual, when conversing about a problem, will use and thus reveal his/her highest level of mental processing. By mental processing, Jaques explains it is a "mental working process by which you [an individual] take information, pick it over, play with it, analyze it, put it together, reorganize it, judge and reason it, make conclusions, plans and decisions, and take action." (Jaques 1996:18). Four types of mental processing exist: declarative, cumulative, serial, and parallel (Jaques & Cason 1994). These four types "can be observed in each of two different orders of information, symbolic and abstract, used by adult subjects; they are recursive and maintain their hierarchy of complexity." (Jaques & Cason 1994: 61) Therefore, assessing an individual's capacity to perform work, PC, is a two-part procedure. One must first observe the type of mental process used and then, the order of information complexity. Table 1 summarizes the complexity of mental processing associated with each managerial role in Jaques' Stratified Systems Theory.

Table 1: Level of Managerial Role Associated with Complexity of Mental Processing in Jaques' Managerial Accountability Hierarchy (MAH)

Level	Order of Information Complexity	Explanation of Information Complexity	Pattern of Mental Process	Explanation of Mental Process	Logic
I	Symbolic verbal	• Thoughts used as symbols	Declarative	• unconnected arguments	Or-or
II	Symbolic verbal	• thoughts used as symbols	Cumulative	• linked arguments	And-and
III	Symbolic verbal	• thoughts used as symbols	Serial	• cause/effect sequences	If-then-then
IV	Symbolic verbal	• thoughts used as symbols	Parallel	• cause/effect sequences linked	If-and-only-if
V	Abstract conceptual	• thoughts refer other thoughts	Declarative	• unconnected arguments	Or-or
VI	Abstract conceptual	• thoughts refer other thoughts	Cumulative	• linked arguments	And-and
VII	Abstract conceptual	• thoughts refer other thoughts	Serial	• two cause/effect sequences	If-then-then
VIII	Abstract conceptual	• thoughts refer other thoughts	Parallel	• two cause/effect sequences linked	If-and-only-if

DESIGN

The study was designed to investigate the relationship and possible contribution of a number of variables to the performance of the business. The criterion variable used to measure the organization's performance was gross sales, adjusted for industry growth, in the third year following succession. Gross sales, rather than an organization's profits, were used as they are less susceptible to accounting variations and managerial manipulation (Bracker, Keats & Pearson 1988; Sapienza, Smith & Gannon 1988). According to a meta-analysis of 320 studies using various financial data to measure organizational performance, growth in gross sales is one of the most common measurements used (Capon, Farley and Hoenig 1990). However, to prevent small changes in business performance from being masked by large changes in industry performance, actual sales dollars were adjusted in the present study to account for industry performance (Capon, Farley and Hoenigh 1990). Adjustment for industry effect also permitted businesses to be selected from various industries.

Sampling Design

A convenience sample was generated using referrals from various national associations and consultants who identified family-owned businesses in the targeted population. Sample selection criteria were:

1. The predecessor and successor were both available and willing to participate.

2. Data on the financial performance of the business could be obtained for the required years.
3. Statistics on industry performance were available.
4. There was agreement between both the predecessor and the successor as to the year that the successor took over accountability and authority for the managerial leadership of the business. (If agreement did not exist as to the time when the transfer took place, the possibility existed that the predecessor might still be managing the business.)

Procedure

The sample consisted of 31 businesses from various industries; complete data were available for 29. After selecting the sample, the researcher made an appointment to interview the predecessor and the successor of each business. Interviews ran one to two hours. Following Jaques' and Cason's methodology for measuring PC, the same type of interview format and questions were used to get the subjects fully engaged in discussing a problem they were trying to resolve. Each subject was asked, "What is the single most exasperating business problem you are aware of, and what kind of solutions should be considered?" Next, each was asked "What should be done to solve the welfare problem in the United States?" If the subject did not appear to have knowledge about or interest in the welfare topic, then the researcher asked about the issue of legalizing drugs. These questions were selected because they were thought to be issues of general concern in the U.S. and thus likely to engross subjects fully. Each interview was conducted, with questions interjected for clarification, alternative arguments, or other comments to assure that the subject was fully engrossed in the discussion. In addition, each subject was asked the year when the managerial leadership succession took place. All of the interviews were tape-recorded. Following the interviews, each tape was transcribed.

Measures

The interview transcripts were scored to determine each participant's evident PC, based on the criteria shown in Table 1, using a method similar to the one used by Jaques and Cason (Jaques & Cason 1994). Sections corresponding to a specific category of mental process (declarative, cumulative, serial or parallel) and level of information complexity (symbolic or abstract) were marked. In addition, the degree (low, medium or high -- C, B, or A) of a specific category of mental process used was also noted. For example, some participants primarily used declarative, symbolic verbal (Level I) reasoning. However, when completely engrossed in the conversation, they brought together in a tentative way two or more linked arguments, i.e., the beginning of cumulative, symbolic verbal (Level II) reasoning. In this example, the assessment was Level I/2 to indicate potential maturation across the boundary to the next higher level. Finally, the assessments were converted to "scores," with possible values from 1 (lowest category of assignment in Level I) to 21 (highest category of assignment in Level VII) (Jaques & Cason 1994). An estimate of rater reliability was obtained from ratings by Jaques of a one-third subsample (N=20, from a total of 29 each predecessors and successors) using a double-blind technique to reduce the potential for assessor bias. The resulting rater-rater correlation was .94, which was judged satisfactory for the study.

RESULTS

Business Demographics

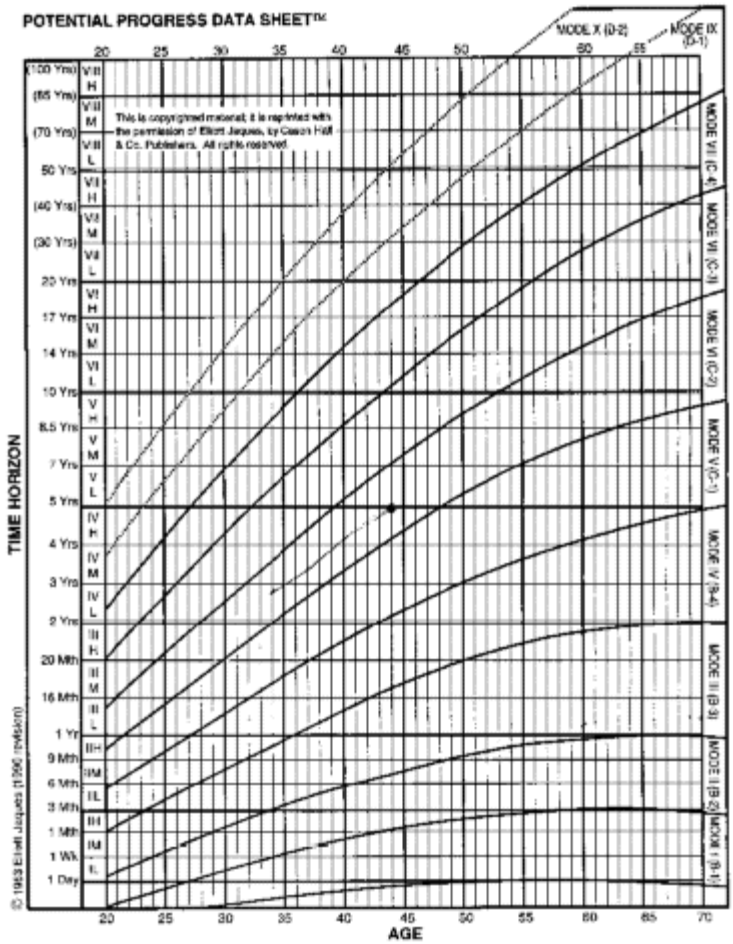
The sample consisted of 29 businesses from six industries: ready mix concrete (10), heating and air-conditioning (9), wholesale meat (1), auto dealership (5), industrial laundry (2) and office equipment (1). Business size, in actual gross sales dollars at the time of succession ranged from $681,625 to $50,792,361 with average gross sales of $10,660,441 and median gross sales of $5,860,000. Industry growth rates, including inflation, were used to normalize the data. Adjusted gross sales were computed through the use of industry growth rates in each of the seven years for the businesses. The adjusted gross sales of each business was calculated for each year using a discount rate based on the industry's growth rate for those specific years.

Predecessor and Successor Demographics

Each successor was asked the number of years he or she had been working in the business. Only one successor had less than five years experience; the majority had more than ten years. Potential Progress Data Sheets were drawn for each of the 29 businesses. Each contained the predecessor's and successor's PC at the time of the interview, superimposed on normative growth curves that permit PC at previous and subsequent ages to be estimated from current data. The successors' PC was higher in 12 businesses; in 4, they were equal; and in 13, they were lower.

In addition, it is possible to determine an individual's maximum level of potential in the future (mode and or FPC). Figure 1 shows an illustration of the Potential Progress Sheet for one of the businesses (#12) in the sample.

BUSINESS 12



PC Difference and Subsequent Business Performance

A regression analysis was conducted to investigate the possible contribution of variables that influence the organization's performance, adjusted gross sales, both before and following the succession. As a first step, a correlation was computed between the predecessor's PC and the size of the business at succession, measured in adjusted gross sales. That is, it would seem reasonable to expect that the PC of the predecessor should be related to the size of the business at the time of succession, just as the PC of the successor should be related to whether the business grows, remains the same, or declines. The correlation was .35, significant on a one-tailed test at the .05 level. As a next step, predecessor's PC was correlated with adjusted gross sales for all years.

These correlations ranged from .31 to .40, and all were significant at the .05 level on a one-tailed test. Consequently, the analysis raised the possibility that the relationship of successor's PC to business performance following succession might be attributable to continuing predecessor's involvement, i.e., that successor's PC relationship with business performance may be spurious.

Accordingly, predecessors' and successors' PC at the time of succession, and adjusted gross sales in the year of succession were entered as independent variables; adjusted gross sales of the business in the third year following succession was used as the dependent variable. As expected, adjusted gross sales in the year of succession was the dominant predictor of sales in the third year following succession. The size of the business does not dramatically change, at least in the short run, when a succession takes place. Of greater interest, the PC of the successor also produced a significant beta, while the PC of the predecessor did not. The results of this analysis are shown in Table 2.

Table 2: Multiple Regression

Variables	Beta	Significance
Adj Gross 4th Year	.982345	.0000
Successors' PC	.179105	.0206
Predecessors' PC	-.107869	.1764

Additional Findings

Some additional analyses were prompted by examination of the scatter diagram plotting predecessor-successor PC difference against business performance following succession. Several possible "outlier" cases were noted. Given that the major research question had been answered, addition analyses appeared permissible. As was noted previously, once an individual's PC was determined, the progression chart was used to assess his or her FPC (future potential or mode).

This was done for both predecessor and successor. In several of the outlier cases, the PC of the successor was less than that of the predecessor. However, in some of these cases, the successor's FPC was substantially higher than the predecessor's FPC, and in these cases, the adjusted gross sales of the business actually grew.

To check the possibility that FPC might be a more significant factor than PC, both successor's FPC and the difference between predecessors' and successors' FPC were correlated with business performance, measured by the difference in adjusted gross sales from year four (the year of succession) to year seven (three years after succession). Business performance following succession correlated .40 ($p<.015$, one-tailed) with difference between predecessor's and successor's FPC. A regression analysis produced similar results, producing significant betas for adjusted gross sales in the year of succession (.96,$p<.0000$) and for successor's FPC (.1652000,$p<.0307$). The results are essentially of the same order of magnitude as those produced by the PC variable. The analysis does not provide a basis for asserting the relative significance of either PC or FPC. However since the correlation was somewhat higher, it does establish a basis for asserting that further studies should be conducted to determine the extent to which FPC may be a more theoretically significant consideration than PC in the selection of successors.

DISCUSSION AND CONCLUSION

The size of the business at the time of succession was correlated with the predecessor's PC, a reasonable finding from a Stratified Systems Theory perspective. That is, business complexity ought to have been related to a complexity level that could be handled by the predecessor/ owner.

For most businesses in the sample, size and level of complexity did not materially change over the next three years. However, to the extent change did occur, there was a significant tendency for businesses with successors of higher PCs to show a growth in adjusted sales, while businesses with successors of lower PCs showed a reduction in adjusted sales. Although researchers agree that the capability of the successor is important to the future success of a business, no one has provided a precise and usable method of demonstrated validity for measuring capability. This problem impacts more heavily in family businesses because selection options are limited and the selection process lacks "objectivity" (Barnes & Hershon 1976; Ibrahim, Ellis and Rosenblatt 1994). It consequently appears that Jaques' PC construct and associated measurement could be an extremely useful tool for businesses in general, and family businesses in particular, in the succession process.

Because the sample was not randomly obtained from a defined population, these results cannot be generalized to all family businesses. However, the study does provide exploratory evidence that an individual's PC is important to the performance of the business. Although business size three years after succession was much more strongly influenced by the size of the business at succession, the PC of the successor has been shown to have an effect. In fact, the impact of the successor's PC, even over a three-year period, may not be trivial. Under certain circumstances, even a small increase in business revenues, in the short term, may create the foundation for the eventual survival and/or growth of the family business.

It is important to emphasize that these results do not dispute that other factors than PC are important. Factors other than capability, that affect an individual's commitment to apply his/her full potential are also important in the success of a business (Dyer 1986; Jaques 1996).

Nonetheless, this study showed a significant relationship between successor's PC and change in business adjusted gross sales. It therefore appears that family business owners should consider PC, along with the other factors, when deciding who will take over the business. The study also provides a basis for continued research in the application of Jaques' Stratified Systems Theory in family-owned businesses, both examining other factors quantitatively and extending the present research to a sample that permits generalization to the population as a whole.

Assuming that future research obtains similar findings, some interesting applications in succession planning exist that could be useful in family businesses. First, all potential successors could be assessed to determine who has the necessary current PC. Since the measurement is objective, at least if used by outside observers, it could eliminate one source of error in selecting a successor. In addition, once the PC of the future successor is determined, a training program and succession plan, including a targeted

time for succession, could be designed. On the other hand, if the future successor's PC is not sufficient to handle the complexity of the business at the time the predecessor wants to retire, then an interim successor could be selected to manage and mentor the successor until he or she is ready. If that is not possible, then the business could be broken into smaller businesses or be sold. In the end, both the business and the family would be far better off, financially and emotionally, if the successor's PC is in alignment with the complexity of the business.

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Marketing, Small Business and Entrepreneurship: Some Issues for the future.

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Abstract

Whilst there is considerable discussion about marketing in entrepreneurship and small business literature, very little is on the relevance of marketing science to this area. Empirical generalizations and theory close to this level of substance are at the core of marketing theory.

By virtue of its nature such high level theory should apply across all marketing situations, including those addressed by small business and entrepreneurs. Yet there is an apparent absence in literature of discussion and research linking marketing science, small business and entrepreneurship. This paper empirically examines the information system used by entrepreneurs and small business managers/owners. A market/firm direct interface model, which explains how management, markets and the firm interface, maintaining customer relevance without direct reference to many of the information pieces considered critical by marketing theory is developed.

Introduction

Entrepreneurship marketing literature argues marketing is a problem area for entrepreneurs because of its complexity and resource requirement (Hills and La Forge 1992; Weinrauch 1986). Yet marketing supplies the operational cash flows essential for firm survival and influences strategy behavior (Geursen 1997). It has further been argued that there are substantial limitations in using existing marketing models to characterize behavior and processes in entrepreneurship (Muzyka and Hills 1993). Do such comments underestimate the potential contribution of marketing to entrepreneurial market behavior, or do they indicate how little is know of marketing's contribution to the small or entrepreneurial firm?

The Ehrenberg research process started with a framework and then examined its validity with vast amounts of "occurrence" data to develop substantive theory (Morrison and Silva-Risso 1995). The success of Ehrenberg and his "school" argues that the theory building ability of data lies in the consistent sameness of observation across many sets of data rather than identification of significant differences (Ehrenberg 1995,1990; Nelder 1986). Knowledge which is developed to the point of where it can be termed "marketing science" thus presents a law like relationship which is applicable generally (Bass and Wind 1995; Bass 1995; Barwise 1995; Bass 1993; Hunt 1991). Hence the expectation that marketing science level theory should be active in entrepreneurship.

This paper presents empirical research identifying the information base used by entrepreneurs and a framework identifying entrepreneurial marketing decisions functions. A conceptual model is developed from which explains how management,

markets and the firm interface, maintaining customer relevance without direct reference to many of the information pieces considered critical by marketing theory.

Research method

Four in-depth interviews and three focus groups with owners of small businesses were used to develop a grounded understanding of the thought processes and decision structures in small business (see Geursen 1995). Despite the existence of substantial longitudinal studies (Williams 1989; Storey et al 1990 specifically) coherent patterns of conceptual understanding have not emerged. A grounded approach for instrument development was thus the most appropriate to research strategy (Malhotra 1994). Documents and decision processes were further explored in fourteen case studies amongst a cross section of small businesses. Documents used in the Williams (1989) study reflected literature assumptions of what instruments are used in accounting and management systems, and the management function these perform. The qualitative data collected for this study suggested that the documents used by Williams (1989) did not reflect data used by small business for decision purposes. The qualitative research found that the critical information originates in simple and available material which management considers pertinent to the decision processes. Evidence to support the proposition that documentation required by law performed a role in the management decision processes could not be found at the qualitative research stage.

Empirical substance to this study was derived from a random sample (final respondents n=220), drawn from all business listings in the telephone directories of Warrnambool and Melbourne. Warrnambool was selected to achieve a non-urban and regional urban representation and Melbourne, a large urban representation in the sample. In order to achieve sample integrity, telephone interviewing was used. An unanswered number was redialled five times during the next two weeks before being discarded, thus conforming to CATI procedures (see Malhotra 1994). A structured questionnaire was administered by telephone to respondents by two trained independent interviewers. A screening question was included to filter out businesses not conforming to the Australian Bureau of Statistics definition of a small business. The key characteristics of this definition are that manufacturing businesses must have less than one hundred, and non-manufacturing less than twenty, employees. The instrument was administered only to conforming businesses. Further characteristics required by (Beddall 1990) relating to management, ownership and decision making functions resting with the owners/ managers were recorded. All respondents used in this study conformed to Beddall's management and ownership criterion for small business. In the sampling protocol businesses, which were not, independent was excluded. Franchise owners/operators, retailers operating under a banner or belonging to a group or any business with affiliations which provide them with a market position were excluded because management in such businesses may not possess complete strategic decision

The respondents in this study can be classified as small business and entrepreneurs. This classification requires independence of action, thought and market exposure, including acceptance of personal risk. It further requires innovativeness, which was established by the presence of a key aspect of entrepreneurial research, the presence of

a formalized opportunity recognition process. By screening or testing the presence of these all these elements entrepreneurship consistent with literature is established (Miller 1983, Covin and Slevin 1991, Lumpkin and Dess 1996). As Lumpkin and Dess have argued, not all of these characteristics need to be present for a person to be classified as an entrepreneur.

The key elements of entrepreneurship are clearly present in this sample. Other characteristics of the sample indicate it to be representative of the small business population in Australia. A comparison between Australian Bureau of Statistics small business profile and the sample indicate good representation of Australian small business types and structures. The only missing groups from the sample were mining businesses.

A detailed correlation study could not be undertaken because comparative data was unavailable on a regional or state basis. It should be noted that the sample for this study was strongly skewed towards survivors. Most respondents (96.4%) had been in business for more than two years; nearly half of the respondents (47%) over ten years. The sample thus reflects a group of small businesses which, by virtue of their length of time in business can be considered as successful (Beddall 1990; Williams 1989; Storey et al 1990). Most respondents operated businesses which were mainly domestic but a small percentage (3.18%) were both domestic and international. The structure of most businesses (51.36%) was an incorporated structure. A further number (29.09%) operated as a partnership and the balance were unincorporated sole traders. Respondents in the sample indicated a cross section of turnovers, ranging from over $A10 million (16.1%) to less than $A100,000 (22%). Some 50.2% of the sample had turnovers greater $A1 million per annum. International entrepreneurship and multi study credence was provided by the inclusion of data from studies conducted by Hills (1995,1996) on entrepreneurial opportunity recognition amongst American entrepreneurs.

Research objectives.

The purpose of the empirical component of this study was to provide substance to the qualitative observations of earlier qualitative and case research which identified the small business managers as closely relating to customers and measuring the success of this activity by the results providing the firm with a viable cash flow from operations. (see Geursen 1995, 1996,1997). The involvement of market relevance and cash flow cognizance is thus explored empirically in this paper. The research questions can be formulated as the hypothesis:

H1 Successful small business managers and entrepreneurs function through close, direct and personal contact with their customers.

H2 Successful small business managers and entrepreneurs treat product offerings as dynamic.

H3 Successful small business managers and entrepreneurs use customer reference

points to function.

H4 Successful small business managers and entrepreneurs exhibit high customer relevance focus behavior

The information base used by small business and entrepreneurs Figure 1 provides an analysis of the awareness structure in the sample of marketing areas. It thus provides an insight into the size and composition of respondents' awareness set. The first two columns identify the size of the set and the proportion of the sample possessing that set. The balance of the columns indicates the probability of particular items being identified as part of that set. Probabilities of an item being mentioned by respondents and the error for projection to the population are displayed at the bottom. Figure 1 thus provides an overall view of the structure of marketing knowledge amongst respondents in the sample. Since the projection error for each item is so low, the table provides a good indication awareness state in the population at large.

(Figure 1) Structure of marketing knowledge

Number of items mentioned	Proportion of sample	Probability of item being present in items mentioned										
		Advertising material	Public relations	New product development	Competition analysis	New product adoption	New product design	Sales	Distribution strategy	Qualitative research	Quantitative research	other
1	16.82%	0.703	0.243	0.027	0.000	0.027	0.000	0.000	0.000	0.000	0.000	0.000
2	26.82%	0.968	0.559	0.034	0.017	0.051	0.017	0.119	0.034	0.000	0.000	0.203
3	28.18%	0.919	0.677	0.258	0.226	0.145	0.177	0.210	0.065	0.000	0.016	0.306
4	15.45%	0.824	0.765	0.500	0.559	0.176	0.324	0.118	0.147	0.147	0.059	0.382
5	9.55%	0.667	0.762	0.619	0.381	0.762	0.238	0.190	0.238	0.333	0.286	0.524
6	1.36%	1.000	1.000	0.333	0.333	0.667	0.667	0.000	0.333	0.333	0.333	1.000
7	0.45%	1.000	1.000	1.000	0.000	1.000	1.000	0.000	1.000	0.000	0.000	1.000
Pr of mention		0.845	0.591	0.227	0.195	0.168	0.136	0.127	0.077	0.059	0.045	0.264
error		0.055	0.075	0.064	0.060	0.057	0.052	0.051	0.041	0.036	0.032	0.067

The awareness set ranged from nil to seven items with most respondents (87.3%) possessing a range of items between one and four. The table in figure one also indicates that there is consistency of set structures. Regardless of size, all sets indicate marketing communication as part of its composition. This is supported by the high inclusion probabilities for advertising and public relations. All other items indicate low and inconsistent probabilities of set inclusion. The null hypothesis H1o and H2o are rejected. It can thus be concluded that entrepreneurs are not conscience of an extensive range of functional or higher level marketing theory. H3 and H3o are superficially addressed by the data in Figure 1 and Figure 2 but lack of awareness does not preclude use of an item by respondents, and H3 and H3o are more contextually addressed later in this discussion.

Entrepreneur information seeking behavior.

The information that Figure 2 provides identifies behavioral aspects of entrepreneurs. This data is particularly useful because it provides contributions from separate Australian and an American studies by two different researchers. The results reflect respondent levels of agreement and disagreement with statements using a seven point Likart scale. The resulting means were tested for significance against x=5 as this was the first point at which a negative response was possible. The data in Figure 2

addresses the four hypotheses and their respective null hypothesis. The data also provided further information relevant to H1and H3. Question 13a, 13b,Q13e and Q13f provide a basis for examining H1, H2 and H3. The data in Figure 2 indicates that entrepreneurs perceive themselves as having a strong alertness towards opportunities and believe they are opportunistic (Q13a mean 2.74; 2.36 and Q13b mean 2.41; 2.59). The response to Q13e (mean 1.99) and Q13f (mean 2.07) and is significantly (t.025) stronger on the agree scale to Q13a and Q13b. The particularly strong agreement with the statements thus indicates rejection of the null hypotheses. H3o is also not supported by Q23b (mean 2.06) and Q 13g (mean 3.55 and 4.10) and Q13h (mean 2.58 and 2.57) which indicates entrepreneurs are hesitant in their own product and market relevance perceptions. The issue of relevance as distinct from innovation is addressed in Q13c and Q19 (mean 2.81; 2.14 and 1.19) and QHa (mean 3.34) indicate rejection of H3o and H4o. The means of QHb and QHc indicate that entrepreneurs see market involvement as dynamic and requiring a learning involvement approach (rejecting H2o). Question 23a adds further support to rejection of H3o. QHd provides an insight that entrepreneurs see themselves as involved in the functional areas of their business and prefer involved activity to formal analysis systems.

(Figure 2) Importance of various marketing related characteristics

		Geursen 1996		Hills 1996**	
	Characteristic	Mean	SD	Mean	SD
Q13a)	I have a special alertness towards opportunities	2.74	1.40	2.36	1.11
b)	I would describe myself as opportunistic	2.41	1.42	2.59	1.40
c)	New business opportunities often arise in connection with a solution to a specific problem.	2.81	1.56	2.14	0.96
Q19	The real growth opportunities come from doing something for my customers in a lot better way than other businesses.	1.49	0.83	n/a	n/a
Q13e)	I listen extremely well to what customers say, they want, and don't want as a way of identifying opportunities.	1.99	1.27	2.07	1.09
f)	It is important for me to be in frequent, direct contact with customers.	2.34	1.62	2.30*	n/a*
g)	One's own initiative, judgment or "gut feel" is often the most important part of judging market potential for a new opportunity.	3.55**	1.73	4.1**	1.81
h)	The most important thing is to believe in the idea.	2.58	1.55	2.57	1.36
Q23a	Marketing theory has not produced much that I can use in my business.	3.46**	1.60	n/a	n/a
Q23b	Emphasis in small business should be on delivering superior products and services, rather than on aggressive selling or promoting efforts to achieve business viability.	2.06	1.24	n/a	n/a
Additional Hills 1996 data (scale standardized from 5 to 7)					
Ha)	Identifying good opportunities usually requires "immersion" in a particular industry and market place	n/a	n/a	3.34**	1.76
Hb)	Identifying opportunities is really several learning steps over time, rather than a one time occurrence.	n/a	n/a	2.13	1.12
Hc)	Once in a market, one must be prepared to quickly adjust a new product/service to what the market requires.	n/a	n/a	2.77	1.16
Hd)	In depth market analysis is often used more for impressing financial sources than for actual decision making.	n/a	n/a	4.19**	1.91

Samples, Geursen 1995 n=120, Hills1996 n=218

The text for measures in Q13a-h was taken from Gerald E Hills, (1995)"Opportunity Recognition by Successful Entrepreneurs: A Pilot Study" UIC/AMA, Research Symposia on Marketing and Entrepreneurship Melbourne Australia June 30-July 1 1995

*From Gerald E Hills (1996) "Opportunity Recognition: Perception and behaviour of entrepreneurs".

*Results for (f) are from pilot study quoted above.

**Confidence is tested against neutral scale reading mean score of 5 at t.05. ** indicates cannot reject null hypothesis mean <5

*** error calcs for sample projection Geursen 1996 indicated range e=0.001 to e=0.048

The Hills results were converted to aeven point scale by dividing by five and multiplying by 7

The questions are not in number sequence because the data used in this paper was part of a broader, cross discipline questionnaire. Only the questions relating to the marketing are shown on the table, hence the number sequence.

Does the information system work?

It should be noted that this author agues that the required end outcome of marketing activities is sales revenue, which in an accounting sense broadly means cash flows from operations, hence marketing may be defined as encompassing all activities which effect cash flow from operations (see Geursen 1996,1997). The next two figures examine the validity of the information structure by providing some indication of the business outcomes when these information structures are used.

Qualitative research for this study, and instrument development and testing revealed that respondents were able to recall with reasonable accuracy financial information which provided a directional indication of their balance sheets. Respondents could recall whether sales (revenue) increased, remained stable or decreased. They could recall this same information for expenses, and financing and (after some experimentation with the instrument wording and sequence arrangement) this information could be recalled for the last five years. It was thus possible to provide some assessment of how well the system functioned. H9 could thus be examined.

Figure 3 provides an insight into sales (revenue) performance expectations in the year of data collection (1996) and performance over the previous five years.

(Figure 3) Sales (Revenue) Change over Six Year Period

Number of years increase achieved in six years 1990/6	Probability of increase achievement	Cumulative
0	0.068	0.068
1	0.091	0.159
2	0.232	0.391
3	0.150	0.541
4	0.173	0.714
5	0.045	0.759
6	0.241	1.000
n=220	1.000	

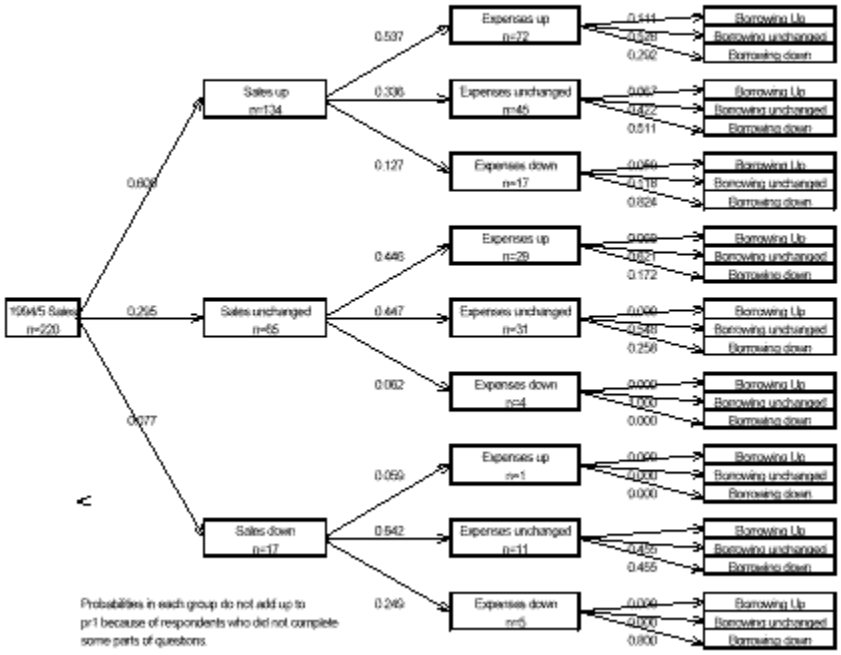
Figure 3 clearly indicates the achievement of sales growth, and thus revenue by respondents. This sample indicated an active achievement of constant growth (pr uninterrupted pr.241) with very few achieving less than two years of growth (pr.159).

Overall, the data indicates a normal growth achievement of between two and four years out of the six year period with a group (pr.241) achieving continual growth.

Figure 4 provides an insight into the consequences of growth on the "health" of the business. Changes in the relationship between the three factors, revenue, expense and

financing are analyzed in order to establish whether the financial situation has improved or deteriorated. The measure does not define the extent of the change ("by how much") as in testing, respondents were unable to answer this with sufficient accuracy, especially for the earlier years of the six year period. Data is constructed for one year but comparison with other years indicates a constancy of pattern between the years.

(Figure 4) Relationship Sales, Expenses and Financing for One Year.



The main point of the data in figure7 is that it indicates that these businesses are implementing decision making and implementing balances, which maintain their viability.

The information system allows the small business to operate in a sustainable manner. Growth in sales (pr.609) can be achieved without expense increase (pr.463) and even if expenses are up, it is unlikely financing increases (pr.820). Unchanged sales leads to a loosening of expense control (pr<. 446,pr =. 447) and sales decrease leads to consolidation behavior (this last observation should be treated with caution because only seventeen respondents experienced negative sales growth in the year of analysis).

Empirical conclusions

From the data the following hypothesis cannot be rejected:

H1 Successful small business managers and entrepreneurs function through close, direct and personal contact with their customers.

H2 Successful small business managers and entrepreneurs treat product offerings as dynamic.

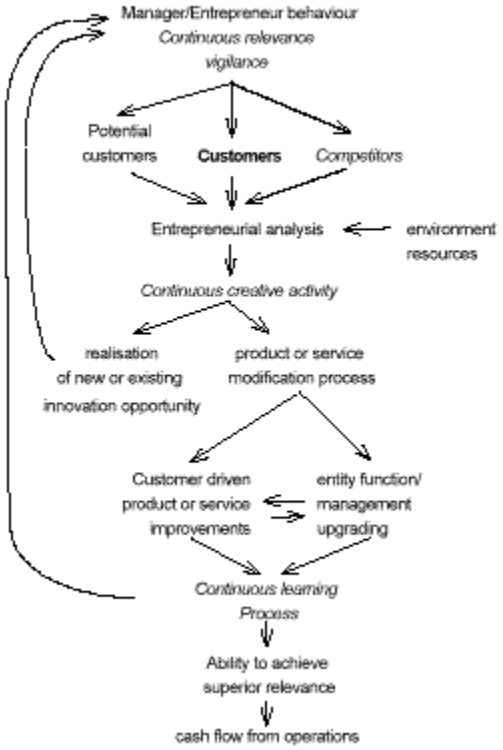
H3 Successful small business managers and entrepreneurs function using customers as market reference points

H4 Successful small business managers and entrepreneurs exhibit high customer relevance focus behavior

A small business/entrepreneur market relevance model.

The non-rejected hypotheses indicate strong and very direct interface links between customer and entrepreneur. The process is dynamic and constitutes a highly proactive interface. This relationship drives what happens in all parts of the functional (cash flow from operations generating) aspects of the firm. The entrepreneur does not confidently act on innovation in isolation but continuously uses direct customers contact as a prime reference point for market relevance correction. Figure8 is a portrayal of the process and relationships.

(Figure 8) Entrepreneur Market Relevance Model



The model indicates how the direct relationship between customer and the firms prime decision-maker functions. The most critical aspect of the model is the method used by the small business manager or entrepreneur to achieves market orientation. The communication is direct and two ways as was established in this research, and the relationship functions to the benefit of both parties. The customer benefits by having the supplier focused directly on his/her most current needs. The owner/ entrepreneur benefits by constantly knowing what output will generate operational cash inflows. The system promotes dynamic internal adjustment throughout the firm. Wastage resulting

from activity that is not directly relevant to customers becomes noticeable and can be avoided, controlled or reduced. The cash flow or liquidity situation acts as the control, providing the critical reference point for sustainability information (Geursen 1998). The model thus presents the small/entrepreneurial firm as a dynamic phenomenon that is a positive learning organization.

This model is highly compatible with discussion of the purpose of marketing for the firm. Levitt (1983) conceptualized the customer relationship as cash flow generating, furthermore the concept of product life cycle and its more recent expression as the market evolution cycle, are based on the entity management requirements to extrapolate cash flows (Kotler 1994). The marketing orientation discussion considers marketing as a total customer and firm interface relationship (Kohli and Jaworski 1990; McKenna 1991) with the ability to provide medium and long term profitability for the firm (the premise underlying Slater and Narver 1990*).* Profitability can be generalized as cash inflows from operations (principally customers) less expenses after adjustment for accruals. Marketing may thus be redefined as encompassing all activities that have a bearing on cash inflows from operations (Geursen 1996). The ability of the model to articulate the interaction is thus useful in future theory development.

The model extends the concept of innovation in entrepreneurship theory by suggesting that innovations offer little contribution to the firm unless they are customer relevant. Such relevance can be measured in cash flow from operations outcomes. Hence innovation discussion without the attachment of the relevance question is severely limited. Within the marketing context this research suggests a questioning of information systems assumed as valid and effective by marketing scholars is required. What are the information dynamics and requirements of firms beyond small businesses? Further research based on the theory roots of marketing science, specifically diffusion of innovation theory, evoked set theory etc should provide small business and entrepreneurs with broader "tools" for operating in their environments (see discussion Geursen 1996).

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ECOLOGICAL PERSPECTIVES IN ENTREPRENEURSHIP: SCIENCE AND SUSTAINABILITY

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ABSTRACT

The science of ecology is a wide ranging discipline organized into levels of complexity: individual organisms and their relationships to their physical environments; populations – groups of individuals of the same species in one area; communities – assemblages of different species in one area; ecosystems – combinations of communities and their physical surroundings. Scholars have begun to apply the concepts, theories, methods, and models of scientific ecology to populations of organizations, leading to definitions of organizational species, niche, competition-mutualism, carrying capacity, birth and death, etc. The notion of sustainable development promulgates an 'ecological' strategy for economic activities that provides real improvements in the quality of human life and at the same time conserves the vitality and diversity of the Earth. Guidelines for sustainable business processes include use of low and non-waste technologies, increased product lives, recovery and recycling of materials, etc. Industrial ecologists, elaborating upon the principles of sustainability, conceive of production systems patterned after ecosystems that seek to optimize the total resource cycle including materials, energy, and capital factors.

INTRODUCTION

The word ecology, in common usage, has two distinct, albeit essentially connected, senses: ecology as a scientific discipline and ecology as environmental philosophy. Scientific ecology refers to the study of the relations that determine the abundance and distribution of organisms in their surroundings. Environmental ecology covers a diverse range of concerns, from grassroots green movements to international efforts, directed generally towards sustaining the Earth's natural resources. These two streams in ecology have much to contribute to both scholarly and pragmatic development in the field of entrepreneurship. An ecological perspective in entrepreneurship emphasizes the many scales at which entrepreneurial activity occurs, and leads to testable research hypotheses. For practitioners, the ecological approach provides a rich set of concepts for organizing knowledge about the environment for entrepreneurship, and points the way towards sustainable business enterprises.

SCIENCE

Scientific ecology is concerned with the biology of groups of organisms and their relations to the environment. This includes studies of individual organisms or of populations of single species and their relations to their environment; and groups of organisms associated to form a functional unit of the environment. Groups of organisms

may be associated in three different levels of organization – populations, communities and ecosystems. A population is a group of individuals of any one kind of organism, a single species. A biotic community includes all of the populations occupying a defined physical area. The community, together with the physical environment, comprises an ecosystem (Tansley, 1935).

Each region of the Earth is inhabited by a characteristic assemblage of organisms. These are interrelated in many diverse ways as competitors, mutualists, predator-prey, and so on. The members of each assemblage are not determined by chance but by the sum of the many interacting physical and biotic factors of the environment. The niche concept expresses the relationship of the individual to all aspects of its environment; niche dimensions describe physical conditions and resource qualities (Hutchinson, 1957). Different species with overlapping niches can coexist through resource partitioning. In succession, communities change in orderly fashion along with the physical conditions in a given area, leading to a stable climax community (Clements, 1936).

A population has characteristics which are a function of the whole group and not of the individual members; these are population density, birth rate, death rate, age distribution, biotic potential, rate of dispersion, growth form, etc. Different life history adaptations are favored under conditions of high and low population density, relative to the carrying capacity of the environment. At low density, adaptations promoting rapid population increase are selected; hence high rates of productivity, regardless of efficiency, increase fitness. At high density, selection favors individuals able to survive and reproduce with few resources.

These contrasting strategies are referred to as r-selected and K-selected traits, respectively, after the variables of the logistic equation for population growth (Boyce, 1985)

Organizational Population Processes

The traditional approach in entrepreneurship tends to focus on the characteristics of entrepreneurial individuals; an ecological approach emphasizes the behavior of business populations in the entrepreneurial field. Organizational change is viewed as an outcome of the availability and distribution of environmental resources, with entrepreneurial foundings and disbandings as the source of population level change (Aldrich, 1979). Darwinian selection operate through the market, competitive pressures, and other forces; deliberate or unintended organizational variations can prove more or less beneficial than others in acquiring resources in the environment. Over time, populations become characterized by the attributes of surviving organizations. Thus, selection pressure may explain the similarities in psychological profile and business practice of successful entrepreneurs.

As particular organizational forms proliferate, selection fuels the competitive struggle over resources and opportunities; as resources become scarce, competition increases mortality rates, lowers founding rates, and populations stagnate, decline or evolve.

Using these principles, ecology explains how particular forms of organizations come to exist in specific kinds of environments. The business ecosystem constitutes an opportunity structure containing a resource pool uniquely suited to organizational forms that adapt to it well and in turn shape it (Carroll, 1984).

Many basic population processes depend on the size of the population itself. Early on, rising density tends to further increase rate of foundings after a new organizational form becomes established. Later, at high densities, inhibiting factors set in as competition rises and profits diminish. When a population approaches carrying capacity, several negative effects become apparent, including a reluctance of investors to fund new organizations and a dwindling supply of potential entrepreneurs, customers, and suppliers. Thus, one can predict an inverse U-shaped pattern between organizational density and the rate of foundings. Populations in which all organizations are roughly the same size may have very different competitive dynamics than those with a small number of large organizations and many smaller ones. The impact of size distribution within a population has not been studied.

Carrying Capacity, Births and Deaths

Environmental resources set a limit on population density – the number and size of organizations competing for the same resources in a given space. Based on the simple logistic function with intrinsic rate of increase r and carrying capacity K, ecologists can assume the familiar S-shaped pattern for population growth, with initial exponential growth tapering off as the population approaches its carrying capacity (Aldrich, 1979). This pattern results from two interacting processes: at first, founding rates are high and dissolution rates low because there are enough resources for all. Later, at higher densities, the reverse is true. Thus, there will be fewer net additions as a population approaches its environmental carrying capacity.

An environment's carrying capacity for a new population is often only known post-hoc, after it is reached and the numbers have contracted and stabilized. Death (disbanding) rates, as well as prior births influence birth (founding) rates. Resources are freed up for new members when deaths occur – this is more important in the later than early stage in the population life cycle, unless the carrying capacity is exceeded, when deaths may only enhance the survival chances of existing companies. High death rates may also dissuade would be founders (they may signal that the environment's carrying capacity is reached) even when they free up resources. Prior births have the opposite effect, signaling availability of opportunity; this too will diminish as resources and the pool of potential entrepreneurs dries up. Thus, a curvilinear relationship between prior and subsequent foundings can be posited: a positive influence at low levels of foundings and then little or no effect at high levels (Aldrich & Wiedenmayer, 1993).

New organizations might be more likely to fail where transient social conditions encourage entrepreneurs to found organizations doomed to fail when those conditions change. For example, more newspapers are founded during times of social and political turmoil, and these turbulent birthings have shorter life expectancies than newspapers founded in normalcy (Carroll and Delacroix, 1982). Social turmoil, in this case, seemed

to generate resources that entrepreneurs could use in starting organizations.

Such findings have certain implications for research on entrepreneurial activity. Traditional approaches emphasize the development of rational models and extensive business plans for estimating future market size and expected profitability. In reality, entrepreneurs have access to the resources necessary to start organizations during periods of turmoil, when it is most difficult to make rational calculations. The entry of many such opportunists leads to a high number of subsequent failures, but the firms that succeed during this initial crisis have an increased chance of survival later. Similar results have been reported in studies of firms entering the semiconductor industry (Brittain & Freeman, 1980) where turbulence is a consequence of rapid technological change.

Niche, Resource Partitioning, and Growth Strategies

A measure of overall density may not fully capture the competitive forces facing organizations within populations. Competition may be fragmented if some forms focus their fitness on specialized niches within their environments. Rather than a single strategy being optimal for each industry stage, generalism and specialism (the specialist vs. generalist distinction is based on the breadth of the niche occupied) may coexist and even be fundamentally interrelated.

The focused strategy of specialism has distinct advantages over adaptive strategies when environments are uncertain. When rapid change exists, adaptive strategies are unable to respond quickly enough to attain production efficiency, whilst specialists who 'bet' correctly reap big short-term profits. An analysis of frequency and size of change on death rates for restaurants in some Californian cities found that specialists, with much shorter life-spans, dominated over generalists in uncertain environments (Freeman and Hannan, 1983).

Through resource partitioning, successful generalists create the conditions which promote successful specialists, because the generalists' broad appeal to multiple market segments leaves open many small, specialized niches. Generalists also stabilize the market by their visibility and predictability. It can therefore be predicted that the higher the concentration of generalists, the better the chances for specialists, because concentration opens up niches.

The resource partitioning model was applied in studies of newspaper organizations (Carroll, 1985) that found local dominance by a mass circulation daily created opportunities for small, specialized publications. As fewer and fewer homogeneous generalists increasingly control environmental resources, niches were created for specialists that appeal to smaller, specialized audiences. Increasing environmental concentration was associated with lower failure rates for specialists and greater failure rates for generalists. The two dimensions of r vs. K and specialist vs. generalist can be combined to produce 4 distinct form types: r-specialist, r-generalist, K-specialist, and K-generalist. Early on, when a niche is first open, the pioneers are likely to be r-specialists which multiply and move quickly. After a period of development, early followers can

gain a large market share by being more efficient (and powerful) than r-specialists. Such early followers are likely to be K-generalists: divisions, subsidiaries, or other dependent units of established firms, as well as new firms. Some hybrids may also emerge – organizations which pursue specialist and generalist strategies simultaneously, at greater expense in overhead. Later, K-specialists, with smaller market shares, can survive on the stable, narrow niches left to them by the K-strategists.

The effects of such four-part forms were found in a study of semiconductor firm foundings (Boeker, 1988). The organizations that did well initially were r-specialists, which were favored because of their rapid reproduction rate and mobility. K-strategists were favored later – first K-generalists and then K-specialists – because they were best adapted to environments near carrying capacity.

For practitioners, this illustrates how the ecological approach provides a rich set of concepts for organizing knowledge about the environment for foundings. Knowing how appropriate forms – r, K, specialist, generalist – vary over a population life cycle and are linked to density, suggests new guidelines which entrepreneurs can use in making decisions.

Community Level Processes

Interaction between populations range from full competition to mutualism or cooperation. Direct competition amongst organizations in the same population is commonly discussed, although indirect or diffuse competition also occurs between organizations in different populations, and some occurs for the same niche. Many organizations recruit university graduates, thus competing diffusely with thousands of other organizations in various populations. In a study of three forms of cooperatives (worker, marketing, and consumer) in Atlantic Canada, commensalistic and symbiotic effects, but no significant competitive ones, were found (Staber, 1989).

Succession in organizational communities refers to the process in which declining populations or organizations are replaced by others. The process may take decades and therefore its effects may prove elusive to observers. The popular recent history of the route 128 region of Massachusetts (Botkin, 1988) is instructive. Actually, its populations have come and gone regularly over 3 centuries, from the ice economy (1620 to 1870), whaling and the China trade (1720 to 1880), to textiles and shoes (1840 to 1940). High technology appeared in 1957 with the founding of Digital Equipment Corporation, and growth in that sector has continued for several decades, but even this may pass due to foreign competition.

Community succession is ongoing and processes such as competition, domination, and differentiation are occurring simultaneously. Within populations, competition pushes organizations toward adopting similar forms, eventually resulting in greater homogeneity. Across populations, dominant populations drive others into positions of subordination and ancillary roles, resulting in community-level differentiation.

Strengths and Limitations of the Ecological Approach

Defining Species/Populations
One approach to defining species/populations (Carroll, 1984) advocates using substantive issues. For example, in order to analyze the effects of political turbulence at the national level on organizational mortality, Carroll and Delacroix (1982) defined all newspapers in Argentina and Ireland as separate populations. On the other hand, to examine resource partitioning Carroll (1985) separated newspapers within the US into populations of specialists and generalist newspapers. One problem is deciding if the population definition chosen systematically biases the research outcomes; this can be ascertained only on a case by case basis. Another is the obscuring of the limits of generalisability. Thus, in an alternative approach, McKelvey (1982) argues that classification is necessary before making population-level inferences. Only by sampling within properly classified populations would researchers know the boundaries for generalization. The problem here is that pursuing only taxonomic issues requires a big time investment that yields perhaps little of substantive interest. One approach probably complements the other, depending on relative research emphasis.

Methodology
A major methodological problem in ecological research is simply data acquisition. The longitudinal data sets needed to capture organization demographic events are difficult to build and to exploit (Aldrich, 1979). The longer the time series the lower the probability that the researcher will be able to gather consistent measures of many variables. Another methodology for studying ecological processes is the case study. Here generalisability is difficult to assess, although the potential insights that can be derived from such detailed studies make them valuable. Thus, significant opportunities exist for exploring new methodologies, and there is also room for improving existing theoretical models. The ecological formulation has caused organization researchers to look at their world a little differently, with greater methodological rigor. Ecology extends organizational concerns to more comprehensive units of analysis. At higher levels of analysis, organization outcomes can be linked to broader social policy concerns. Ecological studies of business entries and exits focus on the environmental conditions underlying prognosis of entrepreneurial success or failure. These models view the ecosystem as unit of analysis, the rates of firm arrival or exit as the dependent variables, whilst the independent variables focus on environmental effects. Ecology raises basic questions about the relationships amongst organizations and with the environment not previously considered in organizational research. Because it works with empirically verifiable hypotheses, ecology provides a useful paradigm for the study of organizations in entrepreneurship.

Ecological Variables
Ecological research makes significant theoretical contributions regarding dependent vs. independent variables, and puts to the test some basic assumptions in organization theory. Time dependence is one important independent term that ecology has emphasized, and suggests that empirical studies treating time dependent processes as constant will likely preclude useful results. The relative importance of adaptive processes is another assumption put to the test. Where organization theory placed

much emphasis on adaptive response, ecology suggests the risks of adaptation may be higher than generally assumed (Carroll, 1984), and implies a different view of the adaptive process.

One important advantage the enterprise ecologist has over the conventional plant or animal ecologist is illustrated in a study which modeled competition amongst fast food restaurants using a multidimensional niche framework to quantify the ways they utilize various resource dimensions (Kangas and Risser, 1970). Dimensions of niche include hours open, time to obtain a meal, number of parking places, and amount of inside seating. How these dimensions are utilized by restaurants constitute niche strategies, which in turn determine their attraction for customers. Here is the interesting part: niche definition was dealt with sociologically, by surveying customers. Their response verified the choice of niche dimensions, whilst adding several new ones. Thus, the ecologist may actually speak with their variables, both the resources and competitors, to verify relevant parameters!

SUSTAINABILITY

Living sustainably requires living in harmony with other people and with nature. This means adopting life-styles and development paths that respect and work within nature's limits. It does not require rejecting the benefits of modern technology, provided the latter also works within those limits. The principles of a sustainable society include: Respect and care for the community of life; improve the quality of human life; conserve the Earth's vitality and diversity; minimize the depletion of non-renewable resources; keep within the Earth's carrying capacity; as well as others, all of which are interrelated and mutually supporting (IUCN/UNEP/WWF, 1991).

Human impact on Earth's ecosystems depends on the number of people and their use of energy and other resources. The maximum impact that an ecosystem can sustain is its carrying capacity. This can be expanded by technology, but is limited ultimately by the system's capacity to renew itself or safely to absorb wastes. Sustainability is therefore impossible unless human demands level off within the carrying capacity of the Earth. **Industrial Ecology**

Following its biological analogue, the concept of industrial ecology views economic systems in concert with their surroundings, not in isolation. Applied to industrial operations, it seeks to optimize resources, energy and capital within the total materials cycle from raw material, to processed input, component, product, waste, and ultimate disposal.

To become ultimately sustainable, biological ecosystems have evolved over eons to be almost fully cyclical in nature, where waste to one component of the system represents resource to another. The ideal anthropogenic use of materials and resources would be one that is similar to the cyclic model. Unfortunately, many industrial processes and products today remain essentially linear; materials are degraded and lost to the economic system after a single usage. The indications are that flows in our industrial ecosystems are so large that resource limitations are setting in: The ozone hole,

greenhouse effect, and the depletion of landfills.

This means that industrial systems will be under increasing pressure to evolve from linear to cyclic modes of operation.

Industrial ecology may be approached in two ways. The material specific approach selects a particular material or group of materials and analyses the ways in which it flows through the industrial ecosystem. Such an analysis in manufacturing operations is generally made while products are in their manufacturing cycle, and any modifications to materials or processes tend to be costly and difficult. The product specific approach selects a particular product and analyses the ways in which its different component materials flows may be modified or redirected in order to optimize product-environment interaction. Such an analysis is particularly appropriate at the initial design stage of a product, when decisions on alternative materials or processes can often be made at a stage preceding the investment of large amounts of capital for equipment or process development, which often locks in a particular material or process for the long term. For examples of these flows, see (Graedel et al, 1993).

Traditional environmental activities focus on the past and present, as characterized by concerns such as remediation, treatment, storage and disposal, activities which add net cost to industrial production. The concept of industrial ecology focuses on the future by addressing those issues that will impact future production, utilization, and disposal technologies. If this is done correctly, one can expect to need to devote significantly fewer resources to potential remediation in the future; industrial ecology would thus add net value and reduce cost. To be broadly implemented, industrial ecology will require not only plans and objectives, but also changes in mindset. Business communities need to move beyond compliance to proactive leadership. Industrial ecology requires not only fresh approaches to technology and entrepreneurship, but also institutional innovations in management. For the most part, such effective visionaries are not yet plentiful, and the process of creating them from the available pools of potential entrepreneurs and industrialists is a big challenge - for industry, universities, and the professions.

Sustainable Businesses

Many firms do recognize that caring for the environment is good business - energy efficiency, waste reduction, and pollution prevention can increase profits, as can more resource efficient technologies and processes, and employees who take pride in their work and their company. Responsibility for ensuring clean industrialization is shared between governments, environmental experts, and industry itself, as the principal source and user of technological knowledge. There will be opportunities for entrepreneurs, as new technologies will be needed to clean up past mistakes and achieve new industrial growth safely. Businesses must make the ethic for living sustainably an integral part of their corporate goal, taking care that their practices, processes, and products conserve energy and resources and have a minimum impact on ecosystems. Industries that are based on natural resources like minerals, timber, fiber, and foodstuffs, or depend on environmental quality such as tourism, have a special responsibility. This can mean:

· Adopting practices that build concern for the Earth into the whole apparatus of business, industry and commerce, practices that avoid damage, monitor impacts, and require consultation with local communities and the public at large;

· Introducing processes that minimize the use of raw materials and energy, reduce waste, and prevent pollution;

· Making products that are "environmentally friendly" with minimum impact on people and the Earth.

Today, such practices are limited to a few far sighted companies but, as societies commit themselves to sustainability, they may well become the 'industry standard.' Numbered amongst the most successful enterprises then will be the ones that constantly innovate and improve their environmental and social performance.

A Business Ecosystem Enterprise

JZD AK Slusovice, an integrated cooperative based in the Czech Republic, is economically one of the most successful enterprises in Europe (Zeleny et al, 1991). Its version of the business ecosystem approach, implemented over a decade ago, remains a notable example of a form of genuine interconnection between a firm and its environment. JZD AK is organized into eight relatively autonomous "entrepreneurial complexes:" agricultural production, food processing and retailing, construction, wood processing, machinery, microelectronics, and agrochemistry. The already impressive level of vertical integration is being continually improved toward a self-enhanced, complete system of production and service.

The organizational principle of the entrepreneurial complex is extended down to the "microspaces," where every employee or group of employees exercises the rights and responsibilities of co-ownership, profit sharing, decision making, and management, according to a written contract. Each employee is not only a co-owner but functions as a contractor or sub-contractor to the company at large as well as to other entrepreneurial microspaces and complexes. Rewards are directly tied to individual and team performance, profits, quality, and innovation.

In order to maintain the highest levels of quality, productivity, competence, education, and innovation, employees and their families and communities are provided with the conditions for self-investment, self-improvement, and long term, company loyalty and affiliation. It is a management credo that no long term profits can be generated without investing in the business ecosystem, including health care, clean environment, housing and recreation, and a full range of services including post-retirement.

In 1988 JZD employees founded a voluntary organization: The Ecological Society of JZD AK Slusovice. The Ecological Society develops and directs employees' voluntary activities and participation in creating, protecting, and improving the life and living environment in the sphere of the company's impact. An elected ecological commission represents the Society in the corporate governance and management institutions of the

firm. Company induced ecological stress is continually and independently measured, studied, and analyzed and its prevention, removal, or amelioration guaranteed; top management itself acts as a legal guarantor for the Society.

CONCLUSIONS

JZD AK represents one model of the business ecosystem enterprise, a sound way of doing business on the cusp of millennium. High quality, productivity, profits and satisfaction are currently achieved by this kind of entrepreneurial capitalism, where every employee is also owner, manager, producer, consumer, service provider, innovator, and environmentalist.

As we enter the 21st Century, companies will face increasingly complex forces within the business ecosystem. If they are to survive and thrive, entrepreneurs and managers must recognize the fundamental shift that is occurring in their lives, from an era of freewheeling commerce to an age of ecology. They must participate in and support that shift, conceiving of themselves as stewards within and responsible for the ecosystem, thereby facilitating the continuous transformation of their firms into business ecosystem enterprises.

A concept of entrepreneurship based on ecological sustainability requires knowledge of the relationship between economic growth and the carrying capacity of the ecosystem. The impact of rapid growth on the physical resource base must be considered; the belief that technology can extend resource limits indefinitely remains an article of faith. We must begin to anticipate depletion of energy and mineral resources vital to commerce and industry, and turn our attention on pollution and other tolerance limits in natural systems. The very globalized vision of sustainability thinking can work against its successful implementation at smaller scales where results can be more readily achieved. Sustainable development strategies therefore need sustainable businesses, schools, and homes as focal points for action - placing sustainability in a context and validating it as a process. Thus, a business unit is capable of addressing the many social, economic, political, natural resource and environmental issues at a scale at which such problems can be meaningfully resolved in an integrated and sustainable fashion. A local-regional decentralized economy organized around low energy paths, appropriate technology, and reskilled citizens and workers can establish a basis for overcoming the old divisions between commerce and nature, economic growth and environmental health.

Ecologists have come a long way in explaining different aspects of the extremely complex ecosystems we inhabit. Yet, despite the progress made to date, answers still can be given only in general terms rather than as relatively specific prescriptions. Sadly, uncertainty about consequences is all too often construed by decision makers as license for not proceeding until 'certainty' is achieved. The lack of political will to tackle acid rain or global warming pending yet further research is just one example.

The main hope for changing humanity's present course may lie less with politics, however, than in the development of a world view drawn from ecological principles.

What may be needed to save ourselves is a change in basic values along with helpful advances in science and technology. An ecological perspective can provide a sound basis for the necessary changes in attitude and guidelines for the safe deployment of new technology and enterprise. It is now widely recognised that the achievement of cultural and economic states compatible with the long-term carrying capacity of the Earth is needed to balance legitimate human aspirations with fundamental environmental constraints. Entrepreneurs would do well to heed the lessons of ecology as they seek to create and sustain enterprises of real worth into the 21st Century.

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Entrepreneurship Beyond the Entrepreneur: A Veblenian Approach

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ABSTRACT

Despite the considerable diversity in the conceptualization of entrepreneurship, the analytical tool deployed by mainstream economists as well as sociologists, psychologists and anthropologists remained the same. Indeed, the entirety of published research identifies the entrepreneur with an **individual** that possesses unique psychological traits, who is brought-up within supportive social and cultural conditions. Our paper contributes in the study of entrepreneurship in three different ways. Firstly, drawing upon the theoretical framework developed by early institutionalists, we set out to address the issue of identifying the appropriate unit(s) of analysis in the study of entrepreneurship. Our paramount aim is to examine whether the prevailing atomist view of entrepreneurship provides an over-arching and all-embracing analytical framework. Secondly, in order to address the units problem, our point of departure is the analysis of the entrepreneurial process. This is because the investigation of the process of organizing resources in order to pursue perceived opportunities constitutes the only viable means of defining units of analysis. Therefore, we deploy a Veblenian conceptual framework (model) of human agency and a qualitative methodology in order to interpret two contrasting cases of entrepreneurship. Finally, recent research on entrepreneurship focuses on the experience of developed or developing countries. However, there is only limited understanding of the entrepreneurial process in intermediate regimes. This paper, based upon evidence emanating from Greece, a country where entrepreneurship has not been studied yet systematically, aspires to address this gap in the existing literature.

INTRODUCTION

Among mainstream economists, interaction between firms as well as decision-making within them is deduced to forces of supply and demand. Within this context every individual is assumed to have free access to all the necessary information required for effective decision-making. This combined with the assumption of rational, maximizing behavior by economic agents with given and stable preference functions, divorces the entrepreneur from all elements of responsibility and judgement. Subsequently, mainstream economics assumes that entrepreneurial services are highly elastic and that failures in entrepreneurship are attributable to maladjustment to market conditions and a lack of market incentives (Martinelli, 1994). The policy implications of this approach are: let the market work, remove the barriers emanating from traditional and 'backward' social structures and entrepreneurs will appear from everywhere.

Many economists find fault with the conceptualization of entrepreneurship as a dependent variable in the economic process. Within this context, Joseph A Schumpeter

(1934) led a revision of the mainstream tradition, and placed the entrepreneur at the center of the development process. He argues that the entrepreneur combines existing resources in new ways, which break the existing equilibrium and raise it to a new level. Within this context, the 'innovator-entrepreneur' causes rather than facilitates economic change. But since the entrepreneur operates in a multiplicity of social situations, a range of sociological and psychological factors become part of the process of economic development. Under the influence of Schumpeter's work Kirzner (1973; 1989) stresses that human action is guided partly by maximizing criteria and partly by alertness, creativity and judgement - features typical of the entrepreneur.

Other social scientists also conceptualize entrepreneurship as an independent variable in the process of socio-economic change. However, they tend to see entrepreneurship as a more problematic phenomenon, deeply embedded in societies and cultures (Polanyi, 1944). They also take into account the way in which different historical and geographical settings may call for dissimilar forms of entrepreneurship (Martinally, 1994). Granovetter (1985) forcefully makes the point that 'actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive actions are instead embedded in concrete, ongoing systems of social relations' (Granovetter, 1985 p. 487). Within this conceptual framework, scholars focused on the influence of non-economic factors such as cultural norms and beliefs (Kets de Vries, 1977; Chell, 1985), motivations for achievement (Mclelland, 1961), deviant behavior and marginality status (Hagen, 1962; Hoselitz, 1963; Young, 1971), and legitimization (Landes, 1951).

Despite the considerable diversity in the conceptualization of entrepreneurship, the analytical tool deployed by mainstream economists as well as sociologists, psychologists and anthropologists remained the same.

Indeed, the entirety of published research identifies the entrepreneur with an **individual** that possesses unique psychological traits, who is brought-up within supportive social and cultural conditions. The prevalence of an atomist view in the theory of entrepreneurship is the consequence of an overemphasis on the entrepreneur to the detriment of the entrepreneurial process (Heron et al, 1991). The entrepreneur is someone who perceives an opportunity when practically everyone else cannot (Bygrave and Hofer, 1991).

He is the person who believes is right while everyone else is wrong. By acting differently from other people, and achieving success by doing so, the entrepreneur causes other people to change their mind, and thereby alter the course of history (Casson, 1982). This prompted researchers to deploy an atomist view of the entrepreneur upon a mosaic of socio-economic milieus ranging from pre-industrial structures in continental Europe (Hozelitz, 1963), and archaic cultures in contemporary less developed countries (Leff, 1979), to post-industrial modern Western formations (Casson, 1993).

Our paper contributes in the study of entrepreneurship in three different ways. Firstly, drawing upon the theoretical framework developed by early institutionalists, we set out

to address the issue of identifying the appropriate unit(s) of analysis in the study of entrepreneurship. Our paramount aim is to examine whether the prevailing atomist view of entrepreneurship provides an over-arching and all-embracing analytical framework. Secondly, in order to address the units problem, our point of departure is the analysis of the entrepreneurial process. This is because the investigation of the process of organizing resources in order to pursue perceived opportunities constitutes the only viable means of defining units of analysis. Therefore, we deploy a Veblenian conceptual framework (model) of human agency and a qualitative methodology in order to interpret two contrasting cases of entrepreneurship. Finally, recent research on entrepreneurship focuses on the experience of developed or developing countries. However, there is only limited understanding of the entrepreneurial process in intermediate regimes. This paper, based upon evidence emanating from Greece, a country where entrepreneurship has not been studied yet systematically, aspires to address this gap in the existing literature.

We draw upon the experience of Polikastro-Peonia, a rural area located in the northern Greek region of Macedonia which experienced rapid rates of industrial development over the post-1973 period.

Industrialization in this locality was led by the spectacular growth of the garment-making industry (for a detailed discussion see Simmons and Kalantaridis, 1994).

THE THEORETICAL FRAMEWORK

The actual task of defining appropriate units of analysis is extremely difficult; this endeavor is further complicated by the reluctance of other scholars to consider the units problem (Halperin, 1985). In doing so we draw upon the work of early institutionalists, and particularly Veblen (1904), who refutes the cornerstone of neo-classical atomism, that individuals are the elemental building blocks of analysis.

Despite the fact that Veblen failed to develop a consistent theoretical system of the statute or scope of the classical political economists or the marginalists, he postulates a core of ideas that could provide the basis for a viable alternative to the mainstream tradition (Seckler, 1975). However, these ideas failed to influence entrepreneurial studies.

The failure of the Veblenian theoretical framework to inform scholarly research on entrepreneurship could be attributed upon Veblen's distaste for capitalism and more importantly his open contempt for the activities of 'absentee-owners' (Hodgson et al, 1992). Born and brought-up in a peasant community of Norwegian immigrants in South-Eastern Minnesota, Veblen absorbed its 'old country' ethos. As a result, throughout his life he remained a lone figure, detached from, and often antagonistic towards the academic and business establishment of his time (Hodgson et al, 1993). Thus, Veblen focuses his criticism upon 'absentee-owner' financiers. More specifically, he argues that as a consequence of the divorce between ownership and control, the corporation financier became removed from the management problems and grew ignorant of the technical industrial process. Next, the corporation's financier became a

mere intermediary between industrial experts and large financial concerns, creating trusts in an attempt to achieve excess profits at the expense of the public. He defines as 'sabotage' the 'absentee-owner's' attempt to raise prices, through the delay and obstruction of industry. This led O'Donnel (1993) to argue that for Veblen the 'villain was the entrepreneur, dedicated to realizing profits at the expense of efficient production' (ibid, p. 34). However, Veblen's writings on 'absentee-owners' must be interpreted within the context of early twentieth century United States. During this time, industrial combination advanced rapidly through the formation of holding companies. They were purely financial bodies created for the purpose of exercising common control over the policies of previously competitive industries. Among the incentives sited by Ashworth (1975) for the formation of combines was the maintenance of higher rates of profit through the acquisition of control over the market and the ensuing decline in competition.

Veblen's pitiless criticism of 'absentee-owners' stands in sharp contrast to his positive conceptualization of the early entrepreneurs - the craftsmen, the small businessmen and the merchants of the pre-industrial era.

This is because they performed the function of both the financier and the day-to-day supervisor of the enterprise. This enabled them to appreciate the conditions imposed by the existing level of technology upon the objects of their pursuit. Therefore the early entrepreneur 'learned to combine tools in functional patterns, and his attention was habitually riveted upon the causal forces at work as he applied skill, dexterity and judgement to the fashioning of goods' (Seckler, 1975, p. 65). In fact, it is the Veblenian conceptualization of pre-industrial merchants and craftsmen which is reminiscent of the definition of the entrepreneur deployed by prominent researchers, such as Say, Schumpeter, and more importantly Casson.

Nearly eighty years after the publication of the Instinct of Workmanship and the State of the Industrial Arts, Veblen's seminal work, Casson re-invents the entrepreneur as the person 'who specializes in taking *judgmental decisions* about the *coordination of scarce resources'* (Casson, 1993, p.31).

We argue that the theoretical framework developed by Veblen and other early institutionalists enables us to pursue new, and intellectually challenging research avenues in the study of entrepreneurship. More specifically, it facilitates a move beyond the atomist ontology which dominated the bulk of scholarly research, and provides the nucleus for the development of a model for the analysis of the entrepreneurial process. An atomist ontology perceives individuals independently of their relations with other individuals. Within this context, all social phenomena are explicable only in terms of individuals - their properties, goals and beliefs (Elster, 1982). In an atomist world, 'all qualitative diversity is reduced to differences in configuration and motion of the homogeneous and permanent elements' (Capek, 1961, p. 5). In contrast, early institutionalists argue that individuals can not be perceived abstractly, with given interests, wants, purposes and needs. Within this theoretical framework, the individual does not exist prior to the social reality: the individual is socially constructed. This means that the purposes of an individual could be partly explained by factors such as

relevant institutions and culture. Therefore, institutions are perceived as additional or even alternative analytical units (Hodgson, 1994). This approach based on institutional specifics rather than historical universals of individual behavior, is characteristic of institutional economics. However, the relative permanent character of institutions does not mean that they are immutable. Institutions themselves may change. For this purpose Veblen deploys a Darwinian evolutionary metaphor. Therefore, he focuses upon the examination of processes of causation, of a never ending and cumulative nature, never reaching a state of equilibrium (for a detailed discussion see Hodgson, 1992; Hodgson, 1994).

Another key contribution of Veblen's work in the study of entrepreneurship is his rejection of the idea that human beings are simple bundles of desires that are to be saturated by being placed in the path of the forces of the environment. In response, he partially develops an alternative theory of human agency, in which the interaction between universal instincts, and habits of thought and institutions plays a major role. He defines instincts as 'various natural proclivities that ... have the characteristic in common that they all ... propose an objective end of endeavor' (Veblen, 1914, p.3). Despite the universality of instincts they are not rooted in the biological constitution of humans. They are properties emerging from a certain concurrence of physiological unit characters (Mitchell, 1937). He identifies several universal instincts such as 'workmanship', 'emulation', and 'predatoriness'. However, the one instinct that Veblen claims to be 'incorruptible by the exigencies of culture' is 'idle curiosity' (Veblen, 1914). This notion enables the incorporation of the idea of human choosing in his model. He argues that the human tendency towards experimentation and creative innovation could generate novelty in an ongoing manner. This could lead to new and improved ways of thinking and doing. Veblen stresses the distinction between 'idle curiosity' and pragmatism, between innovation and knowledge, and practical life. 'Idle curiosity' although an instinct functions only within the scope left by pragmatism. 'Idle curiosity' bears a striking resemblance with the Schumpeterian conception of entrepreneurship as the function of innovation.

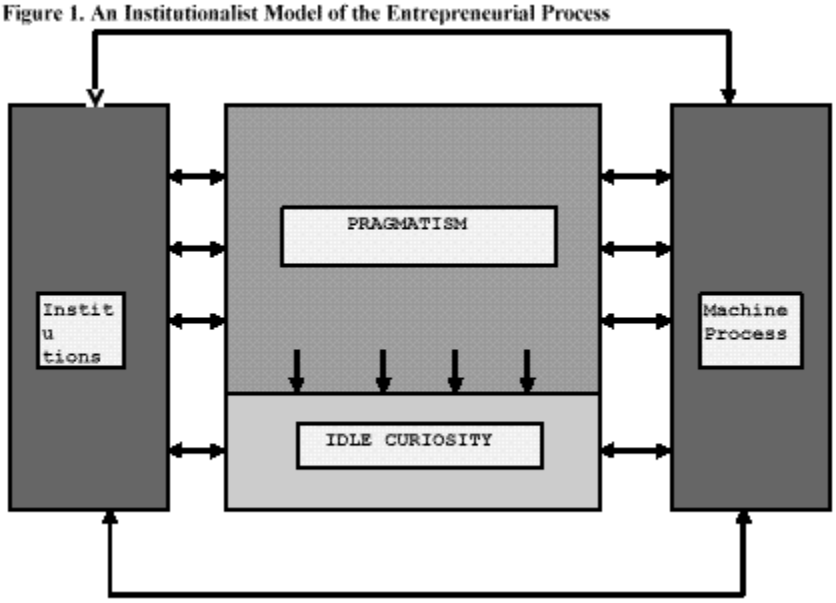
However, Veblen goes to great pains to demonstrate that instincts do not mechanistically prescribe human behavior. Instincts may cancel one another through the sheer force of the contrary pull on the same body.

Moreover, the habits prevailing in a society may encourage one class of instincts at the expense of another. Habits are defined as social constructs which determine in a largely unconscious and unreflecting manner, the response to a similar set of stimuli. Habits can be one of two things. The habit of thought or institution is a normative conception regarding the validity, expediency or merit of a given line of conduct and deliberation. Thus an 'institution is of the nature of a usage which has become axiomatic and indispensable by habituation and general acceptance' (Veblen). Specific sets of property rights, social and economic structures and financial institutions fit within this category. The second type of habits is based upon matter-of-fact knowledge, meaning mechanical cause and effect. Inventions, production methods and technology fit within the category of the machine process. Veblen then goes on to argue that instincts give direction and force to the process of human development; whilst the institutions and the machine

process place it within the specific content of time and place.

Based upon Veblen's ideas we developed a model, that can be usefully deployed in the study of the entrepreneurial process. As shown in Figure 1, 'idle curiosity' lies at the heart of potential entrepreneurship. The transformation of 'idle curiosity' in entrepreneurial behavior is conditioned in part by pragmatism, and in part by prevailing institutions and the machine process. However, the influence of institutions upon human behavior must be hedged with qualifications. The world is not composed of people who have fully internalized the normative conceptions and are now acting them out. Partly because of the influence of competing instincts and partly because of external influences the degree of embeddedness of human behavior upon a specific institutional structure could vary (Granovetter, 1985).

Figure 1. An Institutionalist Model of the Entrepreneurial Process



This rather simple schema has significant implication upon earlier research on entrepreneurship. It provides a holistic alternative to Schumpeter's (1942) and Chell's (1985) attempts to identify the single trait, or the collection of traits that distinguish the entrepreneur from other individuals. It shifts the focus of attention from psychological insights in the exceptional role and qualities of the entrepreneur, towards the interplay of social, cultural and psychological factors that lead to the realization of entrepreneurial behavior. This Veblenian model also provides a broader framework for the application of sociological conceptions in terms of deviance (Young, 1971), marginality status (Hoselitz, 1963), and the degree of legitimization of entrepreneurship (Landes, 1951). Another attribute of this model of the entrepreneurial process, is that it provides a systematic framework for the advance of Drucker's (1986) idea that entrepreneurship is not confined to one group of individuals. Within this framework, it is argued that entrepreneurs are not born with a specific set of characteristics; entrepreneurial behavior can be developed among some members of a specific socio-economic structure.

A missing element in Veblen's critique of mainstream theory, is the existence of chronic

information problems. This is because Veblen and other early institutionalists wrote their major works before this issue came to the fore in economic theory. Despite the considerable academic interest generated around the availability of information following Stiglitz's seminal work in 1961, this issue remains elusive in the broad area of entrepreneurial studies. Indeed, scholars writing within this research area appear divided and uncertain on the function and the significance of information in the entrepreneurial process. More specifically, some scholars consider that sufficient information is a pre-requisite for the realization of the entrepreneurial process (Leff, 1979; Heron et al, 1991), whereas others perceive the improvement of the information flow as part of the entrepreneurial function (Leibenstain, 1968), or point at the relationship between risk and the communication of information (Casson, 1982). The institutionalist model developed in this paper, though not explicitly setting-out to address the function of information in the entrepreneurial process, could make a useful contribution. Institutions - that place human action within a specific content of space and time, could be deployed as analytical instruments in examining the function of information flows in the entrepreneurial process. Indeed, institutions such as the nikokyrio, and the community as well as business associations could be perceived as communication channels that accommodate the flow of information regarding technology, markets, propensities, beliefs and necessities.

METHODOLOGY

The use of an institutionalist approach also provides a useful corrective to the deployment of data-dependent methodologies in the area of entrepreneurial studies. Indeed, many of the studies of entrepreneurship conducted to date are based upon the premise that the more observations included, the greatest the degree of confidence installed to the reader (Thomas and Willard, 1995). However, the entrepreneurial process is frequently unique, situation specific, and rarely replicated. Therefore, the numbers involved are small. The deployment of qualitative methodologies, such as those deployed by institutionalists (and particularly ethnography) appear to be more suitable for the small numbers involved and the idiosyncratic nature of the entrepreneurial process. These methodological concerns became apparent in the investigation of the garment-led industrial growth reported in Polikastro-Peonia after 1973.

Three distinct research methods were deployed. The first involved a survey of a stratified sample of 52 garment entrepreneurs - some 27% of the total, in 1991. Secondly, in 1992, we undertook a control-group survey, where the experience of garment entrepreneurs was compared to that of farmers. The survey was conducted in one village where the employment contribution of the garment industry was well below the average for the study area, one that was near the average, and in another with higher than average contribution.

However, these surveys provided very little insight into the function of the entrepreneurial process in the study area and the identification of appropriate units of analysis. in response, a number of in-depth qualitative interviews were conducted with seven entrepreneurs and their families over the summer of 1993.

THE ORIGINS OF ENTREPRENEURSHIP IN THE LOCALITY

Polikastro-Peonia occupies an area of 650 square kilometers, and its population was 25,618 inhabitants in 1991 (ESYE, 1991). The population is settled in twenty-seven villages and three small towns. It is generally considered as a rural entity since the economic role and function of its settlements is largely orientated towards agriculture (Simmons and Kalantaridis, 1994).

For the best part of its recorded history, dating back to the seventh century B.C., Polikastro-Peonia has been part of multi-ethnic empires (the Roman, the Byzantine and the Ottoman) that preserved a traditional social construct and perpetuated archaic agrarian structures. When in 1912 it was integrated in the Greek State agriculture in the area was characterized by the existence of large estates in the plains that enhanced the economic significance of the mountainous and semi-mountainous terrain where the majority of the population was concentrated (Pouqueville, original 1820). However, the agrarian structure which took shape after the land reform of the 1920s undoubtedly favored small peasant proprietorships (Karamanos and Trakakis, 1926). Thus, as late as in 1991, micro-scale units - defined as those that employed less than five hectares, accounted for nearly two thirds of agricultural proprietorships in the locality. A further 30% were small-sized, defined as that owned more than five but less than ten hectares of cultivated land. Small peasant proprietorships constitute the backbone of a traditional, familial mode of organizing production, and the place where the acquisition of entrepreneurial skills is initiated. Within this micro-production unit, judgmental decisions have to be made about the organization of scarce resources at its disposal. The foremost concern with the amount of family labor time (if any) that is to be deployed outside agriculture; the quantity and quality of land that will be farmed - considering rent levels in the local market; the crops that will be cultivated - based upon previous and anticipated yields and prices; and the estimate of the annual consumption requirements of its members. The solution to these problems by small agriculturists resembles the regular revisions of the production functions of small-scale manufacturing ventures.

The peasant family unit is brought together not only through collective ownership of the means of production but also via matrimony. In the context of the locality, marriage remains of supreme importance. Because it is still regarded as a necessary pre-condition for pro-creation there is a near zero record in cases of childbirth outside wedlock, and divorce is viewed with unusually strong disapproval. This lends support to the argument put forward by ethnographers that 'familism is the most important orientation in Greek life' (Loizos and Papataxiarchis, 1993). Within this probably 'anti-liberal' institution, individuals do not matter by themselves. Kataki (1984) provides an excellent illustration of the distinction of Greek society from its counterparts in the advanced industrialized countries of Western Europe and North America. The former is said to be characterized by the collectiveness, a strong sense of belonging developed within the nikokyrio (primarily) and the community. In contrast the latter are characterized by various forms of individualism.

Within the rural settlements of Polikastro-Peonia the individual family household units

are knitted into traditional communities through close relationships of kin and friendship. The community is a deeply embedded institution, emanating from a long tradition of collective responsibility of rural inhabitants.

Indeed, throughout the period of Byzantine and Ottoman rule - nearly sixteen centuries, the taxation system was based upon the notion of "solidarity" (Macgowan, 1981). The central government determined the tax liability of the community as a whole according to the number of households resident. Payment was a communal burden in the sense that in the event that some households could not afford to pay those better off would have to square the difference (Beaujour, original 1800). The relations of kin and friendship, that have been consolidated during this earlier era, have contributed to the integration of new business ventures into the rural communities. They built up trust among the inhabitants that ensured participation in the informal channels of information flow; they provided an alternative source of financing to new enterprises – especially in periods of hardship; and they reduced risk in an uncertain trade and transaction environment.

In the small rural communities of Polikastro-Peonia there is a tradition legitimizing petty-commodity production that afforded considerable status to owners of small-scale enterprises. The acceptability of entrepreneurial ventures emanates from the fact that they constituted the only way of improving the social standing of an individual and most importantly of a family household.

THROUGH THE LIVES OF THE ACTORS

The Units Problem: A Conventional Case Study

Mr Klavdianos is one of the owners of a medium scale enterprise (defined as the unit employing between 51 and 100 persons) located in the town of Axioupoli, which directed its produce to the German, French, Austrian and British markets. The business-life of this entrepreneur presents significant resemblance with owners of two other medium-scale enterprises. They constitute the core of entrepreneurial talent that led the way for the colonization of the countryside.

Mr Klavdianos was born in Thessaloniki in 1946, and was the son of a lower rank civil servant. He was brought-up within the opportune environment of urban areas of the early post-war period. By 1964 he graduated from high school and had already established some familiarity with the German language that would eventually prove useful in the pursuit of his career. After completing national service he became involved in garment manufacturing. In 1967 he was employed by a subsidiary of a German manufacturer in Thessaloniki. In 1970 he decided to boost his employment prospects by moving into higher education. With support from his employers he studied Business Administration for two years in the Federal Republic. His education and knowledge of the German language were credentials to a successful career in the rapidly growing export-orientated garment enterprises of Thessaloniki. Between 1972-75 he held a managerial post in the marketing department of the same enterprise. At the age of twenty-nine he had a good command of the German language, a diploma in Business

Administration and six years experience in the garment industry.

The rapid growth of the industry in the city during these years provided the incentive for the use of his qualifications for entrepreneurial purposes. He established a partnership with an experienced cutter from the same German subsidiary, and in 1975 together founded a private limited company. They invested their savings from their wage employment, 150,000 drachmas altogether, and begun producing shirts for the domestic market. At that time they did not employ any wage workers. Mr Klavdianos marketed their garments, and his partner cut and put-out the sewing part of the production process. By 1977 the number of persons employed in the enterprise had increased to forty. As a result of this expansion they begun exporting to the FRG (1978). The acquisition of appropriate premises for their rapidly growing enterprise became the most significant problem. It originally operated from very modest rented premises (given that assembly was put-out to secondary sub-contractors) in a basement of the garment district of Thessaloniki.

Expansion became synonymous with re-location. Their enterprise moved to premises three times between 1975-80. The intensification of the regional development policy (Carter, 1987) and the success of the enterprise provided the opportunity for Mr Klavdianos and his partner to provide a more long-lasting solution to their search for appropriate premises. It enabled them to re-locate outside the city.

Two new partners, one the brother of Mr Klavdianos, obtained a share in the enterprise and they initiated an ambitious development two kilometers from the northern outskirts of Axioupoli. The new plant cost some 145 million drachmas - nearly one thousand times as much as the original investment in 1975, and was completed in 1982. Then the operations of the enterprise were divided into three different departments: marketing - undertaken by Mr Klavdianos; manufacturing - which remained the responsibility of his early partner: and sourcing of raw materials - which was allocated to one of the new partners. The fourth partner (his brother) was not involved in the every-day running of the business. Mr Klavdianos also took over the role of co-ordinator between the different departments. By 1991 the enterprise employed seventy wage workers and gave work to three local secondary sub-contractors who, in turn, engaged a further ten persons. However, despite nearly a decade of operations in Axioupoli none of the partners lived locally.

Mr Klavdianos closely resembles the ‘heroic’ figure of the entrepreneur often depicted in the literature (Bird, 1989; Chell et al, 1991). The entrepreneurial process in this case is defined by two distinct characteristics. Firstly, the nikokyrio is of no importance to the success or failure of the enterprise, and has little to do with the familial tradition of the locality. This was evident from the fact that no other member of the nikokyrio apart from the entrepreneur was involved in the day-to-day running of the unit.

Even in the unlikely event that some members of the kin were involved in the enterprise this took the form of formal partnerships between two or more related heads of different separate households. Therefore, the individual could be safely deployed as the main unit of analysis in the case of Mr Klavdianos.

The second defining characteristic concerned the links with the locality. Mr Klavdianos is an "outsider"-individual. This means that he neither originates nor lives in the communities where the enterprises is located. He does not generally socialize with their workers, and therefore informal relations of trust and friendship did not influence his relations with the work-force (Simmons and Kalantaridis, 1995). The establishment of their enterprises in Polikastro-Peonia could be largely attributed to economic reasoning. Indeed, the objective advantages of the regional development policy and the production costs involved in the study area, when compared to the city of Thessaloniki or elsewhere in the region, were the major influences in determining location.

Because Mr Klavdianos is an outsider to Polikastro-Peonia, he established his enterprises on the basis of the information and contacts that he acquired from his earlier involvement in the garment industry rather than any familiarity with the particular locality. Indeed, he possesses information about regional, national and international developments in the industry. During the interviews he displayed a good understanding of the legislation with regard to subsidies, however, he had only limited knowledge of the protectionist framework covering garment trade. His awareness of the developments in the industry is gained through their every day transactions with buyers, suppliers and other business associates located elsewhere in Greece or even overseas. Nevertheless, the information that he possesses about changes in his immediate environment is very limited.

The Units Problem Unveiled: The Case Study of an Entrepreneurial Nikokyrio

Mr Vangelis Georgiadis is the owner of probably the most successful household garment enterprise (defined as the unit employing up to five persons) of the village of Gorgopi. The enterprise produced exclusively for the international markets - particularly those in the FRG and France. Mr Vangelis was born in 1958 to a farming family. His parents were refugees that arrived in the study area as part of the population exchange of the 1920s. Following the pattern of re-settlement of refugees all the inhabitants of one Greek village in what is now southern Bulgaria were settled in the small town of Polikastro.

Therefore, Mr Vangelis was brought-up within a close-knit rural community, that remained attached to the traditions of the place of origin. Until 1973 he went to school, and he helped with the family's small agricultural holding - alongside his two brothers and one sister. By the time he completed secondary school it became clear that the small size of the family proprietorship could not provide employment for all the members. Given that the job prospects in the small town were very limited at that time and the opportunities for overseas migration had nearly dried up he decided to learn a craft.

At the age of fifteen he migrated to Thessaloniki where, through family contacts, he took on a three-year apprenticeship in the bespoke tailor trade. He considers this period as very important for his career – not only because he acquired essential skills, but also because he survived in the alien environment of the city on his own. After completing his national service in 1978 he remained in the city. With savings from his earlier work and some money borrowed through his kin he became a partner in a small tailoring

enterprise. He worked in this venture for three years. The demise of this traditional pursuit however meant that by 1981 he had to suspend the operations of the enterprise to avoid bankruptcy. Then he returned in Polikastro with significant skills but no capital. The growth of factory garment production in the town during the late 1970s opened up opportunities for wage employment, and Vangelis found work in the cutting room of one medium-scale enterprise. By 1987 he had become its chief cutter.

In the early 1980s he married. This was a turning point in his life. His wife, Anthi, came from a farming household that lived in Gorgopi. She had finished secondary school and for three years was employed as a sewing machinist in the same medium-scale enterprise - where they actually met. Her dowry included a very small holding - just over one acre, but most importantly the ownership of a house in the village. This prompted them to settle in Gorgopi, nearly six kilometers from their place of work. Pregnancy and the birth of two children forced her to give up work outside the domestic domain for three years and placed significant constrains on her future work. Despite his promotion, the inadequacy of their agricultural proprietorship, and the absence of any other revenues apart from his wages placed strain on their household. However, in 1985 they, alongside other households of the area, were offered an opportunity to improve their incomes. His employer, like other owners of medium-scale enterprises tried to encourage his workers to become secondary sub-contractors in order to reduce production costs. The proposal put forward by the entrepreneur included the sale of second-hand sewing machines - by installments, and a guaranteed flow of piece-work. The Georgiadis family was among the first to respond. They purchased two simple sewing machines and established a workshop in the ground floor of their house, where Anthi and one wage sewing machinist, a married female from the neighbourhood, worked. Vangelis kept his wage work and at the same time he undertook the responsibility of establishing contracts, supplying raw materials, and delivering the cut cloth and finished garments. In the evenings, weekends and holidays the couple worked together.

As a result of their long hours of work, within two years they managed to expand the number of sewing machines to four and save capital for future ventures. Towards the end of 1987 they decided to alter the nature of their enterprise and set up as direct exporters. In order to do so he gave up his wage employment, sold the sewing machines and turned their new garment enterprise into a coordinator of a web of sub-contracting linkages. With their savings they set-up a cutting room in the basement of their house - which became Vangelis's responsibility. Moreover, he took over all the tasks that had to be carried out outside the household, such as dealing with agents, banks, the tax office, and social security; the purchase raw materials; and the distribution of piece-work to other household enterprises within Gorgopi. Anthi took over the supervision of the wage workers - three local girls. At the same time she maintained her role in the domestic domain. Improvements in the prosperity of their household are evidence to the success of the venture. During the six years between its establishment and our last interview, they had purchased both consumer durables such as a colored television, a video and a washing machine and a pick up van; and had nearly completed the construction of a new house (on the same site).

This entrepreneurial nikokyrio constitutes the embodiment of continuity with the local socio-economic milieu. Indeed, the entrepreneurial process reported in this Section is defined by the function of the traditional institution of the nikokyrio. Until his wedding Mr Vangelis managed to acquire skills and established contacts in the industry. However, he failed to become a fully fledged entrepreneur – the bespoke tailor enterprise survived only for three years despite the long hours that he and his partner put-in.

Matrimony and the establishment of a nikokyrio was the turning point in the business lives of those involved. This is because the nikokyrio became the cornerstone of the division of tasks within the firm.

Within this context, the contribution of Anthi was instrumental in the success of their business. Through the quasi-domestic environment that she established on the shop-floor she managed to get the best out of the female employees. At times she exercised very close supervision but she also prepared and shared the coffee with the "girls" during their half hour break time. Moreover, the use of domestic assets also appeared to be a contributor to success. The ownership of agricultural and residential property provided both a collateral and a second string to the family bow should the new investment prove problematic. The combining if production and consumption within one unit of analysis had important implications for decision making. In this context, toral incomes - including the returns to family labor, capital investment, and entrepreneurial activity - rather than profits emerge as the principal aim. Thus, maintaining the employment of other members of the nikokyrio became a significant parameter for decision-making Another important feature beyond the nikokyrio, is the strong link between this unit of analysis and the local community. This entrepreneurial nikokyrio comes from, lives in, and heavily rely for success upon the community where the enterprise is located. This results in the acquisition of valuable information through informal channels. Vangelis and Anthi are very well informed about developments in their immediate environment. Based almost exclusively upon informal channels of information flows they are aware of sub-contracting opportunities and piece-rates, who the potential wage workers were, the going market levels of remuneration, and they are alerted to the random visits of tax and social security officials.

However, they lack information about the regional, national and international developments in the garment industry. Their pre-occupation with the day-to-day running of the enterprise prevents them from obtaining even basic information about the business environment at the macro-level.

CONCLUSIONS

The main aim of this paper has been to emphasize the importance of methodological issues for the study of entrepreneurship. Within this context, it is argued that the most critical issue is that of defining appropriate units of analysis. Unless the units are defined carefully and used systematically even low level descriptions can proceed only superficially, and explanations, in the scientific sense of the term, will be at best partial. This is because both descriptions and explanations require the definition of units in

terms of which to gather and to analyze the data. This is particularly apparent in the case of the entrepreneurial nikokyrio examined in this paper. The use of an atomist view meant that forms of family households (as well as other institutions) were treated as external influences in the entrepreneurial process. As a result, research has focused exclusively in the provision of role models among potential entrepreneurs (Mathews and Moser, 1995). Indeed, Cooper (1986) reports that firm founders were influenced by role models in their decision to become entrepreneurs. Particularly the father and the mother are considered of key importance in establishing the desirability and credibility of entrepreneurial action for an individual (Shapero and Sokol, 1982). The internalization of the nikokyrio in the case of Mr Vangelis and Anthi enabled us to highlight the integral role of the wife in the entrepreneurial process as well as the implications of traditional institutions in the decision-making process.

However, this attempt to introduce the units problem in the area of entrepreneurial studies does not mean an indiscriminate replacement of individuals with institutions. The very small number of case studies presented in this paper prevents all-embracing generalizations. More importantly however, our aim has not been to substitute *homo economicus* with humans who have fully internalized habits of thought and are now acting them out. The experience of Mr Klavdianos underlines the point that the degree of embeddedness of entrepreneurial processes could vary significantly. Superficial similarities with the case of the entrepreneurial nikokyrio - in terms of locating in the same geographical environs, and operating in the same industry - conceal fundamental differences in the process of emergence. Despite the fact that this constitutes an extreme case, in the sense that it was initiated in an urban setting, it is not unique.

Another aim of this paper has been to introduce an institutionalist approach in the study of entrepreneurship. For this purpose, an alternative model of human agency has been developed and used in interpreting the entrepreneurial processes at work in the study area. Although this paper aspires to set an agenda for further research along these lines it is by no means exhaustive. More specifically, there are three issues that require further investigation. Firstly, further empirical research is required in order to examine the analytical value of the work of early institutionalists in entrepreneurial studies. Secondly, there is ample room for the refinement of the model of human agency. Finally, detailed research is required in the function of information in the entrepreneurial process.

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