

Volume 11

ISSN 1099-9264

# INTERNATIONAL JOURNAL OF ENTREPRENEURSHIP

An official Journal of the  
Academy of Entrepreneurship ®, Inc.

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Academy Information  
is published on the Allied Academies web page  
[www.alliedacademies.org](http://www.alliedacademies.org)

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*Whitney Press, Inc.*

*Printed by Whitney Press, Inc.  
PO Box 1064, Cullowhee, NC 28723  
[www.whitneypress.com](http://www.whitneypress.com)*

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## LETTER FROM THE EDITOR

Welcome to the *International Journal of Entrepreneurship*. We are extremely pleased to be able to present what we intend to become a primary vehicle for communication of entrepreneurship research throughout the world.

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Nelson O. Ndubisi  
Monash University, Malaysia

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## **MANUSCRIPTS**





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# SMALL-SCALE BUSINESS ENTERPRISES IN THE PHILIPPINES: SURVEY AND EMPIRICAL ANALYSIS

Maria Claret M. Ruane, Alfred University

## ABSTRACT

*This paper is a two-part study of small-scale business enterprises in the Philippines: survey and empirical analysis, both of which are combined in an attempt to understand what determines entrepreneurial motivations and success in the Philippines. The survey was conducted in order to study entrepreneurship development and motivations in the Philippines and also to understand the challenges and sacrifices faced by Filipino entrepreneurs. In particular, this survey is quite comprehensive in scope and comprised 202 questions. Aside from data on the general characteristics of the business enterprise and the entrepreneur, the survey also asks questions about important issues in the study of entrepreneurship such as entrepreneurial intensity, sacrifice, motivation, business plans, the business' effect on the entrepreneur's quality of life, the entrepreneur's personal beliefs and attitudes, and difficulties and problems that the entrepreneur encountered at different stages of operating the business enterprise. This study also presents an empirical analysis of the determinants of success by Filipino small businesses. This analysis made use of the survey data and is based on the estimation of a regression model using Ordinary Least Squares technique.*

## INTRODUCTION

Since the 1990s, there has been a resurgence of interest on the role of small-scaled business enterprises or small and medium enterprises (both will be referred to as "SMEs" hereafter) in national and international economic and social development. This is consistent with the overall shift of development strategies in many countries toward a more decentralized, even localized, approach. As such, many scholars, practitioners, and institutions involved in economic development have begun to recognize the important roles that smaller-scale business entities play in the economy and society. More and more people are becoming convinced that

these entities can be a very effective means of achieving, not only economic progress, but social goals (e.g., a more equal income and a greater appreciation for diversity in gender and race) as well. All of these suggest a greater need to increase our understanding of the nature and capabilities of family businesses and SMEs and the kinds of policies and incentive systems that would be appropriate, necessary, and effective in encouraging and strengthening them.

## **REVIEW OF ISSUES AND RELATED STUDIES**

Like those in other countries, SMEs in the Philippines make significant contributions to the overall economy and the country's pursuit of economic development. Data show Filipino SMEs to make up more than 99% of all businesses in the country, provide more than two-thirds of the country's employment, and is responsible for almost one-third of the country's income (Philippine Department of Trade and Industry, 2003). Given their economic importance (others also highlight their social significance), Filipino SMEs are an interesting subject of study. Consequently, one would expect to find numerous studies on them. This, however, is not the case, most probably because of a number of issues that complicate their study.

One of these issues has to do with the different perspectives on different aspects related to SMEs. Depending on which perspective the researcher uses as the primary source of insight and information, one gets a very different picture. In the study of Filipino SMEs, at least 3 different perspectives could be identified: that of policymakers, SME owners, academician and scholars.

### **Policymakers' Perspective**

In Philippines, government support to SME looks very good on paper. Specific legislation (Republic Act 6977: Magna Carta for Small Enterprises, signed in 1991; amended as Republic Act 8289 in 1996), institutions (such at the Department of Trade and Industry/Bureau of Small and Medium Business Development, University of the Philippines-Institute for Small-Scale Industries, and institutions that provide credit or credit guarantee to SMEs); publications give the impression that the government pays careful attention and takes sufficient action to encourage SMEs. That the government would purposely choose to give such impression is not surprising for a number of reasons.

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First, there is a “bandwagon effect”. Since other countries in the region and elsewhere have similar programs (again, at least on paper), the Philippines or for that matter any other country would look very bad should it choose not to have an SME program.

Second, because it is difficult to deny how important SMEs are as an effective means to achieve both economic and social goals, no government would choose to appear unsupportive of SMEs.

Third, the government might also have a tendency to “maximize external support”, including those provided by international organizations to support SME development. To the extent that these programs allow the government access to resources (often, financial and technical) whose use could not be perfectly monitored, acting in a way to attract these resources give the impression of being supportive of SMEs.

In reality, however, policymakers’ intention to assist SMEs tends to be less than genuine. “Conflict of interest” among government officials gets in the way. Since a number of policymakers are linked to large enterprises by ownership or production relation (either as supplier or customer), one would expect policymakers to use their political influence to channel support toward their own commercial interests and away from SMEs.

### **SME Owners’ Perspective**

During the study period, I came across three prior surveys of Filipino SMEs, as namely:

Asia Pacific Economic Cooperation (APEC), *Survey on Small & Medium Enterprises*, Coordinated by the Medium and Small Administration, Ministry of Economic Affairs, Chinese Taipei (1993). <http://www.actetsme.org/archive/smesurvey.html>

Hooley, Richard and Muzaffer Ahmad, *Small and Medium-Size Enterprises and Development Process in Four Asian Countries: An Overview* (1980s)

ASEAN-EU Partenariat '97 is supported by the European Commission within the framework of Asia-Invest, one of whose aim is to help encourage networking among SMEs from Europe

and Asia. It became fully operational in September 1997.  
<http://aeup.brel.com/sme/sme6.html>

Although the above three surveys provide useful insights and direction for this study, all of them lack the depth that this study would like to reach. All three are most useful in highlighting the difficulties encountered by SMEs surveyed as well as in laying out the overall importance of SMEs in economic development. While these surveys could be useful in studying SMEs at a macroeconomic level, they provide limited insights into the entrepreneur's characteristics and decision-making process. Questions that pertain directly to the entrepreneur himself/herself, what the motivation was in starting the enterprise, the extent of sacrifice that the entrepreneur would be willing to bear, and others that are more microeconomic in nature are beyond the scope of the above surveys.

#### **Academician / Scholar's Perspective**

Several sources were found that particularly look into Filipino SMEs at a more theoretical and empirical levels. Rodriguez and Tecson (1998) looked at the impact of liberalization on Filipino SMEs in the manufacturing sector while Rebullida (2000) highlighted the area of human resource development as one where SMEs and the government need to focus in order to enhance productivity and quality.

Other sources covered the topic of entrepreneurship in general while allotting a section or chapter on business conditions and SME development in the Philippines. These include the works of Fajardo (1994) and Orcullo (2000).

There are also works that look at stories of successful entrepreneurs in the Philippines. Works by Fajardo (1994) and Orcullo (2000) both included section that features case studies of Filipino entrepreneurs. In addition, the University of the Philippines-Institute of Small-Scale Industries published a book in 1998 based entirely on 24 case studies of successful Filipino entrepreneurship in five different industries.

Other works that provided useful background materials for this study are listed at the end of this paper.

Another important issue in the study of SMEs questions the motivation for SME development. Existing studies show the need to distinguish between micro-enterprises and SMEs as each group responds differently to changes in economic conditions. In particular, while SME startups do not usually occur when the

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economy is performing poorly, many micro-enterprises startups do occur during the same period. Researchers point out that this shows how creation of micro-enterprises tends to reflect a “coping strategy” by their owners—since there are less opportunities for remunerative work during periods of economic recessions or stagnating economic development, some are forced to find a livelihood by starting their own small business.

Ideally, one must make a distinction between micro-enterprises and SMEs. Unfortunately, given the small sample size of Filipino SMEs participating in this survey, it is not possible to make this distinction at this time, that is, the sample included both types of business enterprise and that “SME” used in the subsequent sections covers both SMEs and micro-enterprises.

### **PLAN OF THE PAPER**

This paper is a two-part study of Filipino SMEs: survey and empirical analysis, which are combined in an attempt to understand what determines entrepreneurial motivations and success in the Philippines. In what follows, the survey instrument and process are first described, then the survey results are summarized. This is followed by a section that presents the empirical analysis of the determinants of success by Filipino SMEs. This analysis is based on using OLS method to process survey data.

### **SURVEY OF FILIPINO SMEs**

#### **The Survey Questionnaire**

The questionnaire used in this survey was originally put together by several faculty at Alfred University’s College of Business, located in Southwestern New York. Prior to use in this survey, the same instrument has been used in surveys conducted in China, Germany, New Zealand, Romania, Turkey, Tunisia, Venezuela, and Southwestern New York State.

The survey questionnaire has 202 questions, categorized into the following sections (number in parenthesis shows number of question for that section):

*General characteristic of enterprise and entrepreneur (41)*

*Entrepreneurial intensity (11)*

*Extent of entrepreneur’s sacrifice (21)*

*Motivation for starting own business (38)*  
*Plans for next two year (19)*  
*Business' effect on entrepreneur's quality of life (11)*  
*Personal beliefs and attitudes of entrepreneur (21)*  
*Difficulties and problems encountered (40)*

### **The Respondents**

This survey was targeted toward SMEs that conduct business in the Philippines. An SME is usually defined according to volume of sales, value of capital/physical assets, and/or number of employees. Countries define SMEs differently. In the context of the Philippines, an SME would be a business enterprise that has total assets valued between one and forty million Philippine Pesos (or approximately \$20,000-800,000 using exchange rate during the survey period) or having between 10 and 199 employees. A further distinction among micro, small, and medium enterprises uses the following definition:

*Micro-enterprises have \$2,000-\$20,000 in total assets and 1-9 employees*

*Small-enterprises have \$20,000-\$200,000 in total assets and 10-99 employees*

*Medium-enterprises have \$200,000-\$800,000 in total assets and 100-199 employees*

SMEs surveyed were located in the capital city of Metro-Manila, nearby provinces of Bulacan and Laguna, and the southern province of Cotabato. Surveys were conducted between the year 2000 and 2002. 88 survey questionnaires were returned and efforts were made to include each returned survey in summarizing the results of the survey. However, only 65 of these returned surveys were judged complete and usable for empirical analysis in the latter half of this paper.

### **Problems Encountered While Conducting Survey**

During the survey, it was found that respondents' willingness to participate and cooperate were limited by a number of factors:

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*The questionnaire was too long (11-13 pages)*

*Some questions are repetitive*

*Some answers are not easy to recall*

*Respondents already participated in a number of previous survey*

*Respondents expected to receive some benefits (usually financial and, in some cases, to be received immediately) from participating in the survey.*

*Respondents were worried about disclosing certain information (especially financial figures) for fear that competitors or government tax authority might have access to survey*

Due to these problems, on several occasions, surveyors ended up interviewing respondents, going through each question, and literally filling out the entire questionnaire for them. In some cases, surveyors had to visit the same respondent more than once as many respondents became impatient with the survey or felt that they had given as much time that particular day accommodating the survey. Other respondents who filled out the questionnaires themselves returned incomplete surveys, in which case the surveyors had to return to their place of business to fill out portions of the questionnaire left unanswered. Even then, respondents refused to reveal some information (as above noted).

Other problems encountered during the survey were heavy traffic congestion around Metro-Manila, which made travel to one survey respondent a whole-day event. Bad weather presented another problem, with heavy rains and flooding experienced on a number of occasions.

For the particular year 2000, the economic and political situation in the Philippines also made conducting the survey more difficult. The economy was destabilized by a series of hostage-taking in the Southern provinces of the country and the prolonged negotiations to release hostages that resulted from them. This was later (in October) followed by corruption charges against then-President Estrada that led to impeachment hearings in December, related episodes of bombings of several public places, and in early 2001, persistent mass demonstrations to pressure then-president Estrada to resign. Finally, by a Supreme Court decision, power was turned over to the former vice president and current president, Arroyo.

In addition, even if surveys could have been conducted in 2000, one would worry about the “accuracy” of responses, given an overall mood of restlessness,

unease, frustration, and fear. Under the circumstances, responses would be more negative and pessimistic than they otherwise would have been.

## SUMMARY OF SURVEY DATA

### Characteristics of Enterprises

Of the 88 enterprises surveyed, only 70 provided information on number of employees, which revealed that 42 are actually classified as micro-enterprises (with less than 9 employees) and 28 are SMEs (with between 10 and 199 employees) (In fact, only one enterprise is medium-sized, with more than 100 employees while 27 are small-sized enterprises (with 10-99 employees). The average number of employees is 18.3.

Number of Employees	Number of SMEs	Percent of Total
01 to 09	42	60.0%
10 to 19	13	18.6%
20 to 29	8	11.4%
30 to 39	3	4.3%
40 to 49	1	1.4%
50 +	3	4.3%
Number of Respondents = 70		

Because of the sensitive and private nature of financial information, very few respondents provided information on value of sales or business assets so it was not possible to classify SMEs using the SME definition based on total assets.

The survey represents ten economic sectors: service, retail, finance, transport, professional, distributor, manufacturing, construction, computer, and all others. The sector most represented is retail, with 38 (or 45%) SMEs surveyed, followed by 12 (or 14%) in the manufacturing sector (Table 2).



Type of Industry	Number of SMEs	Percent of Total
Service	6	7.1%
Retail	38	45.2%
Finance	2	2.4%
Transport	4	4.8%
Professional	4	4.8%
Distributor	10	11.9%
Manufacturing	12	14.3%
Construction	2	2.4%
Computer	1	1.2%
Other	5	6.0%
Number of Respondents = 84		

By type of enterprise, survey shows 83% are sole proprietorships, 19% partnerships, and 8% corporations (Table 3).

Type of Business	Number of SMEs	Percent of Total
Sole Proprietorship	72	82.8%
Partnership	8	9.2%
Corporation	7	8.0%
Number of Respondents = 87		

When asked how the entrepreneur came to own the business at the present time, 64% said that they originated them, 19% inherited them, and 16% purchased them (Table 4).

<b>Table 4: How Entrepreneur Came to Own the Business</b>		
Method of Acquiring Business	Number of SMEs	Percent of Total
Purchase	14	16.3%
Originate	55	64.0%
Inherit	16	18.6%
Other	1	1.2%
Number of Respondents = 86		

In terms of SME's "age" or survival, the majority (57%) were started in 1990 or later while a significant proportion of SMEs (35%) were started in 1970s and 1980s (Table 5).

<b>Table 5: Year When Business Was Started</b>		
Year	Number of SMEs	Percent of Total
1900-1959	2	2.4%
1960-1969	5	5.9%
1970-1979	13	15.3%
1980-1989	17	20.0%
1990-1994	17	20.0%
1995-1999	28	32.9%
2000 +	3	3.5%
Numbers of Respondents = 85		

Most SMEs surveyed have between one and three family members involved in the business, with more than one-third of the total having two family members involved.

Number of Family Member(s)	Number of SMEs	Percent of Total
0	2	2.5%
1	16	20.0%
2	27	33.8%
3	12	15.0%
4	10	12.5%
5	7	8.8%
6+	6	7.5%
Number of Respondents = 80		

As to the extent that family members are investors in SMEs, survey shows the mode for this number to be either one or two family member(s) (Table 7).

Family Member(s) who Provided Financing	Number of SMEs	Percent of Total
0	4	7.0%
1	23	40.4%
2	21	36.8%
3	2	3.5%
4	2	3.5%
5	2	3.5%
6	0	0.0%
7+	3	5.3%
Number of Respondents = 57		

In almost two-thirds of SMEs surveyed, only one family member is involved with the management of the business and 24% said two family members are involved (Table 8).

Number of Family Member(s) as Manager(s)	Number of SMEs	Percent of Total
0	2	2.9%
1	44	64.7%
2	16	23.5%
3+	6	8.8%
Number of Respondents = 68		

### **Characteristics of Entrepreneurs**

The average age of entrepreneurs surveyed is 43.7 years, with almost 75% belonging to age group 30-59. Along gender lines, there seems to be an even split between men and women entrepreneurs. Along marital status, 82% are married. The average number of children is 3.4, with those having five or more children, accounting for 24% of the distribution.

Age Group	Number of Entrepreneurs	Percent of Total
20-29	13	15.3%
30-39	19	22.4%
40-49	24	28.2%
50-59	21	24.7%
60-69	6	7.1%
70+	2	2.4%
Number of Respondents = 85		

Gender Type	Number of Entrepreneurs	Percent of Total
Female	43	50.6%
Male	42	49.4%
Number of Respondents = 85		

Marital Status	Number of Entrepreneurs	Percent of Total
Single	12	13.6%
Married	72	81.8%
Separated	4	4.5%
Divorced	0	0.0%
Number of Respondents = 88		

Number of Children	Number of Entrepreneurs	Percent of Total
Zero	9	9.8%
One	18	19.6%
Two	16	17.4%
Three	18	19.6%
Four	9	9.8%
Five +	22	23.9%
Number of Respondents = 82		
When asked whether either at least one parent is an entrepreneur, 53% answered "no".		

Our survey reveals that Filipino entrepreneurs attained relatively high levels of education. On average, entrepreneurs had 14 years of education, which is equivalent to 2 years of post-high school education. Only 11.5% of entrepreneurs had less than a high school education (Table 13).

Years of Schooling	Number of Entrepreneurs	Percent of Total
Less than 9	4	5.8%
9	0	0.0%
10	3	4.3%
11	1	1.4%
12 (high school)	18	26.1%
13	4	5.8%
14	6	8.7%
15	3	4.3%
16 (college)	21	30.4%
17	1	1.4%
18	1	1.4%
19	7	10.1%
Number of Respondents = 69		

As regards entrepreneurs' experience in their line of business, the average is 13 years, with more than 50% having from one to nine years of business experience (Table 14). When asked about the number of years of work experience, 24 % of entrepreneurs have between one and four years of experience and almost less than 14 years of experience. The average length of work experience is 19 years (Table 15).

In the following sections, answers to the survey questions or statements (e.g., "My business is the most important activity in my life") are from 1 to 5, with 1 representing a situation where the respondent strongly disagrees with the statement being answered and 5 where the respondent strongly agrees. Questions are grouped according to the sub-headings below and, for each question, a simple average is taken.

<b>Table 14: Years of Business Experience</b>		
Years of Experience in Line of Business	Number of Entrepreneurs	Percent of Total
01 to 04	22	26.5%
05 to 09	20	24.1%
10 to 14	11	13.3%
15 to 19	5	6.0%
20 to 24	14	16.9%
25 to 29	4	4.8%
30 to 34	3	3.6%
35 to 39	0	0.0%
40 +	4	4.8%
Number of Respondents = 83		

<b>Table 15: Years of Work Experience</b>		
Years of Work Experience	Number of Entrepreneurs	Percent of Total
01 to 04	18	23.4%
05 to 09	11	14.3%
10 to 14	8	10.4%
15 to 19	2	2.6%
20 to 24	11	14.3%
25 to 29	7	9.1%
30 to 34	6	7.8%
35 to 39	2	2.6%
40 +	12	15.6%
Number of Respondents = 77		

### **Entrepreneurial Intensity**

Entrepreneurs surveyed indicate that it is important for their businesses to make a contribution to society. They also value the idea of “being their own boss” and would be willing to pass up working for someone else, even if they expect to earn more in the latter. The survey also reveals that entrepreneurs give higher priority to their family over their business, placing more value on time spent with family.

### **Extent of Entrepreneur's Sacrifice**

The survey reveals the extent to which entrepreneurs will bear sacrifices for their businesses. Examples of these include acquiring additional skills at their own expense and performing any task that would be helpful to their businesses. Entrepreneurs said they would be least willing to sacrifice their marriage, families, and friends.

### **Motivation for Starting Business**

When asked what motivated them to start their own businesses, many conveyed a sense of optimism by believing that their own business will be a source of higher income and financial security for them and their families. A second reason for starting their own businesses is that it offers them a more flexible (perhaps more manageable) schedule between family and work life. Not many started their businesses because of frustration from previous job or desperation (that is, doing business is the only thing they could do).

### **Entrepreneur's Plan in Next Two Years**

The most commonly cited business plans in the next two years are introducing new product or service and expanding the scope of current activities. Entrepreneurs surveyed are least likely to engage in offsite training of employees, replace existing equipment and upgrade their computer systems in the next two years.



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### **SME's Effect on Entrepreneur's Quality of Life**

When asked about businesses' effect on the quality of their lives, entrepreneurs replied that their businesses provided sufficient income and financial stability, as well as improved standard of living and offered a sense of having fulfilled some personal goals.

### **Entrepreneur's Personal Attitudes and Beliefs**

Most entrepreneurs gave greater importance to the government's role of meeting everyone's needs, as well as providing employment for the masses and keeping prices stable, even at the expense of government-imposed restrictions on their businesses. Along side this view of the government's role in the economy, most entrepreneurs agreed that a good economy depends on the ability of businesses to operate profitably. Many expressed ethical concerns about making money by all means or the presence of social differences.

### **Difficulties Faced by Entrepreneur**

Entrepreneurs surveyed found stiff market competition, fatigue from long work hours, and having to balance work and family activities as the most serious difficulties they faced while operating their businesses. Many expressed comfort in having received family encouragement.

## **EMPIRICAL ANALYSIS OF FILIPINO SME SUCCESS**

In an attempt to study factors that affect the business success of Filipino entrepreneurs, a simple regression analysis was performed using data obtained from the above survey. Largely due to limitations in data, the proxy used to measure SME success is the number of years an SME has been in business, using the year 2001 as the benchmark year and subtracting from it the year when the business was started.

On the one hand, this measure works well in distinguishing surviving SMEs from failing SMEs, at least as far as it is able to exclude SMEs that were not in existence by year 2001. On the other hand, this proxy has problems or limitations. Using this definition, although an SME that has been in business the longest may be viewed as most successful, the converse is not necessarily true, i.e., a new or start-up

SME cannot be necessarily viewed as less successful but perhaps simply not having existed long enough to show whether it will succeed or fail. Ideally, profit rates will make a better measure of business success. Unfortunately, privacy issues and the delicate nature of this type of information make them unavailable and difficult to obtain. For these reasons, the reader must exercise caution in interpreting the regression results below. In some cases, the limitations of the SME success variable affect the interpretation of the results.

As for sample size, although 88 surveys were completed, some observations were incomplete (the respondents declined to answer some survey questions) so that only 65 observations were actually included in the regression model.

The regression equation is as follows:

$$\begin{aligned} SME\ SUCCESS &= a_0 + a_1AGE + a_2MALE + a_3MARRIED \\ &+ a_4EDUC + a_5PURCHASE + a_6ORIGINATE + a_7SOLO \\ &+ a_8PARTNER + a_9INTENSITY + a_{10}SACRIFICE \end{aligned}$$

The next section discusses each explanatory or independent variable of the above regression model and the expected sign of the corresponding regression coefficient.

The variable “AGE” indicates the age of primary entrepreneur, and its regression coefficient,  $a_1$ , may be either positive or negative: Older entrepreneurs have more experience and tend to be more successful. Younger entrepreneurs are more energetic, dynamic, and perhaps creative, all of which contribute to the success of the business. Keep in mind that the average age of entrepreneurs is 43 years old.

“MALE” is a dummy variable used to indicate the gender of the primary entrepreneur, where male entrepreneur (=1) or female entrepreneur (=0). The corresponding regression coefficient,  $a_2$  may be positive, negative, or zero.

“MARRIED” is a dummy variable that captures that marital status of the primary entrepreneur where married entrepreneur (=1) or non-married entrepreneur (=0). Non-married entrepreneurs include both never married and separated (Note that divorce is not legal in the Philippines). The regression coefficient,  $a_3$ , may be either positive or negative: single entrepreneurs have more time to devote to their business, which will help them be more successful while married entrepreneurs have more stake on their businesses (as they and their families rely more on their businesses) and a greater determination to make their businesses successful.

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“EDUC” represents the primary entrepreneur’s number of years of education, and its regression coefficient,  $a_4$ , is expected to be positive: a more educated entrepreneur is more likely to be successful than a less educated one.

“PURCHASE” is a dummy variable that indicates whether the SME was acquired through purchase (=1) or not (=0). “ORIGINATE” is a dummy variable for whether SME was founded by the primary entrepreneur (=1) or not (=0). SMEs that are neither purchased nor originated are mostly inherited, which serves as the control variable. There are no a priori reasons to expect the regression coefficients  $a_5$  and  $a_6$  to be either positive or negative.

“SOLO” is a dummy variable that represents whether the SME is a sole proprietorship (=1) or not (=0). Similarly, “PARTNER” is a dummy variable for whether SME is a partnership (=1) or not (=0). SMEs that are neither sole proprietorship nor partnership are corporations (the control variable). The regression coefficients  $a_7$  and  $a_8$  may be positive or negative. Although a sole proprietor might work hard because all gains accrue to him/her and, as a result, be more successful, a partnership or corporation has more resources available for the business to support the business’ operation and expansion and make it more successful.

The variable “INTENSITY” is intended to capture the primary entrepreneur’s drive toward or determination to start and operate his/her own business. Its regression coefficient,  $a_9$ , is expected to be positive: a more determined entrepreneur is more likely to succeed.

“SACRIFICE” is the explanatory variable that represents the trade-offs that the primary entrepreneur is willing to make or the additional resources (such as hours, efforts) that he/she are willing to supply in the desire to start and operate a successful business. The regression coefficient,  $a_{10}$ , is expected to be positive: a rational entrepreneur weighs the costs (“sacrifice”) of his/her business relative to the benefits from it. An entrepreneur is willing to make greater sacrifices if these are rewarding and compensated by greater business success.

An OLS regression model is performed and the following results are obtained (Table 16):

<b>Table 16: Regression Results</b> (Dependent Variable: SME SUCCESS; Sample Size: 65 Observations)				
Independent Variables	Coefficient	Std. Error	t-Statistic	p-value
CONSTANT	-27.54**	12.69	-2.17	0.03
AGE	0.65***	0.11	5.91	0.00
MALE	4.46*	2.42	1.84	0.07
MARRIED	-3.72	3.27	-1.14	0.26
EDUCATION	-0.67*	0.39	-1.73	0.09
PURCHASE	-7.26*	3.89	-1.87	0.07
ORIGINATE	-4.87	3.03	-1.61	0.11
SOLO	8.45**	4.19	2.02	0.05
PARTNER	-1.09	5.74	-0.19	0.85
INTENSITY	3.21**	1.46	2.20	0.03
SACRIFICE	3.59	2.47	1.45	0.15
R-squared	0.52	Mean dependent variable	12.95	
Adjusted R-squared	0.43	S.D. dependent variable	11.32	
S.E. of regression	8.57	Akaike info criterion	7.29	
Sum squared residual	3965.95	Schwarz criterion	7.66	
Log likelihood	-225.84	F-statistic	5.76	
Durbin-Watson statistic	1.99	Prob (F-statistic)	0.00	

In Table 16, note that \*, \*\*, \*\*\* indicate that coefficients are statistically significant at the 10%, 5%, and 1% level. Regression analysis is processed using the latest version of E-views.

The regression results suggest the following profile of a successful entrepreneur: older, male, less educated, one who inherited or originated the business, a sole proprietor, and one who has a strong drive toward owning his business. Although the majority of this profile is consistent with one's expectations, some require further explanations.

First, the result that male entrepreneurs are likely to be more successful than female entrepreneurs might not be accurate. The question of who owns the business does not correspond perfectly with who makes the business successful. It is possible that the ownership was determined by who took care of processing the required paperwork (such as obtaining a business license) through government offices. Casual observation of married entrepreneurs suggests that the wife are more likely to run the business while the husbands are more likely (and perhaps are more effective) to deal with the bureaucracy associated with taking care of the legal requirements of the business.

Second, successful entrepreneurs tend to be less educated is opposite of what one might expect. We suspect this to be due to the limitation associated with how SME success is defined in this study. What this result might be suggesting is not so much that the more educated entrepreneurs are less successful but rather that newer businesses are started and operated by more educated entrepreneurs. This is consistent with a more optimistic economic and political environment since 1986 and moreso in the 1990s, owing partly to the effects of advancements in computing and the business opportunities that stem from them, which require a higher level of education. Such opportunities were obviously not available in the past (say, ten or more years before the survey was taken). In short, older businesses (which are proxied as being more successful) are more traditional and required less education of the entrepreneur while newer businesses are more high-tech and require a more educated entrepreneur

Third, entrepreneurs that inherited or originated their businesses are more successful than those who purchased their businesses from someone else. For inherited businesses, entrepreneurs have greater determination and will work harder to preserve the family tradition and nurture the family name or association with the business. For originated businesses, entrepreneurs also work harder to make a success of their businesses as they consider their businesses as their own creation, perhaps an extension of themselves, or a future legacy they could leave their family. Hence, these businesses are more likely to succeed than those businesses that were purchased from someone else.

Fourth, our results show that a sole proprietorship is likely to be more successful than a partnership or corporation. This might be suggestive that an entrepreneur who is solely responsible for both gains and losses of the business has a greater incentive and determination to make a success of the business in order to fully enjoy its rewards and to avoid the alternative, which is to fully bear the liability of a business loss.

That the age of the entrepreneur is found to be a significant determinant of SME success may be because of the definition of SME success, the number of years that the business has been in operation. Obviously, businesses that have been around longer are likely to have older owners, although one might still argue that older entrepreneurs have greater experience in the business and are more likely to be successful (The correlation coefficient between entrepreneur's age and years of experience is positive and high (0.73)). Hence, caution must be taken in interpreting this result.

### **POST-SURVEY CHANGES IN SME CLIMATE IN THE PHILIPPINES**

Since the survey of Filipino SMEs presented in this study was completed in 2002, changes have taken place in the area of what was referred to in a previous section as "Policymakers' Perspective on SME". In mid-2002, the National SME Development Agenda was introduced (this agenda is known in the Filipino language-Tagalog dialect as "Sulong Pinoy", where "Sulong" means move forward and "Pinoy" is an affectionate short-cut for the Filipino people). This agenda was a statement by the Philippine government to explicitly include SME development and support as a top priority of its strategy to pursue overall economic development for the country.

One and a half years later and with the support of from the Japan International Cooperation Agency, the National SME Development Agenda was further reinforced and formalized by the preparation of a 125-paged document entitled "SME Development Plan (2004-2010)". These and related documents, including examples of individual SME stories, can now be accessed from the Philippine Department of Trade and Industry website ([www.dti.gov.ph](http://www.dti.gov.ph)). This document also provides an updated definition of SMEs, which was effective since January 2003. While SME definition based on the number of employees remains the same, SMEs definition by value of total assets increased to the range of between three and one-hundred million pesos from the former range of between one and forty

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million pesos. In particular, the following SME definitions as well as micro-enterprise definitions are currently in use:

Micro-enterprises have up to three million pesos in total assets (or \$56,844, at the exchange rate of 52.776 pesos to the U.S. dollar on July 5, 2006, information provided by the Central Bank of the Philippines)

Small-enterprises have between three and fifteen million pesos (or \$56,844 - \$284,220) in total assets

Medium-enterprises have between fifteen and one-hundred million pesos (or \$284,220 - \$1.89 million) in total assets

Also in 2002 (in November), the Barangay Micro-Business Enterprises Act (also known as Republic Act 9178) was passed (“barangay” is an administrative unit equivalent to town or village). This act is designed to replace a previous law and to encourage micro-enterprise development and continue operation through fiscal incentives and simplified procedures. The above law, together with the Magna Carta for Small Enterprises of 1991/1996, makes up the cornerstone of the Philippine government’s SME policies.

To what extent these policy changes have had an impact of Filipino SMEs is yet to be seen. At the time of this writing, casual observation and anecdotal references do not seem to indicate any noticeable impact of the above policy changes. A skeptic might draw from this the conclusion that these policy changes are just as ineffective as those before them and that the timing of their introduction was anticipatory of a presidential election and hence suspicious (President Arroyo was vice president to Estrada and took office to serve Estrada’s unfinished term. Arroyo won the presidential election in May 2004 but her victory was later contested on grounds of election fraud). In due time, it will be of particular interest to the three perspectives on SME above noted (namely, those by policymakers, by the SME owners, and by academicians and scholars) to evaluate and quantify, if possible, any impact that the above changes might have on SME development and performance in the Philippines.

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# **PERCEPTUAL BARRIERS PREVENTING SMALL BUSINESS OWNERS FROM USING PUBLIC SUPPORT SERVICES: EVIDENCE FROM CANADA**

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## **ABSTRACT**

*Given the economic importance of small and medium enterprises (SMEs), public authorities are seeking ways to improve support for SME owner-managers. Each year, considerable funds are budgeted to help small businesses, and the number of SME support organizations has steadily grown. Despite all these efforts, however, SME survival rates have barely improved, if at all. There may be a good reason for this: entrepreneurs and SME owner-managers do not make maximum use of the services available. Results from a survey of 70 SME owner-managers show that the main barrier is lack of knowledge about the agencies providing the services. On the one hand, many owner-managers do not seem to understand the utility or relevance of the services, while on the other they do not seem to know enough about the agencies working in their region. However, most of the owner-managers who had used the agencies felt the services they had received were appropriate to their needs. At first glance, the problem thus appears to lie more with the perceptions of certain owner-managers than with the nature or quality of the services themselves.*

## **INTRODUCTION**

Given the economic importance of small and medium enterprises (SMEs), public authorities are seeking ways to improve support for SME owner-managers. Each year, considerable funds are budgeted to help small businesses, and the number of SME support organizations has steadily grown. Despite all these efforts, however, SME survival rates have barely improved, if at all. There may be a good reason for this: entrepreneurs and SME owner-managers do not make maximum use of the

services available. For example, in a study of 104 startup entrepreneurs throughout Canada, Gasse and his colleagues found that barely one-third of respondents had made use of public support agencies during venture startup, when their firms were most at risk (2004). It is thus both essential and urgent to find out why government services and programs fail to reach their target client group, namely SME owner-managers. The purpose of this research is therefore to identify the factors likely to influence the decision of SME owner-managers to consult public support agencies.

The study will begin with a review of the literature, highlighting the factors likely to influence the SME owner-manager's decision to request help from public agencies. This will be followed by a description of the conceptual framework and methodology. The findings will then be presented and commented, and the paper will end with some suggestions for further research.

### **LITERATURE REVIEW**

A certain number of factors appear to influence an SME owner-manager's decision to consult a public agency or not. First, we must look at how the business owner's attitude toward outside help impacts his relationship with public agencies. Next it may be helpful to consider owner-managers' perceptions and degree of knowledge about the agencies and the services they offer. Lastly, the role the owner's gender plays in interaction with public agencies may be important. The literature addressing these factors is listed below with our comments.

Many SME owner-managers appear to have a fairly negative perception of the professional advisors with whom they work. There are many reasons for this. They may, for example, believe the advice given is not practical enough or not tailored to their situation, that the advisors charge too much for the results they achieve, and do not understand small business (J. Curran, Jarvis, R., Blackburn, R.A., & Black, S., 1993; D. Devins, 1999; T.J. Zinger, Blanco, H., Zanibbi, L., & Mount, J., 1996). Sammut (1998) also noted that many venture creators refuse outside help on the basis that they prefer to remain absolutely independent (one of the principal reasons for venture creation), and also out of fear that the people around them may think they are incompetent (see also Curran and Blackburn (2000)). Similarly, Bloch (1997) asserts that, in France, support is linked to the concept of failure or difficulty, contradicting the self-image that entrepreneurs try to project. It is also important to note the somewhat contradictory results of a study carried out by Quebec's Order of Chartered Administrators (2000). Here, a survey of 206 small business owner-managers revealed that 72% had a positive opinion of

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consulting service providers. However, this was in stark contrast to the generally negative perception revealed during in-depth interviews with thirty owner-managers in the first phase of the same study.

When small business owner-managers decide to obtain outside help, the resource they call upon first is usually the accountant (E. Arginova & Michaelis, C., 2003; R.J. Bennett & Robson, P.J.A., 1999; N.K. Ho & Mula, J., 2004), followed by the banker and the lawyer. The popularity of the accountant is probably due to the primordial importance of financial management for small business survival. Public services do not seem to generate much enthusiasm among small business owner-managers, ranking systematically behind private support sources. According to the literature survey by Bennett and Robson (1999), between 25% and 34% of owner-managers use public support services, compared to nearly 80% who use accountants. In Canada, Gasse and his colleagues (2004) reported similar findings, while Good and Graves (1993) observed even lower rates of public service usage; barely 10% of the 160 entrepreneurs they questioned in Manitoba said they had used the services of a public support agency.

What do small business owner-managers think of public support agencies? If we rely on the findings described above, there would appear to be a fair amount of scepticism, given the very low usage levels. It is reasonable to think that the agencies may be the victims of the owner-managers' general distrust of or aversion to the government apparatus. For example, according to a study by Good and Graves (1993), small business owner-managers blame most of their problems on the government, including paperwork and formalities, income tax and other tax requirements and policies that discriminate against small business. If they associate support agencies with the government, their perceptions are almost bound to be negative.

We might also wonder just how useful small business owner-managers think the services they are likely to receive will be. The handful of entrepreneurs from Good and Graves' (1993) study who had consulted public agencies felt the advice they had received had been helpful in 44% of the cases where the firm had gone out of business, and in 52% of cases where the firm was still in business. According to another Canadian study of 90 small business owner-managers, half felt the available government programs did not meet their needs (T.J. Zinger, Blanco, H., Zanibbi, L., & Mount, J., 1996). This opinion is shared by owner-managers in Québec, but to a lesser extent; a recent study of 196 owner-managers from Québec found that one-third felt the assistance given by support agencies was inadequate and did not meet their needs (C. Borges, Simard, G., & Fillion, L.J., 2005).

If we look at perceptions of service efficiency, opinions are still mitigated. For example, in a study of 2,474 small business owner-managers in Great Britain, respondents felt advice from accountants and customers had the greatest impact on results, ahead of advice from public support agencies. The situation appears to be somewhat different in the United States, in terms of the actual (not perceived) impact of services on business success. For example, Chrisman and McMullan (2004) studied a sample of American small firms that had used the services of public support agencies, and found they had a higher survival rate and better growth than firms that had not done so. The authors proposed that support agency use provided tacit and explicit knowledge that entrepreneurs could use to create a sustainable competitive advantage, thus explaining the positive impact on the firm's performance. Obviously, it is difficult if not impossible to establish a direct causal link between agency services and business performance, since the other factors likely to have an impact on performance cannot be controlled.

Small business owner-managers have certain expectations of support agencies and their staff. It seems to be important for the agency staff to have understood the culture, goals, business context and working methods of the owner-manager. Service based on listening and dialogue is therefore required. As a learning method, it is preferable for advisors to draw upon the ideas of the owner-managers rather than provide prefabricated solutions to management problems (J.J. Chrisman & McMullan, E.W., 2004).

Owner-managers also expect services that meet their needs, which are numerous and vary according to the firm's activity sector or development stage, and the owner-manager's ambitions (R.G. Wyckham, Wedley, W., & Culver, E.W., 2001). Accordingly, support agencies need to segment their markets and shape their supply of services to meet the specific needs of different client groups.

Despite the large number of agencies and programs created to help small business, some owner-managers may not even be aware of their existence or the fact that programs are available to meet their needs. Good and Graves (1993) described 21 government support programs to a group of Canadian entrepreneurs and asked them if they had heard of the programs. Some 86% were aware of the basic start-up information program, but only 18% had heard of the government guaranteed loan program, with the average for all programs being around 39%. Argirova and Michaelis (2003) found that only 57% of owner-managers in their Scottish study knew about small business support programs, compared to 74% in England, 57% in Wales and 51% in Northern Ireland. In the United States, a study carried out in the State of Wisconsin revealed the existence of more than 400 business support

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programs offering more than 700 services, although the entrepreneurs questioned for the research had only limited knowledge of them (P.D. Reynolds & White, S.B., 1997). In France, information on the myriad of available support programs seems to be hard to find (P. Albert, Fayolle, A., & Marion, S., 1994). Each program has its own interlocutor and its own trademark. Albert and his colleagues even suggested that the situation had fostered the development of a special category of venture creators, known as “prize chasers”, and consultants, known as “prize pimps”.

Women entrepreneurs often face structural barriers limiting their full participation in economic activity, the main ones being access to capital, networks, and social support (L. Stevenson & Lundström, A., 2002). Indeed, women are less likely to seek loans from financial institutions than men. (J.J. Madill, Riding, A.L., & Haines, G.H.J., 2006; Statistics Canada, 2001). Those who refuse to ask for financial assistance mainly justify their decision by saying that they don't need it. Because most SME aid programs aim to provide financial assistance, it is worthwhile to consider whether women avoid them as much as they do financial institutions. This doesn't, however, appear to be the case. A study that sampled a large number of American SMEs revealed that the probability a woman-owned SME would seek financial help from friends, family, or public organizations was significantly higher than for a man-owned SME (G.W. Haynes & Haynes, D.C., 1999). Moreover, data revealed that a greater proportion of their businesses' liabilities consisted of loans from these same sources. The situation appears slightly different in Canada: government agency loans represented 4% of SME liabilities in 2000, both at businesses that were owned primarily by women and those primarily owned by men (Statistics Canada, 2001). This leads us to believe that women entrepreneurs do not hesitate to consult government support agencies, particularly to ask for financial help.

As regards advice, a study, from the U.S., shows that, proportionally speaking, women SME owner-managers consult public agencies more than men (Small Business Administration, Small Business Development Center and Minority Business Development) in seeking advice and information (M. Young & Brenner, C., 2000). In France, women seek advice less frequently than men (APCE, 2001) and, in 1998, 42.8% of these women had received no help whatsoever compared to 46% of men. However, the data gathered by Lambrecht *et al.* (2003) shows just the opposite. According to these authors, women entrepreneurs are more likely to seek advice compared to their male counterparts. As well, women recognize that public authorities have a role to play in providing financial assistance to SMEs. Without this aid, they would naturally be less inclined to seek help from a consultant.

### CONCEPTUAL FRAMEWORK\

The literature survey highlights four factors that best seem to explain the propensity of owner-managers to consult support agencies. The first of these, and the key element, is the owner-manager's attitude towards outside assistance. Many small business owner-managers hesitate to seek outside help in case they are perceived as incompetent. The second factor is the owner-manager's perception of public support agencies, which will affect the decision to use their services or not. If the owner-manager perceives the agencies as being unable to help, he or she will not consult them. Thirdly, the use of support agencies is conditioned by the owner-manager's knowledge of the agencies themselves and the services they offer. Clearly, an owner-manager who is unaware of an agency or service will not use it. Finally, there are gender related differences that lead to different uses of public services among SME owners.

The following research hypotheses were therefore tested in the field:

- H<sub>1</sub>: The natural resistance of small business owner-managers to the idea of requesting outside help will prevent them from using the services of public support agencies;*
- H<sub>2</sub>: Negative perceptions of public support agencies and their services will prevent owner-managers from using the agencies' services;*
- H<sub>3</sub>: Lack of knowledge of the services available from public support agencies will prevent owner-managers from using those services;*
- H<sub>4</sub>: Women entrepreneurs will make more use of the services available from public support agencies than male entrepreneurs.*

### RESEARCH METHODOLOGY

The sample was selected from the population of small business owner-managers in Gaspé, the largest town in the Gaspésie region of Québec (Canada) with 17,000 inhabitants. This magnificent coastal region, bordered by the St. Lawrence



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Gulf and Estuary, is located at some distance from the major cities. Its economy still depends to a large extent on natural resources (forests, mines and fisheries), although the importance of tourism is increasing. Its natural resources are currently in decline, mainly as a result of overexploitation, and the region is one of the most economically disadvantaged in Québec, despite significant efforts to diversify the economy.

We selected this area for several reasons. First, preliminary studies by the Gaspésie-Magdalen Islands Research Chair reported under-use of public business support services. Second, the region is extremely disadvantaged economically, suggesting that its owner-managers and potential entrepreneurs would have much to gain by using the available services to try to reverse the current economic slump. Yet, they do not appear to do so, thus confirming the relevance of our research.

Respondents had to meet two principal conditions, first that their firm employed fewer than 250 people, and second, that it was located within the territory of the Town of Gaspé. In addition, the sample had to contain both owner-managers who had used support services and those who had not. There was no requirement as to the firm's activity sector.

The Gaspé Economic Development Corporation, known by its French acronym SADC, supplied the researchers with contact information for all the region's firms. The owner-managers of the 172 firms that met the selection criteria were contacted. Of this number, 64 refused to take part in the study, 48 could not be reached and 70 agreed to go ahead, 13 for personal interviews and 57 for a telephone survey. A total of 34 of the sample owner-managers had used support agency services in the past, and 36 had not.

An interview guide was drawn up for the personal interviews. It included a number of closed questions, followed by open questions to encourage respondents to explain their answers. The interviews lasted an average of 30 minutes each. They had a dual purpose: first, the information gathered would be used to perfect the telephone survey questionnaire, and second, it would be used to understand and interpret future statistical analyses. The telephone survey questionnaire was composed primarily of multiple-choice closed questions, with most of the variables being measured on a five-step scale. To measure the level of knowledge held by respondents about public agencies, they were asked to rate their level of knowledge of the three main agencies in their region on Likert-type scales (from 1 = I don't know it at all to 5 = I know it very well). Then an index was created summing up the three scales (from 3 to 15).

To test the research hypotheses, a variance analysis was carried out with a  $\Phi$  (Phi) test for the nominal variables and a Mann-Whitney U test for the scales or index variables. Such tests are superior to traditional  $\chi^2$  and  $t$  tests when the sample is small or when distribution normality is questionable.

## PRESENTATION AND DISCUSSION OF RESULTS

The vast majority of the respondents owned their firms (77.1%), and most had created them. The overall level of managerial experience was high, with nearly two-thirds of respondents having over ten years of experience. Interestingly, only 53% of those who had used support agencies in the past had more than ten years of experience, compared to 80.6% of those who had never used an agency. The latter group was therefore more experienced, having been in business for longer. It is likely that when the more experienced respondents first began in business, business support services were less well developed, thus explaining the lower usage level. Once experienced, they had less need to consult. As far as gender is concerned, there were far more men (70%) in the sample than there were women.

The information obtained on the firms revealed that most had been in existence for more than ten years (74.3%) and employed fewer than five people; in fact, only 11.5% of the firms employed more than ten people. The sector with the highest representation was the general service sector (retail trade, hotels, personal services, etc.). The primary and secondary sectors accounted for 24.4% of the sample, which is fairly consistent with the general situation in the Gaspé Peninsula. There were no statistically significant differences between the two groups in terms of business profile.

*H<sub>1</sub>: The natural resistance of small business owner-managers to the idea of requesting outside help will prevent them from using the services of public support agencies.*

The data showed that most of the owner-managers had used outside help in the past. The accountant and banker were the resources most often consulted, confirming the findings from the literature review. Government agencies ranked only sixth, and more than half the sample (51.4%) had never used them (see Table 1 below). Of all the proposed services, lawyers and private consultants were ranked last, possibly due to the fact that most of the sample firms were very small and may not have had the need or the means to employ this type of resource.

Frequency	%	Scale of 1 to 5
Very often	8.60%	1
Fairly often	12.90%	2
Occasionally	17.10%	3
Rarely	10.00%	4
Never	51.40%	5
Mean	3,83	

When asked how comfortable they were in requesting outside help, 38.6% of respondents said they were very comfortable and 30% said they were fairly comfortable (see Table 2 below). Very few said they were uncomfortable. There was no significant difference between the two groups. In other words, if the sample owner-managers did not use outside services, it was not because they were uncomfortable doing so. The hypothesis to the effect that natural resistance is an obstacle to the use of public support agency services is therefore rejected.

*H<sub>2</sub>: Negative perceptions of public support agencies and their services will prevent owner-managers from using the agencies' services.*

Overall, the respondents thought business support agencies were useful (see Table 3), and only a third thought they were not very or not at all useful. On the other hand, there was a statistically significant difference between the means of the two groups concerning the perception of utility. On a scale of 1 to 5 (1=very useful and 5=not at all useful), the mean was 2.3 for the respondents who had used agency services in the past and 3.1 for those that had not.

Scale (1 to 5)	Total sample	SMEs who had used agency services in the past	SMEs who had <b>not</b> used agency services in the past
	(n=70)	(n=34)	(n=36)
Uncomfortable (1)	1.40%	0%	2.80%
Rather uncomfortable	15.70%	17.60%	13.90%
Neutral	14.30%	11.80%	16.70%
Fairly comfortable	30.00%	35.30%	27.80%
Very comfortable (5)	38.60%	35.30%	38.90%
	Sig. (2-tailed) <sup>a</sup>	Mean rank	Mean rank
Mann-Whitney U	0.912	35.76	35.25
<sup>a</sup> * $p < 0.10$ , ** $p < 0.05$ , *** $p < 0.01$			

More than half the respondents thought the services offered by public support agencies were not very or not at all suited to their needs. The results were somewhat more mitigated among the group that had previously used agency services; only 30% of this group felt the services were not very or not at all suited to their needs. This result is similar to that obtained by Borges *et al.* (2005) with a sample of small business owner-managers from Québec who had previously dealt with support agencies. Borges' sample was drawn from all the regions and cities of Québec, suggesting that the fact of being located in a remote region does not influence the owner-managers' perception of the appropriateness of the services offered and received.

**Table 3: Perceptions of Public Support Agency Utility**

Scale (1 to 5)	Total sample	SMEs who had used agency services in the past	SMEs who had <b>not</b> used agency services in the past
	(n=70)	(n=34)	(n=36)
Very useful (1)	17.10%	26.50%	2.80%
Useful (2)	37.10%	41.20%	13.90%
Somehow useful (3)	12.90%	14.70%	16.70%
Not very useful (4)	28.60%	14.70%	27.80%
Not useful (5)	4.30%	2.90%	38.90%
	Sig. (2-tailed) <sup>a</sup>	Mean rank	Mean rank
Mann-Whitney U	0.004***	45.23	28.86

<sup>a</sup> \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Interestingly, the negative perception of service suitability was much more marked among respondents who had never used a support agency, more than 80.6% of whom felt the services offered were not very or not at all suited to their needs. In other words, the respondents had a very poor opinion of the programs and services available in their region. The difference between the two groups was statistically significant (see Table 4).

Based on the above results, the hypothesis concerning negative perceptions about support agencies and their services being an obstacle to their use appears to be confirmed.

<b>Table 4: Owner-managers' Perceptions of the Fit Between Their Needs and the Services Offered by Support Agencies</b>			
Scale (1 to 5)	Total sample	SMEs who had used agency services in the past	SMEs who had <b>not</b> used agency services in the past
	(n=70)	(n=34)	(n=36)
Very good (1)	2.9%	5.9%	0%
Fairly good (2)	27.1%	41.2%	8.3%
Good (3)	14.3%	23.5%	11.1%
Not very good (4)	37.1%	23.5%	50.0%
Not good (5)	18.6%	5.9%	30.6%
	Sig. (2-tailed) <sup>a</sup>	Mean rank	Mean rank
Mann-Whitney U	0.000***	45.53	26.86

<sup>a</sup> \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

*H<sub>3</sub>: Lack of knowledge of the services available from public support agencies will prevent owner-managers from using those services.*

Table 5 shows that nearly 60% of the respondents who had never used a support agency knew very little or nothing at all about the agencies. In the sample as a whole, nearly half the respondents had very little knowledge about their region's support agencies. This is a surprisingly high percentage, given the fact that the Gaspé area is small, and in principle everyone knows everyone else, at least in the small business community. An internal verification by Canada Economic Development (EDC) regarding its Gaspé-Magdalen Islands Economic Support Program revealed that very few entrepreneurs were even aware that EDC had an office in Gaspé (2004). This tends to confirm our findings. However, not all the Gaspé region entrepreneurs were in this position; on the contrary, most of those who

had used support agency services in the past were fairly well informed about the agencies and their services. Given the statistically significant difference between the two groups, hypothesis  $H_3$  is confirmed. In other words, lack of knowledge will prevent owner-managers from using the available services.

Index (3 to 15)	Total sample	SMEs who had used agency services in the past	SMEs who had <b>not</b> used agency services in the past
	(n=70)	(n=34)	(n=36)
Mean	8.500		
Standard deviation	2.992		
	Sig. (2-tailed) <sup>a</sup>	Mean rank	Mean rank
Mann-Whitney U	0.001***	43.57	27.88
<sup>a</sup> * $p < 0.10$ , ** $p < 0.05$ , *** $p < 0.01$			

$H_4$ : *Women entrepreneurs will make more use of the services available from public support agencies than male entrepreneurs*

Our results show that contrary to our hypothesis, male entrepreneurs make more use of public support services than their female counterparts (see Table 6). This result confirms that of APCE (2001), which sampled men and women entrepreneurs in France, but runs counter to the bulk of the literature. In our sample, male entrepreneurs are also more aware of the programs available, which could explain why they use them more than women. Furthermore, they ask more for advice from family members and consultants. It is worth noting that there is no statistical difference between the perceptions held by male and female entrepreneurs with regard to public agencies, so it is not because women view agencies less favorably that they consult them less than men.

**Table 6: Differences between men and women**

Variable	Mann-Whitney U Sig. (2-tailed) <sup>a</sup>	Men Mean rank	Women Mean rank
	(n=70)	(n=49)	(n=21)
Use of accountant	0.616	36.27	33.71
Use of banker	0.989	35.52	35.45
Use of lawyer/notary	0.531	36.38	33.45
Use of family	0.049**	38.45	28.62
Use of clients	0.600	36.28	33.69
Use of suppliers	0.595	34.70	37.36
Use of consultant	0.002***	39.91	25.21
Use of public agencies	0.047**	38.43	28.67
General level of knowledge about public agencies	0.004***	40.07	24.83
Perceptions of fit between owner's needs and services offered by public agencies	0.419	36.73	32.62
Perceptions of public agencies usefulness	0.328	37.00	32.00

<sup>a</sup> \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## QUALITATIVE DATA AND DISCUSSION OF RESULTS

The qualitative data collected during the interviews and telephone survey can now be used to qualify our findings. We saw earlier that nearly one-third of the respondents surveyed thought the support agencies were not very or not at all useful. In the interviews, the factors most frequently mentioned to support this negative



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perception were the hierarchy-based structure of the agencies, the difficulty of deciding which agency to approach due to overlaps, program eligibility criteria that were too difficult to meet, and the time required to obtain a decision. Some respondents also felt the advisors working for the agencies were disconnected from the real world of small business. The clear preference expressed by some respondents for sources of support other than the government clearly confirms this negative perception.

As far as service utility is concerned, the respondents, rightly or wrongly, thought the services offered by support agencies were not relevant to their field of activity and were aimed mainly at start-up firms. The need mentioned most frequently was for business development support. Respondents also wanted easily accessible, efficient and fast services. Among the improvements proposed most frequently by respondents was the creation of a central agency or “single wicket” system. Other improvements included programs that were better suited to the situation prevailing in the regions, since current programs were perceived as being aimed at urban areas. Interestingly, these findings are consistent with the recommendations made by the Organisation for Economic Co-operation and Development (OECD) in its report on entrepreneurship and local economic development in its member countries (2003). Among other things, the OECD recommended (1) easy access to a single wicket where all the necessary documents and forms could be obtained during a single visit; (2) shorter waiting times and procedures for advisory services; (3) easy-to-understand contact directories and service guides; and (4) access to consultants with in-depth knowledge of the local community.

The question arises as to what needs government support services currently meet in the Gaspé region. In nearly 80% of cases, respondents had consulted agencies to request subsidies or financial assistance. Training ranked a distant second (see Table 7). When asked why they might eventually consider approaching a support agency, respondents who had never used agency services in the past said it would mainly be for financial assistance, although the percentage was significantly lower. This group was also much more interested in training and advisory services than the other group. In short, it would appear that the only services used to any extent by the region’s owner-managers at the present time are financing services. It is therefore hardly surprising that the agencies should be perceived as “subsidy providers” rather than as business development advisors. It seems likely that owner-managers wanting training or advice would not automatically think of approaching the region’s public support agencies.

Service used/required	Total sample	SMEs who had used agency services in the past	SMEs who had <b>not</b> used agency services in the past
	(n=70)	(n=34)	(n=36)
Financial assistance/subsidies	62.9%	79.4%	47.2%
Advisory services	10.0%	5.9%	13.9%
Training	12.9%	8.8%	16.7%
Other	14.3%	5.9%	22.2%
	Sig. <sup>a</sup>	Value	
$\Phi$ (Phi)	0.044**	0.340	
<sup>a</sup> * $p < 0.10$ , ** $p < 0.05$ , *** $p < 0.01$			

This focus on financial assistance may also explain why, in our sample, women business owners largely did not consult public agencies. They probably did so for the same reason some of them don't apply for credit from financial institutions: they don't have the need. This does not necessarily mean that women entrepreneurs do not want public support agencies' services or advice. In fact, many believe that services should be developed to meet the specific needs of women entrepreneurs. Recently, programs dedicated to women entrepreneurs have been developed, notably in the United States and Canada (L. Stevenson & Lundström, A., 2002). Orser and Riding (2006) recently estimated the results from an initiative of this type taken in 1995 by the federal government in Western Canada. The Women's Enterprise Initiative aims to encourage the development and growth of businesses run by women, notably using aid programs (advice, training) and financial support. Given the results achieved, the authors believe that this program helps make up for women's lack of experience, which may keep their businesses from growing as fast as those run by men. It is also noteworthy that the survival record of those businesses having benefited from these services was higher than that of similar businesses that did not receive such services. Although scientific studies measuring the effectiveness of women-specific programs are rare, it is nonetheless significant that in the two countries offering the most programs for women entrepreneurs, such businesses have shown the most growth in the last decade (L. Stevenson & Lundström, A., 2002).

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One of our hypotheses was concerned with target clients' knowledge of support agencies, and we also checked to see how the owner-managers had learned of the agencies' existence in their region. As Table 8 shows, they had mainly heard of the agencies in two ways, namely from acquaintances or through other personal means, or from the agencies' promotional initiatives (media, employees or solicitation). The vast majority of owner-managers had learned about the agencies through their own means, and this may perhaps explain why so many people had not heard of them. If owner-managers have to take steps to obtain information about the agencies, the chances are that many will simply not bother because they do not have the time. The Gaspé region's support agencies should therefore review their promotional and communication strategies, because the information is clearly not being circulated effectively. This problem does not appear to be unique to the Gaspé region. The above-mentioned OECD study (2003) found that many entrepreneurs in OECD member countries were unaware of the support services available to them. It highlighted the importance of good visibility for support agencies, since the large volume of support initiatives can be confusing. The study suggested using the local media to publicize the agencies and their programs, and also providing large numbers of access points in places likely to be used by businesspeople. In addition, other stakeholders working with entrepreneurs (e.g. bankers, lawyers, accountants, chamber of commerce representatives, etc.) should be encouraged to recommend public support services.

Another issue behind these results is SME owner-managers' perception of the added value of support. Is public support—despite its benefits in terms of long-term survivability (OSEO, 2006)—really indispensable to all entrepreneur profiles? We must give a qualified answer if we consider the results of Léger-Jarniou (2005) in her study of entrepreneurs who voluntarily refused any help and reported no regret at having done so. The author concludes that questions need to be raised about the support role and a much closer look must be taken at customized services based on the client segmentation principle. In short, individualization must become the norm (p. p. 14). Support would no doubt gain credibility if it truly took SME owner-manager profiles into consideration. An immigrant woman entrepreneur is not likely to have the same needs as a man with lengthy professional experience and a wide network of business contacts. In recent years, more and more voices have been critical of support that is so standardized that it benefits no one and have called for a more personalized, user-friendly approach. The crucial issue is one of allocating financial resources to this new kind of support while ensuring that advisors, who all

too often simply apply one-size-fits-all methodologies that leave little room for personalizing their recommendations, have the qualifications they require.

Information source	Total sample (n=70)	SMEs who had used agency services in the past (n=34)	SMEs who had <b>not</b> used agency services in the past (n=36)
Acquaintances	17.1%	23.5%	11.1%
Other personal means	42.9%	41.2%	44.5%
Solicitations	10.0%	11.8%	8.3%
Agency Employees	8.6%	5.9%	11.1%
Medias	21.4%	17.6%	25.00%
	Sig. <sup>a</sup>	Value	
$\Phi$ (Phi)	0.044**	0.340	

<sup>a</sup> \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## CONCLUSION

As this paper shows, there do appear to be certain barriers that prevent SME owner-managers from making maximum use of the public support services available in their region. The main barrier appears to be lack of knowledge about the agencies providing the services. On the one hand, many owner-managers do not seem to understand the utility or relevance of the services, while on the other they do not seem to know enough about the agencies working in the region. This study was not intended to judge the utility of the available services, and we are therefore unable to comment on the accuracy of these perceptions. Interestingly, however, most of the owner-managers who had used the agencies felt the services they had received were appropriate to their needs. At first glance, then, the problem appears to lie more with the perceptions of certain owner-managers than with the nature or quality of the services themselves.

We have also noted that women heading SMEs are more reticent than men to consult public support agencies, perhaps because they do not have financial needs, but perhaps also because they are afraid that the support will not meet their specific needs. If such is the case, public authorities must do more than simply advertise the available aid—they must first develop a support network that addresses the specific needs of women, or at least in Canada, extend existing services (such as the Women's Enterprise Initiative) to other parts of the country. Moreover, we must build on the experience of others, such as the United States (Langowitz, Sharpe, Godwyn, 2006) or the European Commission's ProWomEn network.

Steps are required to ensure that more small firms are eventually able to take advantages of government services. This will certainly improve their chances of survival, and may even stimulate their development. This is not to suggest that small business support services are sufficient, alone, to bring about a recovery in an economically disadvantaged region. On the contrary, we share the view of Lichtenstein and Lyons, who said that "entrepreneurs do not start businesses because services are available; services are demanded and used as the result of the existence of entrepreneurs. Although services are necessary, they are not sufficient to transform a region's economy into a dynamic force" (2001, p. p. 5). The challenge facing the public authorities is a sizeable one, but one that must be addressed.

Obviously, the research described here has its limitations. First, it does not include an objective assessment of the programs and services offered. Second, the opinions of support agency staff were not obtained. Third, the sample is limited to owner-managers in the Gaspé region of Québec (Canada), and it is therefore difficult to say how far its findings can be extended to small firms in general. However, the fact that the OECD's recommendations for small business support programs (2003) are consistent with our findings does suggest that the problem, while perhaps not universal, is one that extends beyond the Gaspé region. All these limitations constitute avenues for future research to complete the findings of this study.

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# **OPPORTUNITY RECOGNITION IN RURAL ENTREPRENEURSHIP IN DEVELOPING COUNTRIES**

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## **ABSTRACT**

*The Rural Poverty Report 2001 stressed the need to develop poverty-reduction policies and programs with a primary emphasize on rural areas. This paper promotes rural entrepreneurship development as an effective strategy in alleviating rural poverty in developing countries and summarizes some policy options that would be helpful in implementing rural entrepreneurship. We focus specifically on opportunity recognition, a key element in the entrepreneurial process, and introduce a model that emphasizes intellectual, human, environmental and socio-cultural resources and the mediating effect of national framework conditions. Since the concepts behind the model tend to be applicable across all settings, it is important to study this model at the general level and then draw implications for the other countries. By studying what influences recognizing opportunities in rural areas, it may be easier to offer assistance to developing countries..*

## **INTRODUCTION**

According to the 2001 Rural Poverty Report (RPV), 75% of the world's poor live and work in rural areas, and the majority will remain so for several decades (IFAD Rural Poverty Report, 2001; IFAD 2002). The International Fund for Agricultural Development (IFAD) stressed the need for developing poverty-reduction policies and programs with a primary emphasize on rural areas (IFAD Rural Poverty Report, 2001). Rural areas in developing countries are experiencing poverty and depopulation, are geographically more isolated, require

infrastructure and subsidies, and have a lack of structural and institutional factors (IFAD Rural Poverty Report, 2001). Various social, economic, political and ecological problems in rural areas in developing countries create challenges in employment and cause increasing migration towards cities, decreasing agricultural production and increasing food shortage.

A sustainable reduction in rural poverty necessitates the adaptation of further research and programs that help promote economic growth and development. Prior research indicates positive strong relationships among entrepreneurial activity, economic growth and poverty reduction (UN ICD Task Force, 2002).

Entrepreneurship is a vital component of productivity and growth (Baumol, 1993). The Organization for Economic Cooperation and Development (OECD) defines entrepreneurs as "essential agents of change who accelerate the generation, application and spread of innovative ideas and in doing so . . . not only ensure efficient use of resources, but also expand the boundaries of economic activities" (Reynolds, Hay & Camp, 1999, p.10). The Global Entrepreneurship Monitor (GEM) reported a strong positive correlation between the level of economic activity and overall economic performance (Zacharakis, Reynolds & Bygrave, 1999). GEM reported that as firm startup rates increased, growth in national GDP and the employment rate increased (Zacharakis, et al, 1999). Therefore, acting as radical market innovators, entrepreneurs play a number of critical roles in economic development (Schumpeter, 1934) and improve the economic condition.

GEM 2005 defined as low income, countries with per capita income less than US\$10,000; middle income, countries with per capita incomes between US\$10,000- US\$25,000); and high income, countries with per capita income more than US\$25,000 (Minniti, Allen & Langowitz, 2005). To date there are some high-level initiatives and projects underway in supporting entrepreneurial activity in developing countries (IFAD Rural Poverty Report, 2001; UN ICD Task Force, 2002). Although these efforts to foster entrepreneurial development were recorded effective in creating employment, many developing countries are still unable to provide an environment conducive to entrepreneurship (UN ICD Task Force, 2002). This is due to a number of barriers (e.g., the lack of economic, social and community development ) that hinder entrepreneurial talent in rural areas (Petrin, 1994).

Rural entrepreneurship occurs in economically and socially depressed areas with inadequate infrastructure, economic stagnation, low levels of education, low skilled workers, low income, and a culture not supportive of entrepreneurship (Kulawczuk, 1998). Fostering entrepreneurship is a crucial factor in energizing the

rural economy (Petrin & Gannon, 1997) in impoverished rural regions because entrepreneurship creates wealth and employment and has a profound impact on the quality of livelihood of rural populations (FAO Corporate Document Repository). If entrepreneurship is an important factor in reducing rural poverty, then it is rational to focus on the essential elements of entrepreneurship.

Opportunity recognition is a critical issue and a key element in entrepreneurship (Shane & Venkatraman, 2000). Yet a review of the prior research indicates that to date, opportunity recognition in rural entrepreneurship in developing countries is the most understudied topic in entrepreneurship research. Therefore it seems useful and timely to further study opportunity recognition in rural entrepreneurship in developing countries.

Based on prior empirical research and theories on opportunity recognition, we introduce a conceptual model that relates certain resources to opportunity recognition in rural areas: intellectual and human resources such as education, knowledge and training; environmental resources such as developing partnerships and access to cooperative rural development centers; and socio-cultural dimensions such as socio-cultural infrastructure. The model also suggests that effects of these variables on opportunity recognition in rural areas will be partially mediated by the national entrepreneurial framework conditions (the availability of financial resources, and the legal and regulatory infrastructure).

Since the concepts behind the framework tend to be applicable across all settings it is important to study this model at the general level, and then we are able to draw implications for other countries. Empirical tests are necessary in order to fully support the theoretical underpinnings in this paper; however, we think that by studying what influences individuals' abilities to recognize opportunities in rural areas, this paper may provide helpful insights into future entrepreneurship research and programs on the development of effective strategies in the improvement of self-sustained rural communities in developing countries.

## **THEORETICAL AND EMPIRICAL BACKGROUND**

Opportunity recognition is one of the most fundamental issues in entrepreneurship research (Kirzner, 1979; Venkatraman, 1997; Shane & Venkatraman, 2000). Most prior empirical research stems from evolutionary economics and takes two differing perspectives. One focuses on an active search for information in the external environment and the other emphasizes the role of

individual alertness in discovering opportunities. Creative destruction theory emphasizes that opportunities are not an accidental event, but an active search for information leading to the discovery of opportunities (Schumpeter, 1942). In other words, opportunities exist out there in the environment (Stevenson & Gumpert, 1985) and scanning the external environment for information leads to entrepreneurial opportunities (Kaish & Gilad, 1991). An entrepreneur focuses on the environment and develops an innovative process and finds a new combination of new products, production or organizational methods, markets, sources of input or market structures (Schumpeter, 1934) and brings innovations to the market and replaces outdated products or services and engages in creative destruction (Schumpeter, 1942). Therefore, an entrepreneurial opportunity is determined by the environment (McMullan & Long, 1990) and entrepreneurs identify opportunities by using different types of information about the environment where available (Busenitz & Barney, 1996).

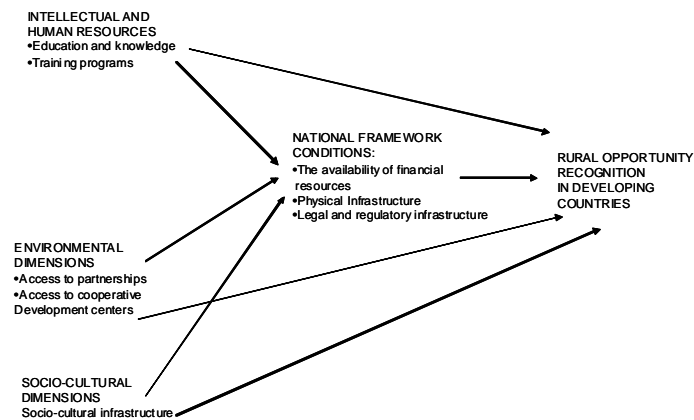
The other theory, the Austrian School of thought, regards opportunity recognition as the essence of entrepreneurial activity and suggests that in a competitive market knowledge is unevenly dispersed and only the individuals who possess specific information can judge its importance (Hayek, 1945; Kirzner, 1973). Therefore, certain individuals who are good at marshalling resources are better at recognizing opportunities for viable new ventures (Timmons, 1999).

Prior studies suggested that opportunity recognition is a joint function of an individual and the external environment (Singh, 2000). Entrepreneurs' interactions with the environment shape the evolution of ideas (Vesper, 1990; De Koning, 1999; Shane & Ventakaraman; 2000). In other words, personal, interpersonal and societal factors play the main role in entrepreneurial opportunity recognition (Baron, 2003). Opportunity recognition is a process influenced by many contextual factors in the external environment (Long & McMullan, 1984; Gaglio & Taub, 1992; Singh, 1998), most importantly the availability of resources (Timmons, 1994); the creative attributes of an individual (Hills et al., 1999), such as cognitive skills (Baron, 1998; De Koning, 1999); and prior knowledge of a particular field (Shane, 2000).

Based on prior empirical research and theories that combine the role of an individual with the external environment in the recognition of opportunities, we propose a conceptual model for opportunity recognition in rural entrepreneurship in developing countries. The model suggests that intellectual and human capital (education and knowledge and training programs) and environmental conditions (access to partnerships and cooperative rural development centers) play a key role in recognizing opportunities for viable new ventures in rural regions. We propose

that the extent to which the entrepreneur is exposed to these variables is positively related to the likelihood of discovering entrepreneurial opportunities in rural regions. The model also suggests that effects of these variables on opportunity recognition in rural areas will be partially mediated by the national entrepreneurial framework conditions (i.e., the availability of financial resources for new firms in rural areas and physical, legal and regulatory infrastructure development).

**FIGURE 1**  
**THE MODEL OF RURAL OPPORTUNITY RECOGNITION IN DEVELOPING COUNTRIES**



### **INTELLECTUAL AND HUMAN CAPITAL**

Intellectual and human capital involves the knowledge, education and training of the entrepreneur.

#### **Education and Knowledge**

The role of education is central in identifying, assimilating and absorbing new knowledge (Knudsen, Dalum, & Villumsen, 2001). Formal education may

provide prior mental programming which is positively correlated with venture start-up success (Vesper, 1990). Knowledge and experience play an important role in identifying opportunities. (Cohen & Levinthal, 1990; Shepherd & DeTienne, 2001). To identify an idea and recognize an opportunity in a specific field, one must be knowledgeable about the domain and have a solid understanding of the knowledge base.

Improving education is a critical issue in achieving sustainable rural development. The quality of education and access to education are much lower in the rural regions. For instance, FAO/UNESCO (2002) reported that education and training is the most critical factor in the rural development strategies in developing countries in Asia. Promoting education is essential in the development of human capacity and improving community building in rural areas. Education improves not only individual incomes and wages but also participation in the labor market and economy (Sphor, 2002). The low educational rural profile is one of the main contributors to the growing rate of economic and social differences and the disparity of income between urban and rural regions. Education helps increase the quality of human capital that is an essential part of an entrepreneurial society (Florida, 2002). Investment in skilled people and human capital development (Malecki, 1997) and training the local community to participate in entrepreneurial activities are a crucial part of rural development (Petrin & Gannon, 1997). Empowering and informing people through education increases the level and quality of human capital and also increases the quality of workforce development (Petrin & Gannon, 1997). Educating rural residents who catalyze local resources to establish ventures in the rural areas improves the livelihood of the rural poor.

Since education is important in rural development and entrepreneurship, we suggest that educating the rural community about basics of entrepreneurship and guiding them through providing their own sources of revenue can help increase opportunity recognition in rural areas. This leads to Proposition #1: The greater the extent to which rural entrepreneurs are educated in the entrepreneurial process, the more likely they will be to discover opportunities for new ventures in rural areas in developing countries.

### **Training Programs**

Training programs and previous learning create knowledge and shape individuals' mental frameworks, which then influence their perceptions of the external world (Baron, 2003). Prior knowledge plays an important role in

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recognizing opportunities (Shane, 2000), and individuals with a background in a certain industry may recognize more entrepreneurial opportunities in that industry than those who have less background in the industry. Knowledge, information, and skills obtained from prior training in a certain industry could create a knowledge corridor and help individuals identify opportunities relevant to their knowledge (Hayek, 1945; Shane, 2000).

The availability of training programs that support aspiring and practicing entrepreneurs not only provides skills and knowledge, but also encouragement towards creating new ventures (Zacharakis, et. al, 1999). In low income countries access to such training programs are more limited and volatile than that of the developed economies because of the lack of considerable on-going investment. In fact, increasing government initiatives on such training programs in rural areas will play an important role in increasing the prevalence rates of entrepreneurial activity. Entrepreneurial programs are a source of creativity, innovation and new knowledge (Zacharakis, et.al. 1999) that are closely linked to the entrepreneurial opportunity recognition process. Entrepreneurial education programs stimulate entrepreneurial activities (Hatten & Ruhland, 1995) and encourage the development of entrepreneurial ideas and mind set.

Training programs that involve rural entrepreneurship development may target either agricultural or nonagricultural sectors in the rural areas. Agriculture is the largest segment of the private sector and the major source of livelihood in most developing countries (CIDA). For instance, 43% of the total population of Romania lives in rural areas, and 40% of the total population are employed in the agricultural sector (Aligicia, Leeson, & Coyne, 2003). To understand the importance of these percentages, one must remember that the agricultural sector accounts for 27.3% of the foreign exchange of a developing country, and 34% of the least developed country (Priyadarshi, 2002). Furthermore, the variety of developmental problems in rural areas creates low efficiency, unemployment and decreases in agricultural production (UNDP, 2003). For instance, in Bulgaria the agricultural output from rural areas diminished from 18.8% in 1998 to 12.5% in 2002 (UNDP, 2003). The continued increase in population will also increase the need for food in developing countries. Therefore, even an incremental improvement in agricultural employment and agricultural productivity will raise the socio-economic conditions of the rural residents in a developing country (Priyadarshi, 2002).

The training in agricultural sectors may target the application of suitable agricultural technologies and methods (Lohmoller, 1990). Hence, training farmers on various production strategies and agricultural techniques promotes the

development of agricultural products and their processing and may lead more entrepreneurs to recognize opportunities in rural regions (Lohmoller, 1990). Rejuvenating rural regions through agricultural enterprises plays a crucial role in the growth of rural economies.

Training in non-agricultural sectors will also teach rural residents various ways to diversify and develop other business areas and help them to increase their options in entrepreneurship (Petrin, 1997). The availability of technical knowledge or training is an integral part of rural development. Assisting rural people needing training and offering advice to start or develop small businesses will stimulate rural development (Petrin, 1997) and encourage recognizing opportunities for viable new ventures.

Training programs dealing with both the agricultural and non-agricultural sectors will help support the development and sustainability of business ideas and fuel entrepreneurial aspirations. This leads directly to Proposition #2: The greater the extent to which rural entrepreneurs receive training related to agricultural and/or non-agricultural sectors, the more likely they will discover opportunities for new ventures in rural areas in developing countries.

## **ENVIRONMENTAL DIMENSIONS**

Scanning the external environment for information leads to entrepreneurial opportunities (Kaish & Gilad, 1991). Therefore, entrepreneurs identify opportunities by analyzing the environment (Busenitz & Barney, 1996). As entrepreneurs analyze the environment they may identify innovative services, products or processes to meet the needs of the rural community and identify useful information that leads to recognition of opportunities for viable new ventures in rural areas. In our model, environmental dimensions involve developing partnerships and access to cooperative rural development centers.

### **Access to Partnerships**

Social networking plays an important role in opportunity recognition (Singh, 2000). According to social network theory, entrepreneurs' social ties influence their recognition of entrepreneurial opportunities and entrepreneurial pursuits. Hills et al. (1997) found that entrepreneurs who used social network sources to get information on new venture ideas identified significantly more



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opportunities than those who did not use social network sources. Social network contacts allow individuals to gather information from a wide range of individuals, leading them to gather and evaluate many new ideas (Hills et al., 1997). Networks play a key role in linking entrepreneurs with resources and recognition of opportunities (Sexton & Bowman-Upton, 1991). Social networking provides potential entrepreneurs access to critical resources by enlarging the knowledge base that leads them to pursue a set of ideas (Sapienza, Manigart, & Vermeir, 1996; Floyd & Woolridge, 1999).

The development of a rural entrepreneurial support system necessitates creating a supportive environment, or social networking, to flourish in an entrepreneurial climate through building partnerships (RUPRI). Developing partnerships includes the coordinated efforts of central government, local governments, municipalities, academies and non-governmental organizations to help spur the entrepreneurial activity of that region (Kulawczuk, 1998). For instance, the United Nations Development Programme (UNDP, 2005) for Turkey's poverty eradication and rural development projects during 2000-2004 included building and sustaining innovative partnerships of the government, civil society, multinational corporations and multilateral organizations. Partnership with institutions, academies and various organizations encourage rural community development and strengthen institutional support structures and well-built relations between the government and the private sector in new enterprise development in rural provinces. Facilitating the growth of strategic development alliances, community partnerships and networking build entrepreneurial capacity in a particular rural area more quickly. For instance, partnerships initiate various projects emphasizing development of businesses and rural communities. These projects help to identify the intrinsic characteristics of the area, and to assess local inefficiencies, capacity building capabilities, potential and possibilities for the region to install the entrepreneurial vision. Developing partnerships increase outreach and economic development and are beneficial to rural communities in adopting new business methods in rural areas and increase the likelihood of recognizing opportunities. This leads to the next proposition, Proposition 3: The extent to which entrepreneurs have access to partnerships, the more likely they are to discover opportunities in rural regions in developing countries.

### **Cooperative Rural Development Centers**

Rural entrepreneurial development requires improvement of support structures (Petrin & Gannon, 1997) to provide business counseling, assistance, a healthy entrepreneurial environment, and the establishment of an entrepreneurial culture within the community (CRE, 2002). Cooperative rural development centers mentor and assist in the development of new venture concepts; advise on the assessment of new ventures; and provide technical assistance and counseling for small businesses in rural areas. These centers form a mentoring program with other successful entrepreneurs and provide forums for rural entrepreneurs to work with other entrepreneurs to explore new opportunities.

Mentoring relationships play a significant role in entrepreneurial pursuits (Bruyat & Julien, 2001). Mentors provide perspectives that broaden potential entrepreneurs' perception of opportunities (Kuratko & Welsch, 2001). They also provide advice, guidance, knowledge and coaching in managerial and industry specific areas of the business (Boyd & Vozikis, 1994). Therefore, as entrepreneurs receive advice, knowledge and guidance from the cooperative rural development centers and engage in mentoring program through these centers, the likelihood of recognizing opportunities increase. This leads to Proposition 4: The extent to which entrepreneurs receive advice, knowledge and guidance from the cooperative rural development centers is positively related to their discoveries of opportunities in rural regions in developing countries.

## **SOCIO-CULTURAL INFRASTRUCTURE**

### **Socio-Cultural Infrastructure**

Redding (1980) pointed out that while the global entrepreneurial profile shares some universal traits, other traits might be more culture specific. Cultural values may play a role in the extent of entrepreneurial activity in a country (Bygrave & Minniti, 2000). For instance, the strength of the support infrastructure in developed economies may positively impact the public attitude toward entrepreneurship, whereas intractable infrastructure problems and the lack of institutions that support a market economy may negatively impact the public attitude toward entrepreneurship in developing economies. For instance low certainty avoidance and individualistic cultures appear to be more supportive of entrepreneurs

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than other type of cultures (Mueller & Thomas, 2001). Cultural traits influence the structure of the society (Abetti, 1999) and influence business development. Societies that value entrepreneurship and innovativeness instill effective societal systems promoting opportunity driven entrepreneurship (Vesper, 1983). For example, local banks will develop expertise for entrepreneurial loan applications (Kuratko & Hodgetts, 1992) and be more receptive to risk-taking attitudes and providing credits. In other words, the strength of the socio-cultural infrastructure of the area plays a crucial role in encouraging entrepreneurship, celebrating innovation and facilitating opportunity recognition for new ventures. Innovation is the driving factor of opportunity recognition in entrepreneurship (Drucker, 1985). Some rural areas in developing countries face socio-cultural obstacles, such as fear of failure, negative public attitude toward creativity and innovation, a sense of isolation, resistance to change in a society or a lack of feedback. This poses unique challenges in recognition of opportunities in rural areas and discourages individuals from starting new ventures. This leads to Proposition 5: The strength of the socio-cultural infrastructure is positively related to the discovery of opportunities in rural regions in developing countries.

### **THE MEDIATING EFFECT OF THE NATIONAL ENTREPRENEURIAL FRAMEWORK CONDITIONS**

The Global Entrepreneurship Monitor Report (1999) revealed that national entrepreneurial framework conditions support entrepreneurial activity in the United States (Zacharakis et al., 1999). The availability of financial resources for new firms and the strength of infrastructure were found to be highly correlated with the level of entrepreneurial activity across countries (Zacharakis et. al., 1999). Including these variables in the model allows us to draw implications for other developing countries since the concepts underlying the model tend to be applicable across all settings.

#### **Availability of Financial Resources**

Promoting rural entrepreneurship requires financial resources such as funds for loans, sizeable investment and technical assistance for micro enterprises (Kulawczuk, 1998). For instance, the credit unions, service cooperatives and communal enterprises all played a major role in improving the access to credit and financing the creation of the support infrastructure for rural entrepreneurial

development in the Ukraine between 2001-2005 (ISMEE, 2005). In this paper, the availability of financial resources specifically refers to low interest government loans, credit counseling and technical assistance to rural entrepreneurs in starting new ventures. GEM (1999) stated that financial support may play a role in observing opportunities and creating motivation for individuals to exploit opportunities. Therefore, it is rational to assume that increasing funds and loans for rural regions enables the continuation of production and helps rural residents start and grow their businesses. Business financing encourages and supports rural entrepreneurs and micro-business development, and is valuable in attracting skilled labor in rural areas. This leads to the next proposition, Proposition 6: The greater the extent to which rural entrepreneurs have access to business financing, the more likely they will discover opportunities for new ventures in rural areas in developing countries.

### **Physical Infrastructure**

The strength of infrastructure development plays a crucial role in rural entrepreneurship development (FAO documents, 1997). Commercial and professional infrastructure development is highly correlated with the level of entrepreneurial activity across different countries (Zacharakis et al., 1999). In this paper, infrastructure development refers specifically to developing and sustaining appropriate infrastructures in rural areas. Previous research found that if there was a specific need in the community, spending on infrastructure improvements were beneficial in encouraging entrepreneurship (Bruinsma, Nijkamp, & Rietwald, 1992; Van de Ven, 1993). Basic infrastructure development is necessary for any entrepreneurial venture.

Rural regions of developing countries need construction and maintenance of rural infrastructure such as land improvement, improving irrigated areas and the water supply (IFAD Rural Poverty Report, 2001). Low levels of social and physical infrastructure in rural areas (IFAD Rural Poverty Report, 2001) hinder access to credit, input and technology and information about markets, and thereby constrain entrepreneurial development. The World Bank has found that underinvestment in infrastructure created challenges in rural development in Asia (World Bank, 1999). It is not surprising then that in India, investment in rural infrastructure is a priority due to the increasing economic development gap between rural and urban areas (World Bank Group, 2006).

The strength of infrastructure in an area affects capacity building capabilities, reduces socio-economic barriers and increases potential and

possibilities for the region (Zacharakis et al., 1999). Therefore, spending on infrastructure development in rural regions leads to a change in the industry structure thus creating a new demand and supply curve for new ideas and resources, which in turn impacts the availability of opportunities. This leads to the next proposition. Proposition 7: The extent to which entrepreneurs have access to rural infrastructure development, the more likely they are to discover opportunities in rural regions in developing countries.

### **Legal and Regulatory Infrastructure**

Government policies and programs may play a role in the success rate of new ventures (Zacharakis et al., 1999). Government policies and programs impact the legal and regulatory infrastructure of rural areas and thereby contribute to the prevalence rate of rural entrepreneurial activity. Insufficient funding for the legal and regulatory infrastructure in rural areas may mitigate access to subsidies, initiatives and legal services, and thereby creates barriers in starting new ventures and hinders seizing opportunities in rural regions. In this case, the legal and regulatory infrastructure of a country plays a role in allowing the vicious cycle of poverty to continue. It is this cycle characterized by low levels of income, savings, investment, productivity and capital that elongate the low income nations' state of underdevelopment. Heavy regulations may also distort market information on supply and demand conditions and inhibit entrepreneurial behavior. In some countries obtaining a business license may involve strict regulations and heavy bureaucratic rules. As a result, heavy regulations, such as government bureaucracy, and corporate governance requirements may create confusion and uncertainty and may fail to promote and/or discourage certain individuals from starting a business. A heavy regulated banking sector may hinder access to credit for new venture start-ups or for the seed funding necessary to start a business or for raising investment capital. Therefore, numerous regulations may discourage access to markets, capacity building and decrease the potential of the region, which in turn impacts the availability of opportunities for new ventures in rural areas. Baumol (1993, p.2) argued that "the speed of dissemination of new ideas is not a matter of happenstance, but is heavily influenced by market forces acting through the agency of entrepreneur". We assume that the legal and regulatory infrastructure play an important role in seizing opportunities and the prevalence rate of entrepreneurial activity in rural areas. Therefore Proposition 8: The legal and regulatory

infrastructure development impacts the rural entrepreneurial opportunity recognition.

As noted above, GEM (1999) stated that certain dimensions of the national framework have an impact on the level of entrepreneurial activity in a country (Zacharakis et al., 1999). In other words, the level of national framework conditions can facilitate the growth of an entrepreneurial sector in a country. Since basic infrastructure development (Fox, 1999,) availability of financing (Kulawczuk, 1998) and legal infrastructure development all play an important role in starting up an entrepreneurial venture, it is assumed that a country's rate of the development of the national framework conditions may be a dominant link between a variety of other social, intellectual and environmental dimensions and rural opportunity recognition in a country. As each developing country has a different level of national entrepreneurial framework conditions, it is suggested that the impact of intellectual, human, environmental and socio-cultural resources on opportunity recognition is partially mediated by the national entrepreneurial framework conditions. Hence, the following three propositions:

Proposition 9:                   The effects of intellectual, human, environmental and socio-cultural resources on opportunity recognition in rural areas are partially mediated by the availability of financial resources in a particular country.

Proposition 10:                The effects of intellectual, human, environmental and socio-cultural resources on opportunity recognition in rural areas are partially mediated by the physical infrastructure development of a particular country.

Proposition 11:                The effects of intellectual, human, environmental and socio-cultural resources on opportunity recognition in rural areas are partially mediated by the legal and regulatory infrastructure development of a particular country.

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## SUGGESTIONS FOR METHODOLOGY

Working closely with the Statistical Office, Minister of Agriculture, and other relevant institutions, such as rural community-based organizations and micro-credit associations, entrepreneurs in the *rural areas* in developing countries could be assessed. A series of telephone interviews and on site visits are two of the suggested methodologies to conduct the research. Rural areas refer to geographic areas outside of statistical metropolitan areas and *rural entrepreneurs* are founders or co-founders who create and grow enterprises in these rural areas. The survey would be comprised at both quantitative and qualitative components and would include both rural entrepreneurs' self reports and the researchers' assessments of the environmental conditions (i.e. national entrepreneurial frameworks conditions) of the rural areas in developing countries.

The measure of *physical infrastructure* of rural areas could include quantitative indicators, such as absolute investment levels and government investment on infrastructure on power, water and road relative to share of rural to national economic activity and qualitative indicators, such as problems with electricity, delays in obtaining connection, etc. The measure of the *availability of financial capital* could include indicators such as availability of credit for new firms, capital subsidies calculated from data on lending policies of credit institutions. The measure of *legal and regulatory infrastructure* could include quantitative indicators, such as net subsidy or reductions in tax in new start-ups in rural areas, and qualitative indicators such as barriers to business activity due to poor law enforcement, the efficiency of the legal institutions. The measure of *socio-cultural infrastructure* could include qualitative indicators such as entrepreneurs' self-perception of social attitudes and norms toward entrepreneurship. The measure of *access to partnerships* could include the availability of government and/or academy rural development programs/projects designed to support start-ups in rural areas. The measure of *training programs* could include the availability and access to training programs on agricultural and non-agricultural sectors that support aspiring and practicing entrepreneurs. The measure of *education and knowledge* could include such indicators as the government investment in education and availability of schools in the rural areas. The measure of *cooperative rural development centers* could include access to technical and business assistance, counseling and mentoring services from the rural community based organizations.

Structural Equation Modeling Analysis is suggested to analyze the data as it is a reliable straightforward method of dealing with multiple and interrelated

dependence relationships simultaneously while providing statistical efficiency (Hair, 1998).

### **FURTHER THOUGHTS FOR FUTURE ENTREPRENEURSHIP RESEARCH**

Initiating rural entrepreneurship is a multidimensional strategy that involves education, training, business/support networks and building strong infrastructures to assist rural entrepreneurs in identifying rural business opportunities and develop new businesses. Strengthening the rural entrepreneurial system will speed up the establishment of self-sustained rural communities, increase sources of income, support development of infrastructure, build capacity, revitalize the rural community, and make a significant impact in alleviating poverty. Therefore, what is needed is further entrepreneurship research in developing countries that help to create policies conducive for rural entrepreneurship development.

The ideas presented in this paper are a step towards future entrepreneurship research in rural areas. We propose further empirical investigation of the conceptual model presented in this paper. Overall, opportunity recognition in rural entrepreneurship is a complex issue and requires more future entrepreneurship research and the development of policy initiatives.

Below we suggest specific key public policy initiatives supporting entrepreneurship and small business development in rural regions. These policies address issues that respond to lack of education and training, increasing subsidies to maintain services, improving community business climates, increasing business support services, creating networking opportunities, providing technical assistance and building adequate infrastructures. To provide some insights towards future research the policy options that stimulate and support rural entrepreneurship can be summarized below. It should be noted however, that the importance of these policy options may vary depending on the results of future empirical research. Therefore, current suggestions for policy options should be addressed with caution.

1. Promote rural entrepreneurial structuring mechanisms and an entrepreneurial culture to attract resources for the development of entrepreneurship in rural areas.



2. Create a collaborative approach and integrate partnerships among universities, governmental and nongovernmental organizations to enhance rural entrepreneurial mechanisms.
3. Implement special legislation for local governments to develop entrepreneurship in rural areas.
4. Support education and business training, technical assistance, and strategic planning strategies to increase the level and growth of human capital in the rural regions.
5. Promote the formation of small business development centers to support entrepreneurship in rural areas and lead to rural revitalization.
6. Invest in the construction and renewal of infrastructure systems and provide social amenities to facilitate rural entrepreneurship development.
7. Encourage the development of venture capital investments in rural enterprises to allow venture capital investment companies to leverage private capital funds with government financial assistance and to obtain both government and private grant resources.
8. Form strategic development alliances.
9. Encourage research and increased collaborations between rural and urban areas.

10. Facilitate the identification and dissemination of rural community capacity building resources to speed up implementing cost efficient programs appropriate for that rural region and increase the quality of work to reduce poverty.
  
11. Develop social investment funds by financing and supporting small business development.

Further, when considering the possible mediating effect of the national entrepreneurial framework conditions between intellectual and human resources and environmental dimensions and opportunity recognition, it maybe helpful to consider business financing issues for the public policy initiatives. Some examples are:

1. Offer incentives to attract initiatives to rural areas
  
2. Improve tax structures and incentive packages, address tax concessions in certain areas and tax relief for small business owners
  
3. Address capital financing, access to venture capital, access to debt and equity capital

### **CONCLUSION**

Prior research on opportunity recognition focused on ventures in urban areas in developed and industrialized countries. The environment of rural regions in developing countries is much different (IFAD Report, p.29) than that of the developed and industrialized countries where infrastructure and skilled workforce are available and the culture is more supportive. Therefore further opportunity

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recognition studies on rural entrepreneurship in developing countries will be both timely and worthwhile.

Overall, strengthening the rural entrepreneurial system will speed up the establishment of self-sustained rural communities (ARC, 2001) and sustainable livelihoods in poor regions. Investing in the establishment of an entrepreneurial economy and the development of an entrepreneurial culture in rural areas will play a key factor in improving rural regions and alleviating rural poverty in developing countries. The conceptual model presented here is only a step towards understanding opportunity recognition in rural regions. We hope that the ideas suggested here may provide insights for the future entrepreneurship research in promoting rural entrepreneurship and development of public policy initiatives.

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**THE RELEVANCE OF TRANSITION  
TO FREE MARKET, ATTITUDE  
TOWARDS MONEY, LOCUS OF  
CONTROL, AND ATTITUDE  
TOWARDS RISK TO  
ENTREPRENEURS:  
A CROSS-CULTURAL  
EMPIRICAL COMPARISON**

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**ABSTRACT**

*This paper compares an emerging market (Egypt) with a developed market (U.S.A.) in terms of their impact on entrepreneurial characteristics and behavior. The differences are discussed along the dimensions of transition to free market, money and its cultural meanings, locus of control, and attitude towards risk. A number of hypotheses are tested using a sample of MBA students from Egypt (n = 214) and the USA (n = 112). The result with its implication is discussed.*

**INTRODUCTION**

This paper compares a less development country (LDC) on a transition stage to free market (Egypt) with a development country (DC) (U.S.A.) in terms of their impact on entrepreneurial characteristic and behavior. In order to stimulate economic growth and employment, entrepreneurial traits and activities are often encouraged by countries in terms of creating appropriate environment and market conditions which may enhance the rate of entrepreneurship (see for example, Farid, 2007, for more discussion on this issue). Research support the notion that national entrepreneurial characteristics and entrepreneurial opportunities are stimulated by multiplicity of cultural and environmental factors (e.g., Hayton et al, 2002). The American-Egyptian entrepreneurial differences are discussed in this paper along the

dimensions of transition to free Market, attitude towards money, locus of control and attitude towards risk. The next sections discuss these themes. Hypotheses, to be tested later, are introduced throughout the discussion.

## **TRANSITION TO FREE MARKET**

### **Factor of Market Liberation**

To understand dynamic environmental changes which are occurring especially in transition economies, studies use leading theories of Institutional Development Theory (IT) and Resource- Based Theory (RBT) ( Wright et al, 2005). From the IT perspective (North, 1990), successful transformation to free market requires positive changes in political, economic, social, and governmental institutions. Traditional IT international research suggests that these entities play major role in developing new business in emerging economies (e.g., Hoskisson et al, 2001). For example, successful transition requires greater government openness and accountability and changes in power relations and cultural conditions to enable individuals to see and use market, economic, and financial opportunities. The emerging economy in Egypt is engaging government, communities, bureaucrats, and market and is supported by a number of international (e.g., World Bank) and intergovernmental and international NGOs as agencies for change. Still, the market is lacking strong market institutions, access to technological inputs, and property right, among others (e.g., Fattah & Butterfield, 2006).

The RBT perspective (Barney et al, 2001) is concerned with how environmental tangible and intangible resources and capabilities, including human capital and organizational knowledge and learning, provide for hospitable environmental conditions that stimulate entrepreneurial characteristics and behavior. Elyachar (2006) notes that micro-enterprise lending and other projects intended to promote small business in Egypt have not been effective.

In addition, transition to free market should provide for more transparency, including greater disclosure, or that government, institutions, and market resources become visible and explicit so that individuals can see through and get access to resources and opportunities. While there is a general trend of increasing demands for transparency in most Western countries, mechanisms for ensuring government transparency and accountability have yet to become established in the Arab region (Sakr, 2003). Nelson (2000) and Elyachar (2002) note that international NGOs are exerting influence on the World Bank to emphasize transparency issues of micro-

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credit lending, human rights, gender, and corruption. The lack of free market institutional environment in Egypt has resulted in lack of reporting and transparency of corporate economic and social performance (e.g., The Arab World Online Transparency Index 2007: <http://www.ameinfo.com>).

The above discussed issues are believed to be important to entrepreneurship. Greater transparency stimulates entrepreneurship and the creation of new business because it reduces uncertainty and enhances risk taking and empowerment.

### **Factor of Islam**

While Egypt is a secular society, the emerging Egyptian market represents a response to simultaneous pressures from forces of market liberation and of Islam (Farid, 2007). The ideologies of free market and Islam seem to complement each other on some aspects while to be in conflict with each other on some other aspects. For example, researchers who apply the World Values Survey (WVC) to Islamic countries (e.g., Tessler, 2002) find that Islamic beliefs are not incompatible with the concept of free market. This literature shows that free market and democracy has not taken place in many Muslim countries due to resistance of economic and political change by bureaucrats and those who are in power and that there is vested interest in the existing political, economic and social systems. For example, Elyachar (2005) notes that State of Emergency laws have been used in Egypt and Syria for decades.

On the other hand, Vogel & Hayes (1998) note that Islamic law “Share’a” challenges Western commercial laws in two key respects: “...first, it challenges the presumption that modern commercial mores are per se more efficient or otherwise superior; and second, it challenges the secular separation of commerce from consideration of religion and piety” (p.19). While it is beyond the scope of the current paper, it is also important to know how Islamic-oriented financial organizations (e.g., banks and investment firms) can preserve and thrive even when environmental factors are challenging. It is interesting to know that there are several Islamic financial products that have been introduced to cater to Muslims. Example of American market instruments include the Dow Jones Islamic Index and HSBC Bank USA and Devon Bank’s financing programs that are geared towards Muslims (Thomas, 2006)

The above discussion of the market and resource conditions seems to indicate that entrepreneurs’ traits and behavior may be less encouraged and

practiced in the Egyptian society than in the American society. Therefore, it is expected that Egyptians will show less entrepreneurial traits than Americans.

*H1: It is expected that the Egyptian MBA students (less environmental conditions that encourage entrepreneurial activities) will assign lower scores to entrepreneurial traits than the American MBA students (more environmental conditions that encourage entrepreneurial activities).*

### **MONEY AND ITS CULTURAL MEANINGS**

Attitude towards money should be relevant to understand different individual entrepreneurs' perspectives towards issues like roles of money in providing autonomy and freedom of choices and its symbolic meaning of achievement. Research on money values has proposed many facets of individuals' attitudes towards money. Money is both good as a symbol/terminal value and as a means/instrumental value in that individuals associate money with power and status, feelings of happiness, wealth and respect from others, and achievement and success within the society (Farid, 2007). Money is morally good because it brings opportunity and autonomy and conversely, money is also thought to be the roots of all evil (Tang, 1995) and is related negatively to subjective well-being (quality of life or satisfaction) (Sirgy, 1998). Differences in the value of money have been explained by differences in values and culture and personal motivation (Srivastava et al, 2001).

The focus of this research will be on the money's value facets that are incorporated in the Measurement of Money Importance Scale (MIS) ( Mitchell et al, 1998) and Money Ethic Scale (MES) (Tang, 1995) as they are used to collect data in the current research. The following discussion will incorporate factors that are believed to influence attitudes toward money.

Egyptians are expected to value money, but money is not seen by them as having a value by itself. Yasin et al (1989) studied the differences between American and Middle-East culture with regard to motivation and conclude that while the former tends to be achievement and power oriented, the later tends to be affiliation oriented. People from Egypt and Arab cultures are encouraged to maintain a high level of cooperation and cohesion with the work group rather than compete against each other in a work setting (Farah & Al-Salem, 1980). Collectivism is stressed more in Egypt than individualism. Therefore,

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*H2: It is expected that Egyptian MBA students will assign lower scores to those entrepreneurship-related dimensions of money value (in money value measurements) (such as money is achievement, opportunity, autonomy) than American MBA students.*

Diener and Oishi (2002) argue that we should understand the value people in different cultures place on materialism (material life is considered to be highly salient relative to other life domain: Sirgy, 1998) since this is likely to affect the role of money. While everyday ethics are common in the broad culture, in which altruism and selflessness are fundamental elements, self maximizing is expected to be predominant in high materialistic societies. The U.S. is a modern consumer society, and as such it has witnessed a greater emphasis on material possession with a view to enhancing one's social status (Furnham and Argyle, 1998).

The concepts of "greed is good" and "self maximizing" as postulated by Adam Smith (1937) are discouraged in Egypt. Individuals in Muslim societies seek satisfactory profits. Due to culture differences, it is safe to assume that the American society is more materialistic and more advanced consumption than the Egyptian society. It is expected that Egyptians are less attached to material and worldly possessions and accumulation than Americans. Therefore,

*H3: It is expected that the Egyptian MBA students (low materialistic) will assign lower scores to obsession with Money's items (in money value measurements) (such as money is valued very highly and day dreaming about being rich) than the American MBA students (high materialistic).*

In addition, Egyptian culture emphasizes equilibrium between work and personal life and between spiritual and material aspects of life (Elkhouly and Buda, 1997) and it is believed that entrepreneurs are expected to maintain a balance between the desire for profit and the obligation to serve the society (Ali & Wahabi, 1995). This equilibrium also explains and is related to attitude towards materialism. It is felt that Egyptians will express less involvement in money issues such as time thinking about and knowledge of financial affairs than Americans. Therefore,

*H4: It is expected that the Egyptian MBA students will assign lower scores to personal involvement in financial affairs*

*items (in money value measurements) (such as time spent with money issues) than the American MBA students*

### **LOCUS OF CONTROL**

Egyptian culture promotes both internal and external locus of control. A Muslim, for example, can change him/herself (internal) in terms of intention, values, and behavior but the outcome (external) may or may not be under his/her control. "Verily never will God change the condition of a people until they change it themselves" (Qur'an, 13: 11-13). However it is felt that due to the political and economic environment, Egyptians are not expected to express feeling of internal locus of control similar to American, in that Egyptians will score lower in internal locus of control. Therefore,

*H5: It is expected that the Egyptian MBA students will assign lower scores to internal locus of control items (in money value measurements) than American MBA students.*

### **ATTITUDE TOWARDS RISK**

While Islamic financial principles encourage investment rather than leaving money idle, Vogel & Hayes, III, (1998) note that Muslim investors and capital users, in general, are naturally prone to risk aversion, preferring liquidity and valuing cash that comes to them sooner than later (p.200).

Another issue is the Islamic view of managing risk. In Islam, money is not treated as a commodity, as in the West, but as a bearer of risk, and therefore subject to the same uncertainties as those borne by other partners in the enterprise (Vogel & Hayes, 1998, p.2). Some traditional Islamic scholars consider that transferring business risk by means of buying insurance or by other means of risk management, such as hedging and future options, are illegal Islamically because they violate risk rules (e.g., Coulson, 1984).

The foregoing discussion could imply that we should expect more conservative risk taking and risk attitude from individuals in an Islamic society than what can be found in a typical capitalistic market. No research is found in the literature that attempts to test this assumption. Commercial risk is approved and even encouraged, but pure speculation and obscure transactions, such as when parties lack knowledge of aspects of a sale or that the object of a sale does not now



exist or is not under the control of a seller, are prohibited (Vogel & Hayes, 1998). Overall, it is felt that Egyptians might be less inclined to take high financial risk than Americans. Therefore

*H6: It is expected that the Egyptian MBA students will assign lower scores to financial risk's items (in money value measurements) (such as win big or lose big, borrowing substantial sums of money for investment purposes) than the American MBA students.*

## METHODS

A sample of MBA students from Egypt (n = 214) and USA (n = 112) has completed questionnaire contains items related to locus of control, entrepreneurs' characteristics, and money value facets. The study undertakes a review process to ensure the validity and reliability of applying the measurements to the Middle East culture. This procedure includes the use of a panel of expert judges and pilot studies and a procedure of translation and back to translation. The following are the measurements.

### **Locus of Control (Rotter, 1966) (ILC)**

This is a 10-item questionnaire that asked respondents to judge themselves on items (5-point scale) refer to personal belief that one has influence over outcomes through ability, effort or skills (internal locus of control) or that external forces control outcomes through other people, chance or luck (external locus of control).

### **Entrepreneurial characteristics (Marx & Frost, 1991) (ENTR)**

This is a 13-item questionnaire that attempts to measure the extent to which (5-point scale) respondents believe they have specific (entrepreneurial) characteristics such as high self-confidence, creativity, high initiative, independency, profit orientation and optimism

**Measurement of Money Importance Scale  
(Mitchell et al, 1998) (MIS).**

This is a seven- category (26 items) questionnaire concerns various beliefs (5-point scale) about (1) Value Important of Money (VIM) (money is valued and day dream about being rich), (2) Personal Involvement with Money (PIM) (aware of income and expense and setting financial goals), (3) Time Spent Thinking about Financial Affairs (TIF) (planning to make more money and being involved in investment opportunities), (4) Knowledge of Financial Affairs (KFA) (aware of financial terms, stock market, banking, and tax implication) (5) Comfort in Taking Financial Risks (CFR) (comfortable with risk, win big or lose big, and borrowing substantial sums of money for investment purpose), (6) Skill at Handling Money (SHM) (having strategies to save and invest money rather than spend it), and (7) Money as a Source of Power and Status (MPS) (use money to influence others and tell people about personal financial success)

**Money Ethic Scale (Tang, 1995) (MES)**

This is a six-category (12 items) questionnaire examines (5-point scale) the meaning of money along the dimensions of (1) Money is Good (MG) (money is important and valued very high), (2) Money is Evil (ME) (money is evil and the root of all evil), (3) Money is Achievement (MA) (money helps express competence and represents achievement), (4) Money is Respect (MR) (money is symbol of success and makes people respect you), and (5) Money is Budget (MP) (budgeting money and use it very carefully), and (6) Money is freedom (MF) (money gives you autonomy and to be what you want).

**RESULTS & ANALYSES**

Table 1 shows the demographic characteristics of respondents. About 65% of the Egyptian respondents are married (in comparison to 40% of American) and 70% have 1-2 children (only about 12% of American respondents). The average age is about 29 years for the Egyptians and 28 years for the Americans. The range and distribution of age is higher in the Egyptian sample (21-43, s.d. 5.34) than in the American sample (22-36, s.d. 4.34). About 68% (67.6%) of the Egyptians are male in comparison to about 62% (62.2%) of the Americans. The majority of the American and Egyptian respondents report that they are currently employed.

	Egyptians (n = 214)	Americans (n = 112)
Married	64.9%	40.1%
Children (1-2)	70%	12.2%
Age: Range	21-43	22-36
Mean	29.04	28.10
S.D.	5.34	4.34

Results of t-test comparison between the two samples are presented in Table 2. As shown in Table 2, there are significant difference in the areas of locus of control, “Value Important of Money”, “Personal Involvement with Money”, “Money as a Source of Power and Status”, “Money is Good”, “Money is Evil”, “Money is Achievement”, “Money is Respect”, and “Money is Freedom”. Americans score significantly higher than Egyptians in all of these money values except in “Money is Evil”. Egyptians score significantly higher in money is evil. Also, the Americans score slightly higher, but not significant, in the areas of entrepreneurship characteristics, “Time Spent Thinking about Financial Affairs”, “Knowledge of Financial Affairs”, “Comfort in Taking Financial Risks”, “Skill at Handling Money”, and “Money is Budget”.

The result supports hypothesis H 2 (Egyptians score lower will on entrepreneurship-related dimensions of money value such as money is achievement “MA” and opportunity and autonomy “MF”), hypothesis H 3 (Egyptians score lower on obsession with money items “VIM” and “MG” and money brings respect “MR”), and hypothesis H 5 (Egyptians score lower on internal locus of control)

Measure	Mean	S.D.	t-Value	Mean Difference
ILC 1	34.22	3.91	5.42	2.58**
2	36.8	3.38		
ENTR 1	64.95	4.74	1.04	.67
2	65.62	5.07		
VIM 1	12.91	3.32	1.97	.85*
2	13.77	3.04		
PIM 1	13.32	3.60	2.45	1.15*

Table 2: t-test Comparison between Egyptians (1) and Americans (2)					
	2	14.47	3.15		
TTF	1	14.34	3.17	1.72	.70
	2	15.04	2.95		
KFA	1	18.29	5.28	1.74	1.23
	2	19.52	5.23		
CFR	1	7.42	2.71	.73	.26
	2	7.68	2.70		
SHM	1	18.45	2.75	1.50	.53
	2	18.97	2.32		
MPS	1	7.13	3.27	2.77	1.24**
	2	8.36	3.34		
MG	1	6.43	1.78	4.94	1.14**
	2	7.57	1.57		
ME	1	4.88	2.00	1.89	.52*
	2	4.35	2.10		
MA	1	5.21	1.91	2.11	.56*
	2	5.78	2.02		
MR	1	5.73	1.96	2.36	.61*
	2	6.34	1.85		
MB	1	6.83	1.75	1.24	.31
	2	7.14	1.96		
MF	1	6.91	1.70	2.19	.50*
	2	7.40	1.67		
** Significant at the 0.01 level					
* Significant at the 0.05 level					
Index Key:					
ILC: Rotter, 1966's Locus of control-ten items					
ENTR: Marx & Frost's (1991) Entrepreneurial characteristics-13 items					
Mitchell et al's (1999) Money Importance (seven categories):					
VIM: Value important of money-4 items;					
PIM: Personal involvement with money-4 items;					
TTF: Time spent thinking about financial affairs-4 items;					
KFA: Knowledge of financial affairs-6 items;					
CFR: Comfort in taking financial risks-3 items;					

**Table 2: t-test Comparison between Egyptians (1) and Americans (2)**

SHM: Skill at handling money-5 items; MPS: Money as source of power and status-4 items. Tang's (1995) Money Ethics (six factors): MR: Money is respect-2 items; MA: Money is achievement-2 items; MG: Money is good-2 items; MF: Money is freedom and power-2 items; MB: Money is budgeting-2 items; ME: Money is evil-2 items.
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Hypothesis H 4 is partially supported. While Egyptians score significantly lower than Americans in the area of personal involvement with money "PIM" (setting financial goals), there are no significant differences in the areas of time spent thinking about financial affairs "TTF" and skill at handling money "KFA".

Hypothesis H 1 is not supported. While Americans score higher than Egyptians on entrepreneurial traits "ENTR", the difference is not significant. Also, hypothesis H 6 is not supported. There is no significant difference on the dimension of comfort in taking financial risk "CFR".

## DISCUSSION AND CONCLUSION

This study attempts to integrate aspects of transition to a free market, cultural values and entrepreneurship by driving and testing a number of hypotheses. The study adopted two measures of money values to maximize money value facets. Although some of these facets appear similar in these measurements, they actually cover different aspects of money (Lim and Teo, 1997, p.372).

The results show that Americans value money and are motivating to acquire it more than Egyptians do. The study incorporates both of instrumental (money as a means to something else such as it brings freedom and opportunity) and terminal (money as an end such as it symbolizes achievement) values. Egyptians might have comparable valuation of money, but as a result of other needs such as cultural need for affiliation.

One interesting finding is that there is no significant difference on entrepreneurial traits as exhibited by American and Egyptian MBA respondents. The Marx & Frost's (1991) scale includes personal characteristics' items like high self

confidence, energy, and initiative, independence, and resourcefulness. Another interesting finding is that both samples almost score similarly in attitude towards risk. The three items in this category of Mitchell et al's (1998) scale are (1) I enjoy somewhat risky activities, (2) I would prefer to win big or lose big than to be conservative, and (3) I am comfortable borrowing substantial sums of money for investment purpose. These results may lead to a speculation that both societies similarly produce potential entrepreneurs and that the difference may be in entrepreneurship process in terms of environmental opportunities and entrepreneurial behavior in innovation or venture creation. According to the entrepreneurship model, individual characteristics may lead entrepreneurial behavior if environmental conditions permit (Busenitz et al, 2003; Kuratko et al, 1990).

Another interesting finding is that Egyptians score higher on the dimension of money is evil (ME) and lower on the dimension of money is source of power and status "MPS") than the American. International managers and organizations who are trying to improve competitiveness and efficiency should be aware of how most people from specific culture value money and of cultural differences with regard to the importance and the role of money.

Limitations of this study should also be acknowledged. One limitation is that MBA students are used to measure entrepreneurial characteristics. Another limitation is that the Egyptian society is moving through many transitions and increasing pressure for economic reform may result into more conversion of values between that society and Western counterpart.

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## **ANALYSIS OF A SMALL HONDURAS MANGO PRODUCER'S EXPORT PLAN**

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### **ABSTRACT**

*The analysis done for QUATRO MANGO PRODUCERS (fictitious name) reveals that the producer has strengths and weaknesses in the areas of marketing, production – operation process, human resources, and insurance, taxes, and zoning.*

*Price fluctuation, dependability in one market segment, indirect commercialization, commercialization costs and risks, and the lack of information about the United States market and the distribution channels are some of the company's problems in the marketing area. It is strongly recommended that the company seeks the diversification of markets, e.g., Canada or Europe. In addition, the profitability would be higher if the company exported a value added product such as mango juice, mango jelly, and dehydrated mango, among others, providing access to new markets. Marketing research is important to determine in which market the company should focus and to identify which are the customers' preferences. QUATRO MANGO PRODUCERS executives should also consider their participation in international trade fairs and trade shows to promote the company's name and to establish contact with potential business partners.*

*In the production- operation process some weaknesses were identified: dependence in just two varieties of mangos, low amount of production, inability to produce out of season, phytosanitary problems, quality control, storage and packing capacity, and financial limitations for working capital. The recommendations for the production-operation process are that, if possible, the Honduran mango producers should work together to standardize the production process and quality standards, to negotiate better prices with the US importers, and to lower the costs of insurance, shipping, and other importation costs. Also during the time of year that there is no mango production, the company should provide packing and exportation service for producers that export other kinds of fruit. QUATRO MANGO PRODUCERS should also study the possibility of adopting other varieties of mango to reduce the risk of changes in the market preferences. Again, it is strongly recommended that the company diversifies its product and its market segment. Finally, the company should ask for financial and technical support from the government or other international agencies, e.g. USAID, in order to expand their mango plantation and thus, their exporting capacity.*

*In the human resource area the company is experiencing problems related to the lack of a well defined human resources department. This has also caused the company to not be able to provide its employees some benefits such as, training, and healthcare, among others. Also, one of the biggest problems that the company has experienced is that it has no representatives in the US port to receive the product and to certify the conditions in which the importer receives the fruit. Thus, it is important that the company establish a well-defined human resource department to accomplish some objectives related to train workers in quality standards, manage the payroll system, and make sure that the workers receive all the benefits according to the law. One of the company's objectives is to directly commercialize the mangos in the US; so a human resource department will be necessary. The functions of this new human resource department could be to assure that the company meets the labor laws requirements in the US and to recruit the labor force for sales, transportation, and administrative personnel.*

*Due to the fact that QUATRO MANGO PRODUCERS has a small amount of production, the insurance, taxes, transportation, storage, and other costs are very high. However, Honduras and the other Central American countries recently signed a free trade agreement with the US. Thus, QUATRO MANGO PRODUCERS should study this agreement to identify which benefits and opportunities it provides. Again, it is important to increase the amount of product for exportation to reduce costs.*

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## BACKGROUND OF THE FIRM

### Description of the firm

QUATRO MANGO PRODUCERS is a corporation constituted of four smaller companies: Two cooperatives of mango producers, a company dedicated to the cultivation of Asian vegetables, and Fundación de Desarrollo Empresarial Rural (FUNDER), which is a foundation that helps small producers to develop their business. Two members of each company form QUATRO MANGO PRODUCERS's board of directors and they are in charge of the administrative management of the corporation. QUATRO MANGO PRODUCERS is located in Honduras. As mentioned before, QUATRO MANGO PRODUCERS is constituted of four smaller companies however this research paper is based solely in the mango producers' cooperatives.

Currently the mango cooperative is constituted of around 200 mango producers and 1000 hectares of mangos. A significant percentage of the mango producers produce at small and medium scale.

The mango cooperative works as follows: Each mango producer grows the mangos in their own farm. The farm has to be certified and the mangos have to be grown with the specific requirements of the US laws<sup>\*8</sup>. The harvest seasons starts in April and ends in June. During this season the producers send their mangos to a hydrothermal treatment plant to eliminate any plague. This treatment is automated with modern sensor equipment controlled by a computer. The hydrothermal treatment plant is certified and managed by the US Department of Agriculture and is a legal requirement for every producer in order to export mangos to the United States. After the mangos go through the treatment process they are classified according to their size and weight and later packed in boxes of 4.75 kg. The company's packing plant has a packing capacity of one container per day. The boxes containing the mangos are stored in a cold room and later shipped in a container to the Puerto Cortes (Northern port in Honduras) and then shipped by boat to Tampa, Florida. Customs entry papers may be presented to the United States Customs Service before the merchandise arrives to expedite the clearance. These documents are: a pre-shipment import authorization, Customs entry form 3461, evidence of right to make entry, e.g. bill of lading. (Merchandise may be entered only by the owner, purchaser or a licensed customs house broker), a commercial invoice or pro-forma invoice if a commercial invoice cannot be produced, packing list if appropriate, other necessary documents to determine merchandise admissibility,

phytosanitary certificate, and a bond which is normally posted with Customs to cover any potential duties, taxes, and penalties that may accrue after release of the cargo.

There are United States Customs Service licensed commercial brokers (referred to as customs brokers) who typically act as an importer's agent for the preparation and filing of the paperwork for entry of the goods with Customs. Customs does not notify the importer of the arrival of any shipment. The carrier of the shipment typically notifies the importer. The importer makes their own arrangements to insure notification of arrival and timely filing of import documentation.

An importer/ distributor is responsible for the mango importation, warehousing and distribution. In this case, QUATRO MANGO PRODUCERS works directly with the importer GARDEN FRESH located in Miami, Florida. The importer receives a 10% commission in addition to \$0.20 per box for claiming the mangos at Customs, transporting, and storing them. It is important to note that even though the mangos are commercialized by the importer in the United States, QUATRO MANGO PRODUCERS is still liable for them during all the process of commercialization.

The mango varieties that are currently exported to United States are Haden (85%) and Tommy Atkins (15%). QUATRO MANGO PRODUCERS has experience exporting to the United States and Europe (Holland). During the 1990s the company exported mangos to Europe with success but the exportations were interrupted by Hurricane Mitch in 1998 and were reinitiated last year. For this year the company's goal is to export 540,000 – 675,000 pounds of mangos to United States. The price per box of mangos (each box weighs 4.75 kg) is \$3 to \$8 depending in the month of the year.

## **ANALYSIS OF THE INDUSTRY**

### **Fruit consumption tendency**

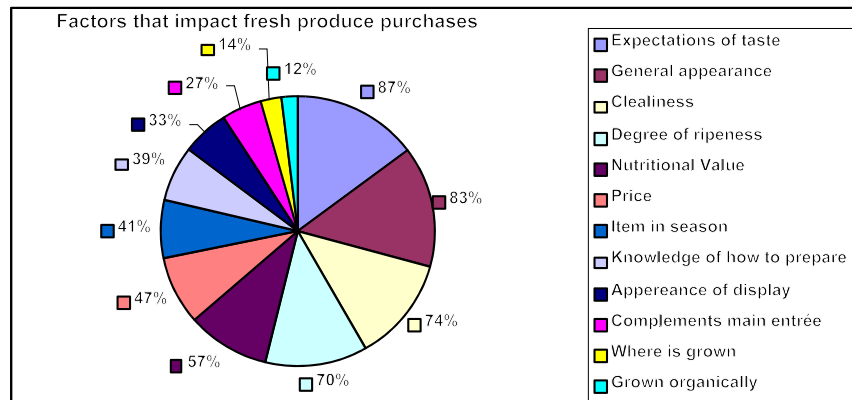
United States consumers have been encouraged to eat more fruits and vegetables for health purposes. A national program to encourage increased fruit and

vegetable consumption was initiated by the health care industry and agencies in the United States under the name and slogan "5 A DAY". This program encourages United States consumers to eat at least five servings of fruits or vegetables each day for a better health.

The United States is a major importer of fruits and vegetables from around the world. These imports are typically counter-seasonal to the United States harvest.<sup>3</sup>

### United States consumer attitudes on fresh products

Fresh produce represents 8.8 percent of the sales at natural food stores and 9.7 percent at conventional supermarkets. The *Fresh Trends, 2001 Profile of the Fresh Produce Consumer* addressed the conventional fresh produce purchase, and highlighted emerging organic issues and opportunities.<sup>4</sup>



Source: *Fresh Trends, 2001 Profile of Fresh produce Consumer*

### Vegetarianism growth in the United States

Each day more and more Americans are following vegetarian diets. Around 20 percent of United States college students are reported to follow vegetarian diets. The vegetarian focus is not limited to the campus; a report by the Vegetarian Research Group indicates that more than 55 percent of Americans will occasionally order a vegetarian meal at a restaurant.<sup>2</sup>

The following product categories are expected to be the most important while considering exporting to the United States:

- ◆ *products, mostly tropical, that are not produced in the United States (or only in very small quantities): examples include coffee, cocoa and tea, most tropical fruit and vegetables (both in fresh and processed form, e.g. fruit juices, concentrates and pulp), various spices and herbs, dried fruit and nuts; suppliers will be producers in developing countries;*
- ◆ *off-season products, such as fresh fruit and vegetables, that are produced in the United States, but where there is an unmet demand during certain periods of the year (outside the US season);*
- ◆ *in-season products, e.g. fruit and vegetables, for which there is a temporary or more permanent shortage because of strong and increasing demand; suppliers are likely to include producers in both developed and developing countries;*
- ◆ *novelty or specialty products, like high quality organic wines, certain ethnic food products or retail-packed food products; this segment is currently of particular interest to European food exporters, though some developing countries might also profit from such opportunities, e.g. wine exporters in Argentina, Chile and South Africa. <sup>4</sup>*

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According to the Packer Fresh Trends Report of 2006:

- ◆ Mango Purchases increased in 2005 – 10% more than in the Fresh Trends Survey of 2005.
- ◆ 73% of consumers claimed that they felt comfortable selecting mangos ripe for immediate consumption – but 24% reported that they did not feel comfortable in their ability to select ripe mangos.
- ◆ More than 50% of consumers surveyed said they preferred to buy mangos already ripe this year, up from 39% in 2005.
- ◆ Shoppers who ate at a fine dining establishment at least three times a month were the most likely group to buy mangos.
- ◆ Consumers least likely to purchase mangos were those with a high school education or less.
- ◆ 75% of consumers purchase mangos as a snack...53% as a dessert...34% as an ingredient in a recipe ... 26% as a salad...18% as an appetizer...17% as a side dish...4% as a main dish and 2% were not sure why they purchased mangos.
- ◆ The likelihood of purchase by region is mid-west 26%, west 41%, south 29%, and Northeast 41%.
- ◆ Likelihood of purchase based on education: 41% - college graduates...29% -some college...22% - high school graduate or less.
- ◆ The import value of mango imports in 2004 was \$196 million CIF.
- ◆ Per capita consumption has gone from 1.1 pound per person, in 1995, to 2.2 pounds in 2004- a 100% growth in the last 9 years.
- ◆ US imports of fresh mangos in 2004 were 638 million lbs.; this is 5 million pounds less than 2003 but 110 million pounds or 21% more than 2000.
- ◆ In 2004 Peru had 11% of the market, Mexico had 63% share while Brazil had 9%... the balance of the market was divided between Ecuador, Guatemala and a few smaller sources like Honduras and Haiti.<sup>5</sup>

### **GOVERNMENT REGULATIONS**

Imported food is regulated by several federal agencies.<sup>3</sup> These include:

- ◆ The Food and Drug Administration (FDA), which is part of the Department of Health and Human Services and the Public Health Service - [www.fda.gov](http://www.fda.gov)
- ◆ Centers for Disease Control and Prevention (CDC)- [www.cdc.gov](http://www.cdc.gov)
- ◆ The US Department of Agriculture (USDA)- [www.usda.gov](http://www.usda.gov)
- ◆ Environmental Protection Agency (EPA)- [www.epa.gov](http://www.epa.gov)
- ◆ US Customs Service, US Department of Treasury- [www.customs.ustreas.gov](http://www.customs.ustreas.gov)
- ◆ Federal Trade Commission (FTC) - [www.ftc.gov](http://www.ftc.gov)

Import requirements for all fresh products:

#### **Phytosanitary certification**

Import requirements depend on both the product and the country of origin. As a condition of entry, the government requires that the mangos must undergo irradiation treatment and be accompanied by a phytosanitary certificate with additional declarations providing specific information regarding the treatment and inspection of the mangos and the orchards in which they were grown. A phytosanitary certificate issued by an official of the exporting country must accompany all fruit and vegetables shipments to the United States. This official will be able to determine if the particular fruit or vegetable can be exported to the United States and what phytosanitary requirements must be met for export to the United States. The control of this process is with the USDA Animal and Plant Health Inspection Service (APHIS).

#### **Pesticide and other contaminants**

The Environmental Protection Agency (EPA) establishes standards for tolerances for pesticides, herbicide and fungicides used in the fumigation of agricultural products. Regulations on tolerance levels are applied to all chemically treated products intended for human and animal consumption in the United States. Fresh producers must only use chemicals which are registered for use on a specific commodity or group of specifically indicated commodities and in accordance with the direction on the package. The United States FDA will test products entering the



United States for compliance with EPA regulations on pesticide, fungicide and herbicide residues.

### **Grade and quality standards**

Certain agricultural commodities exported to the United States must meet import requirements relating to size, grade, quality and maturity. A certificate based on an inspection must be issued by the USDA's Agricultural Marketing Services (AMS) to indicate import compliance. Imported goods must meet the same standards applied to United States products<sup>1</sup>. Products include:

Fresh tomatoes	Oranges
Green peppers	Grapefruit
Avocados	Dry onions
Mangos*	Walnuts
Limes	Eggplants
Irish potatoes	Cucumbers

### **Import Clearance**

The United States Customs Service (Customs), a division of the United States Treasury Department, is responsible for the final approval and authorization for importation of all products. United States Customs reviews all documentation for the shipment against requirements and will not release goods from the port of entry until all United States Government requirements are met. They are also responsible for the collection of any import duties due to the United States Government.

In addition, the mangos are subject to inspection at the port of first arrival. This action allows for the importation of mangos from other countries into United States while continuing providing protection against the introduction of quarantine pests.

### **COMPETITION:**

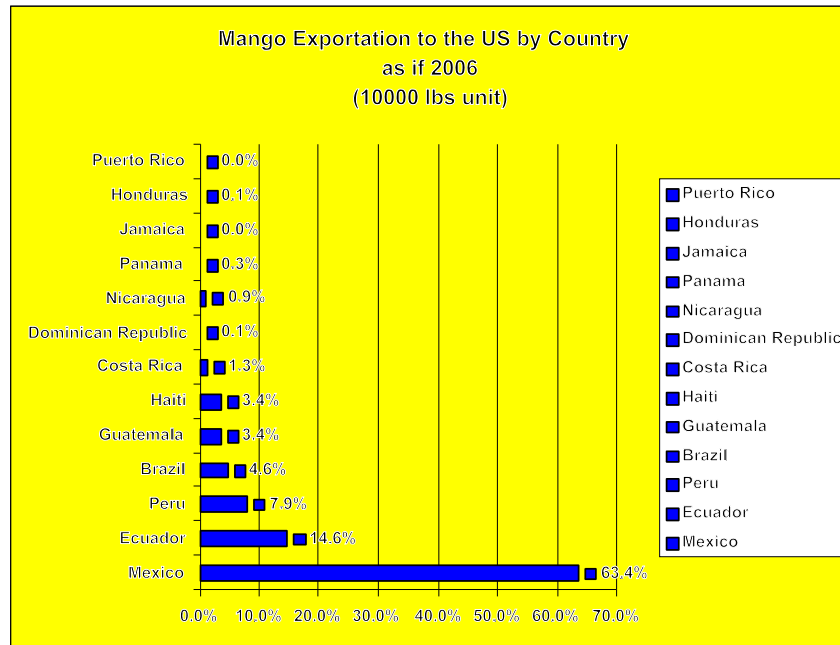
Local mango producers: Production of mangos in the United States is limited to three States: Florida, California, and Hawaii. Due to climatic conditions and expanding urbanization in areas of production, mango-producing acreage is small and production minimal. The United States relies heavily on imports of fresh mangos in order to meet consumer demand. The majority of mangos produced in Florida, California, and Hawaii are destined for local markets, with very limited larger-scale commercial production. The Small Business Administration's (SBA) size standard for mango farming is \$750,000 or less in annual receipts. According to the 2002 Census of Agriculture, there were a total of 623 farms (400 in Florida, 11 in California, and 212 in Hawaii) engaged in mango production. Census data did not include annual sale valuation statistics for mango-producing farms. The exact number of mango farms that would be considered small by SBA standards is unknown. However, based on the small bearing acreage, production principally for local markets and the dependence on imports to meet domestic demand for mangos, it can be expected that the majority of these operations would be classified as small.

However local competition is facing production problems. For example, Florida producers face some serious obstacles to large-scale production that would meet the growing appetite of U.S. consumers for mangos. Commercial mango production is limited to the warmest areas of the state, where commercial development and agricultural operations compete for limited and expensive property.

During flowering and fruit development, certain conditions increase disease pressure on the flowers and fruits. Expensive iron supplements are required for trees growing in the alkaline soils of Miami-Dade County. Although Florida produces good quantities of high-quality mangos, production costs are three to five times what they are in dryer climates. Under the North American Free Trade Agreement, inexpensive imports from Mexico have increased. Florida growers are losing their market share<sup>7</sup>.

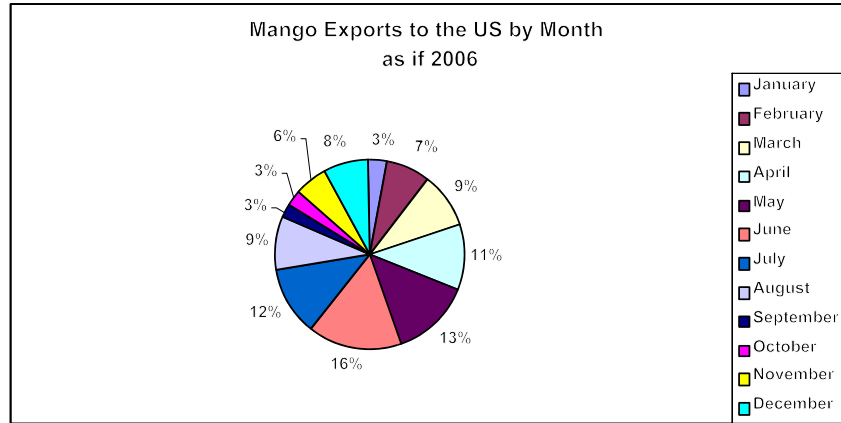
### **International Competition**

The strongest competitors QUATRO MANGO PRODUCERS could face are the other Latin American countries that export mangos to United States. \*



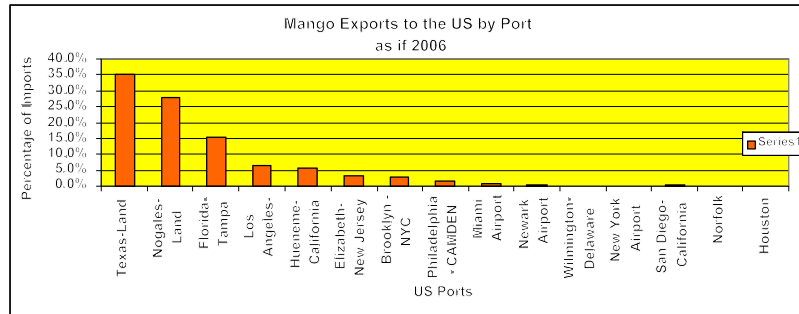
Source: National Mango Board<sup>6</sup>

The amount of mangos exported to the US by month is:\*



Source: National Mango Board<sup>6</sup>

Ports used to import mangos to United States: \*\*



Source: National Mango Board<sup>6</sup>

**DISTRIBUTION CHANNELS**

**Store Locations**

The United States market should be considered as separate markets by state or region. A review of the concentration of retail stores by state reveals that some markets should be considered separately. Very few companies launch products in the total United States. Most companies focus in initially on a few key markets and then they extend a product nationally at a later stage. <sup>4</sup>

<b>Estate</b>	<b>No. of Stores</b>
California	1,937
Florida	853
Texas	785
New York	715
Illinois	518
Pennsylvania	465
Ohio	414
Washington	390
New Jersey	356
Michigan	353
Source: National Business Lists	

Mangos can be sold in a natural food store or a conventional retail store. The natural foods markets represent 12,256 retail stores. The top ten states have over 50 percent of total retail outlets with 6,786 stores. Conventional retail stores represent over 120,000 individual stores. Within the conventional market, there have been mergers resulting in a concentration of retail chains. The top four food retailers now have a market share of 28.8 percent of total sales in 1998, up from 15.9 percent in 1992. The top 20 retail chains now command 48.2 percent of the total retail food sales in 1998 up from 37 percent in 1992. This concentration is greater in the largest markets, with the top 8 retail chains controlling 85 percent of retail food sales in these markets.

Fresh produce importers/distributors are responsible for the importation, warehousing and distribution of the product. Some importers will function as the importer and distributor within a region and sell the fresh produce to other wholesalers for servicing other markets.

## **OBJECTIVES OF THE FIRM**

### **Corporate Objectives**

The firm's corporate objectives are:

- To consolidate a market segment in the United States within 3 years,
- To consolidate a market segment in Holland within 3 years,
- Make QUATRO MANGO PRODUCERS a lasting business that generates a real benefit for the mango producers,
- Enter into Canada's market by 2008,
- Export other fruits and vegetables.

### **Financial Objectives**

The firm's financial objective is:

- To achieve revenue growth of 10% per year.

### **Strategic Objectives**

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The firm's strategic objectives are:

- To eliminate most of the intermediaries,
- To establish a local office in the United States with labor force in charge of handling and of the mangos direct commercialization,
- To provide mangos of excellent quality,
- to import mangos through other ports to have access to the northern and western market segments in United States,
- To add value to the product by means of processing. For example: dehydrated mango, mango pulp, peeled mangos,
- To increase efficiency by producing more and expending less,
- To negotiate with more brokers for the commercialization of the mangos,
- To explore and develop other methods to grow and to harvest mangos earlier and export to the US during January and February,
- To take advantage of CAFTA'S benefits.

## **MARKETING ANALYSIS**

### **Marketing/ Strengths**

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QUATRO MANGO PRODUCERS favorable location allows the company to have lower transportation costs and thus, to compete with low prices. Besides Mexico and Guatemala, Honduras is the country nearest to United States and if compared with its competitors from South America, QUATRO MANGO PRODUCERS has lower transportation costs and it is able to compete in the US market with lower prices for mangos. This advantage in price is important because 47% of mango consumers consider price as the most important factor impacting purchases as stated by “Profile of Fresh Produce Consumer”, Fresh Trends, 2001.

Currently QUATRO MANGO PRODUCERS’s mangos are being shipped and commercialized in the Florida area. This may be a main strength for the company because it has access to one of the most important key markets in United States. Florida has been ranked as number two in the top ten states for location of natural food stores in which mangos are sold. In addition, market research done by the National Board of Mango about the mango industry establishes that the highest rate of purchasing is among Hispanics (79%) in larger urban areas.

The key to accessing the United States market is the fresh produce importer. Fresh produce importers/distributors are responsible for the importation, warehousing and distribution of the product. QUATRO MANGO PRODUCERS works with the importer Garden Fresh and is currently negotiating with other importers of fresh fruits. This constitutes an important advantage because these importers have access to different regions within the United States and even though QUATRO MANGO PRODUCERS has to incur all the costs of commercialization, the importers provide their entire infrastructure (trucks, storage) that otherwise the exporter would have to acquire. Working with importers in the first stages of the business is an important strength because usually the importers already have contacts with supermarkets, retailers, and fresh produce stores. Also, the exporter can learn from these relationships and in a later stage of the business control not only the exportation of mangos, but also the direct commercialization in the US.

QUATRO MANGO PRODUCERS as mentioned before is constituted in part by a cooperative of 200 mango producers. A significant percentage of the mango producers produce at small and medium scale. This represents strength because working together can mean producing marketable quantities at better prices, reduce administration costs and it may also help to cut the costs of certification and participation in foreign trade fairs, etc.

Another strength of the company is that it does not rely in just one market to commercialize its products. QUATRO MANGO PRODUCERS, in addition to exportation of mangos to the US, has built up a domestic market in Honduras. All

the mangos that do not meet the specific requirements for exportation but that are in good condition for consumption, are sold in the Honduran domestic market. Also, QUATRO MANGO PRODUCERS last year exported to Holland with good results and next year it plans to export to Canada. This helps to reduce over-dependency on one or more export market(s).

### **Marketing/ Weaknesses**

The price fluctuation, concentration in just one market segment, indirect commercialization, small mango production, inability to produce out-of-season, commercialization costs and risks and the lack of information about the US market and distribution channels by QUATRO MANGO PRODUCERS executives are some of the company's challenges.

The price of mangos varies during the year. In the first and last month of the year the price stays usually high, \$8 per box, because there are not enough mangos to supply the demand. As more and more countries start to harvest and to export, especially Mexico, the market becomes saturated in April and the price starts to decrease, sometimes reaching \$3 per box.

In addition, QUATRO MANGO PRODUCERS is focused just in one market in the US. Market research of the mango industry points out that the biggest market segments are in west and northeast US; however, the company just exports through Tampa, Florida port and it just has access to the south market that even though it is an important market segment it is also one of the smallest in the US.

One of the company's weaknesses is that it does not control the entire commercialization process of its products. Basically, the commercialization process ends when the mangos arrive to the US port and are received by the importer. From then on, the importer is in charge of the storage, transportation, and distribution of the fruit.

The possible disadvantages are that the exporter does not establish relationships with the retailers and the exporter can not manage the image of the firm in the US market.

QUATRO MANGO PRODUCERS, as explained before, is in part constituted of a cooperative of 200 mango producers and the majority of them produce in a small and medium scale. This situation creates a problem because there is not enough production to negotiate favorable prices with importers and it is also the reason why it is not feasible for the company to directly commercialize the mangos at this moment.



One of the problems that the company has had is the inability to produce and export before other countries. The exportation would be much more profitable if the company could export in January or February, that is when the price for mangos is at it highest. As mentioned before, the company is already trying to implement a new technological process to produce and export earlier.

QUATRO MANGO PRODUCERS is currently commercializing mangos in the US through the importer Garden Fresh. However, due to the small amount of production QUATRO MANGO PRODUCERS has not been able to negotiate favorable conditions. All the costs and risks of exporting and commercializing the product are incurred by the company.

The lack of information about the US market and the distribution channels have been a barrier for the company and at the same time is has made the company use the services of importers. The business could possibly be more successful if it knew which markets to focus in and which retailers to use.

### **Marketing/ Opportunities**

QUATRO MANGO PRODUCERS has the opportunity to increase its market participation because the mango industry has experienced a strong growth in the last ten years. Mango Purchases increased in 2005 – 10%. Industry sources expect recent years' strong growth to continue over the short to medium term. One of the main factors behind these very positive growth expectations is a strong and increasing consumer awareness of health and environmental issues. United States consumers have been encouraged to eat more fruits and vegetables for general health. The per capita consumption of fruits and vegetables increased 6.6 percent from 1989 to 1998. Fresh produce represents 8.8 percent of the sales at natural food stores and 9.7 percent at conventional supermarkets. Younger Americans are following vegetarian diets, as many as 20 percent of United States college students are reported to follow vegetarian diets.

Another opportunity is that developing countries should look at the United States not only as a potential future market for its products, but also consider it as a possible partner in various forms of cooperation within farming, processing, certification and marketing of products. There are a number of individuals, companies and other organizations that are interested in developing export/import projects in partnership with developing countries.

The trade fairs and trade shows are important opportunities to promote the company's name and image and also to establish relationships with possible

business partners. Here are listed some of the most important trade fairs and trade shows that the company's executives can assist:

- ◆ Established in 1979, Natural Products Expo West is North America's largest natural and organic products trade show. It is held each spring in Anaheim, California and encompasses a wide range of product categories, including organic food, fiber and personal care products. In 2002 Expo West attracted more than 25,000 trade professionals to the fair and more than 2,200 stands (exhibit booths).
- ◆ Natural Products Expo East, which is the largest show in this category on the East Coast and has the same profile of products as Natural Products Expo West. It is held each autumn in Washington, DC.
- ◆ Natural Products Expo Europe, which is held in Amsterdam during the summer. In 2001 there were about 300 exhibitors and 3,200 visitors.
- ◆ Natural Products Expo Asia.

QUATRO MANGO PRODUCERS can have direct access to the natural food distributors and wholesalers. There are numerous wholesalers, distributors and traders involved in the distribution of fresh fruits throughout the country. They may import some products direct or through associated companies but they obtain most of their products from specialized importers. Some of the major distributors are:

- ◆ United Natural Foods, Inc. is the largest natural foods distributor in the US and supplies more than 7,000 retail stores nationwide with natural groceries, body care products, supplements, and frozen foods. Its subsidiary Albert's Organics distributes organic products, including fresh produce, to retailers. It also owns Hershey Import Co. and runs a number of natural food stores (the Natural Retail Group).
- ◆ Tree of Life, Inc. (owned by the Dutch food company Koninklijke Wessanen) is another major national natural food distributor and reaches more than 15,000 food retailers in the US and Canada through about 20 distribution centers.

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- ◆ Other important natural food distributors include Blooming Prairie Cooperative Warehouse and Northeast Cooperatives

According to a recent report by the U.S. Department of Agriculture the top food stores are: First, The Kroger Co. group with 2,200 stores and US\$43.1 billion sales. Second is Albertson's with 1,796 stores and US\$34.0 billion in sales. The Safeway group is third with 1,435 stores and US\$29.0 billion in sales and fourth is the Dutch-owned Ahold USA group (mostly on the East Coast) with 1,294 stores and sales of \$23.4 billion.

QUATRO MANGO PRODUCERS can also consider some of the food sectors to increase its market participation.

### **The natural food store sector**

The natural food store sector has over 12,000 stores in the U.S. with a focus on selling organic and natural food products. While this sector has several major chains it still consists predominately of independent retail stores

### **Conventional supermarkets**

Supermarket chains and traditional grocery stores account for the major part of overall food sales. The conventional retail stores represent over 120,000 individual stores.

Another opportunity is to export value-added products. Some of the options are:

- ◆ Dried mango: Although there is a considerable domestic production of this product, there is also a significant import demand.
- ◆ Processed mango:
  - Dehydrated mango, including freeze-dried mango
  - Mango juice, concentrates and pulp/purée (canned, frozen, aseptic)
  - Canned mango
  - Frozen mango

Most of these products are used as ingredients or raw material by US food manufacturers, in particular in the case of juices, concentrates and pulp/purée, which

are used not only in juices and juice drinks, but also in dairy products, baby food, bakery products, etc. Dehydrated fruit is used, for example, in desserts, dairy products, bakery products and baby food. There is some import demand for certain canned fruit, while frozen fruit is usually imported in bulk form and reprocessed or repacked by US manufacturers.

QUATRO MANGO PRODUCERS may also consider the organic mango industry which is one of the fastest in growth. The total organic sector of agriculture has recorded over 44 percent growth in certified acreage from 1992 to 1997, and cropland grew by 111 percent. Additional reports since 1997 indicate a continuing pattern of growth in organic acreage. The United States Government completed the US National Organic Standards in December 2000. With the full implementation of these standards by October 2002, the United States industry is preparing for increased interest in organic products. The conventional retail supermarkets have already begun to stock organic fresh produce and now represent over 42 percent of organic fresh produce sales. The United States major food companies are expanding into the organic market segment, and a consolidation within the existing organic and natural foods product companies will lead to increased advertising and promotion of organics in general which will further increase United States consumer interest in organic products, including fresh produce. The United States market has over 12 000 retail stores specializing in organic and natural foods. The United States imports more than US\$6 billion of various fruits and vegetables. If the organic segment achieves the same level of imports as current United States retail sales volume (2 percent), the short-term import potential exceeds US\$125 million.

Promotions also constitute an important opportunity to increase the market penetration and sales. According to the National Mango Board market research, the promotions are an effective way to increase mango purchases by all types of customers including those who do not buy mangos. Seventy-five percent of the people surveyed said that they would buy more mangos if a promotion was offered.

### **Marketing/ Threats**

Although the overall picture looks very positive, a number of potential risk factors or threats should be borne in mind. For example, the oversupply of mango may not only have immediate, but also more long-term negative effects. Reduced

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price and insufficient profitability amongst producers and traders are important factors. Furthermore other forms of environmentally friendly and sustainable agriculture are likely to result in increased competition in the future, for example the organic mango. Finally, even in the likely event that the market growth forecast turn out to be realistic, growth rates are bound to slow down at some stage similar to what has happened in certain European markets after years of rapid growth.

### **Marketing/ Recommendations**

Recommendations to be considered at the present:

- ◆ Work together with other mango producers from Honduras to standardize the production process, increase the supply capacity, and to control the quality and image of the Honduran mangos in the international market.
- ◆ Design differentiated strategies based in the service quality, package, and product presentation, among others.
- ◆ Increase the mango consumption with promotional campaigns about the health.
- ◆ Conduct a market research in the west and northeast US to determine if demand exists, if the demand is already satisfied or if sales opportunities exist, and what the customers' preferences are about product presentation, promotions, and distribution channels among others.
- ◆ QUATRO MANGO PRODUCERS executives should attend trade fairs and trade shows to establish contacts with possible business partners and at the same time promote the company's image.
- ◆ Negotiate with its actual importer, Garden Fresh, to do promotions inside the stores or supermarkets. These promotions could consist in giving the customers free slices of mangos so that they can try the product and increase future purchases.

Recommendations to be considered for the future:

- ◆ The Honduran producers should think about developing other products based on the mangos to diversify their market. The new

markets that they could have access to are: pulp, juices, ice cream, yogurt, dehydrated mango, jellies, and even perfumes.

- ◆ To promote the creation of a Mango International Exporters Board that could regulate the mango production, gaining the stabilization of the prices.
- ◆ Negotiate with importers from west and northeast US to have access to the major markets.

Marketing actions taken by the QUATRO MANGO PRODUCERS:

- ◆ QUATRO MANGO PRODUCERS has been studying the implementation of a new technical process to harvest mangos in January or February and it plans that by next year it can start with the early exportation to the US.
- ◆ QUATRO MANGO PRODUCERS is already negotiating with importers located in California.
- ◆ QUATRO MANGO PRODUCERS is currently trying to learn about the commercialization process in the US and one of the future objectives is the elimination of intermediaries.
- ◆ Honduras' government has been increasing the financial support for the small producers lately so that they can increase their production.

## **PRODUCTION/ OPERATION ANALYSIS**

### **Production- Operation /Strengths**

#### **The local weather conditions**

The soil and weather conditions of Comayagua city in Honduras, where the mangos are grown, are excellent for the mango production. Comayagua has a really dry weather station of more than 4 months which is a requirement for the mangos to grow. In addition, the mangos that are grown in Comayagua have an attractive color due to the fact that the weather is hot during the day and cool during the night.

### **Production Process**

The mango production process is directly supervised and certified by a US agency which also manages the treatment plant. This makes easier the process of exportation to the US because if a US agency certifies that the product is in good condition it will be less likely that the product would be rejected. Also the Honduras' government provides professional assessment to small producers through people well qualified that have studied in other countries. In the last years, the government also provided technical support to the mango farms through a water irrigation infrastructure. The government also provides local and international training for the producers and for QUATRO MANGO PRODUCERS's executives.

### **Administrative Structure**

QUATRO MANGO PRODUCERS as explained before is managed by a board of directors, two from each individual company. This structure enables the corporation to have all the possible interested parties represented. QUATRO MANGO PRODUCERS executives are well prepared and well trained, with a lot of knowledge in the business.

### **Production – Operation/ Weaknesses**

Some of the company's weaknesses are:

#### **Limited varieties**

QUATRO MANGO PRODUCERS produces and exports just two mango varieties: Haden and Tommy Atkins. The company is highly dependant in just these two varieties which is a risky situation if any changes in the market, such as potential plagues or existent illness related to the plants, are considered.

#### **Relatively low amount of production**

The majority of producers and especially the small ones have an annual production of 7 tons per hectare. This represents a problem because the company

cannot supply a representative part of the demand in the international market and thus, the company cannot have a significant recognition with its customers. Also with a low amount of product, the company is unable to negotiate better exportation prices.

Even though there is a great harvest capacity per day, not all of it can be sent at the same time to the treatment plant because there is no space to store the fruit. Also, the company's packing plant has a packing capacity of one container per day, which makes the shipping process relatively slow.

Additionally, phytosanitary problems arise due to the fact that some mango plantations are infected with a plague and cannot be exported to the US and/or sold in the domestic market.

### **Overproduction**

Overproduction affects the price of mangos. During the months of April through June the mangos are at it lowest price in the US due to the oversupply.

### **Quality Control**

The Company also has problems with quality control because some of the mangos do not meet the requirements of size, color, shape, and ripeness that the law establishes. If the product arrives spoiled to the US, this situation can be caused by a poor quality package, improper storage conditions, temperature variations inside the container, extensive period of time between the harvest and the mangos' final destination.

### **Financial Limitations**

QUATRO MANGO PRODUCERS also has financial limitations for working capital. Even though the government has provided financial support for the small producers, a line of credit with some banks was necessary.

### **Production – Operation /Opportunities**



As mentioned before, the mango consumption has increased in the last few years. Also, the company has a production opportunity in some of the industries that are experimenting rapid growth in the US such as organic mango, processed mango, canned mango, dehydrated mango, among others.

Also the company has a treatment and packing plant that are not used when mangos are not in season. Thus, the company has the opportunity to use these plants to export other kind of fruits, e.g., pineapple, melons, watermelons, banana, among others. QUATRO MANGO PRODUCERS has already identified this opportunity and is currently planning to provide packing and exporting service for other producers during fall of this year. Since QUATRO MANGO PRODUCERS is a corporation that is in its early stages of growth, it can establish quality standards to protect the Honduran mangos image.

QUATRO MANGO PRODUCERS has the opportunity to diversify its markets, e.g., Canada, Europe and Japan. The company plans that next year it will start exporting to Canada. Currently, the company is negotiating with Canadian importers.

Lastly, building a team of producers, bankers, a production advisor, a financial advisor, and other business people will help QUATRO MANGO PRODUCERS take advantage of opportunities that may present themselves to the company as it continues to strive for success.

### **Production – Operation/ Threats**

The company faces the following production threats:

#### **Cultivation**

One of the company's biggest production threats is that the cultivation of any fruit or vegetable is highly risky because factors like changing weather conditions or a plague can spoil all the production and can leave the company without exportations.

#### **Strong competition**

QUATRO MANGO PRODUCERS has local and international competitors that have advantages of production amount, favorable location e.g., Mexico and Guatemala and higher quality standards, among others.

### **Image Control**

Other Honduran producers that also export mangos to the US can affect the image of it.

### **Market saturation**

Results in a severe reduction in price during the months of May through July.

### **Production – Operation Recommendations**

Recommendations to be considered at the present:

- ◆ If possible, Honduran producers should work together with other Central American mango producers/ exporters. The important factor is that the bigger the amount of exportation the better, because the company can negotiate favorable prices or sales agreements with the importer, lower costs of transportation, importation and storage.
- ◆ QUATRO MANGO PRODUCERS has to try to increase its efficiency to reduce the period of time between the harvests of the fruit until the time it is sold to the final consumer. This will increase the quality of the fruit and will reduce reclassification costs.
- ◆ The company should use its treatment plant and the packing plant to export other kind of fruits while the mangos are not in season.

Recommendations to be considered in the future:

- ◆ QUATRO MANGO PRODUCERS should try to adopt other mango varieties that can be grown in Honduras. This will reduce the dependence and risk in just two varieties of mangos and will increase the probability of purchase.
- ◆ As recommended in the marketing section, QUATRO MANGO PRODUCERS should consider exporting mangos with a value added. This provides the company the access to new markets, eliminates the market dependability in just one market segment,

- and the company can increase its profitability because a value added product is more expensive than the raw product.
- ◆ QUATRO MANGO PRODUCERS should consider the possibility of exporting to other countries that have demand for mangos, e.g., Canada, Hong Kong, Holland, France, among others.

Production actions taken by the company:

- ◆ The company is negotiating with Canadian importers and plans to start exporting to this country next year.
- ◆ Last year the company experimented exporting to Europe (Holland). The purpose was to gain experience to initiate a formal exportation process for next year and probably export as well to other European countries like Germany.
- ◆ The company plans for the fall to provide packing and exporting service for other companies.

## **HUMAN RESOURCES**

### **Human Resources/ Strengths**

At the present time, QUATRO MANGO PRODUCERS' s human resources division is not well defined. Basically the company just has a board of directors in which its members are elected by majority of votes. Other than that, each producer has his own employees that are in charge of watering the mango trees, keeping the farm clean and harvesting the mangos during the season. QUATRO MANGO PRODUCERS also has employees that work at the packing plant and a permanent engineer that works as a production advisor. The company keeps a file on all team members and makes sure that they have all the benefits that the laws stipulate. The majority of the producers have a weekly payroll system.

### **Human Resources/ Weaknesses**

The most serious weakness that the company has is the lack of a well-defined human resource department. As explained before, each producer has his own employees and this situation carries some disadvantages such as the lack of a training program and complications of individual payroll system.

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### **Human Resources/Opportunities**

The company aspires to create a formal human resource department not only locally but also in the US. The company sees an opportunity in bringing a Human Resources expert onto the management team that organizes all the employees' functions and benefits. In a later stage of the business, if the company decides to commercialize the mangos directly in the US market, a human resource department will also be necessary in the US.

### **Human Resources/Threats**

QUATRO MANGOPRODUCERS currently does not have a well grounded Human Resources Division. Not being able to provide some benefits such as, training, healthcare, among others will make it more difficult for the company to find skilled personnel and be able to retain their services.

### **Human Resources Recommendations**

Recommendations to be considered at the present:

- ◆ A human resource department is important at this moment especially to train the workers about the quality standards that the product has to meet.
- ◆ Also, a human resource department is important for keeping track of the hours worked by each worker, the payroll system, and to assure that all workers are receiving the benefits according to the laws.
- ◆ The company has to have a representative in the US that does an inspection to the fruit to define in which conditions is the fruit being received by the importer.

Recommendations to be considered in the future:

- ◆ If the company plans to commercialize their product in the US directly, it is advisable that it has a formal human resource department in the US. This is especially important because the labor laws are different from Honduras and also because the

company needs to recruit all the labor force for sales, transportation, and administrative personnel.

## **INSURANCE, TAXES, AND ZONING**

### **Insurance, taxes, and zoning/ Strengths**

QUATRO MANGO PRODUCERS's strength in this area is that since last year it has been exporting to the US, meeting all the taxes and insurance requirements by the US government. Also the company is benefiting from the free trade agreement, CAFTA, signed by the Central American countries and the US.

### **Insurance, taxes, and zoning/ Weaknesses:**

When QUATRO MANGO PRODUCERS exports products to the US, it has to have insurance to protect its products since they leave the packing plant until they arrive to the US port. In addition to that, the exporter also has to pay the costs of shipment, the importation costs and the storage cost (\$210US in total per container). If the product arrives spoiled, the exporter also has to pay an inspection, reclassification and repacking of the product. The exporter carries the risk while the product is being commercialized by the importer, so its insurance should cover this stage. All these costs represent a serious weakness for the company because it has to incur them even before selling the mangos. The importer sells the product, deducts 10% of sales commission and the rest of the money is transferred to the exporter within 30 days. This means that the exporter has to have a huge budget for working capital because it incurs its costs before selling the product and in addition receives its revenues 30 days later.

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**Insurance, taxes, and zoning/ Opportunities**

Honduras and the rest of the Central American countries recently signed a free trade agreement with United States, CAFTA. In this agreement the United States provides some preferences related to taxes and zoning that are favorable for the Central American countries.

**Insurance, taxes, and zoning/ Threats**

The US has also signed free trade agreements with Mexico, which is the company's strongest competitor, and with some countries in South America. If these countries have a better negotiating ability than the Central American countries, their products may have more preferences than Honduran products. The company also faces the threat that the laws that regulate taxes and zoning will change at any time.

Recommendations/ Insurance, taxes, and zoning were:

- ◆ Sometimes the free trade agreements offer a lot of opportunities for the exporters/ importers; however, these opportunities are not used because the producers have a lack of the information. Thus, QUATRO MANGO PRODUCERS should study the free trade agreement that was signed between Honduras and United States and should try to identify the opportunities it provides.
- ◆ Again it is important to increase the amount of product for exportation to reduce the insurance and tax costs.

**ENDNOTES**

- <sup>1</sup> Agricultural Marketing Service  
<http://www.ams.usda.gov/standards/MANGOS.pdf>
- <sup>2</sup> Food and Agriculture Organization of the United States (FAO), Corporate Document Repository  
<http://www.fao.org/DOCREP/004/Y1669E/y1669e0g.htm>
- <sup>3</sup> International Trade Centre  
<http://www.intracen.org/organics/documents/US.pdf>

- <sup>4</sup> International Trade Centre  
<http://www.intracen.org/mds/sectors/organic/usmarket.htm>
- <sup>5</sup> National Mango Board  
<http://www.nationalmangoboard.com/assests/pdf/CurrentMangoDemographics2006.pdf>
- <sup>6</sup> National Mango Board  
<http://www.nationalmangoboard.com/assests/pdf/CommodityMovementReports.xls>
- <sup>7</sup> United States Environmental Protection Agency  
<http://www.epa.gov/fedrgstr/EPA-IMPACT/2007/March/Day-12/i4444.htm>
- <sup>8</sup> Agreement between United States and Honduras Governments By US: Department of Agriculture/ Animal and Plant Health Inspection Service (APHIS) By Honduras: Ministerio de Agricultura y Ganaderia/ SENASA

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- Food and Agriculture Organization of the United States (FAO), Corporate Document Repository  
<http://www.fao.org/DOCREP/004/Y1669E/y1669e0g.htm>
- International Trade Centre  
<http://www.intracen.org/organics/documents/US.pdf>
- International Trade Centre  
<http://www.intracen.org/mds/sectors/organic/usmarket.htm>



National Mango Board

[http://www.nationalmangoboard.com/assests/pdf/  
CurrentMangoDemographics2006.pdf](http://www.nationalmangoboard.com/assests/pdf/CurrentMangoDemographics2006.pdf)

National Mango Board

[http://www.nationalmangoboard.com/assests/pdf/  
CommodityMovementReports.xls](http://www.nationalmangoboard.com/assests/pdf/CommodityMovementReports.xls)

United States Environmental Protection Agency

[http://www.epa.gov/fedrgstr/EPA-IMPACT/2007/  
March/Day-12/i4444.htm](http://www.epa.gov/fedrgstr/EPA-IMPACT/2007/March/Day-12/i4444.htm)

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