



Contemporary Microenterprise

CONCEPTS AND CASES



EDITED BY

Joseph Mark S. Munoz

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Joseph Mark S. Munoz

Professor of International Business, Millikin University, USA



Edward Elgar

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Foreword

Leo-Paul Dana

Since I was a child I have been fascinated by microenterprise and it was with delight that I accepted the invitation to write the Foreword to this book.

In Alaska, somebody pans for gold (Dana, 1995 [2002]). Meanwhile, in Cuba, an old man walks around with one tube of toothpaste. What do these two individuals have in common? In Cuba, elderly individuals with few teeth nevertheless receive a ration booklet, with which it is possible to purchase toothpaste; this toothpaste can be sold at a profit, on the black market, to others who can afford such a luxury (Dana, 1996d). In fact, the fellow in Alaska and the other in Cuba are both operating microenterprises.

Although the small business owner tends to be viewed by Western researchers as the owner of a formal firm (Dana, 1996b), many are microenterprises operating quite informally. While each one may have little turnover, the combined volume of business conducted by microenterprises is important. And examples are many.

In Albania, a vendor's inventory totals eight bananas (Dana, 1996a). In Bolivia, as I wrote in Dana and Anderson (2007):

centrally located, at Plaza San Francisco, is a centre for informal enterprise. Women squeeze fresh oranges, selling juice. Elderly men sell telephone tokens. Others have scales on which people can weigh themselves for a nominal fee. Numerous children push their way through the crowd looking for prospective clients with shoes to shine; a shoeshine costs little for natives and considerably more for white people. At impromptu stalls, deceitful vendors display imitation sunglasses to which the name Ray Ban [sic] has been added.

In Moldova, I recap from Dana (2005):

while some vendors stand still on busy sidewalks, others are ambulant, peddling their goods on buses. Others set up tables. It is common to come across a sidewalk on which there are several tables, each attended by a self-employed vendor selling nothing but sunflower seeds, packaged in recycled sheets of paper. Usually, none has an inventory exceeding a few pounds; turnover is limited. Other vendors set up a table and pace around it. Along highways are peasants selling, or attempting to sell, apples and potatoes.

In Morocco: “On a random day in the big square, there may be 50 orange juice sellers side-by-side. Water vendors wearing similar brass aprons carry water in identical goatskin bags” (Dana and Dana, 2008). In Mozambique, a dealer is selling cooking oil in bottles used for Canada Dry beverages (Dana, 1996c).

In Vietnam: “along the road to Hanoi, stalls display one-liter Coca-Cola bottles filled with kerosene” (Dana, 1994). Also in Vietnam, as I have witnessed: “fish are being laid out in tidy rows; some of the fish are still flopping on the merciless, hot pavement . . . Self-employed vendors sell food to passengers on state-run trains, while some children run along the aisles fanning passengers” (Dana, 2007). Many micro-enterprises are bustling and much is to be learned from researching them.

Cantillon (1755 [1955]) focused on the entrepreneur as a person, and for the next 200 years, considerable research investigated the entrepreneurial personality. However, a focus on individual personality characteristics failed to explain the different rates of self-employment (Dana, 1997). In April 1987, world leaders in entrepreneurship research were invited to London, Ontario to discuss the future of the discipline. They concluded that: “studying entrepreneurs as individuals is a dead end” (Leighton, 1988, 76). As noted by Bygrave and Hofer (1991) and Dana (1990), there has been a shift away from the traditional focus on the self. Drakopoulou Dodd and Anderson (2007) suggested that the dynamics of embeddedness and social conditioning should be given the same weight as the entrepreneur’s individual agency.

I subscribe to the school that gives importance to the impact of embeddedness, social conditioning, and the environment. Therefore, I believe that studies that investigate entrepreneurship as if it were an isolated phenomenon – derived from the self and based on the psychological traits of the entrepreneur – risk ignoring important causal variables arising from the environment (Dana, 2009, 2010).

This book brings together authors who use qualitative as well as quantitative methods to learn and to teach us about microenterprises that operate in various environments of our globalized world, and for this I congratulate them.

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1. Introduction

J. Mark Munoz

The contemporary global business environment has transformed business modalities in many ways. Breakthroughs in telecommunication and related technologies have sped up cross-border communication and the acquisition of information. Innovations in transport and logistics have made international travel more convenient and faster, and expedited the movement of goods. International trade agreements and country policies have made many foreign locations attractive investment destinations. The Internet paved the way for the emergence of new and creative business models such as e-commerce, virtualization, outsourcing and many more.

Amidst this landscape, numerous challenges exist. Global enterprises are experiencing heightened competition. Companies need to perform optimally and leverage the highest-quality products and services at the lowest possible price. Furthermore, businesses have to confront and respond to external international factors such as oil prices, financial crisis, security issues, and trade accords, among others.

In the contemporary environment businesses need constantly to evolve, innovate, and reconfigure their organizations to survive and succeed. For instance, the global financial meltdown in 2008 led many business organizations to cope by expanding sales, lowering costs, and enhancing quality with little or no additional capital resources. Businesses that could not find the optimal operational mix ended up on a route towards bankruptcy.

The tough global environment requires small and medium-sized enterprises, private corporations, and even governments to re-examine existing models and seek out viable operational forms.

A model worth exploring is the “microenterprise.” These are very small business units that have existed from the very early stages of business evolution. It is entrepreneurship at its very core, and built on practical and time-tested approaches. In recent years, microenterprises have survived and even flourished in the toughest economic situations. Countries that experienced financial crises have seen a multitude of hungry and unemployed entrepreneurs coming up with inventive business models to feed themselves and their families. The models created were

lean, market-responsive, required minimal capital, and were profitable. With tough economic times, countries around the world are seeing the emergence of microenterprises. Due to their large numbers and humble forms, these ventures have become the “silent transformers” of economies around the world.

Microenterprises offer so much value to a country’s economy and society. They help create jobs, stimulate income, contribute to purchasing power, lower costs, and add business convenience, to name a few. As there are millions of these types of ventures worldwide, they can be viewed as the “glue that bonds the global business community.” In every minute of each single day, there are millions of microenterprises in different corners of the world pouring in their small but significant business contribution to society.

The objective of this book is to highlight microenterprise models and explore the factors that impact their existence. Research studies and viewpoints of leading academics from various parts of the world are featured in the book in order to gain a deeper understanding of microenterprises and their operational environments. Through this book, it is hoped that: (1) academics and students worldwide will learn relevant lessons and share them with others so that understanding and appreciation of the practice may be expanded; (2) businessmen and executives from both small and large companies will gain new insights from the microenterprise model and apply them in industry; and (3) government officials, international organizations, non-governmental organizations, consultants, and policy-makers may absorb fresh ideas and help create an environment that would allow microenterprises to flourish worldwide.

There exist several definitions of a microenterprise. In fact the term is perceived and utilized in different ways across countries. Establishing a clear yet broadly acceptable definition is well suited for a book that utilizes the word in the title. The combined terms “micro” and “enterprise” suggest that microenterprises are fairly small business operations. Many of them have gross sales of under \$25 000 a year (Tinker, 2000).

Gathered literature point out to several characteristics of the microenterprise:

- Owner-operated initiatives. Microenterprises are viewed as ventures that are owner-managed, having few employees, and with limited capital (Tezler, 1992; Langer et al., 1999). Microentrepreneurs (persons engaged in the practice) find it challenging to find employment through regular channels, and tend to create their own jobs (Woodworth, 2000) by starting a small business enterprise. This may be a full-time or part-time arrangement.

- Participated in by marginalized segments. In emerging nations, the sector is largely composed of women with families, the physically challenged, and residents in rural communities (Dorfling, 2001).
- Engaged in sales of products or services. Microenterprises are constituted by street vendors, retailers, and traders who sell products or services to build income and expand their assets (Eversole, 2004).
- Driven by entrepreneurial approaches. Small firms are often characterized by chaos, and driven by effective utilization of competencies in entrepreneurship, marketing, and innovation (Durkin and McGowan, 2001). Microenterprise success has been associated with enterprise profitability (Chaganti and Chaganti, 1983).
- Diverse organizational forms. Microenterprises are organized in different forms and may be structured as a sole proprietorship, partnership or family enterprise, typically with less than ten employees, and more commonly less than five employees (Storey, 1994; Walls et al., 2001).
- Flexible locations and arrangements. There is a lot of flexibility in how microenterprises are operated. The majority of microenterprises tend to be operated from home (Clark et al., 1999). Piore and Sabel (1984) alluded to the advantages pertaining to the flexibility and uniqueness of business structures of microenterprises.
- Low entry barrier. Most individuals with an entrepreneurial drive and motivation can operate a microenterprise. Microenterprises can function across diverse sectors and have low entry requirements in terms of capital and skills (Lee, 2008).
- Constrained by capital. Microenterprises, despite their size, are often constrained by limited inventory and capital access (Eversole, 2004).
- Responsive to market trends and customer requirements. Being small by nature, microenterprises have the ability to be flexible, and can respond to market and customer demands quickly (Herman Trend Alert, 2009).
- Experiencing growth. Microenterprises are appearing in many corners of the world (Carbonara, 1997).

By combining these definitions, a microenterprise is comprehensively defined as: “A very small enterprise that is typically owner operated and participated by marginalized segments, that sells a product or service through entrepreneurial methodologies and utilizing diverse organizational forms. It operates under flexible arrangements and locations to manage entry barriers and capital constraints, in order to respond to market trends and customer requirements to achieve profitability and business growth.”