

**The Role of
Small Businesses and Cooperative Businesses
in Community Economic Development:**

**A Comparison of
Leading and Lagging Rural Communities**

Prepared by:

Canadian Rural Revitalization Foundation
David Bruce, Mount Allison University

Prepared for:

The Canadian Rural Partnership, Government of Canada

2000



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ISBN 0-662-35124-X

Catalogue no. A22-351/2003E-HTML

Agriculture and Agri-Food Canada Publication Number 2185/E

This publication is available on the Internet at: www.rural.gc.ca

Également offert en français sous le titre : **Rôle des petites entreprises et des coopératives dans le développement économique communautaire : comparaison des collectivités les plus et les moins dynamiques**, Agriculture et Agroalimentaire Canada No de publication 2185/F

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Prepared for:

The Interdepartmental Working Group on Rural and Remote Canada

Prepared by:

Canadian Rural Revitalization Foundation (CRRF)
David Bruce, Mount Allison University

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Executive Summary

Background

This report explores the ways in which small businesses and cooperative businesses contribute to the relative vitality of rural communities. By relative vitality we refer to the relative leading or lagging status of a community. We explore these contributions to community vitality through a lens of community economic development (CED).

The key questions in this context were:

- What types of leadership roles do small businesses and cooperatives play in rural communities?
- To what extent do small businesses and cooperatives benefit from, or contribute to, the “informality” of rural life?
- Are rural businesses and cooperatives “entrepreneurial” in nature?
- How do rural businesses and cooperatives access and use technology?
- What are the characteristics of success in rural businesses and cooperatives?
- What networks and information do rural businesses and cooperatives use and develop to enhance their operations?

Methodology

A small business is one that employs fewer than 50 people, located in one of several possible community locations (home based, storefront, or some other location), and with no restriction based on sales volume. A cooperative is any type of cooperative without regard to size, sales volume, or sector type. Thus it includes producer and consumer cooperatives, as well as those in the financial sector (credit unions and caisses populaires), and others. The data set is relatively small, comprised of 56 small businesses and 34 cooperatives from 20 different communities. The small sample sizes mean that analysis of subcomponents of the sample (by business types, for example) is extremely limited. It also means that the results must be viewed with caution. However, the findings do play an important part of informing a longer term inquiry about small businesses, cooperatives, and rural communities.

A total of 20 of communities within the New Rural Economy sampling frame chosen as locations to conduct interviews and surveys. Nine of these were leading communities and 11 were lagging communities.

Differences Between Small Business and Cooperative Sectors

- More of the cooperatives have experienced growth in each of sales, full time employment, and part time employment, in the past three years.
- Volunteer board members contribute almost twice as many hours per month to their volunteer work in the community, compared to that of small business persons.
- Small businesses are much more likely to contribute to community fundraising events than are cooperatives.

- Managers of cooperatives have a general impression that the community has the resources to offer financial help for people who are starting up a new business. Small business respondents do not share this view.
- There are few differences in the percent of cooperatives and small businesses which feel that they are leaders in their sector on a variety of business issues. However, many more of the cooperatives felt that they were leaders in the area of changing their pricing and in their purchasing practices.
- On a contrasting note, however, cooperatives were much less likely to feel that they, as a collective enterprise, exhibit entrepreneurial characteristics. In particular, many more of the small business respondents felt that they were innovative, that they liked to take on challenges, and that they take calculated risks.
- Cooperatives were much more likely than small businesses to have purchased new computer equipment in the past three years. Seven of the cooperatives and only two of the small businesses have e-commerce capacity (for completing transactions on-line), and 42% of cooperative managers compared with 26% of small businesses use the Internet for networking purposes.
- Small businesses were much more likely to invest in their business for the purpose of changing production or service patterns, while cooperatives were much more likely to invest for the purposes of improving customer service and modernizing their equipment and buildings.
- While there were few important differences related to the relative importance each places on the adoption of new technologies for various aspects of business activity, cooperatives were much more likely to place greater emphasis on this for the purposes of retaining existing markets and customers, and for training.
- Small businesses were much more likely to cite labour force problems as a disadvantage resulting from their rural location.
- Many more (almost one-third) of small businesses which had applied for a loan were turned down at some point, and almost all of these were in lagging communities.
- Small businesses were much more likely to suggest that local government and the federal government can and should be doing something to improve the business situation. Suggestions for action primarily related to the need for lower taxation at both levels.
- Many more of the cooperatives identified that increasing competition is a current challenge for their business operation.
- Many more in the small business sector are experiencing problems with high levels of payroll taxation.
- More of the cooperatives belong to formal networks and alliances, and many more of the cooperatives participate in regular face-to-face networking sessions within their communities and within their sectors.
- Cooperatives are more likely to participate in local trade shows than are small businesses.

Comparing the Business and Cooperative Sectors in Leading and Lagging Communities

Within leading communities, the small business sector is much more likely than the cooperative sector to:

- agree that for people starting a new business there is difficulty getting financing from sources other than banks for their venture;
- agree that they are creative, innovative, like challenges, and take calculated risks;
- place a greater emphasis on adopting new technologies to develop new products and services and to develop new markets;
- state that the high quality of their products and services and their good reputation are leading factors explaining their business success.

Within leading communities, the cooperative sector is much more likely than the small business sector to:

- have experienced increases in full time employment in the past three years;
- contribute to fundraising activities;
- give prizes for events and to award scholarships to students;
- be impacted by provincial and federal government regulations as they relate to their ability to expand their business operations;
- to participate in local trade shows.

Within lagging communities, the small business sector is much more likely than the cooperative sector to:

- agree that they are innovative and like to take on challenges;
- be impacted by federal government regulations as they relate to their ability to expand their business operations;
- state that the high quality of their products and services and their good reputation are leading factors explaining their business success;
- participate in regional trade shows.

Within lagging communities, the cooperative sector is much more likely than the small business sector to:

- have experienced growth in sales and part time employment;
- have board members involved in community organizations as leaders;
- contribute to fundraising activities;
- see themselves as leaders in adopting new technologies, human resources management, changing their pricing, and adopting new purchasing practices;
- place a greater emphasis on adopting new technologies to retain existing markets, to develop new markets, and to develop new suppliers.

Conclusions

The small business and cooperative sectors have a number of skills and experiences which are transferable to a community economic development process. However, there are some limitations. Access to capital, lack of community support for new business startups, lack of community entrepreneurship, labour force challenges, and a generally (perceived or real) poor

business climate create real barriers for significant impact and participation in community economic development.

There are significant limitations to business growth and expansion as a revitalization strategy in rural communities. Entrepreneurs and cooperatives face significant challenges which must be addressed before they can make important contributions to local CED processes, and before they can be a driving force of rural revitalization. One might argue that few businesses or cooperatives in our sample can be considered as entrepreneurial at all. They are not risk takers by their own admission, and risk aversion is a major blockage to rural growth.

Policy Issues

- Targeted initiatives to increase access to information about the adoption of new technologies for a variety of business purposes is required. This is needed for both the small business and cooperative sectors.
- The federal government must advance its efforts to assist more businesses and cooperatives to use of e-commerce as a means to enhance competitiveness in the business sector. Very few of the respondents are providing e-commerce opportunities for the customers, and very few have plans to do so in the near future.
- Changes in the regulatory environment, as it affects both sectors in their business development, is warranted. At all three levels there was a universal call for lower taxation of all types, particularly as it relates to payroll taxes and the employment insurance system at the federal level, and property taxes at the local level. The cooperative sector identified that changes at the provincial level in the form of updating and even reinventing the Cooperatives Act, is needed.
- For both sectors, employees and accountants figured prominently as primary sources of information from important business decisions, for advice and guidance, and for general business information. Perhaps a targeted effort by government and sector organizations to provide these groups in particular with critical information about business and market issues would be helpful in strengthening their role as information sources.

Research Issues

- There is a need to understand more about the local dynamics of financial and moral support for people attempting to start new businesses. More research about personal and community values may help to understand the “moral” issues; more research about awareness of and access to alternative forms of financing, including emerging forms of micro-credit, community loan funds, and community foundations, and existing vehicles within banks, credit unions, community business development centres, the Business Development Bank of Canada, and the various federal and provincial development agencies, would be helpful. Furthermore, existing research related to this issue should be reviewed with an eye to potential policy and program reforms that might improve the situation for rural business startups.
- There is an opportunity to explore more thoroughly the nature of collective and community entrepreneurship. It also appears that business people born locally identify quality of life reasons moreso than economic ones to explain why they are located where they are, while

those from away are more likely to identify economic reasons. What are the successful models for building an entrepreneurial culture? Further research on the entrepreneurship characteristics of the locally born business people (who are more concentrated in lagging communities) compared to business people born in other communities (more concentrated in leading communities) might help to uncover critical points related to relative business success and entrepreneurship. Research on the linkages between the education system (specifically its curriculum) and entrepreneurship development should be reviewed with a view to exploring how best practices or success can be modelled elsewhere.

- For both sectors there is a greater emphasis on technology use for product / service development and for market development, and less emphasis related to human resources, employee training, and working with suppliers. More research on the potential workplace opportunities and barriers for using technology for internal and external training, and the support elements required for that, will help to understand how best to deliver this support.
- Small businesses and cooperatives have difficulty with building awareness about their businesses during startup and first year of operations, and particularly in lagging communities. There are issues here related to adequate financial resources for generating this awareness, but there may be other issues related to the effectiveness of identifying appropriate target markets for promotion, and to the relative support in the local community. Is the problem specific within their community, within the market they target, or germane to particular sectors? We could speculate that insufficient business marketing skills combined with a lack of capital for marketing and advertising could be part of the problem. More research on this issue is required.
- Businesses generally face significant challenges to expand their sales in markets beyond the immediate community. Many of our respondents felt that businesses in their community faced problems in expanding to meet demand and opportunity, and many felt that businesses generally lack of skill and knowledge for expansion. More research is required to understand the specific barriers.
- While it is clear that “amenity” related factors are the most frequently cited, it is less clear what the specific amenities are that lead people to choose a rural business location, or the extent to which the location is freely chosen or chosen by default due to a lack of choice or mobility. Further research on these issues is needed, particularly from a CED and a business growth perspective.
- From a research perspective, there is an opportunity to learn more about the transfer of skills and knowledge business people and cooperative leaders bring with them from their business experiences into community activities. What are the specific skills and knowledge they employ in their broader community activities? To what extent do they “transfer” these to others, in a capacity building context?
- Many of the small businesses use personal finances for their operations, and only half use their business profits for operations financing. It is unclear how much of this pattern is due to the pluriactivity of rural businesses, and how much of it is part of a survival strategy. More research is required in this area.

1.0 Introduction

The purpose of this report is to explore the ways in which small businesses and cooperative businesses contribute to the relative vitality of rural communities. By relative vitality we refer to the relative leading or lagging status of a community. Leading communities are broadly characterized as being closer to metropolitan areas, having more of their economic base focussed on global markets, having fewer market fluctuations, having higher levels of local capabilities (including, among others, higher levels of education, income, stable households), and having higher economic outcomes (including, among others, higher levels of home ownership and higher incomes). (Reimer, 2000, 1997a, 1997b) For lagging communities the inverse is true.

We explore these contributions to community vitality through a lens of community economic development (CED). Different rural communities in Canada have had relative success in development. Some communities have experienced growth, others decline. Some have rebounded from the loss of major employers, while others have witnessed a spiralling decline in their economic fortunes. What differentiates these communities? Are there particular characteristics, particularly with respect to small businesses and cooperatives, which might suggest a greater likelihood of successful development? In recent years there has been a growing interest in CED as an approach to community development. This approach seems to be somewhat linked to successful development in communities.

For our purposes, CED is defined as a process whereby local residents take control over local problem solving and their future development, through identifying and realizing opportunities. (Dykeman, 1987) CED is about enhancing the quality of life, the viability of community, and stability in the community. It involves a comprehensive, wide-ranging program of activities (economic, social, environmental) for the overall improvement of the community as a place to live and work. Underlying the notion of CED is the desire of the community to build community assets, primarily through the guise of community-owned businesses, where the income generated is redistributed locally for the social and economic betterment of all.

The relative health and success of the small business sector is an important component of a community's well-being. Small businesses are the major generator of new jobs, and they contribute a great deal to the overall quality of life in community. However, small businesses are also the most vulnerable to change brought about by shifts in the marketplace. In some cases small businesses serve as a laboratory for experimentation with new business ideas at low risk levels. (Wehrell, 1994)

It is also recognized that access to training and access to information are key issues which affect the competitiveness and viability of small businesses. (Joyal, 2000) A lack of training for business owners and their employees, and lack of information on a wide variety of topics and issues, is equated with a lack of competitiveness and fewer prospects for long term growth and success of businesses. Those with greater access are more likely to be more successful. Studies have shown that small rural businesses generally do not have sophisticated external information

networks, relying more on information obtained directly from their customers. (Julien, 1997, Fourcade and Marchesnay, 1997) Joyal (2000) also identifies that developing an export market and developing partnerships and networks for a variety of tasks are also critically important for many small businesses. It is the development of these networks which present an opportunity for local and regional sharing of information as a means to business growth and expansion. (Belotti, 1999; Niitykangas, 1996; Rallet and Torre, 1998)

In looking at the key elements of CED, three are directly related to the small business sector's potential involvement and integration into a local, CED process: access to capital; entrepreneurial spirit; and leadership. (Dykeman, 1992) Successful CED initiatives involve the business community and the skills, experiences and attitudes they bring with them to the process. It is recognized that CED is a complex multi-stakeholder process. Communities with a small business sector which is entrepreneurial, which has access to capital or which invests in other businesses, and which offers leadership skills to the community, are more likely (but not always) to have successful CED efforts. Studies have shown, however, that in rural areas many of the key entrepreneurs tend to be people who have moved into the community from elsewhere. (Illouz-Winiki and Paillard, 1998; Lulec, 1998; Nothdurft, 1992) Sometimes CED is driven by people and entrepreneurs not originally from the community.

With respect to cooperatives, there is a long history in Canada of their role in community economic development, particularly in rural communities, and particularly in Atlantic Canada, Quebec, and the Prairies. (MacPherson, 1979; Macleod, 1994; Phifer, List and Faulkner, 1989; Fairbairn, 1997; Baker and Hammond Ketilson, 1994) Furthermore, cooperatives play a role in fostering multi-community collaboration. (Baker, 1990; Fairbairn, et al., 1995; Borich, 1994) Rather than having individual communities engage in competition for limited resources, services, and markets, co-operatives can provide models and vehicles for collective action on an inter-community basis. (Centre for the Study of Co-operatives, 1997) This aspect forms the basis for identifying and selecting cooperatives for this study, as noted in Section 2.0 Methodology.

The cooperative sector also makes important contributions to social capacity building along with economic growth. (Fairbairn, 1998; Fairbairn, et al., 2000) From a social capacity perspective, continuing education, leadership skills, and civic and social engagement are all benefits of co-operative enterprises. (Laidlaw, 1971; Phifer, List, and Faulkner, 1989) They are inclusive organizations that encourage, and benefit from, membership diversity and help create community members who are experienced in collaborative and consensual approaches to decision making. (Fairbairn, et al., 1995; Flora, et al., 1997; Hammond Ketilson, et al., 1998) Co-operative involvement contributes to community capacity building for further community development undertakings. (Hustedde, 1991; Isreal and Beaulieu, 1990)

For an economic growth perspective, co-operatives fill gaps in the marketplace and generally satisfy a common need or service. They are particularly relevant for traditionally under-served rural and remote communities of Canada. (Shepstone, 2000) Furthermore, local business enterprises also benefit from managers and employees who have gained practical experience through their involvement with voluntary organizations such as co-operatives. (Wickham, Fuchs

and Miller-Pitt, n.d.; Morehouse, 1989) As the literature points out, then, there are also many similar connections between cooperatives and community economic development. Of particular interest are the leadership skills developed within cooperatives which might be transferred to community economic development processes and activities, and the experiences within cooperatives for enhancing and guiding community economic development work.

Thus, we ask several questions:

- What types of leadership roles do small businesses and cooperatives play in rural communities?
- To what extent do small businesses and cooperatives benefit from, or contribute to, the “informality” of rural life?
- Are rural businesses and cooperatives “entrepreneurial” in nature?
- How do rural businesses and cooperatives access and use technology?
- What are the characteristics of success in rural businesses and cooperatives?
- What networks and information do rural businesses and cooperatives use and develop to enhance their operations?

There are two important limitations in this report. First, it is very difficult to distinguish which are the dependent or independent variables related to leading and lagging communities. Do communities which are characterized as being leading find themselves in this state because they have entrepreneurial business people, or are they more entrepreneurial because of their leading status? To address this limitation we look at the strength of the associative relationship between the leading and lagging status of the community and a number of different variables. Second, the data set is relatively small, comprised of 56 small businesses and 34 cooperatives from 20 different communities. The small sample sizes mean that analysis of subcomponents of the sample (by business types, for example) is extremely limited. It also means that the results must be viewed with caution. However, the findings do play an important part of informing a longer term inquiry about small businesses, cooperatives, and rural communities.

1.1 Outline of Report

The report begins with a brief discussion of the methodology employed (Section 2.0) and the basic characteristics of the two population samples (Section 3.0). It then moves to an analysis of the small business sector first (Section 4.0), and then that of the cooperative sector (Section 5.0). This is followed by a discussion of the similarities and differences between the two sectors (Section 6.0), and between leading and lagging communities (Section 7.0). The report concludes with a discussion of policy issues and implications stemming from the findings, and directions for future research (Section 8.0).

2.0 Methodology

For the purposes of this report a small business is one that employs fewer than 50 people, located in one of several possible community locations (home based, storefront, or some other location),

and with no restriction based on sales volume. A cooperative is any type of cooperative without regard to size, sales volume, or sector type. Thus it includes producer and consumer cooperatives, as well as those in the financial sector (credit unions and caisses populaires), and others.

The process used for selecting communities for study is based on the work of the Canadian Rural Revitalization Foundation's (CRRF) New Rural Economy (NRE) project. (Reimer, 1997a; 1997b) Using the census subdivision (CSD) as the level of geography, all CSDs in Canada were analysed using a factor analysis procedure based on census data describing the following five categories:

- exposure to global processes
- market fluctuations
- metropolitan adjacency
- local capabilities
- economic outcomes

The combination of these factors result in a “sampling grid” composed of 32 cells or “different” types of communities, half of which are categorized as leading communities, and half of which are lagging. A single community from each cell was selected to represent that type of rural community. A total of 20 of these communities were then chosen as locations to conduct interviews and surveys, based on a variety of factors including resources available and availability of site researchers to complete the work. Nine of these were leading communities and 11 were lagging communities. Table 1 shows the communities where the research took place in this study.

Table 1 Location and Status of Communities

Community	Province	Status	Community	Province	Status
Winterton	NF	Lagging	Tweed	ON	Lagging
Twillingate	NF	Lagging	Carden	ON	Leading
Lot 16	PE	Leading	Usborne	ON	Leading
Springhill	NS	Lagging	Seguin	ON	Leading
Blissfield	NB	Lagging	Spalding	SK	Lagging
Neguac	NB	Lagging	Wood River	SK	Leading
Ste-Francoise	QC	Lagging	Hussar	AB	Lagging
Cap-a-L'aigle	QC	Leading	Ferintosh	AB	Lagging
St-Damase	QC	Leading	Tumbler Ridge	BC	Leading
Taschereau	QC	Lagging	Mackenzie	BC	Leading

Field work was conducted during the summer of 2000. A stratified sampling procedure in each community was used to select a maximum of four small businesses; one each from manufacturing, exporting (to a national or international market), e-commerce (where customers

of the business purchase products or services on-line), plus one other business. A total of 56 completed surveys were returned (of the approximate 1250 small businesses in these communities) from the small businesses identified. In some communities there were fewer than four businesses; in others, due to refusal or non-participation on the part of some, fewer than four surveys were completed. An attempt was made to obtain a completed survey from the owner; in cases where this was not possible, a senior manager was selected.

A full “population census” approach was taken to select all possible cooperatives located within each of the chosen communities. A cooperative was included in the population if any one of the following conditions were satisfied: the cooperative was located in that community; the cooperative provided services to that community; the cooperative had members from that community. A total of 34 cooperatives (of the approximate total of 42 in these communities, except Twillingate, Winterton, Carden, and Seguin, where there were no cooperatives) were surveyed. An attempt was made to survey both the manager and one board member (preferably the president or someone on the executive) from each cooperative. This was not always possible. A total of 26 managers and 25 board members were surveyed, from the 34 cooperatives. For the purpose of analysis, factual and structural information about individual cooperatives is drawn from the surveys of the 26 managers plus the surveys of the 8 cooperatives from which we only received a completed survey from a board member. Analysis of issues where opinions or judgements were required are discussed from the perspectives of both the managers as a group and of the board members as a group.

It is important to note that the business orientation, then, of the two samples is quite different. Within the small business sample, for example, there would not be any from the financial sector because bank branches are not considered small businesses. On the other hand, because of the “census” approach to collect information from all cooperatives, credit unions and caisses populaires, common in many rural communities, are prevalent within our cooperative sample. So there is, both by default and by design, no intention and no possibility to compare similar business sectors between the small business and cooperative samples. Furthermore, given the relatively small samples in both, there is no attempt to provide a detailed analysis or breakdown across sectors.

3.0 Profile of Small Business Sector and Cooperative Sector Respondents

Of the small businesses surveyed, we were able to obtain direct responses from the owners in 82% of cases, while another 11% of respondents were the managers of those businesses. (Table 2A) Three-quarters of the respondents were males, while 25% were females. A total of 23 businesses (41%) were located in leading communities, with 59% in lagging communities.

Table 2A Business Respondents by Position in Firm, Gender, and Community Type

	% (n=56)
Owner	82
Manager	11
Other	7
Male	75
Female	25
Leading	41
Lagging	59

Of the cooperatives surveyed, we were able to obtain direct responses from 26 managers and 25 board members from the 34 cooperatives. Two-thirds of the managers surveyed were males and one-third were females. Almost three-quarters of the board members were males. Of the 34 cooperatives, 19 (56%) were in lagging communities, with balance being in leading communities. (Table 2B)

Table 2B Cooperative Respondents by Gender and Community Type

	Managers % (n=26)	Board Members % (n=25)	All Coops % (n=34)
Male	65	72	n/a
Female	35	18	n/a
Leading	39	44	44
Lagging	62	56	56

Almost half (46%) of businesses were of a “sole owner” nature; however, only 39% of those in leading communities compared with 52% in lagging communities were owned by a sole owner. (Table 3A) Leading communities had a greater percentage of family owned businesses (30%) compared to those in lagging communities (19%). The higher degree of “partnership” businesses among those in leading communities suggests a more socially integrated business climate in those communities.

Because the methodological approach called for the targeting of manufacturing, exporting, and e-commerce businesses, it is not surprising that the two most common types of businesses in the sample are processing / manufacturing (27%) and hospitality / accommodation (20%). a greater share of the businesses in lagging communities were in fact from the processing / manufacturing sector (31%) compared with only 19% among businesses in leading communities. (Table 3A)

Almost half (47%) of respondents were born in and around the community in which their business operates. However, there is a degree of difference in the birth origin of respondents between the two types of communities. In leading communities there is a much more even distribution of respondents who were born in the community, in urban and rural communities elsewhere in the province, and in another province. In lagging communities more than half of the respondents were born in the community, with another 25% from another rural community within the same province. Relatively fewer are from another province or country. (Table 3A)

The birth origin of business owners is also directly related to the self-identification of the primary reasons for locating their business in rural communities. Those born locally were much more likely to identify quality of life reasons (born here, the rural environment, the clean and pristine environment), while those from other places were more likely to identify economic or business reasons (lower taxes, employee pool, market and business linkages, etc). These distinctions are important because they suggest that “entrepreneurs” who are born locally might be more inclined to remain in the community over a period of time, while those from away (who were attracted by economic conditions) might be prone to moving to another location under appropriate economic circumstances.

Table 3A Ownership Structure, Type of Business, and Birthplace of Respondent

	Total % (n=56)	Leading % (n=23)	Lagging % (n=33)
sole owner	46	39	52
partnership with other(s) in family	24	30	19
partnership with other(s)	17	17	16
other ownership structure	13	13	13
processing/manufacturing	27	22	31
accommodation/hospitality	20	22	19
retail/wholesale	13	17	9
construction/maintenance	11	13	9
other	29	26	31
born locally	47	39	53
born in another rural community in this province	21	17	25
born in an urban community in this province	13	13	12
born in another province	14	26	6
born in another country	4	4	4

Among the cooperatives surveyed, one-third were in the financial sector (credit unions and caisses populaires). The next largest group, about one-quarter, were in the primary sector (for example, forestry harvesting and management). Other cooperatives in the sample included those providing services (such as housing or funeral cooperatives), utility providers (all found in lagging communities), and others. (Table 3B) Primary and financial sector cooperatives make up one-third each of the cooperatives in leading communities.

Table 3B Cooperative Business Type in Sample

	Total % (n=34)	Leading % (n=15)	Lagging % (n=19)
financial	32	33	32
primary	27	33	21
tertiary	15	20	11
utilities	9	0	16
secondary	3	0	5
other	15	13	16

Many of those involved in cooperatives are originally from the communities in which they now live. Among managers, almost two-thirds were born locally, and 75% of managers working for cooperatives in lagging communities were born locally. Three-quarters of board members were born locally with no important differences between those serving cooperatives in leading or lagging communities. (Table 3C)

Table 3C Birthplace of Cooperative Managers and Board Members

	Managers			Board Members		
	Total % (n=26)	Lead % (n=10)	Lagg % (n=16)	Total % (n=25)	Lead % (n=11)	Lagg % (n=14)
born locally	62	40	75	76	73	79
born in another rural community in this province	12	20	6	4	0	7
born in an urban community in this province	4	0	6	8	9	7
born in another province	15	20	13	8	9	7
born in another country	8	20	0	4	9	0

Half of the cooperatives surveyed have a board membership of 7 or fewer, and this is relatively the same for cooperatives in both leading and lagging communities. However, the average board

size in lagging communities in 9.4 compared to 7.4 in leading communities. (Table 4) On the surface this suggests that more participation in overall decision making is present in lagging communities. However, it might also suggest that there is a higher degree of inefficiency with these larger board, and that they might be less innovative and risk-taking as wider and more distributed concerns are taken into account. Membership size is different between the two types of communities, with those in leading communities have higher average number of members.

Table 4 Cooperative Board Size and Membership

	Total % (n=34)	Leading % (n=15)	Lagging % (n=19)
Board Size - Average	8.5	7.4	9.4
less than 7	15	33	0
7	35	27	42
8-9	29	27	32
10 or more	21	13	26
Membership Size - Average	2494	2990	2081
less than 261	24	27	22
260 - 1100	24	14	33
1101 - 3700	28	42	17
more than 3700	24	26	28

The average age of the businesses is 24.0 years, with the average being 28.0 years in leading communities and 21.7 years in lagging communities. The average length of time the current owner has owned the business is 12.6 years; with the average being 12.8 in leading communities and 12.4 in lagging communities. The quartile distribution (Table 5A) shows that half of the businesses were started prior to 1984, with about two-thirds of those from leading communities compared to only 42% of those from lagging communities having started in this time period.

Table 5A Year Business Opened

	Total % (n=56)	Leading % (n=23)	Lagging % (n=33)
pre 1966	26	22	29
1965 - 1983	26	43	13
1984 - 1990	23	13	29
1990 - present	26	22	29
Total	100	100	100

The average age of the cooperatives is 45.0 years, with the average being 48.7 years in leading communities and 42.4 years in lagging communities. The quartile distribution (Table 5B) shows that half of the cooperatives were started prior to 1946, with no important differences noted between those in leading and lagging communities. However, there is a greater concentration of cooperatives in leading communities which started before 1938, and greater concentration of cooperatives in lagging communities which started during the second World War.

Table 5B Year Cooperative Opened

	Total % (n=32)	Leading % (n=13)	Lagging % (n=19)
pre 1938	22	46	5
1938 - 1945	28	8	43
1946 - 1971	22	16	26
1975 - present	28	30	26
Total	100	100	100

Rural businesses are becoming more involved in the global marketplace. Between 1995 and 1999 there have been some changes in the distribution of markets of rural businesses, with a greater share of the mean percent of sales going to national and international markets. This is largely at the expense of any provincial market the businesses may have had. For example, in 1995 national and international markets comprised only 23% of the market share, compared to 29% in 1999. (Table 6A) This shift has been even more pronounced in lagging communities, where there was a collective increase from 21% to 31% in that time period. This suggests that businesses in lagging communities are becoming more involved in, and perhaps somewhat more dependent upon, global markets.

Table 6A Distribution of Rural Business Markets, Mean Percent of Sales, 1995 and 1999

% of Sales	Total (n=56)		Leading (n=23)		Lagging (n=33)	
	1995	1999	1995	1999	1995	1999
Local, within this community	42	40	46	49	39	34
Provincial, outside this community	36	31	30	24	39	35
National, outside this province	6	10	7	12	4	9
International, outside Canada	17	19	17	15	17	22

Table 6A includes all of the businesses in the sample. However, only one-third of the businesses actually have an export (to international markets) component to their operations, including one-third of those from each of leading and lagging communities. Only one of these is a “sole

owner”, while most of the others (75%) are partnership businesses. Two-thirds of those with an export component are processors or manufacturers. One-third of those with an export component have adopted certification of international quality standards, while another one-third are in the process of doing so, or thinking about doing so. More than one-third (39%) of those in the export business identify that they are currently affected by trade liberalization, but almost one-third don’t know if this is the case or not.

Five additional small businesses (4 of them processors / manufacturers) expressed an interest in exporting. Collectively they identified a need for information on markets and opportunities, assistance with becoming certified to international standards, and assistance with marketing to international destinations.

Cooperatives in this sample are highly focussed on local and provincial markets. This is not surprising given that one-third of the cooperatives are credit unions and caisses populaires, which have a heavy local market orientation, and that there are few goods producing cooperatives in the sample. Cooperatives in lagging communities were much more likely to have some provincial market orientation. (Table 6B)

Table 6B Distribution of Cooperative Business Markets, Mean Percent of Sales, 1995 and 1999

% of Sales	Total (n=34)		Leading (n=15)		Lagging (n=19)	
	1995	1999	1995	1999	1995	1999
Local, within this community	76	75	94	92	58	62
Provincial, outside this community	20	21	5	7	36	32
National, outside this province	4	4	1	1	7	6
International, outside Canada	0	0	0	0	0	1

Businesses, particularly those in leading communities, have experienced an increase in sales volume in the past three years. Almost 75% in leading communities have done so. However, this growth in sales volume has not been matched with employment growth. Slightly more than one-quarter each have had increases in full and part time employment, with those in leading communities more likely to have done so. (Table 7A)

Table 7A Businesses With Increase in Sales Volume and Employment in Past Three Years

	Total (%)	Leading (%)	Lagging (%)
Sales volume (n=53)	62	74	53
Full time employment (n=48)	29	33	26
Part time employment (n=47)	28	35	22

A greater percentage of the exporting businesses have had increases in sales volume (79%), full time employment (62%), and part time employment (46%).

Cooperatives in the sample are reasonably healthy when viewed from a change in sales volume and employment perspective. Most (80%) experienced a growth in sales volume over the past three years, while almost half have increased full and part time staff complements. Sales increases and full time employment increases were slightly more prominent among those in leading communities, with part time employment increases more prominent among those in lagging communities. (Table 7B)

In comparing the sales and employment growth patterns for cooperatives and small businesses, we note that more of the cooperatives have experienced growth in sales and both full time and part time employment in the past three years. More of the cooperatives in leading communities compared to small businesses have experienced growth in full time employment, while more of the cooperatives in lagging communities have experience growth in sales and part time employment.

Table 7B Cooperatives With Increase in Sales Volume and Employment in Past Three Years

	Total % (n=30)	Leading % (n=12)	Lagging % (n=18)
Sales volume (n=30)	80	85	77
Full time employment (n=30)	48	58	41
Part time employment (n=30)	48	46	50

Table 7B shows the findings for all cooperatives in the sample. If we factor out the financial cooperatives, the only differences that emerge is that 70% of the financial cooperatives compared to only 39% of all other cooperatives experienced an increase in full time employment in the past three years.

4.0 The Role of Small Businesses in Community Economic Development

4.1 Small Business Contributions to Rural Communities

What types of leadership roles do small businesses play in rural communities? A total of 35 (63%) of respondents belong to some volunteer group as a member (65% of those in leading communities, and 61% in lagging communities). The measure of association, Phi¹, is very small (at 0.05) and statistically insignificant, indicating that there is little or no relationship between belonging to a volunteer group and the leading or lagging status of a community. However, there is a strong relationship between being born in another community and being involved with a volunteer group. The measure of association is 0.34 and is statistically significant (0.01). People who have moved into a community to start a business tend to get involved and contribute. The most common groups that business people are members of relate to the environment (20%), public benefit (20%), sports (18%), economic such as a Chamber of Commerce, and religious (16%).

A total of 23 (41%) of respondents belong to some volunteer group as a leader (48% of those in leading communities, and 36% of those in lagging communities). The associative Phi measure for leading and lagging community comparison is marginally higher at 0.11 (but statistically insignificant). Furthermore, there are no differences between those born locally and those who have moved into the community from elsewhere. The most common groups where business people play leadership roles are economic such as a Chamber of Commerce (16%), religious (10%), and environment (10%). Business people contribute approximately 7.5 hours per month of their time to volunteer organization activities, with no difference in the average amount of time contributed by business people in leading or lagging communities.

In addition to volunteer time, business people also contribute in other ways. Most of the businesses, 45 (87%) contribute financially (in ways other than by paying taxes and providing employment income) to their communities. Almost all (96%) businesses in leading communities compared to 81% of those in lagging communities contribute financially, suggesting that businesses in leading communities are in a somewhat better position to contribute. Those who contribute most commonly give to fundraisers and sponsor specific organizations or events. (Table 8A)

¹Phi is a statistical chi-square based measure of association for nominal data (any data which is “categorized”). It divides the chi-square by the sample size and takes the square root. It is very similar to Pearson correlation in that it assigns a value of between -1 and +1. As with other relationship measures, the strength of the relationship is more statistically significant if its significance value is close to zero. In this case, we use Phi to measure association between leading and lagging status and questions with yes/no response categories. The closer the Phi value is to -1, the greater the relationship to a “lagging” status of the community; the closer it is to 1, the greater the relationship to a “leading” status of the community.

Table 8A Financial Contributions to Community by Local Businesses

Of those who contribute:	Total % (n=45)	Leading % (n=21)	Lagging % (n=24)
Give to fundraisers	69	67	71
Sponsor specific organizations or events	40	29	50
Cash/prizes for events	31	33	29
Scholarships	9	10	8
Other	20	24	16

Slightly fewer businesses make non-financial contributions, with 42 (78%) doing so. There are no differences between those in leading and lagging communities in this regard. (Table 8B) Typically this involves applying their business skills to their participation in a volunteer organization. Others do so through charity work, or by making space available in their business for activities. Some also provide co-op work placements for students.

Table 8B Non-Financial Contributions to Community by Local Businesses

Of those who contribute:	Total % (n= 42)	Leading % (n= 17)	Lagging % (n= 25)
Member of group	41	47	36
Charity work	32	24	36
Use of space	29	35	36
Donate labour / equipment	21	18	24
Other	33	47	24

In a general sense, the business community sees their contributions to general community activities as important. Most agree that business people get involved in community organizations, particularly as members, and it is their perception that the general public sees the involvement of business people in community activities and organizations as being a good thing for the community. (Table 9) However, there are important differences between leading and lagging communities. Business people from leading communities were more likely to agree with these points than their counterparts. For example, there is a much stronger relationship between business people feeling that the general public sees their involvement as positive for the community and the leading status of a community.

Table 9 Businesses' Perceptions of Their Community Involvement

Agree or strongly agree that:	Total % (n=47)	Leading % (n=18)	Lagging % (n=29)
Business people tend to get involved in non-business, voluntary organizations in this community.	75	83	69
Business people tend to get involved as leaders in non-business activities or events.	47	56	41
When business people get involved as leaders in non-business activities or events, other people in the community see this as a good thing.	72	83	66

4.2 Small Business and the Informality of Rural Community Life

To what extent do small businesses benefit from or contribute to the “informality” of rural life as it is directly related to business development? One of the potentially beneficial aspects of rural business operations is that there might be a greater opportunity to have family members or relatives assist in various ways with the business, particularly when it comes to financing. However, only 19% of respondents (26% from leading communities and 13% from lagging communities) indicated that they received a loan from a family member or relative to assist with the startup of the business. Furthermore, only 14% indicated that this was the case (11% from leading communities and 17% from lagging communities) with respect to financing the ongoing operations of the business.

Many of the businesses identified a general lack of support from the community for individuals attempting to start a business. Almost 40% agreed that it was difficult for businesses to access financing from sources other than banks, and this was found to be the case more so in leading communities. (Table 10) This finding suggests that there might be some degree of informal financial support forthcoming in lagging communities. However, even fewer, only 18%, agreed that financial help from the local community could be obtained. The fact that only 35% of respondents agreed that when someone wants to start a business they are generally given lots of encouragement and support from the local community suggests that there is a question about social cohesion and about willingness to help others succeed. More of the respondents from lagging communities felt that there would be support for some starting a business, suggesting perhaps that in communities with a smaller business sector there is more willingness to support new startups to broaden the base of business activity.

Table 10 Businesses' Perceptions of Community Support for Businesses

Agree or strongly agree that:	Total % (n=47)	Leading % (n=18)	Lagging % (n=29)
Businesses I know have trouble getting enough financing from other sources.	39	50	34
When someone wants to start a new business, they are generally given lots of encouragement and support.	35	28	41
When someone wants to start a new business, they are generally able to get some financial help from the local community if they need it.	18	22	17

4.3 Entrepreneurship Among Small Businesses in Rural Communities

Entrepreneurship has been identified as an important component of community economic development and rural revitalization. (ACOA, 1996; Dykeman, 1992; Dykeman, 1987; Flora et al, 1997; Stevenson, 1997; Wehrell, 1994) Research has shown that there are some characteristics which set entrepreneurs apart from managers and others in business. These include, among others, risk-taking, innovation, creativity, and investment. Are rural businesses “entrepreneurial” in nature?

In a general sense rural businesses do not see themselves as playing particularly strong leadership roles in the business environment in which they operate. Fewer than half of the businesses indicated that they were always or usually a leader in their field in a number of key business elements related to customer relations, technology, market development, human resources, pricing, and purchasing. It is only in relation to the development or marketing of new products and services where more than half of the business respondents indicated that they were always or usually a leader. Where there seems to be differences between businesses in leading and lagging communities on these points is in relation to enhancing customer relations, which is more associated with businesses in lagging communities, and in developing new products or services, which is more closely associated with businesses in leading communities. (Table 11A) These differences suggest that businesses in leading communities see opportunities for expansion and development through new products and services, likely because of a larger customer base to work with. Businesses in lagging communities perhaps work hard at maintaining their relationships with their customers and possibly attracting new customers, in order to keep the business viable.

Table 11A Businesses' Perceptions of their Leadership in the Marketplace

Agree that the business is almost always or usually a leader in:	Total %	Lead %	Lagg %
Developing/marketing new products/services (n=44)	57	67	50
Enhancing customer relations (n=45)	44	32	54
Adopting new technologies (n=41)	44	44	44
Targeting new markets (n=45)	39	35	40
Human resource training (n=41)	37	41	33
Purchasing practices (n=43)	26	17	31
Changing Pricing (n=45)	24	26	23

There are few differences when we look specifically at exporting businesses, except that significantly fewer (23%) see themselves as leaders in enhancing customer relations. Also, there are no important differences on these issues when comparing the responses of those born locally and those born in other places and who have moved into the community.

On a somewhat contrasting note, however, is the fact that many of the respondents indicated that they always or frequently exhibit many other entrepreneurship characteristics, including wanting to be their own boss, being innovative and creative, and taking on challenges when others say they can not be done. (Table 11B) There appears to be important differences between leading and lagging communities on two of these elements. Being one's own boss and taking calculated risks are identified more often by business respondents in leading communities. Indeed all of the respondents from leading communities indicated that they liked being their own boss. However, the conclusion that we draw from this evidence is that business people in rural communities are generally risk adverse (only half are risk-takers), especially in lagging communities.

Table 11B Businesses' Perceptions of their Individual Entrepreneurial Spirit

Agree or frequently agree that:	Total %	Leading %	Lagging %
I like to be my own boss (n=51)	86	100	75
I am innovative (try new ideas) (n=52)	79	74	83
I am creative (do things a bit differently) (n=52)	73	74	72
When someone says "it can't be done", I take it as a challenge (n=52)	67	70	66
I take calculated risks (n=52)	50	57	45
When I choose to start a business, a stable income is more important than potential for growth (n=51)	31	31	31

There are only marginally more among those in the export business who agree or frequently agree with each of these statements about their individual entrepreneurial characteristics. However, when we compare the responses of those born locally and those born elsewhere, we find that 52% of those born locally agree that a stable income is more important than potential for growth, compared to only 14% of those born elsewhere. This suggests that the latter group is much more mobile and more opportunistic than those born locally.

To what extent do small business people perceive that their communities are entrepreneurial in nature? Almost one-third of respondents felt this was the case, but only 26% of those from leading communities compared with 36% of those from lagging communities felt this way. This suggests that people in lagging communities might be doing more “creative” things to keep their communities going, and thereby giving the appearance of being entrepreneurial in nature.

Most rural business owners (81%) have invested some of their own personal savings and earnings in the startup of their businesses. (Table 12A) A much smaller percentage have used a mortgage on their home or property, or have used their personal credit card. There are no statistically significant differences between respondents from leading and lagging communities. However, the associative Phi statistic for each of the three variables, while small and statistically insignificant, is negative which suggests that the characteristic of using personal finances for business startups is somewhat associated with a lagging status of the community.

Table 12A Use of Personal Finances for Business Startup

	Total % (n=43)	Leading & Lagging	
		Phi	Significance
Personal savings and earnings of the owner	81	-0.18	0.25
Mortgage on owner's home or property	35	-0.18	0.81
Personal credit card	23	-0.16	0.3

The extent to which personal finances are used for the ongoing operations of the business is reasonably high at 61%. Only 55% are using profits generated by the business to finance their ongoing operations. (Table 12B) These findings suggest that many of the businesses are unable to sustain their operations by the business income and profits generated. This is not a healthy sign for rural businesses. It also suggests that many of these businesses may be involved in other activities, including the informal economy, in order to keep the main business operation alive. The use of personal finances is more associated with a lagging community status, while the use of profits from the business is more associated with a leading community status. In both cases, the Phi statistic is statistically insignificant.

Table 12B Use of Personal Finances and Business Profits for Business Operations

	Total % (n=42)	Leading & Lagging	
		Phi	Significance
Personal savings and earnings of the owner	61	-0.14	0.35
Profits generated by the business	55	0.25	0.11
Personal credit card	31	-0.19	0.21
Mortgage on owner's home or property	17	0.11	0.49

Investing in the business on an ongoing basis is also an important element of entrepreneurship and sound business management. In the past three years, 71% of rural businesses have purchased new production or service equipment, 67% have purchased new computer equipment, and 51% have renovated or expanded existing buildings. (Table 13A) One type of investment stands out as an important difference between leading and lagging communities. The renovation or expansion of existing buildings is more associated (but not statistically significant) with a lagging community status. It is unclear about the underlying motivations which explains this difference. One hypothesis might be that these businesses are “catching up” to those in leading communities.

Table 13A Types of Capital Investments in Last Three Years by Businesses

	Total % (n=49)	Leading & Lagging	
		Phi	Significance
purchased new production/service equipment	71	0.14	0.32
purchased new computer equipment	67	0.12	0.4
renovated or expanded existing buildings	51	-0.21	0.14
purchased or built new buildings	31	-0.05	0.73
installed new information management systems	27	-0.07	0.61

The most common purposes for investments are to improve the quality and increase the volume of products and services, and to modernize equipment. (Table 13B) The associative Phi statistic is reasonably strong in showing a relationship with a lagging community status on several purposes for investment, including improving the quality of product or service (-0.4773), increasing the volume (-0.4026), and to work with new markets or customers (-0.3012). Each of these are also statistically significant.

Table 13B Purpose of Recent Capital Investments by Businesses

	Total % (n=49)	Leading & Lagging	
		Phi	Significance
to improve the quality of product/service	59	-0.48	0
to increase the volume of products/services	55	-0.4	0.05
to modernize equipment	51	-0.08	0.6
to improve customer service	47	-0.18	0.21
to offer new products/services	45	-0.23	0.11
to modernize buildings/workspace	39	-0.22	0.12
to change production/service patterns	39	-0.13	0.36
to work with new markets or customers	33	-0.3	0.04

Business growth and expansion is also seen as an important element of overall community well-being. The skills and attitudes within business sector associated with growth and expansion are also those which are helpful and transferable to larger community processes. Table (14) identifies the perceptions of businesses in our sample about these skills and attitudes within their communities. Half of the respondents feel that businesses generally face significant challenges to expand their sales in markets beyond the immediate community. While we did not ask for explanations or details for this perception, there are likely a multitude of factors including geographic isolation, lack of money for expansion, and lack of information on markets. On a related note, almost half (43%) felt that businesses in their community have trouble getting enough financing from banks.

There is also a perception that businesses in rural communities do not have the skills or attitudes required for expansion. Only 29% felt that businesses in their community had few problems expanding to meet demand and opportunity. There could be other underlying factors here, including labour force issues, cash flow issues, or issues related to their production or service buildings and equipment. This is not to say, however, that there is no interest in growth and expansion. For example, only 40% identified that businesses in their communities are relatively content at their present level of operations. This suggests an interest in growth and expansion, but not necessarily the skills or attitudes. It is also important to note that this perception is lower among those in lagging communities. This suggests that the business community in lagging communities recognizes the need for growth and expansion. Finally, there is confirmation of this lack of skill and knowledge for expansion. Only one-third of the respondents indicated that business people in their communities knew how to take the next steps required to grow. The general conclusion we draw from these findings is that there are significant limitations to business growth and expansion as a revitalization strategy in rural communities.

Table 14 Businesses' Perception of Business Expansion Attitudes in their Community

Agree or strongly agree that:	Total % (n=49)	Leading % (n=20)	Lagging % (n=29)
Businesses I know face significant challenges to expand their sales in markets more than 50km away from their production site.	49	45	52
Businesses I know have trouble getting enough financing from banks.	43	45	41
Businesses I know have few problems expanding to meet increased demand and opportunity.	29	25	31
Businesses I know are relatively content at their present level of operations.	39	55	28
Of the businesses I know that want to grow, most know how to take the next steps needed to grow.	35	40	31

4.4 Small Business Access to and Use of Technology

Almost one-quarter (22%) of businesses identify that information is not available to them about implementing new technologies to assist them in business development; however, almost half (46%) felt that information was available or very available. There are no differences between those located in leading or lagging communities on this issue. A similar pattern of responses were found among those in the export business.

The rural businesses involved in this study are not using the Internet for the purpose of completing business transactions. Almost half of the businesses, however, have the capacity for customers to interact with them via their website, through downloading of product or service information, or by permitting direct E-mail to the business. (Table 15) Another 45% have a basic web page used mostly for advertising their product or service. Very few businesses have plans to move into higher levels of e-commerce activity, namely the completion of transactions on-line. There are no differences between businesses in leading or lagging communities.

Table 15 Rural Business Use of the Internet for Business Activities

	% Using this (n=56)	% Planning to use this in near future
Interaction: customers download information, send e-mail	47	11
Information: basic web page, used mostly for advertising	45	11
Advertising: do not have web site, advertise on other web sites	23	11
Integration of business processes: have a database-driven website	7	4
E-commerce: customers pay for product or service on line	4	4

Businesses were asked to rate the relative importance of adopting new technologies for their business, as it relates to a number of key operational areas. Table 16 summarizes the results by showing the mean score on a 5-point scale. Mean scores closer to 1 indicate that adopting new technology for the stated purpose is relatively more important. Adoption of new technologies is most important for developing new products and services, for retaining existing markets or customers, to keep up with or stay ahead of the competition, and for developing both new markets and new processes. These are also the top five for businesses in both leading and lagging communities, with some slight variation in order.

The mean scores are marginally lower among those in lagging communities on almost all issues (except for the purposes of developing new products and services, and developing new markets) which indicates that businesses in lagging communities place slightly greater emphasis on technology. It is not clear whether or not this is a result of using technology to “level the playing” with businesses in leading communities, or if they are slightly more innovative and entrepreneurial in its use. On the other hand, the evidence mildly suggests that businesses in leading communities are more aggressive in using technology for key aspects of their business related to growth expansion: for developing new products or services; and for developing new markets. The importance placed on technology by those in lagging communities is mostly for operational elements.

Table 16 Relative Importance for Businesses of Adopting New Technologies

Mean Score (1=very important, 5=not important)	Total	Leading	Lagging
to develop new products/services (n=33)	1.7	1.6	1.8
to retain your existing markets/customers (n=39)	1.8	1.9	1.7
to keep up with or stay ahead of competitors (n=38)	1.9	2.2	1.7
to develop new markets (n=38)	2	1.9	2.1
to develop new processes (n=32)	2	2.3	1.8
to develop more expertise (n=38)	2.2	2.4	2.1
to use new equipment (n=39)	2.5	2.9	2.1
to address your training needs (n=35)	2.8	3.1	2.5
to retain your existing suppliers (n=32)	2.8	2.9	2.7
to recruit new employees (n=28)	3.1	3.2	2.9
to develop new suppliers (n=33)	3.2	3.6	2.8

4.5 Issues Related to the Location of Small Businesses in Rural Communities

Why are businesses located in rural communities? There are many potential reasons why small businesses are located in their rural communities. The leading factor, and consistent in both leading and lagging communities, is the preference for a rural environment or lifestyle. (Table 17) The second factor is that the owner either grew up in the area, or has strong ties to the area. This is the case for two-thirds of the businesses in lagging communities and only half of those in leading communities. The third most important factor is the preference for a clean environment, but this was a more important factor among those from leading communities than from lagging communities. Other factors which were more important to businesses in leading communities include the presence of good employees and the fact that the local government is business-friendly. The fact that there is good support from local groups is a more important factor among businesses in lagging communities. While it is clear that “amenity” related factors are the most frequently cited, it is less clear what the specific amenities are that lead people to choose a rural business location, or the extent to which the location is freely chosen or chosen by default due to a lack of choice or mobility.

Table 17 Five Most Important Reasons for Business Location in a Rural Community

	Total % (n=53)	Leading % (n=22)	Lagging % (n=31)
rural environment, lifestyle	64	64	65
grew up here, have strong ties	60	50	67
clean environment	49	59	42
good employees	32	41	26
municipal government is business-friendly	25	32	-
good support from local groups	-	-	23

In terms of particular advantages offered by a rural location, almost one-quarter identified that there were no particular advantages to being in a rural community. There were no differences in the types of advantages identified by respondents from leading and lagging communities, with “the community setting or rural lifestyle” and lower operating costs (including lower taxes) being the two most frequently cited advantages.

In terms of particular disadvantages offered by a rural location, 87% identified that there were particular disadvantages to being in a rural community. Labour force problems (such as losing workers to other employers) and being too close to competitive markets in nearby larger centres, were most frequently cited by businesses in leading communities as being disadvantages. Having a very small local market with little opportunity for market share increase, and the lengthy distance to larger markets for goods and services, were most frequently cited by businesses in lagging communities as being disadvantages.

Of the 38 businesses reporting that they had applied for a business loan, 12 (32%) indicated that they had been turned down for a business loan at some point. However, 10 of the 25 businesses in lagging communities (40%), compared to only 2 of the 13 businesses in leading communities (15%), had been turned down for a business loan. The associative Phi statistic of -0.25123 suggests a reasonable (but statistically insignificant) association between being turned down for a business loan and being located in a lagging community. The three most common reasons cited for having the loan turned down were: the ability to service the new debt was questioned (6); the proposal was considered too risky (6); and the location of the business in a rural area or small town (5).

Table 18 shows that fewer than one-third of the businesses feel that regulations restrict their ability to expand. Provincial and federal regulations are cited most frequently, and these pose more of a problem for businesses in lagging communities. Local regulations affect fewer businesses, and those of the World Trade Organization have almost no negative impact whatsoever. This is likely related to the relatively stronger focus on local markets of the

businesses in this sample, and that only one-third of them actually have an export component to their business operation.

Table 18 Regulatory Impacts Restrict Ability for Business Expansion

% agree that regulations hamper or significantly hamper expansion:	Total	Leading	Lagging
Local government (n=51)	18	22	15
Provincial government (n=50)	30	22	34
Federal government (n=50)	24	11	31
World Trade Organization (n=48)	4	0	3

When businesses were asked how government could better assist them in their activities, a wide range of responses were garnered. At the municipal level, 56% identified that something could be done; in 55% of these cases, the most pressing need was for lower municipal taxes, while another 19% felt that municipal government needed to provide more and better services in the community. At the provincial level, 87% identified that something could be done; in 38% of these cases there was a call for lower taxes, while 23% others identified the need for improved programs (or changes to existing programs) to better serve the business community. Many more of the businesses in lagging communities identified that improved or new programs were needed. At the federal level, 81% identified that something could be done; in 36% of these cases, the most pressing need was for lower federal taxes, while 17% identified the need for improved programs (or changes to existing programs) to better serve the business community, and 15% identified the need to reduce red tape and bureaucracy.

All businesses face challenges of one sort or another at different stages of their development. Tables 19A, 19B, and 19C examine the top five challenges faced during startup, first year of operations, and currently. The five startup challenges cited most frequently by rural businesses relate to startup money for buildings and equipment and for week-to-week operations prior to opening, labour problems, building awareness that they are about to open, and lack of support from local government and agencies. However, fewer than 50% cited the first two problems, and only 25% cited the last three as problems. The problem of building an awareness that the business is about to open (Phi statistic -0.33 and statistically significant), and lack of money for week-to-week operations seems to be more associated with businesses in lagging communities (Phi statistic -0.23). In fact 38% of the businesses in lagging communities identified that building awareness that they were about to open was a challenge. It is not clear, however, why this is the case. Only 2 of these businesses in lagging communities have an export function, and only 2 of them are involved in processing or manufacturing. Further information is needed to determine the types of support that these businesses might have benefitted from to avoid this situation.

Table 19A Top Five Challenges When Starting The Business

	Total % (n=42)	Leading & Lagging	
		Phi	Significance
Lack of money for buildings and equipment	45	-0.1	0.52
Lack of money for week-to-week operations	31	-0.23	0.14
Labour/employee problems	26	-0.056	0.72
Building awareness that the business will open	24	-0.33	0.04
Lack support from local government/agencies	24	-0.2	0.2

There are a greater percentage of rural businesses which identify first year challenges compared to startup challenges. Those most frequently cited have a negative (but insignificant) Phi statistic, indicating a weak association with a lagging community status. (Table 19B) The first year challenges are much the same as startup challenges, but with approximately one in four businesses identifying a lack of money to adopt new technologies and lack of money for marketing as problems. Labour problems are not one of the top five first year challenges.

Table 19B Top Five Challenges During First Year in Business

	Total % (n=44)	Leading & Lagging	
		Phi	Significance
Lack of money for buildings and equipment	46	-0.19	0.2
Lack of money for week-to-week operations	39	-0.07	0.65
Building awareness that the business is open	33	-0.15	0.32
Lack of money to adopt new technologies	28	-0.04	0.78
Lack of money for marketing	21	-0.14	0.37
Lack support from local government/agencies	21	-0.01	0.95

The most important current challenges for small businesses in rural communities are much different than those described above. More than 40% of respondents identified business taxes being too high and increasing competition as problems. (Table 19C) The Phi statistic for this latter point is -0.25, indicating a relationship with a lagging status for the community. There could some element of “copycat” businesses opening in small markets, resulting in increasing competition and narrower profit margins for all. Also, a full 50% of businesses from lagging communities noted that high business taxes were a problem for them. The lack of money for adopting new technologies is also highly related to a lagging status for the community.

Table 19C Top Five Current Business Challenges

	Total % (n=48)	Leading & Lagging	
		Phi	Significance
Provincial/federal business taxes too high	46	-0.1	0.5
Increasing competition	40	-0.25	0.08
Lack of money to adopt new technologies	38	-0.24	0.11
Lack of money for marketing	38	0.03	0.84
Lack of money for buildings and equipment	35	-0.01	0.96
Lack support from local government / agencies	35	0.08	0.57

Looking at the two largest business segments in our sample, the hospitality sector and the manufacturing sector, we note some important differences. Among those in the hospitality sector, the most common challenges are business taxes being too high (for 67% of them), lack of money for money for buildings and equipment (60%), local taxes being too high (50%), and employee problems (40%). Among those in the manufacturing sector, the most common challenges are building awareness that they are in business (for 46% of them), lack of information on markets (46%), and business taxes being too high (46%).

A common thread through all three business phases is lack of money or capital. In small market economies there can be tremendous problems. For example, technology is usually financed from the profits of the business, or on loans based on the potential future returns. However, in small markets it becomes difficult to capture a large enough economic return to permit this. But when businesses switch to larger markets or an export focus, this sometimes clashes with their lifestyle choice to be in small community, or their general nature to be risk adverse. Thus in some cases the lack of money is the result of business philosophies and of personal lifestyle choices.

We queried rural businesses about labour force problems. Almost two-thirds identified that high payroll taxes were a problem. (Table 20) This issue is a challenging one. On the one hand, payroll taxes are a necessary and important for covering the social costs of employment. Employees expect to be paid a fair wage with reasonable benefits. On the other hand, perhaps the amount required of employers is too high. Anecdotal evidence suggests that some rural business owners do not acknowledge these social costs as part of doing business in a rural community. This may be tied to traditional rural views on independence and self-reliance. More investigation might be needed to explore the exact nature of payroll taxation and its direct or indirect impact on businesses in rural communities.

About half identified that hiring skilled and competent people, the attitude of youth towards work, and the expense of the current EI system as being problematic. Access to training programs was also cited as a problem by 42% of businesses. There is not much difference between

businesses in leading and lagging communities on these issues, although the Phi statistics suggest a weak but statistically insignificant relationship with a leading status for attitude of youth towards work and for the expensiveness of the EI system.

Table 20 Top Five Labour Force Issues for Rural Businesses

	Total (n=48)	Leading & Lagging	
		Phi	Significance
Level of payroll taxes	64	0.1	0.78
Hiring skilled and competent people	52	0.1	0.79
Attitude of youth to work	52	0.19	0.43
Current EI system too expensive for employers	50	0.15	0.6
Access to training programs	42	0.09	0.84

What is the business climate in rural Canada today? Very few businesses feel that the business climate is healthy. Only slightly more than one-quarter of the businesses feel that there is a positive business attitude in their communities today, and an equal percent agree that the attitude today is more positive than it was ten years ago. While the perception among businesses in leading communities is much higher than among those in lagging communities, there are still relatively few businesses in agreement. (Table 21) This suggests that the rural economy in general, and especially that in lagging communities, is not healthy or stable, and that there likely has not been a strong recovery from the recession of the early 1990s.

Table 21 Perception of Businesses about Business Climate in Rural Communities

Percent of businesses which feel the business attitude is positive or very positive:	Total	Leading	Lagging
in the community today (n=55)	27	39	19
today compared to 10 years ago (n=50)	26	32	23

The capacity to sell one's business (at a price reasonably close to what would be desired) could also be considered a measure of the business climate in the community. Only one-quarter of the businesses felt that they could sell their business to someone else in the community (22% in leading communities and 28% in lagging communities), while a full 50% felt that this was not possible (61% in leading communities and 44% in lagging communities). An additional 12% did not know. These findings again suggest that economic circumstances in rural communities are not healthy.

On a related note, slightly more than half (53%) of the respondents indicated that they would encourage a young person starting out to get into their line of business today. This was the case for 45% of those in leading communities and 58% of those in lagging communities. There are important differences across sectors of activity here; only 8/15 manufacturers and 2/7 retailers would encourage a young person to get into their line of business. This might be because they either recognize some limitations facing their sector, or they are harbouring concerns about increased competition within their sector. On the other hand, 8/11 of those in the accommodation or hospitality industry, and 4/6 of those in construction, stated they would encourage a young person to get into their line of business, suggesting that these might be potential growth sectors in rural communities.

What are the characteristics of success in rural businesses? The two most important contributions to the success of a business in rural places are its good reputation, and that it offers high quality products and services. This is true for businesses in both leading and lagging communities. (Table 22) Competitive pricing, loyal customers, and support of the local people are more important for businesses in lagging communities, while having skilled workers and offering a small range of high quality products and services are more important to success for businesses in leading communities. The issue of customer loyalty being important for businesses in lagging communities is supported by the results in Table 11A discussed earlier. It was noted that businesses in lagging communities were much more likely to identify themselves as leaders in enhancing customer relations. Furthermore, maintaining customer loyalty in lagging communities where market expansion is limited is extremely important. For example, if customers are not happy with businesses in their community, and have the means and opportunity to shop elsewhere, they will do so. Developing customer loyalty (by a variety of means) then becomes important to prevent economic leakage from the community.

Table 22 Five Most Important Factors Contributing to Individual Business Success

	Total % (n=47)	Leading % (n=22)	Lagging % (n=25)
have a good reputation	85	82	92
products/services are high quality	75	77	76
prices are competitive	58	45	72
customers are loyal	44	32	56
operating costs are relatively low	33	41	-
offer a few products / services, but they are of the highest quality	-	32	-
have skilled workers	-	32	-
local people support the business	-	-	40

4.6 Small Business Use of Networks and Information

Networks and networking have been identified as important elements in the success of small businesses. These can take on many forms. At one end there are networks developed through personal interaction, either within the community or within sectors. At the other end are networks built through the use of a variety of technologies, which permit contact on an ongoing basis. In some cases rural communities may be isolated which makes face-to-face networking within sectors more challenging, or limits the frequency of contact. In these cases there is a potential role for technology to facilitate networking.

A total of 58% of surveyed businesses belong to a network of some sort, with slightly more of those in lagging communities (59%) than those in leading communities (55%) belonging to a network. All businesses report that the networks are important to the success of their businesses. However, fewer than 20% of all businesses belong to some type of formal “alliance” for the purpose of conducting some form of business transaction or pooling of resources. The most common include research and development (21%) and manufacturing (20%). There is some interest in participating in some types of alliances among those not already involved in such arrangements, including: manufacturing (61%); sales (58%); research and development (54%); training (52%); and licensing (52%).

About 44% of surveyed businesses use some form of regular face-to-face networking with businesses in the same sector in other communities, and the Phi statistic of -0.17 suggests that this is slightly more prominent (but statistically insignificant) among those in lagging communities. About one-third network with other businesses within their communities, and this is somewhat more associated with businesses in leading communities. (Table 23A) Only one-quarter use the Internet for networking with other businesses. Those in the export business are much more likely (46%) to use the Internet for networking purposes.

Table 23A Types Of Networking Opportunities Employed By Businesses

	Total % (n=50)	Leading & Lagging	
		Phi	Significance
regular face-to-face networking with businesses in same sector in other communities	44	-0.17	0.23
regular face-to-face networking with other businesses in the community	34	0.2	0.16
using the Internet to network with other businesses	26	0.11	0.45
using other communication technology to network with businesses in other communities	16	-0.074	0.6

There is a great deal of interest by more than half of the businesses in developing networking opportunities through the Internet and through regular face-to-face contact with others in the same sector. (Table 23B) Businesses in lagging communities were more likely to express an interest in these opportunities. Half of the businesses in lagging communities identified an interest in developing regular face-to-face networking with other businesses within their own community. This is likely a reflection of the lack of present opportunities or formal structures such as a local Chamber of Commerce. These are more prevalent among leading communities. About one-third also expressed interest in using live chats on the Internet or other forms of technology for networking purposes. These findings suggest an opportunity for policy makers and program delivery agencies to facilitate greater Internet use among businesses, and to facilitate inter-community exchanges for businesses in similar sectors.

Table 23B Interest in Types Of Networking Opportunities Among Businesses

% Interested or very interested in:	Total %	Leading %	Lagging %
regular face-to-face networking with businesses in same sector in other communities (n=26)	54	44	70
regular face-to-face networking with other businesses in the community (n=31)	29	6	50
using the Internet to network with other businesses (n=34)	59	55	63
using the Internet for "live chats" with other businesses on a regularly scheduled basis (n=43)	33	41	33
using other communication technology to network with businesses in other communities (n=35)	31	25	40

In looking at the range of information sources businesses use for making important decisions, for advice and guidance, for general business information, and for other types of information, a rank ordering of the type five sources for each shows some clear patterns. The more important the decision or information required, the greater the likelihood of going to a source from within the business, while the net is cast more widely for more general information. (Table 24) With respect to important decisions, senior management and employees are the most important. Accountants, family members, and suppliers are also important.

For advice and guidance, accountants, employees, suppliers and family are again important, but customers and lawyers also enter the picture. Competitors and colleagues, along with family, are the most important sources of information for general business issues. This confirms the importance of business networks for business success. When we look at the most importance sources of general information, customers are the most important, followed closely by the media and the Internet. This suggests that "popular press" is extremely important to the small business sector.

In looking at important differences between leading and lagging communities, businesses in lagging communities are much more likely to use suppliers as a source of information for important decisions (but the measure of association is not statistically significant). Although they do not appear in the top five as a source for general advice and guidance, there is a very large and almost statistically significant association between the lagging status of the community and using the government as a source, and using the Internet as a source. In both cases, 90% (9 of 10) who use the government or the Internet are located in lagging communities. In terms of general business issues, all 5 of those who use local agencies (such as a community development corporation) are located in lagging communities, as are 90% of those who use a lawyer. The measures of association are high with this status and almost statistically significant. There are no other important differences among leading and lagging communities within the top five sources of information for important decisions, advice and guidance, general business issues, or general information.

Table 24 Rank Order of Most Important Sources of Information for Managing the Business

	To make important decisions	To obtain advice and guidance	To discuss general business issues	To collect information
management	1			
employees	2	2	5	
accountant	3	1	4	
family	4	4	1	
suppliers	5	2		4
customers		5		1
lawyer		5		
competitor			1	5
colleagues			1	
media				2
Internet				3
sector publication				5

Fewer than one-third of the businesses participate in local, regional, or provincial trade shows, and even fewer participate in national or international trade shows. (Table 25) This is not surprising given the large number of service-related businesses in the sample. Most of the processors / manufacturers participate in trade shows. Businesses from lagging communities, where more of the businesses from this sector in this sample are located, participate in regional,

provincial, and national trade shows. A full 50% of those in the export business participate in international trade shows.

Table 25 Business Participation in Trade Shows

	Total (%)	Leading (%)	Lagging (%)
Local (n=49)	29	30	28
Regional (n=48)	29	25	32
Provincial (n=48)	29	20	36
National (n=47)	13	5	18
International (n=47)	19	20	18

5.0 The Role of Cooperatives in Community Economic Development

5.1 Cooperatives' Contributions to Rural Communities

What types of leadership roles do cooperatives play in rural communities? A total of 15 (58%) managers belong to some volunteer group as a member (40% of those in leading communities, and 69% in lagging communities). The measure of association is -0.28 (and is also statistically insignificant), indicating that there is some relationship between participation as a member and the lagging status of a community. A larger sample size would help to confirm this. The most common groups that cooperative managers are members of relate to sports (28%), environment (12%), and religion (16%). (Table 26)

A total of 11 (42%) managers belong to some volunteer group as a leader (40% of those in leading communities, and 44% of those in lagging communities). The associative Phi measure is -0.04 (but it is also statistically insignificant), indicating that there are no differences between the two types of communities. The most common groups where they play leadership roles are related to sports (20%) and religion (16%).

A total of 16 (64%) board members belong to some volunteer group as a member (55% of those in leading communities, and 71% in lagging communities). The measure of association, Phi, is -0.17 (and is also statistically insignificant), indicating that there is a slight relationship between belonging to a volunteer group and the lagging status of a community. The most common groups that cooperative board members are members of relate to sports (24%), religion (20%), public benefit (20%) and arts/culture (16%).

A total of 14 (56%) board members belong to some volunteer group as a leader (55% of those in leading communities, and 57% of those in lagging communities). The most common groups where they play leadership roles are related to sports (20%), religion (20%), and public benefit (16%).

Table 26 Cooperative Participation in Community Organizations

Organization Type	Managers (n=26)		Board Members (n=25)	
	% member	% leader	% member	% leader
Sports & recreation	28	24	24	20
Religious organizations	16	16	20	20
Environment & Wildlife	12	0	8	12
Arts & Culture	8	0	16	4
Health	8	0	4	4
Society & public benefit	4	8	20	16
Employment & economic interests	4	4	12	12
Education and youth development	4	8	12	8
Social services	4	4	8	0
Multidomain	4	0	0	4
Law & Justice	4	0	0	0
Other	8	4	12	12

Cooperative managers volunteer on average 12.8 hours per month in their communities, with the average being 10.8 hours per month in leading communities and 14.1 hours in lagging communities. Among cooperative board members the contributions are marginal larger with the average being 14.2 hours per month. The average among those from leading communities is 16.3 hours per month, and 12.5 hours in lagging communities.

In addition to volunteer time of managers and board members, cooperatives also contribute in other ways. Most of the cooperatives, 30 (91%), contribute financially (in ways other than by paying taxes and providing employment income) to their communities. All cooperatives in leading communities compared to 89% of those in lagging communities contribute financially. Cooperatives most commonly give cash or prizes for events (particularly in leading communities), sponsor specific organizations or events (particularly in lagging communities) or give to fundraisers. (Table 27A)

Table 27A Financial Contributions to Community by Cooperatives

	Total % (n=31)	Leading % (n=13)	Lagging % (n=18)
Cash/prizes for events	45	54	39
Sponsor specific organizations or events	42	23	56
Give to fundraisers	39	38	39
Scholarships	26	30	22
Other	6	15	0

Slightly fewer of the cooperatives make non-financial contributions, with 25 (83%) doing so. Almost all (93%) cooperatives in leading communities compared to 82% of those in lagging communities contribute in non-financial ways. (Table 27B) Cooperatives most commonly contribute in non-financial ways through staff participation in charity events, and by making space available in their business for activities. Many others provide co-op work placements for students.

Table 27B Non-Financial Contributions to Community by Cooperatives

	Total % (n=30)	Leading % (n=13)	Lagging % (n=17)
Charity work	33	38	29
Use of space	17	23	12
Donate labour / equipment	6	8	6
Member of group	3	8	0
Other	53	54	53

In a general sense, cooperatives see business contributions to general community activities as important. Managers, particularly those working in leading communities, were much more likely to agree that business persons in their communities get involved in non-business activities. (Table 28) More than half of both the managers and the board members agreed that business people tend to get involved as leaders as well. Furthermore, close to three-quarters of those from both groups held the perception that the general public sees the involvement of business people in community activities and organizations as being a good thing for the community. On all three issues board members from lagging communities were more likely to be in agreement with these issues than both the managers working in lagging communities, and the board members serving in leading communities.

Table 28 Cooperatives' Perceptions of Business Involvement in Community

Agree or strongly agree that:	Managers			Board Members		
	Total (n=25)	Lead (n=10)	Lag (n=15)	Total (n=24)	Lead (n=10)	Lag (n=14)
Business people tend to get involved in non-business, voluntary organizations in this community.	72	80	57	58	50	64
Business people tend to get involved as leaders in non-business activities or events.	60	60	60	63	50	73
When business people get involved as leaders in non-business activities or events, other people in the community see this as a good thing.	72	80	68	74	67	79

5.2 Cooperatives and the Informality of Rural Community Life

From the point of view of cooperatives, to what extent do small businesses benefit from or contribute to the “informality” of rural life as it is directly related to business development?

Many of those in the cooperative sector identify a general lack of support in the community for people starting a business. About one-quarter of managers and one-third of board members felt that people would have trouble getting money from sources other than banks, especially in lagging communities. (Table 29) This might be linked to potentially more difficult market conditions in these types of communities. However, about half of the managers and one-third of board members felt that there was financial help from the local community could be obtained, especially in leading communities. Finally about half of the respondents in each group felt that when someone wants to start a business they are generally given lots of encouragement and support from the local community. However, more of the managers in leading communities and more of the board members in lagging communities felt that this was the case. On this last point, it does suggest that there might be a degree of social cohesion and community togetherness when it comes to supporting others wanting to succeed in business.

Table 29 Cooperatives' Perceptions of Community Support for Businesses

Agree or strongly agree that:	Managers			Board Members		
	Total (n=25)	Lead (n=10)	Lag (n=15)	Total (n=24)	Lead (n=10)	Lag (n=14)
Businesses I know have trouble getting enough financing from other sources.	28	20	34	33	10	50
When someone wants to start a new business, they are generally given lots of encouragement and support.	44	50	40	50	40	57
When someone wants to start a new business, they are generally able to get some financial help from the local community if they need it.	52	60	48	33	40	29

In looking at the initiation of cooperative businesses, general citizens are the most common “group” or stakeholder which is involved. (Table 30) In leading communities there is some evidence that a broader range of groups or stakeholders has been involved in cooperative startups compared to those in lagging communities. It is interesting to note that in one-third of the cooperatives in leading communities, local politicians were involved in organizing for startup. We also note that in almost one-quarter of the cooperatives in lagging communities there was some involvement by cooperative organizers from outside the community. The role of general citizens suggests that social capital and social cohesion within those communities was present at that time. The fact that in only a small number of cases did groups from outside the community initiate the cooperative underscores the presence of social capital and demonstrates to a certain extent the capacity within rural communities to self-organize.

Table 30 Initiation of Cooperative Businesses

	Total % (n=30)	Leading % (n=12)	Lagging % (n=18)
general citizens	73	83	67
local business people	40	50	33
church	21	25	22
local politicians	20	33	11
farm leaders	20	25	17
coop organizers from outside community	17	8	22
regional/national organizations	7	8	6

People participate in cooperatives for a variety of reasons. Table 31 outlines the major reasons as identified by each cooperative in the sample, and shows that belief in the system of collective management, and unhappiness with what the private sector offers, are the most compelling reasons for participation. These reasons are even more pronounced in lagging communities. Few participate in cooperatives for the social opportunities or personal development opportunities they provide.

In looking at all of the possible reasons for participation, the percentage of cooperatives which agree that the reason explains participation in their cooperative is higher among those from lagging than from leading communities. This suggests that cooperatives are playing a more significant role in filling gaps where the private sector is unable to provide needed products and services, that there is a stronger desire for local control over business decisions, and that cooperatives are also important for social reasons, in lagging communities. Furthermore, within lagging communities the cooperatives show much more clearly a combination of economic and social elements explaining participation. This may also be evidence to support a hypothesis that the population of lagging communities view themselves as being significantly more vulnerable in an uncertain and fluctuating economy characterized by globalization and predatory practices. They have turned to cooperative development as one means of coping.

Table 31 Reasons for Participation in Cooperative Businesses

Agree or strongly agree: (n=various)	Total %	Leading %	Lagging %
believe collective management is good	68	55	79
because unhappy with private sector	60	46	71
for the products and services	44	36	50
to participate in management	32	18	50
for social opportunities	19	9	25
for personal development	16	0	29

5.3 Entrepreneurship Among Cooperatives in Rural Communities

Are rural cooperatives “entrepreneurial” in nature? In a general sense managers were much more likely to agree positively with statements about the degree of entrepreneurship within their businesses than were the board members. For example, more than half of the managers indicated that their cooperative was always or usually a leader in their field in a number of key business elements, particularly related to technology, market development, human resources, and pricing. It is only in relation to customer relations and human resources where more than half of the board members indicated that their cooperatives were always or usually a leader. There is a large difference of opinion between managers and board members on the issue of being a leader in pricing, with managers being much more positive.

The responses to being a leader in the fields of human resources training, enhancing customer relations, and changing pricing, shows some important differences of opinion in relation to community status. Many more of the managers in lagging communities, and many more of the board members in leading communities, felt that their cooperatives were leaders in these areas. (Table 32A) On the one hand, managers in lagging communities may see these efforts as innovative and creative leadership approaches to staying competitive. On the other, board members may see these as merely necessary business actions to stay competitive.

Table 32A Cooperatives' Perceptions of their Leadership in the Marketplace

Agree or strongly agree that the business is almost always or usually a leader in: (n=various)	Managers			Board Members		
	Total %	Lead %	Lagg %	Total %	Lead %	Lagg %
Adopting new technologies	59	58	64	48	33	59
Developing/marketing new products/services	57	57	57	43	44	43
Human resource training	55	38	64	57	77	44
Changing Pricing	52	44	57	33	50	23
Purchasing practices	46	25	57	33	56	17
Enhancing customer relations	44	22	59	61	89	43
Targeting new markets	41	25	50	30	25	33

There are few differences between the assessments of managers and board members of their cooperatives' entrepreneurial spirit. However, they collectively report very low levels of agreement that their cooperatives are entrepreneurial in nature. These response rates are also low compared to those of individual small business owners. (Table 32B) The conclusion that we draw from this evidence is that cooperatives in rural communities are generally risk adverse (only one-third are risk-takers). This poses serious limitations for cooperative business expansion in rural communities, particularly as a tool for rural revitalization.

Within the responses, however, there are some differences worth noting. we note that managers were much more likely to agree that their cooperatives were creative. Furthermore, managers working in lagging communities were much more likely to agree that their cooperatives were creative, innovative, take challenges, and take calculated risks. Managers of financial cooperatives appear to be somewhat more entrepreneurial in nature. For example, 86% felt that their cooperative was creative, 56% felt that it took calculated risks, 42% felt that they like to take on challenges. However, relatively fewer of the board members serving this type of cooperative felt that theirs was entrepreneurial in nature.

Table 32B Cooperatives' Perceptions of their Entrepreneurial Spirit

Agree or strongly agree that:	Managers (n=25)			Board Members (n=24)		
	Total %	Lead %	Lagg %	Total %	Lead %	Lagg %
We are creative (do things a bit differently)	56	40	58	32	36	29
We are innovative (try new ideas)	40	30	47	44	36	50
When someone says "it can't be done", we take it as a challenge	32	20	40	38	40	37
We take calculated risks	32	20	40	33	40	29

To what extent do cooperatives perceive that their communities are entrepreneurial in nature? A total of 46% of managers (40% of those from leading communities compared with 50% of those from lagging communities) felt their communities were entrepreneurial or very entrepreneurial. A total of 46% of board members (45% of those from leading communities compared with 46% of those from lagging communities) felt their communities were entrepreneurial or very entrepreneurial. Thus we see there are no differences of opinion between groups or community types.

Investing in the cooperative on an ongoing basis is also an important element of entrepreneurship and sound business management. In the past three years, 88% of rural cooperatives have purchased new computer equipment, 59% have purchased new production or service equipment, and 53% have renovated or expanded existing buildings. (Table 33A) There are no strong differences between those in leading and lagging communities based on the Phi statistic.

Table 33A Types of Capital Investments in Last Three Years by Cooperatives

	Total % (n=32)	Leading & Lagging	
		Phi	Significance
purchased new computer equipment	88	-0.05	0.79
purchased new production/service equipment	59	-0.17	0.34
renovated or expanded existing buildings	53	0.07	0.69
installed new information management systems	31	-0.19	0.29
purchased or built new buildings	22	-0.01	0.96

The most common purposes for investments are to improve customer services, to modernize equipment, and to modernize buildings and workspaces. (Table 33B) There are no important differences between community types, but the associative Phi statistic shows some tendency (but statistically insignificant) towards a lagging status of the community and making the investments to increase the volume of products and services.

Table 33B Purpose of Recent Capital Investments by Cooperatives

	Total % (n=32)	Leading & Lagging	
		Phi	Significance
to improve customer service	84	-0.14	0.43
to modernize equipment	75	-0.07	0.68
to modernize buildings/workspace	63	0.16	0.36
to improve the quality of product/service	50	0	1
to increase the volume of products/services	47	-0.2	0.26
to offer new products/services	31	0.08	0.63
to work with new markets or customers	22	-0.16	0.36
to change production/service patterns	19	-0.1	0.57

Business growth and expansion is also seen as an important element of overall community well-being. The skills and attitudes within business sector associated with growth and expansion are also those which are helpful and transferable to larger community processes. Table (34) identifies the perceptions of cooperative managers and board members in our sample about these skills and attitudes within their communities. Two-thirds of the managers and more than half of the board members feel that businesses generally face significant challenges to expand their sales in markets beyond the immediate community. Many more of the board members in leading communities felt that this was the case, compared to those in lagging communities. On a related note, almost half (43%) of the managers and 38% of the board members felt that businesses in their community have trouble getting enough financing from banks. For both groups this perception was held more frequently among those in lagging communities.

There is also a perception that businesses in rural communities do not have the skills or attitudes required for expansion. One-third of the managers and more than half of the board members felt that businesses in their community had few problems expanding to meet demand and opportunity. There could be other underlying factors here, including labour force issues, cash flow issues, or issues related to their production or service buildings and equipment. This is not to say, however, that there is no interest in growth and expansion. For example, only 44% of the

managers and one-quarter of the board members identified that businesses in their communities are relatively content at their present level of operations. This suggests an interest in growth and expansion, but not necessarily the skills or attitudes. We note that this perception is lower among board members in lagging communities. This suggests that the business community in lagging communities recognizes the need for growth and expansion. Finally, there is confirmation of this lack of skill and knowledge for expansion. Only about one-third of both managers and board members indicated that business people in their communities knew how to take the next steps required to grow. The general conclusion we draw from these findings is that there are significant limitations to business growth and expansion as a revitalization strategy in rural communities.

Table 34 Cooperatives' Perceptions of Business Expansion Attitudes in their Community

Agree or strongly agree that:	Managers (n=25)			Board Members (n=24)		
	Total %	Lead %	Lagg %	Total %	Lead %	Lagg %
Businesses I know face significant challenges to expand their sales in markets more than 50km away from their production site.	64	70	60	54	70	43
Businesses I know have trouble getting enough financing from banks.	44	10	67	38	20	50
Businesses I know have few problems expanding to meet increased demand and opportunity.	32	30	33	54	60	50
Businesses I know are relatively content at their present level of operations.	44	40	47	25	40	14
Of the businesses I know that want to grow, most know how to take the next steps needed to grow.	33	30	36	29	30	29

5.4 Cooperatives Access to and Use of Technology

Almost one-quarter (23%) of cooperatives identify that information is not available to them about implementing new technologies to assist their cooperatives in development. There are no differences between those located in leading or lagging communities on this issue.

Some rural cooperatives are using the Internet for a variety of purposes. More than half have the capacity for customers to interact with them via their website, through downloading of product or service information, or by permitting direct E-mail to the business. (Table 35) About one-third have a basic web page used mostly for advertising, and about one-quarter have the ability to complete transactions on-line. There are no important differences between cooperatives in

leading and lagging communities in their use of the Internet for business purposes. A small number have plans to introduce e-commerce transactions in the near future.

Table 35 Cooperatives' Use of the Internet for Business Activities

	% Using this (n=30)	% Planning to use this in near future
Interaction: customers download information, send e-mail	53	7
Information: basic web page, used mostly for advertising	37	16
E-commerce: customers pay for product or service on line	23	17
Integration of business processes: have a database-driven website	13	12
Advertising: do not have web site, advertise on other web sites	10	0

Cooperatives were asked to rate the relative importance of adopting new technologies for their business, as it relates to a number of key operational areas. Table 36 summarizes the results by showing the mean score on a 5-point scale. Mean scores closer to 1 indicate that adopting new technology for the stated purpose are relatively more important. Adoption of new technologies is most important for retaining existing markets or customers, and this is the case for cooperatives in both leading and lagging communities. Among those in leading communities, adopting new technology is relatively more important for keeping up with or staying ahead of competitors, supporting members, recruiting new members, developing new processes, and developing new products and services. Among those in lagging communities, adopting new technology is more important for developing new markets, for keeping up with or staying ahead of competitors, supporting members, developing new products and services, and developing more expertise. The mean scores are lower among those in lagging communities on almost all issue (except for the purposes of recruiting new members and developing new processes), which indicates that cooperatives in lagging communities are either more dependent upon technology to “level the playing” or they are forced to be more innovative and entrepreneurial in its use to compensate for approaches to addressing their various needs.

Table 36 Relative Importance for Cooperatives of Adopting New Technologies

Mean Score (1=very important, 5=not important)	Total	Leading	Lagging
to retain your existing markets/customers (n=29)	1.3	1.6	1.1
to keep up with or stay ahead of competitors (n=28)	1.7	1.8	1.7
to support your members (n=29)	1.8	1.9	1.8
to develop new products/services (n=28)	1.9	2.1	1.8
to develop new markets (n=26)	2	2.4	1.6
to recruit new members (n=29)	2.1	2	2.1
to develop new processes (n=26)	2.1	2	2.2
to develop more expertise (n=28)	2.1	2.5	1.9
to address your training needs (n=27)	2.2	2.4	2
to use new equipment (n=28)	2.4	2.6	2.2
to retain your existing suppliers (n=27)	2.5	2.7	2.4
to develop new suppliers (n=26)	2.8	3.5	2.3
to recruit new employees (n=26)	2.9	3	2.8

5.5 Issues Related to the Location of Cooperatives in Rural Communities

In terms of particular advantages offered by a rural location, about 15% managers of cooperatives identified that there were no particular advantages to being in a rural community. About one-quarter cited loyalty of the population to their operation and less competition as particular advantages. Loyalty was identified as the major advantage in leading communities, and less competition the major advantage in lagging communities.

Almost all cooperative managers (92%) identified that there were disadvantages as a result of a rural location. More than half identified the small local market, while another one-quarter identified the close proximity to larger markets which serves to drain away customers. There were no differences between cooperatives in the two types of communities.

Only 1 (located in a lagging community) of the 18 cooperatives which had applied for a loan indicated that they had been turned for a business loan at some point. No specific reason for being turned was given.

Relatively few cooperatives identify that they are affected by the various regulatory environments. Fewer than one-quarter of managers and board members, all in leading

communities, identify that federal government regulations restrict their ability to expand their operations. (Table 37) Almost 40% of managers and board members identify that this is the case with provincial government regulations. Cooperatives are governed by provincial cooperative acts, and since they may also be affected by general provincial policies which have moved in the direction to favour private market developments. There may be some scope here for more work to identify the specific regulations which hamper cooperatives, and what role, if any, the Cooperative Secretariat might have in helping to addressing them. None of the managers, and 22% of the board members (all from lagging communities) identified local regulations as a problem.

Table 37 Regulatory Impacts on Ability for Cooperative Business Expansion

Agree that regulations hamper or significantly hamper ability to expand:	Managers (n=23)			Board Members (n=23)		
	Total %	Lead %	Lagg %	Total %	Lead %	Lagg %
Local government	0	0	0	22	0	36
Provincial government	39	44	37	39	20	39
Federal government	17	44	0	22	50	0
World Trade Organization	0	0	0	0	0	0

When cooperatives were asked how government could better assist them in their activities, a narrow range of responses were garnered. At the municipal level, 26% identified that something could be done; and in half of these cases, the most pressing need was for lower municipal taxes. At the provincial level, 76% identified that something could be done; in one-third of these cases there was a call for lower taxes, while others identified the need for a reduction in red tape or the enhancement of programs to support cooperatives (18% each). At the federal level, 50% identified that something could be done; and in half of these cases, the most pressing need was for lower federal taxes.

All cooperatives face challenges of one sort or another at different stages of their development. Tables 38A, 38B, and 38C examine the top five challenges faced during startup, first year of operations, and currently. Given the older age of the cooperatives, most of the current managers and board members were not involved during the startup and first year operations, and thus we have fewer responses in total for these two items.

The startup challenges cited most frequently by both managers and board members of rural cooperatives relates to startup money for buildings and equipment. Managers also identified week-to-week cash flow, building awareness that the cooperative will open, and lack of money for technology and for research and development. Board members identified lack of money for research and development as the number one challenge in starting a cooperative; they also identified lack of information on markets and lack of government support as challenges during

this phase. (Table 16) There are no statistically significant differences between results for leading and lagging communities; however, there is a strong association with a lagging community status and both lack of money for buildings and equipment, and lack of money for research and development, as reported by managers, and building awareness that the cooperative will open, as reported by board members. This suggests an opportunity for government support, and the need for greater community investment.

Table 38A Top Five Challenges When Starting the Cooperative

	Managers (n=12)			Board Members (n=15)		
	Total %	Leading & Lagging		Total %	Leading & Lagging	
		Phi	Signif		Phi	Signif
Lack of money for buildings and equipment	42	-0.37	0.2	33	0.09	0.71
Lack of money for week-to-week operations	42	-0.03	0.92	20	0.13	0.6
Building awareness that the cooperative will open	33	-0.24	0.41	27	-0.34	0.18
Lack of money for technology	25	-0.1	0.74	-	-	-
Lack of research and development	25	-0.49	0.09	40	-0.33	0.2
Lack of information on markets	-	-	-	27	-0.34	0.18
Lack of support form government	-	-	-	20	-0.2	0.44

Managers and board members identified the same challenges during the first year of operations. In particular the most problematic related to lack of money for buildings and equipment, lack of money for week-to-week operations, and building awareness that the cooperative is open. In particular this point is statistically significant in association with the lagging status of a community, as reported by board members, and there is a high measure of association as reported by managers. (Table 38B) The poor quality of products and services is also strongly associated with a lagging community stats (but statistically not significant), as reported by managers. These findings suggest that in lagging communities cooperatives struggle with developing market share, financing, and product development.

Table 38B Top Five Challenges During First Year in Cooperative Business

	Managers (n=13)			Board Members (n=16)		
	Total %	Leading & Lagging		Total %	Leading & Lagging	
		Phi	Signif		Phi	Signif
Lack of money for buildings and equipment	46	0.22	0.43	19	0.16	0.52
Lack of money for week-to-week operations	46	-0.1	0.72	25	0	1
Building awareness that the cooperative is open	46	-0.41	0.13	19	-0.48	0.05
Lack of money for technology	31	0.16	0.57	19	0.16	0.52
Lack of research and development	23	-0.06	0.84	25	0.29	0.25
Poor quality product / service	23	-0.43	0.12	19	0.16	0.52

The most important current challenges for cooperatives in rural communities are much different. Increasing competition, a declining customer base, and lack of money for technology adoption were identified by both managers and board members. Managers also identified building awareness about the cooperative and being in facilities that don't meet their needs, and board members also identified provincial and local taxes as being too high. (Table 38C) There are no important statistically significant differences between cooperatives in the two types of communities, but there is a slight (but statistically insignificant) tendency for a declining customer base to be associated with a lagging status of the community.

Table 38C Top Five Current Cooperative Business Challenges

	Managers (n=20)			Board Members (n=24)		
	Total %	Leading & Lagging		Total %	Leading & Lagging	
		Phi	Signif		Phi	Signif
Increasing competition	60	0.04	0.85	71	0	0.94
Declining customer base	40	-0.25	0.26	38	-0.16	0.43
Building awareness that cooperative is open	30	-0.1	0.69	-	-	-
Lack of money for technology	29	0.16	0.48	29	-0.17	0.4
Facilities and building don't meet our needs	30	0.1	0.65	-	-	-
Local taxes too high	-	-	-	29	0.02	0.94
Provincial taxes too high	-	-	-	38	-0.13	0.52

Board members and manager both identify that hiring skilled and competent people and the lack of professional managers are the two biggest labour force problems for cooperatives. (Table 39) However, while managers feel that access to training, the attitude of youth toward work, and high payroll taxes were additional problems, board members felt that the lack of professional workers, the expense of the EI system, problems with payroll administration, and a good work ethic were also problems. On these last three points, there was a very strong tendency (and almost statistically significant) toward these problems being associated with a lagging status of the community. Access to training programs was strongly associated with (and almost statistically significant) a leading status of the community.

Table 39 Top Five Labour Force Issues for Cooperative Businesses

	Managers (n=25)			Board Members (n=25)		
	Total %	Leading & Lagging		Total %	Leading & Lagging	
		Phi	Signif		Phi	Signif
Hiring skilled and competent people	52	0.13	0.81	36	0.16	0.72
Lack of professional managers	40	0.05	0.97	36	-0.38	0.17
Access to training programs	36	0.41	0.12	-	-	-
Attitude of youth to work	36	0.07	0.93	-	-	-
Level of payroll taxes	36	0.3	0.32	-	-	-
Lack of professional workers	-	-	-	32	-0.33	0.26
Government hassle on payroll administration	-	-	-	28	-0.41	0.12
The current EI system is too expensive for employers	-	-	-	32	-0.45	0.08
Good work ethic	-	-	-	28	-0.46	0.07

Exploring the challenge around a lack of professional managers a bit deeper, almost 20% (6) of the cooperatives identified that retaining managers is a problem or major problem. Of these, 4 were in lagging communities and 2 were in leading communities. Generally speaking when managers leave they tend to do one of two things: take employment with another cooperative, usually in the same community or region, or they take employment in the private sector in a similar business.

An important element of cooperative development is the ongoing training and development of staff, board, and general membership. Only 4 cooperatives, all in lagging communities, provide training for their general membership. (Table 40) Approximately two-thirds of cooperatives provide training for their board members, with 75% of those from leading communities, and 59%

from lagging communities doing so. Managers and staff receive the most attention on this matter. Three-quarters of cooperatives provide training for managers and two-thirds provide training for staff. More of those in lagging communities were likely to provide training for their managers, with no differences on the issue of staff training.

Table 40 Training and Development in Cooperatives

# of Days of Training (n=various)	Total %	Leading %	Lagging %
Board Members - Average	2.8 days	3.7 days	2.2 days
0	35	25	41
1-2	24	25	24
3-4	10	8	12
5 or more	31	42	24
Managers - Average	9.2 days	7.9 days	10.2 days
0	23	31	18
1-4	30	16	41
5-18	20	31	12
19 or more	27	22	29
Employees - Average	10.6 days	14.3 days	7.9 days
0	32	31	33
1-3	26	31	22
5-10	16	16	17
11 or more	26	22	28
General Membership - Average	0.2 days	0 days	0.4 days
0	87	100	78
1	10	0	17
4	3	0	6

What is the perception within cooperatives of the business climate in rural Canada today? Managers were more positive about the business climate than board members, both in terms of the present climate, and in comparing it ten years ago. However, in all cases, fewer than half were in agreement. Managers in lagging communities were likely to agree on both items compared to their counterparts working in leading communities. However, many more of the board members in leading communities felt that the business climate today was positive,

compared to their counterparts in lagging communities. (Table 41) Overall, the evidence describes a rural economy that is not healthy or stable.

Table 41 Perception of Cooperatives about Business Climate in Rural Communities

Percent which feel the business attitude is positive or very positive:	Managers (n=24)			Board Members (n= 25)		
	Total %	Lead %	Lag %	Total %	Lead %	Lag %
in the community today	42	20	56	32	46	21
today compared to 10 years ago	46	40	53	36	36	36

On a related note, almost two-thirds of the managers (61%) indicated that they would encourage a young person to get involved in a cooperative business like theirs. This was the case for 56% of those in leading communities and 64% of those in lagging communities. Only 3 of the 8 managers working in financial cooperatives would encourage a young person to get involved in this type of cooperative. By comparison, only 52% of the board members indicated that they would encourage a young person to get involved in a cooperative business like theirs. This was the case for 67% of those in leading communities and only 42% of those in lagging communities. Only 3 of the 6 board members involved in a primary sector cooperative, 1 of 6 in the tertiary sector, and 5 out of 8 in the financial sector, would encourage a young person to get involved in their type of cooperative.

What are the characteristics of success in rural cooperatives? Managers and board members both identify that their good reputation and competitive prices are the two most important factors in their success. Among board members these factors seem to be of more importance among those in leading communities. Loyal members are perceived by managers to be important, and board members feel that high quality products and services are important in explaining their success. (Table 42)

Table 42 Five Most Important Factors Contributing to Cooperative Success

	Managers (n=25)			Board Members (n= 23)		
	Total %	Lead %	Lag %	Total %	Lead %	Lag %
have a good reputation	60	60	67	65	70	61
prices are competitive	56	60	53	70	80	61
our members are loyal to the coop	48	-	60	-	-	-
local people support our coop	40	50	33	35		46
have a range of products / services	36	40	33	-	40	-
workers are committed to the coop	36	50	-	-	-	-
have skilled workers	36	-	40	35	30	-
products / services are high quality	-	-		48	40	-
member service	-	40	-	-	-	-
operating costs are relatively low	-	40	-	-	-	33
the business skills of the manager	-	40	-	-	30	33

5.6 Cooperatives' Use of Networks and Information

A total of 91% of all cooperatives belong to a network of some sort, with slightly more of those in lagging communities (94%) than those in leading communities (87%) belong to a network. All cooperatives report that the networks are important to the success of their cooperative.

Furthermore, many cooperatives are part of formal alliances or operations, primarily through cooperative association activities, for the purpose of conducting some form of business transaction or pooling of resources. The most common include: training (62%); sales (50%); client services (48%); warehousing (30%); and billing (29%). There is interest among those cooperatives not already involved in such arrangements, including: client services (71%); training (57%); and billing (55%).

Most managers (79%) report that they have regular face-to-face network opportunities with others in the same sector, while most board members (65%) report that they have regular face-to-face network opportunities with other businesses in the community. This is not surprising since board members are drawn from within the community, while managers need to work both with the community and externally in their management of the cooperative. (Table 43A) Cooperatives are also using technology for networking, especially those in lagging communities. In fact, almost half of the managers (42%) report that the cooperative uses the Internet for networking, and this is confirmed by the fact that 58% of board members report this to be the case. Fewer report using other forms of technology for networking purposes. The use of the Internet for

networking, as reported by managers, is highly associated with (and almost statistically significant) the lagging status of a community.

Table 43A Types Of Networking Opportunities Employed By Cooperatives

	Managers (n=25)			Board Members (n=24)		
	Total %	Leading + Lagging		Total %	Leading + Lagging	
		Phi	Signif		Phi	Signif
regular face-to-face networking with businesses in same sector in other communities	79	0.23	0.27	50	-0.2	0.36
regular face-to-face networking with other businesses in the community	63	0.13	0.52	65	-0.47	0.04
using the Internet to network with other businesses	42	-0.37	0.07	58	-0.14	0.55
using the Internet for "live chats" with other businesses on a regularly scheduled basis	21	-0.22	0.27	26	-0.27	0.24
using other communication technology to network with businesses in other communities	33	-0.24	0.24	35	-0.17	0.44

There is a great deal of interest among managers in using technology for networking purposes; three-quarters would like to use or enhance their current use of the Internet for this purpose, and one-third would like to use other forms of technology. There is significantly less interest in this matter on the part of board members. (Table 43B) However, one-quarter of managers and one-third of board members, largely from lagging communities in both cases, would like to develop regular face-to-face networking opportunities with others in the same sector. This suggests an opportunity for government or sector support to facilitate opportunities cooperatives in these communities to be more connected to others in their sector.

Table 43B Interest in Types Of Networking Opportunities within Cooperatives

Interested or very interested in:	Managers (n=various)			Board Members (n=various)		
	Total %	Lead %	Lagg %	Total %	Lead %	Lagg %
regular face-to-face networking with businesses in same sector in other communities	24	11	38	32	11	50
regular face-to-face networking with other businesses in the community	33	11	56	29	13	50
using the Internet to network with other businesses	78	77	100	16	0	30
using the Internet for "live chats" with other businesses on a regularly scheduled basis	16	11	20	16	11	20
using other communication technology to network with businesses in other communities	33	30	36	16	13	18

Board members provide an important leadership role in the overall development of the cooperative. They are responsible for long term planning and development, and for making strategic decisions. One element that board members draw upon to help make informed decisions is their personal networks and connections. Just over half (56%) of the board members identified that the connections of their board members are mostly or somewhat local; about one-quarter suggested that they were mostly or somewhat external to the community. This suggests that there is a healthy overall balance of local and external networks. However, among those from cooperatives in leading communities, 90% identified that their board members' connections are mostly local, whereas among those from lagging communities, 43% identified that they were mostly external in nature. This suggests that in lagging communities where they may be a smaller business base, members draw on their connections elsewhere.

In looking at the range of information sources cooperatives use for making important decisions, for advice and guidance, for general business information, and for other types of information, a rank ordering of the type five sources for each shows some clear patterns. The more important the decision or information required, the greater the likelihood of going to a source from within, while the net is cast more widely for more general information. (Table 44) With respect to providing guidance on important decisions, senior management and employees are the most important. Lawyers and accountants are used by just over one-quarter of the cooperatives. Only 4 (12%) make use of their cooperative association for information on important decisions.

Only one-third of cooperatives use the cooperative sector to obtain advice and guidance. Again, the most important source is senior management. Customers are not one of the top five, but consultation with colleagues through networks is. The most important sources of information for

general business issues are much the same, except that the cooperative sector replaces lawyers in the top five. When we look at the most importance sources of general information, customers are the most important (through both formal surveys and informal discussions). Competitors, sector publications, the Internet, financial institutions, and government publications are also important.

In looking at important differences between leading and lagging communities, cooperatives in lagging communities are much more likely to involve employees in important decisions, and the measure of association here is statistically significant. There are no important differences among leading and lagging communities in their sources of advice and guidance, to discuss general business issues, or to collect general information.

Table 44 Rank Order of Most Important Sources of Information for Managing the Cooperative

	To make important decisions	To obtain advice and guidance	To discuss general business issues	To collect information
management	1	1	1	
employees	2	4	1	
lawyer	3	2		
accountant	4	3	3	
customers	5			1
colleagues		5	4	
coop sector			5	
competitors				2
sector publication				3
Internet				4
financial institution				4
government publication				4

Cooperatives generally participate in local trade shows; about half, and slightly more in leading than lagging communities, do so. (Table 45) Very few participate in regional or provincial trade shows, and none participate nationally. These patterns are not surprising given the high degree of local focus that cooperatives play, and the high percentage of financial and service cooperatives which make up this sample.

Table 45 Cooperatives' Participation in Trade Shows

	Total (%)	Leading (%)	Lagging (%)
Local (n=31)	49	53	44
Regional (n=32)	10	7	12
Provincial (n=32)	13	7	18

6.0 Differences Between Small Business and Cooperative Sectors

In examining differences between the small business and cooperative sectors, the indicators of difference we use include: more than 20% difference in responses to specific issues; or a major reordering of any rank order scores. For the most part there are many similarities between these two groups, particularly when we consider the relatively small sample sizes involved. If there were larger samples for each group, we might have more concrete evidence of similarities and differences.

In comparing the sales and employment growth patterns for cooperatives and small businesses, we note that more of the cooperatives have experienced growth in each of sales, full time employment, and part time employment, in the past three years.

Volunteer board members contribute almost twice as many hours per month to their volunteer work in the community, compared to that of small business persons. Although we did not inquire about the age of board members, we suspect that this might be explained in part by some board members having reached the age of retirement from the workforce, and they therefore have more time available to contribute.

Small businesses are much more likely to contribute to community fundraising events than are cooperatives. Although we did not collect information on cash flow and profit, this in part might be explained by small businesses using some of their profits to give to fundraising, whereas cooperatives operate in part on a breakeven or non-profit basis, and would have dividends to pay to members if they have any profits at all.

Managers of cooperatives have a general impression that the community has the resources to offer financial help for people who are starting up a new business. Small business respondents do not share this view.

There are few differences in the percent of cooperatives and small businesses which feel that they are leaders in their sector on a variety of business issues. However, many more of the cooperatives felt that they were leaders in the area of changing their pricing and in their purchasing practices. This is directly connected to several other elements, Cooperatives in general belong to cooperative associations or sector groups, and these generally have group

buying practices, Furthermore, one reason for cooperatives starting up is to counteract market inefficiencies, one being high prices in a monopoly or isolated community setting. Thus, cooperatives tend to introduce competitive pricing.

On a contrasting note, however, cooperatives were much less likely to feel that they, as a collective enterprise, exhibit entrepreneurial characteristics. In particular, many more of the small business respondents felt that they were innovative, that they liked to take on challenges, and that they take calculated risks.

Looking at investment patterns, cooperatives were much more likely than small businesses to have purchased new computer equipment in the past three years. Given that small businesses in the sample are relatively small, and that cooperatives tend to make decisions on a collective basis, we can conclude that this difference might be explained by noting that cooperatives are “catching up” to the small business sector in adopting new computer equipment. In fact, we could even suggest that cooperatives have leap-frogged the small business sector in using computers and information technology. Seven of the cooperatives and only two of the small businesses have e-commerce capacity (for completing transactions on-line, Tables 15 and 35), and 42% of cooperative managers compared with 26% of small businesses use the Internet for networking purposes (Tables 23A and 43A).

There are also some differences in the reasons for making investments (of all types) in the business. Small businesses were much more likely to invest for the purpose of changing production or service patterns, while cooperatives were much more likely to invest for the purposes of improving customer service and modernizing their equipment and buildings. The heavy emphasis of developing and cultivating loyalty among their members is likely a driving factor here for cooperatives.

While there were few important differences related to the relative importance each places on the adoption of new technologies for various aspects of business activity, cooperatives were much more likely to place greater emphasis on this for the purposes of retaining existing markets and customers (again, this is related to the inherent interest in developing and cultivating customer and member loyalty) and for training. On this last point, cooperatives are challenged to find ways to retain existing employees and managers rather than see them move into the private sector. Cooperatives seem to be responding by making innovative use of technology for training purposes.

In looking at particularly disadvantages created by their location in a rural community, small businesses were much more likely to cite labour force problems as a disadvantage. Here, small businesses may be looking for specialized skills for their business, and they have difficulty finding people with those skills.

There is also an important difference between the two related to business loans. Many more (almost one-third) of small businesses which had applied for a loan were turned down at some point, and almost all of these were in lagging communities. This is reinforced by earlier

observations among the small business respondents that access to financing within the community is troublesome.

In terms of looking to various levels of government to do something to enhance the business environment, small businesses are much more likely to suggest that local government and the federal government can and should be doing something to improve their situation. Suggestions for action primarily relate to the need for lower taxation at both levels.

Many more of the cooperatives identified that increasing competition is a current challenge for their business operation.

With respect to labour force issues, many more in the small business sector are experiencing problems with high levels of payroll taxation. This eats into profit margins, and may also partially explain why fewer small businesses compared to cooperatives identified that they have had increases in employment levels in the past three years.

There are few differences between the two sectors when we examine their explanations for their business success. However, many more of the small businesses noted that their high quality of products and services, and their good reputation, were critical factors in explaining their success.

There are some differences in the relative use of networks for business purposes. Many more of the cooperatives belong to formal networks and alliances, and many more of the cooperatives participate in regular face-to-face networking sessions within their communities and within their sectors. These differences are not surprising given the more formal arrangements with the cooperative movement of belonging to a larger network or association.

The last difference identified is that cooperatives are more likely to participate in local trade shows than are small businesses.

7.0 Comparison of Leading and Lagging Status of Communities

7.1 For the Business Sector

Looking at those variables which are statistically significant at or near the 0.05 level (most significant), or where there is at least a 20% difference in the response, we identify that:

- more of the small businesses in leading communities experienced growth in sales in the last three years;
- small businesses in lagging communities are more likely to sponsor organizations and events;
- respondents in leading communities are more likely to state that they like to be their own boss;

- making capital investments for the purpose of improving the quality of products and services, opening up new markets or customer bases, and increasing the volume of products and services, are associated with businesses in lagging communities;
- small businesses in lagging communities place a greater emphasis on adopting new technologies for many purposes, but particularly for developing new suppliers and for using new equipment;
- more of the businesses in leading communities identify that most businesses in their communities are content at their present level of operations, suggesting that more of the businesses in lagging communities might be interested in growth and expansion;
- for businesses in lagging communities there is more of a problem creating awareness that a new business is about to open;
- many more of those in lagging communities identify that increasing competition is a current business challenge;
- respondents located in leading communities are much more positive about the current business climate than those in lagging communities;
- there is much more interest among those in lagging communities in developing face-to-face networking opportunities both within their communities and within their sectors;
- those in lagging communities are much more likely to use the government and the Internet as a source of information for advice and guidance on business issues, and to use local agencies as a source for general business information.

7.2 For the Cooperative Sector

Looking at those variables which are statistically significant at or near the 0.05 level (most significant), or where there is at least a 20% difference in the response, we identify that:

- managers and board members are more likely to be involved in community groups as members or leaders in lagging communities;
- cooperatives in lagging communities were more likely to sponsor organizations and events;
- managers in leading communities are more likely to agree that business people get involved in community organizations;
- board members in lagging communities are more likely to agree that business people get involved as leaders in community organizations;
- local politicians were more likely to be involved in the startup of cooperatives in leading communities;
- participating in cooperatives in lagging communities is motivated much more by people's general unhappiness with the private sector and their desire to participate in management;
- cooperatives in lagging communities are more likely to see themselves as leaders in improving customer relations, developing new markets, adopting new purchasing practices, and human resources;
- more of the cooperatives in lagging communities agree that they like to take on challenges and that they take calculated risks;

- cooperatives in lagging communities place a greater emphasis on adopting new technologies for many purposes, but particularly for developing new suppliers and developing new markets;
- many more of the cooperatives in lagging communities cite a lack of money for research and development during the startup phase; poor quality products and services and difficulties building awareness that the cooperative is open, during the first year of operations; and a declining customer base at the present time, as particular challenges;
- access to training programs and the high level of payroll taxes are more pressing current labour force issues for cooperatives in leading communities, while the expense of the EI system and a poor work ethic are more pressing problems for those in lagging communities;
- employees in cooperatives located in leading communities receive approximately twice as many days of training, on average, than those in lagging communities;
- many more of the managers in lagging communities use the Internet for networking purposes;
- there is much more interest among managers in lagging communities in developing face-to-face networking opportunities both within their communities and within their sectors, and in using their Internet for networking;
- board members networks are much more local among those serving cooperatives in leading communities, but they are much more external among those serving cooperatives in lagging communities;
- those in lagging communities are much more likely to use employees as an important source of information when making important business decisions.

7.3 Comparing the Business and Cooperative Sectors in Leading and Lagging Communities

Within leading communities, the small business sector is much more likely than the cooperative sector to:

- agree that for people starting a new business there is difficulty getting financing from sources other than banks for their venture;
- agree that they are creative, innovative, like challenges, and take calculated risks;
- place a greater emphasis on adopting new technologies to develop new products and services and to develop new markets;
- state that the high quality of their products and services and their good reputation are leading factors explaining their business success.

Within lagging communities, the cooperative sector is much more likely than the small business sector to:

- have experienced increases in full time employment in the past three years;
- contribute to fundraising activities;
- give prizes for events and to award scholarships to students;
- be impacted by provincial and federal government regulations as they relate to their ability to expand their business operations;

- to participate in local trade shows.

Within lagging communities, the small business sector is much more likely than the cooperative sector to:

- agree that they are innovative and like to take on challenges;
- be impacted by federal government regulations as they relate to their ability to expand their business operations;
- state that the high quality of their products and services and their good reputation are leading factors explaining their business success;
- participate in regional trade shows.

Within lagging communities, the cooperative sector is much more likely than the small business sector to:

- have experienced growth in sales and part time employment;
- have board members involved in community organizations as leaders;
- contribute to fundraising activities;
- see themselves as leaders in adopting new technologies, human resources management, changing their pricing, and adopting new purchasing practices;
- place a greater emphasis on adopting new technologies to retain existing markets, to develop new markets, and to develop new suppliers.

8.0 Community Economic Development: Policy and Research Issues

What conclusions can we draw about the relationship between small businesses and cooperatives, and community economic development? On the positive side, we note that business people and those in the cooperative sector contribute skills and time as volunteer leaders and members in community organizations. Businesses and cooperatives contribute in financial and non-financial ways to the overall well-being of the community. In particular their involvement in non-business activities is perceived to be important and valued. These are indicators that business and cooperative involvement in community economic development activity is likely already happening and is welcomed. Some businesses see themselves as innovators and as creative people, who like challenges. Cooperatives see themselves as leaders in their sectors in a number of business practices, and they have highly evolved networks and alliances. These are transferable skills and experiences to any community economic development process. Because businesses see that a rural lifestyle and environment, and access to a good pool of labour, are positive reasons for locating in a rural community, they would have a vested interest in support and participating in community economic development activity which would enhance and protect these features of the community.

On the limiting side of small business and cooperative sector involvement in community economic development, there are important challenges related to access to capital and to support for new business starts. Business people in particular have identified these as areas where there is less community support, and it may discourage or limit business participation in community economic development activities leading to community-owned business development. Furthermore, relatively few of the business people perceive that their communities are entrepreneurial in nature. If this is the case, one of the immediate challenges will be to build an entrepreneurial culture and spirit in the community, before serious community economic development planning and implementation can occur. Cooperatives and small businesses have identified that the cost of labour in the form of high payroll taxes and employment insurance premiums is a problem. This may limit financial capacity to contribute to the startup of community owned businesses, or may make the cost of startup for community-owned businesses more difficult. Finally, few business people see the business climate in their community as being positive. This also suggests that there may be some challenges in identifying and acting on new business opportunities within a community economic development context.

The broad conclusion we draw from our findings is that there are significant limitations to business growth and expansion as a revitalization strategy in rural communities. Entrepreneurs and cooperatives face significant challenges which must be addressed before they can make important contributions to local CED processes, and before they can be a driving force of rural revitalization. One might argue that few businesses or cooperatives in our sample can be considered as entrepreneurial at all. They are not risk takers by their own admission, and risk aversion is a major blockage to rural growth.

What are the policy and research issues emerging from the findings of this study? Several items are worth noting. In terms of policy issues:

- There are still some gaps in both sectors in their access to information about the adoption of new technologies for a variety of business purposes. About one-quarter of the respondents from both sectors identified this as an issue. Targeted initiatives on this front to assist both sectors understand the value of and the process of implementing new technologies would be helpful.
- The federal government, through its connecting Canadians agenda, has made a concerted effort to foster more widespread use of e-commerce as a means to enhance competitiveness in the business sector. However, given that very few of the respondents are providing e-commerce opportunities for the customers, and very few have plans to do so in the near future, there is room for a review of the effectiveness of current policies and programs related to this effort. Furthermore, there is significant interest from both sectors in developing greater use of the Internet for networking purposes. This is an opportunity for the government to explore how it might support such networking.
- Changes in the regulatory environment, as it affects both sectors in their business development, is warranted. At all three levels there was a universal call for lower taxation of

all types, particularly as it relates to payroll taxes and the employment insurance system at the federal level, and property taxes at the local level. More investigation might be needed to explore the exact nature of these taxes and their direct or indirect impact on businesses in rural communities. Furthermore, the cooperative sector identified that changes at the provincial level in the form of updating and even reinventing the Cooperatives Act, is needed.

- For both sectors, employees and accountants figured prominently as primary sources of information from important business decisions, for advice and guidance, and for general business information. Perhaps a targeted effort by government and sector organizations to provide these groups in particular with critical information about business and market issues would be helpful in strengthening their role as information sources.

Additional research questions issues which emerge from our findings include:

- There is a need to understand more about the local dynamics of financial and moral support for people attempting to start new businesses. The business sector, and to a lesser extent, those in the cooperative sector, identified that this is an issue. More research about personal and community values may help to understand the “moral” issues; more research about awareness of and access to alternative forms of financing, including emerging forms of micro-credit, community loan funds, and community foundations, and existing vehicles within banks, credit unions, community business development centres, the Business Development Bank of Canada, and the various federal and provincial development agencies, would be helpful. Furthermore, existing research related to this issue should be reviewed with an eye to potential policy and program reforms that might improve the situation for rural business startups.
- There is an opportunity to explore more thoroughly the nature of collective and community entrepreneurship. Few of the respondents from our samples felt that their communities could be considered “entrepreneurial” in nature. It also appears that business people born locally identify quality of life reasons moreso than economic ones to explain why they are located where they are, while those from away are more likely to identify economic reasons. What are the successful models for building an entrepreneurial culture? Further research on the entrepreneurship characteristics of the locally born business people (who are more concentrated in lagging communities) compared to business people born in other communities (more concentrated in leading communities) might help to uncover critical points related to relative business success and entrepreneurship. Research on the linkages between the education system (specifically its curriculum) and entrepreneurship development should be reviewed with a view to exploring how best practices or success can be modelled elsewhere.
- For both sectors there is a greater emphasis on technology use for product / service development and for market development, and less emphasis related to human resources, employee training, and working with suppliers. More research on the potential workplace

opportunities and barriers for using technology for internal and external training, and the support elements required for that, will help to understand how best to deliver this support.

- Small businesses and cooperatives have difficulty with building awareness about their businesses during startup and first year of operations. There are issues here related to adequate financial resources for generating this awareness, but there may be other issues related to the effectiveness of identifying appropriate target markets for promotion, and to the relative support in the local community. More research on this issue is required.
- Businesses generally face significant challenges to expand their sales in markets beyond the immediate community. Many of our respondents felt that businesses in their community faced problems in expanding to meet demand and opportunity, and many felt that businesses generally lack of skill and knowledge for expansion. More research is required to understand the specific barriers (e.g. geographic isolation, lack of money for expansion, lack of information on markets, labour force issues, cash flow issues, or issues related to their production or service buildings and equipment).
- While it is clear that “amenity” related factors are the most frequently cited, it is less clear what the specific amenities are that lead people to choose a rural business location, or the extent to which the location is freely chosen or chosen by default due to a lack of choice or mobility. Further research on these issues is needed, particularly from a CED and a business growth perspective.
- It is unclear why so many more of the businesses in lagging communities identified a problem with building awareness that their businesses was to open, during their startup phase. Is the problem specific within their community, within the market they target, or germane to particular sectors? We could speculate that insufficient business marketing skills combined with a lack of capital for marketing and advertising could be part of the problem. But perhaps there is something unique in a lagging community context that needs to be uncovered.
- We know that small business people and those in cooperative business leadership positions belong to community groups as members and leaders. However, from a research perspective, there is an opportunity to learn more about the transfer of skills and knowledge they bring with them from their business experiences into community activities. What are the specific skills and knowledge they employ in their broader community activities? To what extent do they “transfer” these to others, in a capacity building context?
- Many of the small businesses use personal finances for their operations, and only half use their business profits for operations financing. It is unclear how much of this pattern is due to the pluriactivity of rural businesses, and how much of it is part of a survival strategy. More research is required in this area.

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