

Rural Businesses on Vancouver Island:  
Challenges and Opportunities

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## **Abstract**

Many rural areas are undergoing structural changes as jobs in forestry, fishing, mining, agricultural and other natural resource-based industries decline. These communities, often based around these industries, are generally small and located some distance from urban areas. They are faced with decreasing population as residents and their families leave for jobs elsewhere. As a result, the communities and residents are looking for alternative ways to create employment and sustain themselves.

Given the nature of these rural locations, many small businesses based there face challenges that are not generally experienced by enterprises in urban areas. Some communities are not accessible by paved road while others are not accessible by road at all, relying instead on water and air transportation. The business people in these areas often operate without standard business infrastructure, which can include telephone lines, broadband Internet, banking services and other items, and can have difficulty accessing supplies, customers, employees and other required materials. However, there has been relatively little research on the challenges facing rural businesses and the specific methods by which these owners mitigate these challenges. Understanding and addressing the challenges faced by these businesses becomes important in order to support and encourage economic growth and development in these rural communities.

Building on this context, this research looks to answer the following questions:

- Why do people start businesses in rural locations?
- What type of businesses do they start?
- What challenges do these rural businesses face?
- How do owners respond to these challenges?

Vancouver Island and the surrounding smaller islands in British Columbia, Canada serve as the research site.

Given the exploratory nature of this research, an inductive approach has been selected with the use of case studies, interviews and grounded theory analysis. Purposeful sampling is used with the sample businesses meeting specific criteria, based on location, business size and definition of success. These businesses are interviewed at their locations to allow the researcher to experience the challenges associated with accessing the particular rural community. The interview topics are focused on the above research questions.

There are several common characteristics among the sample owners and their businesses. The owners tend to be in-migrants who moved to the rural area for lifestyle reasons. They have started their business to provide an income, take advantage of a business opportunity, or both. Family members, particularly spouses, are actively involved in the business. In many cases, participants supplement their business income with other income sources to ensure business viability. Success is measured generally by personal and lifestyle goals, rather than financial criteria.

The businesses face common challenges in terms of a limited local population base which impacts on market size and labour pool, rural location and access to urban centres, gaps in business and social services infrastructure and heavy time demands. The owners respond to these challenges in a variety of ways which includes the involvement of family, core business diversification, alternative income sources, long hours invested in the business and involvement with the community. To meet these challenges and devise their responses, the owners draw upon four key resources – their own skills and attitudes, their family, business and community.

The resulting conceptual framework draws together these key resources and suggests that all four must be present to ensure success within a rural context. Each resource is comprised of several components which contribute to business success. The framework also integrates several resource-based theories, which consider the key resources either separately or in pairs, to create a holistic model.

The conclusions focus on several key areas. This research contributes to the knowledge base on rural small businesses by creating a framework that draws directly from the experience of these owners and their objectives and motivations for their businesses. It reflects their internal focus and a concentration of the four resources that they access easily from within their domain. This research also suggests some possible roles for government which focus on its role in shaping the larger environment, particularly at the infrastructure level and human capital development. Finally, future research directions are recommended.

This study considers a relatively unexplored topic and suggests ways for rural small businesses to address the challenges which they face. With this knowledge, individuals, businesses, communities and other interested organizations can work to achieve their economic development goals.

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# **Chapter 1: Introduction**

## **1.1. Introduction to the Research Context**

Rural and remote areas in many countries have been undergoing structural changes in agricultural, forestry, fishing and other natural resource-based industries. Among other impacts, the end result has been a decrease in the number of jobs available to residents in the communities based around these industries. Consequently, many communities are shrinking as individuals and their families move away to seek employment (Apedaile, 2004, Deavers, 1992, Mochrie et al., 2004, Nyseth et al., 2005, Patterson et al., 2003). In light of these events, many communities, residents, governments and other interested parties are examining the potential of small business development and entrepreneurship as a way to restore jobs (Bryden et al., 2000, Curran et al., 1993, Lowe et al., 2000a, Nyseth et al., 2005, Skuras et al., 2005b).

There are many economic opportunities for small businesses in these rural and remote areas. Many individuals are capitalizing on an area's unique geography and culture to develop tourism operations, such as tours, accommodation, restaurants and other similar enterprises (Botterill et al., 2000, Cox et al., 2004, Lordkipanidze et al., 2005). Others are drawing upon local products, such as food, crafts and other traditional items, to create niche markets for urban customers (Anderson et al., 2001, Baldacchino, 2002, Lane et al., 1994). In other cases, some businesses have been able to move from urban settings to rural ones with the advances made in information technology, which can facilitate the communication and access to clients, suppliers and other groups

based elsewhere in the region, country and even internationally (Dabson, 2003, Galloway et al., 2005, Jack et al., 1997, McKenzie, 1998).

However, the very nature of these locations which creates these opportunities also can provide challenges for the owner and their business. As will be explored in greater detail later, these locations are often some distance from their markets and suppliers in urban areas. Some communities may be accessible only by secondary roads and gravel roads, while others are not accessible by road at all, relying instead on water and air transportation. The business people in these areas may often operate without a local bank and other standard business infrastructure such as telephone, running water, high speed Internet and electricity which can translate into higher operating costs and time commitments for owners and their businesses (Botterill et al., 2000, Kalantaridis et al., 2006a, Lichtenstein et al., 1996, Raley et al., 2000, Stathopoulou et al., 2004), and a reduced ability to meet with customers, suppliers, business advisors, banks and other related organizations on a regular basis (Beer, 2004, Bryant, 1989, Robinson, 2002, Rowley et al., 1993, Stathopoulou et al., 2004). There is often a limited local market given the lower population densities that exist in most rural areas which hampers a firm's ability to develop economies of scale and create long term business sustainability (Baldacchino, 2005, Beer, 2004, Briguglio, 1998, Fischer et al., 1998, Polese et al., 2002).

Understanding and addressing these issues and related others becomes necessary in order to encourage and support the owners, their businesses and these rural communities in their efforts to create economic development (Ateljevic et al., 2004, Bruce et al., 2004, Keeble et al., 1992, Marshall et al., 2006, Page et al., 1999, Tehrani et al., 2003, Westhead et al., 1999). However,

as will be discussed in more detail, much is assumed about the challenges facing these rural businesses, and often the challenges are extrapolated from experiences gained in urban settings with little evidence provided for this point of view (Buss et al., 1990, Shields, 2005, Stathopoulou et al., 2004). In addition, there may often be an assumption that the support needs of rural businesses are the same as urban ones; however, this may not always be the case (Lowe et al., 2000a). By clearly understanding the challenges facing rural business owners and the methods which they use to address these, appropriate support policies and programs can be developed. Then business success as well as community success may be more likely occur, allowing the various parties to achieve their economic development goals (Getz et al., 2000, Page et al., 1999, Schroeder, 2003).

At this point, as will be described later, there has been relatively little academic research on rural business issues within Canada. This is despite the work being carried out between various levels of government to address the needs of individuals and businesses remaining in rural areas of the country (Canadian Rural Partnership, 2007). Instead, the focus for the majority of the research has been at the community level and the development of community capacity. At the national level, the New Rural Economy Project based at Concordia University is focused on building community capacity. In particular, these researchers are working with community members on issues of communication, environment, services and governance (Reimer, 2003). There have also been two projects addressing issues facing coastal communities on both sides of the country with an emphasis on economic development, health and governance, again at the community level (Coastal Communities Project, 2007,

Coasts Under Stress, 2004). There also has been some work on the creation of entrepreneurial communities with a case study of two on Canada's east coast (Diochon, 2003).

At the international level, European countries, United States and Australia have been undertaking research in rural areas in order to address the differences that exist between urban, rural and remote locations. With this research, there has been a focus on the individual business level; however, much of this work has relied on surveys, generally with large sample sizes (see for example: Keeble et al., 1992, Westhead, 1995). This work is useful for aggregate information and generalization, but it provides little about the specific challenges faced by individual businesses and owners' responses as they mitigate these challenges.

## **1.2. Research Questions**

It is within this context that this research has been developed. Given that relatively little is known about the challenges faced by rural businesses, the following questions are addressed in this study:

- Why do people start businesses in rural areas?
- What types of businesses do they start?
- What are the challenges facing these businesses?
- How do owners overcome these challenges?

By understanding both the reasons for business start-up in these relatively disadvantaged rural areas and the types of businesses started, the variety of challenges that the owners face can be understood. As will be explored later, the type of business, its market potential and the owner's expectations begin to influence the perceptions of the challenges that are faced as well as the methods that an owner uses to overcome them. The answers to the above questions can guide responses by government and support organizations in their efforts to

promote economic development in rural areas. However, the exploration of specific policy responses by these parties is beyond the scope of this research.

Rural areas of Vancouver Island and the surrounding smaller islands in British Columbia, Canada, serve as the research site. As explored later in Chapter 4, this area is undergoing economic transition as traditional employers in natural resource-based industries are shedding jobs while new opportunities, particularly for tourism-related businesses, are being developed in these locations. Governments, support organizations, communities and individuals are exploring both the challenges and opportunities for business development. This research contributes to these efforts to develop both owners and their businesses.

As explored in greater detail in the conclusion, there is potential to extend these results beyond Vancouver Island and surrounding islands with further research. By exploring the challenges faced by rural business owners and the means by which they respond to them, this research suggests a series of resources, focusing on the business owner, their family, business and community upon which similar businesses can draw to start-up, survive and thrive. These resources are accessible within the rural areas and correspond with the internal focus of the business owners. This research is of interest to other businesses owners, governments, regions, business support organizations and other parties which are facing similar issues.

### **1.3. Research Scope**

Before proceeding further, it is important to outline the scope of this research. There are several issues to consider within this discussion.

First, this research focuses on Vancouver Island and surrounding smaller islands in British Columbia with a focus on small businesses in these rural areas.

Chapter 4 provides further detail and map of the region. Within this study, rural has a specific definition, focusing on community size and distance as measure by time from larger urban centres. This definition is provided below. As discussed within the literature review in Chapter 2, given the diversity in rural areas, it may be difficult to extend these results to other areas, either within Canada or beyond. To address this issue, comparisons with owners and their businesses in other rural locations are undertaken to establish similarities and differences. The conclusion provides recommendations for the extension of this research to a broader geographical context to address this limitation.

As outlined further in the methodology chapter, there are several criteria are used to define the research population and the resulting sample. First, sample businesses must be located in communities at least an hour drive from a larger urban setting of at least 10,000 residents. An hour drive is seen generally as the limit for easy commuting (Reimer, 2004). While there are rural areas close to urban areas, this study focuses on the potential challenges that flow from an area's location relative to larger urban centres. These might include the (in)ability to access markets, supplies, advice and other important requirements as well as possible gaps in infrastructure. A classification scheme for rural areas is outlined in Chapter 2 with application to Vancouver Island area in Chapter 4.

In addition, the focus is on small businesses as defined by the number of employees. The sample businesses must have less than 20 full-time employees. Most, in fact, had less than ten staff. Most of the large enterprises in the rural areas of Vancouver Island are multinational natural resource-based firms with access to very different levels of resources, such as capital, transportation networks, infrastructure and skilled employees. As a result, their approach to

challenges associated with rural areas is different and may be more easily managed given the resources at their disposal. In addition, a specific distinction between entrepreneurs and small business owners is not made within this study; though some differences regarding potential in business growth and profits between these groups will be discussed. The focus is placed on the range of challenges and responses to these. The conclusion provides recommendations that suggest a range of different responses given the potential growth and profit of businesses.

The owners and their businesses must be successful by the owner's particular definition. No attempt is made to screen businesses on the basis of revenues and/or profits. Part of this research focuses on why owners continue to operate despite the challenges they face in these rural and relatively disadvantaged areas. As a result, owners are asked to define success in their terms. The majority of the sample businesses are still in operation which means that they have found methods to negotiate their challenges.

Finally, the research methodology uses case studies with in-depth interviews, as outlined in Chapter 5. While this methodology allows for the detailed exploration of the challenges that the owners face and the methods they use to address them, it limits the overall sample size. As a result, it is not possible to generalize from the sample to other rural businesses in the Vancouver Island region, much less beyond. The final chapter provides recommends further research to increase the sample size further and geographical context to be able to generalize these results further on Vancouver Island as well as other rural regions within Canada and other countries.

#### **1.4. Outline of the Dissertation**

The dissertation takes the following structure:

Chapter 2 provides a review of the academic literature with a focus on defining the term “rural” and proposing a definition for this study. As explained, there are challenges associated with defining the term for several reasons. There are three primary definitions: “negative” as in not urban, rural as a “social space”, rather than a physical location and “geographical” with a focus on physical location, population density and a dependence on natural resources and agriculture as the economic base. This research draws upon a geographical definition with a further consideration of accessibility to larger urban centres.

Chapter 3 continues the literature review with a focus on the characteristics of owners and their rural businesses and the types of potential challenges facing them. Rural businesses tend to be small and service-oriented. Owners often start their business to gain an income, to take advantage of an opportunity, or both. They are also often motivated by the lifestyle that is associated with rural areas, having moved there to gain this.

The research suggests there are five potential types of challenges facing rural businesses. These include challenges that flow from the rural location as a function of distance from urban areas, challenges that are associated with gaining market access from within and beyond the rural community, challenges that result from gaps in critical business and social services infrastructure, challenges attracting and retaining labour and finally, challenges that flow from the community itself in terms of support to the owner and their business.

This chapter also identifies critical gaps within the research on rural businesses. First, many of the challenges are assumed from an urban perspective which may not reflect the reality facing rural business owners. Second, many studies on rural businesses are focused at the community level and suggest ways to make the community more entrepreneurial with little consideration of the individual business owner. Third, given the diversity in rural areas, there is a need for site-specific research. To date, there has been relatively little research on rural businesses within Canada, a country with many rural communities. Fourth, this study examines a type of business that is often ignored in research because they are marginal in nature with little growth potential. Finally, much of the previous business research has focused on surveys with large sample sizes. These studies provide important aggregate information but little detail on the individual business owner and their responses to challenges. The research methodology is deliberately chosen to address this issue.

Chapter 4 provides an overview of the geographical context of Vancouver Island and surrounding smaller islands with a focus on the area's geography, population distribution, economic activity and available infrastructure levels. This region has historically relied on natural resources. However, this economic base has been eroding, leaving individuals and communities searching for alternatives to sustain the residents and the community itself.

Chapter 5 outlines the research methodology with an examination of the research approach, population and sampling, data collection and analysis methods and issues of research credibility. This study uses an inductive approach with case studies, in-depth interviews and purposeful sampling with

data being collected at the owner's location. Grounded theory guides data analysis. Steps are taken to ensure research credibility with cross-case comparisons and rich case descriptions.

Chapter 6 provides rich case descriptions of the case study owners, their businesses and rural communities as well as comparisons between these case studies and with other rural businesses. There are several common characteristics among the sample. The businesses tend to be small and split between services and niche manufacturing. The owners are in-migrants to their communities and started or bought their businesses to create employment, take advantage of an opportunity, or both. Family members, particularly spouses, are actively involved in the business. The communities are all very small and lacking in some key aspect of business and social services infrastructure, which becomes critical to business operations. These various characteristics are common to other rural businesses.

Chapter 7 examines the challenges faced by these owners and their businesses and the manner in which they respond to these. The owners face five primary challenges. First, the community's small permanent population base limits the size of the local market. Second, this small population base also impacts on the attraction and retention of both skilled and casual employees. Third, the community's location and associated limited accessibility to larger urban centres impacts on business operations and increases the amount of time, money and effort required. Fourth, there are also several key infrastructure gaps, which includes access to banking and broadband Internet, lack of some social services and an apparent lack of community support. The fifth challenge relates to a large time commitment. Operating a business in a rural location is very

time-consuming. The owners respond to these five challenges with a variety of methods. These include the involvement of the family and its property, the development of co-operative relationships, full-time involvement in the business and the development of alternative businesses, incomes and niche markets. To address these challenges, owners call upon four primary resources which include their own skills and attitudes, their family, business and community.

Chapter 8 proposes a conceptual framework by providing further theoretical support for the four resources used by the rural business owners to address their challenges. Within this framework, business owners draw upon and coordinate four key resources – themselves, their family, business and community – to achieve survival and success as they define it within the rural context. This framework also integrates several resource-based theories which consider only one or two of these resources in order to create a holistic approach.

Chapter 9 outlines the findings, contributions to the knowledge base on rural small businesses as well as possible policy responses by government at various levels. The research contributes to the knowledge base with an integrated framework for resources used by rural business owners to address their challenges and attain success. These resources available within the rural community correspond to the internal focus of the owners. The research also reinforces the importance of non-economic goals to business owners. The policy recommendations focus on the creation of a supportive rural context through infrastructure and human capital development. Finally, future research will extend the results presented here by enlarging the sample size on Vancouver Island and beyond to other rural locations.

## **1.5. Summary**

Despite growth in urban areas, many people are choosing to remain or move to rural areas for a variety of reasons. Once there, reality dictates that they must earn a living in some way. Given the decline in employment in these areas due to the loss of employers within natural resource-based industries, these individuals are exploring small business and entrepreneurship as an alternative. The communities themselves are also looking to entrepreneurship and small business development as a way to sustain the community. However, to reach these goals, it is necessary to understand the challenges faced by businesses in these locations. Can businesses successfully start-up, survive and thrive in areas which might lack traditional business and social services infrastructure? What do they need to achieve these economic goals, both at the individual, business, and community level? This research makes a contribution towards answering these and other related questions.

## **Chapter 2: Literature Review: Definitions of Rural**

### **2.1. Introduction**

As outlined in the introduction, this research focuses on the challenges facing rural businesses generally and specifically the challenges facing those in the rural areas of Vancouver Island and surrounding islands. To set the context for this research, this chapter reviews the debate concerning definitions and understanding of the term “rural” and outlines the specific definition to be used in this study.

### **2.2. Definition of Rural**

Before examining the challenges facing rural businesses and their owners’ methods of responding to them, it is important to define the concept of rural (Dinis, 2006, Montgomery, 1999). As explored below, there are varying degrees of “ruralness” which can have an impact on businesses. By defining the term, communities, businesses, challenges and other issues can be classified for examination and comparison. This step, however, is not without challenges of its own for reasons that are outlined below. This is not a new debate. Halfacree (1993) estimated that the definition of rural has been discussed for over 70 years and this debate has not been resolved in the subsequent 15 years. The following section reviews the challenges of defining “rural”, outlines the different definitions in use and finally, provides the definition to be used in this research.

#### **2.2.1. Challenges Associated with Defining the Term “Rural”**

Despite the need for a common definition to allow comparisons, there are several issues associated with defining the term “rural”. First, the term is often used without explicit definition (Montgomery, 1999) or with an intuitive

understanding of the concept, which can lead to contradictory ideas or an association with peripheral locations, a link that cannot always be made (Bryden et al., 2000, Deavers, 1992, Montgomery, 1999). A location can be peripheral, that is, on the fringe and some distance from the centre, without necessarily being rural. Rural locations can also be close to urban areas. The intuitive understanding tends to associate rural with village life, farming, uncomplicated lifestyles, and a state of mind. In other words, it is often seen as a location untouched by the issues experienced by urban areas (Bryden, 1994, du Plessis et al., 2004, Furuseh, 1998, Robinson, 1990, Vyakarnam et al., 1990).

Second, it is becoming increasingly difficult to clearly delineate between rural and urban locations because the lifestyles in both are becoming increasingly similar (Bollman et al., 1992, Ferrao et al., 2004, Halfacree, 1993, Labrianidis, 2004b, Lewis, 1979). The term urban is often not clearly defined but generally includes an assumption of large population density, businesses, shopping, culture and other things generally not found in rural areas. In a present day context, the difference between urban and rural might be at the level of whether an automatic teller/bank machine or an exotic coffee drink is available. In addition, there is more interaction between these two realms as more people commute from rural areas to urban for employment, shopping, and other activities and people travel in reverse for leisure. In many countries and regions, this interaction has prompted a reverse migration from the cities back to rural communities (Atterton, 2003, Blackburn et al., 1993, Gillis, 2004, Johnson et al., 1995, Keeble et al., 1995, O'Malley, 1994, Robinson, 1990, Townroe et al., 1993, Vyakarnam et al., 1990). This movement tends to be to rural areas which are closer to urban ones, rather than those places some distance from cities.

Third, there is much variety among rural areas, which makes a general definition limited in its usefulness (Dinis, 2006, Hoggart, 1990, Labrianidis, 2004b, Shucksmith, 1994). These differences are numerous and can include variations and variety in industrial bases, economic opportunities, community demographics, climate and proximity to urban areas (Bollman et al., 1992, Bryden, 1994, Halseth, 2004, Polese et al., 2002, Stathopoulou et al., 2004). As a result, it becomes difficult to compare locations (Kalantaridis, 2004). It also means that different options for economic development present themselves with certain advantages being granted to those communities which are closer or have easier access to urban areas as compared to those communities that are further away or are not as easily accessible. These advantages can include a greater flow of people, goods and services between the areas along with easier access to a larger market and transportation links and other important business infrastructure (Barnes et al., 1994, Walisser et al., 2005).

Given this range of understanding about and differences among rural areas, there is no one general and agreed upon definition of rural. However, it is still necessary to create classification types which can delineate boundaries to be used in research and government policy. In response to this need, researchers and government have outlined several types of definitions. These are reviewed in the next section.

### **2.2.2. Types of Definitions for Rural**

There are three primary ways that rural is conceptualized for research and policy purposes (Gambino et al., 2004, Rousseaux, 1994). These include:

- A negative definition
- A social definition
- A geographical definition.

Each is explored in turn with a focus on determining an appropriate definition for this research.

### **2.2.2.1. Negative Definition**

The end result of the above definitional challenges is that often a definition of rural becomes a negative one. In other words, rural is defined by what it is not in relation to an urban setting (Saraceno cited in Bryden, 1994, Government of Canada, 2002, Polese et al., 2002, Robinson, 1990). This concept, then, tends to focus on the relative disadvantages of rural areas as compared to urban ones. These disadvantages can include depopulation, distance to markets, an over-reliance on primary industries, and at times, a conflict over space and its appropriate use (Blackburn et al., 1993, Robinson, 1990). A limitation of this definition is that it can be difficult to operationalize given its negative focus and relation to another unquantified space. There is also no common definition for urban and this type of space also varies in terms of industrial bases, economic opportunities, demographics, climate and proximity to other larger urban areas. In addition, a negative definition does not recognize differences between rural areas. As a result, the range of options for economic development in rural areas becomes constrained because there is no one-size-fits-all response which can address all types of rural areas (Bryant et al., 2001).

### **2.2.2.2. Social Definition**

Rural can also be conceived in social terms. Halfacree (1993) outlines that rural can be defined in terms of what the “space” means to an individual and the way that they view and respond to it. For research in this regard, the focus is on people’s interpretations of the rural locality, not so much of the physical location in and of itself. These interpretations tend to reference factors such as

agriculture, natural resources, heritage, and nature (Deavers, 1992, Ferrao et al., 2004, Reimer, 2005, Stauber, 2001). Given that rural is seen as an individual understanding, there can be conflicting representations among local residents as well as with outsiders (Hoggart et al., 1987, Reimer, 2005, Shucksmith, 1994). Finally, within this perspective, social distinctions between rural and urban areas are highlighted. Rural areas are typically seen to exhibit close relationships with neighbors and their community whereas urban locations are characterized by private, less close relationships (Robinson, 1990). One drawback to this definition is that, since rural is a social representation, there can be a rural mindset in people residing in urban locations and vice versa (Rousseaux, 1994). Thus, there is a challenge associated with identifying exactly where a rural area is in a physical sense, limiting its use as a definition when geography and the actual location of a business are important considerations, as they are within this study. As a result, other understandings and definitions of rural are considered.

### **2.2.2.3. Geographical Definition**

The final definition draws upon the geographical characteristics of a rural area. There are several different geographical definitions with several characteristics in common. They tend to focus on physical location, low population density and an economic dependence on natural resources and agriculture as common aspects of rural areas (Apedaile, 2004, Deavers, 1992, Government of Canada, 2002, Halseth, 2004, Hobbs and Blodgett in Malecki, 2003, Robinson, 1990).

Given the variation between rural areas, several typologies have been created with an emphasis on different variables with regard to the above factors and place rural areas along a continuum between rural and urban (Mason et al.,

1993, Montgomery, 1999). One of the first continuums to be developed was Cloke's Index of Rurality, developed in England, which is comprised of five categories ranging from extreme rurality to urban according to selected variables. These variables include population density, population demographics, the percentage of households with indoor plumbing, percentage of in-migrants and distance from larger urban centres (Cloke, 1977, Robinson, 1990).

Other continuums have been developed for other settings to address the particulars of these rural areas, reflecting the variety in rural areas and the relative emphasis that researchers wish to place on different variables. Within the American context, Beale developed a similar series of classifications, called the Beale Codes, which focus on population size and relative location to metropolitan areas as it relates to workforce commuting. These codes were later modified for use in Canada (Beale, 2004, Ehrensaft et al., 1992). In contrast, Stauber (2001) uses elements such as amenities and poverty to classify areas into categories such as urban periphery (those within a 90 minute commute of an urban area), high amenity (areas with scenic beauty and cultural opportunities), sparsely populated (areas with low population density and opportunities) and high poverty (areas with high poverty) within the United States in order to emphasize another series of variables. A similar typology is used within the European Union context (Blunden et al., 1998). In many English studies, the classification used focuses on accessible rural areas located primarily in the southern and middle England and remote rural areas in the more northern regions (Carmichael et al., 2004, Keeble et al., 1992, North et al., 1996). Scotland, in response to the distances between its communities, has developed its own classification system which takes into account the time involved in traveling

between centres (Scottish Executive, 2004). This classification is discussed in more detail below.

Within Canada, Polese and Shearmur (2002) place their focus on the periphery, which comprises many rural areas, as those parts of the country that are located an hour and one-half drive from a city of more than 500,000 residents. They chose an hour and one-half because this time is seen as a possible limit for easy access to a larger urban centre, which tends to be the centre for economic, political and social decision making. One drawback of Polese and Shearmur's definition is that they do not make an explicit distinction between urban and rural areas within a periphery. Given Canada's relative low levels of population density, there are many smaller cities that are located outside the one and one-half hour drive limit, which makes them peripheral but not necessarily rural. This again highlights the challenges of developing solutions for those areas at greater distances and accessibility to larger urban centres. As explored below, even smaller cities on the fringe might likely have more advantages than a rural area that is located beyond the one and one-half hour limit.

While these typologies begin to provide some guidance for a rural definition, there are limitations with them. For example, the category cutoffs are somewhat arbitrary and often made without strong theoretical rationale. Ultimately, categories must be set and so they are (Hoggart et al., 1987, Vachon, 1995). Vachon (1995) attempts to provide some rationale by providing insight into one definition of rural used within Quebec, one of Canada's provinces. Here, rural is any municipality with less than 3,000 residents. While he admits that this number is somewhat arbitrary, it corresponds roughly to the amount of

population needed for a village to become a town or a rural community to become more urban. In many cases, classifications are adjusted with population growth and shifts and categories and variables redrawn or reconceived with advances in technology, infrastructure and changes in industrial bases (Robinson, 1990, Robinson, 2001). This makes comparisons over time difficult.

### **2.2.3. Limitations Associated with Definitions of Rural**

While the above negative, social and geographical definitions have been used in many studies, there are limitations with them which constrain their applicability to this study with its particular focus on the physical location of rural businesses in the Vancouver Island region. As outlined above, the negative and social definitions are difficult to operationalize because they have preconceived understandings of rural which cannot be easily quantified or categorized. This limits the ability of a researcher to classify a business or community as rural or urban.

In addition, while many of geographical definitions take into account the concept of distance, it is often from the perspective of workforce commuting. In other words, they consider the percentage of the population that travels to the larger urban setting for employment. There are two problems with this. First, the focus of this study is on the challenges of small businesses within the rural community, not on the challenges of individuals working for an employer outside their community. These may be two different sets. Second, these definitions do not provide a specific measure of the time required to travel the distance nor a calculation of the effort involved to reach the larger centre. The measure of time and effort become important in defining accessibility to urban areas from rural ones. Access, or the lack thereof, becomes important within

studies of deprivation in rural areas. Essentially, the less access that people within a rural area have to urban areas, the relatively more disadvantaged the people and the region can be (Griffith, 1994, Westall et al., 2000). This highlights the potential differences and challenges that might exist for rural areas close to urban centres relative to those located further away.

This relative lack of accessibility can have an important impact on business start-up and survival with the consideration of the fact that larger urban centres tend to be where business support services, such as banks, accountants, lawyers and suppliers, are located, given higher population densities of individuals and businesses in these areas. To demonstrate this concentration of goods and services, geographers have developed a hierarchy of business centres, which begins to show the difference in the range of services available in communities. Goods and services offerings tend to be narrow in the smallest hamlets which force residents to travel the higher-level centres, those locations with the most specialized and complete range of goods and services (Borchert, 1963, Christaller, 1966, deSouza, 1990, Gould, 1985, Howland, 1993). The challenges associated with this travel are discussed in more detail below.

Generally, the closer something is to another, the more interaction there is between them, which can create advantages for businesses that are closer to, rather than further away from, the economic centre. Those businesses that are closer have a relatively easier experience, in terms of time, money and effort, accessing their requirements (Deavers, 1992, Gould, 1985, Polese et al., 2002, Rousseaux, 1994, Statistics Canada, 2001a).

The measure of access includes more than direct physical distance from a larger urban setting; it can also include the time required for both driving and

waiting for other forms of transportation such as ferries and airplanes as well as the money and effort it takes to travel to that location, given physical barriers such as water, mountains and road networks (Commins et al., 1999, Deavers, 1992, Gould, 1985, Rousseaux, 1994, Scottish Executive, 2004). In this regard, while small islands may not necessarily be rural, they are remote and suffer from issues of access as they must import most supplies and travel much distance by water (Baldacchino et al., 2006, Beer, 2004, Fischer et al., 1998).

These measures can then become proxies for a calculation of accessibility; the closer in terms of distance (miles/kilometers) and time (minutes/hours), the more accessible a place may be (du Plessis et al., 2002, Labrianidis, 2006b, Statistics Canada, 2001a).

One final consideration is the perception of distance, something not easily measured, but still can be a hurdle to overcome (Prideaux, 2002). For example, an hour from a larger city may feel very far for some, especially those in Europe where physical distances are not as great, whereas for Canadians, an hour is relatively close given that individuals are accustomed to driving longer distances.

Ultimately, the choice of the definition of rural depends on the user and the research question with some opportunity to combine classifications (du Plessis et al., 2002, Vyakarnam et al., 1990). For example, in a recent report addressing rural economic issues within the United States, SRI International (2005) used two measures of rurality. First, the researchers did a preliminary classification of urban and rural based on area population. A metropolitan area has a core city of at least 50,000 residents and an area population of at least 100,000 within an undisclosed amount of space. Any areas that did not meet these criteria are considered non-metropolitan. As the authors recognize, this

definition does not allow for diversity among rural areas and consequently, they also used Beale Codes to classify areas more precisely.

Given the importance of accessibility to urban areas for businesses, as is discussed in more detail later, the next section considers a definition which incorporates this consideration.

#### **2.2.4. Suggested Definition Incorporating Geography and a Measure of Accessibility**

While all definitions face limitations with respect to accessibility, a geographical definition can most easily incorporate a measure of accessibility given the consideration of the physical location. As discussed above, this is not possible with negative and social definitions.

One definition which specifically incorporates accessibility from a distance and time perspective is the eight-stage model developed by the Scottish Executive. This classification is a combination of population size and driving time to the nearest settlement of 10,000 people or more (Atterton, 2003, Carmichael et al., 2004, Scottish Executive, 2004).

There are several advantages to this model. First, it is one which begins to address the issue of population density and the driving time needed to access larger centres, particularly from a business owner's perspective. Driving time begins to reflect the differences and limitations experienced by those in rural areas in terms of transportation infrastructure, an issue that is discussed further when the challenges faced by rural businesses are explored. It is also useful for making comparisons with the experiences of enterprises in different rural areas (Carmichael et al., 2004). Other studies also make use of the drive time concept. For example, a study of rural emergency medical services in Canada

incorporated drive time to determine the most appropriate locations for ambulance stations (Halseth et al., 1991).

Second, as explored further in Chapter 4, Vancouver Island's geography is similar to Scotland's with large distances between small centres and a significant portion of the region's population living on islands. This model can be adapted relatively easily to this context.

Third, this model also focuses on two factors that can have great impact on business operations, namely, population size and distance, while ignoring variables highlighted in other typologies that are not as important within this study. The population numbers determines the potential size of the local market and labour pool while distance influences the ease with which an owner can access the necessary resources that are not available within the community. The challenges that can stem from these factors are explored in greater detail in the next chapter.

Within this model, as seen in Table 2.1, an accessible community is defined as being within a 30 minutes drive or less of a larger community with a population of at least 10,000 residents. A remote community is between 30-60 minutes and very remote is more than 60 minutes. Drive time is based on average speed over a certain type of road, but does not include ferry times nor wait for ferries, a limitation of this classification (Scottish Executive, 2004). Drive time, rather than straight mileage, becomes a more accurate measure of access because roads in Scotland are not straight and must incorporate the local geography, which includes coastal line, mountain ranges, bodies of water and the fact that different road surfaces mean different speeds (Scottish Executive, 2002). An hour drive time is generally considered the limit for relatively easy

commuting for required services (Reimer, 2004). This model is applied to Vancouver Island in Chapter 4.

**Table 2.1: Scottish Executive Community Classification**

<b>Classification</b>	<b>Population Range</b>	<b>Time in Minutes to Settlement of 10,000 or more</b>
Accessible Small Town	3,000-10,000	Less than 30 minute drive
Remote Small Town	3,000-10,000	30-60 minute drive
Very Remote Small Town	3,000-10,000	Over 60 minute drive
Accessible Rural	Less than 3,000	Less than 30 minute drive
Remote Rural	Less than 3,000	30-60 minute drive
Very Remote Rural	Less than 3,000	Over 60 minute drive

(Scottish Executive, 2004)

### **2.3. Conclusion**

As discussed, there are many challenges associated with defining the concept rural. The term is often not defined explicitly. At the same time, due to societal changes, it is more difficult to clearly delineate between rural and urban locations. In addition, there is considerable variety among various rural areas which means a general definition is limited in its usefulness. Despite these challenges, a definition is necessary in order to classify rural areas to facilitate exploration and comparison of issues. There are three primary definitions used – negative, social and geographical. Given the focus of this research on the physical location of businesses in rural areas, a geographical definition which incorporates accessibility as measurement of time will be used to classify the

rural communities of Vancouver Island and surrounding smaller islands. From this discussion, attention can now turn to a review of rural small business issues within the next chapter.

## **Chapter 3: Literature Review: Rural Small Businesses**

### **3.1. Introduction**

This chapter reviews the literature on rural small businesses with attention to the characteristics of these rural businesses and their owners and the potential challenges facing them. Drawing upon this critical review, gaps in this literature are explored and contribution of this research is outlined.

### **3.2. Studies on Rural Businesses**

There has been relatively little written on rural businesses and entrepreneurship compared to the volumes related to businesses in urban locations. Wortman, Jr. (1990a, 1990b), in his articles on rural entrepreneurship, points out that most research on small business in the United States has been conducted in urban settings and the little that has been done on rural areas has focused on census data, rather than at the individual business level where the specific details about the businesses and their contexts can be explored. Buss and Lin (1990) argue the same point. This echoes the situation in other countries (Mankelov et al., 2001, Westhead, 1995) and within service industries (Smith, 1993). Despite this, there has been an increased focus on rural businesses since the 1971 Bolton Inquiry in the United Kingdom (Curran et al., 1993) and the introduction of requirements within the European Union to create greater access and economic opportunities for peripheral regions (Bryden et al., 2001). Governments in various countries are also addressing these issues as rural areas undergo economic adjustment due to decline in agriculture and natural resources industries (Halseth, 2004, Lowe et al., 2000a, Lyons, 2002, Skuras et al., 2005b). As seen in the below discussion of rural businesses and the challenges they face,

studies on urban businesses can not be applied directly to rural businesses. The contexts in which they operate are very different.

### **3.2.1. Characteristics of Rural Small Businesses**

Before the rural context for businesses can be explored, the characteristics of both rural businesses and their owners must be discussed. To understand entrepreneurship within a particular context, both factors are important (Schaper et al., 2007). This includes an examination of business characteristics such as size and type with a focus on owners' reasons for start-up and specific goals, background characteristics and other factors. In particular, it is important to establish the type of individuals who start these business and the types of businesses started in rural areas. This exploration sets the larger context in which the discussion of challenges and responses by owners are set. This review draws upon studies from Europe, United States, Australia and other rural areas.

Before addressing the challenges facing rural businesses, it is important to paint a picture of these businesses. Generally, rural businesses tend to be service oriented and very small, as measured by number of employees, revenues, and profits. Studies in England, Scotland and United States have found that the majority of rural firms are in service industries, rather than manufacturing (Cromie et al., 2001, Green, 1994, Mochrie et al., 2004, Mochrie et al., 2006, Smith, 1993, Tosterud et al., 1992). This is a trend that is also seen within Canada (du Plessis, 2004). However, the range of services is often not clearly defined within the research. Some studies merely classify a business as either manufacturing or services (Clark et al., 1995, Warren-Smith et al., 2004) while others categorize non-manufacturing businesses as either services or retail

(Green, 1994, Tehrani et al., 2003). Finally, some studies provide a more complete breakdown by service sector (Babb et al., 1992, Bennett et al., 1995, Raley et al., 2000, Solymossy, 2000, Townroe et al., 1993). In their survey of rural micro businesses in Northeast England, Raley and Moxey (2000) found that most service micro businesses with employees provided local services, such as health and social industries, transport, and construction.

Without more specific detail on the range of services provided, it is difficult to compare research across regions and studies and make recommendations on policy and support responses. For example, the earning and market potential of a local hairstylist with a relatively local market as compared to a computer programmer who might have the potential to access a larger market area can be very different. They may also potentially face different challenges and provide different responses to these. In other words, micro businesses cannot be treated as alike, given their diversity in markets, employment and owners (Westall et al., 2000). As outlined above, the size and location of a community often can limit the types of businesses which can operate there. This is explored further below within data analysis.

Rural businesses tend to be small with few employees with a significant portion having a single employee, often just the owner (Keeble et al., 1992, Phillipson et al., 2002, Smallbone et al., 2002, Townroe et al., 1993). These businesses also tend to be smaller than those in urban locations in terms of employee numbers and sales (Robinson, 2002, Spilling, 1997, Westhead, 1990). Many of these businesses also tend to rely on family members as employees (Andersson et al., 2002, Raley et al., 2000, Tetelman et al., 1993).

The impact of these businesses characteristics is explored below within the discussion of the challenges facing these businesses.

### **3.2.2. Characteristics of Rural Small Business Owners**

Drawing on the research, it is possible to discern certain general characteristics of rural business owners. This section outlines these characteristics as they relate to motivation for start-up, goal orientation, previous business experience, origin and other factors. The importance of these characteristics is explored further in challenges and analysis of the case study owners.

#### **3.2.2.1. Motivations for Start-up**

Rural small business owners generally provide a variety of reasons for business start-up. One of the primary reasons outlined is that a small business provides a job and an income, especially important in those locations with limited employment opportunities (du Plessis, 2004, Mankelow et al., 2001, Raley et al., 2000, Robinson, 2001, Tervo, 2004, Townroe et al., 1993). A second reason cited is the desire to be one's own boss and be independent which has been extensively referenced (Gladwin et al., 1989, Robinson et al., 2001, Spilling, 1997, Tosterud et al., 1992, Townroe et al., 1993, Walker et al., 2004, Westhead, 1990). A third reason is the wish to take advantage of a business opportunity (du Plessis, 2004, Getz et al., 2000, Josephson, 2006, Mankelow et al., 2001, Spilling, 1997, Tetelman et al., 1993, Westhead, 1990). Finally, a particular lifestyle and the desire to live in a specific area are also articulated as reasons for starting a business in a rural area (Getz et al., 2000, Getz et al., 2004a, McKenzie, 1998, Spilling, 1997).

As seen below, lifestyle is also given as a motivation for business growth, or non-growth, as the case may be, and as reasons for a business owner's decision to stay in a community with limited economic opportunity and difficult challenges (Dabson, 2003). However, the term "lifestyle" is seldom defined, but rather is assumed to be self-explanatory. As is the case with the term rural, it can mean different things to different people. Some studies begin to provide further elaboration of the term with a focus on balance between work and family (Bock, 2004, Mankelov et al., 2001), flexibility in hours (Robinson, 2001, Sullivan et al., 1997a, Sullivan et al., 1997b), and the amenities of a rural area, which can include the scenic beauty, quality environment, outdoor activities, a more relaxed pace of life and small town atmosphere (Beyers et al., 1996, Bruce et al., 2004, Bryden et al., 2000, Johnson et al., 1995, McKenzie, 1998, Robinson, 2002, Townroe et al., 1993). At times, lifestyle may also include meeting the family's financial goals, a factor not often highlighted in entrepreneurial research (Fairbairn, 1988c). Another example can be seen in a study in rural Maine where one of the interviewed business women remarked that success to her was being able to set her own work schedule that allowed time for skiing (Josephson, 2006). For maple sugar producers in Quebec and Vermont, the business was a way to manage risk and uncertainty, create year round employment, and perhaps more importantly, be part of the local rural identity (Hinrichs, 1998).

Rural owners often start their businesses for a variety of reasons, many of which fit within the push-pull framework (Global Entrepreneurship Monitor, 2002, 2005). Rural entrepreneurs are often pulled into starting a business to pursue certain objectives, which can include money, independence and the ability to make their own decisions. Others are pushed into business start-up as

they address a negative situation, which can include a dissatisfying job, insufficient family income, or even unemployment (Gilad et al., 1986, Orhan et al., 2001, Sundin et al., 1991, Uhlaner et al., 2005, Walker et al., 2004).

### **3.2.2.2.Goal Orientation**

Reasons for start-up also begin to influence an owner's business goals, which can focus on financial and non-financial measures. One such goal to consider is an owner's orientation toward business growth and financial success. There is speculation that rural business owners with their emphasis on lifestyle might be different from urban business owners in this regard. However, the research is mixed on whether there is in fact a difference; some rural business owners show similarities to urban

business owners with their focus on financial and non-financial objectives. One caveat, however, is that most studies do not define growth, which can mean increase in number of employees, revenues, profits and other factors. Again, without a common understanding, it is difficult to compare the various studies and conclusions regarding owners' orientation towards growth.

Smallbone et al. (2002), in their study examining methods to encourage and support businesses in rural areas, found that the growth orientation of rural business owners is similar to those in urban areas, but that the end results in actual performance may be different. Other researchers have found that urban firms appear to have higher growth rates, particularly as measured by job creation, though this could be a changing trend as some urban businesses are moving to rural areas to take advantage of cheaper operating and labour costs (Kalantaridis et al., 2006a, Robinson et al., 2001, Townroe et al., 1993, Warren-Smith et al., 2004).

Growth is not the only possible goal for small rural business owners. Townroe and Mallalieu (1993) found that the surveyed business owners said that a quality product/service is more important than growth. In another study, less than 6% of service business owners in rural locations in northeast Suffolk are interested in making money as their prime motivation, compared to 14% in urban areas of the study and 20% of service business owners in Islington (Blackburn et al., 1993). This is also echoed in a study of home-based rural businesses in Australia (Walker et al., 2004). For some businesses, the desire to keep the business small and stay close to employees and customers is preferable over growth; this is in keeping with non-financial goals, as Robinson and Watson (2001) concluded in their case studies of rural business women in Pennsylvania. Overall, as Raley and Moxey (2000) found in their study of rural small businesses in northeast England, owners are mixed in their attitudes towards growth. They determined that one-third of respondents is interested in growth while one-third is not interested in growth. The other third had no preference on growth.

This orientation to goals other than financial success and growth can also be seen in several studies in Australia, the United States and England. In a study of business women in rural Australia, success is defined not just as financial, but also as the creation of “a viable and sustainable business in the rural location they choose to live in” and the opportunity to grow personally (McKenzie, 1998, pg 260). Within their review of literature concerning family and owner-operated rural tourism businesses in Australia, Getz and Carlsen (2000) outline that goals may also include the ability to stay on the family farm and create a particular lifestyle. Business owners may feel that making money is important, but few

start their businesses to achieve large financial gain. In a survey of women business owners in rural parts of Northumberland and Shropshire, the respondents are interested in some profit rather than large profits (Warren-Smith et al., 2004). Finally, at the conclusion of a study of rural entrepreneurs in the southern United States, Green (1994) argue that most of the small businesses are not high growth orientated.

As one reviews this literature on owners' goals as they relate to growth and other objectives, the owners' statements must be viewed with some skepticism. As outlined in the discussion of challenges and the experiences of this research's sample businesses, these business owners may face limited opportunities for growth and large financial success. They may have resigned themselves to this situation and instead now place more emphasis on lifestyle objectives, ones that they may have more control in achieving. Growth and high profits may have been an objective at the on-set, but the owners quickly realized that these are not always possible in rural locations, thus requiring a shift in perspective.

Another issue to consider is the congruence between reasons for start-up and subsequent business goals. Those individuals who take advantage of a business opportunity may have different financial and non-financial goals because they may see more potential for growth and profits whereas those who start businesses in order to create a job in order to stay in their community may place more emphasis on non-financial goals from the outset. This is something that should be explored further.

Having said this, a distinction between entrepreneurial ventures and small lifestyle businesses can be made differences in the challenges faced by these two

different types of business and the methods by which the owners respond. While there are various definitions within the literature, the basic distinction between an entrepreneurial venture and a small business relates to growth and profit potential. Businesses that strive for growth and profit are more likely to be characterized as entrepreneurial than those businesses owners focused on lifestyle and family (Carland et al., 1984, Centre for Rural Entrepreneurship, 2003, Henderson, 2002, Hindle et al., 2002). While both are important to a community, the entrepreneur develops new ideas, markets, products and services which facilitate job creation and skill development. This in turn contributes to a diversified local economy addressing a key challenge for rural areas (Herslund et al., 2004, Ho et al., 2001, The Rural Secretariat, 2004). However, for the purposes of this research, this distinct is not explicitly highlighted.

### **3.2.2.3.Previous Business Experience**

It is often acknowledged that individuals start businesses in industries in which they have direct experience; this knowledge can then be directly applied to business start-up, reducing the amount that an individual must learn to operate a business successfully (Townroe et al., 1993). However, there is no clear evidence that rural business owners have business experience before they start their operations. Townroe and Mallalieu (1993), in their study of rural England, found that the majority of small business owners drew upon similar skills from their past employment and applied them to their new businesses. In addition, almost half had run a business previously. This is reinforced in a study of rural business people in Florida (Gladwin et al., 1989). In contrast, McDonagh and Commins (1999) found that owners of small food businesses in rural Ireland had little business experience prior to start-up. Tetelman and Popovich (1993) found

the same in their study of rural small businesses in three states in the United States. This is also echoed in studies of small island economies (Hailey, 1988). Given this mixed level of prior business experience among rural entrepreneurs, it suggests one possible challenge that the owner faces is the opportunity to gain the necessary skills. This potential is limited by the relative lack of training opportunities and support organizations in rural communities, as explored below.

#### **3.2.2.4. Origin Prior to Life in Rural Areas**

Another characteristic among the business owners relates to their origin prior to their life in their rural community. It is important to understand where the small business owners are originally from because it has implications for economic development. If most individuals who start businesses in these rural communities are from elsewhere and the businesses they start are small with few or no employees, then little net economic development has occurred in the rural community. The residents and community may not be better off economically.

The literature suggests that a significant portion of small business owners in rural areas are not originally from the area where they subsequently establish their business. However, they do not always move to the area with the intention of starting a business. That decision may come later as they discover opportunities and/or need employment (Josephson, 2006, Kalantaridis et al., 2006b, Keeble et al., 1992, Mason, 1991, Raley et al., 2000). The issue becomes the range of potential economic activities which can be undertaken in the location where they have chosen to live (Schutjens et al., 2006).

North and Smallbone (1996) and Keeble et al. (1995, 1992) found that 50% of rural businesses are started by people who had moved into the area either prior to starting the business or for the reason of starting the business. There is a

similar situation among new Welsh manufacturing firms (Westhead, 1990) and rural tourism businesses (Getz et al., 2005). In Ireland, small business operators are from other parts of Ireland, but a portion of them are returning to their home areas after some time away (McDonagh et al., 1999). Finally, in a study of rural Scottish businesses, the researchers found that study participants are nearly split evenly between those who had been brought up in the area and those who have moved in. Most of those who had moved in did so for the lifestyle, but a significant minority was following up on a business opportunity (Mochrie et al., 2004). In contrast, in a study of three states in the United States, the researchers found that most rural small businesses are started by long-time residents (Tetelman et al., 1993).

While business subsidies might attract some individuals to rural areas, it appears that other factors are at work. Mochrie and Galloway (2004) found that people who move to rural areas and subsequently start a business have relocated for lifestyle, family, business or employment opportunities. In a study of the Yellowstone region of the United States, business owners who had relocated from elsewhere identified certain values that guided their decision on their business's location. These values include scenic beauty, quality environment, and a desire to raise their family in a rural location with a small town atmosphere (Johnson et al., 1995). Keeble et al. (1992) found that more entrepreneurs, drawn by a location's attractiveness, had moved to the area before setting up the enterprise, rather moving to start-up a businesses. This is echoed by Roberts (2002) and reflects the discussion surrounding business startup motivations and owners' goals.

There is some evidence, though, that suggests “locals” start more businesses than in-migrants. One study argues, at least for Italy, that there are more local entrepreneurs in a region than entrepreneurs from elsewhere and that the local business people had bigger businesses in terms of market value, number of employees and capital than newcomers. The authors suggest that long time residents know the opportunities better and have better access to local capital, enabling them to more easily start businesses (Michelacci et al., 2005). Hayter (1997) proposes the seedbed hypothesis which argues that people start businesses where they can take advantage of their local knowledge, thus reducing uncertainty and risk. People who are based in an area would likely possess knowledge on facility space, human resources, funding sources, suppliers and markets (Hayter, 1997, Kalantaridis et al., 2006a, Schutjens et al., 2006). This idea could also suggest that, in order to gain this knowledge, individuals should live in an area for a time before starting a business. The question remains on the appropriate length of time needed to gain this knowledge. In other words, when does a newcomer become a “local”? These arguments are in contrast to the notion that in-migrants often have the necessary management skills, information, contacts and finances to start businesses that the locals lack (Kalantaridis et al., 2006b, Labrianidis, 2004b).

There is also some evidence that suggests “locals” start different types of businesses than in-migrants. In their study of entrepreneurs in rural Cumbria, Kalantaridis and Bika (2006b) found that entrepreneurial craftspeople are locals while opportunity-driven entrepreneurs and entrepreneurial professionals are in-migrants who are able to access their connections with the “outside” world to create markets for their goods and services.

As explored later, the potential impact of the owner's origin is raised again within the discussion of businesses challenges.

### **3.2.2.5. Gender**

The last factor to consider is the rural business owner's gender. It appears from the variety of surveys conducted that rural businesses tend to be operated primarily by men (Bird et al., 2004, Green, 1994, Phillipson et al., 2002, Raley et al., 2000, Spilling, 1997, Tetelman et al., 1993, Townroe et al., 1993). The tourism and hospitality industries appear to be exceptions. Getz and Carlsen (2000) found that 66% of the rural tourism businesses in Australia are owned by married couples. Raley and Moxey (2000) found a similar situation in northeast rural England. This is also echoed by Skuras et al. (2005b) within their research on lagging areas in Europe. In Canada, Statistics Canada found that the self-employment rate is higher for men in rural areas; however the gap between men and women is narrowing (du Plessis et al., 2005).

Despite the apparent lower incidence of women entrepreneurs operating rural businesses, small business is viewed as an opportunity for women to leave poverty and gain income. Many women are taking advantage of these opportunities (Bock, 2004, Egan, 1997, Sullivan et al., 1997a, Warren-Smith et al., 2004). Surveys do not appear to be reflecting this trend, though. This is an issue that needs further exploration. One possible explanation is that these women are actively involved in the family businesses, but their role is not acknowledged, a common issue in business (Danes et al., 2005, Kirkham, 1986). It points to the need for further research to explore more fully the role of women within rural businesses.

With this review of small businesses and owners, the focus turns to review the challenges that these owners face in their rural context. The next section considers the types of challenges that have been identified as such and the areas where there are gaps in the knowledge base.

### **3.3. Challenges Faced by Rural Businesses**

Following from a geographical rural definition, it is now possible to consider the potential impact of the physical location on rural businesses, a key question within this research. As Dabson (2003) points out, starting and developing a business is not easy for anyone, however, rural businesses face particular challenges that can make it more difficult to operate. These challenges may include distance from and access to market, infrastructure gaps, ability to attract necessary human resources and other factors. This is echoed by Stathopoulou et al. (2004) who argue that despite the fact that the entrepreneurial process is the same in both urban and rural settings, the rural context creates different opportunities, which can include advantages such as niche markets and limited competition but also constraints, which then potentially impact long term business survival. Westall et al. (2000) also suggest that small business owners in disadvantaged areas may face greater challenges than business owners in general. In contrast, by examining survival rates of urban and rural businesses, Buss and Lin (1990) suggest it is no riskier starting a business in a rural area than in urban ones. They suggest that overcoming the challenges may, in fact, make these businesses stronger and better able to address future challenges. However, they admit more work needs to be done to understand this relationship.

The challenges that face rural businesses are many, as explored below. This section outlines the potential challenges that flow from a business's rural

location. It sets the context for the exploration of the challenges facing small businesses owners in rural Vancouver Island as well as their responses to these.

A review of the relevant literature suggests that the impact of a rural location can be felt in several broad categories as outlined by Hoy and Vaught (1980), Polese and Shearmur (2002), and McDaniel (2001). These include:

- Location as a Function of Distance;
- Access to Market;
- Infrastructure;
- Human Resources; and
- Community.

These factors are interrelated and it is difficult to discuss one without reference to the others or to suggest which might be the most important. Almeida et al. (2005) provide some insight by suggesting that distance, accessibility and size of the potential market are the most important and the other challenges flow from these primary factors. These will be refined further through discussion of the case study businesses.

### **3.3.1. Challenges Related to Location as Function of Distance**

The impact of location as it relates to distance can influence rural businesses in several ways and begins to point to differences between those businesses which are closer to urban areas and those which are more remote. As discussed above, this distance can be defined in several ways. First, it can be expressed by a strict measure of mileage. Many rural areas are many kilometres from larger urban centres, both as the “crow flies” and by the actual twisting road, which must be used to avoid physical barriers such as mountains and water. Second, as explored in the discussion of rural definitions, this distance can also be defined in time. The physical distance can take time to cover, especially since many roads cannot be traveled at quick speeds. In many cases, the road system

is less than ideal, with a reliance on secondary roads which are at times minimally paved and very winding, which further reduces travel speed. Finally, the distance can also be defined in terms of transportation infrastructure. For some rural locations, ferries and airline schedules must be taken into account as part of the distance measurement. These forms of transportation add wait and travel times. This again adds to the time to travel what can be a relatively short distance as measured in straight kilometers or miles.

All this begins to impact on rural business operations, especially of those located further away from the urban centres. Given these distances, transportation costs and required time to bring supplies in and products and services out can be higher than in urban locations. This can influence a firm's ability to be as productive and competitive as an urban-based business (Bollman et al., 2006, Bruce et al., 2004, Kalantaridis et al., 2006a, Patterson et al., 2003, Schurmann et al., 2000, Stathopoulou et al., 2004). This can become a particular problem for those businesses based on islands (Baldacchino, 2005, Beer, 2004, Fischer et al., 1998).

Second, these distances can also impact a firm's ability to meet with their customers, suppliers, business advisors, banks and other related organizations on a regular basis, all of which can be important sources of information, innovation and support (Beer, 2004, Bennett et al., 2002, Ferrao et al., 2004, Hitchens, 1997, Stathopoulou et al., 2004). The influence of these distances and subsequent access should not be underestimated. In a study of the remote islands in Scotland, it was found that travel to a relatively short meeting on the mainland might take two or more days due to the distance and ferry/flight availability. In addition, in order to minimize time away from the business, meeting dates and

times have to be carefully considered so that people could easily arrive and leave again, since many ferries and flights only operate on certain days and times (Beer, 2004). The same can often be seen on other developed islands (Fischer et al., 1998). This situation limits the ability of rural-based companies to meet with others. It is not just a matter of an hour's meeting, but rather a several day commitment with associated travel time. In addition, given that many of the rural businesses are sole proprietorships, there may be no one available to manage the business when the owner is gone. This further limits an owner's ability to travel for important meetings. As a result, as Gould (1985) suggests, as distance and costs associated with the distance increase, the amount of interaction decreases.

While information technology has facilitated some forms of interaction, it cannot replace the value derived from face to face interactions. These become the source of much innovation, creativity, and ideas, necessary for developments in marketing, products and services, operations and other areas within the business (Beer, 2004, Gould, 1985, Labrianidis et al., 2004, Polese et al., 2002). Innovation tends to occur most often in populated areas where inputs are cheaper and more available and there are more opportunities for people to interact and exchange ideas. This, in turn, encourages similar activities and pulls more people towards the centre (Christaller, 1966, deSouza, 1990, Gould, 1985, Grimes, 2000, Hoggart et al., 1987, Mason, 1991).

Despite the promises to the contrary, it is suggested that telecommunications technology has prompted further concentration in urban areas, rather than decentralization to rural and remote areas. It also appears to create the need for more travel, not less (Rowley et al., 1993). These researchers

developed their argument in 1993 before the widespread use of the Internet, but it does not appear that this has changed over the past decade. Writing almost ten years later, Polese and Shearmur (2002) suggest that the need for face-to-face interaction may be increasing, not decreasing, with the use of information technology. The end result is more travel for business people in rural areas. Information technology cannot replace the value of face-to-face meetings (Schutjens et al., 2006).

As seen below, the challenges associated with distance impact on the other challenges and do not present resolutions.

### **3.3.2. Challenges Related to Market Accessibility**

Given the characteristics of a rural location, the ability to access a market, both locally and beyond the community, becomes critical. Given the lower population densities in rural areas, the local market tends to be small, creating difficulty for the business to develop economies of scale or operate a sustainable business over the long term. In this context, sustainability is defined as the ability of a firm to at least cover its expenses in the long term and to ideally make a profit. Without crucial economies of scale gained over a large customer group, rural enterprises generally have higher per unit costs than urban firms, making it harder to compete. In addition, rural firms may also have higher transportation costs, as they move supplies in and product and services to the market outside the community (Anderson, 2000, Lichtenstein et al., 1996, Polese et al., 2002, Raley et al., 2000, Stathopoulou et al., 2004). Island communities face particular issues with additional high air freight and ferry charges (Baldacchino, 2005, Fischer et al., 1998). As explored below, gaps in infrastructure also further impact on a firm's ability to access customers.

Merely raising prices to cover costs within a limited market may not be a viable alternative, particularly for those retail businesses who feel the limitations of the local market (Bryant, 1994). With improvements in transportation infrastructure, “big” box store development in both larger and smaller urban centres and Internet-based shopping, these businesses face new forms of competition unheard of in the past. More community residents are reaching beyond their immediate communities for their purchasing and, at times, ignoring the local shop. Rural retail businesses must take this competition into account as they devise their strategies to ensure survival (Byrom et al., 2001, 2003, Jussila et al., 1992, Kirby, 1982, 1987, Leistriz et al., 1992, Siemens, 2006, Smith et al., 2000). Many businesses are exploring the use of information technology, specifically the use of the Internet, as ways to expand their customer base geographically (Labrianidis et al., 2004, Leatherman, 2000, Malecki, 2003, Morrison et al., 2002, Premkumar et al., 1999). However, despite these limitations, the small local market can create some advantages for the small rural business. In a study of remote food retailing stores in the Western Isles of Scotland, researchers found that the small local market means that store owners know their customers well and, as a result, can develop a clear understanding of the market’s needs and wants. This knowledge can lead to better forecasting because the owner, for example, will likely know who is going away and the impact that this might have on store sales (Byrom et al., 2001).

### **3.3.3. Challenges Related to Availability and Condition of Infrastructure**

The availability and condition of infrastructure can present challenges to the rural business owner and business operations (Fairbairn, 1988a). The

necessary infrastructure includes a consideration of that which is required for business operations, such as telecommunications, Internet, roads and banks, but also that of the social infrastructure, such as schools and health care. The presence, or lack thereof, of this type of infrastructure therefore can influence the decision of whether an owner will stay long term within a community (Baldacchino, 2005, Getz et al., 2005, Halseth et al., 2004, North et al., 2004, Robinson, 2002, Rowley et al., 1993). While there is no definitive list of the type of infrastructure that is required by individuals and businesses, Northern Ireland Statistics and Research Agency has explored the type of services that are important for a self-sufficient community. These include the presence of grocery stores, garages, restaurants, post office, bank services, professional services, health care, libraries, telecommunications, education and police services (Northern Ireland Statistics & Research Agency, 2005). These will be explored further in the discussion of the case studies communities.

At times, the infrastructure itself or the access to it may be limited or less developed than in urban areas (Diochon, 2003, Labrianidis, 2006a). As discussed above, the state of infrastructure impacts directly on the physical distance from larger urban centres, the travel time involved and the ability of a firm to access a market beyond the local community. Governments, like businesses, also find it difficult to provide infrastructure in an economical fashion due to distance and low population densities, and at times, choose not to provide it, meaning that individuals and businesses often must supply their own infrastructure. This might include provision of septic and garbage services (Deavers, 1992, Furuseth, 1998, Rightmyre, 2003).

There have been advances made in telecommunications technology. This technology can facilitate communication and access to urban areas, which has made it possible for some employment and business operations to move to rural areas (Galloway et al., 2005, Jack et al., 1997, McKenzie, 1998). However, there are still challenges with this technology in rural areas. Rural businesses struggle with access to technology that may be slow, expensive, or subject to service interruptions (Beer, 2004, Labrianidis et al., 2004, Polese et al., 2002). In some cases, the infrastructure, such as high-speed Internet, may not be provided at all. As a consequence, rurally-based individuals and businesses may be slow to adopt this technology (Huggins et al., 2002, Leatherman, 2000).

Another important aspect of business infrastructure is the availability of business support services, such as lawyers, accountants and bankers. Generally, these services are concentrated in urban centres some distance from rural areas, given the relatively low demand in rural communities (Grimes, 2000, Hitchens, 1997, Keeble et al., 1992, Labrianidis et al., 2004, Polese et al., 2002, SRI International, 2005). These services can be important sources of information for accounting, marketing, operations, financing, computing, strategic planning and legal advice, and effective use of these can improve success rates of enterprises (Chrisman et al., 1989, Chrisman et al., 2000, Harris et al., 2005, Keeble et al., 1992, Lowe et al., 2000b, Mazzarol et al., 2006).

Another key component of the infrastructure is access to banking services, both for businesses and community members. For example, in the case of Australia, when community banks closed in some rural communities, people traveled many kilometres to access bank services, costing both time and money for businesses and individuals alike. In addition, people tend to spend their

dollars in the communities which had the banks, rather than within their home community, thus, creating a second blow (Oborn, 2000). This is a trend also seen in Canada, where there has been a decline in the banking services availability in rural communities, both with direct service and indirect through automatic teller machines (Bowles, 2000, Halseth et al., 2004, 2006). This experience is also found in rural American communities (Leistriz et al., 1992). Given the lack of bank services in rural communities, owners must often travel to banks in order to make deposits. Given the above discussion about the distance and time required, this requirement presents additional challenges.

As heralded by banks and others, Internet and telephone banking can begin to address parts of this issue (Petersen et al., 2002). This technology allows the business person to track transactions and account balances. However, at a certain point, the owner will need to visit a bank, particularly if they wish to arrange bank financing or make deposits and withdraw cash. Since loan decisions are often based on personal interaction between the banker and the client, the distance between the two can impact on the ability of a business to access funding, though it is not clear to what extent this is the case. One study in Belgium examining the impact of distance and competition on lending rates suggests that the lending rate decreases as the distance between bank and client increases (Degryse et al., 2005). In contrast, Buss and Yancer (1999) suggest in their study of the issue in the United States that rural businesses are able to arrange financing. They did not find evidence of a credit gap because owners are able to access alternative sources of financing.

Transportation networks as a component of infrastructure can also present a challenge to rural businesses. There can be a certain amount of inflexibility

with shipping schedules when working with ferries and airlines and travel time on roads. As found in the Western Isles of Scotland, businesses cannot use just-in-time shipping and must increase minimum order sizes to maintain stock levels. This means that businesses must invest more capital in inventory. Rising fuel costs add to this burden, given the amount of distance that must be traveled to access suppliers and customers (Byrom et al., 2001). In some cases, the lack of access to airports and/or highways may even limit the type of businesses that can operate in rural areas (Dabson, 2003, Polese et al., 2002).

Improving transportation and telecommunication infrastructure may not be an automatic step. Any improvements that would allow rural businesses to more easily move their products and services to outside markets, would also facilitate access for outside firms, thus creating more competition in these areas (Kilkenny, 1998, Labrianidis et al., 2004, Leatherman, 2000, Premkumar et al., 1999, Rowley et al., 1993).

#### **3.3.4. Challenges Related to Human Resources**

Businesses in rural areas face several challenges in regard to human resources, which impacts on an owner's ability to start and operate a business successfully. First, given low population densities, there tends to be a small labour pool available locally. In addition, rural residents tend to have lower education and skills levels, given the relative lack of access to higher education and variety of jobs (Beshiri et al., 2004, Bollman et al., 1992, Bryden, 2003, Freshwater, 2004, Kalantaridis et al., 2006a, Kalantaridis et al., 2006b, Leatherman, 2000, Tickamyer et al., 1991). This can translate into a shortage of skilled labour (Besser, 1998, Keeble et al., 1992, Page et al., 1997, Polese et al., 2002, Raley et al., 2000). Similar to the above discussion on service definition

within surveys, the research is relatively silent on the specifics of the skills required for rural businesses, which will vary according to industry and business.

While training can resolve part of the issue, it can be difficult for a business owner to arrange training for themselves and their staff since training tends to be provided in urban areas. Many owners have limited time and money for travel (Bennett et al., 1995, North et al., 1996, O'Dwyer et al., 2000, Page et al., 1997, Smallbone et al., 2002). Some training can be delivered through the Internet; however, many individuals in rural locations lack the skills to take full advantage of this, even if the technology is available (Field et al., 2004, Freshwater, 2004, Labrianidis et al., 2004, North et al., 2004, Polese et al., 2002).

The lack of technological skills available in a community highlights a particular problem facing many rural communities. The youth, often the ones who embrace a new technology, tend to leave a rural community to pursue further education and opportunities that may not be available at home (Bryant et al., 2001, Grimes, 2000, Lichtenstein et al., 1996, North et al., 2006). Regardless of these factors, there is a push for technology acceptance in these communities and it often comes from those individuals who move to an area and then start a business (Malecki, 2003). These individuals have had access to the technology, see its potential, and wish to have it present in their new community.

### **3.3.5. Challenges Related to the Community**

Finally, there might be challenges arising from the community itself. First, many rural communities have been based around a single industry or employer, which creates limitations. This may mean that the relative skill level and diversity within a community is narrow because there may have been few opportunities for different employment experiences which can provide the

management and other necessary skills for business start-up and operations. There may also be economic instability within the community, especially in those influenced by global industries. A boom-bust cycle is often created that impacts the community, which has limited ability to respond (Bryant et al., 2001, Diochon, 2003, Johnstone et al., 2004, Lichtenstein et al., 1996, Mason, 1991). Also, the emphasis on a single employer may also mean a lack of economic diversity within the community because there are a limited number of small businesses to support the dominant employer. When it closes, so do the other businesses (Bryant et al., 2001, Dabson, 2003, Mason, 1991). In addition, there may be a lack of role models present, those successful business people who can support and encourage other start-ups (Hailey, 1988, Skuras et al., 2005b).

Another limitation revolves around one of the reasons which pulls individuals to these rural communities. People often move for the close-knit community, a place where people know and support each other. This closeness is often heralded as an advantage of rural communities. However, it can easily become a disadvantage when it limits entrepreneurial behaviour because it is perceived as different. This may impact on a business's overall success (Bryden et al., 2004, Ho et al., 2001, Mason, 1991, Mueller, 1988, Portes, 1998). As Lauer (2005) discusses in his examination of an emerging industry in rural Maine, local residents who are exploring a new industry are limited in their options for business development because the community's norms limits acceptable actions. Outsiders are not constrained in the same way and tend to achieve longer term success as a result.

A further constraint flows from the lower population density in rural areas. An important part of the entrepreneurial process is innovation, which

often comes from the interaction of individuals who trade information and ideas to be applied to business opportunities and operations. However, the lower population density within rural area limits this potential amount of social interaction, which in turn may potentially limit innovation. As a result, the amount of innovative activity may be constrained in rural areas (Polese et al., 2002, Rightmyre, 2003).

The rural location itself along with associated issues may present challenges for the owner and their small business. However, as is examined below, much is assumed about these challenges.

### **3.4. Gaps in Literature to be Addressed in this Research**

While the literature provides an overall, aggregate picture of small businesses in rural locations, there are several gaps which are explored below. The gaps are focused on assumptions, unit of analysis, specific geographical contexts, and research methodology. This research is designed to address some of these gaps to provide a fuller understanding of the challenges facing rural businesses and the way in which the owners overcome these challenges.

#### **3.4.1. Gaps in Assumptions**

First, many of the identified challenges of the rural businesses are assumed to be such or are viewed from the perspective of an urban business owner, who might have different experiences and challenges (Anderson et al., 2001, Buss et al., 1990, Byrom et al., 2003, Shields, 2005, Stathopoulou et al., 2004). As Buss and Lin (1990) outline, many economists and development experts believe that the rural environment is inherently hostile to small businesses; however, they do not provide evidence for this assertion. Further, in publications supporting rural business incubation, Lichtenstein and Lyons (1996,

2001) outline several challenges facing rural businesses without exploring their assumptions regarding these. On a more practical level, Beer (2004) found that policy makers did not always realize the cost of travel from the Scottish islands to larger urban centres until the tickets are shown to them.

To demonstrate problems associated with making assumptions about the challenges facing rural businesses, Shields (2005) surveyed rural businesses in the mid-Atlantic United States and found that commonly assumed challenges, such as resource constraints (financing, technology and transportation), are not in fact identified as such by these owners. This situation points to the need to ask the owners directly about their challenges, rather than merely assume a certain reality.

In addition, many studies do not include the “hard to access populations” (Mankelov et al., 2001, pg. 221) such as home-based businesses and/or businesses in rural areas. If these groups have not been included in a study, the findings cannot be generalized. As a result, research should be designed to specifically focus on these populations (Mankelov et al., 2001). Byrom et al. (2003) argue the same point for rural retailers and suggest that a research focus must be developed which incorporates the assumption that rural retailers face a different context than urban ones.

Given that the rural context is different from the urban, Harris III et al. (2005) and Shields (2005) both argue that there is a need to explore and understand the rural context so that small business owners can structure their operations effectively. In addition, by understanding the challenges faced by rural businesses as defined by them, policy and programs can be designed to mitigate these challenges and more effectively support small business

development. This need is also reinforced within the European context, where researchers argue that there is a need to examine the factors that help or hinder entrepreneurship within these locations in order to encourage the development of small businesses (Anderson et al., 2001, Dinis, 2006, Labrianidis, 2006a, McAdam et al., 2004, Shelleman et al., 2003, Stathopoulou et al., 2004). To understand this context and the challenges, the rural small business owners must be asked directly about them, rather than making assumptions (Harris et al., 2005, Shields, 2005).

### **3.4.2. Gaps in Unit of Analysis**

The second gap focuses on the unit of analysis within research. Many of the studies on the rural business environment are focused on the community level and methods required to make the community more entrepreneurial and supportive of small business enterprises (Dabson et al., 2003, Dinis, 2006, Diochon, 2003, Flora et al., 1990, Lordkipanidze et al., 2005, Reimer, 2003, Walisser et al., 2005). The individual business owner and their business are often not considered within this context. However, despite this focus at the community level within the economic development literature, the local development theories, with their bottom up approach, tend to place the small business person at the centre. This person is central to the entrepreneurial process as they are the ones who translate an idea into action and prompt further economic development at the community level (Bryant, 1989, Coffey et al., 1984, 1985, Dinis, 2006, Friedman, 1987, Hinrichs, 1998, Lichtenstein et al., 2001, Malecki, 1994, Polese et al., 2002, Stockdale, 2005). Given this lack of emphasis on the individual, there should be additional focus placed on key actor(s) and the identification of the challenges that they face so that the

community can better respond to the issues that they can resolve. By understanding the challenges as identified by the business owner directly, the community can ensure that their responses to the challenges actually meet the needs of the individual business owners.

Interestingly, the responses to challenges by the individual business owner are often ignored in surveys focusing on community development, reflecting the bias toward the community, rather than the individual. For example, in a survey focusing on obstacles within rural communities in Nova Scotia, Canada conducted by the Canadian Federation of Independent Businesses, small business operators were asked for their opinion on ways to overcome listed challenges. The multiple choice answers considered solely the range of potential responses that a community could implement (Hachey, 2002). However, there was no opportunity for the small business person to explain their own particular responses to the challenges as they perceived them. As another example, in an examination of resilient communities after primary industry shut down, the authors of this report reviewed the actors involved in transforming the community. These actors include national, provincial and local governments, the departing industry, and community organizations (Walisser et al., 2005). Again, the individual business person, as a potential creator of jobs and opportunities, is not considered as a relevant actor. For this bottom-up approach to economic development to be successful, the issues facing the individual business must be explored and addressed in order to create the desired growth.

This study also begins to explore a class of businesses that is often ignored or overlooked in business research, despite the fact that they are key performers in economic development and employment creation (Baines et al.,

2003, Schaper et al., 2007, Westall et al., 2000). There are relatively few studies on “marginal businesses” (Edwards et al., 2006) or those which are seen as the ones without “glamour” because they are low growth and low innovation (Brush et al., 1999). According to Kirchoff’s (1994) typology, rural businesses are classified as the economic core, where the majority of businesses are positioned. These businesses lack the “more heroic elements of the enterprise culture” (Smith, 2006, pg. 44) with little link to big business. These business owners are generally more focused on making do, rather than making it big (Smith, 2006). However, these businesses make up the majority of firms and are often the economic base of rural communities. Understanding and supporting these businesses will aid community and government’s efforts towards economic development in these regions.

### **3.4.3. Gaps in the Consideration of the Specific Geographical Context**

There is a need for site specific research, especially within Canada with its range of rural diversity and geographical breadth. It cannot be assumed that what holds in one country or region, given the economic, geographic and social diversity in rural areas, applies to another without critical analysis (Baum et al., 1999, Burnett et al., 2004, Mochrie et al., 2004). Much of the published research on rural small business has been conducted in the United Kingdom (Kaikkonen, 2005), a very urban country with few places more than an hour’s drive from a larger urban centre (Curran et al., 1993, Townroe et al., 1993). In Canada, one of the largest countries in the world, distances between communities can be very large and makes the consideration of geography and its impact on business important (Polese et al., 2002). Accessibility to larger centres becomes

particularly important. Many communities are several hours from larger centres and often residents face accessibility issues related to air and water transportation. This debate about research study applicability is present even within the United Kingdom. Atterton (2003) argues that studies conducted in rural England might not be relevant to rural Scotland, due to the differing degrees of ruralness and remoteness. As a result, site specific research is needed to determine research applicability from other locations.

Also, there is also limited relevance of some studies on rural businesses due to their focus on agricultural activities (Bock, 2004, Carter, 1998, Carter et al., 1998, Warren-Smith et al., 2004). For example, in a comparison of Ireland and the United States, one of the variables under consideration is agricultural activities (Commins et al., 1999). Vancouver Island, as will be seen in the next chapter, does not have this base, meaning that the applicability of these studies to Vancouver Island needs to be explored further. The rural context where agriculture is not primary may differ from those locations where it is.

To date, there has been relatively little research on rural businesses in Canada, meaning there is little known about the challenges facing rural businesses in this country. Much of the research has been at the community level. One major Canadian multi-year research project is the New Rural Economy Project, in which there is one Vancouver Island community under study. This national research project is focused on capacity building in the areas of services, governance, communications and environment to ensure that rural Canada can participate in the knowledge economy (Reimer, 2002, 2003). Researchers on this project have published one study on businesses, examining their role in community economic development (Bruce et al., 2004). There have

also been several studies considering the community level and the challenges they face in terms of economic development, health and governance with the objective of supporting communities as they strive to meet economic development goals (Coastal Communities Project, 2007, Coasts Under Stress, 2004, Diochon, 2003).

There are also several smaller studies. There is a study on Chinese restaurant owners in rural Western Canada where it is found that these immigrant owners are less dependent on their ethnic connections than their urban counterparts. The owners have also found ways to integrate into the local economy (Smart, 2003). There have been studies on manufacturers in rural Quebec and selected islands in the Atlantic Ocean, which determined that rural businesses demonstrate innovativeness, despite impressions to the contrary (Joyal et al., 2004, Joyal et al., 2000). Statistics Canada, as part of their series entitled Rural and Small Town Canada Analysis Bulletin, has drawn upon their data to review self-employment, labour markets, price of rurality and tourism in rural areas. This research has found that there is a large portion of self-employed in rural areas with a higher rate than for individuals living in urban locations (28% versus 13%). These rural businesses tend to be small (1-4 employees) and are focused on services and natural resources in rural areas (Beshiri, 2001, 2005, Bollman et al., 2006, du Plessis, 2004, Mendelson, 1999, Rothwell, 2001). Field and Telsyk (2004) found that there is a digital divide present in Alberta. Some businesses clearly see the value in the Internet and have invested in the technology while others do not perceive its value given the expense of accessing it from rural areas. This research will add to the developing picture of rural businesses in Canada with its focus on Vancouver Island.

#### **3.4.4. Gaps in Research Methodology**

The final gap focuses on research methodology. Much of the previous research has relied on surveys, as is typical of small business research generally (Aldrich cited in Cope, 2005a, Davidsson, 2005). For example, several large studies on rural businesses in the United Kingdom with large sample sizes (Keeble et al., 1992, Westhead, 1995) . These surveys and others provide important aggregate information but little on the individual business responses. They are also limited in their ability to provide explanation (Curran et al., 2001). Within this research project, the objective is to understand the methods used by rural business owners to overcome their challenges. This information could potentially be transferred to other businesses to improve their chances of survival and success. To obtain this more detailed knowledge on a particular issue, in-depth interviews are appropriate (Kaikkonen, 2005). The methodology for this research, with its emphasis on case studies and in-depth interviews, has been selected for this reason, as outlined further in the Methodology chapter.

#### **3.5. Conclusion**

Small businesses in rural areas have not been the subject of sustained research as compared to the volumes on businesses in urban locations. However, there is an increased focus given the structural changes in many rural areas. The literature suggests that rural businesses tend to be small both in terms of revenues and employees numbers and are concentrated in service industries. The owners, generally men, express a variety reasons for business start-up which fit within the push-pull framework. They are generally not focused on business growth but rather on using the business to meet lifestyle needs. These owners have often moved to the rural community and then begun their business.

The literature also suggests that these owners face different challenges than those of urban enterprises. These challenges appear to be concentrated in several broad categories, which include location as a function of distance, access to market, infrastructure and human resource availability and community support. These various challenges are inter-related and it is difficult to focus on one without the consideration of the others.

While the literature provides an overall, aggregate picture of small business and their owners within rural locations, there are several gaps which this research seeks to address. First, many of the challenges are assumed or viewed from the perspective of an urban business owner. Much of the research has generally focused on businesses with growth potential, rather than “marginal businesses” such as many rural enterprises. Second, many studies on the rural business environment are focused on the community level with little consideration of the individual business owner. Third, there has been little research in Canada on rural business issues, despite its range of rural diversity and geographical breadth. Given the variance in rural areas generally, it cannot be assumed that the situation in one region applies to another. Finally, much of the previous research has relied on surveys, which provide little information on individual business responses. This research addresses these gaps through in-depth interviews with rural business owners, which allow owners to discuss the challenges as they experience and perceive them. This research also explores a major geographical location which has not been considered previously.

Despite the challenges, people are starting small businesses in rural areas and surviving (Anderson et al., 2001, Buss et al., 1990, Kalantaridis et al., 2006a). The issue facing individuals, communities and government is finding

ways to support these businesses and achieve economic growth objectives. This research contributes to this discussion by exploring the challenges that rural business owners experience and the methods by which they overcome these challenges. By using Vancouver Island and surrounding smaller islands as a site for case studies, information on the ways that business owners can respond to their challenges is developed and then be communicated to other rural business owners, communities, governments, support organizations and other interested parties. The next two chapters provide more detailed on the research context and methodology.

## **Chapter 4: Vancouver Island as Context for Study**

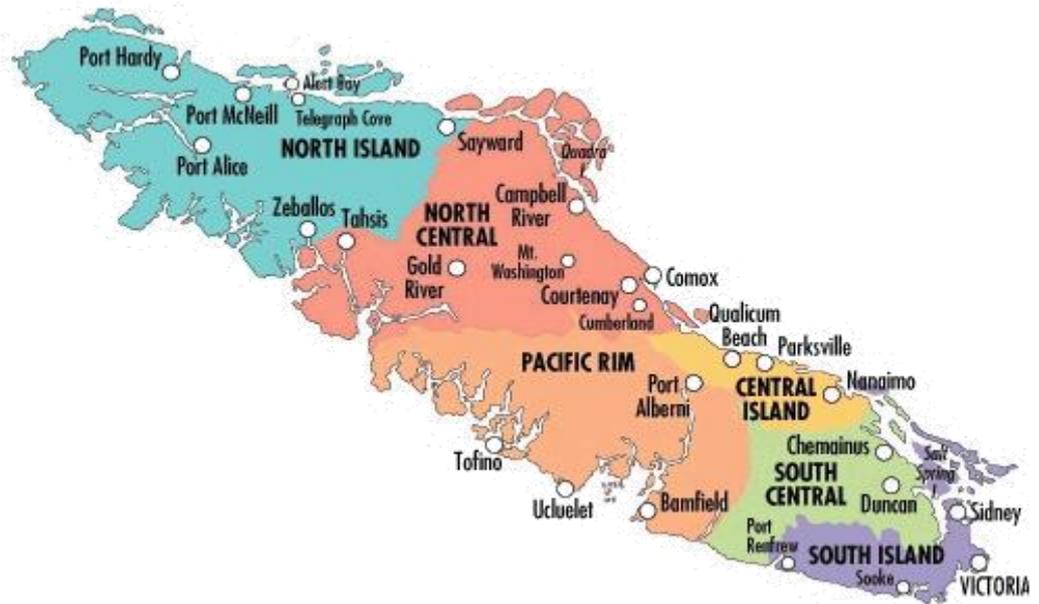
### **4.1. Introduction**

This chapter provides the context for the study with a focus on Vancouver Island's geography, population distribution, economic base, available infrastructure and classification of the region's communities by degrees of ruralness.

### **4.2. Vancouver Island's Geography**

Vancouver Island, British Columbia, located on the west coast of Canada, is a relatively sparsely populated island. The area also includes several smaller islands, known as the Gulf Islands, which are connected to Vancouver Island by ferry and private boat. There is also a ferry which connects Vancouver Island to the mainland of the province. The island has a land area of 33,650 square kilometres and a population of 687,910 (B.C. Stats, 2004g). By way of comparison, the island is about half the size of Scotland in terms of land area (77,925 square kilometres) with significantly less population. Scotland has a population of approximately 5 million residents (Office for National Statistics, 2004). The distance from the southern tip of Vancouver Island to the northern end is approximately 450 kilometres and the width is about 80 kilometres (B.C. Stats, 2003f). The driving time from Victoria in the south to Port Hardy in the north is just under 6 hours (Ministry of Transportation). Map 4.1 is a map of the island and surrounding smaller islands with the majority of communities marked. Regional districts are also indicated on the map and will be referred to in several of the following tables.

**Map 4.1: Map of Vancouver Island and Surrounding Smaller Islands**



(Quokka Systems Consulting, 2004)

As shown in Map 4.2, there are one major highway and one secondary highway which connect the communities on the eastern side of the island. Unpaved roads, used primarily for logging activities, connect the rest of the communities on the island.

**Map 4.2: Map of Vancouver Island with Major Roads Indicated**

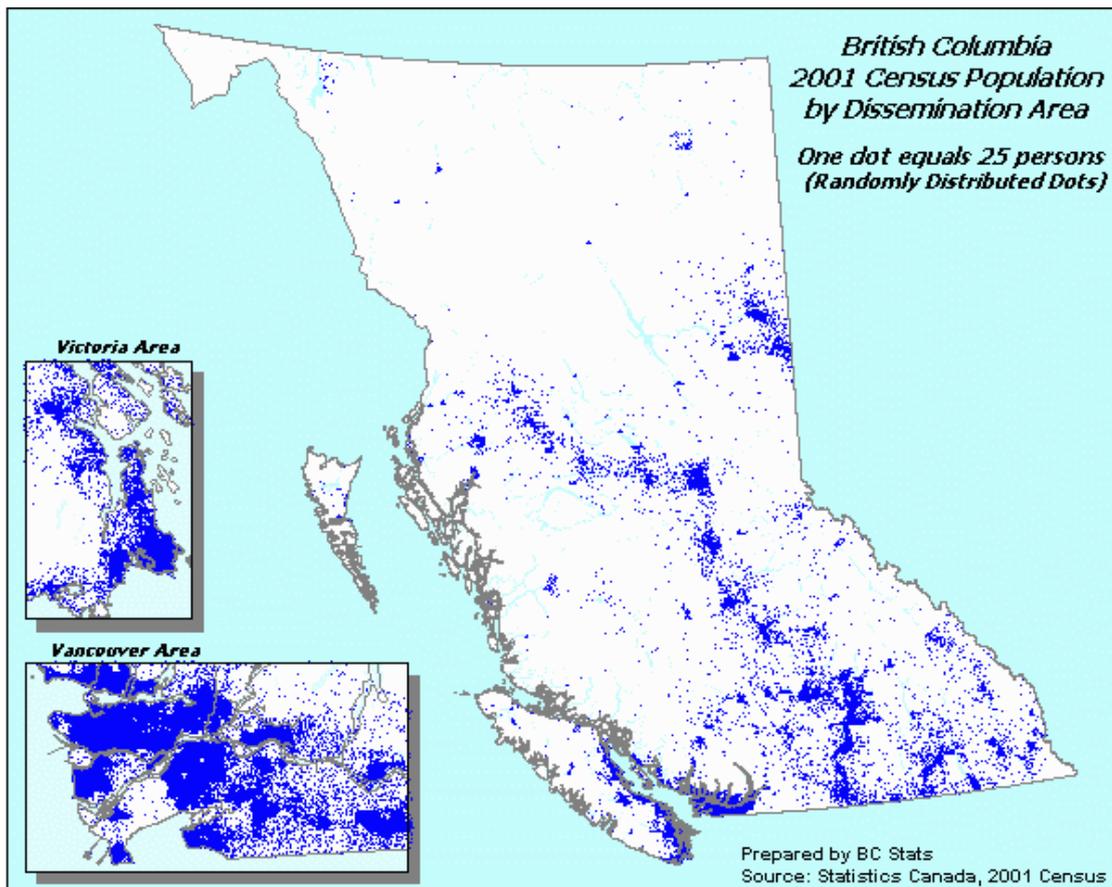


(Tourism B.C.)

### 4.3. Characteristics of Vancouver Island’s Population

Over three-quarters of the population are concentrated in the south-eastern part of the island from Nanaimo south to Victoria, the provincial capital, as shown in Map 4.3. The distance between these two centres is 110 kilometers and approximately one and a half hours drive (Ministry of Transportation).

**Map 4.3: Vancouver Island with Population Densities**



(Statistics Canada, 2001b)

The population density decreases in the northern portion of the island, as shown in Map 4.3 and Table 4.1. Most of the population is concentrated on the south-east side of the island (B.C. Stats, 2003f). As shown in Table 4.2, overall, the island's population is growing; however, this growth is again concentrated primarily in the southern part of the island and along the south-east coast from Victoria to Nanaimo, due to retirees and immigrants moving to the area (B.C. Stats, 2003f, Zuehlke, 1993). However, within the communities that are economically dependent on natural resource sectors (forestry, fishing, and mining), located primarily in the northern section of the island, the population has been decreasing along with the reduction in jobs in these sectors (B.C. Stats,

2003a, 2003b, 2003c, 2003e, 2003f, Barnes et al., 1994, Hayter, 2000, Malinick et al., 2005). Table 4.3 outlines the population for the majority of the communities on the Vancouver Island as well as for several of the smaller surrounding islands. Many of these communities are relatively small and are spread across the island and surrounding islands. Table 4.6 categorizes the communities according to the Scottish Executive's classification for rural and remote.

**Table 4.1: Population Density on Vancouver Island**

<b>Population Density – population per square kilometre by Regional District, 2001 Census Data</b>	
<b>British Columbia</b>	4.2
<b>Regional District</b> (The corresponding area for the Map 4.1 is in the parenthesis.)	
<b>Capital Regional District (South Island)</b>	139.1
<b>Cowichan Valley Regional District (South Central)</b>	20.7
<b>Nanaimo Regional District (Central)</b>	62.4
<b>Alberni-Clayoquot Regional District (Pacific Rim)</b>	4.6
<b>Comox-Strathcona Regional District (North Central)</b>	4.8
<b>Mount Waddington Regional District (North Island)</b>	0.6

(Statistics Canada, 2001b)

**Table 4.2: Population Growth on Vancouver Island**

<b>Population Growth by Regional District (2001 Census Data)</b>			
	<b>1996</b>	<b>2001</b>	<b>Percent Change</b>
<b>British Columbia</b>	3724500	3907738	4.92%
Vancouver Island	654669	664451	1.5%
<b>Regional District</b>			
Capital (South Island)	317989	325754	2.44%
Cowichan Valley (South Central)	70978	71998	1.44%
Nanaimo (Central)	121783	127016	4.30%
Alberni-Clayoquot (Pacific Rim)	31652	30345	-4.13%
Comox-Strathcona (North Central)	97666	96131	-1.57%
Mount Waddington (North Island)	14601	13111	-10.20%

(B.C. Stats, 2004a, 2004b, 2004c, 2004d, 2004e, 2004f, 2004g)

**Table 4.3: Population in the Region's Communities**

<b>Communities</b>	<b>Area of Island</b>	<b>Population</b>
Victoria (Capital Regional District)	South Island	325754
Nanaimo	Central Island	73000
Campbell River	North Central	28459
Courtney	North Central	18304
Port Alberni	Pacific Rim	17743
Comox	North Central	11172
Parksville	Central Island	10323
Qualicum	Central Island	6921
Duncan	South Central	4699
Port Hardy	North Island	4574
Port McNeill	North Island	2821
Ucluelet	Pacific Rim	1559
Tofino	Pacific Rim	1466
Gold River	North Central	1359
Denman Island	Central Island	1016
Hornby Island	Central Island	966
Tahsis	North Central	600
Sayward	North Island	379
Bamfield	Pacific Rim	245
Port Renfrew	South Island	180

(B.C. Stats, 2004a, 2004b, 2004c, 2004d, 2004e, 2004f, 2004g, Port Renfrew

Chamber of Commerce, nd)

#### **4.4. Economic Base**

Many of the driving sectors within the province of British Columbia and within the Vancouver Island area involve natural resource extraction and processing, including forestry, fishing and mining (Davis et al., 1989, Markey et al., 2005, Marshall, 2000, Rajala, 2006). In fact, many of the communities on Vancouver Island, particularly in the northern part, were formed to exploit these sectors and to this day still rely on employers in these sectors (Davis et al., 1989, Fisheries and Oceans Canada, 1998a, Hayter, 2000, Marshall, 2000, Millerd et

al., 1994, Rajala, 2006, Randall et al., 1996, Robinson, 1962). This relative importance of these sectors to the local economy increases once outside of Victoria within the smaller communities. Even a traditional industry such as manufacturing is focused on supporting the natural resource industries (Davis et al., 1989, Malinick et al., 2005, Markey et al., 2005). For example, in Port Hardy, the northern most community on the island, approximately 50% of its income base comes from forestry and related industries. The second largest share of the income base is the public sector (government) at 16% (B.C. Stats, 1999).

Despite the jobs created and other amenities provided such as recreation centres, this reliance has created challenges for the communities. The forestry industry, particularly, has been characterized by boom and bust cycles and is impacted greatly by global forces. The latest round of layoffs due to modernization, plant closures and income losses came in the 1990s where the biggest impact in terms of job losses was felt in the province's coastal region, including Vancouver Island and the coastal part of the province's mainland (B.C. Stats, 2003c, Barnes et al., 1994, Hayter, 2000, Malinick et al., 2005, Markey et al., 2005, Marshall, 2000, McRae, 1994, Rajala, 2006).

At the same time, the fishing industry, particularly the commercial salmon industry, also underwent changes. Throughout the 1990s, the industry faced a reduction in fish stocks and market value as well as over-capacity in the fishing fleet, which prompted the Federal Government to significantly limit the number of fishing licenses available. This led to job losses in the industry and also in support businesses (ARA Consulting Group Inc., 1996, Fisheries and Oceans Canada, 1998b, GSGislason & Associates Ltd., 1998, Muse, 1999). In

addition, over the past 30 years, fish processing has been consolidated to Vancouver, rather than being based in the communities where the fish had been caught (ARA Consulting Group Inc., 1996, Millerd et al., 1994). Like the case with the forestry industry, the northern part of Vancouver Island and the coastal area of the mainland were the hardest hit by these changes (ARA Consulting Group Inc., 1996, GSGislason & Associates Ltd., 1998).

As a result, coastal communities were hit twice with job losses both from fishing and forestry restructuring, leaving individuals and communities with few alternatives. Traditionally, people had been able to turn to jobs in the other resource sector when the other was experiencing a downturn, as a way of maintaining income levels (ARA Consulting Group Inc., 1996, Fisheries and Oceans Canada, 1998a, GSGislason & Associates Ltd., 1998, Rajala, 2006). As a result, many of the communities, especially those in the northern part of the island, lost a significant portion of their population as families and young men left in search of employment elsewhere (B.C. Stats, 2003a, 2003c, 2003d, 2003e, Halseth, 1999, Hayter, 2000, McRae, 1994). Those communities closer to the larger urban centres, such as Cowichan and Youbou in the south, which are within commuting distance of Victoria, saw their demographic makeup change as some forestry workers and their families left in search of employment while retirees and commuters moved in (Hayter, 2000). Not all individuals have been able to leave for opportunities elsewhere for a variety of reasons, including difficulty in finding suitable employment in the communities, equity tied up in housing in a declining housing market, social factors such as family and community ties and institutional factors related to employment insurance benefits tied to residence in a particular community (Randall et al., 1996). The end result

of many of these changes is that many communities are aging as the young people leave and retired people move in (B.C. Stats, 2005a, Bryant et al., 2001). This reflects a common trend seen across Canada (Bryant et al., 2001).

The ability of a community to respond to these changes depends on a variety of factors such as geography, town size, infrastructure, and location relative to larger urban centres (Barnes et al., 1994, Hayter, 2000, Millerd et al., 1994). The communities which are closer to these larger centres in the southern part of the island have more options that have allowed them to be more successful at adjusting. They are seen to be more attractive to retirees and tourists (Barnes et al., 1994, Hayter, 2000). However, the search for alternatives to replace the relatively high-paying natural resources jobs has not always been successful. Tourism is often seen as a viable alternative; however, jobs in this sector tend to be low-paying and seasonal (Hayter, 2000). In addition, it can be difficult to attract financing for new ventures due to small local markets and the relative inexperience of those starting businesses (Hayter, 2000, Markey et al., 2005). In response to many of these changes, the federal and provincial governments have been promoting programs that support entrepreneurship as a way to reduce the negative impact of industrial changes (Young, 2006).

While the natural resource sectors are dominated by large corporations (Marshall, 2000), the majority of businesses in Vancouver Island region are small with less than 20 employees, as can be seen in Table 4.4 (B.C. Stats, 2005b, Western Economic Diversification et al., 2005). Besides the natural resource sectors, involving extraction and processing, other major industries include retail, tourism, manufacturing, aquaculture and the public sector. In particular, tourism and its associated businesses such as accommodation, food

services, transportation, and other activities, have been growing in numbers (B.C. Stats, 2004g, Western Economic Diversification et al., 2006). In most of the small rural towns, the businesses tend to be small independent enterprises, not associated with large chains (Malinick et al., 2005).

**Table 4.4: Percentage of Vancouver Island’s Small Businesses with Less Than 20 Employees**

<b>Percent of businesses with less than 20 employees, by Regional District</b>	
	<b>2004</b>
<b>British Columbia</b>	94%
<b>Vancouver Island/Coast</b>	94%
<b>Regional Districts</b>	
Capital (South Island)	94%
Cowichan Valley (South Central)	96%
Nanaimo (Central)	96%
Alberni-Clayoquot (Pacific Rim)	93%
Comox – Strathcona (North Central)	95%
Mount Waddington (North Island)	96%

(B.C. Stats, 2005b)

It is important to note that the percentage of small businesses is often higher than stated because the official statistics only include incorporated businesses and those unincorporated businesses with employees and/or have a Good and Services Tax number (B.C. Stats, 2005b). There are many businesses which do not take these steps and, as a result, are not accounted for in official statistics.

#### **4.5. Available Infrastructure in the Region**

The issue of available infrastructure which is deemed to be important and necessary to business operations is a challenge for many communities in this

region. The availability, or lack thereof, of this infrastructure can impact on the ability of individuals to start and communities to support small businesses. This infrastructure includes not only access to transportation networks and other physical infrastructure, but also to electronic infrastructure. For example, access to high-speed, high capacity (broadband) Internet is fast becoming a basic requirement for businesses such that those who cannot access it may be at a disadvantage. This access can facilitate relationships with customers, suppliers, banks, business support organizations and other groups through web pages, email and other information technology (Canadian Rural Partnership et al., 2005, Industry Canada, 2004, National Broadband Taskforce, 2001, National Selection Committee, 2004, Statistics Canada, 2003). At this point, within Canada, the majority of broadband Internet users are in urban areas with just over 25% of communities having access to this technology. The remainder access the Internet through dial-up services (Statistics Canada, 2003). This lack of access could potentially limit the type of enterprises that can operate in these rural locations.

At this point, the majority of the region's communities do not have access to broadband Internet. Map 4.4 shows the communities with and without access. White dots mean the community has access, often in a library or school, but not always at an individual business level. Red dots are communities without access and yellow dots are those who have applied to receive access through a Federal Government connectivity program.

**Map 4.4: Community Access Program Site Locations**



(Industry Canada, 2005)

Another important issue relating to access to urban centres is the availability of transportation infrastructure. As shown in Map 4.2, a number of communities in the region are accessible only by secondary roads and loose surfaced roads which are often former logging roads paved with gravel or by ferry. Table 4.4 outlines road access into a variety of the communities. It is important to note that the one multi-lane highway on the island ends at Campbell River and becomes a two-lane secondary highway after that point. Travel speeds on these smaller roads can be slow. In addition, there is more wear-and-tear on vehicles which travel on the unpaved roads relative to those which use the major highway. The limitations of this infrastructure were acutely felt in the winter of 2006 where several storms closed the only roads into and out of some of the communities and further limited ferry service to the smaller islands. Several communities were effectively cut off for several days. Many communities were

also without power at the same time (Caranci, 2006, Hume et al., 2006, McCulloch et al., 2006).

Several communities on the smaller islands off the coast of Vancouver Island are accessible by private boat or ferry. B.C. Ferries, a crown corporation, services a majority of these islands, often with a limited schedule. Some islands, however, do not have year round ferry service and some do not have any at all. As a result, residents must rely on their own boats to move between their island and Vancouver Island. For example, Lasqueti Island, off located mid-island Vancouver Island, only has B.C. Ferries service in the summer months (B.C. Ferries, 2005). It is also important to remember that the primary way to move goods, supplies and people on and off Vancouver Island is through the ferry. The end result is that no matter where the businesses are located, either on Vancouver Island itself or on the smaller islands, they are dependent on the ferry system at some point to move themselves, goods, supplies, customers and other items.

The communities also face infrastructure limitations in terms of cell phone access and water reservoirs. Many parts of the island are not covered by cell phone which limits business communications. Late summer of 2006 also showed the limitations of water reservoirs on the island. For example, the community of Tofino, located on the west side of the island, was forced to turn off water to businesses and homes for several days in order to maintain a minimum level of water for fire fighting. Many businesses either closed their doors or brought in bottled water in order to service customers on one of the busiest weekends of the summer (Kines, 2006a, 2006b, Westad, 2006).

**Table 4.5: Transportation Access to Various Vancouver Island’s Rural Communities**

<b>Community</b>	<b>Road Surface</b>
Bamfield	Loose Surface (Unpaved)
Denman Island	Ferry
Hornby Island	Ferry
Port Hardy	Hard Surface (Paved)
Port McNeill	Hard Surface (Paved)
Port Renfrew	Hard Surface (Paved)
Sayward	Hard Surface (Paved)
Tahsis	Loose Surface (Unpaved)
Ucluelet	Hard Surface (Paved)

(Sami et al., 2002)

#### **4.6. Rural Classification of the Region’s Communities**

Drawing upon the Scottish Executive Urban-Rural Classification (See Chapter 2, 2.2.4 and Table 2.1 for further discussion), many of the smaller communities on Vancouver Island and surrounding islands are classified according to type of rural/remoteness, as shown in Table 4.6. This study focuses primarily on the communities within the Very Remote Small Town, Remote Rural and Very Remote Rural classifications.

**Table 4.6: Classification of Communities by Rural Measure**

<b>Classification of Communities</b>		
<b>Community</b>	<b>Population</b>	<b>Time in Minutes to Settlement of 10,000 or more</b>
<b>Remote Small Town (Population between 3-10,000; between 30-60 minute drive to settlement of 10,000 or more)</b>		
Duncan	4699	60
Salt Spring Island	10000	30
<b>Very Remote Small Town (Population between 3-10,000; over 60 minute drive to settlement of 10,000 or more)</b>		
Port Hardy	4574	238
<b>Remote Rural (Population less than 3,000; between 30-60 minute drive to a settlement of 10,000 or more)</b>		
Denman Island	1016	25
Hornby Island	966	30
<b>Very Remote Rural (Population less than 3,000; over 60 minute drive to a settlement of 10,000 or more)</b>		
Bamfield	245	70
Gold River	1359	91
Port McNeill	2821	198
Port Renfrew	180	107
Sayward	379	73
Tahsis	600	145
Tofino	1466	126
Ucluelet	1589	101

#### **4.7. Conclusion**

Despite the concentration of population in the southern part, Vancouver Island and surrounding small islands many people living in rural areas which are dependent on natural resources industries. These industries are undergoing structural changes which are decreasing the number and types of jobs available in these rural communities. The communities and remaining residents are looking to small business as a way to ensure community survival. However, these communities face challenges with infrastructure as well as ones related to

their relative distance from the larger urban centres. These challenges must be overcome in order for the owners, their businesses and communities to survive and be successful. To begin to understand their challenges and responses, this research explores these and other issues with a sample group of business owners in rural Vancouver Island and surrounding islands. The next chapter outlines methodology before describing the sample owners, businesses and communities and the challenges they face.

## **Chapter 5: Methodology**

### **5.1. Introduction**

This chapter outlines the methodology for this research with an examination of the research approach, population and sampling, data collection methods, data analysis and research credibility issues. Briefly, the research takes an inductive approach through the use of case studies and qualitative data collected through interviews.

### **5.2. Research Design**

There are two fundamental assumptions that underpin this research design. First, drawing upon a research philosophy of interpretivism, there is an understanding that the research participant plays a role shaping and interpreting their environment and their response to it. As a result, a researcher can only understand the participant's actions when they explore the participant's interpretations of their own reality. Consequently, this research is designed to be driven by the participant in order to access their interpretation and understanding. Also, this research design remains flexible in order to respond to the factors that each individual participant identifies as important. This is in contrast to the positivism school which argues that behaviour can be predicted in advance. Research design, in this case, is hypothesis driven and highly structured (Gill et al., 1997, Locke, 2001, Saunders et al., 2003).

Second, as outlined in Chapter 3, there exists a gap in the theoretical knowledge about the challenges faced by rural businesses. As a result, this research takes an exploratory approach through case studies and the pursuit of inductive reasoning, with the intention of deriving theory from the data collected.

A case study method with interviews as the means to collect primary data is used (Casson, 2003, Cope, 2005a, Egan, 1997, Eisenhardt, 2002, Gill et al., 1997, Locke, 2001, Strauss et al., 1998). The rural context plays an important role both in determining the challenges that the owner may face, but also in shaping the types of responses to those challenges. As such, the research needs to explore this context.

This type of research is often referred to as qualitative research (Audet et al., 2001, Locke, 2001, Marshall et al., 1999, Miles et al., 1994, Rubin et al., 1995, Symon et al., 1998). This term will be used within this chapter.

In accordance with the qualitative research approach, case studies are used to explore how and why participants respond as they do to their experienced context and environment (Chetty, 1996, Cope, 2005a, Curran et al., 2001, Hill et al., 1999, Romano, 1989, Yin, 2003). As outlined in the research questions, this context becomes important to the analysis of the challenges that the owners face by virtue of their rural location. Case studies are also an appropriate approach when research is exploratory in nature and/or focused on answering ‘how’ and ‘why’ questions (Chetty, 1996, Yin, 2003).

Stake (1995, 2000) identifies three types of cases. This research focuses on one of the three, namely, the collective case study, which builds on the single case. This type of case is also known as the instrumental case study. Here a researcher explores several sites in order to understand a larger phenomenon and develop the theory from there. In addition, multi-site case studies can also be effective for small business research because they can facilitate the extension of the developed theory (Romano, 1989).

As can be seen by the increasing amount of research undertaken with case studies, this approach is gaining acceptance in small business and entrepreneurship research for a variety of reasons. This is particularly in those areas where understanding the context is important to understanding the phenomena under investigation (Audet et al., 2001, Perren et al., 2004). For their study of rural women entrepreneurs in Australia, Mankelow and Merrilees (2001) argue that case study interviews can be particularly useful in the study of small businesses because they provide a picture of the real life that the participants experience. This allows researchers to answer questions relating to the participant's context. Audet and d'Amboise (2001) use this approach for their study on strategic scanning by small businesses in order to develop theory from the data. They explain that most previous studies had been primarily descriptive in nature, rather than focused on theory development. Theory can begin to explain the relationship between a small business's scanning activities and their resulting performance. Robinson (2001) argues that the case study approach is appropriate for her study on entrepreneurial motives and their influence on the way that rural women business owners manage their staff because she has little control over events (which eliminates the possibility of experiments) and the context is important to answering her research question. A particular context can be more easily explored through interviews than through surveys because follow-up and probing questions can be used. Surveys, on the other hand, are highly structured and designed to ensure that participants are asked the same group of questions in the same order each time. These are steps necessary to ensure research validity and reliability (Saunders et al., 2003). Byrom et al. (2001) use case studies in their research of rural food retailing in the

Western Isles of Scotland to be able to explore the issues affecting the retailers in more detail than is possible in surveys. Finally, Anderson (2000) focuses on two case studies to examine the potential for businesses in rural areas of the Scottish Highlands, with an intention of outlining the entrepreneurial process. Anderson argues that this research objective is best accomplished through case studies, which facilitate the collection of rich descriptions of an owner's actions and their own perceptions of events. From this point then, data analysis and theory development can flow. He also argues in a later article that the qualitative approach is useful when understanding and providing insight, not merely measuring, is important (Anderson et al., 2003).

### **5.2.1. Advantages and Limitations of Qualitative Methods**

It is important to evaluate both the advantages and disadvantages of this approach. There are several advantages with qualitative methods as compared to deductive and quantitative methods. Qualitative methods are often chosen with a focus on exploration and an emphasis on context (Cope, 2005a, Gartner et al., 2002). These methods are also useful when it is important to understand and interpret from the participant's perspective and to consider the interaction of a business with their environment (Byrom et al., 2003, Cope, 2005a, Curran et al., 2001, Hill et al., 1999, Locke, 2001, Marshall et al., 1999). These methods allow the researcher to discover and explore new areas of research, which can lead to new theory development (Carson et al., 1996, Cope, 2005a, Egan, 2002, Eisenhardt, 2002, Frazier et al., 2004, Marshall et al., 1999, Romano, 1989). Using qualitative methods, the researcher can explore nuances and differences, which can be difficult within quantitative data methods, such as surveys (Lean, 1998, Rubin et al., 1995, Smith et al., 1989). Finally, qualitative methods, using

interviews as the data collection tool, also allows participants to be involved in creating and expressing their own understanding of the context in which they operate (Johansson, 2004, Marshall et al., 1999, Romano, 1989, Rubin et al., 1995, Tregear, 2005).

As addressed further in the section on research credibility, there are several limitations with the data collected through qualitative research methods. First, given the limited sample size and flexible data collection method, conclusion and result generalizability is not possible (Gill et al., 1997, Saunders et al., 2003). In addition, given that a researcher is dealing with a participant's interpretations of their reality, which can change over time, the results of the research may not be easily replicated. This can impact on research reliability (Eisenhardt, 2002, Hycner, 1985, LeCompte et al., 1982, Strauss et al., 1998). It may also be difficult to determine if the results are correct, given that the data is a participant's own perspective of events and context. There may also be different, yet valid interpretations of the same phenomenon as expressed by participants (Maxwell, 2002, Schofield, 2002).

The researcher must also be aware of the potential biases inherent in this research approach. Given the desire to examine a phenomenon from the participant's point of view, the researcher must avoid conveying their own beliefs within the process of data collection and analysis. The participants and data must speak for themselves (Gill et al., 1997, Glaser et al., 1967, Locke, 2001, Marshall et al., 1999).

### **5.2.2. Limitations of Quantitative Data**

Typically, research in small business has focused on quantitative methods such as surveys (Cope, 2005a, Hill et al., 1999, Newby et al., 2003, Tregear,

2005). However, there are disadvantages associated with this method that could place limitations on this research. Surveys may not show the depth of detail and nuances needed to explore and understand process and context issues. They are also often structured to confirm what is already known (Newby et al., 2003). As Blackburn and Curran (1993) point out, it can be difficult to explore the motivations of small business owners in rural locations through surveys because the reasons they provide for their motivations may not fit easily into pre-set categories. This also reflects the experience of Atterton (2003) in her study of business networks in the Highlands and Islands of Scotland. She found that questionnaires did not allow for the full exploration of motivations for networking. Another limitation is that quantitative data gathered through questionnaires presents an aggregate picture, rather than the experience of the unique individual and their context (Marshall et al., 1999).

This research is designed to be exploratory and consider the unique situation of the individual business owner and their response to the challenges they face. As a result, a qualitative methods approach with case studies and interviews is more appropriate.

### **5.3. Population/Sampling**

The population under consideration is small rural businesses on Vancouver Island and the surrounding smaller islands. While the owner will be approached for interviews, the unit of analysis is both the business owner and their business. A distinction is not made between the two because it can be difficult to differentiate between them. Generally, in the case of small businesses, the owner is the business and the business is the owner (Curran et al., 2001, Rutherford et al., 2006, Yin, 2003). Another important aspect to explore is

the consideration of the impact of the owners' character on the type of business that they start and operate in these contexts (Stanworth et al., 1976). In addition, the owner is often the most knowledgeable person about the issues under research (Evangelista, 2005).

Since the research is undertaken using a case study approach, purposeful sampling is used. This involves identifying those businesses that meet specific criteria (Audet et al., 2001, Curran et al., 2001, Eisenhardt, 2002, Glaser et al., 1967, Strauss et al., 1998, Tregear, 2005). Stake (2000) argues that cases where there is something specific to be learned should be the ones selected, rather than identifying the "typical" case. Participants are chosen because they have certain experiences and knowledge related to the research question (Anderson et al., 1999, Audet et al., 2001, Cope, 2005a, Healey et al., 1993, Marshall et al., 1999, Miles et al., 1994, Rubin et al., 1995). The case study owners and their businesses are identified through personal contacts and recommendations from others (Curran et al., 2001, Frazier et al., 2004, Lauer, 2005, Robinson, 2001). This desire to explore specific cases reinforces the suitability of this research approach. Surveys, with their emphasis on the aggregate and averages, do not allow for an in-depth exploration of the unique (Marshall et al., 1999).

Within this research, the criterion for participant selection includes:

- Operation in a rural and/or remote location of the island;
- Operation for at least one year;
- Fewer than 20 employees; and
- Successful by their own definition.

There is an attempt to ensure diversity by sampling from different industries and communities with differing degrees of ruralness and remoteness, as defined by the Scottish Executive Classification of Rural in order to explore similarities and differences between the participants (Eisenhardt, 2002, Rubin et al., 1995).

As a result of the research approach selected, the sample size is limited to eight to ten cases. This matches with the recommendations of Eisenhardt (2002) and Audet and d'Amboise (2001). Eisenhardt (2002) suggests that there is no ideal number but that the researcher should explore between four and ten cases. When there is less than four, there may not be enough data to create a complex theory. On the other hand, more than ten cases may result in too much data, making analysis difficult. Audet and d'Amboise (2001) also caution against a large sample size to ensure that the researcher is not overwhelmed with data. They limit their study on strategic scanning by small businesses to eight sites. Romano (1989) also offers a similar caution without being prescriptive on the specific number of cases to be explored.

#### **5.4. Primary Data Collection**

This section outlines the type of data to be collected and the data collection method for collection. Limitations of the data will also be discussed.

##### **5.4.1. Type of Primary Data**

The primary type of data to be collected is through interviews supplemented by personal observations and secondary data (Anderson, 2000, Curran et al., 2001, Eisenhardt, 2002, Marshall et al., 1999). Interviews can be a good source of information and are appropriate to use when there is a large number of questions to be considered and the researcher is interested in reasons for decisions, in the business owners' perceptions and/or when exploring new research areas, all of which are relevant here. Interviews also allow the researcher to explore topics more fully and deeply with probing and follow up questions, thus addressing some of the limitations with surveys (Charmaz, 2006,

Gudmundsdottir, 1996, Healey et al., 1993, Marshall et al., 1999, Rubin et al., 1995).

The interview data is supplemented with personal observations, company documents and articles on the case study businesses and communities (Marshall et al., 1999, Yin, 2003). The nature of these observations will be explained below.

#### **5.4.1.1.Limitations with Interview Data**

There are limitations with this type of data, particularly since the data is derived from participants' memories and impressions. The owners may be shifting memories to fit present realities, a form of post hoc rationalization. In addition, the majority of the businesses interviewed are still operating, which means that there will be limited opportunity to develop an understanding of the experiences of those owners who have closed their businesses or moved them to other locations. These owners may have a different perspective on the issues. Finally, since the businesses may not be "typical", both the challenges and responses may not reflect those of other rural businesses operators. Galloway and Mochrie (2006) highlight these limitations within their study of rural entrepreneurs in Scotland.

Methods to address these limitations will be discussed further in the research credibility section.

#### **5.4.2. Interview Guide**

To ensure that interviews stay related to the research question, an interview guide is used. A copy is in Appendix A. This guide, however, does not provide specific questions, but rather outlines open-ended questions related to the topics under exploration (Audet et al., 2001, Pettitt et al., 1990, Rubin et

al., 1995). Flowing from the questions that guide this research, the interview topics focus on reasons for start-up, the challenges faced and methods of responding to them and discussion of the owners' understandings of success. While providing some structure, the flexibility of the guide ensures that the ideas and concerns raised in the interview are important to the participant. In her study of access to information and the impact of location on businesses in remote areas of Scotland, Beer (2004), in fact, asked no questions but allowed the participant to set the interview's tone. This is fitting to an exploratory study.

Questions about company demographics are asked to ensure that consistent information is collected about each business and owner. The demographic information includes company's name, years of operation, number of employees, type of product or service and the length of time that the owner has been in their community. This information corresponds to the characteristics of rural small businesses as identified through the literature review. This form is found in Appendix B.

The interview guide is developed following a review of the relevant literature (Anderson, 2000, Montgomery, 1999). This review allows the researcher to develop a clear understanding of the research question and facilitates the data analysis during the interview and the formation of follow-up questions (Healey et al., 1993, Strauss et al., 1998, Tregear, 2005). In addition, themes identified through data analysis of the first several interviews are added to the guide for subsequent interviews.

#### **5.4.3. Interview Locations**

For the majority of the case studies, the participants were interviewed at their businesses. This is done to allow for both on-site observations of the

business and the community and to also experience the journey in and out of the community where the business is located. One area of interest is the ease of access to the community and, by undertaking this travel, the researcher can begin to understand the participants' daily experiences in the community. These observations support the formal data collection process and allowed the researcher to gain an appreciation for the context (Yin, 2003). Through this, a deeper understanding of the data can be developed (Creswell, 1998). In the few instances where the participant was interviewed by telephone, the researcher collected detailed information on the community and compare this against other field trips.

This type of observation has been undertaken by other researchers. Stake (1995), in his review of a school program, accompanied the school's pupils on a field trip in order to observe them within their environment. In studying the exporting behaviour of New Zealand small businesses, Chetty (1996) also conducted the interviews on site and collected observations while there. Anderson (2000), Anderson and McAuley (1999), Bower and Jack (1997), and Lauer (2005) in their studies of rural Scottish businesses and sea urchin harvesters respectively, also combined interviews with observations. All these observations facilitated the development of a fuller appreciation for the context in which the owner and their small business must operate. This knowledge then guides data analysis and theory development.

#### **5.4.4. Recording Procedures**

The interviews were recorded by hand which was done for two reasons. First, it is important to ensure that the participants feel at ease. Despite the fact that some suggest that it is good to record the interview because it allows the

researcher to focus more fully, it is also recognized that recording can inhibit responses. Some researchers have mentioned that the most insightful comments often come after the recorder is turned off (Healey et al., 1993). Stake (1995) argues that recordings are often not necessary or are of little use. In addition, note taking can be seen as less intrusive as McAuley (1999) found in his study of Scottish craft exporters.

The second reason is more practical in nature. The interviews could not always be conducted in an office due to the nature of the business. As a result, there may not have been a convenient location to place the recorder to ensure that it can record all comments clearly. In addition, transcription can take time.

### **5.5. Data Analysis**

Data analysis is the process by which the researcher begins to make sense of the data and to provide interpretation by identifying themes and emerging theory. It is an ongoing process and starts with the first interview (Bogdan et al., 1975, Marshall et al., 1999, Rubin et al., 1995).

Given the inductive and exploratory approach to this research, grounded theory guides data analysis (Glaser et al., 1967). This analysis is broken into several steps. First, the data is organized and then read to determine categories, themes and patterns within it. These are then coded to allow for retrieval and interpretation. These categories and themes are then tested for emergent understandings, both within a single case and across all cases. These become the base for theory development. Part of this analysis is also testing alternative explanations which could possibly explain the patterns. The final step is writing the report, which often leads to further understanding of the theory and supporting data. This is an iterative process that involves moving from the data

to codes to concepts and then back to the data, constantly comparing the data to itself and as well to the developing theory. The end result is a theory that explains the research topic. The literature is also drawn upon to support the data analysis and interpretation (Charmaz, 2006, Coffey et al., 1996, Eisenhardt, 2002, Glaser et al., 1967, Locke, 2001, Marshall et al., 1999, Strauss et al., 1998). The theory begins to explain the more general, while being drawn from the specific cases (Charmaz, 2006, Glaser et al., 1967, Locke, 2001, Rubin et al., 1995, Strauss et al., 1998).

## **5.6. Confidence in Methodology**

Part of the value of research comes from the ability of the researcher to demonstrate the quality of their work. One of the main criticisms of qualitative research is that it is hard to satisfy the traditional criteria of research credibility, namely generalization, reliability and validity. These issues must be addressed to ensure acceptance of the research (Eisenhardt, 2002, LeCompte et al., 1982, Strauss et al., 1998).

Generally, to enhance research credibility, a researcher must state the research question, the key concepts and assumptions clearly. They must also ensure that the methodology is adequate and supports the analysis and recommendations. The true test of quality is acceptance by a wider audience, particularly of other researchers (Curran et al., 2001).

The following sections address the issues of generalization, reliability and validity and outline the steps which are taken to ensure research credibility.

### **5.6.1. Issues Surrounding Generalization**

Often the objective of quantitative research, generalization is the ability of a study to reflect the population from which a sample is taken (Curran et al.,

2001, Davidsson, 2005, Gill et al., 1997, Johnson et al., 2000). However, there are challenges with generalization generally within small business research.

Curran and Blackburn (1994, 2001) argue that, regardless of the approach used in small business research, generalization is difficult due to the heterogeneity of small businesses.

Within this research, generalization is not a goal, but rather the research objective is to examine specific cases to understand ways that rural business owners respond to their challenges. Given the uniqueness of these situations and owners, there is no “typical” case. The participants are chosen because they can explain fully and deeply the phenomenon under investigation (Hycner, 1985). The focus is on the transferability of the findings to other settings, an evaluation which is made by the reader and through comparison with other studies. This process is facilitated through rich case description and cross case comparison with work by other researchers (Baum et al., 1999, Chetty, 1996, Creswell, 1998, Eisenhardt, 2002, LeCompte et al., 1982, Maxwell, 2002, Schofield, 2002, Stake, 1995, Yin, 2003).

### **5.6.2. Issues Surrounding Reliability**

Reliability refers to the consistency of results through replication of research (Gill et al., 1997). The issue of reliability is a critical one with qualitative research because, due to its very nature, the research focuses on an individual, their behaviour and unique context, which are always changing. In addition, the data collected is often based on the participant’s memory, which can be fallible. These perceptions are further interpreted by the researcher, adding other potential errors (Eisenhardt, 2002, Hycner, 1985, LeCompte et al., 1982, Strauss et al., 1998).

Given that the issue of reliability cannot be put aside, LeCompte and Goetz (1982) argue that it is important to clearly outline the methods, the context in which the data is collected, the type of data collected and the manner in which the data is analyzed to ensure that others can reach the same conclusions with the data. This is echoed by Curran and Blackburn (2001). Through these methods, other researchers can evaluate a study's reliability.

### **5.6.3. Issues Surrounding Validity**

Validity focuses on the question of whether the researcher has interpreted the study's results accurately (Gill et al., 1997). This also presents a challenge with qualitative research. It is difficult to evaluate this concept because there is no one "true" account since one is dealing with the participant's perspective of the phenomenon. As a result, there may be different viewpoints on the issue. Instead, the focus should be on whether the conclusions that flow from the data and analysis are valid. The types of validity in this regard include whether the researcher has accurately reported what was heard during data collection, whether they have understood the situation as the participant has and whether the concepts are consistent with the data, the theory developed and related literature (Eisenhardt, 2002, Maxwell, 2002, Schofield, 2002).

### **5.6.4. Steps to Ensure Research Credibility**

Given the need to ensure research credibility, several steps are taken to address the above issues. As suggested by Yin (2003), detailed notes are taken during interviews and the participants will have an opportunity to review these for accuracy. In addition, data analysis focused on matching patterns, building explanations, and exploring alternative ones. Reliability and generalization are enhanced with a case study database, which allowed the exploration of themes,

patterns and theory across different cases. Creswell (1998) recommends using at least two tools to ensure trustworthiness of the data. For this study, the two tools include the participants reviewing notes from the interviews and the provision of thick description to allow the evaluation of the data and the resulting theory. Finally, in terms of validity, the use of unstructured interviews can support data 'goodness' because a researcher can probe and clarify a participant's answer to ensure understanding (Healey et al., 1993).

### **5.7. Conclusion**

The research methodology has been guided by interpretivism and inductive reasoning with the objective of creating theory from a case approach with primary data collected through interviews and grounded theory analysis. Through this approach, research participants reflected on their unique environment and provided insights into their challenges and their methods of responding to them. Several steps were taken to ensure research credibility. These included rich case descriptions, comparison with other rural businesses and the creation of a case database.

To this end, the following chapters provide rich case descriptions with case study summaries of the owners, their businesses and the communities in which they operate. There are comparisons across the cases as well as exploration of the ways in which the experiences of these owners and businesses match those of rural businesses in other locations.

## **Chapter 6: Discussion of Case Studies**

### **6.1. Introduction**

This chapter starts by providing an overview and summary of the case studies with a focus on the owners, their businesses and their home communities. From there, they are compared to each other and to other businesses in rural locations, their owners and communities, drawing links back to the earlier literature review. The data on the case studies that follows is drawn from interviews, observation and secondary data.

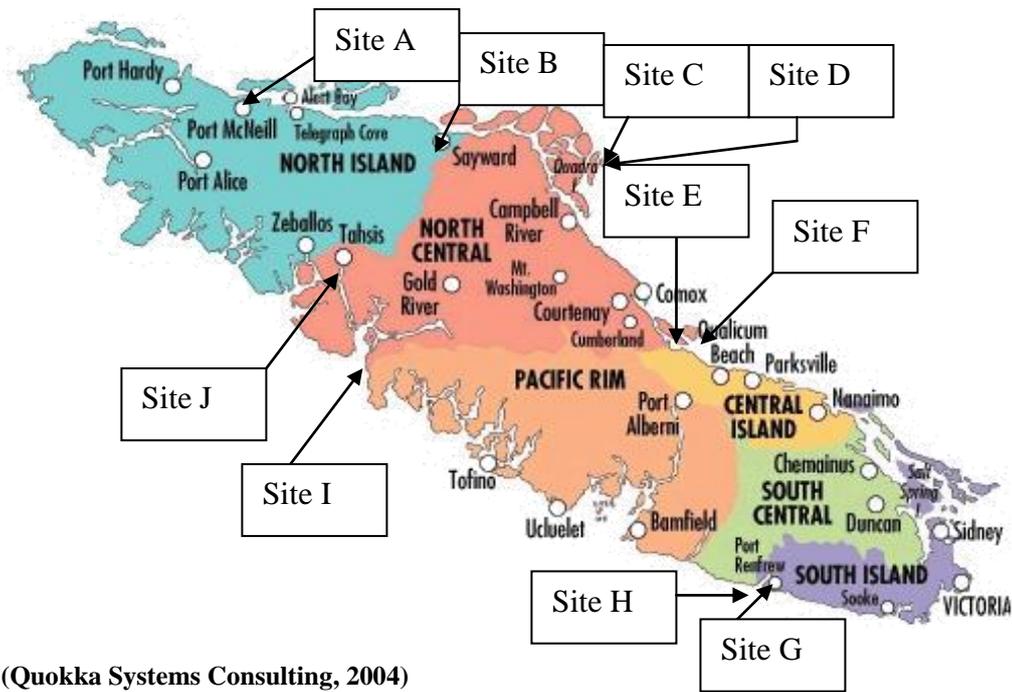
### **6.2. Case Study Descriptions**

Ten businesses were interviewed as part of this research in a total of eight communities across rural Vancouver Island and the surrounding smaller islands. For some businesses, their market is based fully within their community, and in other cases, the businesses have customers on a regional and national basis, and at times, even international. The businesses and their communities are listed in Table 6.1 with their physical location identified on Map 6.1. Each owner, business and community is described below.

**Table 6.1: Summary of Case Study Businesses and Communities**

<b>Site</b>	<b>Business</b>	<b>Community</b>
A	Soil Manufacturer	Port McNeill
B	Forestry Consultant	Sayward
C	Shellfish Farmer	Cortes Island
D	Computer Consultant	Cortes Island
E	Chocolate Bar Manufacturer	Denman Island
F	Rose Nursery Owner	Hornby Island
G	Restaurant Owner	Port Renfrew
H	Water Taxi Owner	Port Renfrew
I	Shellfish Farmer	Nootka Sound
J	Building Supply Store Owner	Tahsis

**Map 6.1: Vancouver Island with Case Study Sites Marked**



(Quokka Systems Consulting, 2004)

### **6.2.1. Port McNeill and Soil Manufacturer**

With a population of just under 3000 residents, Port McNeill is near the northern tip of Vancouver Island, approximately two hours drive from Campbell River, the nearest larger urban centre with approximately 28,000 residents, by a paved secondary road. As is the case with many communities in the northern end of the island, forestry and fishing have been the primary economic drivers for the community.

The community has a basic level of business and social services infrastructure. There are several grocery stores, garages with fuel, restaurants and a post office. There are many of the services required by businesses such as banks, lawyers, accountants, other professionals and a small airport. There is also a small hospital, library and elementary and secondary schools.

The case study business, a soil manufacturer, is family run and was started by the father approximately 12 years ago in Port Alberni, another community on Vancouver Island. The business has since relocated to Port McNeill for easier access to the required raw materials and the amount of land needed for wide-scale soil composting. While recuperating from a car accident which broke his back, the father developed the product, a soil made from wood and fish waste. In order to ensure product quality, the soil mixture was under development for eight years before the first sale was made.

This product addresses two specific needs. First, the product is a quality soil that can be used in gardens. Second, the company facilitates the meeting of a statutory requirement for forestry and fish farming companies to dispose of their waste in environmentally sound ways. In the past, they just dumped the waste in the ocean, which is now against the law. The company is paid by the forestry companies and fish farms to dispose of their waste, creating an additional revenue stream.

The company distributes the product, both in bulk and individual bags, throughout western Canada through its own marketing efforts and in the United States with the use of an agent. The company is relatively small with ten full-time employees (including family members) and six seasonal ones from January to September, the prime gardening season. The primary responsibilities are split among the four family members – the father focuses on manufacturing while the mother is responsible for financial matters and the daughter and son-in-law are tasked with marketing and other aspects of operations. A second daughter helps occasionally in the business.

### **6.2.2. Site B – Sayward and Forestry Consultant**

With a population of approximately 400 residents, Sayward is a community on the northeast side of Vancouver Island. This community is accessible by paved secondary road, which is an extension of the one major highway on the island, which ends in Campbell River, the nearest larger urban centre, located approximately one hour away. Like many other communities on the island, Sayward's traditional economic base has been forestry and fishing, though the community is turning to tourism activities as a means of economic development.

Given its small size, the community lacks many aspects of traditional business and social services infrastructure, which means that residents drive into Campbell River for supplies and to access services such as professional services, medical care and secondary education. However, there are police and ambulance services present in the town along with a small grocery store, a garage with fuel and several small restaurants. There is no broadband Internet access and cell phone coverage is patchy within the community.

The case study business is a forestry consulting firm which specializes in the placement of roads within a logging site. It operates primarily on Vancouver Island. The business owner, who has been part of the community for 40 years, has worked in the forestry industry since leaving high school before graduation. About ten years ago, he began subcontracting for a friend who was a contractor and subsequently began accepting his own contracts approximately four years ago. At present he has a crew of four full-time people, one of whom is his son who serves as a crew supervisor. During busier times, the consultant employs an

additional crew. At the time of the interview, there was a slow down in work. Despite this, he keeps his crew employed with salary and benefits to ensure that they will be available when the work resumes. His wife is also involved in the business as the bookkeeper and is trained in some of the specialized software required for the contracts.

### **6.2.3. Site C – Cortes Island and Shellfish Farmer**

This case study site is on Cortes Island, a small island off the east coast of Vancouver Island. It is accessible by two ferries, the first from Campbell River to Quadra Island and then an additional 40 minute ride to Cortes. The population has just over 1000 people year round with additional residents during the summer months. The closest community is on Quadra Island with additional services available in Campbell River on Vancouver Island. Cortes Island has a history of forestry, fishing and aquaculture and is currently developing its tourism industry.

The island has basic infrastructure with several grocery stores, liquor store, gas stations and restaurants. A bank, post office and library operate part-time. While there is no hospital or full-time ambulance service on the island, there is a doctor available full-time. There is a school for elementary students; however, high school students must either leave the island for school or be schooled at home. At present, high-speed Internet is available in some parts of the island with plans for further extension.

The owner operated a shellfish farm with two partners. He originally trained in marine biology and had worked as an academic, but he was interested in a change. As a result, he looked for an opportunity to work with an aquaculture business, where he felt there were different opportunities. The

shellfish farm, already in operation, approached him to become a manager with the business. The owner was eventually able to buy into the business after another partner left, and stayed involved for four years, but eventually sold his shares. Besides health and family reasons, he also felt that the business was not likely to grow to meet his ambitions. As a result, he looked for other opportunities off island.

During his tenure with the operation, the focus was on creating a value-added product which would be highly prized by customers. The owners had some success with this but found they needed additional expertise and money to reach their objectives. These factors were not easily resourced locally and eventually the other owners moved their leases to another location on Vancouver Island. At the height of operations, the business employed between six to ten employees plus the owners, depending on the time of the year.

#### **6.2.4. Site D – Cortes Island and Computer Consultant**

Drawing upon her training and employment experience, this business owner operated a computer consulting business from Cortes Island. She had started the business prior to moving to the island, which was prompted by her partner's job with a shellfish farm. (See the above case study.) Given the small size of the business community on the island, she needed to develop a client base elsewhere. As a result, her primary clients were based in Victoria, the largest urban centre on Vancouver Island. She split her time between Cortes Island and Victoria, keeping an apartment in the city and working from her clients' work sites. The owner has since closed the consulting business and moved from the island back to Vancouver Island to pursue other opportunities.

### **6.2.5. Site E – Denman Island and Chocolate Bar Manufacturer**

This case study site is Denman Island, a small island off the east coast of Vancouver Island. There is a population of just over 1000 people year round with more during the summer. As the closest community, Courtenay with 18,000 residents is about a 10 minute ferry ride and a 20 minute drive away. The island has a history of forestry, agriculture and fishing; but as is the case with many other locations in this area, the focus is shifting to tourism with vacation accommodations and attractions. The island has also drawn many artisans and craft people, who prove to be popular with tourists.

As is typical of many of the rural communities in the region, service provision is mixed. There is a small grocery store which sells fuel, a post office and a liquor store but there is no garage. An automatic bank machine was recently installed on the island but there is no bank present. There are no lawyers and accountants on the island but there are several real estate agents, reflecting the current market for vacation properties. There is no hospital but there are some medical services available and an ambulance. There are several restaurants – two of which operate year round and another two geared toward the summer tourist market. There is an elementary school and library on the island but high school students are bused to Vancouver Island for school. The residents tend to head off island for most services.

In operation for approximately eight years, the chocolate bar manufacturing company was started by a husband and wife team and was one of the first organic chocolate manufacturers in Canada and remains one of the largest. The couple and their children had moved to Denman Island about 10

years ago to experience life in a rural setting. The husband had originally intended to find carpentry work, but that proved difficult. As a result, they began to evaluate other options, one of which built on the wife's hobby of making chocolate desserts. After positive feedback from local residents, the couple thought they might have an opportunity with chocolate and begin to explore the possibility of manufacturing organic chocolate bars. They quickly realized that there was a niche market.

The business presently employs the equivalent of five full-time employees and operates in the owner's home. (The wife passed away several years ago.) The owner is building a new manufacturing facility on another property on the island in order to move the business out of the home. Through stores and Internet mail order, the chocolate bars are distributed across Canada and the United States and to a limited extent outside North America.

#### **6.2.6. Site F – Hornby Island and Rose Nursery Owner**

Hornby Island is located off the coast of Denman Island and is accessible by ferry from that island. This island is very similar to its neighbour in that the traditional focus has been on forestry, agriculture and fishing. More recently, the primary industries have become tourism and the arts community.

Despite having a smaller year round population base of fewer than 1000 residents, the infrastructure on Hornby Island is more developed than Denman. There is a large co-operative grocery store and gas station with a garage. There are also several restaurants and other services such as a bank, post office, automatic bank machines, lawyers, accountants, real estate agents and police (summer months only). There are also a few doctors and dentists on the island with the ambulance service on Denman Island. There is an elementary school as

well as a library. The high school students are bused to Vancouver Island for their education. High speed Internet is available through the telephone company as is cell phone coverage.

The rose nursery is owned by a husband and wife team who purchased the business from friends almost 20 years ago as a potential retirement project. Using their home property as the base for rose growing and a small retail store, they have operated the business on top of full-time jobs. The nursery, specializing in rose propagation through cuttings, distributes across Canada, primarily through Internet mail-order with some sales from garden shows and their small store on their property. They do not export to the United States due to strict cross-border regulations on plant exports. Given the relatively small size of the operation and the owners' involvement, the staff requirement is minimal. Casual employees are needed only in the summers to assist with watering and other chores around the nursery. The owners are presently downsizing operations as the work gets too physical as the owners age. They have also sold the flock of sheep that they raised for wool.

#### **6.2.7. Site G – Port Renfrew and Restaurant Owner**

This case study site is located in Port Renfrew, a small community which is located an hour and half drive by paved secondary road west of the largest urban centre on Vancouver Island. This community, with less than 180 residents with an additional 120 people on the Aboriginal reserve, is in transition from a reliance on logging and fishing towards tourism activities.

In terms of business and social services infrastructure, the community is limited. There is a small grocery store which also sells alcohol which is more like a small corner store in terms of selection and price. The only gas station is

at one of the boat marinas located just outside of town and has operated sporadically over the last 10 years. There is no bank but there is an automatic bank machine at one of the three restaurants in town. There is no doctor, dentist, hospital or police but there is an ambulance station and public health nurse in town. The public library operates two days a week. While there is an elementary school, the secondary school students must travel by bus to Sooke, which is a one hour trip each way. Broadband access to the Internet is just starting to come to the community. There is also limited cell phone coverage in the area. Most services required by individuals and businesses alike are located in the larger urban centre.

The business started approximately five years ago as a seasonal restaurant, geared to the tourist market but now operates year round with its primary customers being the local residents. Growing from a two partner operation (one partner has since left the business), it now operates with six employees in the summer and two in the winter. Over the years, the owner has slowly improved the rented facilities by building a covered deck and an enclosed sitting area.

The owner is in his early 30's and has been in the community for approximately eight years. After chef training and experience working in his family's restaurants elsewhere in British Columbia, he moved to the community and worked in several restaurants before opening his own. The original impetus for business start-up was to gain experience operating a restaurant as well as to create a summer job. Besides the restaurant, the owner also operates a kayak touring company and is becoming the community's Internet service provider.

### **6.2.8. Site H – Port Renfrew and Water Taxi Operator**

Using Port Renfrew as his operational base, the owner operates a water taxi service which shuttles hikers between Bamfield and Port Renfrew, which serve as trail heads for a five to seven day hiking trail in a national park. Since the hiking trail is a through one, the hikers end the trip in a different location from where they started. As a result, hikers leave their cars in one community and then either hike away from their car, in which case they need transportation back to their vehicle at the end of the hike, or they hike towards their vehicle, in which case they need the transportation to the opposite trail head to start the hike. The water taxi operator provides this service by transporting the hikers on the open ocean along the west side of the island. The complete boat ride typically takes approximately four hours in good weather.

The owner has previous experience as a commercial fisherman. However, when the commercial fishery collapsed approximately ten years ago, he needed alternative employment. The water taxi service was already operating but the previous owners were interested in leaving the business. When the present owner approached them, they turned over their reservation book to him and wished him luck. This business does allow the present owner to utilize his commercial fishing vessel in the operation.

Besides ferrying hikers, the owner supplements his income with marine research contracts. He found after his first summer on the ocean that he was seeing the same whales repeatedly. He began taking pictures and shared them with scientists at the local marine research institute, who quickly saw the value

of his data. They now hire him each summer for field work as well as give him academic credit as co-author in publications.

#### **6.2.9. Site I – Nootka Sound and Shellfish Farmer**

This case study, a shellfish farm, is based in Nootka Sound on the west side of Vancouver Island. This area is becoming a focus for tourism and aquaculture activities. It is generally accessed from Gold River or Tahsis by boat since there are few roads in this area. There is little infrastructure available in the vicinity of the beaches where the owners operate. For example, when the owners go to their leases for harvesting, they must provide room and board for their employees for the extended time they are on site. The nearest community is Gold River, with a population of approximately 1300 residents. However, most supplies and services are purchased in Campbell River and other communities closer to the business's administrative base in Parksville, located on the east side of Vancouver Island.

The owners, a husband and wife team, received their first beach lease in 1990 but really began operations in 1995 with seeding and harvesting shellfish on their leases. Originally from Quebec (him) and the interior of British Columbia (her), they both are mainly self-taught in aquaculture. He has gained some experience while working on another shellfish farm and working as a harvester before starting their operations. The duties are split between the two of them. He has primary responsibility for growing and harvesting the shellfish while she primarily keeps the accounts. She has worked the beach sites when necessary, most notably when he was managing another shellfish farm.

From their operational base in Gold River, the owner along with two additional harvesters travel to the beach sites by boat where they harvest farmed

shellfish as well as wild shellfish. They also have a nursery site where shellfish seed is grown to be later put on the beaches to grow to maturity. With his crew, the husband typically works a seven-day shift out on the beach leases, putting down juvenile shellfish, fixing rafts and harvesting while the rest of the month is focused on administrative work and wild clam harvesting. She also runs a furniture restoration business from their administrative base.

#### **6.2.10. Site J – Tahsis and Building Supply Store Owner**

The final case study is a building supply store located on the west side of Vancouver Island in Tahsis, a community that is accessible only by a unpaved logging road after two and a half hours on a paved secondary road from a small urban centre on the island's east side. As is the case in many of the case study locations, this community is in transition and has dramatically shrunk to approximately 300 residents over the past decade from a high of 1800. The population decreased after substantial job losses in the forestry industry, which had been the town's primary employer. At this point, the community is attempting to capitalize on tourism opportunities in sport fishing and other activities.

Like many other communities, Tahsis is limited in business and social services infrastructure. There is a grocery store which can be more accurately described as a small corner store in terms of selection, quality and price. There is a garage and gas station in the community as well as a post office. There is no bank but there is an automatic bank machine. There is no lawyer or accountant but there is now a real estate agent and computer support business. There is a public health nurse and a volunteer ambulance crew in the community and a doctor who comes two days a week. The police are in the community located an

hour away. There is high speed Internet but no cell phone coverage. The school currently has 35 students from kindergarten to the end of high school (grade 12 in the Canadian system).

The building supply store carries building supplies, toys, pet supplies and propane and provides a boat storage service. The owner has operated the business with his wife for over 20 years with a staff that includes a full-time “yard boy” and a part-time bookkeeper. The owner moved to the community in the early 1970s initially as a teacher but left teaching to operate a log salvaging business elsewhere in British Columbia. When the owner and his wife started a family and log salvaging became less lucrative, they began to explore options. A friend approached them with an opportunity to purchase his store, despite their relative inexperience in retailing. To help the business stay viable after the saw mill closed and the community shrunk in size, the owner returned to full-time teaching and later became the principal in the local school. The building in which the store is located includes not only the family’s apartment but also the ambulance station.

### **6.3. Comparisons Between Case Studies and to Other Rural**

#### **Communities, Owners, and Businesses**

Drawing upon these case studies, this section compares the communities, the owners and their businesses and extends these comparisons to communities, owners and their businesses in other rural locations. This discussion sets the context for the exploration of the challenges that the sample business owners face and the methods that they use to mediate these challenges.

### **6.3.1. Characteristics of Case Study Communities**

Scattered across Vancouver Island and nearby islands, these communities are small. As can be seen in Table 6.2, the largest community is Port McNeill with just under 3,000 residents and the smallest is Port Renfrew with just under 200 people. Access to the communities tends to be by secondary or unpaved logging roads or by ferry. According to the Scottish Executive Classification outlined in earlier chapters, the communities can be classified as either remote or very remote rural (Scottish Executive, 2004). This classification suggests that these communities face limitations in terms of access to larger urban centres as well as limited population base. The challenges that flow from this situation are explored in greater detail in the next chapter.

This classification is useful for a first categorization; however, it is still not precise enough to make the distinction between those with greater accessibility to infrastructure, services, market and other factors and those with reduced access to these. The locations in the southern part of the island have greater population density and are closer to the larger urban centres. Given the focus on tourism in many of these communities, this accessibility could be a factor in the ability of a community to attract tourists and others as potential customers. This is an issue that should be explored more fully with further research.

**Table 6.2: Case Study Community Population, Location, and Accessibility**

<b>Case Study Site</b>	<b>Population</b>	<b>Classification</b>	<b>Part of the Island</b>	<b>Road Access</b>
A	2821	Very Remote Rural	Northeast	Paved secondary road
B	379	Very Remote Rural	Northeast	Paved secondary road
C, D	1042	Very Remote Rural	Central – east side	Ferry
E	1016	Remote Rural	Central – east side	Ferry
F	966	Remote Rural	Central – east side	Ferry
G, H	180	Very Remote Rural	Southwest	Paved secondary road
I	1359	Very Remote Rural	Northwest	Paved secondary road
J	600	Very Remote Rural	Northwest	Gravel road

In terms of infrastructure, the communities vary greatly in their provision of various basic services as Table 6.3 shows. There is a general base level of services in terms of the presence of small grocery stores, automatic bank machines and fuel but beyond this level, it is mixed in the various communities. The lack of infrastructure means that the residents must often leave their community to gain required goods and services. This situation explored further in the discussion of challenges that these owners and their businesses face. Essentially, there are certain services that important for the self sufficiency of a community. These services are outlined in Table 6.3 where the case study communities are compared to this list (Northern Ireland Statistics & Research Agency, 2005). By this definition, many cannot be considered self-sufficient in terms of available infrastructure. The information has been compiled from

observations and community websites. In those cases, where information could not be found about a service, “unknown” is indicated.

**Table 6.3: Comparison of Case Study Community Infrastructure**

Service:	Site A	Site B	Site C, D	Site E	Site F	Site G, H	Site I	Site J
Grocery Store	Yes	Yes	Yes	Yes – small general store	Yes	Yes – small general store	Yes	Yes – small general store
Fuel	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Garages	Yes	Yes	Unknown	No	Yes	No	Yes	Yes
Restaurants	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Post Office	Yes	Yes	Yes – Limited hours	Yes	Yes	Yes	Yes	Yes
Bank	Yes	No	Yes – Limited hours	No	Yes	No	Yes	No
ATM	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lawyer	Yes	Unknown	Unknown	No	Yes	Unknown	Yes	No
Accountant	Yes	Unknown	Unknown	No	Yes	Unknown	Yes	No
Real Estate Agent	Yes	Yes	Yes	Yes	Yes	Unknown	Yes	Yes
Hospital	Yes	No	No	No	No	No	No	No
Doctor/Dentist	Yes	No	Yes	No	Yes	No	Yes	Yes – Limited hours
Library	Yes	Yes – Limited hours	Yes – Limited hours	Yes – Limited hours	Yes	Yes – Limited hours	Yes	Yes – Limited hours
High Speed Internet	Yes	No	Yes – Limited	Yes – Limited	Yes	No	No	Yes
Cell phone Coverage	Yes	Mixed	Unknown	Yes	Yes	Mixed	Mixed	No
RCMP	Yes	Yes	No	No	Yes	No	Yes	No

Paved Road into community	Yes	Yes	Ferry	Ferry	Ferry	Yes	Yes	No
Primary School	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
High School	Yes	No	No	No	No	No	Yes	Yes

(Developed from Northern Ireland Statistics & Research Agency, 2005)

Given the small size of these communities and existing infrastructure gaps, there are likely to be challenges with the size and nature of the local market and the labour pool, sourcing of required supplies locally, accessing external customers and other issues (Smallbone et al., 1999). This might have long term consequences for the communities, residents and businesses. As social infrastructure (such as schools and health care) levels drop, communities may face a real challenge retaining families. Many of the island's northern communities have already experienced a loss of population already with previous job cuts. In some communities, such as Tahsis, the total school population for all grades has dropped to 35 students. The school is now in danger of closing, meaning that more families will consider moving from the community.

These infrastructure gaps are common to other communities as well and are of concern to communities and governments. The Scottish Executive has undertaken a review of service availability in rural communities in Scotland. By understanding the various service levels, the government can then determine where and how improvements can be made to ensure a reasonable access (Scottish Executive, 2002). In the Australian context, Griffith (1994) designed a tool to evaluate relative disadvantages to services and infrastructure, with particular regard to education, in order to guide policy makers in decision

making about infrastructure improvement. Montgomery (1998) extended this tool's application to a Canadian setting, specifically in British Columbia. This research found that many communities in the province are disadvantaged in terms of access to necessary infrastructure and, as a result, face challenges with attracting and retaining skilled individuals and developing the community economically. Finally, there have also been studies on the negative impact of the lack of legal, banking and other professional services on businesses and communities, as discussed below (Blacksell et al., 1988, Bowles, 2000, Halseth et al., 2004, Oborn, 2000). These gaps begin to point to challenges that rural businesses may need to address for successful operations. Their impact is explored in the next chapter.

### **6.3.2. Characteristics of Case Study Business Owners**

Drawing on the discussion of the characteristics of rural business owners from the literature review, there are several key issues about this group of owners to be considered. These include in-migration, reasons for business start-up, other available skills, previous experience in small business, their definition of success and family involvement in the business. As discussed in the examination of challenges and responses, these characteristics provide the base from which the owners can draw to mediate their challenges. Table 6.4 provides an overall summary of the characteristics of the owners.

**Table 6.4: Comparison of Case Study Owners' Characteristics**

<b>Name</b>	<b>Business and Year Established</b>	<b>Background and Experience Prior to Start-up</b>	<b>Role in Business</b>	<b>Origins prior to Start-up</b>	<b>Spouse's Origin</b>	<b>Spouse's Role</b>	<b>Other Family Members Involvement</b>	<b>Reason for Start-up</b>
A	Soil manufacturer – 1994	Truck driver	Manufacturing	Vancouver Island	Vancouver Island	Financial	Daughter and Son-in-law – marketing	Saw opportunity, needed a job after injury
B	Consulting services – 1996	Forestry company as employee	Consultant, manager	Sayward	Unknown	Keeps accounts, software, municipal councilor	Son is crew supervisor	Friend invited him to join consulting company, begun subcontracting, and eventually get own contracts
C	Shellfish farmer	Academic	Manager/part owner	England/Vancouver	England/Vancouver	Not applicable	Not applicable	Saw an opportunity to be part of a growing industry
D	Computer consultant	Consultant	Owner	England/Vancouver	England/Vancouver	Not applicable	Not applicable	Saw an opportunity to apply skills

E	Chocolate bar manufacturing – 1998	Carpentry	Chocolatier, manager	Vancouver	Vancouver	She has since died.	Unknown	Saw opportunity, need a job
F	Rose Nursery – late 1980's	Urban Planner	Growing roses, website maintenance, shipping, retired from paid employment	Unknown – been on the island for 20 years	Unknown – been on the island for 30 years	Growing roses, regional district councilor	Occasional labour	Bought business, potential for retirement work
G	Restaurant – 2001	Chef, worked in restaurants	Chef, manager, other business – kayak, Internet Service Provider	Victoria – been in community for 10 years	No spouse	No spouse	No children	Needed a summer job, wanted experience operating a restaurant
H	Water taxi – 1993	Commercial fisherman	Boat driver	Unknown – been in community for 13 years	No children	No spouse	No children involved	Needed a job, took over an existing business
I	Shellfish farm – 1995	Fisherman, harvesting wild shellfish	Harvester and grower, other business – harvesting wild shellfish and fishing	Quebec – been in community for 20 years	Interior B.C. – been in community for 20 years	Keeps accounts, has harvested, operates a furniture restoration	Occasionally harvest shellfish	Saw opportunity

						business		
J	Retail – Building supplies – mid 1980’s	Teacher, log salvager	Daily operation of store – other business – school principal	Vancouver	Unknown – been in community for 30 years	Daily operation of store	Unknown	Bought business, wanted a change from log salvaging

### **6.3.2.1. In-migration to Rural Community**

The first common characteristic among the owners, as can be seen in Table 6.4, is the fact that they were not born and raised in the community in which their business presently operates. Instead, they all moved to the community for a variety of reasons and at different stages of their lives. Except for the case of the soil manufacturer who moved to the community for easier access to raw materials and land for operations and the computer consultant who already had a slate of clients, the decision to own and operate the business came after they had arrived in the community. Some of the owners are local to Vancouver Island while others have come from other parts of British Columbia and from outside the province. The forestry consultant, as the longest residing owner in their community, moved to Sayward as a teenager and has essentially stayed since, despite some time in larger urban centres. At the opposite end are the soil manufacturer and the restaurant owner who have been in their communities for less than ten years. The Cortes Island shellfish farmer and computer consultant were only on the Island for five years, during which time they operated their businesses there.

Interestingly, the business owners who have been in their community the longest became involved in their businesses through friends. The rose nursery and the building supply store owners bought their businesses from friends. In the case of the forestry consultant, a friend who was consulting already invited him to join his company. First, he worked as an employee but later subcontracted from the friend and then eventually began to arrange his own contracts.

These owners are fairly typical of rural small business owners in other regions and countries. As discussed earlier, the literature suggests that the

majority of small business owners in rural areas are originally from elsewhere and do not often move to the area for the purposes of starting a business (Getz et al., 2005, Rowley et al., 1993, Westhead, 1990). Many owners have moved to these rural areas for lifestyle reasons (Illouz-Winicki et al., 1998, Johnson et al., 1995, Keeble et al., 1992, Mochrie et al., 2004, Roberts, 2002).

### **6.3.2.2. Motivations for Business Start-up**

The motivations for business start-up are varied, as outlined in Table 6.4. For several of the businesses, the owners took advantage of a business opportunity. For example, in the case of the chocolate bar manufacturer, they were one of the first organic chocolate bar manufacturers in Canada, taking advantage of the demand for organic products. The same is also true for the soil manufacturer, who is capitalizing on a growing interest in gardening within North America, as evidenced by the number of gardening television shows, magazines and stores. For others, the reason to start-up was to create a job for themselves. The restaurant owner's former partner highlighted that this was one of the reasons for starting the business. The two were also interested in gaining experience in operating a business. The soil manufacturer had started experimenting with the use of wood and fish waste to produce soil after he had broken his back in a car accident and was not able to continue work as a truck driver. Finally, the water taxi driver needed a job after the commercial fishing industry had collapsed.

As mentioned above, some owners purchased their businesses. For the rose nursery and building supply store owners, by purchasing the business from friends, they were able to capitalize on an ongoing operation, focusing on a known opportunity. The rose nursery owners bought the business as a potential

retirement project while the building supply store owner and his wife had been looking for a change from log salvaging. At the time log salvaging was becoming less lucrative and the family, now included two small children, also wanted to be off the boat where they had been living.

These reasons for start-up and continued operations in these rural communities reflect the discussion around the push-pull factors for start-up. As explored in the literature review, one of the primary reasons for start-up is to create a job and income, or push factor (du Plessis, 2004, Friedman, 1987, Robinson, 2001, Tetelman et al., 1993, Warren-Smith et al., 2004) followed by a desire for a lifestyle in a certain location. A business provides the means to do so (Getz et al., 2000, McKenzie, 1998, Spilling, 1997). The business also becomes a way to exploit an opportunity, or pull factor (Getz et al., 2000, Mankelow et al., 2001, Spilling, 1997).

Besides the above reasons for start-up, the owners also discussed other reasons for continued business operations despite the challenges and, in some cases, their business's limited economic potential. These reasons begin to shed more light on the factors that make up the lifestyle decision, not often articulated in the research. The owners generally desire life in a certain location in order to achieve their lifestyle goals, a need they can meet through their business. For example, the forestry consultant stated clearly that he preferred rural areas to urban ones. The restaurant owner also outlined that he liked the space that comes with a smaller community and the fact that this kind of life allows certain freedoms that are not possible in larger urban centres. He mentioned that in small communities individuals are often expected to police themselves and behave appropriately, rather than rely on rules and laws to govern behaviour. He

also likes the fact that he knows community members and that residents participate spontaneously in community events, such as Canada Day parades, which bring everyone together. The building supply store owner also commented on the fact that he and his wife have been able to raise two sons without some of the potential problems often found in cities. The family has also been able to enjoy vacations in warmer locations due to previous ownership in an airline that serviced Vancouver Island. This ownership gave them free flights on other airlines. The water taxi driver enjoys being on the water and has found his passion in marine research. Finally, the Nootka Sound shellfish farmers, especially the husband, focus on the fact that they are living the life that they enjoy on the water in a beautiful part of the island and that they could not imagine living anywhere else. These sentiments are echoed by the water taxi driver.

In contrast though, the daughter of the soil manufacturer owner recently moved to Nanaimo with her husband to support the company's marketing efforts from there. They were finding that the drive from Port McNeill to Nanaimo (a four-five hour drive), the departure point for marketing trips across British Columbia and Canada, was very long and tiring for them and their young son. She also mentioned that Port McNeill had limited opportunities for families with young children, despite the advantages that come with a small community in a rural area.

While these business owners did not express the desire for independence, often a common reason given for small business start-up (Gladwin et al., 1989, Spilling, 1997, Tosterud et al., 1992, Townroe et al., 1993, Westhead, 1990), it is clear that this characteristic is present within this group. The building supply

store owner provides the contrast between teaching, which tends to be bureaucratic, and small business operation where he has flexibility. In his business, he has control over his responses to challenges, something he does not feel he has when teaching. This desire for control, independent decision making and self-reliance is echoed by the chocolate bar manufacturer who is striving to be financially independent so that he is not “beholden to the bank and shareholders.” Finally, this group for the most part show their self-reliance in that they have learned their business while on the job with little outside assistance or training.

### **6.3.2.3. Other Skills That Contribute to Business Survival**

In many cases, the business owners have alternative sources of incomes that draw on other skills they possess. These other income sources help sustain both the business and the family. These skills can be varied and may not be directly related to the business but to associated sidelines or even other full-time employment. In the case of the rose nursery, both owners worked full-time jobs as town planner and local politician while operating their business in their “spare” time. He has recently retired to devote further attention to the business. With the case of the Nootka Sound shellfish farmers, he still fishes and harvests wild shellfish while she restores furniture. They both admit that these additional incomes are necessary to support themselves as any money earned from the shellfish farm is reinvested in the business. Profit reinvestment is also the case with the rose nursery owner. In the case of the building supply store owner, he drew upon his previous training as a teacher and returned first to substitute teaching and then to full-time teaching and principalship after the saw mill closed and the store lost approximately half its sales almost over night. The

water taxi driver is supplementing the hiker traffic with research funded by a local marine research institute. Finally, the restaurant owner is capitalizing on his skills and interests as a guide and in computers to start a kayak guiding business and become the community's Internet service provider.

The two cases where there is little direct evidence of other skills being applied to other income sources are the larger two companies – the soil and chocolate bar manufacturers. These two businesses appear to be the most successful of the sample from a revenue/profit perspective. Sales and profit information was not asked directly. However, success by this measure can be discerned through interview and secondary data. First, in terms of the soil manufacturer, they have the largest staff and are able to employ four family members on a full-time basis plus additional staff. The daughter and son-in-law have also been able to build a house in Nanaimo, which serves both as a residence as well as a marketing office. In terms of the chocolate bar manufacturer, he has been able to buy land on his island and build a new production facility without incurring debt. These are also the two companies who have the largest product reach with sales across Canada and into the United States. Alternative income sources do not appear to be necessary to sustain these businesses and families.

The need for supplemental incomes is not unusual among rural businesses, though it tends not to be highlighted in business research. Many businesses cannot support an individual and their family fully, thus requiring the family look for additional income sources (Alsos et al., 2003, Carter et al., 2004, Ronning et al., 2006, Smith, 2006, Wheelock, 1992). For example, in a study of rural business women in Maine, researchers found that the women tended to

grow their businesses slowly, using second incomes through paid employment or other businesses to support themselves during start-up and operations (Josephson, 2006). This issue is considered further in the discussion regarding challenges and methods used to mitigate them.

#### **6.3.2.4. Previous Experience in and Exposure to Small Business**

As a group, the business owners had limited prior experience in the industry in which their business operates and little experience operating a business generally at start-up. There are some exceptions among the group. The restaurant owner, forestry consultant, Cortes Island shellfish farmer and computer consultant have been able to draw upon previous experience in their industries during start-up and ongoing operations. The forestry consultant had worked in the forestry industry for many years as an employee for larger logging companies before subcontracting and eventually contracting on his own. As for the restaurant owner, he drew upon his professional chef training and experience in his family's as well as other restaurants. The Cortes Island shellfish farmer had academic training which he applied to the business. Finally, the computer consultant also had academic training in the industry and several contracts from which she was able to develop a full-time consulting business.

Several had some experience with self employment, though generally not in a related industry. The soil manufacturer was a truck driver, the chocolate bar manufacturer was a carpenter, the Nootka Sound shellfish farmer and water taxi operator were fishermen and the building supply store owner was a log salvager. However, despite these varied backgrounds, it has been an on-the-job learning experience, both in terms of operating a business generally and learning the specific industry.

For some, they also built on exposure to other family members' experience with self-employment. For both the building supply store and restaurant owners, their parents had operated small businesses. This exposure gave them insights into the demands of small business ownership and operation. Business courses also supplemented this understanding. For example, the water taxi operator took a course in small business and developed a business plan that serves as the foundation for his service. The woman partner in the Nootka Sound shellfish business also took courses in bookkeeping and accounting which she applies to the business. The marketing director for the soil manufacturer pursued business studies at a local college.

This range in experience and previous exposure in small business is common to many rural small businesses. Some rural business owners are able to draw upon previous experience while others are starting a business for the first time and learning as they go (Gladwin et al., 1989, Josephson, 2006, Mankelow et al., 2001, McDonagh et al., 1999, Tetelman et al., 1993, Townroe et al., 1993). There is growing research that suggests it is common for an entrepreneur to learn and develop the required skills and knowledge while starting and operating the business, rather than prior to start-up (Cope, 2005b, Politis, 2005, Rae, 2006).

#### **6.3.2.5. Definitions of Success**

The owners also share common understandings of success. For the most part, financial reward is not the primary measurement for success. In fact, for some, financial measures are not highlighted at all, but rather there is a focus on other business and lifestyle objectives. For the restaurant owner, he lists factors such as the challenge, living in a rural community and the ability to do things that may not be possible in the city as part of his understanding of success.

Many owners also focus on providing a quality product and customer service.

As the rose nursery owner summed it up, success is “the ability to be able to sell a good product and for it to be appreciated.”

Respect of the community and providing benefits to it and employees are another success measurement. These are important to the chocolate bar and soil manufacturers. Both work hard to draw upon local residents, both as employees and suppliers. For example, the chocolate bar manufacturer has hired local builders and is using local materials to build his new facility. He also feels that it is important that he contributes to the island’s economic growth without putting undue pressure onto the island’s limited infrastructure. His customers can get a taste of the island through his product without having to visit the island. The water taxi driver highlighted some of the real high points of his work; one of which was helping a pregnant woman who was having complications off the hiking trail. In part, due to his actions, the baby was subsequently saved.

While financial measures are not the utmost importance for the owners, the ability to be financially secure by their own estimation is important. The Nootka Sound shellfish farmers stated that being without debt and being able to live in the area of their choice is success to them. The building supply store owner reflects that his involvement in other related ventures have provided the family with benefits such as vacations in Mexico and life in a community without many of a city’s problems. For the computer consultant, she felt that it was important to be able to support her spouse and herself since his business in shellfish farming was very risky. Ultimately, as one of the Nootka Sound shellfish farmers stated, one must “follow their heart and the money will follow.” In contrast, the Cortes Island shellfish farmer had a desire to be successful

financially; however, he was not able to grow the business to his desired target. This frustration was one of the reasons why he ultimately left the business.

There is some variation between the businesses regarding their expectations for growth; some are interested in growth, while others are not. The chocolate bar manufacturer is growing his business deliberately. He is building a new manufacturing facility on another property in order to move the business out of his home. The move is necessary because the business has grown beyond the available space and continues to expand. However, this move leads to a requirement for additional growth. The new facility creates more production space and also more costs such as heating, lighting, security and additional employees. These will require more sales, in turn, to pay for them, which requires additional marketing efforts. Of all the sample businesses, he has the most potential for growth given the acceptance of his product throughout Canada and the United States. The soil manufacturer and shellfish operators also have potential for growth given their niche markets and are taking some steps to realize this. The soil manufacturer has hired a marketing agent to assist with the American market development and the Nootka Sound shellfish farmers are developing their capacity to seed and harvest more shellfish on their leased beaches. The Cortes Island shellfish farmer had been experimenting with a value-added product with the intention of growing a larger business but was not able to reach this goal. It is with this subgroup of sample owners that the distinction between entrepreneurs and small business owners can be explored. The entrepreneurs are those with more interest in growth and profit (Carland et al., 1984, Henderson, 2002, Hindle et al., 2002).

With the other owners, there is not the same expectation or desire for growth, meaning that they could be classified as lifestyle business owners (Markley et al., nd, Tregear, 2005, Walker et al., 2004). The water taxi operator is dealing with a constrained market given the limited hiking season and hiker quota system in place. The building supply store owner is facing similar constraints as the community size continues to contract. On the other hand, the forestry consultant is facing increased competition in a relatively small market. For this group, then, there is limited ability for them to increase their market potential substantially. However, their businesses are still meeting the owners' needs to live a particular lifestyle in a particular place.

There are three examples of deliberate contraction within the sample. The rose nursery owners have reduced the number of plants that they are growing for sale and have sold their sheep because the work has become too physical as they near retirement age. The Cortes Island shellfish farmer sold his shares in the business in part due to health reasons. Physically, he was finding it difficult to work the beaches. There were limited opportunities in the business for alternative roles. The computer consultant phased out her contracts once she and her husband left Cortes Island for other opportunities.

Again, the orientation of these small business owners to financial and other measures of success reflect those of rural small businesses in other locations. As explored earlier, some rural business owners are interested in pursuing growth (Raley et al., 2000, Smallbone et al., 2002) while others stress a quality product or service (Josephson, 2006, Townroe et al., 1993), family goals (Getz et al., 2000, McKenzie, 1998), lifestyle goals (Galloway et al., 2006,

Siemens, 2005), and/or investment in the community (Josephson, 2006, Mankelov et al., 2001).

#### **6.3.2.6. Family Involvement in the Business**

One final common characteristic among the case studies is the involvement of family members, particularly that of the spouse, in the business. As shown in Table 6.4, the spouse plays various roles within the business. Generally these roles are of a substantial nature as owner and/or key employee, not the traditional invisible role (Baines et al., 1998, Danes et al., 2003, Dupuis et al., 2004, Fitzgerald et al., 2002, Kirkham, 1986, Rowe et al., 2000). The two exceptions to direct family involvement are the restaurant owner and water taxi operator where both owners are not married. In the case of the Cortes Island shellfish farmer, his wife did not work directly in the business but provided financial support through her consulting income.

The spouses' active roles as full business partners can be observed in several ways. For example, in the case of the building supply store, the wife, who is listed on the business card and company website as owner alongside her husband, is in the store full-time as her husband is the principal/teacher at the local school. As her husband described in the interview, she also handles many of the drives into the closest larger urban centre, over the logging and secondary roads, to pick up supplies in their large truck. In the case of the Nootka Sound shellfish farmers, the wife is listed on the business card and the interview was conducted with both her and her partner. She is responsible for the business accounts but has also spent time harvesting product on the beaches when her partner was managing another shellfish farm. She also operates a furniture restoration business which helps sustain the aquaculture operation. Both rose

nursery owners work the garden plots and their joint participation is seen on their website with pictures of both.

In contrast, with the forestry consulting business, the wife appears to have less than full involvement in the business in that she is not identified as an owner. She has employment outside the business and keeps the business's accounts, the often traditional role for the female spouse (de Bruin et al., 2004, Kirkham, 1986, Rowe et al., 2000). However, she still plays an important role. In response to an ongoing issue concerning the attraction and retention of skilled personnel with knowledge in key software, a challenge that is discussed further below, the owner has trained his wife in that software, with the assumption that she is more likely to stay involved in the business due to her familial relationship.

This spousal involvement is often supported with efforts from the extended family and serves to reinforce the image of a family business. For example, in the case of the chocolate bar manufacturer, the picture on the company website shows the family, husband, wife and two sons, at the time of start-up. (Since that initial picture, a third son was born and the wife passed away.) The soil manufacturer is also similar in this regard. Not only does the company website provide the responsibilities of the founder and his wife, but also those of the various family members involved and other employees. The family dogs even get a mention.

This family business image is backed up by actual involvement of those members, either in a full-time capacity or on a casual basis. With the soil manufacturer, one of the daughters and her husband are employed full-time by the company while a second daughter works in the business on a casual basis. A

son is employed full-time as a crew supervisor for the forestry consultant. And for both the rose nursery and Nootka Sound shellfish farm, the owners' children have provided casual relief when the owners have gone on vacation or needed an extra set of hands.

The family has played an important role, though different from the others, for the water taxi driver. His parents provided some initial start-up funding for the business as well as provided employment during the off-season. In addition, an uncle also helped build the company's webpage.

Family businesses are very common in rural areas, though not as clearly identified as such in the literature review. The issue is considered within the discussion of employees and the gender of the owner. The review of these case studies and other related literature suggests that family involvement in these rural businesses may be more prominent than the initial literature review would suggest. This issue is explored further in the next chapters.

Many rural businesses rely on family members as employees, especially in the agriculture, fishing and tourism sectors, in those areas with low population density (Alsos et al., 2003, Andersson et al., 2002, Carter et al., 1998, Cromie et al., 2001, Getz et al., 2004b, Oughton et al., 2003b, Tetelman et al., 1993). In a study of lagging areas in rural Europe, researchers found that many of the surveyed businesses were family businesses, usually a husband and wife team (Skuras et al., 2005b). The involvement of the family also extends to the use of the family home, property, and savings by the business, a very common response among rural businesses as a way to manage expenses and other family responsibilities (Alsos et al., 2006, Carter, 1999, Haynes et al., 1999, Josephson, 2006, Meccheri et al., 2006, Siemens, 2005).

### **6.3.3. Characteristics of Case Study Businesses**

As explored within the literature review, there are several common characteristics among the sample businesses which show similarities with other rural businesses in terms of size, age and industry. Table 6.5 provides a comparison among the case study businesses.

These businesses are all very small and most can be characterized as micro businesses since they have ten full-time employees or less (Illouz-Winicki et al., 1998, Oughton et al., 2003a, Westall et al., 2000). At the lowest end, the rose nursery is comprised primarily of the two owners with casual staff supplementing during the most labour intensive months in the summer. The water taxi driver and computer consultant operate on their own. As well, the building supply store owners supplement with a full-time “yard boy” and a part-time bookkeeper. At the other end, the soil manufacturer employs six employees beyond family members on a year round basis with additional help during the summer gardening months. As highlighted in the literature review, rural businesses generally employ few people (Clark et al., 1995, Getz et al., 2000, Mochrie et al., 2006, Phillipson et al., 2002, Smallbone et al., 2002, Townroe et al., 1993) and tend to rely on family members as employees (Andersson et al., 2002, Tetelman et al., 1993).

These businesses have also been operating for at least five years and, in some cases, much longer, though the age of these businesses can be difficult to determine in some cases. For example, in terms of the rose nursery and the building supply store, the operations had been in existence already for approximately 20 years before the present owners bought them over 20 years ago. At the other end, the soil manufacturer, Nootka Sound shellfish farmers and

the forestry consultant were undertaking operations for several years before making their first sales or taking their first contract. Given these challenges, common in small business research (Curran et al., 2001), the age is measured in years of ownership, not necessary the date of first sale.

The sample is fairly evenly split between manufacturing and service industries. However, the manufacturing is not of an industrial nature but rather focused on gardening and culinary production with the soil manufacturer, rose nursery, chocolate bar manufacturer and shellfish farmers. This division within this sample is perhaps more manufacturing oriented than the results of many studies of rural businesses. Many surveys have found that rural businesses tend to be in service industries, though these are not often specified (Mochrie et al., 2006, Smith, 1993, Tosterud et al., 1992). Within this sample, the services include consulting (forestry and computer), hospitality, transportation and retail.

As explored within the discussion of the challenges facing these case study owners and their businesses, the size and type of business has an impact on the type of challenges that are faced and the methods of responding to them.

**Table 6.5: Comparison of Case Study Businesses' Characteristics**

<b>Case Study</b>	<b>Industry</b>	<b>Age (years of ownership)</b>	<b>Size (number of employees)</b>
A	Manufacturing – Gardening	12	10 year round full-time including the owner and family, 6 seasonal
B	Service – Consulting	10	6 full-time including owner, 1 part-time
C	Aquaculture	5	6 full-time equivalent including owner, plus 3 owners
D	Service – Consulting	5	1 owner
E	Manufacturing – Culinary	8	5 full-time equivalent including owner
F	Manufacturing – Gardening	25	2 owners plus casual
G	Service – Hospitality	5	6 in summer including the owner, 2 in winter
H	Service – Transportation	13	1 owner
I	Aquaculture	10	2 owners, 2 additional
J	Service – Retail	25	2 owners, 1 full- time, 1 part-time

#### **6.4. Conclusion**

As can be seen in the discussion of the case study owners, their businesses and home communities, there are several common characteristics among them. The communities are rural and remote as defined by the Scottish Executive Classification and face gaps in community infrastructure that play a role in the challenges that the owners face. These will be discussed in the next chapter. The owners themselves tend to be in-migrants to their communities and started or bought their businesses after moving to their rural community. Their motivations for start up are mixed and include a need for an income, opportunity to capitalize on a business idea, or both. The owners bring a variety of skills and experiences to their businesses. These include previous experience or exposure

to small business as well as other skills that contribute to the business's survival. For the most part, the owners are focused primarily on lifestyle issues, rather than financial success and growth. In many cases, the family is involved in these businesses. Finally, the businesses are small with fewer than 10 full-time employees and are split between manufacturing and service industries. As can be seen from a comparison to the characteristics discussed in the literature review, these case study owners and business are similar to rural businesses in other locations.

From this comparison across cases and with other rural businesses, the focus now turns to an examination of the challenges that the owners and their businesses face and the methods they use to address the challenges.

## **Chapter 7: Discussion of Business Challenges, Implications and Responses**

### **7.1. Introduction**

This chapter explores the challenges that these sample owners face and the manner in which they respond to them. The challenges tend to be related to a small permanent population base and its impact on market size and human resources, the rural location and access to larger urban centres, infrastructure gaps and large time demands. The owners have devised a variety of responses and have drawn upon several key resources to mitigate these challenges. The potential challenges identified in Chapter 3 are discussed in light of the experiences of the case study businesses.

### **7.2. Business Challenges**

This section outlines the challenges faced by these owners and their impact on them and their businesses. A summary of the challenges and their implications is outlined in Table 7.1.

#### **7.2.1. Challenges Related to a Small Permanent Population Base and its Impact on Market Size**

It is as one considers the various businesses' customer bases that one begins to see the differences between the businesses, their potential and the challenges that they face in terms of market development. As outlined above, the rural communities within this study and generally within the region are small with less than 30,000 residents. Many, in fact, have 1000 or fewer permanent residents. As a result, this means a small local market. The businesses then need to evaluate their potential in terms of the local market, primarily in the

community and to some extent Vancouver Island, and the larger world beyond Vancouver Island. This distinction becomes important with consideration of potential business size, sales levels and a possible need for alternative incomes, as explored below.

For some of these businesses, the customer base is focused on the local area given the product or service's limited export potential out of the community. This is particularly true for the restaurant and building supply store. For these businesses, the local residents form the customer base which is then supplemented by tourists on a seasonal basis. This issue is even more of a challenge for the water taxi driver who relies solely on tourists completing the hiking trail. There is no access to a local market and the hiking season is limited to only five months of the year. This is further complicated by the fact that the hiker traffic has been declining in recent years at the same time as competition for both hiking and transportation options between trailheads are developing. Given the nature of these types of products and services, there is little opportunity for these businesses to develop a product which can be exported from the community to further enlarge the market. Also, a single business has limited capacity to bring in more tourists on their own. A single owner does not have the time nor money to develop a market further. This suggests a role for the community as a whole which would likely have access to the necessary resources. The potential role of the community is discussed in the next two chapters.

The building supply store faces similar challenges. Its primary market is the local residents and tourists to the community, a market just developing, with little opportunity to develop products or services that could be exported. In

addition, the owner must consider non-local competition carefully. Despite his possibly captive local market given the distance from other centres, the owner faces competition from companies based in Campbell River because residents are already driving the two and a half hours to that city for groceries, banking and other services not available locally. They could easily buy their building supplies in that community and often do. This common issue has been noted in other countries (Oborn, 2000).

For the forestry consultant, he has deliberately chosen to limit his contracts to Vancouver Island because that is where his crew is based. He prefers to manage his crews closely, rather than from a distance. This would occur if he pursued contracts in the interior of the British Columbia mainland. In addition, he is limited in his ability to expand the market on Vancouver Island because the amount of work available is controlled by the provincial government. The government awards licenses to logging companies which in turn hire consultants for the work. Again, the business owner faces stiff competition within a market where contract bids tend to be awarded on the basis of price, rather than quality.

These businesses then struggle at a fundamental level because the local market is rather limited. Sales will be, by definition, small if the business must rely solely on the local community as its primary market. As discussed above, many of the communities on Vancouver Island have populations of less than 1000 residents. For the forestry consulting company, there is a limited pool of forestry companies logging on Vancouver Island and much competition among companies delivering a similar consulting service.

Overall, this limited market places an upper limit on the potential size of these businesses and their associated revenues and profit levels. This is a common issue among rural businesses. As outlined in the literature review, there are lower population densities in rural areas which implies a smaller local market (Baldacchino, 2005, Beer, 2004, Fischer et al., 1998, Hailey, 1988, Lichtenstein et al., 1996, Raley et al., 2000). This upper cap on revenues also limits the potential for a business to provide an economic base from which to support the owner's family. This, also, is not an unusual situation among rural businesses (Carter et al., 2004, Wheelock, 1992, Wheelock et al., 1998). In a study of rural businesses in four states in the United States, it was found that families did not tend to rely on their businesses as the sole income source for the family. The business revenues formed a significant portion of the family income, which was then supplemented by other sources (Tetelman et al., 1993).

As is the case with the restaurant with several competing businesses, competition becomes fierce as all struggle to gain market share in a limited market (Byrom et al., 2003). In addition, businesses in rural communities are not protected from competition based in other locations with the advent of "big box" mega stores and Internet-based shopping (Byrom et al., 2001, 2003, Jussila et al., 1992, Kirby, 1982, 1987, Leistriz et al., 1992, Miller et al., 1997, Smith et al., 2000). Residents often make the trip to the larger centre to take advantage of the prices and a wider selection. They often save enough to make the travel worthwhile, especially if some of the shopping is not available at home. With Internet-based shopping, residents can access a wide variety of goods and services without even having to leave their home community.

On the other hand, the soil manufacturer, chocolate bar manufacturer, rose nursery owner, shellfish farmers and computer consultant do have the potential to reach customers beyond their home community and even Vancouver Island. The soil and chocolate bar manufacturers ship across Canada and into the United States, whereas the rose nursery owner distributes by Internet and mail order only throughout Canada due to stringent and expensive regulations associated with exporting to the United States. The Nootka Sound shellfish farmers are selling into the Chinese and American market. Most of the clients for the computer consultant were based in Victoria, not on the island where she lived. For these businesses then, the small community size as a market is not a limitation; rather, the challenge becomes the development of the outside market from a rural location. Niche markets, as these are, can become a means for rural businesses to overcome this challenge of limited local market (Illouz-Winicki et al., 1998, Labrianidis, 2006b, Lane et al., 1994, OECD, 1995).

This challenge also begins to point to the differences between manufacturing and services, where manufacturing businesses have a greater potential of exporting outside the community, where as services tend to be more local in nature (Shields, 2005). The exception is the computer consultant, while providing a service, was forced to look off island to the larger urban centres to find a sufficient number of clients to develop a full-time business.

### **7.2.2. Challenges Related to a Small Permanent Population Base and its Impact on Human Resources**

Almost all the businesses are big enough in terms of operations to require some employees, either on a full-time or part-time, seasonal or casual basis. As mentioned above, the water taxi owner and computer consultant operate without

employees. For those who require employees, recruitment and retention of staff is an issue given the limited local labour pool. Though, the specific issue varies according to the business. For some, finding qualified skilled staff as required by their businesses is a challenge. For example, the soil manufacturer requires heavy machine operators. While the company can relatively easily recruit operators, retaining them becomes a problem. As the company's marketing representative said, "Port McNeill is 2 hours north of anything" and people are often anxious to move back to the city with its wider range of activities. The forestry consultant echoes this sentiment. His challenge is finding staff with the necessary computer skills who are willing to stay long term in the community after he hires and trains them. Often he sees them leave for jobs in the city when the first offer comes along.

The human resource challenge can also take a different form of commitment from employees. The restaurant owner expressed frustration with the perception that his employees know that he does not have many options for staffing given the limited labour pool. He felt that, at times, they acted on this knowledge by not coming into work which then left the owner short-handed. This is further compounded by government regulations that state he must hire from a list of qualified individuals. However, these potential staff people are often not interested in relocating to his community. This slows the hiring process as the owner works through the appropriate channels.

The Cortes Island shellfish farmer provided a different perspective on hiring. He and his partners found it difficult to find staff for two reasons. First, there was a housing construction boom on the island. The home builders generally had a greater ability to pay premium wages to ensure they were able to

find and keep staff. The shellfish farmer could not compete with these wages. Second, young people, often hired for the shellfish harvesting, were attracted to the island for lifestyle, rather than work, reasons. This means that potential employees were generally only interested in short term work when they needed money.

Other businesses have the challenge of simply finding staff. Both the building supply store and rose nursery owners expressed this frustration. The rose nursery owner requires people to help with watering and care of the plants during the summer months, the prime growing season. Given the limited labour pool on the island, the owner feels that he does not have a choice but to pay the wages requested by potential employees. He judges these requests to be too high given the type of work. However, there are not many other options when staff are required so he pays the requested wage. The building supply store owner expressed his frustration at not being able to find someone to provide casual relief so that he and his wife could take a few days to visit her mother in Vancouver. His perception is that people are not generally interested in casual labour.

In contrast, the chocolate bar manufacturer did not express any issues with hiring. In fact, he had recently posted an opening and received many applications for what he characterized as “mind-numbing” work, the hand-wrapping of chocolate bars. However, he works diligently at creating a workplace where people want to come to work. He believes in only working four days a week and creating a beautiful place for work. For example, his new production facility is designed to give the staff ocean views while working.

Again, the issue of attracting and retaining human resources is a common problem faced by rural businesses. Small business owners often complain about a shortage of skilled labour (Besser, 1998, McDaniel, 2001, Page et al., 1997, Polese et al., 2002, Raley et al., 2000, Smallbone et al., 2002, Walisser et al., 2005). However, these studies do not often elaborate on the type of skills needed and there is little discussion about the need for casual staff.

### **7.2.3. Challenges Related to the Rural Location and Access to Urban Centres**

The challenges surrounding location, as defined by distance, time and access to urban centres, are several. For many businesses within this sample, the simple act of getting supplies to the business creates challenges in regard to time and effort. For example, for the building supply store owner, wholesalers and distributors do not deliver to his community but rather only as far as Campbell River which is two and one-half hours away. Supplies are housed at other stores where they await the owners to make the trip over the logging and secondary roads to pick them up. This creates challenges in terms of store operations since one of the owners has a full-time job at the school and the other one must be in the store. As discussed above, there are few staff possibilities upon which to fall back.

The restaurant also faces similar constraints. When the business first started, the partners commented on the great difficulty that occurred if the food distributor forgot parts of an order. The only grocery store in town carries produce and other products at relatively high prices with relatively low quality, meaning that the restaurant cannot easily buy supplies locally. A trip must then be undertaken to the nearest larger grocery store, which takes approximately one

and a half hours on a winding secondary road. Again, the dilemma facing the owners was timing of a supply run since both were required to be present in the restaurant for efficient operations. When would they make the trip and how would the other manage the business by themselves were questions they had to answer.

Because of the need for additional ferries, the businesses on the smaller islands face additional costs and time. This can limit the ability for their products to be priced competitively while still covering expenses. The chocolate bar manufacturer admitted that it is expensive getting supplies to the island, especially since he requires at least a tonne of chocolate at a time. Further, he has only one additional ferry to consider after the supplies have been shipped to Vancouver Island. The rose nursery owner is even more limited since he requires three ferries to get supplies and products to and from mainland British Columbia. The Cortes Island shellfish farmer also experienced similar issues, particularly with getting supplies in. Equipment might be down for days, rather than hours, given the logistical issues to consider when arranging repairs. The computer consultant often had to dedicate two billable days for travel to her clients in Victoria due to ferry connections. It was not possible to get to an early morning meeting in Victoria unless she left the night before and a late afternoon meeting would mean that she would have to wait until the next morning to return home. Summer months were even more difficult with the tourist traffic. On one fateful day, it took her eight hours to travel from Campbell River to Cortes Island, due to ferry line-ups. This trip should take approximately an hour if all goes smoothly.

Finally, given that their market is across Canada and into the United States, the soil manufacturer must ship their product to gardening centres to reach their customers. At this point, the company ships their product both in bulk and individual bags from Port McNeill and must coordinate various shippers to move the product down the island and then onto the rest of Canada and into the United States. The owners are questioning the logic of shipping supplies up to Port McNeill only to bag the soil and then ship it out again. They are considering moving the product in bulk form to Nanaimo and bagging there, eliminating some coordination and cost. The company has also been experiencing high wear and tear on their trucks given the condition of the secondary highway beyond Campbell River into their community. The costs associated with shipping, especially fuel, have been steadily increasing; a cost the company has had to absorb rather than pass on to the customer.

Several business owners echo the challenge posed by rising fuel costs given the amount of driving that is required given their distance from larger urban centres, the location of many required services. The soil manufacturer's marketing representative commented that rising fuel costs were one of the reasons why marketing operations were moved to Nanaimo. It was becoming too costly to drive between Port McNeill and Nanaimo several times a week. The forestry consultant also commented that he gets paid by the kilometre, a rate that has not changed in almost ten years, despite fuel increases. He travels an average of 200 kilometres per day between trips to work sites and to Campbell River for shopping and other necessities that are not in his community. The associated costs with this travel are quickly rising. This issue has been particularly trying for the water taxi driver. As fuel costs increase, he travels

slower on the water to save fuel and money. He has been reluctant to raise his prices due to competitive reasons. However, as he travels slower, potential customers are more likely to take the bus between the two trail heads because the bus is quicker. He is caught in a dilemma with no clear answers.

These experiences mirror those in other locations. In a study of retail operations in the Western Isles of Scotland, researchers found that logistics were an issue. Suppliers were often unwilling to ship product in the small quantities required by the stores. The shop owners also had to contend with fuel prices and ferry costs (Byrom et al., 2003). The higher costs for shipping both supplies in and products out is common, meaning these companies pay more for transportation costs than those in urban locations (Beer, 2004, Fischer et al., 1998, Lichtenstein et al., 1996, Stathopoulou et al., 2004). The impact of the ferry and air transportation schedules should not be underestimated. In studies of businesses located on islands, it was found that the ferry and flight schedules can add additional travel days for people and goods and increase the risk of damage to supplies and products (Beer, 2004, Fairbairn, 1988c, Fischer et al., 1998). This complicates and adds to the challenges faced by the owners and their businesses in these locations.

#### **7.2.4. Challenges Related to Infrastructure Gaps**

There are several gaps in the infrastructure that present challenges for these case study owners and their businesses. These gaps focus on banking services, broadband Internet access, community services availability and community support. While these are challenges to which the owners must respond, they are resigned to them. At a certain level, these challenges are a fact of life given where the owners have chosen to locate and the challenges must

simply be addressed. There are also some challenges that are identified in the literature review that did not appear to be an issue for these business owners. As discussed below, the lack of training and business support services from government and other providers did not appear to be an issue.

For the most part, there are limited banking services beyond automatic bank machines in these communities. While the owners did not identify this as a challenge directly, it is clear that this has an impact on the business. The banking services gaps within a community mean that business owners must travel several hours to deposit cash in their bank accounts and arrange services. This situation impacts on their ability to develop a close relationship with the bank. There is evidence to suggest that the further a business is located from their bank, the less likely they are to receive financing (Degryse et al., 2005). This means that the owners must arrange alternative forms of financing. As is the case with location and access issues, these trips require time, money and effort which can be in short supply for these owners.

In addition, these communities are generally without wide spread broadband Internet access. Many of the communities on Vancouver Island and nearby islands are working to address this issue as part of their economic development activities. In fact, the restaurant owner is becoming his community's Internet service provider to address this need. This has not yet presented a large challenge to most of the sample businesses because they are not heavy users of the Internet and dial-up access seems to meet their needs. Most of the businesses have websites and emails, which is the extent of their on-line presence and matches the local nature of their businesses. For example, the

building supply store advertises with a basic website but there appears to be little need to develop their site further.

For two of the businesses, the rose nursery and chocolate bar manufacturer, they have a more developed web presence with catalogue sales. However, they do not accept orders online. Rather, customers email, fax or mail in their orders with payment and the companies then ship the product. Both companies found the associated credit costs too high relative to the level of on-line sales they received. Despite the use of cheques, the companies have had relatively little trouble with bad debt over the years.

However, for those businesses, with more data-intensive requirements, this lack of access is a major challenge. For the forestry consultant particularly, he must transmit and receive large PDF files. Over a dial-up connection, this process becomes rather cumbersome and time-consuming. Staff become frustrated and contemplates moving to the city with broadband Internet access, which, in turn, feeds his human resource retention issue.

As outlined in Table 6.3, the communities are also lacking in some aspects of social and business infrastructure. This may create long term challenges for the business owners, particularly as they age and are in need of greater access to medical care. It has already directly impacted one of the businesses. The soil manufacturer's daughter had to leave Port McNeill to deliver her baby approximately two and a half years ago because there was no maternity ward in the community. This can make it difficult for a business person to continue operations if they cannot be in their community when they need medical attention. The daughter and her husband returned to the community after the birth of their son, but have since moved back to Nanaimo, in

part to provide better support to the company's marketing efforts but also because of the limited opportunities for families in their small community, in terms of services and activities for children. In another community, the school is in danger of closing given the small number of children remaining. The lack of secondary schools in these communities is also an issue. These situations may dissuade families from moving to or staying in the community, further feeding the challenges facing these businesses.

Some case study businesses feel the lack of other infrastructure. For example, the water taxi operator needs to drive between one and one-half to two hours each way to the larger urban centre when parts for his boat are required since none are available at his operational base. This type of trip often takes a full day, meaning that he loses a day on the water transporting hikers. As discussed above, a lack of banks, grocery stores, and other services has an indirect impact on these businesses. Residents of the small communities often make long trips to do their banking, shopping, see a movie and access other services not available in their home community. This means that the community's businesses must be aware of the competition in the larger centres and are often constrained in their ability to price goods and services according to the effort and costs required to bring in supplies.

Several businesses indicate that one challenge they face is a perceived lack of support from the local community, which is felt in a variety of ways. The restaurant owner's partner felt initially that the community was suspicious of them because they were not "local." The community had seen other people in the past come to start businesses for the summer and then leave when the season was over without investing in the community. This made the community suspicious

and reluctant to support new business people. Both sets of shellfish farmers felt some resistance from the communities in which their operations were based. The Nootka Sound shellfish farmer feels the lack of support from the community from which he launches his boat because he is not part of its traditional forestry economic base. He stated that the town felt “that if someone was not a logger, they were a nobody.” His perception is that the community does not understand aquaculture and does not see the benefits that this industry could bring to the community. This situation is further compounded by the fact that there is a wage differential between the two industries with forestry-related jobs being paid relatively more. This means that the local residents are generally not interested in aquaculture employment and its relatively low wages. The Cortes Island shellfish farmer was particularly sensitive to the debate within the community about industrial shellfish farming. His perception was that the wealthy home owners on the island had a romantic notion of island life which did not incorporate large scale agriculture. The lack of support from, and at times fights with, the community was one of his reasons for leaving the business. If he were to repeat the experience, he would consider operating in a remote location, knowing that he will have more logistical issues, but he would not have to work with a hostile community.

The soil manufacturer felt some resistance from the fish farmers who are legislated to pay for the disposal of the fish waste, rather than freely dumping it in the ocean as they have in the past. They also had frustrations with the provincial government which supported one of their competitors without providing comparable support to them. The chocolate bar manufacturer felt some lack of support from communities beyond his island. Primarily, given the

smaller islands' history of alternative agriculture with marijuana grow operations and recreational uses of that drug, people were sceptical of a legitimate business coming from the islands. The transient nature of island businesses also contributes to the perceived lack of support because community members and other interested parties were not sure that the business would be operating long term. Interestingly, the computer consultant did not generally tell her clients about her address given perceptions about life on the smaller islands. People tend to associate the smaller islands with a "hippie" lifestyle, smoking marijuana, and/or spending time kayaking, rather than working.

Again, these are common issues facing other rural businesses and communities. Many communities in British Columbia and beyond have limited access to banking facilities and financing (Bowles, 2000, Oborn, 2000). This, in turn, can limit business growth. In addition, many rural communities and businesses have been slow to adopt information technology due to a relative lack of high speed Internet access and the individuals with the skills to use it. These can contribute to limitations on the owners' participation in e-commerce, email, websites and other information and telecommunications technology that is quickly becoming required business tools (Field et al., 2004, Huggins et al., 2002, Labrianidis et al., 2004, Leatherman, 2000, Malecki, 2003, Premkumar et al., 1999).

Other studies have also suggested that the community can present a challenge to rural businesses. These challenges flow from a lack of economic diversity within the community and insularity which views small business as an abnormal activity (Bryant et al., 2001, Dabson, 2003). Little support flows to the owner and their business as a result (Bruce et al., 2004, Bryden et al., 2004, Ho

et al., 2001, Mueller, 1988). In-comers can, at times, have difficulty integrating into the community, which limits their ability to operate a business there (Lauer, 2005, Phillipson et al., 2006).

It is interesting to consider that some of the assumed infrastructure gaps did not appear to create challenges among this set of business owners. In particular, there was little discussion about the use of training and other business support services, resources that the owners would have to access outside their communities because they generally did not exist there. This group of owners appear to draw mainly upon their own skills and attitudes and learn through experience, rather than taking courses or drawing upon outside support. In fact, the building supply store owner and the chocolate bar manufacturer did not feel that entrepreneurship could even be taught. This endorses this group's independent and self-reliant nature. The fact that this group did not appear to draw upon these supports matches the experience of other small rural businesses. In his study of rural tourism operators in North Dakota, Schroeder (2003) found that most business owners tended to stay away from government assistance programs because they wanted to do things on their own. This is echoed by Haber and Reichel (2006) who found that external supports tended to contribute little to the performance of small tourism businesses in Israel.

#### **7.2.5. Challenges Related to Large Time Demands**

These business owners face acute time challenges – perhaps more so than owners of urban businesses. This challenge is faced in several ways and flows from the other challenges. As the rose nursery owner stated, besides running the nursery business, he and his partner “also had other jobs to do.” As a result, “finding enough time” is a challenge. As explored above, for many of these

business owners, they are also working at other income sources, whether in full-time jobs or other businesses. For many of these businesses as well, basic operating tasks, such as banking, meeting with suppliers, getting supplies in and moving product out, responding to government regulations, meeting with clients, take more time since these tasks are often done in other communities some distance away, rather than locally. Thus, these trips require time, money and effort. Here, those owners in communities closer to larger urban settings would have some advantages over owners located in communities further away.

The time demands are further compounded by the fact that these businesses operate from home where the separation of work and life is harder to enforce. There is also a risk of burnout, particularly given the lack of potential employees in the community to provide casual relief. The long hours were also highlighted in a study of micro-businesses in England (Baines et al., 1998). In a study examining the coping behaviour of rural small businesses during the Foot-and-Mouth outbreak in the early 2000s in England, the researchers found that owners faced incredible time pressures. Many were forced to layoff employees or not hire seasonal ones, resulting in more work for themselves (Phillipson et al., 2004).

This is a challenge that has not generally been considered within the research, despite the number of small business owners in rural communities who are supplementing business income with other income sources.

**Table 7.1: Summary of the Challenges and Their Implications**

<b>Challenges</b>	<b>Implications</b>
Small permanent population base and its Impact on Market Size	<ul style="list-style-type: none"> <li>• Limited local customer base</li> <li>• Limited revenue potential locally</li> <li>• Limited potential for “full-time” income from business</li> <li>• Commitment of time</li> </ul>
Small permanent population base and its Impact on Human Resources	<ul style="list-style-type: none"> <li>• Limited labour pool for skilled and casual employees</li> <li>• Difficulty attracting and retaining staff</li> <li>• Commitment of owner’s time to operations</li> </ul>
Rural Location and Access to Urban Centres	<ul style="list-style-type: none"> <li>• Trouble getting supplies in and product out</li> <li>• Distributors may not deliver</li> <li>• Increased time, money, and effort to supply</li> <li>• Possible burnout due to overcommitment</li> </ul>
Infrastructure Gaps	<ul style="list-style-type: none"> <li>• Limited access to banking services in community</li> <li>• Lack of broadband Internet access</li> <li>• Lack of some community services</li> <li>• Apparent lack of community support</li> <li>• Increased range of competition</li> </ul>
Large Time Demands	<ul style="list-style-type: none"> <li>• More time required for basic business tasks</li> <li>• Possible burnout</li> </ul>

**7.2.6. Comparison of Challenges Faced by Other Rural Businesses with Those of the Case Study Businesses**

As seen above, the sample businesses in rural Vancouver Island and nearby islands share many of the same challenges as those faced by rural businesses in other areas. As identified in the literature review, the primary challenges flow from the rural location as expressed as a function of distance, limits in markets, human resource and infrastructure gaps and community challenges. These case study businesses also face real challenges in terms of time availability and management, issues not identified explicitly in the literature.

It is also important to note that the identification of challenges comes directly from the rural businesses themselves, rather than from someone based in an urban area. Urban business people might expect a certain level of infrastructure availability in the form of high-speed Internet, banks, advisor, training opportunities, government support, and others and cannot easily contemplate operating without them. However, for these case study businesses, when they are not available, the owners found ways to operate without them and may not even consider these gaps to be barriers at all. To understand the challenges and the owners' responses, the situation and context must be viewed from the perspective of the rural business owner.

The key for these businesses, then, is their responses to these challenges. The manner in which they address them and create successful businesses is the topic of the next section.

### **7.3. Responses to the Business Challenges**

Despite the range of challenges, these owners respond to them with creativity and self-reliance. They want to stay in their rural community so they find a way to resolve them. Responses to each identified challenge will be addressed in turn with a summary of responses to each challenge outlined in Table 7.2.

#### **7.3.1. Response to Challenges Related to a Small Permanent Population Base and its Impact on Market Size**

As indicated above, the rural communities have a small permanent population base, and therefore, a small market. At this point, one of the differences between those businesses with niche potential beyond the community and those without this potential can be seen. Those businesses which rely on the

local community, such as the restaurant, building supply store and water taxi, are constrained in their response to this issue by factors beyond their immediate influence. As individual businesses, the owners have a limited ability to further develop the market within their communities, given the small and, at times, declining population base. They also cannot develop the tourism market on their own. In addition, due the local nature of many of the products and services they provide, there is a limited ability to develop a niche market to customers who are located outside the community. Finally, the existence of competition, both within and outside the community, further limits their responses. With the restaurant, there are several restaurants in the community, all competing for the same small market. The water taxi service faces competition from a bus service, which transports hikers over logging roads between the two trail heads relatively more quickly. In the case of the building supply store, competition is based in the small urban centre located over two and a half hours away. At this point, many residents undertake the drive for groceries and banking given that these services are not available in the community. It is just as easy for them to stop at a building supply store on the same trip. For these businesses then, their response to this challenge is multiple income sources and a diversified product/service line as outlined in Table 7.2. The responses of those businesses with niche potential beyond the community are addressed later.

For those businesses which rely solely on the local market, the owners have developed varied income sources, either from other businesses or paid employment to support long term business viability. For example, over the past 20 years, the building supply store owner has rented trailers and had part ownership in a small airline that serviced the island. In the past five years since

the saw mill closure, he returned to substitute teaching and recently became the local school's principal. The restaurant owner has started a kayak guiding company and is in the process of becoming an Internet service provider for the community to fulfil a demand for a widely available high speed, broadband Internet link. The water taxi driver pursues paid marine research as he transports hikers. These additional incomes help keep these businesses viable.

In the cases where both spouses are active partners in the business, they both often have additional incomes to contribute to the business. One of the rose nursery owners worked as an urban planner from which he has taken early retirement, while his partner served as a regional district politician. For the Nootka Sound shellfish farmers, both have additional employment. He harvests wild shellfish while she operates a furniture restoration business from their administrative base.

In other cases, the spouse's paid employment plays an important role, supplementing the business and the partner's own efforts in this regard. In the case of the forestry consultant, besides working in the business, his wife also works in the forestry industry and has served as a regional district councillor. In the case of the Cortes Island shellfish farmer, the wife's consulting business provided financial support to the family.

Another response to the small local market is diversification of the business's product and service lines. The building supply store has diversified their product line from hardware to pet supplies, toys and propane sales as well as developing a service line to support the tourist sport fishing industry with marine supplies and winter boat storage. In the case of the restaurant, since he is at one of the trailheads for the hiking trail, the owner has experimented with paid

parking and showers for hikers. He has also moved away from tourists as his primary customer to focus on local residents and is now staying open through the winter to maintain that customer base. The rose nursery owners have opened a small retail store at their nursery to supplement their mail-order business and further develop their customer base. At the same time, they also had sheep whose wool they sold. The water taxi owner is also considering diversifying to wild life watching and kayak tours, again to extend his service line beyond his core business.

This response on the part of the sample businesses is not unusual for rural businesses which face limited local markets and revenue potential. Alternatives are needed. Diversification, both in terms of additional businesses or extended product and service lines, are one possibility, particularly those businesses in the retail and tourism industries (Byrom et al., 2003, Carter, 1999, Carter et al., 2003, Jussila et al., 1992, Ronning et al., 2006).

Through the exploration of these actions by rural small businesses, the application of push-pull factors related to business start-up can be extended to business diversification. These owners might be pushed into extending product or service lines or even starting additional businesses because these actions are the only way to survive and perhaps even create growth in limited markets (Mankelov et al., 2001, Robson et al., 1993). Alternatively, owners might be pulled into additional product or services lines or businesses because opportunities present themselves (Rosa et al., 1997). This same strategy was found in a study of Sri Lankan villagers. The economically successful farmers were able to leverage their existing resources to create new activities which minimized competition and created more opportunities for economic growth

(Kodithuwakku et al., 2002). This experience is echoed by other small rural business owners. In a study of women business owners in rural Maine, United States, the women interviewed discussed having another income source, which include a rental income or alternative businesses, to support their business and reduce the need for outside financing (Josephson, 2006). In a study of sea urchin harvesters on the American east coast, Lauer (2005) found that many of the founding members of the industry were inshore and lobster fishers for whom the sea urchin industry was a way to extend the seasonal fishing business and deploy their boats into another economic activity. Similar strategy have been used by beekeepers in Sicily (Vindigni et al., 2006), reindeer herders in Finland (Hukkinen et al., 2006), maple sugar producers in Quebec and Vermont (Hinrichs, 1998), select rural tourism businesses on Vancouver Island (Siemens, 2005), and businesses on small islands (Baldacchino et al., 2006). These multiple income sources also become a way to manage the risk and uncertainty associated with business operations (Fairbairn, 1988c).

For those businesses with an exportable product or service from the local community, the response to this challenge of the small local market is different. Here, the owners must focus on developing that outside market from their rural location, as outlined in Table 7.2. For example, the computer consultant, chocolate bar and soil manufacturers, rose nursery owners and shellfish farmers have niche potential outside the local area and beyond Vancouver Island to the rest of the province, Canada, United States and beyond in some cases. This expanded market opportunity comes with increased potential for revenues and profits, thus reducing the potential need for alternative incomes. As discussed above, the chocolate bar and soil manufacturers appear to be operating without

these additional income sources. The Nootka Sound shellfish farmers have not yet built their capacity to that level but are working towards that goal. These activities have been recommended as a strategy for rural businesses (Baldacchino et al., 2006, Illouz-Winicki et al., 1998, Lane et al., 1994).

The challenge for these businesses then becomes the ability to attract customers, especially since the businesses are not located in areas which are easily accessible by the customer. To meet this challenge, the businesses have developed marketing programs to facilitate customer outreach. This includes on-line sales through websites as well as marketing programs through associations, retail outlets, other groups and word of mouth. The computer consultant found new clients through word of mouth. The soil manufacturer spends time visiting stores which carry their product and displays at trade shows. The chocolate bar manufacturer relies on their account with B.C. Ferries as a way to extend their customer reach. The owner has found that he gains new accounts after customers bought his chocolate bars on the ferry and then return home and convince their local store to carry them. The rose nursery owners are active in a garden association to promote awareness of their business as well as other gardens on Vancouver Island and the smaller islands. They also travel to many gardening shows to sell their stock. These are all common responses by other rural businesses (Josephson, 2006). Despite these challenges, many entrepreneurs in these locations understand the tradeoffs they are making between potentially larger markets which could be accessed more easily and their rural location. Staying in the rural location with its associated lifestyle is very important for these owners (Baldacchino et al., 2006).

### **7.3.2. Response to Challenges Related to a Small Permanent Population Bases and its Impact on Human Resources**

As outlined above, there are two primary challenges in regards to human resources, attracting and retaining qualified staff and finding casual employees. The owners have several responses to these challenges, as summarized in Table 7.2.

In terms of qualified staff, the owners have responded in several ways. First, they endeavour to hire locally with the assumption that these people are less likely to leave for employment elsewhere because they have made a commitment to live in rural areas already. The forestry consultant, the soil manufacturer, the restaurant owner and the chocolate bar manufacturer all commented on this desire. Both shellfish operations also hire from the local First Nations (Aboriginal) community with the understanding that they will have to provide training to their employees to develop the required skills. However, this investment is likely to yield a long term commitment to the enterprise by these employees.

Second, several businesses tend to rely on family members in key roles in order to reduce the necessity for outside staff. Most notably, the forestry consultant has trained his wife on key software due to his trouble retaining qualified staff. In other businesses, such as the soil manufacturer, the building supply store owner, the rose nursery owner and the Nootka Sound shellfish farmers, family members play very important roles within the business. Husband and wife teams are the core of these operations. The soil manufacturer also has two children, a daughter and son-in-law, working full-time in the business.

Lastly, the owners also are considering other responses. For example, the restaurant owner is contemplating medical and dental benefits as a way to increase retention. The forestry consultant keeps his crew employed during slow times to ensure that they will be available when the work is present. At the same time, these businesses also structure operations so that the staff requirement is low. The restaurant owner and his former partner learned this lesson the hard way in their first season. For the second season, they redesigned the menu to enable one person to take and cook orders on their own comfortably if necessary.

Interestingly, the owners do not appear to be using higher wages as a way to attract and retain staff. However, this is not surprising given the marginal nature of most of these businesses. There is little slack in the budgets to hire staff generally, much less pay higher wages.

In terms of casual staff, the owners for whom this is an issue did not have satisfactory responses. For the most part, they understand that the labour would have to come from them and, as a result, needed to organize the business so that it could operate with minimal staff, supplemented with family members when required. The rose nursery owner discussed that he and his wife would occasionally call on his son to water plants while they are on vacation. The Nootka Sound shellfish farmers also mentioned that their children had spent time on the beach harvesting shellfish when needed. Finally, the owners know ultimately they would work long hours in their business.

The reliance on family members within rural businesses is not unusual. Many rural businesses rely on family members as employees (Andersson et al., 2002, Baines et al., 2002, Raley et al., 2000, Tetelman et al., 1993). The advantage of labour drawn from the family is that it may be free and can be laid

off relatively easily when business is slow (Eikeland et al., 1999, Morrison, 2006, Wheelock, 1992).

### **7.3.3. Response to Challenges Related to the Rural Location and Access to Urban Centres**

While they realize that by virtue of their locations that getting supplies in and product out would be a challenge, the owners are creative and demonstrate self-reliance in their responses. At one level, the response is a blunt one in that they just do the work required to get supplies in. For example, since distributors would not deliver to their community, the building supply store owner's wife made the trips in their truck over the logging roads to the closest urban centre and back again. No one else could do it so she did, in keeping with this group's independent nature. For the computer consultant, the nature of her business required "face time", so she travelled, often more than she wanted, to ensure that she met the needs of her clients.

On a second level, the businesses develop partnerships to facilitate the transportation of supplies and product. For example, the building supply store owner has developed arrangements for the storage of his supplies at building supply stores in the larger urban centre until they can be picked up. For those businesses on the smaller islands, the owners coordinate backhaul arrangements to move supplies and products on and off the islands. The chocolate bar manufacturer works with a food distributor to backhaul several tonnes of chocolate to his island while the rose nursery owner works with a courier to deliver the plants to the bus depot on Vancouver Island at which point they are shipped to the customer. To save money on packaging, the rose nursery owner collects cardboard boxes from the island's stores for product shipping. The

water taxi driver finds it difficult to schedule bookings when he is on the water so he works with a business in Port Renfrew to schedule his runs. This level of co-operation is not unusual. In a study in northern England, researchers found that rural businesses often work together by carrying each other's product, borrowing supplies, referring customers and other similar activities (Phillipson et al., 2006).

At a third level of response, the business owners structure their businesses so that the enterprises can operate with minimal staff when these trips out of their community are required. This response is tied closely to the response to human resource challenges. As mentioned, after the first season, the restaurant owner restructured operations and the menu such that, if necessary, one person can take and cook an order easily. Where possible, owners are training staff to operate independently. For example, the Nootka Sound shellfish farmer is developing his staff so that they will eventually be able to harvest without his direct supervision. The chocolate bar manufacturer is also planning to hire an office manager once the new facility is completed in order to free him to make the direct calls with his clients, all located off island.

#### **7.3.4. Response to Challenges Related to Infrastructure Gaps**

In terms of infrastructure challenges, particularly with regards to banking, the owners respond in a variety of ways. First, the lack of banks within a community has had minimal impact in some ways on these sample businesses because, for the most part, they operate without debt and the need for outside financing. They minimize costs by operating in their homes which often are mortgage-free. This provides the businesses with flexibility by reducing fixed costs. The Nootka Sound shellfish farmers state that their business would “not

be able to stay afloat” if their house had not been debt-free before the business started. If that had not been the case, they might have “had to get real jobs”.

Second, any profit from the business is reinvested in operations, creating a cash flow for expenses and improvements. This is a particular strategy of the rose nursery owner. This cash flow also provides a financial cushion for the businesses since bank deposits can often necessitate at least a half day trip to larger urban centres. Thus, making deposits is not an every day occurrence as it might be for an urban business. For example, the chocolate bar manufacturer deposits cheques in the bank approximately once a week when he goes off island. He states that this is not an issue because the business is not operating on the edge financially.

However, while operating a business in the home resolves some challenges, it presents its own set which must be addressed. The owners often have employees coming into the home. For example, the chocolate bar manufacturer built a kitchen for the business in his house’s second floor and a warehouse next to the house and the forestry consultant renovated his basement into office space for his employees. As a result, the owners find it difficult to separate work and home. The chocolate bar manufacturer, in particular, expressed his frustrations with this situation. He is building a new production facility on another property partly to address this issue. For the forestry consultant, he complained that the work day never really feels over because the work is always there and employees and clients feel comfortable calling him at any time. These frustrations are echoed by Dutch rural business women (Bock, 2004).

While the various owners discussed the challenges of operating the business in the home, there is not generally a satisfactory response to this issue. Any response involves a series of tradeoffs. They realize that this situation is an advantage to their business since it reduces operating costs and the need for outside financing while increasing the chances for survival. As mentioned earlier, the chocolate bar manufacturer has taken steps to reduce the conflict between the business and home by building a new facility on another property. The new facility will create space for a much needed office manager who will take over many responsibilities from the owner, thus freeing him for more marketing efforts. In the current facility, there is no space for such a position. He took this step, however, realizing that it will add more costs to the business and thus requiring more marketing effort to sell more products.

The close link between business and home creates additional challenges to be addressed when an owner no longer owns the business. If the business is sold, in some cases, this may mean selling the home since the home is integral to the business. In particular, the building supply store owners and rose nursery operators who are nearing retirement face this issue. The building supply store owner and his family live above the store, while for the rose nursery owners, their property with house is used for rose propagation, other operations, and retail. The building supply store owner is particularly concerned because he is not sure that he can sell his business and home for an amount that will allow him to buy a home else where in British Columbia, much less retire comfortably. Given the marginal nature of his business, the selling price is likely to be less than a house in another area of the province. This means that after he and his wife have purchased their new house, there may be little in the way of savings to

finance retirement. This is an issue that will need to be addressed in the next few years.

In other ways, there is a larger implication that flows from infrastructure gaps in other services such as doctors, lawyers, grocery stores and others. As discussed above, the residents often do their shopping outside the community when these services are lacking locally. As the building supply store owner states, his neighbours make the five hour trip return trip over the logging and secondary roads to buy their groceries on a monthly basis because they can save enough money to make the trip worthwhile. As a result, he feels constrained in his efforts to raise prices to ensure business profitability because he knows that the residents can easily do their building supply shopping in the larger centre. Further development of large box (mega) stores in these larger communities will continue to have a similar impact on small businesses in the smaller communities as residents travel the distances for the lower prices and greater selection in these stores.

In terms of broadband Internet access, the owners look to some extent to the communities and government to resolve this issue since they cannot do it on their own. The current level of services for the Internet is finally all that is available to them and they must work within the constraints. Given the limited population, it is not cost effective for the larger Internet service providers to service these rural communities, even though residents want it. Governments are beginning to respond by putting in limited access to broadband Internet to many of these communities, as shown in Map 4.3 (Industry Canada, 2003, National Broadband Taskforce, 2001, National Selection Committee, 2004). The presence of broadband Internet also becomes an economic development tool to attract and

retain residents and businesses. The restaurant owner has gone one step further and is becoming his community's Internet service provider to meet this demand. He has "people lined up" for the service already. He has received a government grant to facilitate the purchase and installation of the required infrastructure.

Finally, to address the issue of community support, these owners are committed to investing in the local community as a way to build capacity and support. As outlined above, they hire from the community and use local supplies where possible. They are also active in many community events and organizations. The building supply store owner has served on several economic development panels while the chocolate bar manufacturer donates to many local environmental groups to support community development and marketing efforts. Finally, the restaurant owner and his former partner started the now traditional Canada Day events while also supporting efforts to organize the local businesses into an association. Other rural businesses see the benefits of this involvement and join community groups such as churches, sport clubs and chambers of commerce. Their role includes donations of money, in-kind contributions and leadership skills (Bruce et al., 2004, Fairbairn, 1988c, Kilkenny et al., 1999, Mankelow et al., 2001).

### **7.3.5. Response to Challenges Related to Large Time Demands**

The time challenge creates the possibility of burnout as the owners balance their many obligations and responsibilities. This is not easily resolved. These owners face challenges balancing work and family and the multiple income sources that are often needed to sustain themselves, their families and business. In addition, the logistics of operating a rural business can be very time consuming with little possibility for relief given human resources challenges. As

highlighted, the business is generally located in the home, further complicating efforts to find a balance between work and life. Ultimately, the work must get done and the owners must do it. There is a paradox here. Many of these owners started their business as a way to create employment and remain in their communities, meeting their lifestyle objectives. However, the end result for some of the sample firms appears to be a relative lack of balance between work and life with few options for resolving the tension.

There are long term implications of the heavy time demands. Given the range of responsibilities and the limited financial potential of many of these businesses, there may be little opportunity for owners to recoup their investment in the long run. There may be a limited pool of buyers who are willing to undertake these kinds of enterprises in these rural locations.

Where possible, the owners take extended vacation time from the business to rejuvenate. The restaurant owner travels for a couple of months each year after the busy summer season while the building supply store owner has taken longer vacations when his family was younger. The forestry consultant manages to go on extended hunting trips and the water taxi operator uses the off-season to work on his boat and pursue research contracts. However, this is option is not open to all owners on a regular basis because of the staffing challenges discussed above. At a basic level, time management becomes key, as is pointed out by Mankelow and Merrilees (2001) in their study of rural women entrepreneurs in Australia.

**Table 7.2: Summary of the Challenges, Implications and Responses**

<b>Challenges</b>	<b>Implications</b>	<b>Responses</b>
Small permanent population base and its Impact on Market Size	<ul style="list-style-type: none"> <li>• Limited local customer base</li> <li>• Limited revenue potential locally</li> <li>• Limited potential for “full-time” income</li> <li>• Commitment of time</li> </ul>	<ul style="list-style-type: none"> <li>• Diversify and extend local product and service lines</li> <li>• Develop alternative incomes</li> <li>• Develop niche market outside the community</li> </ul>
Small permanent population base and its Impact on Human Resources	<ul style="list-style-type: none"> <li>• Limited labour pool for skilled and casual employees</li> <li>• Difficulty attracting and retaining</li> <li>• Commitment of time</li> </ul>	<ul style="list-style-type: none"> <li>• Create active roles in business for spouses</li> <li>• Employ and train family members</li> <li>• Structure operations to limit need for employees</li> <li>• Hire locally when possible</li> <li>• Consideration of medical/dental benefits</li> <li>• Work long hours</li> </ul>
Rural Location and Access to Urban Centres	<ul style="list-style-type: none"> <li>• Trouble getting supplies in and product out</li> <li>• Distributors may not deliver</li> <li>• Increased time, money, and effort to supply</li> <li>• Possible burnout due to overcommitment</li> </ul>	<ul style="list-style-type: none"> <li>• Make the trips themselves</li> <li>• Develop cooperative relationships</li> <li>• Structure operations to reduce time commitment and effort</li> </ul>
Infrastructure Gaps	<ul style="list-style-type: none"> <li>• Limited access to banking services in community</li> <li>• Lack of broadband Internet access</li> <li>• Lack of some community services</li> <li>• Apparent lack of community support</li> </ul>	<ul style="list-style-type: none"> <li>• Rely on self-financing and debt management</li> <li>• Use home property for business</li> <li>• Create a financial cushion to lessen the need for regular deposits</li> <li>• Base the business in the home (creates its own problems)</li> <li>• Invest in efforts to develop community support</li> <li>• Limited use of Internet and ecommerce</li> </ul>
Large Time Demands	<ul style="list-style-type: none"> <li>• More time required for basic business tasks</li> <li>• Possible burnout</li> </ul>	<ul style="list-style-type: none"> <li>• No easy answers – just do the work</li> <li>• Extended holidays</li> </ul>

The challenges facing these rural businesses can be overcome with creativity, self-reliance and hard work. Through examination of these responses, it becomes evident that the business owners draw upon several resources to assist

in their responses. The next section explores these resources in the context of the various challenges.

#### **7.4. Resources Used to Respond to Challenges**

Through the review of the various responses by the owners, several similarities become evident. The owners appear to draw upon similar types of resources to address their business challenges. Each of the challenges is examined in turn to explore these resources. Table 7.3 outlines the resources according to challenges and responses.

##### **7.4.1. Resources for Challenges Related to a Small Permanent Population Base and its Impact on Market Size**

One of the primary challenges facing these businesses is the limited local market. As the companies respond, they draw upon several resources.

First, the owners use their own skills and those of their families in their business. They draw upon them to create alternative income sources. For example, the building supply store owner draws upon his teacher training to maintain the financial viability of the store while one of the Nootka Sound shellfish farmers uses her experience in furniture restoration to support their shellfish business. Second, the business ideas themselves also flow from an owner's interests and general capabilities. For example, the soil manufacturer developed an idea that he had for a soil from wood and fish waste into a commercial product while recuperating from an injury. The water taxi operator draws upon his experience commercial fishing to develop his service as well as pursue marine research. For some of the owners, they also use their previous experience or exposure in small business to develop their own business. The restaurant owner had previous experience in his family's restaurants as well as

his own experience working in restaurants while the building supply store owner understood the amount of work required in small business by observing his father who was self-employed.

Second, the owners also use the core business as a resource as they work to diversify product and service lines and develop potential niche markets. For example, the restaurant owner uses the restaurant as a base for a kayak guiding business and Internet service provision while offering additional services for hikers, such as showers and parking. The water taxi owner is using the time on the ocean ferrying hikers to also pursue marine research. Finally the building supply store owner has diversified beyond building supplies to include pet supplies, toys and boat storage, all sold within the confines of the store and its lot.

Third, these owners are also drawing upon the family as a resource by using family members as employees and partners in the business. As discussed above, both husband and wife are actively involved in the business with a few exceptions. The soil manufacturer also employs two additional family members while the Nootka Sound shellfish farmers and rose nursery owners have used their children as casual employees in the past.

As for marketing, some businesses place the family at the core of their marketing strategy. In the case of the chocolate bar and soil manufacturers and rose nursery owners, pictures of family members are on the company websites and the businesses are clearly described as family enterprises. In the case of the soil manufacturer, even his grandchild and family dog are included. The soil manufacturer marketer commented that customers appreciate this image of a family firm.

Finally, the community as a geographical location is also an important resource for marketing. For the chocolate bar manufacturer, in particular, the island upon which he is based is central to his marketing. People can buy a “taste of the Gulf Islands” without travelling there. He does not think his product would not sell as well if he was located elsewhere. The Nootka Sound shellfish farmers are also trading on the reputation of that area for producing quality shellfish. In the case of the water taxi service, geography, that small strip of ocean between hiking trailheads, dictates his primary customer base to hikers who are in need of transportation. For many of the businesses, the community serves as the primary customer base, especially those with a local product, such as the restaurant and the building supply store.

#### **7.4.2. Resources for Challenges Related to a Small Permanent Population Base and its Impact on Human Resources**

As discussed above, human resources are a challenge for these businesses and the owners draw upon several resources to meet this challenge. First, their own attitudes – being self-reliant, independent and hard working – guide their responses and they do what is required. For example, the building supply store owner and his wife travel the two and a half hours each way on supply runs. The rose nursery owners tend the rose plants after full days at their jobs. The soil manufacturer and his family have taught themselves business operations as they grow their business while the computer consultant made the required trips for client meetings. In all cases, the work needs to be done so the owners do it without a great deal of complaint.

Second, family members are an important part of this response. In many cases within the businesses, spouses, in particular, play an important role. In the

case of the forestry consultant, his wife has been trained in a particular piece of software because he faces issues attracting and retaining staff. With the building supply store, the wife manages the store on a day-to-day basis while he is in the classroom. The soil manufacturer has three additional family members playing key roles in the company. The Nootka Sound shellfish farm is clearly a joint effort between the husband and wife with responsibilities split between the two. In fact, they insisted on being interviewed together, unlike some of the other husband and wife teams.

Third, when staff is needed, the community becomes a key resource for employees. The owners attempt to hire locally as much as possible and turn to the outside only when the required skills cannot be found locally. This action serves to develop community capacity which further develops community support for the owner and their business, which, in turn, contributes to business survival.

#### **7.4.3. Resources for Challenges Related to the Rural Location and Access to Urban Centres**

The business owners draw upon several resources as they address the challenges associated with the rural location and access to urban centres. As is the case with the human resource challenges, the owners' self-reliance and capacity for hard work is central to their response. They often make the supply trips themselves and develop the cooperative relationships to support these efforts. The building supply store owner and his wife make the long trips over the unpaved and secondary roads to bring in supplies on top of teaching and managing the store. The same is true for the rose nursery owners who often deliver roses to their customers, again while having full-time employment.

Ultimately, the location of the business requires this level of effort so the owners do the necessary work.

To facilitate their responses to these challenges, the owners also draw upon community members, both near and far, to develop partnerships. The building supply store owner works with businesses in Campbell River to store his supplies until he and his wife are able to pick them up. A daily trip is not feasible given the time and money involved. The chocolate bar manufacturer and the rose nursery owner work with other companies to backhaul their required supplies and product. Finally, the water taxi operator works with a local business to coordinate his scheduling and bookings. These partnerships begin to mediate the level of effort that is required by the owners.

#### **7.4.4. Resources for Challenges Related to Infrastructure Gaps**

As outlined above, there are infrastructure gaps in each of the case study communities to which there are no easy responses. The individual owners cannot resolve these gaps without assistance from the community, government, and other service providers, whose help is not always forthcoming. As a result, the owners draw upon their own skills and attitudes. As mentioned above, they work hard and are self-reliant and creative in their responses. They also show the ability to learn the necessary skills on their own. The soil manufacturer marketer designed the company's logo herself and taught her mother basic bookkeeping. The chocolate bar manufacturer, rose nursery owner, and shellfish farmers had little experience in their industry when they started. Despite this lack of knowledge, they have developed successful businesses through on-the-job lessons, hard work, and effort. They also sometimes take the necessary steps to resolve challenges with the resources available to them. For example, the

restaurant owner is becoming the town's Internet service provider because the community has not been able to attract a high speed Internet service provider and he has the ability, money, inclination, and skills to address this gap. These business people learn as they go and develop strategies that enable their businesses to survive and thrive.

In response to the limited banking services in most of the communities, the owners draw upon their family homes and assets to support their businesses and reduce the need for outside financing. Presently, the chocolate bar manufacturer makes chocolate in his kitchen and the forestry consultant converted his basement to provide office space for his employees. The rose nursery owners moved the nursery to their property from rented land, in part to reduce leasing costs for the business. Their home property is also better suited for rose growing because of local water supply and more available sunshine during the growing season. The water taxi operator was able to convert his commercial fishing boat into a water taxi meaning that a new boat did not have to be financed. In many cases, these properties and assets are mortgage free which reduces some operating costs. This situation also provides flexibility in cash flow requirements which, in turn, reduces the need for daily deposits at the bank. Cash deposits can be made as a trip from the community is planned, rather than in an emergency when bills are due.

#### **7.4.5. Resources for Challenges Related to Large Time Demands**

The final challenge is time, for which there are no easy resolutions. Again, the owners call upon their individual skills and attitudes towards hard work and approach the issues with creativity and self-reliance. They draw upon family members to share the workload. Certainly, given the prevalence of family

businesses within the sample, having a spouse seems almost to be a prerequisite for operations in a rural community. Many of the owners also use the seasonal nature of their businesses to their advantage in order to gain a respite. For example, the restaurant owner takes an extended holiday each fall after the tourist season to recharge for the next year. When the building supply store owner owned part of a local airline and had access to inexpensive flights, he and his family took vacations in Mexico to escape the winter rains. Finally, the forestry consultant manages to go hunting each winter during the off season.

**Table 7.3: Summary of the Challenges, Implications, Responses, and Resources**

<b>Challenges</b>	<b>Implications</b>	<b>Responses</b>	<b>Resources</b>
Small permanent population base and its Impact on Market Size	<ul style="list-style-type: none"> <li>• Limited local customer base</li> <li>• Limited revenue potential locally</li> <li>• Limited potential for “full-time” income</li> <li>• Commitment of time</li> </ul>	<ul style="list-style-type: none"> <li>• Diversify and extend local product and service lines</li> <li>• Develop alternative incomes</li> <li>• Develop niche market with a reach outside the community</li> </ul>	<ul style="list-style-type: none"> <li>• Draw upon individual and family skills and attitudes for creative solutions and alternative income sources</li> <li>• Draw upon the business resource as a source of product/service diversification and niche market development</li> <li>• Draw upon the family as part of marketing strategy</li> <li>• Draw upon the community for geographically marketing advantage</li> <li>• Draw upon community for customers</li> </ul>
Small permanent population base and its Impact on Human Resources	<ul style="list-style-type: none"> <li>• Limited labour pool for skilled and casual employees</li> <li>• Difficulty attracting and retaining</li> </ul>	<ul style="list-style-type: none"> <li>• Create active roles in business for spouses</li> <li>• Employ and train family members</li> <li>• Structure operations so</li> </ul>	<ul style="list-style-type: none"> <li>• Draw upon community for employees</li> <li>• Draw upon family as employees</li> <li>• Draw upon individual attitude</li> </ul>

	<ul style="list-style-type: none"> <li>• Commitment of time</li> </ul>	<p>limited need for employees</p> <ul style="list-style-type: none"> <li>• Hire locally when possible</li> <li>• Consideration of medical/dental benefits</li> <li>• Work long hours</li> </ul>	<p>towards self-reliance, independence and hard work</p>
Rural Location and Access to Urban Centres	<ul style="list-style-type: none"> <li>• Trouble getting supplies in and product out</li> <li>• Distributors may not deliver</li> <li>• Increased time, money, and effort to supply</li> <li>• Possible burnout due to overcommitment</li> </ul>	<ul style="list-style-type: none"> <li>• Make the trips themselves</li> <li>• Develop cooperative relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Draw upon individual attitude towards hard work</li> <li>• Draw upon community resources for networks and partnerships</li> </ul>
Infrastructure Gaps	<ul style="list-style-type: none"> <li>• Limited access to banking services in community</li> <li>• Lack of broadband Internet access</li> <li>• Lack of some community services</li> <li>• Apparent lack of community support</li> </ul>	<ul style="list-style-type: none"> <li>• Rely on self-financing and debt management</li> <li>• Use home property for business</li> <li>• Create a financial cushion to less need for regular deposits</li> <li>• Base the business in the home (creates its own problems)</li> <li>• Invest in efforts to develop community support</li> </ul>	<ul style="list-style-type: none"> <li>• Draw upon family resources for property and financing</li> <li>• Draw upon individual skills for learning, hard work, self-reliance, and creativity</li> <li>• Invest in the community</li> </ul>
Large Time Demands	<ul style="list-style-type: none"> <li>• More time required for basic business tasks</li> <li>• Possible burnout</li> </ul>	<ul style="list-style-type: none"> <li>• No easy answers</li> <li>• Extended holidays</li> </ul>	<ul style="list-style-type: none"> <li>• Draw upon individual skills and attitudes</li> <li>• Draw upon family members to share the workload</li> <li>• Draw upon seasonal nature of business to have extended respites</li> <li>• develop business potential to limit need for alternative incomes</li> </ul>

### 7.5. Categorization of Resources Used in Responses to Challenges

Through the above exploration, the resources can be categorized into four classifications. Regardless of the market potential of the business, the business

owners all draw upon resources based in themselves, their families, business, and community. Each of these resources will be examined in more detail below with the specific examples from the case studies.

### **7.5.1. The Individual as a Resource**

As can be seen in Figure 7.1, the business owners draw upon many of their individual skills and attitudes as they operate their businesses and respond to the various challenges that are facing them. At a basic level, all the owners displayed several important attitudes. They are creative and resourceful in their search for solutions to their challenges; they work long hours and are prepared to put in the required amount of work. By and large, the owners show an ability to learn. They often lacked some of the necessary skills prior to business start-up, but yet managed to develop a business that has survived and succeeded despite the challenges. In many cases, the owners are able to incorporate previous work experience both into the business directly and/or to apply it to alternative income sources that are needed for business and family financial survival. In some cases, the owners knew at least some of the challenges that they would face as small business owners, an exposure that they gained either through previous small business experience or through family businesses.

Another important consideration with the owners' mindset and approach to the challenges relates to their individual and business objectives. They did not necessarily expect to generate high profits through their businesses because they understand that the local market is small and face higher costs for transportation. Instead, the business is often a means to meet other non-monetary goals, such as the ability to stay within the community and to create employment for themselves, family members and others in the community. As a result, these

challenges are not necessarily perceived as such but are just the cost of doing business within the community they have chosen to live.

**Figure 7.1: Individual Resources by Case Study Business Owner**

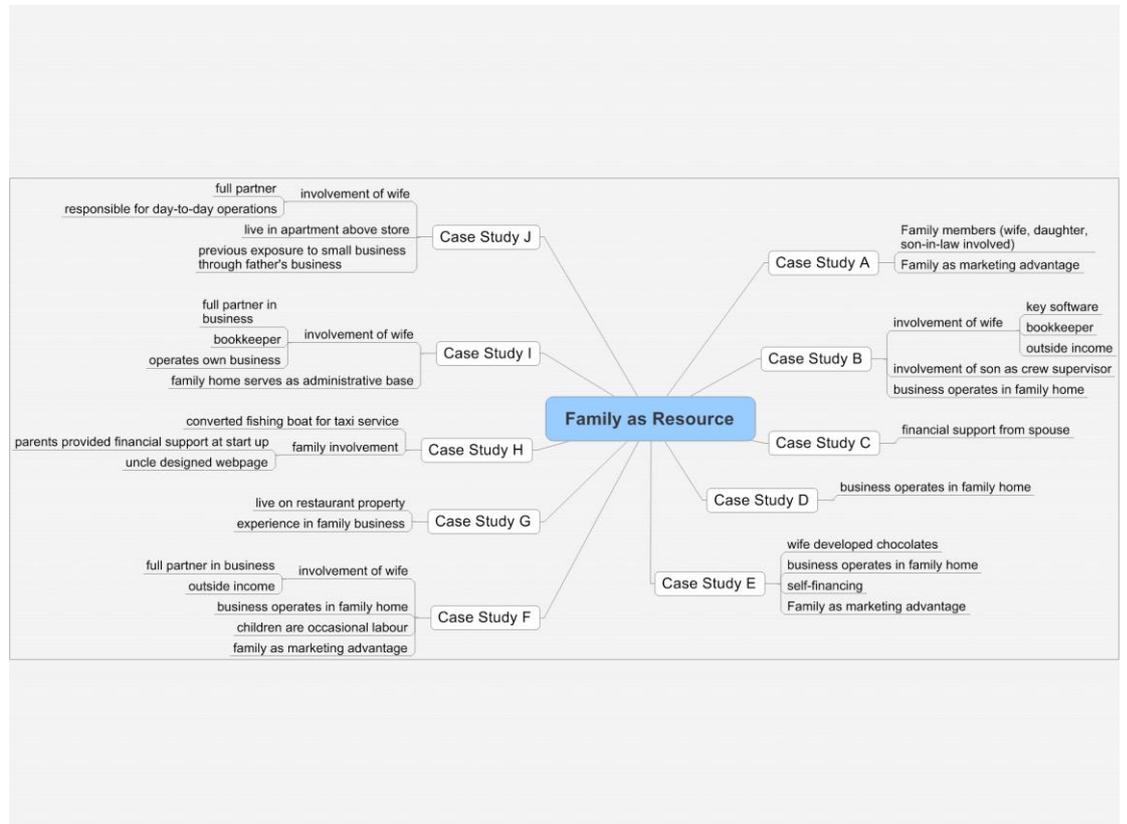


### 7.5.2. The Family as a Resource

The family is a very important resource upon which the owners and their business draw. This resource takes several forms as can be seen in Figure 7.2. As discussed above, the family home is an important resource to the business because it reduces operating costs and a need for outside financing. Second, the family is very involved in the business as employees and business partners. In the families where there is a spouse, that partner is involved in day-to-day operations, either as full owner/partner or fulfilling key operational roles. In many cases, children also play a role within the business. Third, the spouses

often provide an additional income that is necessary to keep the family and business financially secure. Finally, the family as an image is also a key component of business marketing plans.

**Figure 7.2: Family Resources by Case Study Business Owner**

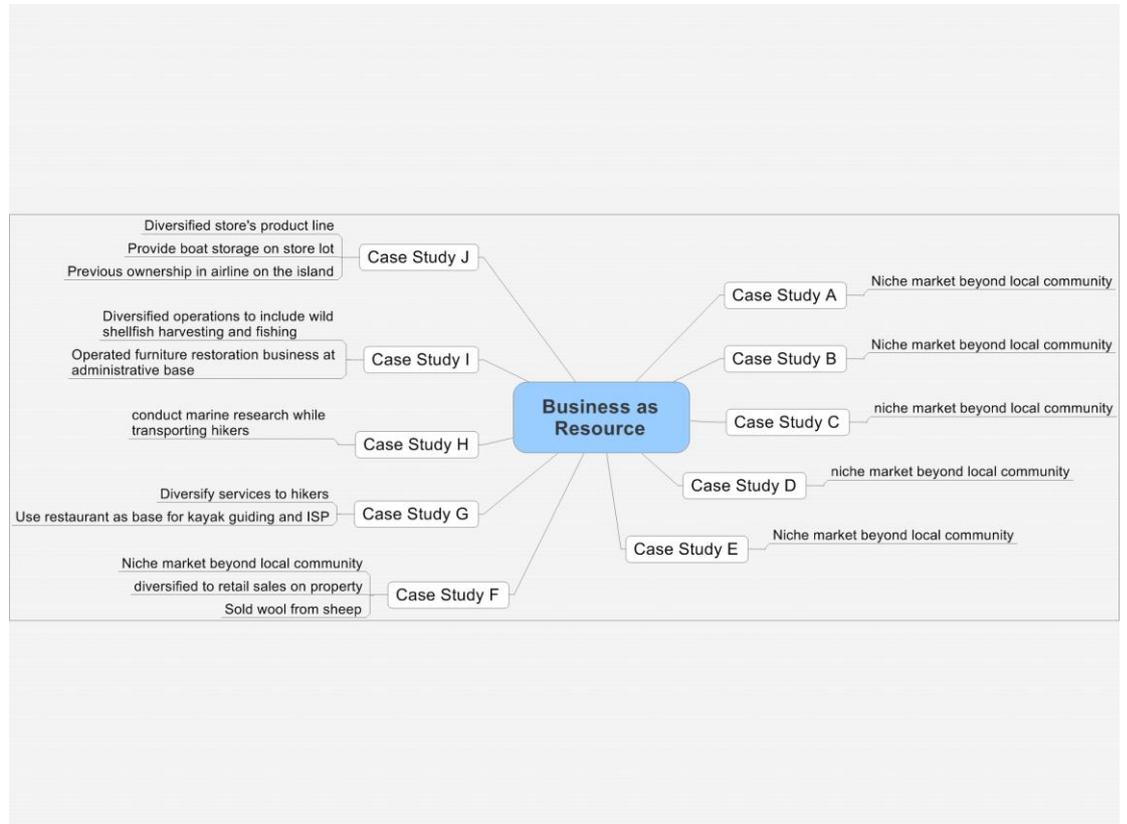


### 7.5.3. The Business as a Resource

As the owners look for responses to their challenges, they also turn to the business itself as a resource, as can be seen in Figure 7.3. In some cases, the business itself provides a niche that can be profitable enough to support the individual and their family. The owner must then determine the best way to exploit this niche to their benefit. For the other businesses, whose markets are more limited, the business may suggest possibilities for product and service diversification that expand the customer and revenue base. The business may

also be a source for additional enterprises that build on aspects of the core business and can operate along side it.

**Figure 7.3: Business Resources by Case Study Business Owner**

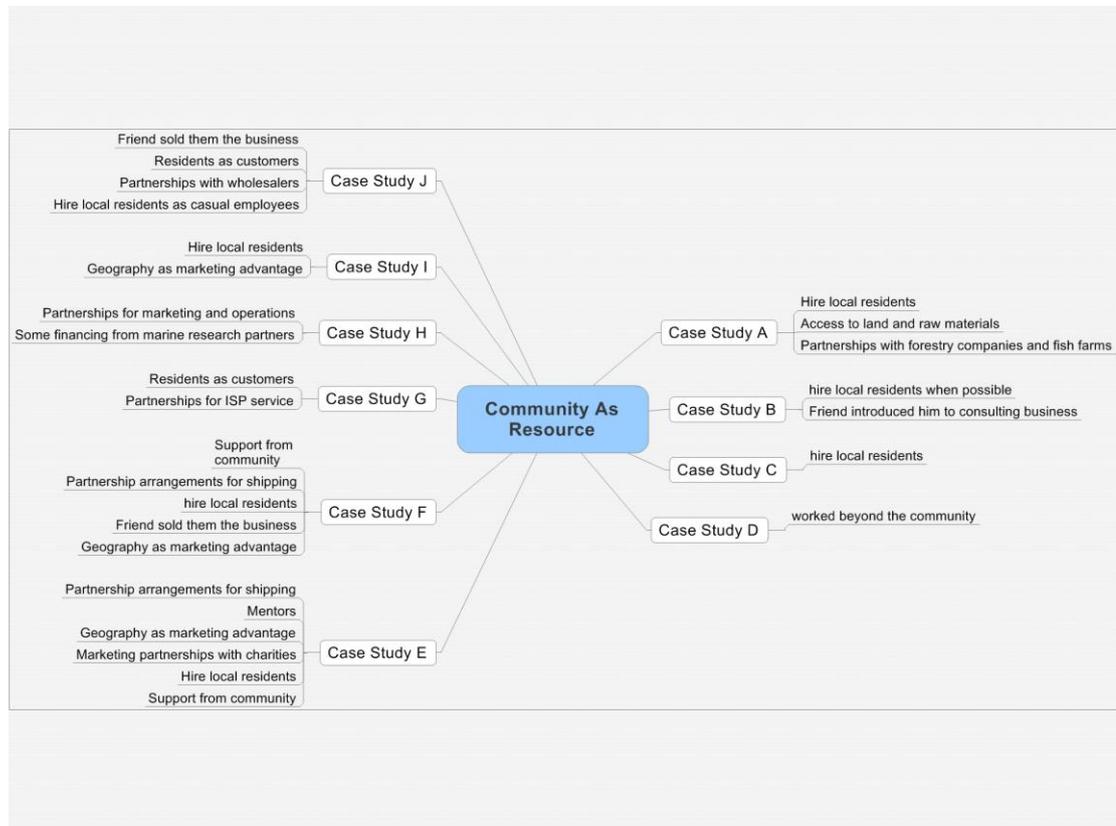


**7.5.4. The Community as a Resource**

The final resource upon which the owner can draw is the community in which they are based, as shown in Figure 7.4. The community is a source of employees, local suppliers, mentors and customers. The community, as a geographical location, also becomes a marketing advantage for the businesses with niche markets. The community can also be a source for business opportunities or for the purchase of existing businesses. Finally, the business owners develop partnerships with local members of the community to support their efforts to address certain challenges. This resource is a one which the

owners further support by assisting in activities to build capacity within the community.

**Figure 7.4: Community Resources by Case Study Business Owner**



## 7.6. Conclusion

The case study owners and their businesses identified five primary challenges that they face. These challenges include the impact of the small local population on market size and human resources, the rural location and access to urban centres, infrastructure gaps and large time demands. The owners have found a variety of ways to respond to these challenges. These include alternative incomes development, product and service diversification, niche market development, family involvement, cooperative relationships with the community and others. To this end, the owners draw upon four sets of resources,

themselves, the family, business and community, to address their challenges. As a result, the case study owners and businesses have survived and are successful, albeit on their own terms. Most of these businesses will not be large or very profitable, but still they meet the owners' goals and objectives.

The next chapter explores these resources and develop a conceptual model which could be applied to other businesses in rural locations as they respond to their own particular challenges.

## **Chapter 8: Conceptual Framework Development**

### **8.1. Introduction**

This chapter develops the previous discussion of the resources used by these rural small business owners to address their challenges into a larger conceptual framework. By pulling existing resource-based frameworks into an integrative approach, a conceptual framework of resources is outlined in greater detail with supporting literature and reference to the case studies. This framework explains the complexity of the resources and their interaction towards the success of these rural businesses. Further, the proposed framework is explored within a challenging rural context.

### **8.2. Review of Other Resource-Based Frameworks**

This proposed framework integrates several resource-based frameworks and theories at both broad and specific levels to explore the interaction of the four resources within a holistic approach as suggested by Mankelow and Merrilees (2001). Each of these frameworks is explored in turn with a comparison between them in Table 8.1.

#### **8.2.1. Frameworks Involving Resources at a Broad Level**

At the heart of the proposed framework, as outlined below, is the consideration of resources that an owner can use to achieve business survival and success within a challenging rural context. The first broad level theory to consider is the Resource-Based View (RBV) of the firm. As a theory, the RBV can be used to evaluate resources available to the firm to be used to create a competitive advantage over other firms. Generally, a business strives to create their competitive advantage by developing those resources which are unique and

difficult to imitate by the competition. In this regard, particularly important resources can include brand names, specific technology and skills, trade contracts, and organizational resources (Barney, 1991, Grant, 1991, Priem et al., 2001, Rangone, 1999, Wernerfelt, 1984).

While this theory could be used by a rural small business owner given its focus on resources, some caution must be exercised before applying this theory in a rural context. One of RBV's core assumptions relates to profit maximization and growth, an assumption which developed from initial studies of large manufacturing firms (Amit et al., 1993, Barney, 1991, Conner, 1991, Marchington et al., 2003, Oliver, 1997, Penrose, 1995, Peteraf, 1993). As discussed above, this assumption is contrary to the rural context where rural businesses tend to be very small and service-oriented. In addition, profit maximization may not be a relevant assumption either, given that the rural business owners may pursue many non-economic objectives (Marchington et al., 2003, Peredo et al., 2006). This is the case with the sample business owners.

However, despite these limitations, there are aspects of RBV which could hold value for small rural businesses. The first step is to enlarge the idea of available resources to include ones not typically associated with this theory. The business owner would then determine the resources which are available and match those to the opportunities that are present (Brush et al., 1999, Manev et al., 2005, Wernerfelt, 1984). Within the rural context, owners would strive to the same range of potential resources better than their competitors, rather than an emphasis on the creation of a competitive advantage (Edelman et al., 2005, Lee et al., 1999). Within the proposed framework, the available resources are drawn from the owner, their family, business and community, rather than the resources

typically suggested by RBV researchers (Amit et al., 1993, Barney, 1991, Grant, 1991, Rangone, 1999, Wernerfelt, 1984).

RBV can also be useful for evaluating the availability of required resource during start-up and beyond (Batjargal, 2000, Brush et al., 2001, Haber et al., 2006, Koster, 2005). This sort of evaluation may become particularly important as an owner considers product or service diversification and the development of additional businesses. The owner can evaluate which of the resources they presently control could be transferred to a new venture and which ones are still lacking (Alsos et al., 2006). In addition, by understanding the context in which a business operates, the business owner can evaluate the type of resources that might be best suited to address the shortcomings of rural context in which they operate (Dyer Jr. et al., 2005, Edwards et al., 2006, Marchington et al., 2003).

Another broad theory of note is the general systems theory. Marcketti et al. (2006) use this theory to examine lifestyle entrepreneurs and consider the various inputs used by this group to create outputs. Lifestyle entrepreneurs are those individuals who emphasize quality of life, rather than absolute business success, reflecting the motivations of many rural business people. In this case, the inputs can include life events and stages, individual business goals, creative desires, talents and skills, need or desire for business in market, and perception that a business can enhance quality of life. All these inputs become part of the various resources that rural small business owners can draw upon, as outlined in the proposed framework. General systems theory suggests a linear process, however, which may not exist in the rural context. Instead, as discussed below, there is a reciprocal relationship between the resources which implies an ongoing

process of resource development and implementation by the business owner. As explored later, the proposed framework suggests a more dynamic understanding of the resources.

While these two theories provide a general view of resources within a business, there are several conceptual frameworks which focus on one particular resource. Each is examined in turn before the proposed framework is outlined.

### **8.2.2. Frameworks Involving Resources at the Individual Business Owner Level**

As the focus moves from the broad resource level to the consideration of a particular set of resources, there are several theories which focus on the individual entrepreneur and their contribution to the business. One set of theories explores the entrepreneurial personality, with an assumption that an entrepreneur possesses certain traits and considerations that contribute to business success. However, this theory has met with limited success (Boyd et al., 1994, Koster, 2005). Despite this, most economic theory is based on the individualistic pursuit of opportunity and economic incentives (Fairbairn, 1988b, Oughton et al., 2003b). As a result, researchers focus on types of resources that the individual owner can bring to a business venture, rather than a specific personality type (Koster, 2005).

While the individual is key to the enterprise, this approach is rather limited and excludes the larger context. As discussed below, it is important to consider this larger context, which includes the family and community, as well as the environment and the important contribution they make to the business (Aldrich et al., 2001, Oughton et al., 2003b). The individual cannot and does not do it alone and needs support and resources from various organizations to assist

with the various functions related to start up and operations (Baines et al., 2003, Fairbairn, 1988b). Any discussion of individual business owner survival and success and required resources must incorporate a larger context.

### **8.2.3. Frameworks Involving Resources at the Family Level**

In response to the above criticism of many entrepreneurship theories which focus solely on the individual, several frameworks have been developed to examine the reciprocal relationship and, at times, mutual dependence between the family and the business (Aldrich et al., 2003, Dyer Jr., 2003, Oughton et al., 2003a). Too often, the family is neglected in this consideration of business start-up (Aldrich et al., 2003).

One understanding, the Sustainable Family Business (SFB) framework, places the business within the family social context and argues that this context provides networks needed for start-up and growth (Danes et al., 2005). Ultimately, a business's sustainability draws from the resources within both the family and their business. As a result, business success is grounded within a family's goals and objectives. In fact, researchers suggest that one cannot ignore discussing the family when evaluating the business because they are embedded in each other. This is especially true given that many small businesses start at home as one way to provide financial support to the family (Olson et al., 2003, Stafford et al., 1999). Habbershon and Williams (1999) go further to suggest that the very "familiness", that unique combination of resources that come from the individual, family, and business, creates a competitive advantage for the family business. Getz, Carlsen and Morrison (2004a) also echo the importance of the family vision within the business and its influence on success measures.

Aldrich and Cliff (2003) provide another perspective with the Family Embeddedness Model (FEM) which incorporates the individual, the business, and community. They argue that these three factors interact together to influence the business's survival and success. This model goes beyond the SFB by placing the family and business into a larger social context, which in turns shapes the business. By using their social networks from within the family and community, owners can evaluate business start-up options and gather needed resources. Oughton and Wheelock (2003a) echo this by arguing that a small business cannot be separated from the household and the community. A business is embedded in both the family and the community and resources move between the three parties to sustain all three.

These frameworks take the consideration of the individual one step further by incorporating the family into the business. However, these have some gaps which the proposed framework begins to address. In terms of the SFB, the framework evaluates the family as a complete package, without consideration of the relative importance of some family members, particularly the spouse. Within the proposed framework, the spouse plays particularly important roles, both as active partner in the business as well as a potential source of additional income needed to support the family and business. Despite the long tradition of husbands and wives working together in joint economic activities such as family farms, this role has received little attention within the family business models (Marshack, 1994). Given the key roles that the spouses play within most of the case study businesses, it can be argued that a business may not even survive, much less be successful, without a spouse.

As discussed above, the FEM does go one step further with the consideration of the larger social context. However, it only considers a one way interaction between the business and the community, that is, the community providing resources to the business. This ignores the reciprocal relationship between the owners, their business, and the community. The owner and the business play a role in building capacity within the community which allows for further economic development, as explored further.

#### **8.2.4. Frameworks Involving Resources at the Community Level**

Lastly, the community and local resources are evaluated within endogenous economic development research (Coffey et al., 1984, 1985, Cornwall, 1998, Dinis, 2006, Lyons, 2002). Within this framework, the community plays an important role to support business development through the creation of an entrepreneurial culture and infrastructure (Flora et al., 1990, Joyal et al., 2004, Lichtenstein et al., 1996, Lyons, 2002, Peredo et al., 2006, Rightmyre, 2003). To achieve this, there must be co-operation between the various community actors, including the media, education system, support services, government, and local organizations (Joyal et al., 2004).

While endogenous economic development with its focus on the local community is seen as an improvement over past economic development frameworks which argued for a top-down approach, this one still is lacking in some respects for the rural small business. While the community plays an undoubtedly important role, there are other resources which must also be considered, as argued below. In particular, this literature tends to ignore the role that families can play by providing resources and support to business development in rural locations.

**Table 8.1: Comparison of Resource-Based Frameworks**

<b>Framework/Theory</b>	<b>Individual as Resource</b>	<b>Family as Resource</b>	<b>Business as Resource</b>	<b>Community as Resource</b>
Resource Based View of the Firm	Yes	No	Yes	No
General Systems Theory	Yes	No	Yes	No
Sustainable Family Business Model	No	Yes	No	No
Family Embeddedness Model	No	Yes	No	No
Endogenous Economic Development	Yes	No	No	Yes
Proposed Framework	Yes	Yes	Yes	Yes

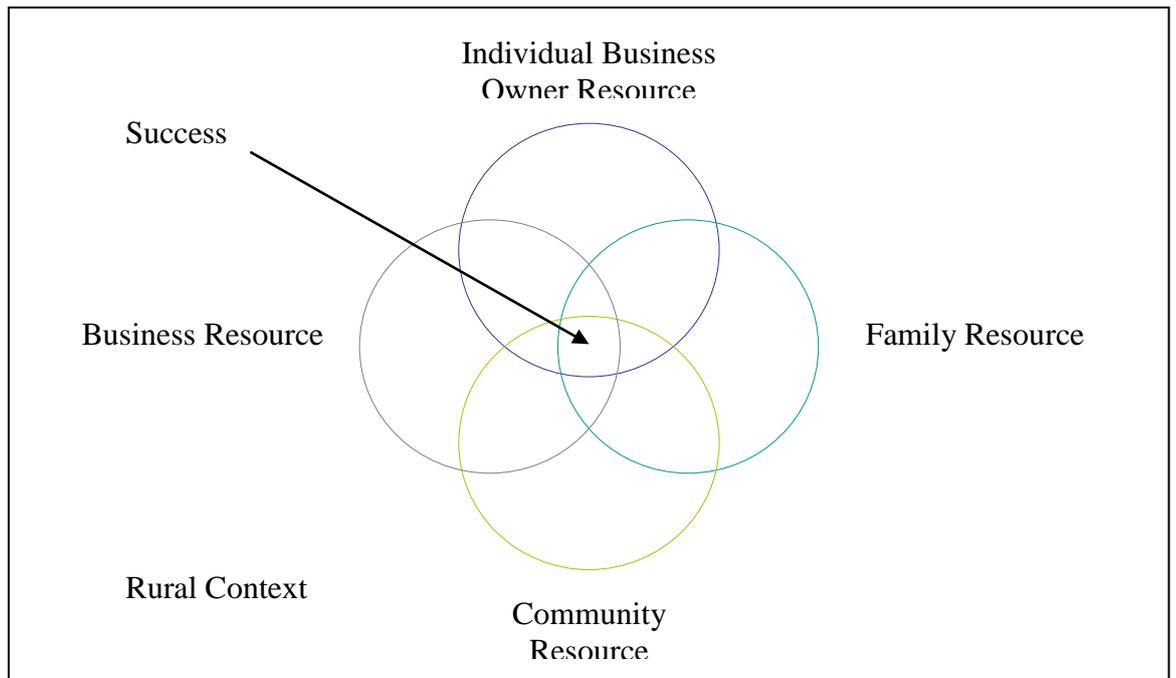
### **8.3. Conceptual Framework Overview**

The proposed conceptual framework integrates the various resource-based ones and addresses the gaps in each to develop a holistic understanding that incorporates the key resources available to the rural business owner. As discussed in the previous chapter, the individual business owner calls upon their own skills and capabilities as resources, as well as drawing upon their family, business, and community to address their business challenges within the rural context. This act of locating and coordinating the necessary resources is one of the chief challenges facing any business owner, as they strive for both survival and ultimately success within a particular context (Aldrich et al., 2001, Haber et al., 2006, Kalantaridis et al., 2006b, Romanelli, 1989, Ucbasaran et al., 2001). In this regard, Smith (2006, pp. 42) argues the idea of “interconnectedness”, that is, entrepreneurship cannot be considered separately from its context. Ultimately, the environment in which the entrepreneur operates cannot be ignored because it

influences and shapes the type and amount of resources which are available (Mankelow et al., 2001, Meccheri et al., 2006).

Within this framework, as pictured in Figure 8.1, the business owner draws upon and coordinates the four key resources – themselves, family, business and community – to achieve survival and success on their terms within the rural context. This context, in turn, shapes resource availability. By showing overlapping circles, the framework suggests that only some aspects of each resource are valuable for business survival and success but all must be present in some form. Each component is explored with supporting literature and reference to the case studies.

**Figure 8.1: Conceptual Framework**

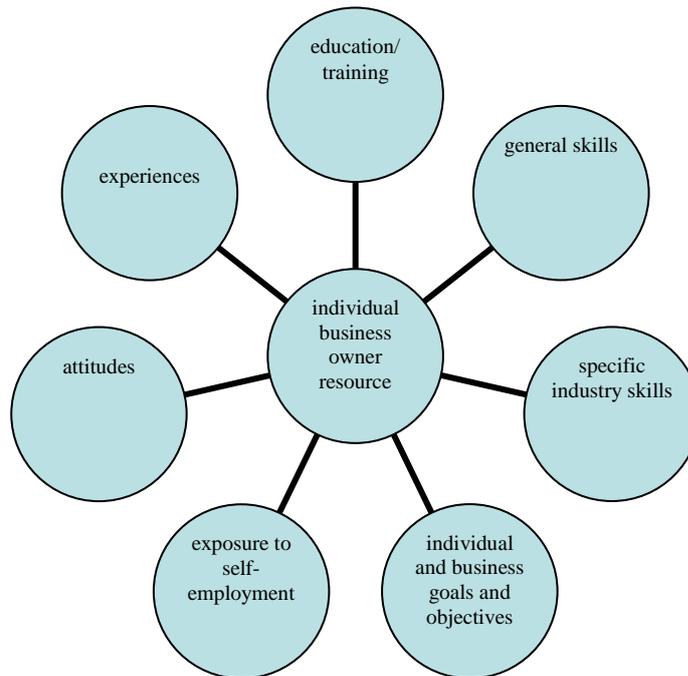


### **8.3.1. The Individual Business Owner as a Resource**

The individual owner is the starting point for start-up and ongoing business operations. They are the catalyst for this action and their own skills and attitudes become critical to individual and business success as well as for exploitation of a business opportunity (Alsos et al., 2003). The entrepreneur's own resources become the "building blocks" for the business (Manev et al., 2005, pp. 302) and often are the first resources available to a new venture, especially in those situations and/or locations where other types of resources, such as financing, employees and expertise, may be limited (Batjargal, 2000, Brush et al., 2001, Haber et al., 2006, Koster, 2005, Manev et al., 2005, Piazza-Georgi, 2002). In addition, the owner's personal choices and understanding of success will guide business strategy development (Brush et al., 2001, Jussila et al., 1992). The very fact that rural entrepreneurs are overcoming the challenges and obstacles that they face is testament to their ability to respond to a particular environment with available resources and develop a successful business as defined by the individual (Anderson et al., 2001).

As shown in Figure 8.2, these skills, typically called human capital, flow from a variety of sources, ranging from family background, work experience, and specific training and general education to important attitudes such as creativity, passion, and others (Aldrich, 2004, Cope, 2005b, Fairlie et al., 2005, Koster, 2005, Labrianidis, 2006b, Piazza-Georgi, 2002, Wagner et al., 2004). Each of these sources is examined in turn.

**Figure 8.2: Components of the Individual Business Owner as a Resource**



Human capital can be developed either through informal processes such as work and managerial experience and the entrepreneurial family environment, or through more formal processes such as education and training (Meccheri et al., 2006, Skuras et al., 2005b). One important component is the skills, either specific and/or general, that the individual has gained from previous work experiences that can be applied to a business venture. These can include general management skills as well as functional knowledge in marketing, operations, accounting and human resources management (Colombier et al., 2006, Fairlie et al., 2005, Haber et al., 2006, Koster, 2005, Malecki, 1994, Politis, 2005, Rerup, 2005). Besides skills, previous work experience can also provide important contacts and knowledge of other opportunities which can be applied to the business. While industry specific knowledge can be very important, general

managerial and entrepreneurial skills may also be critical to business start-up, development and overall success (Aldrich, 2004, Delmar et al., 2000, Gnyawali et al., 1994, Koster, 2005, Malecki, 1994, Meccheri et al., 2006, Politis, 2005, Skuras et al., 2005b).

Education and training, either at a general or specific skill level, can also play an important role in the development of human capital and appears to be strongly connected to business success (De Clercq et al., 2006, Delmar et al., 2000, Karlan et al., 2006, Malecki, 1994). Education can provide problem solving skills as well as discipline, motivation, creativity and self-confidence (Cooper et al (1994) as cited in Rotefoss et al., 2005, Skuras et al., 2005b) in addition to specific functional knowledge that provides the foundation for business operations. There is evidence that suggests individuals with higher levels of education, as measured by years of schooling, are more likely to start a business, by being able to draw upon skills and knowledge gathered through that training (Delmar et al., 2000, Koster, 2005, Rotefoss et al., 2005).

Previous exposure to small business and entrepreneurship through a family business or one's own can also contribute to human capital development in several ways. First, this exposure can build self-efficacy, the belief that one possesses the necessary skills and capabilities to be successful in business. This is accomplished in part by the fact that previous knowledge can reduce the uncertainty associated with start-up and ongoing operations (Boyd et al., 1994, Colombier et al., 2006, De Clercq et al., 2006, Krueger, 1993). There is some evidence to suggest that people who are more likely to be "pulled" into entrepreneurship come from families where someone has operated their own

business (Fairlie et al., 2005, Gilad et al., 1986). This particularly appears to be the case within immigrant families (Sanders et al., 1996).

Self-efficacy, an important attitude for business start-up, can also be further developed through training, mentors and role models as well as direct experience (Boyd et al., 1994, Chen et al., 1998). In addition, previous small business experience provides opportunities to develop business and management skills which can be applied to the new venture, regardless of whether it is in the same industry as the previous business (Colombier et al., 2006, Haber et al., 2006, Koster, 2005).

At one level, the owner needs to possess sufficient skills. However, that is not enough; an individual must also actively apply these to the business to achieve success (Oughton et al., 2003a, Politis, 2005). Koster (2005) found in his study of new firms in The Netherlands that it depended on the individual entrepreneur whether they actually applied past experience to the new venture. He also found that self-employment experience as a specific set of skills is not necessary for a new venture but rather the entrepreneurial mindset, or an approach to business, that had been developed through past experience, was what was applied to the new venture. In a study of Israeli tourism operators, Haber and Reichel (2006) found that managerial skills, gained through past employment and experience in small business, was the strongest contributor to business performance. In his study in Europe, Labrianidis (2006b) found there were five common factors among those individuals who start small businesses in rural Europe. These factors include higher academic training, influence from parents and previous experience running a business. The other two factors are related to age (younger) and gender (male). Ultimately, while the evidence

appears to be somewhat mixed, the research suggests, that to some extent, previous experience and exposure in small business increases the possibility of business success (Alsos et al., 2006, Haber et al., 2006, Koster, 2005, Rerup, 2005, Wever, 1986).

Another important component of the business owner's human capital is their attitudes and approaches to business. Important attitudes include innovation, risk-taking, accepting challenges, seeking opportunities, communication, the ability to plan (Lichtenstein et al., 2001, Pyysiainen et al., 2006), self-confidence, self reliance and persistence (De Clercq et al., 2006, Fairbairn, 1988c, Pyysiainen et al., 2006, Schroeder, 2003). Another important attitude is the openness to learning (Lichtenstein et al., 2001, Rae, 2006), which can be particularly important when business owners do not possess the necessary attitudes and skills in advance. While the entrepreneurial individual tends to possess at least some of these skills in advance, business courses can also assist with further development (Pyysiainen et al., 2006).

In a study of rural Sri Lanka's businesses, the researchers found that those individuals with creativity and resourcefulness were more likely to succeed. This creativity was needed not only to recognize opportunities but to also find ways to access and manage the required resources (Kodithuwakku et al., 2002). In a study of Fijian small businesses, the key to business survival and success were the individual owners' skills, particularly "management expertise, marketing ability, and entrepreneurial personality" (Hailey, 1988, pp. 47).

Within the rural context, it appears that the opportunity to gain the necessary skills is rather limited for rural entrepreneurs. As a result, the importance of entrepreneurial attitudes to business start-up and operations may

become more crucial. Given that few external resources are available, it appears that rural entrepreneurs may be more self-sufficient and self-reliant than their urban counterparts (Meccheri et al., 2006). The very fact that a rural business stays in operation can be a sign of success and resourcefulness, as owners have found the resources and strategies that enable them to overcome their challenges (Byrom et al., 2001, Jack et al., 1997).

The final component of this resource is the consideration of the owner's goals and objectives for the business, themselves and their family because these goals influence the manner in which the owner responds to the challenges and coordinates the available resources. Within small businesses, there is often little distinction between the owner's goals and those of the business since these goals tend to be one and the same (Kotey et al., 1997). Besides economic goals, these objectives can also include social and lifestyle goals. The owner uses these objectives as a means to measure success and as a guide to the type of business that could be started (Brush et al., 1999, Gimeno et al., 1997, Jennings et al., 1997, Robinson et al., 2001). As explored above, within a rural context, these non-economic goals might include the desire to stay in the rural community close to friends and family, keeping the family property, and/or employing family members (Getz et al., 2000, McKenzie, 1998, Schroeder, 2003, Schutjens et al., 2006). Besides providing a guide for evaluating success, these goals also influence an owner's perception of the challenges that face them. For example, if a business owner would like to pursue other interests in the off-season, a business's seasonality may not be an issue (Getz et al., 2004b). Challenges may not be perceived as such if the owner wishes to stay in the community and a small business is the only way to achieve this goal. Ultimately, the importance

of these non-economic goals and objectives begins to suggest why these rural businesses, which are often financially marginal in nature, remain in operation (Gimeno et al., 1997, Jennings et al., 1997). They are meeting the needs and wants of the owners and their families.

Up to this point, the discussion has focused on the application of an entrepreneur's human capital to a particular business; however, this human capital could have further applications to the often necessary alternative income sources. As outlined above, a rural business, given the often limited market size available to it, cannot always provide an income sufficient to support the business owner and their family (Carter et al., 2004, Tetelman et al., 1993, Wheelock, 1992, Wheelock et al., 1998). As a result, the owner often has to develop additional income sources, either within the primary business, in subsequent enterprises, and/or in other paid employment. The range of human capital that the owner possesses can make these other income sources possible. As a result, as the owner contemplates business opportunities, they might also consider alternative ways to apply their skills and attitudes in order to reach a financial threshold.

Due to the important role that human capital plays in business start-up and development, this lack in rural communities has been identified as a critical gap that needs to be addressed in order to support individuals and communities' efforts to achieve economic development. Many rural communities have relied on single employers within a single industry which means limited opportunities to develop skills that can be applied to business development (Bryant et al., 2001, Diochon, 2003, Lichtenstein et al., 1996). In addition, overall education levels tend to be lower in rural areas (Beshiri et al., 2004, Bollman et al., 1992,

Bryden et al., 2004, Freshwater, 2004, Kalantaridis et al., 2006a, Leatherman, 2000, Spilling, 1997, Tickamyer et al., 1991). There has also been a relative lack of role models to support and encourage potential entrepreneurs (Skuras et al., 2005b). This limited opportunity to develop an individual's human capital may begin to explain why business start-up tends to be more prevalent among in-migrants, who may have had more chances to develop these skills while in urban locations (Kalantaridis et al., 2006b, Keeble et al., 1995, Keeble et al., 1992, Labrianidis, 2004b, North et al., 1996, Stockdale, 2005, Westhead, 1990). This may also mean that the "local" residents who start businesses will have to draw deeper on their attitudes in order to compensate for the lack of skills in other areas.

While human capital can be augmented through training and education, this option is also limited in rural areas. Given the small size of most rural businesses, it becomes difficult for owners to invest time and money in education and training for themselves or their staff, especially if the training is not nearby. This makes it difficult for owners to further develop their human capital (Bennett et al., 1995, North et al., 1996, Page et al., 1997, Tehrani et al., 2003). This is an area where government could provide support through targeted policy in skill development in rural areas.

Human capital, including skills, education, previous exposure to small business, attitudes and goals and objectives, are the base upon which entrepreneurs build their rural business and guide their efforts to accumulate other important resources and achieve success.

As explored in the previous chapter, in the case of the sample businesses, the owners draw upon their human capital. In many cases, their previous work

experience is not directly related to the business they currently operate, but rather it provides the owners with the confidence and general skills needed to start and operate their businesses and develop alternative income sources as required.

Notably, several of the business owners have previous exposure to small business through self-employed parents and their own previous experience as self-employed. Through this, they have gained a clear understanding of the time and commitment required to operate a business.

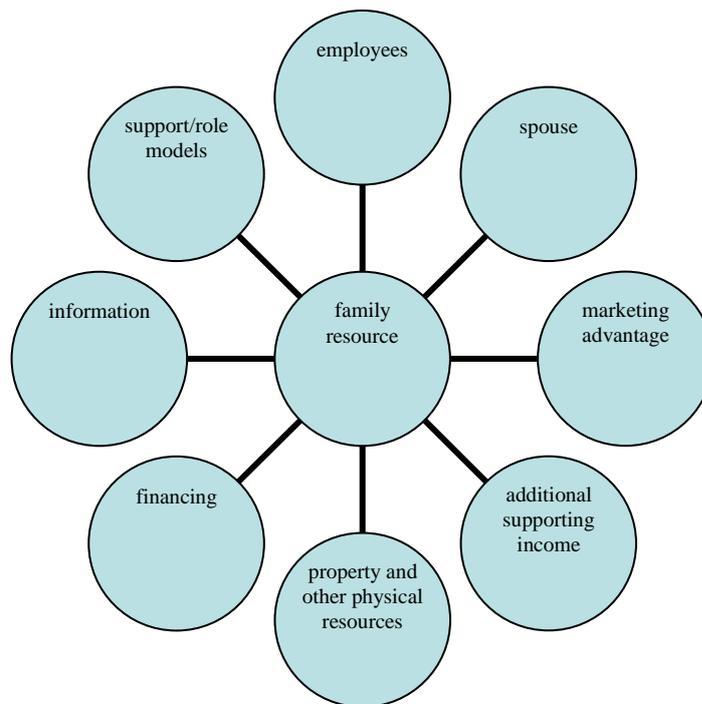
As discussed previously, in terms of business success, the sample owners did not define success generally in financial terms. Instead, the focus is on the lifestyle that comes with living in a rural community. Understanding the owner's goals and objectives begins to explain why they continue to operate despite the challenges and obstacles and, for some, the relatively lack of financial reward.

### **8.3.2. The Family as a Resource**

The family, with its associated resources and capabilities, is a second resource upon which the business owner can draw. This resource can be relatively easily accessed (Dyer Jr. et al., 2005, Manev et al., 2005, Morrison, 2006, Oughton et al., 2003a). In rural areas, the family may have relatively more access to resources (such as property, equipment and family members) than a similar business in urban areas (Haynes et al., 1999). Given this resource base, it can be easier to start family businesses in rural areas, especially in those regions with an emphasis on agriculture, where there has been a long tradition of the family farm (Buhalis et al., 1998, Hansen, 1993, Morrison, 2006, Oughton et al., 2003b, Westhead et al., 1998). Given that these rural firms often do not require high levels of resources because business growth and innovation potential is limited, the family can generally provide what is required for start-up and

operations (Aldrich et al., 2001, Fairbairn, 1988a, Greene et al., 1997). The family's contribution can involve physical, financial, human, marketing and other types of assets directly to the business, but also the alternative income sources which are often required, as can be seen in Figure 8.3.

**Figure 8.3: Components of the Family as a Resource**



One of the first contributions that the family can make is the family property to business operations (Aldrich et al., 2003, Alsos et al., 2006, Carter, 1999, Haynes et al., 1999, Josephson, 2006, Schutjens et al., 2006). This repurposing of a family physical asset allows the family to gain additional economic value from an underutilized resource, which is an often cited reason for diversification (Lynn et al., 1990, Penrose, 1995, Robson et al., 1993). For example, one of the simplest ways for farms to enter tourism operations is by

redeploying a barn or other structure into a bed and breakfast operation (Alsos et al., 2006).

Besides providing a physical asset which the business can use in operations, use of the family property can also lower overhead costs by reducing the need to lease, build or buy space. This can be particularly important in those locations where space might be lacking. This in turns aids business survival because it lowers start-up and ongoing operational costs (Morrison, 2006). However, using the family property is not without risks; business failure, in these cases, can mean the loss of the family home (Getz et al., 2004b). This is not a step to be taken lightly.

Second, families often provide financial resources to the business by allowing the owner to draw upon family savings, gifts and/or inheritances to fund start-up and ongoing operations (Alsos et al., 2006, Dyer Jr. et al., 1994, Oughton et al., 2003b, Sanders et al., 1996, Yilmazer et al., 2006). In many cases, the family can also provide ongoing financial support by allowing family finances to be used in the business. This money can provide cash flow during slow times and begins to speak to the inter-relatedness between the family and business (Haynes et al., 1999, Yilmazer et al., 2006). In these cases, then, there may be very little difference between the family and the business. This financial support on the part of the family can be critical for the enterprise, especially in those environments where access to outside financing may be lacking (Dyer Jr. et al., 2005, Kodithuwakku et al., 2002, Meccheri et al., 2006). Family money may be the only avenue available to finance the business.

Third, the business often draws upon family members for both paid and unpaid labour (Alsos et al., 2006, Eikeland et al., 1999, Oughton et al., 2003b,

Rowe et al., 2000, Sanders et al., 1996). In many cases, this labour, especially if it is free, is crucial for business survival because it lowers operating costs (Eikeland et al., 1999, Sanders et al., 1996). This is a similar situation for many self-employed immigrants. Often these businesses can not afford to hire paid staff from outside the family and thus relies on family members for whom pay is optional given familial ties (Sanders et al., 1996). Certainly the family members' presence provides the small business with flexibility in terms of staffing. The obligation to keep on or pay family members can be reduced when business is slow (Eikeland et al., 1999, Morrison, 2006, Wheelock, 1992).

Besides contributing directly to front-line operations, the family labour might also include bookkeeping and household management which are more back-room support roles. These are often functions performed by the wife, which become a "hidden asset" (Kirkham, 1986) to the business (Dupuis et al., 2004, Fitzgerald et al., 2002, Morrison, 2006, Wheelock et al., 1998). These are important to allow the entrepreneur to focus fully on the business.

The family can also play a role as a marketing tool (Habbershon et al., 1999) and may become a unique resource that the business can call upon that is not available to non-family businesses (Chrisman et al., 2005a, Chrisman et al., 2005b, Dyer Jr., 2006, Tokarczyk et al., 2007). While the advantage of the family plays in marketing is not fully clear, there is evidence to suggest that family businesses may be seen as more trustworthy than non-family enterprises and are more committed to quality products that carry the family's name. They also appear to have a greater desire to provide good customer service (Cooper et al., 2005, Lyman, 1991, Tokarczyk et al., 2007). There is also anecdotal evidence which suggests that family businesses can provide a personal touch

generally not possible with larger businesses. In addition, customers appear to like dealing with family businesses better than non-family ones (Kim, 2005, Krotz, nd). This idea of family as a marketing advantage builds on research on lifestyle-oriented artisan food producers located in rural areas. Tregear (2005) found that these producers used the image of their lifestyle as rural producers as a way to compete against commercial manufacturers.

Finally, family members can also provide information and support and serve as role models to the entrepreneur (Anderson et al., 2005a, Dupuis et al., 2004, Labrianidis, 2006b, Marcketti et al., 2006, Meccheri et al., 2006, Rowe et al., 2000, Stewart, 2003). Family members can provide information about the region and business operations (Jack et al., 2002), access to markets, suppliers, technology and ideas for innovation (Anderson et al., 2005a, Dyer Jr. et al., 1994). As discussed in the individual as resource section, the family business can also prepare the entrepreneur by shaping them through experiences and suggesting the possibility of small business start-up (Hansen, 1993, McAuley, 1999, Rogoff et al., 2003). In their study of entrepreneurs in rural Italy, Meccheri and Pelloni (2006) found that the family was critical to the business owners. This is reinforced through role modeling and mentoring which helps convince the family entrepreneur that small business can be and is a viable activity (Colombier et al., 2006, Ibrahim et al., 2002, Labrianidis, 2006b, Van Auken et al., 2006). The emotional support and encouragement provided by family members, especially spouses, can be crucial, particularly when businesses are facing their greatest challenges, often at start-up (Aldrich, 2004, Dupuis et al., 2004, Morrison, 2000, Stewart, 2003).

The family can play a final important role to business survival and success. As discussed above, a variety of income sources may be necessary for financial stability, both at the business and family level, and may require a household approach (Alsos et al., 2006, Carter et al., 2004, Dupuis et al., 2004, Eikeland et al., 1999, Fitzgerald et al., 2002, Rowe et al., 2000, Wheelock, 1992). This approach has been called a variety of things such as pluriactivity (Alsos et al., 2003, Carter, 1999, Eikeland et al., 1999, Ronning et al., 2006), patchworking (Kibria, 1994), jigsaw (Oughton et al., 2003b), and subsistence entrepreneurship (Smith, 2006). A similar situation can be found among immigrant families. In a study of Vietnamese immigrant families in the United States, Kibria (1994) found that family members pooled their economic resources which helped protect the family from negative changes in its economic status. This trend was also found in the United Kingdom following the push for small business development in the 1980s. Researchers found that many businesses were marginal and micro in size and required family financial support, either by contributing to household labour, working in the business, or through outside employment. However, these businesses were providing something beyond financial rewards, which includes psychological benefits such as security for the family, self-confidence, lifestyle and fringe benefits (Wheelock et al., 1998). The family's participation allows these financially marginal businesses to continue operating because their involvement is critical to the achievement of family goals and objectives (Andersson et al., 2002, Carter et al., 2003, Getz et al., 2004a, Wheelock et al., 1998).

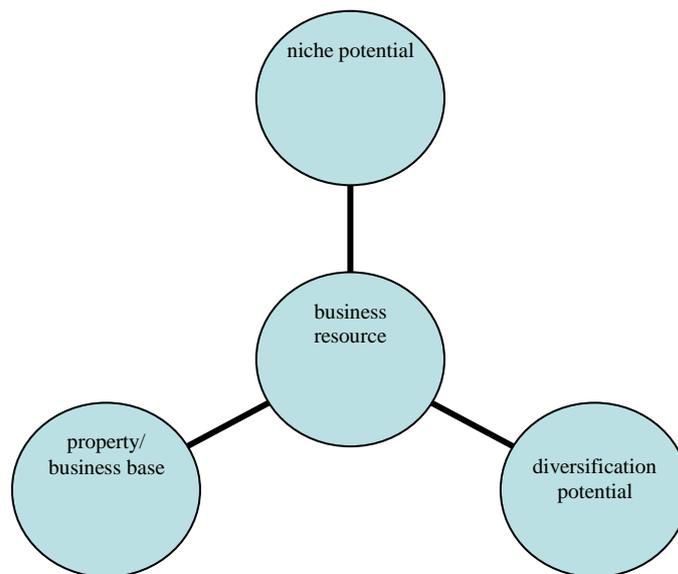
As highlighted above, the sample business owners call upon family resources in several ways. The businesses are based in the family home and

draw upon family assets with the spouse playing a key role in day-to-day operations. These actions reduce operating costs and the need for outside employees. The family members also play a role by providing supplement income outside the business and a role within marketing materials. These actions on the part of the family allow the owners to meet their non-financial goals to stay within the rural community.

### 8.3.3. The Business as a Resource

At the heart of every business is the initial business opportunity upon which the owner has capitalized (Marcketti et al., 2006). Within the rural context, the diversification and/or niche potential of the original idea can serve as a resource for the owner, particularly if the profitability of the core business is limited. The components of this resource are outlined in Figure 8.4.

**Figure 8.4: Components of the Business as a Resource**



For some rural businesses, a profitable niche provides a way to overcome the challenges facing them (Dinis, 2006, Illouz-Winicki et al., 1998, OECD, 1995, Wilson, 1993). These niches can draw on local traditions, heritage, food, culture, natural resources and environment, thus creating opportunities for rural businesses to differentiate themselves from other rural and urban enterprises, and develop a profitable business. These products and services can also facilitate the creation of new economic activities from traditional ones or from the physical landscape. The business may provide opportunities to draw customers to them or export the goods and services to the markets in other locations (Anderson et al., 2001, Anderson et al., 1999, Byrom et al., 2003, Dinis, 2006, Haber et al., 2006, Illouz-Winicki et al., 1998, OECD, 1995, Stathopoulou et al., 2004). Anderson and his fellow researchers, in particular, discuss the marketing advantage that flows from a rural or peripheral location (Anderson et al., 2001, Anderson et al., 1999). This differentiation can accomplish several things for the rural business by providing a means to create a demand for a particular product as well as an opportunity to charge higher prices, which helps to offset the higher costs often faced by a rural business.

For other entrepreneurs, multiple businesses or diversification within a single business are the means for achieving economic and family goals (Carter, 1999, Carter et al., 2003, Lunnan et al., 2006, Ronning et al., 2006). For those rural business owners who have business growth as an objective, product and/or service diversification may be the only way to achieved this in rural areas. As has been discussed above, markets may be very limited in rural areas, which can cap a business's overall potential size. As a result, the only way to expand is to start another business (Lunnan et al., 2006). Alternatively, the owner can

diversify within the core business. This action can create additional demand for products and services within the local customer base or even develop a new customer base. Research in the Western Isles of Scotland and Finland has explored two possible methods to achieve this. First, a retail business might expand its current product range within its current geographical location by adding services such as taxi, coffee shop and postal service. Alternatively, the owner can diversify the business by extending its geographical reach through mail-order or Internet sales (Byrom et al., 2003, Jussila et al., 1992).

The diversification from an existing business can often be achieved with minimal extra investment, particularly in those cases where resources are idle. The owner can draw upon their knowledge, employees, buildings, capital and distribution networks to develop the new products and services (Alsos et al., 2006, Alsos et al., 2003, Lynn, 1998, Ronning et al., 2006). A diversification strategy provides a mechanism for a business owner to be proactive, rather than reactive, in meeting the challenges that face them, thus creating survival and success (Kodithuwakku et al., 2002).

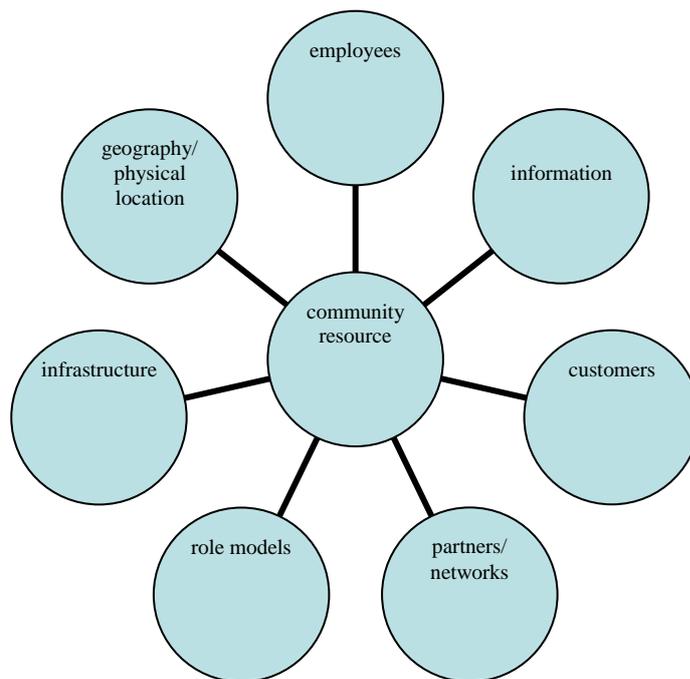
As discussed above, it is possible to see the use of this resource within the sample businesses. First, the owners draw upon the present businesses to create additional economic activities. Second, the owners also diversify their product and service lines within the existing business. Finally, some of the businesses have been able to exploit a market niche which has allowed them to diversify beyond their local market.

#### **8.3.4. The Community as a Resource**

The last resource available to the business owner is their community, which unlike the other three, represents a resource external to the business

owner. It may require more negotiation on the part of the owner to access this important resource (Rotefoss et al., 2005). As shown in Figure 8.5, there are several components to this resource. This resource begins to incorporate the idea that a business is embedded in or shaped by a community and that the owner can draw upon the social capital that exists within it to support their business. It also reinforces the idea that entrepreneurship is a social activity. A business person cannot do it alone (Anderson et al., 2001, Dowd et al., 1997, Hinrichs, 1998, Kodithuwakku et al., 2002, Lauer, 2005, Peredo et al., 2006, Pyysiainen et al., 2006, Westall et al., 2000). Social capital plays an important role because it can mediate the constraints and challenges that are present while its absence can make business activities more difficult (Aldrich, 2004, Gnyawali et al., 1994, Jack et al., 2002, Labrianidis, 2006a, Lauer, 2005, Stathopoulou et al., 2004).

**Figure 8.5: Components of the Community as a Resource**



The role that the community plays can be both obvious and subtle. First, the community is a potential source of employees, especially in those locations which are some distance from larger labour pools (Morrison, 2006, Wheelock, 1992) and customers, particularly for those products and services which service a local market. The community might also provide access to necessary supplies (Honig, 1998, Kirby, 1987, Leistriz et al., 1992, Miller et al., 1997). The importance of the local customer should not be understated. In Scotland, there is a strategy to save the local store by encouraging residents to “buy local”, rather than traveling to larger centres for purchasing trips. If the residents do not shop at these stores, it is not clear who else will (Kirby, 1982, 1987, Smith et al., 2000).

Second, other roles can be more subtle by focusing on support provision. Given the fact that many traditional supports (such as banks, lawyers, accountants and government) may not be present in rural communities, business owners may then rely on local community members for these and information regarding business opportunities, marketing, suppliers, financing, and other issues (Frazier et al., 2004, Jack et al., 2002, Josephson, 2006, Kalantaridis et al., 2006a, Lauer, 2005, Mankelow et al., 2001). These networks between business owners and various community members are important because they provide in an informal way what may not be available formally and can often provide this support relatively inexpensively (De Clercq et al., 2006, Frazier et al., 2004, Kodithuwakku et al., 2002, Littunen, 2003, Mankelow et al., 2001, Peredo et al., 2006, Phillipson et al., 2006, Shields, 2005). Frazier and Niehm (2004) and Mankelow and Merrilees (2001) suggest, in fact, that rural owners rely on these local networks more than urban business owners do. These networks may also

discourage those owners with stronger ties within the community to consider looking outside for advice and support (Meccheri et al., 2006). Another important aspect of these support networks is the presence of role models, who can be critical for convincing an individual that a business can be a viable and valuable activity (Boyd et al., 1994, De Clercq et al., 2006, Malecki, 1994, Van Auken et al., 2006).

Besides information providing, these networks may also facilitate co-operation among local businesses by providing incentives and benefits for the co-operation. These benefits might include reduced costs and/or competition. Purchasing groups are one example which can allow businesses to gain some economies of scale by buying in bulk (Morrison, 1998, Phillipson et al., 2006, Smith et al., 2000). Alternatively, businesses may co-operate by carrying each other's products in their stores (Phillipson et al., 2006). This co-operation may also be extended to the point where businesses do not duplicate products carried by another business in the community, thus minimizing competition (Lauer, 2005, Phillipson et al., 2006, Shields, 2005).

A third component is the geographical location of the community itself. The physical location can provide a marketing advantage to the business in several ways. As discussed above, a profitable niche market can be developed from traditional products from the area. These products can attract customers. On the other hand, by exporting the product to urban locations, a link between a location and the customer can be created without the customer leaving home. This option can benefit a community greatly when it and the residents desire economic development, but the local infrastructure cannot support a large

number of visitors (Anderson et al., 2001, Baldacchino et al., 2006, OECD, 1995, Tregear, 2005).

Besides creating a potential niche market, the geography as defined by proximity to larger urban centres can also be important for business survival. Those rural communities which are closer to urban centres with their concentration of customers, suppliers, partners and other important factors may find the development of new markets and/or products relatively easier than those further away. Supplies can be brought in and products sent out of the community relatively less expensively and more quickly. It is also easier and less costly to meet with customers, partners and suppliers, with whom ideas and innovations can be traded (Anderson et al., 2005b, Bryant, 1989, Meccheri et al., 2006, Mochrie et al., 2006, Polese et al., 2002, Reimer, 2006). Those scenic rural communities which are closer to urban settings also have greater potential to attract residents and businesses, prompting further economic development. The community can then play a role in developing the customer base for their local businesses by marketing the community and businesses (Mwansa et al., 2005, SRI International, 2005). This places more pressure on those communities which further away to determine ways to overcome these challenges (Meccheri et al., 2006, Patterson et al., 2003, Prideaux, 2002).

Fourth, the available infrastructure is part of the resources that a community can provide to the owner and their business. As discussed above, this infrastructure can include both the physical, such as telecommunications, transportation networks, Internet, banking and other needs, as well as the social services infrastructure such as schools and medical care. A more fully developed business infrastructure can support a business because its presence minimizes the

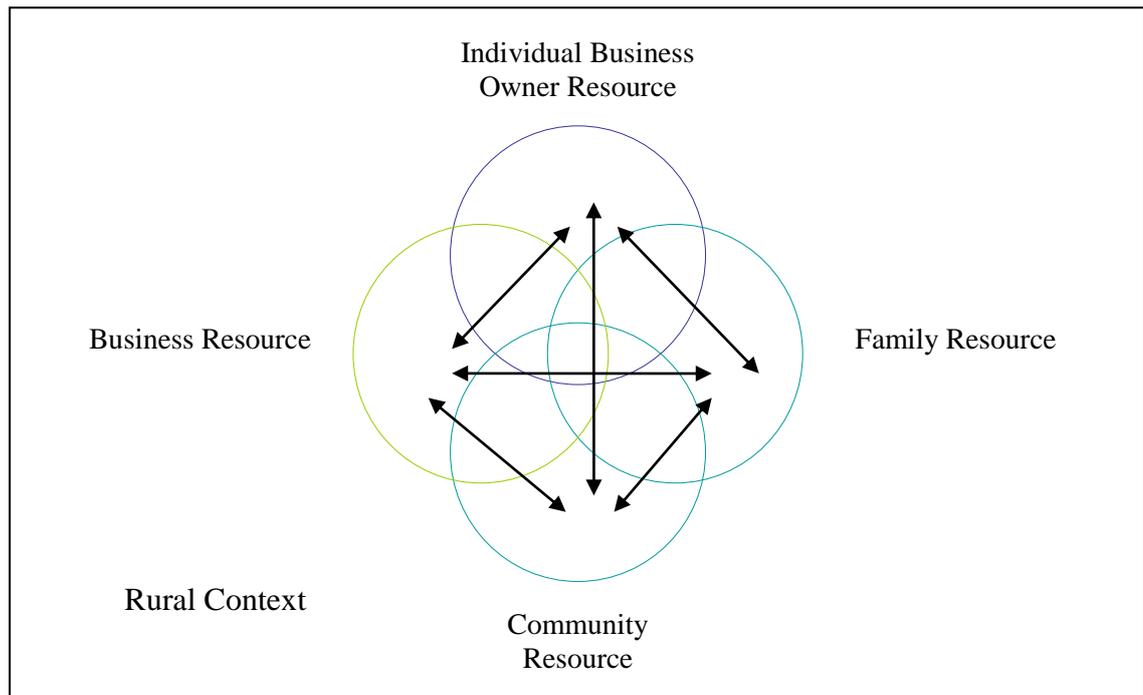
time, money and effort that might be required on the part of the owner to address gaps and challenges. In addition, the presence of certain infrastructure may also create additional business opportunities, particularly for those relying on information technology to conduct operations. Again, as discussed above, the social services infrastructure is important to encourage an owner to stay within the community longer, rather than moving closer to the required infrastructure. As is the case with communities closer to urban centres, those with a stronger infrastructure to support business activity will likely have advantages over those communities which are lacking (Atherton et al., 2006, Patterson et al., 2003).

Besides evaluating the physical infrastructure, a community and potential business owners must also consider the level of human capital available in residents, as measured by education and skill levels. The question of whether residents have the necessary skills and attitudes to work within the businesses must be addressed before economic development can begin and be successful.

The realization of the importance of infrastructure has prompted many communities to inventory their infrastructure and begin to make changes to support economic development at the business and community level (Dunnett, 2005, Fox et al., 1993, Koh, 2006, Lichtenstein et al., 1996, Reimer, 2006, Rightmyre, 2003). It is, of course, only after careful evaluation that any improvements should be made. As outlined earlier, any improvements to facilitate access to customers, suppliers, partners and other important infrastructure, may come also with the potential for increased competition (Dillman et al., 1989, Labrianidis et al., 2004, Leatherman, 2000, Polese et al., 2002). It can be a double-edged sword which may not ultimately create benefits for the community and businesses.

It is important to note that this resource is not a one-way flow from the community to the entrepreneur, their family and their business, but rather it is reciprocal in nature between the parties (Cornwall, 1998, Cromie et al., 2001, Dinis, 2006, Jack et al., 2002, Kilkenny et al., 1999, Mankelow et al., 2001). This relationship is of benefit of all in terms of economic development. Within the Community Economic Development literature, these entrepreneurs are often seen as the base for economic development. Their efforts to build a business, deliver a product or service, and at times, create employment helps build community capacity, which in turn can mean that the community can better support the owner and their business (Coffey et al., 1984, Cornwall, 1998, Marcketti et al., 2006, Phillipson et al., 2006). Besides providing products, services and employment, the business owner can also provide the community with leadership in economic development efforts (Kilkenny et al., 1999, Morrison, 2006). At the same time as the owner and their business contributes to the community, the owner derives benefits from this participation. Kilkenny et al. (1999) and Miller and Besser (2000) suggest that this reciprocal relationship contributes to a business's success while building customer loyalty. Ultimately, everyone in the community has a stake in the business's survival and success (Kirby, 1987). Figure 8.6 shows this reciprocal relationship between the individual, their family, the business, and the community. The arrows indicate the exchange of resources between the groups to the benefit of all parties.

**Figure 8.6: Reciprocal Relationship between Owner, the Family, Business and Community**



However, there are some limitations associated with this resource (Dinis, 2006). While the community provides support to the business, it may also stifle new ideas if people are threatened by possible change (Bryden et al., 2004, Ho et al., 2001, Kalantaridis et al., 2006a, Lauer, 2005, Mueller, 1988). In these cases, the in-migrants may be an important link to the outside because they may provide fresh perspectives and new links to factors such as customers, markets, and distribution channels (Kalantaridis et al., 2006a). Lauer (2005) found similar constraints in his study of the sea urchin industry on the American east coast. Those individuals who were more heavily embedded within the community had a relatively easier time addressing their challenges because they could draw on local resources. However, their options for business development were more limited as compared to those who were new to the community. The newcomers

were not as bound by pre-existing relationships and community culture and could explore alternative ways to organize their operations. These experiences are echoed by Jack and Anderson (2002) in their discussion of the effects of embeddedness and the entrepreneurial process in the Highlands of Scotland.

Given the range of inputs the community can provide, it becomes clear why social capital is often characterized as the fourth capital, playing an important role alongside human, financial and physical capital (Flora, 1998, Lyons, 2002, Portes, 1998). A business cannot survive without community support and these social networks may be the only way to access the necessary resources outside the immediate control of the individual (Meccheri et al., 2006).

In the case of the sample businesses, they highlight both the advantages associated with community support and the disadvantages that result from a perceived lack of community support. They realize that this support is an important resource for their business survival and success. Community support is particularly important for those businesses whose market base is primarily the local residents. This support can take many forms and may include cooperative partnerships as found by the chocolate bar manufacturer and rose nursery owner. The lack of community support can translate into high costs and difficulty finding staff. The sample business owners also realize the importance of investing the community, both to the community's and their own benefit. By hiring and purchasing locally and participating in community events, the owners are assisting with the creation of community capacity to the benefit of all.

#### **8.3.5. The Impact of Resource Interaction on Success and Survival**

It is at the intersection of these resources that the owner and their business can achieve business and personal success, as they define it. The

overlapping circles suggest the interrelationship between the individual, family, business and community resources within the rural context – all of which are necessary to achieve success. In addition, the overlap of the various resources also begins to suggest that success is more than just a consideration of revenue and profits (Hinrichs, 1998), but rather it can also be defined in individual, family, business and community terms. At a fundamental level, it can mean basic survival as owners are able to successfully apply resources to their challenges (Aldrich, 2004, Amit et al., 1993, Brush et al., 2001, Koster, 2005, Puffer et al., 2001).

As the individual rural business owner is considered, it becomes possible to understand why these businesses continue to operate despite being on the economic margin (Edwards et al., 2006). Success can mean financial goals, but these may be defined in very individual ways, with little to concern for profit and revenue (Jennings et al., 1997, Robinson et al., 2001). Other measures may be more important. These can include family, lifestyle or even community terms, especially in those cases where the entrepreneur feels a strong commitment to the local community (Bryant, 1989). Ultimately, to survive and succeed, the owner must coordinate these resources to develop strategies to meet their challenges.

This range of measures of success can be seen among the sample owners. The ability to stay within the rural community and contribute to it is important to them. Their business becomes a way to achieve this goal. The owners draw upon the four key resources to attain success, however, on their own terms.

### **8.3.6. Consideration of the Rural Context**

As suggested by the Figure 8.1, the entrepreneur accesses the necessary resources within the rural context. This context shapes both the opportunities

and the constraints (Aldrich et al., 2001, Katlila et al., 2005, Rotefoss et al., 2005). By evaluating the context and challenges within, potential responses can be more easily identified (Chell, 1990, Puffer et al., 2001, Vaz, 2006). Ultimately, the entrepreneurs must be able to access what they require to succeed within the particular rural context in which they operate.

The rural context may be explored at various levels. The macro environment tends to be at the region or country level. There should also be consideration of societal and cultural values, infrastructure, capital, education levels, macro-economic trends, industrial structure, and government policies. This evaluation can determine if a region can support economic activity of various types. The micro level evaluates the context at the community and individual level and is focused more specifically on issues related business start-up and operations (Chell, 1990, Covin et al., 1989, Gnyawali et al., 1994, Peredo et al., 2006, Pettigrew, 1987, Scott, 1981, Vaessen et al., 1995, Wagner et al., 2004).

To consider this further, Covin and Slevin (1989) suggest classifying an environment as either hostile or benign. A hostile environment is one that is characterized by “precarious industry settings, intense competition, harsh, overwhelming business climates and the relative lack of exploitable opportunities” (pp. 75) while benign environments are the opposite with access to ample resources and opportunities. The benign environment is one where it is relatively easy for a business to thrive since the right resources are available in the right amounts at the right time. On the other hand, the hostile environment can be particularly challenging for small firms because they have a relative lack of resources. This means that a potentially bad managerial decision could have a

greater negative impact on the small business in this type of environment as compared to a business in a benign context. At the same time, small businesses also possess limited ability to create opportunities for growth and wealth creation that can mitigate their challenges within these hostile environments (Anderson et al., 2001, Covin et al., 1989, Gnyawali et al., 1994, Jennings et al., 1997, Kean et al., 1998, Littunen, 2003, Scott, 1981, Vaessen et al., 1995).

Covin and Slevin provide a broad framework, which has been further operationalized within studies of transitioning economies and other contexts. Within studies of Lithuania and Russia as transitioning economies, researchers focus on issues such as a lack of skilled workers and infrastructure as well as declining gross domestic product and purchasing power and corruption as evidence of a hostile environment (Dyer Jr. et al., 2005, Puffer et al., 2001). Dubini (1989) provides another perspective on the hostile environment by enlarging the focus to consider the impact of an entrepreneurial culture which can include the number of family businesses as well as role models to support entrepreneurs and a consideration of the strength of infrastructures and government incentives.

With these as guiding factors for evaluation, it can be suggested that rural areas are examples of a hostile environment for small business owners. As discussed above, rural areas are faced with many challenges. There is a lack of qualified staff given the small labour pool and lower education and skill levels present in residents (Bollman et al., 1992, Bryden, 2003, Kalantaridis et al., 2006a, Tickamyer et al., 1991). The human resource situation is further compromised by the out-migration flows (Blackburn et al., 1993, Bryant et al., 2001, Grimes, 2000, Lichtenstein et al., 1996, North et al., 2006, Robinson,

1990). There are also gaps in both social services and business infrastructure (Diochon, 2003, Furuseth, 1998, Halseth et al., 2004, Labrianidis, 2006a). There can also be a lack of entrepreneurial behaviour and role models (Bryden et al., 2004, Ho et al., 2001, Mueller, 1988, Skuras et al., 2005a). Though, luckily for most of these rural areas in developed countries, there is relatively little corruption or political unrest as highlighted in the studies of transitioning economies.

Given this characterization of rural and remote areas, the importance of accessing appropriate local resources becomes all the more important if owners and their businesses are to succeed. The option of reaching outside the rural context is limited. The small business owner must draw upon the resources provided by themselves, their family, business and community to overcome the challenges posed by the small permanent population base and the impact on market size and human resources, the rural location and the subsequent access to urban centres, infrastructure gaps, and large time demands.

#### **8.4. Conclusion**

This proposed conceptual framework integrates several resource-based theories which consider one or two of these resources, rather than all four. It is from all four resources that the rural small business owner creates responses to their challenges and achieve success. These resources include the owner themselves, their family, business, and community. The owner provides their human capital which includes their education, skills, attitudes, experiences, exposure to self-employment and their individual as well as business goals. The family plays an important role as provider of paid and unpaid labour, family property and finances, spousal support, marketing advantages and additional

supporting incomes. As a resource, the business provides opportunities for niche market development as well as product and service diversification. Finally, the community supplies customers, employees, role models, partners, infrastructure, as well as marketing advantages from the geographical location. There is a reciprocal relationship between these resources and they interact to achieve success as defined by the owner, within the consideration of the rural context, one that may be considered hostile to the small rural business.

While this framework is useful for the business owner as they address their challenges, the application of it is also useful for policy development, as will be explored in the next chapter.

## **Chapter 9: Conclusion and Recommendations**

### **9.1. Introduction**

This chapter outlines the findings and provides contributions to the knowledge base, and recommendations for policy development and future research.

### **9.2. Summary of Major Findings**

As outlined above, there are four primary questions that guided this research. These are:

- Why do people start businesses in rural areas?
- What types of businesses do they start?
- What are the challenges facing these businesses? and
- How do owners overcome these challenges?

Using Vancouver Island, British Columbia and the surrounding islands as a research context, this research answered these questions.

The sample business owners started or bought their business to create employment and/or capitalize on a specific business opportunity. The owners' primary motivation and measure of success is focused on lifestyle reasons related to their rural location, rather than purely economic goals. The owners use their business as a means to create employment for themselves in order to stay within the rural community. The businesses they operate are concentrated in the areas of services (retail, hospitality, consulting) and alternative niche manufacturing (culinary and agricultural production). Most of the businesses are financially marginal, with several having niche potential beyond their local market. In these regards, they are similar to businesses in other rural locations.

The business owners encounter five primary challenges. The small permanent population base provides two limitations related to small local

markets and labour pools. In addition, the rural community's location which is by definition far from urban centres creates difficulties in accessing these larger centres with their concentrations of customers, suppliers and support organizations. An additional challenge lies in the rural communities' gaps in critical business and social services infrastructure. Finally, due to the above challenges, the business owners face large demands on their time flowing from the amount of time and effort needed to address the above challenges.

The owners have developed several methods to mitigate these challenges and create success on their own terms. The responses range from the development of additional business opportunities and niche markets, a reliance on alternative incomes, use of the family property and members within the business, employment of local residents, the development of co-operative relationships to others. By categorizing these responses, it can be seen that the business owners draw upon four key resources – themselves, the family, the business and the community – to address their challenges and create successful businesses, albeit on their own terms, within a challenging rural environment.

### **9.3. Contributions to the Knowledge Base on Rural Small Businesses**

This research extends the current knowledge on rural small businesses with the discussion of the integrated framework of resources, interaction between resources and success, and the importance of non-economic goals.

#### **9.3.1. Integrated Framework of Resources**

As outlined above, this research focuses on a group of businesses which are typically ignored in business research. These are the very small businesses which are without “glamour” (Brush et al., 1999), that is, those who do not typically have large profit and growth potential. However, these businesses are

still very important for these rural communities. They form the backbone of the community both in an economic and non-economic sense as they provide products, services and often employment as well as invest in the local economy to assist with ongoing efforts to develop and sustain community capacity. Given that these businesses are small and, in many cases, face limited growth and profit potential, many business theories are not relevant. For example, as discussed above, the Resource-Based View (RBV) of the firm has little direct application to the typical small rural business because these businesses do not have the same access to the resources suggested as necessary for the creation of a competitive advantage. As a result, a conceptual framework that draws directly from these businesses' experiences and context must be developed in order to support these owners' efforts to start up and thrive in the challenging rural setting.

However, RBV and other resource-based frameworks and theories can be integrated to create a holistic conceptual framework that can be used to understand the manner in which the rural business owner responds to their challenges. By drawing upon a sample of businesses generally not researched, the pool of possible available resources is enlarged beyond the typical understandings. By extending this understanding to include the owners' themselves, their family, the business, and the community, the rural small business owner can more easily draw upon local resources in order to address their challenges.

This understanding of these available resources fits with the business owner's internal focus of locating the resources available within, rather than outside, the community. Given the owners' independent natures, their orientation is towards solving their challenges themselves with resources at hand.

### **9.3.2. Interaction between Resources and Success**

The proposed framework itself becomes a new way to visualize the interaction between these resources and the attainment of success within the challenging rural context. As is seen, this context influences the types of resources that are available to the small business person (Aldrich et al., 2001, Haber et al., 2006, Meccheri et al., 2006, Romanelli, 1989, Smith, 2006). Within the rural environment, given the challenges accessing supports from urban areas, the resources must be available within the community. The owners build upon these resources to attain success as they define it. The framework's overlapping circles suggest that all four resources must be present for business survival and success within the challenging rural environment. Further, there is a reciprocal relationship between the resources. These build and support on each other contributing towards the business's survival and success (Kirby, 1987).

There does not appear to be a difference between those entrepreneurial owners whose business have growth and profit potential and those lifestyle owners whose business do not in regards to the use of the resources. The difference between these two groups is focused more primarily on the potential of the business idea. Some of the ideas have greater potential beyond the local community, and as such, have greater possibilities for growth and profit.

### **9.3.3. Importance of Non-economic Goals**

Finally, this research focuses further attention on the importance of non-economic goals to a particular group of business owners. As explored, growth and profits are not always the primary objectives for small businesses owners (Jennings et al., 1997). By understanding that non-economic goals such as

creating a particular lifestyle in a certain location and creating employment for family and community members may drive a small business owner's decision making and understanding of success, reasons can be suggested for why these often marginal businesses continue to operate. They satisfy the lifestyle priorities of the owners. As a result, the challenges faced by the rural small business owner merely become the price associated with meeting these non-economic goals. However, this does not mean that all businesses in rural locations are limited from a growth or profit perspective. As explored, some do have potential, meaning that the owners are developing more entrepreneurially-focused, not merely lifestyle, businesses. However, lifestyle goals remain important to these owners with financial measures being secondary.

These contributions to the knowledge base of rural small businesses can be applied to public policy discussions on rural economic development.

#### **9.4. Contributions to Government Policy**

This research suggests possible policy responses by governments at various levels in order to support rural economic development within rural areas. As outlined above, many of the challenges facing rural business owners have been considered from the perspective of urban-based researchers and business owners. These individuals likely face a different reality from the rural-based people (Harris et al., 2005, Shields, 2005). Through this research, the rural small business sample has clearly articulated the challenges as the owners perceive them. Many of these challenges reflect those articulated in the literature. However, others are further refined or identified for the first time. In particular, the issue of heavy time demands and the manner in which to balance these has not been previously identified. As discussed, these time demands flow from the

other challenges relating to the small market size, limited labour pool, distance to urban centres and critical infrastructure gaps. This knowledge can then be used by urban-based policy makers to better understand the problems and issues to be addressed. From here, they can design policies and programs that can mitigate these challenges and more effectively support small business development in these areas (Stathopoulou et al., 2004).

As discussed, this research suggests the typical role of government as provider of loans, grants, advisors and business supports may not be relevant and new policies and programs may be necessary. This perspective flows from the fact that these rural business owners are focused internally on locally available resources which can be accessed relatively easily. They do not often look outside the community for assistance with their challenges. As a group, these business owners do not specifically identify the value or role of external organizations such as banks and professional advisors, government and other support groups for their business operations. Determining the possible role for government is further complicated by the fact that the typical rural small business person may not even be prepared to accept direct assistance from government and other support organizations. As noted above, these owners are independent and self-reliant. In fact, one of the participants scoffed at the idea of government assistance. That having been said, government is well positioned to shape the larger context with policies and programs that are more appropriate to the rural environment. Government's role may be to assist with the movement of the rural context from a hostile environment to a more benign one, thus lessening the impact of some of these challenges. At this level, the responsible departments should be expanded beyond the departments directly responsible for

business and economic development. For example, policies for education, transportation and highways and others may be more relevant towards the creation of a benign rural environment to the benefit of small businesses and communities in these areas.

When the emphasis for rural economic development is shifted from its typical position with small business and economic development ministries, the policy responses become broader in nature, particularly at the provincial level, and might include infrastructure improvements (Reimer, 2004). For example, within the Vancouver Island context, the ministry responsible for transportation and highways could respond with policy initiatives to improve the road system across the island. This may mean paving some roads that are currently unpaved. In other cases, it may mean upgrading logging roads to allow for more traffic to both move goods and services out of the community to customers and to facilitate more traffic from urban areas to rural ones. This type of initiative has had a significant impact in the past. The rise of Tofino, on the west side of the island, as a tourist destination corresponds directly with the paving of the logging road into the community. However, this move must be done cautiously to ensure that the rural communities have the necessary infrastructure in place to support the influx of visitors.

In terms of other government initiatives, B.C. Ferries could re-envision its role from merely transportation providers to instruments of economic development. This may result in a policy reversal that would see subsidies continued to be applied to routes servicing the smaller surrounding islands. This would facilitate the flow of tourists to these islands while keeping costs

associated with logistics relatively low for businesses based there (Anon, 2007, Knox, 2007).

The department of education and post-secondary might also play a role through its policies by supporting the development of human capital, one of the most critical elements in rural economic development (Labrianidis, 2006b, Lundstrom et al., 2005). By incorporating entrepreneurship and small business development into a standardized school curriculum, children would receive training in the skills necessary for business operations. Besides skill introduction, these programs could also reinforce small business and entrepreneurship as viable career options. This might encourage more young people to stay in the rural community and pursue opportunities there, rather than leaving (Drennan et al., 2005, Krueger, 1993, Lundstrom et al., 2005, Malecki, 1994, Rotefoss et al., 2005). These policy efforts could be reinforced by other support organizations at community, provincial and federal levels with programs that promote, support and encourage entrepreneurship and small business and general skill development among adults. However, to be effective, any additional education opportunities should be delivered within the rural communities, rather than requiring individuals to travel. They also should be tailored directly to meet the specific needs of these business people (Anderson et al., 2005b, Lundstrom et al., 2005, Mazzarol et al., 2006, Schultz, 1980). In this regard, there has been a successful pilot project in Australia where business advisors traveled to the rural community to meet with the business owners, rather than the other way around. Several businesses improved their operations and financial position as a result of this program (Mazzarol et al., 2006). It might also be useful to incorporate examples of successful rural business people into

these training programs. These examples could serve both as role models and as evidence for the feasibility of business operations in rural communities, serving as further encouragement to individuals considering this option (Lundstrom et al., 2005, Skuras et al., 2005b).

The ongoing extension of high-speed, broadband Internet into rural communities is another potential role for government. Efforts in this regard reflect past infrastructure development government programs which extended basic telephone services into rural areas (Dillman, 1991, Field et al., 2004). This will have the potential of creating additional opportunities for e-commerce as well as greater use of the Internet as a marketing tool. Further, more educational and training opportunities could be delivered within rural communities with increased digital connectivity. This would also support efforts to attract and retain rural residents who now expect the same level of services as those in urban areas (Leatherman, 2000).

There is also a policy role for local government. As highlighted, there are several infrastructure gaps that exist at the community level which must be resolved in order to support these small business owners. As discussed above, in response, some communities are creating an inventory of the available infrastructure. This knowledge is then used to address the gaps to the benefit of small businesses and residents alike (Dunnett, 2005). One possible response to the gap in banking services is for communities to lobby the banks to create mobile services, a model which has been successful in other countries (Oborn, 2000). In these cases, the banks come to the rural residents, rather than the other way around.

Community leaders can also support ongoing efforts to create an entrepreneurial culture by recognizing the important role that small business plays within their communities and assisting with the identification of business opportunities (Diochon, 2003, Lundstrom et al., 2005). As discussed above, rural communities may limit entrepreneurial behaviour because it is seen as different (Bryden et al., 2004, Ho et al., 2001, Labrianidis, 2004a). By shifting this perspective, more individuals may start businesses to the ultimate benefit of the community. Finally, the community may create regional marketing programs to reach potential customers and build on efforts of the individual businesses (Labrianidis, 2004a).

Government's policy response may also be shaped by the different types of enterprises that operate in these rural communities. As discussed, some rural businesses have clear potential beyond their local community given the nature of their products and services. As a result, these businesses tend to have more potential for growth and profits, making them less financially marginal. As a result, these business owners can be considered entrepreneurs, rather than small business or lifestyle owners (Carland et al., 1984, Centre for Rural Entrepreneurship, 2003, Henderson, 2002, Hindle et al., 2002). These businesses also appear more likely to be able to create additional economic benefit to their communities since they have a greater need for local employees. Government support for these businesses might then be more focused on marketing and further infrastructure development to support these owners' efforts to access outside markets and manage logistics effectively and efficiently. At the human capital level, through training and education programs, government might also encourage individuals to think more entrepreneurially and evaluate opportunities

that are more likely to create growth and profits while still meeting lifestyle goals. These entrepreneurs play an important role in developing new ideas, markets, products and services that might allow a local economy to meet their needs locally and beyond while creating jobs and opportunities for skill development. These actions can diversify the local economy and create more advantages to both the local community and society at large (Herslund et al., 2004, Ho et al., 2001, The Rural Secretariat, 2004).

However, these rural communities cannot survive without the lifestyle businesses because, while financially marginal in nature, these businesses provide goods and services for local residents and tourists alike. Without restaurants, shops and other similar businesses, the heart of a community might disappear, prompting more individuals to leave. In response to this issue, some regions and communities have undertaken “buy local” campaigns to convince community members to purchase from local shops in order to retain the money, employment and businesses within their community (Kirby, 1982, 1987, Markey et al., 2005). Ultimately, a rural community needs a mix of both kinds of businesses. They provide mutual support to each other and both attract to and retain people within the community as short-term tourists and more long-term residents. Government at the higher levels can ultimately work with the communities to support and encourage more entrepreneurship and small business by responding directly to the needs of these small business owners.

### **9.5. Future Research**

Despite its contributions, there are several limitations of this research which suggests the need for further work. The first limitation relates to the small sample size placed within a limited geographical region. Consequently, results

and conclusions are narrow and must be extended and generalized with larger sample sizes and a broader geographical reach. The next stage of research will be to address this by expanding within this region and beyond. By enlarging the size and geographical distribution of sample businesses, one can also explore the potential differences between those businesses which are in communities that are more accessible to urban areas as compared to those with less accessibility. In addition, the differences between entrepreneurial and lifestyle businesses can also be examined in more detail to understand the interaction and use of resources by these owners. In particular, it would be useful to understand potential differences in human capital and in motivation for success in the entrepreneurial owner's pursuit for growth and profit opportunities within the challenging environment, especially over the long term. This may provide further contributions to rural small business policy development.

#### **9.6. Overall Conclusion**

This research has contributed to a clearer understanding of the reality for owners and their rural small businesses. While some characterize the rural environment as hostile, it is also an area with economic opportunities drawing upon the areas' unique geography, culture, and local knowledge. Many individuals with the support of their families and communities are capitalizing on these possibilities while responding to desires to sustain rural communities.

As seen in the case studies, these owners are using their small business as a way to meet their goals and objectives for life in a rural area. The challenges these owners face become the cost of operating in these rural areas to which they respond with creativity, self-reliance, and four primary resources, themselves, their families, business and community. By understanding this perspective, the

challenges faced by these owners and the manner in which they respond, more effective policies and programs can be developed that will support efforts to create economic development at the community level (Keeble et al., 1992, Page et al., 1999, Tehrani et al., 2003, Westhead et al., 1999). These efforts ultimately are to the benefit of the individuals, their families and communities, and beyond.

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## Appendix A

### Interview Guide -- Themes

These are the questions that I will be asking. They are intended to be open ended and additional questions will be formulated through the course of the interview.

- Name of company
- How long have you been in operation
- How did you get started in business
  - What prompted you to open your own business
  - Was financing an issue
  - Where did you get the money from
  - Did you need employees right away
- Did you write a business plan or undertake any sort of planning at the outset
- Is this primary income or is there other income?
- What has been the biggest challenge/how do you resolve it
  - Follow up areas
    1. Start-up
    2. Staff
    3. Operations
    4. Logistics
    5. Marketing
    6. Competition
    7. Financing
    8. Government-business relations
    9. Community Relations
    10. Internet (access, webpages, etc)
    11. Skills
      - Management
      - Technical
- What is your definition of success
- What are your plans for the future
- What would you do over again if you had a chance
- What supports do you need

## **Appendix B**

### **Company Demographics Form**

Company Name:

Owner(s):

Location:

Product/Service:

Years of Operation:

How Long in Community:

Number of Employees:

Full-Time:

Part-Time: