
Available from Deakin Research Online:
http://hdl.handle.net/10536/DRO/DU:30022206

Reproduced with kind permission of the copyright owner.

Copyright : © 2004, ANZAM
Entrepreneurship in Mexico: Lessons for stakeholders in New Zealand
Dr Howard Frederick, Unitec New Zealand hfrederick@unitec.ac.nz
Preferred stream: B. Small Business and Entrepreneurship

Entrepreneurship in Mexico: Lessons for New Zealanders

Abstract
[[Note: This paper will include data from both New Zealand and Mexico gathered in the 2004 GEM research cycle. It is thus a work in progress. It also lacks the complete literature review, which will be added to the final version.]]

Introduction
A “neighbour” separated by 6,000 km of Pacific, Mexico is by far New Zealand’s largest trading partner in Latin America and its 15th largest overall. With two-way trade worth NZ$584 million in 2002, many Mexicans grow up on New Zealand milk powder and baby formula. Not only is Mexico’s population of 100 million a huge potential economic partner in its own right, through its network of free trade agreements, Mexico has preferential access to 860 million consumers in 32 countries covering sixty percent of the world’s GDP.

Like New Zealand, Mexico is a “New World” country open to new ideas and innovation. Also like New Zealand, Mexico is known internationally for economic reforms that have created two outward-looking, world-trading, and competitive economies. During the last 50 years, the Mexican economy has shifted away from the once dominant sectors of agriculture and mining toward more industrial activities, especially in the major urban centres of Mexico City, Monterrey, Guadalajara, and other regional centres, where entrepreneurs are concentrated. With this shift, a new class of entrepreneurs arose with the support of the government.

One of those regional centres is the State of Sinaloa, with its capital city, Culiacán. Spearheaded by a visionary government and personified by the Secretary of Economic Development, Heriberto Felix Guerra. Secretary Felix is himself restaurant entrepreneur who owns a growing chain of “concept food” restaurants in the region.

It is no accident that when New Zealand Prime Minister Helen Clark visited Mexican President Vicente Fox Quesada on 15 November 2001, one of the topics of conversation was the fact that very day their two countries had been benchmarked as two of the world’s most entrepreneurial countries in the Global Entrepreneurship Monitor 2001 survey.

More germane, both countries have low-aspiration entrepreneurs who generate low levels of wealth and have low potential for growth. Both are dominated by micro-businesses that do not have high-value-added components and are not investment-ready and pre-qualified for risk capita.

This leads to the question, what can New Zealanders learn from the experience of Mexican entrepreneurship?

Background
Although the on-line literature contains little on Mexican entrepreneurship, [1] Mexico’s high ranking as an entrepreneurial nation has attracted the attention of government, private organisations and educational institutions. A number of interesting investigations have taken place through Monterrey Institute of Technology. Monterrey Tec (its official name is the Instituto Tecnológico de Estudios Superiores de Monterrey, or ITESM) has a required basic entrepreneurship course of all undergraduate students—taught by 120 tutors!—since 1992. The Mexican partner in the Global Entrepreneurship Monitor (GEM) has been Monterrey Tec’s Graduate School of Management (EGADE), although GEM Mexico has yet to publish its research.

One well-researched paper, by Fabre and Smith (2003) [2], listed important insights about Mexican entrepreneurs.

• Mexican entrepreneurs focus on low-risk, low-value-added endeavours that require minimum capital investment. The challenge is to motivate them to pursue higher aspiration entrepreneurship.

• Because few people in Mexico have significant personal savings, most are compelled to find re-employment quickly, and may be forced into positions that do not fully exploit their capabilities.

• Mexicans are less able to leave existing employment to pursue high-value-added entrepreneurial ventures.

• Mexicans often lack significant savings and face volatile job markets, so they tend to select entrepreneurial ventures that are low-risk, quickly testable and have high chance of success. They do not choose these ventures based on high up-side potential.

• Mexico’s highly inequitable tax regime forces entrepreneurs to adopt non-transparent business practices, thus making them less attractive to VC.

• Lack of entrepreneurship education often leads to failed entrepreneurs.

Methodology

This paper uses four types of quantitative and qualitative data.

• Case study on the Mexican State of Sinaloa: In late 2003, the author participated in an OECD-financed review of entrepreneurship in Sinaloa to assess the development of entrepreneurship through a structured programme of meetings with policymakers, academics, programme managers and the business community. This OECD research will appear in 2004 through the Local Economic and Employment Development (LEED) Programme of OECD and uses the “Analytical Framework and Methodology for Local Entrepreneurship Reviews” to collect information.

• Adult population survey: We carried out a survey of Mexico and New Zealand in 2001 and 2002 to measure the entrepreneurial behaviour and the attitudes of the working-age population. These surveys produced a measure we call the Total Entrepreneurial Activity Index (TEA).

• Expert questionnaires: We interviewed New Zealand and Mexican experts to probe more deeply into dynamics of entrepreneurship in New Zealand. Our experts included entrepreneurs, politicians, educators, government officials, investors, and other professionals in the field of entrepreneurship. These experts completed extensive questionnaires that consisted of 84 five-point scale items covering 14 topics, and socio-demographic items.

• Estimates of informal investment: We asked the survey respondents if they have made a personal investment in a new firm, not their own, in the past three years (2000-2002), how much was their support, the nature of the businesses they sponsored, and their relationship with the recipient.

Two highly entrepreneurial countries

Table 1 provides the total population as well as estimates of the total number of individuals and business entities considered involved in the entrepreneurial process (measured by the TEA rate), established operating businesses, and entrepreneurial firms (providing market innovation and hoping for growth). New Zealand with 3.9 million and Mexico with 104.9 million are vastly different in size. About 2.4 million and 58 million, respectively, are in their working years. In New Zealand, 13.8% of working age adults, or 340,000, are trying to get 179,000 firms past the launch stage. In Mexico, 12.4% or 7.2 million, are trying to get 3.9 million start-up firms off the ground.

The adult population survey inquires about any ownership of an existing business. By adjusting for the size of the ownership group it is possible to estimate the total number of going businesses in each country. Using the same procedures, Mexico and New Zealand are also very high in the Firm Entrepreneurial Activity (FEA) index, which measures whether existing businesses are considered entrepreneurial. In New Zealand, 16.82% of existing firms are entrepreneurial firms while in Mexico 18.8% of existing firms are entrepreneurial firms. Only Korea and China have higher rates of “corporate entrepreneurship” (Reynolds et al. 2004).
Our data show that Mexico and New Zealand are within a 3% of one another in overall TEA and thus were two of the world’s three most entrepreneurially ranked countries in the world. These two countries also have very high proportions of opportunity entrepreneurs. Where they differ is in the rate of necessity entrepreneurship, where the Mexican rate is very high while New Zealand’s is moderate-to-low. In 2002, only India and Thailand are statistically higher in TEA than New Zealand and Mexico in 2002. There is no statistical difference amongst the “second place” countries including Mexico and New Zealand.[5]

If we examine the entrepreneurs by gender, we see that the female participation rate is non-significantly higher in Mexico than New Zealand. The proportion of females amongst entrepreneurs is 41% in Mexico and 37% in New Zealand.
In 2002, 40 New Zealand experts and 40 Mexican experts (including entrepreneurs, politicians, professors, entrepreneurs, government officials, investors, and other professionals in the field of entrepreneurship) completed extensive questionnaires. Their views are compared to the views of the 1,300 experts interviewed in all the GEM countries.

For the most part, Mexican and New Zealand experts have similar views on the 84 questions in the survey. However, six significant differences are revealing.

**Regulation**: When asked on a five-point scale (where 5 equals completely agree and 1 equals completely disagree) whether (1) new firms can get most of the required permits and licenses in about a week; (2) the amount of taxes is NOT a burden for new and growing firms; (3) taxes and other government regulations are applied to new and growing firms in a predictable and consistent way, New Zealanders rank this 2.1 while Mexicans rank it 2.5.

**Market openness**: When asked whether (1) the new and growing firms can afford the cost of market entry; (2) new and growing firms can enter markets without being unfairly blocked by established firms; and (3) anti-trust legislation is effective and well enforced, Mexicans rank this at 2.7 while New Zealanders rank it 3.7.

**Physical infrastructure**: When asked about access to physical infrastructure, which includes: ease of access to available physical resources – communication, utilities, transportation, land, or space – at a price that does not discriminate against new, small, or growing firms. Mexicans experts rank this at 2.3 while New Zealand counterparts rank it at 2.8.

**Intellectual property**: When asked whether Intellectual Property Rights (IPR) legislation is comprehensive and legislation enforced; whether illegal sales of ’pirated’ software, videos, CDs, and other copyrighted or trademarked products is not extensive; new and growing firms can trust that their patents, copyrights, and trademarks will be respected; it is widely recognized that inventors’ rights for their inventions should be respected, Mexicans rank this 2.6 while New Zealanders rank it at 3.4.

**Female entrepreneurs**: Finally, when asked whether there are sufficient social services available so that women can continue to work even after they start a family; starting a new business is a socially acceptable career option for women; women are encouraged to become self-employed or start a new business; women get exposed to as many good opportunities as men to start a new business; women have the necessary skills and motivation to start a new business, Mexican experts rank this at 2.8 while New Zealand counterparts rank it at 3.7.

**Informal investment**

In essence, there are only two major sources of funding for nascent and new firms: formal or “classic” funding from venture capital (VC) funds, usually in return for a share of ownership; and informal investment through financial contributions from family, friends, and associates of the entrepreneur; and. Both Mexico and New Zealand are very poor in classic VC. Yet both have high percentages of the adult population that we classify as informal investors (sometimes also known as business angels).
The Dilemma of the New Zealand Necessity Entrepreneur

Mexico (4.93%) and New Zealand (5.18%) are in the top-ten ranking for “business angel activity”. The leaders in this league table are the churning, developing economies of Uganda, China, and Thailand, with Iceland scoring a respectable second place.

In other words, while Mexico’s and New Zealand’s business angel prevalence scores may be very similar, New Zealand pulls ahead in the average amount that each investor will invest in a new or growing firm. Each New Zealand informal investor invests an average of $14,046 while the Mexican counterpart manages only $1.322. This leads to an even greater Mexican deficit. Around the world, informal investors make a huge contribution to the economy. GEM estimates that, in the context of contribution to national economies, informal investment is on average 1.2% of the national GDP amount, ranging as high as 5.5% in China and 5.24% in South Korea. In New Zealand, informal investment activity is high at 3.6% of the national GDP amount. Clearly, when it is as much as 3% of a nation’s GDP, informal investment is a highly significant factor in that nation’s economy. Mexico falls short on this index, with only a 0.64% amount.

Entrepreneurship policies in Sinaloa, Mexico

Our surveys and estimates have revealed similarities and differences between these two very different yet very entrepreneurial countries. What can New Zealanders learn from their “competitor in the global entrepreneurial sweepstakes”?

The author participated in an extensive qualitative, case study data collection exercise with a team of five OECD experts to examine entrepreneurship policies and achievements in the Mexican State of Sinaloa.

Sinaloa is one of the smaller states in Mexico occupying 58,000 km² along the Pacific Coast. Nonetheless, it contains fully 40% of the country’s entire fresh water and is lush in valleys, dams, agriculture, rivers, and diverse microclimates. Due to its immigration history, the 2.5 million inhabitants have a risk-taking spirit. Beginning with capital-intensive and perilous mining industries in the 1800s, its mixture of predominantly Spanish and other European peoples are individualistic and compete strongly with their neighbours. The turbulent weather and markets have helped them to be risk-tolerant. Being a failed entrepreneur in Sinaloa is no stigma as recessions, depressions and banking failures have delivered the levelling blow of bankruptcy to virtually everyone at one time or another.

Ex-soldiers from Iberia mixed with Germans steam-industry workers and Chinese merchants to create the risk-taking and entrepreneurial Sinaloa stock present today. With the complications neither of the indigenous peoples of central Mexico nor the Apache Indians of the north, Sinaloa was an “island of land”, guarded by the Sierra mountains and the Sea. Sinaloa was so isolated since its founding in 1527 that until 1957 one had to go by boat to Acapulco to reach Mexico City and its first train connected it to the United States not central Mexico. Climatically, Sinaloa lies between the tropics and the desert. The prototypical entrepreneurial city is Sinaloa’s capital, Culiacán, and its best-known city is renowned the Pacific seaport and resort Mazatlán.

Sinaloans call their state the “Land of Life”. Its hugely productive valleys, rivers and sea yearly produce millions of tons of vegetables, grain, seafood and shrimp and support a robust tourism industry. Geared primarily around agri-businesses, its highways, rail links, air routes and seaports send its produce all over the country and to the United States. This infrastructure is crucial for its various “assaults” on other markets. For example, Sinaloans have the eyes set on the US$2.5 b dollar market in salsa in the United States.

Entrepreneurship policy in Sinaloa

Unlike in New Zealand, where they are the dominant discourse, the words “innovation” and “innovation policy” are rarely heard in Sinaloa. “Entrepreneurship policy” is the name of the game in Sinaloa. The state government, through the Secretariat of the Economic Development, has made a commitment to nurture and support an entrepreneurial culture and economy in the state.

Sinaloan entrepreneurship policy arose out of the crisis of the mid-nineties. For Sinaloa, the North American Free Trade
Agreement (NAFTA) meant considerable economic collapse, since its industries were no longer protected. Sinaloa realised early on that neither the economic reforms of the eighties nor the commercial opening to the United States in the nineties could go to help it. Open to competition from more competitive firms in places such as Florida, agriculture production lost yield; food imports led to bankruptcy of many agribusinesses. It became quickly apparent that Sinaloa had to “de-commodify” itself and to change its heavy dependence on commodity exports.

Sinaloan economic policy of present period can be summarised in four points:

- More and better jobs.
- More and better firms.
- More and better entrepreneurs.
- Add value to commodity production.

As the State Secretary of Economic Development, Heriberto Felix Guerra says:

*We had to drive up the entrepreneurial spirit and convert Sinaloa into a land of entrepreneurs. We had to change people’s mentalities from ‘Make them give me a job’ to ‘Let them help me create a job’. Paternalism was the cause of our poverty. If you give them hand-outs, they lose their dignity, their spirit of entrepreneurship.*

*We came up with a way to explain our policies in the ‘Law of the Cup’. We went to modest villages and found the grocery stores, pharmacies, bread stores and farms that were driving the economy. We called them ‘Empresas Tractoras’, or driving-sector companies. We said, ‘Take a glass of water. How do we fill this glass of water? Each product we sell outside your village puts water in the glass. Each product that we import takes out a drop of water. If we don’t add water, it will dry out the economy.’ This is how we explain export-oriented entrepreneurship even to the poorest peasant.*

**Production chains and driving-sector companies**

Beginning in 1999, public policy stepped in to support agribusiness, strengthen competitiveness of production chains and help driving-sector companies. Sinaloan ministers and experts described it this way: A commodity production chain (cadenas productivas) means a set of stable relations among enterprises whose end result is a finished product. This includes backward and forward linkages within a sector that go beyond customer/supplier trade exchange relations. To describe a production chain, one starts with the final commodity or consumable and moves backwards until reaching the raw material input. One examines how these nodes relate regarding issues such as market information, the definition of quality standards, upgrading of suppliers, technical training and innovation diffusion.

A good example of a commodity production chain that is the Sinaloan company “La Costeña” located in Guasave. La Costeña produces tomato paste, jalapeño chili peppers, tomato purée, chicharos, Mexican sauce, sweet maize, poblano Chile and pimientos. Investment in this type of food processing company greatly benefits a vertical logistic chain of companies by producing links to the productive chains of the rest of the economy.

In Sinaloa, a driving-sector company (empresas tracotoras) is one that drives or pushes economic activity by creating jobs, attracting investment. It is also a vehicle for other companies to commercialise their own products and/or services, thereby developing themselves as local suppliers to strengthen the internal market.

The Sinaloan model goes like this: The Top 100 Sinaloan companies provide 20% of the jobs in the state while the top 500 provide 42%. Beneath them are the small and medium enterprises (SMEs) and the micro-businesses. At the base are the young entrepreneurs (Jovenes Emprendedores) who are the source of micro-enterprises. So there is a critical relationship between the Driving-sector Companies, those companies underlying them that supply goods and services, and young entrepreneurs.

Sinaloans have put in place a Driving-Sector Companies programme (Programa de Empresas Tractoras--PET) to promote the development of driving-sector companies in the region,
to identify opportunities, and finally to integrate them into the production chains that connect to the driving-sector companies of Sinaloa.

Young entrepreneurs are at the base of the Sinaloan model of economic development, so education is a critical element in growth. This Jóvenes Emprendedores (Young Entrepreneurs) programme is now a requirement for 90% of undergraduate students in Sinaloa. Sinaloan officials travelled as far away as Australia and Canada searching for a system to train young entrepreneurs. They found it in their own backyard, at the Tec de Monterrey (Instituto Tecnologico de Estudio Superiores de Monterrey or ITESM). Tec may have the largest undergraduate entrepreneurship programme in the world. Every undergraduate (19,000) must have “Development of Entrepreneurs” in 7th semester. There are 120 lecturers who teach this single course and there is a highly developed pedagogy to train these lecturers. Students may also choose a “Specialisation in Entrepreneurship”, which means that they have to have their business up and running in order to graduate. There are the requisite incubators, business plan competitions, and capital funds to make this possible. The Jóvenes Emprendedores initiative is unprecedented at the tertiary level in Sinaloa, but at the global level as well. It underlies a strong commitment towards creation of an entrepreneurial culture in the State of Sinaloa.

Law on Enterprise Management and the Regulatory Reform

In June 2001, President Vicente Fox signed an executive decree ordering a swift deregulation and simplification of business formalities of Mexico. The mandate of the Federal Regulatory Improvement Commission (COFEMER) is to promote transparency and cost-effectiveness in regulations. Especially targeted are the formalities (trámites) that imply the exchange of information (generally involving forms) between the government and private parties.

Through its Law on Enterprise Management and the Regulatory Reform (Ley de Gestión Empresarial y Reforma Regulatoria), the State of Sinaloa is one of the leaders amongst the states in streamlining regulations and formalities from multiple regulators and layers of government, which all acknowledged have greatly slowed down business responsiveness, hampered market entry, reduced innovation and job creation, promoted the informal economy and corruption, and generally discouraged entrepreneurship. This initiative (currently awaiting approval in the Sinaloan Congress) establishes a transparent legal framework that avert opacity and regulatory capture.

The Secretary of Economic Development has spearheaded this initiative on behalf of the Government. In their view the new Law consolidates the advances already made, strengthens democratic values (public accountability), promotes a culture of transparency (access to information), assures the rule of law (reduce administrative discretion) and thereby promotes economic development, investment and competitiveness and improves government efficiency.

The importance to entrepreneurs of this simplification in administrative proceedings cannot be overemphasised. It used to take months to start a new company. Now the processes typically takes less than eight hours, making Sinaloa one of the leading States legislating on enterprise management, speedy firm creation, use of the Internet, and the recognition of electronic signatures.

The law includes a system to assess the impact of new regulations by putting them through public cost-benefit analysis under the eyes of of a Commission that includes entrepreneurs themselves. This new State Commission of Enterprise Management and the Regulatory Reformation (Comision de Gestión Empresarial y Reforma Regulatoria) is a decentralized body with autonomy and its own budget.

All of this could not happen within a paternalistic system that coined its own work—tramitología—for excessive business regulation and compliance cost.

The Law specifically identifies and formalises those activities that have emerged over the last four years, namely:

- Centres for Enterprise Support (Centro de Atencion Empresarial). Located throughout the State, the CAE’s are “one-stop shops” that help small business entrepreneurs with their formalities and connect the business man and woman to programmes that help them increase the productivity and competitiveness.

- The Fast-Start Business System (Sistema Sinaloense de Apertura Rapida Empresarial—SSARE) brings together all the technology and services to make it possible to comply with the necessary state and local formalities in as little time as possible.

- The Register of Formalities and Services (Registro Sinaloense de Tramites y Servicios) is a public register of those steps that must be taken to satisfy the requirements.

- Electronic Formality and Service System (Sistema Electronico de Tramites y Servicios) is an Internet-based system connecting all offices into a seamless web of services to entrepreneurs.
The Register of Accredited Persons (Registro de Personas Acreditadas) simplifies the process by giving a single, Internet-connected ID number to all juridical entities proceeding through the system without the need to provide identification and documentation at each step.

The Law even provides for sanctions against public servants for “Enterprise Obstruction”. These obstructions include such things as failure to respond to requests, loss of documents, and solicitation of bribes. Sanctions include suspension, dismissal and a ban from public service.

The Commission is composed of the following bodies:

- The volunteer Managing Board (Junta Directiva) is composed of the relevant State Secretaries, presided over by the Secretary for Economic Development, as well as members of various business chambers and industry federations.

A Consultative Council, presided over by the State Governor and the Secretary of Economic Development, is composed of five further affected State Secretaries; twenty-three councillors representing the regions, the chambers and federations as well as the tourism, academic and social sectors; eighteen councillors representing the various cities; and finally five councillors from other secretariats such as natural resources and environmental protection. The partnership between the universities, themselves, is a lesson that should be learned by tertiary institutions around the globe.

Finance mechanisms

Fondo Sinaloa de Fomento Empresarial (Red FOSIN), the Sinaloan Fund for Enterprise Development Network, is a network of “one-stop shops” for financial services. The network provides micro- and SMEs with needs assessment, training, assistance with business planning, access to financing, linkages with business partners and opportunities, and continued follow-up with the entrepreneur. Some loans are made through local banks, while others are disbursed through enterprises or government offices. Loans range from $3,000 pesos (approximately NZ$415) for sole proprietors up to $4,500,000 pesos (approximately NZD$620,000) for medium-sized enterprises. FOSIN representatives perform the initial client screening through a series of tools designed in coordination with each participating bank. The FOSIN Consultant, who works with as many as 40 enterprises at any one time, is the enterprise relationship manager and guides the client through an integrated assessment and training process, which is a prerequisite for receiving financing.

- Assessment: When the client enters one of the 10 FOSIN offices around the state, the FOSIN Consultant assesses the company’s training, stage of development, and financing needs with a diagnostic tool (the Diagnostico).
- Managerial Training: Following the Diagnostico, the enterprise participates in a 15 hour “Entrepreneur Development” training, along with other entrepreneurs in groups of 15-20 entrepreneurs.
- Business Plan: The Consultant assists the entrepreneur in developing a business plan, which addresses product development and market penetration strategy.
- Financing process: Once the client is determined to be eligible, the Consultant directs the client to apply to the appropriate FOSIN financing programs.
- Monitoring: Once a loan is disbursed, the Consultant maintains contact with the client throughout the period of the loan repayment and is available for assistance.

FOSIN Consultants are paid a nominal salary and the remainder of their compensation is commission-based, tied to their loan productivity in relation to set goals. In terms of qualifications, many FOSIN employees are also entrepreneurs themselves, or come from the financial sector. Therefore they are able to relate to their clients and advise them in multiple areas beyond financing, such as marketing, human resources management, etc.

FOSIN is leveraging the national guarantee programs of NAFIN Guarantee Program (Nacional Financiera), which has designed programs in partnership with Mexican banks to encourage commercial lending to small and medium sized businesses. NAFIN representatives work with the headquarters of participating banks to loosen some of the eligibility requirements imposed by the banks. For example, NAFIN representatives have been working with some participating banks to reduce the required minimum number of years of operations for the enterprise to six months from the current two years.

FOSIN Advances (FOSIN Avanza) works at a higher level, with loan sizes ranging from $500,000 - $4,500,000 pesos. The maximum term is up to 10 years, depending on the use of funds. In the case of the larger enterprises and loan sizes, a FOSIN guarantee is not always necessary because the size of the enterprise is more palatable to the bank. As of September 30th, 2003, $35.6 million pesos had been disbursed to 55 enterprises.

FOSIN Woman (FOSIN Mujer) is a new micro- and SME financing project with capital of 2 million pesos and loans ranging
The Dilemma of the New Zealand Necessity Entrepreneur

from $20,000 - $50,000 pesos. FOSIN is partnering with Instituto de Mujer (Women’s Institute) to target women-owned businesses with direct financing. The Institute selects the projects and FOSIN consultants perform the credit analysis. The enterprise must have a minimum of two years’ operational experience.

FOSIN Emprende, with $2 million pesos in capital, is connected with the university entrepreneurship program Young Entrepreneurs and targets microenterprises in the start-up phase with loans between $20,000-$50,000 pesos. Loans are structured with payment every 15 days and priced at .5% per month, plus 1.5% for training and administration, which is well below informal lending rates. This financing is delivered to graduates of the Young Entrepreneur program and is one of the few sources of financing for such businesses, as new businesses in Mexico are shut out of the formal financial sector.

Sinaloa Exporta

Sinaloa Exporta is the State’s foreign trade campaign that aims to promote and develop the export goods. It offers management and advice services for SMEs desiring to increase their export flows. Through its programmes it aims to change the Sinaloan export culture and create new exporting SMEs. It specialises particularly in commercialising food and manufactured products for the foreign market. It helps companies redirect their production to foreign markets through diagnostic and support through such services as labelling, packaging and packing, international contracts, ISO 9000 certifications, market research studies, and international logistics.

Sinaloa Artisan Fund

The Sinaloa Artisan Fund (SAF) is a program to support development of the traditional crafts industry in Sinaloa. SAF’s mission is both social and economic. The social mission is to support the craft artisans in Sinaloa so to as to preserve traditional crafts as a way of life and an integral part of the culture of Sinaloa. The economic mission is to create self-employment opportunities and improve the standard of living for local artisans and to raise the standard of living in marginal communities where local artisans live and work through the commercialization and promotion of high quality crafts in local, national, and international markets. SAF represents the first time that crafts policy has focused on promoting crafts for commercial rather than cultural purposes.

Made In Sinaloa

Made in Sinaloa was developed to support the commercialization and promotion of products made in Sinaloa to local, national and global markets. Promotion of Sinaloan products is conducted by means of commercial missions, fairs and exhibitions in the state, nationally and internationally. In addition to these activities, “Made in Sinaloa” helps develop dealers, conducts business meetings and networks participants with commercial chains. A good example is the Salsa Cluster, where manufacturers of Salsa meet with the local Wal-Mart Manager who selects products for his location. This manager also has the power to recommend successful products to other locations across the country. There are currently 500 Wal-Marts in Mexico. It is possible that a product made in Sinaloa could be found on the shelves of a number of these Wal-Marts.

Made in Sinaloa is a program that supports commercialization and promotion of products produced by micro, small and medium enterprises. One example of an effective network consisted of Salsa producers, along with a manager of Wal-Mart. It became readily apparent why this Salsa cluster would build a relationship with this manager. Wal-Mart is a customer both on a local level, as well as holding out the possibility of offering space in over 500 locations in Mexico alone, notwithstanding the possibility of selling into foreign markets as well. Made in Sinaloa also offers consulting services that include product design, marketing strategy, linking entrepreneurs with major chains, and assistance with trade fairs.

Mi Tienda

Mi Tienda is a program of the government of Sinaloa that provides business development services and small loans to owners of so-called “abarrotes.” Abarrotes are very small grocery stores found in just about every neighborhood or village in Mexico (“dairies” in New Zealand). Abarrotes are family-owned and operated. They tend not, however, to be the primary source of household income. Typically at least one spouse also holds an outside job. Abarrotes sell a limited variety and quantity of pre-packaged food items and produce, dry goods (e.g., detergent, personal hygiene supplies), sweets, and soft drinks. Abarrotes are located in residential neighborhoods, typically as an extension of the owners’ home. Customers are predominately or solely neighborhood residents. Owners and customers know each other and interact with each other on a daily basis. Thus abarrotes also serve as a neighborhood gathering place where people meet and talk. Mi Tienda is a component of a larger economic development plan by the government of Sinaloa to promote entrepreneurship.

Although a single abarrote by itself not significant, in the aggregate they form an important sector of the Sinaloan (and Mexican) economy. Abarrotes moreover, purchase a high percentage of inventory from local producers, such that in the aggregate they comprise a large and vital component of demand for locally produced goods.

The Prosper Foundation
Fundación Prospera (Prosper Foundation) is a group of socially conscious entrepreneurs motivated by the desire to use private sector principles to solve social problems in the state. The mission of the Prosper Foundation is to “raise the quality of personal and community lives of foundation participants, create an entrepreneurial culture, and promote investment in high-quality projects through (a) micro-credit and savings schemes and (b) capacity building and technical assistance to small business owners.”

All clients of the Prosper Foundation are micro-entrepreneurs. The typical client lives in a larger city; is self-employed; is a woman (70% of clients); runs a family-based business in the industry, service, or commerce sectors; and does not keep written accounts. Foundation officials estimate that 60% of clients are poor.

The Prosper Foundation gives individual loans ranging from 1,000 to 50,000 pesos (approximately $90-$4,500) at interest rates ranging from 1.5% to 6.0% (typically 5%) per month calculated on a declining balance over a time period ranging from three to twelve months. The average loan size is 6,000 pesos ($580), and the average duration is 3-6 months. Clients are eligible for successively larger loans at more preferential terms based on their repayment history.

The funding mechanism for the Prosper Foundation is the cell. A cell is a group of 10 local business persons who contribute the initial loan capital and who actively assist clients by sharing their knowledge and experience in a way that promotes the expansion of clients’ businesses. The operating costs of the foundation are subsidized by the Sinaloa government, which fund raises, serves on the credit committee, and provides office space for foundation headquarters in the government office complex. The principal competitors include pawn shops and money lenders.

The Sinaloan Broom Cluster (Fondo de Fomento a la Industria Escobera (“FIESCOBA”))

This is an excellent example of cluster organising to add value to a commodity product, in this case, brooms. Broom corn is the name given to the flexible stalks a type of Sorghum grown in Sinaloa and other parts of Mexico. After the grain has been removed with combs, the flexible stalks are used for various types of hand brooms. There are more than thirty broom-making firms in Sinaloa and they supply the domestic and the US markets. Nine of them have come together to form the cluster.

FIESCOBA A.C. brings together the members of the broom cluster through the state to link their production chain with specialized services (common purchases, sales and production, quality, technical assistance) to reach greater levels of efficiency and competitiveness in the market. FIESCOBA provides advice on financing, connects its members to government support programmes, promote and coordinate outsourcing, organises training programmes, and has launched an effort to “re-engineer” companies that form the productive chain. For example, FIESCOBA has funded research into Italian machinery that can greatly increase production while keeping staff levels constant. The firms are producing under capacity due to out-of-date methods and lack of raw product. Sinaloan farmers receive no subsidies for broom corn production and there is a deficit during certain times of their year. So part of the clusters efforts aim to increase the hectares of cultivated sorghum.

FIDSOFTWARE (Des@Rrollo de la Industri @ del Softw@Re en Sinaloa)

This ambitious program arose as an initiative of the Secretary of Economic Development to strengthen local software companies and provide a platform for national or foreign direct investment. It also give the IT sector a way to contribute to the three Sinaloan goals of more and better jobs, companies and entrepreneurs. FIDSoftware has three general areas of activity to increase competitiveness of Sinaloan technology SMEs in the global market place:

- Alliances with institutions and companies such as Bancomext, CONACYT, and international companies.
- Increased quality through qualification in the Capability Maturity Model (CMM), the standard for international software development.
- Product promotion through commercialization, logistics and marketing; participation in trade fairs.

Top on its list is increasing the supply of qualified young people coming out of the Technical Universities and polytechnics. The programme encourages students in their last semesters to become certified specialists in software development. Fidsoftware also involves IT experts in companies in transferring technology, competitive intelligence and innovation processes to support this strategic sector. With these capabilities in place, the Secretary wishes then to assist with exports of software services and products. Working with tertiary institutes, the Government has created a “Jobs in Your University” programme that brings outside investment and jobs to the campus through the establishment of contracted call centres, data processing centres and software development installations.

CRECE (Regional Centre for Managerial Competitiveness)

CRECE (Grow) is an advisory and management training institute dedicated towards the support of commercial, industrial and service related businesses. CRECE is a national network of regional centres located in every state, offering counselling and training to small and medium firms in order that they can grow by connecting their business with the needs of the
marketplace. While CRECE receives financial support from the federal government, the management of these programs is conducted in the private sector through a Managerial Co-coordinating Council. This program is available to micro, small and medium enterprises from industrial, commercial and service related areas. They must be in business for at least two years, be 100% Mexican owned and formally established in Mexico. The purpose of the program is to optimize human, financial, administrative and technical resources within the company in order to develop action strategies to address challenges, improve levels of competitiveness and plan for the future. Counselling is conducted in the following five areas: management, human resources, marketing, production, finance.

COMPITE

COMPITE is a program designed to achieve an increase in productivity for small industry. The Secretariat of Economic Development offers this program to business leaders. These four-day theory/practice workshops offer General Motors methodologies:

• To increase and improve productivity of the specialized production processes
• To increase the number of new products emerging from the manufacturing process
• To decrease inventory at the various stages of the manufacturing process
• To develop the proper throughputs during the production process

Conclusions and discussion

The levels of entrepreneurship in Mexico and New Zealand are amongst the top-ranked in the “GEM world”. In both cases there is evidence that high levels of entrepreneurship occur particularly, as in Sinaloa, when there is geographic isolation resulting in “can-do” attitude. Selective immigration of highly entrepreneurial adventurers may also play a role.

Levels of opportunity entrepreneurship in Mexico are high, but the proportion of necessity entrepreneurs is lower than in other developing countries possibly due to the number of manufacturing jobs that have been created by the North American Free Trade Agreement (NAFTA). The proportion of adults who invest in start-up businesses is also high. Mexico’s business angel rate compares favourably with the GEM average and with New Zealand’s rate. Mexico’s firm-level entrepreneurial rate (FEA) is also very high.

New Zealand also has a high rate of entrepreneurial activity. About one in seven adults is engaged in some form of entrepreneurial activity, and the country has one of the world’s highest proportions of opportunity entrepreneurs. New Zealand also has a very high business angel activity among the GEM 2001 countries. About 1 person in 16 invests in the start-up businesses of other people. New Zealand’s entrepreneurial firms make up a large proportion of total firms.

Our experts have pointed out some of the differences between the two countries. While the regulatory burden on Mexican entrepreneurs is dropping, it is still higher than in New Zealand. The huge, complex bureaucracy in Mexico that faces start-up entrepreneurs is a challenge even for those with ample motivation and financial resources. Governmental programs to support start-ups do exist but sometimes are poorly designed, are a waste of resources and offer little real support. However, in places like Sinaloa, there is a perception that government can bring the changes needed for a renewed entrepreneurial environment.

As well, entrepreneurs in Mexican still suffer from less market openness than New Zealand entrepreneurs. New Zealanders enjoy better commercial/professional and physical infrastructure and have as well better protection of intellectual property. While New Zealand is not top-ranked in terms of female entrepreneurship, Mexican women would suffer from a lack of sufficient social services, would have less of a social acceptable career option to become an entrepreneur, and have less skills to start a business than women in New Zealand.

In general, the Mexican education system prepares students for employment rather than for self-employment. Research and development has been the preserve of larger corporations and most technology is imported. As a result, Mexican firms largely depend on other countries for new technology. New Zealanders generally undervalue education. Entrepreneurship is not part of the compulsory curriculum, while standard tertiary business education focuses more on employees and managers than on employers and job creators. Universities are generally not entrepreneurial and do not focus on the needs of entrepreneurs.

In both countries, more than a decade of reform has led to a high degree of privatization, liberalization and deregulation of the economy. While Mexico still has a long way to go, New Zealand is admired in this regard. In both countries, there is a high level of government awareness of the needs of entrepreneurs, and there is a growing interaction between government and entrepreneurial leaders. In both countries, there are regional disparities in access to capital, R&D transfer, commercial and professional services, and physical infrastructure. For all of their entrepreneurial endowments, both Mexico and New Zealand suffer from widespread cultural and social attitudes hinder the growth of entrepreneurship.
The Dilemma of the New Zealand Necessity Entrepreneur

In New Zealand, the media and the public regard entrepreneurs as dishonest and opportunistic. For such a large minority, New Zealand’s entrepreneurs and their needs are largely invisible. New Zealanders have no regard for failed entrepreneurs while in Mexican periodi economic crashes mean that just about everyone has been through bankruptcy and one time or another.

One of the biggest differences between the two is the stress put on innovation OR entrepreneurship. New Zealand is still quite caught in “innovation-speak”. From the Prime Minister down through the business chambers, the greatest effort is made to drive up innovation. Policy and media discourse focus on it. In contrast, the word innovation is hardly mentioned in Mexico. There from the minister on down the emphasis is on creating more and better entrepreneurs. Every campaign, every slogan, every government programme focuses on entrepreneurship and takes innovation as a given.

This is perhaps the bottom line that differentiates the two countries. In New Zealand, government policy emphasise innovation above all else. In Mexico, entrepreneurship is the driving policy to raise the level of economic performance and to raise the standard of living for everyone.


2. Fernando Fabre and Richard Smith, Building an Entrepreneurial Culture in Mexico, May 2003. URL:

3. The Mexican survey was conducted in 2001 entirely by phone. As it turns out, 64% of Mexican households do not have phones, so the results only represented 36% of the population. Thus, the high entrepreneurship activity rates for Mexico probably reflect this strong bias in the sample. To correct this bias, GEM assigned weights to the Mexican data using penetration rate of telephones (percentage of phones) by socio-economic status, which reduced the Mexican results about 20%. We changed survey firms in 2002 and obtained what we believe is a more realistic rate of entrepreneurial activity by using a house-to-house survey. Because this method is enormously expensive, Mexico was not included in the 2003 survey, but they will likely be included in 2004.

4. We divided start-ups into nascent and new firms. To qualify as a nascent entrepreneur, an individual had to satisfy three conditions. They had done something - taken some action--to create a new business in the past year. Second, they had to expect to share ownership of the new firm. Third, the firm must not have paid salaries or wages for more than three months. If the new firm had paid salaries and wages for more than 3 months but less than 42 months it was classified as a new firm. The TEA measure is the sum of (1) those individuals involved in the start-up process (nascent entrepreneurs) and (2) individuals active as owner-managers of firms less than 42 months old. Those 5% that qualified for both are counted only once. An individual was also considered entrepreneurial active if they were involved in ownership and management of a new business that had not paid salaries and wages for over 42 months. Data were also collected on individuals who were owner/managers of firms over 42 months old, but no analysis has been undertaken.

5. In 2002, the entire GEM world declined in entrepreneurial activity (due perhaps to the events of September 11). Unfortunately, the Mexico did not participate in the GEM 2003 survey due to financial difficulties, so we do not yet have a three-year look at entrepreneurship in Mexico. Yet in 2003, Chile, Brazil and Argentina maintain their high ranks, and there is no reason to believe that Mexico would not have don so as well.

6. The literature on commodity chains has its origins in the world-system theory in its attempts to understand the new international division of labour and the uneven consequences of the process of globalisation in the peripheral or semiperipheric economies. The concept of a commodity chain as defined by Hopkins and Wallerstein (1986) in World Systems Analysis Theory And Methodology and developed by Gereffy & Korzeniewics (1990) in Commodity Chains And Global Capitalism has been an important methodological tool in understanding the structure of core - periphery relations.

7. Many thanks to Gary Waller of Brigham Young University.