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Contrasting Entrepreneurial Economic Development in Emerging Latin American Economies: Applications and Extensions of Resource-Based Theory

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Emerging economies face daunting economic development challenges. Economists and management consultants have generally suggested global solutions that typically focus solely on foreign direct investment. Yet a resource-based theory approach offers an alternative view of economic development in which a foundation of resources within a region gestates entrepreneurial activity. While theoretically appealing, it is unclear in application how such resources can be developed or which types of resources are most important to develop. This paper extends the application of resource-based theory to entrepreneurial economic development in subsistence economies. A qualitative study of contrasting entrepreneurial activity in Chiapas (Mexico) and Atenas (Costa Rica) highlights the primacy of intangible resources—and especially entrepreneurial orientation resources—in the gestation of entrepreneurial activity.

Introduction

The relationship between entrepreneurship and economic growth in developed economies has been well documented (Birch, 1979; Reynolds, Hay, Bygrave, Camp, & Autio, 2000). Entrepreneurial development is seen by many government and community leaders as a gateway to economic vitality, leading to a growing tax revenue base, enhancing prospects for self-generating innovation and future growth, and yielding qualitative improvements to an area's social and economic fabric (Acs, 1996; Birch, 1979; Kirchhoff

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& Phillips, 1991; Romer, 1990). But in emerging economies the problem of initiating and supporting economic growth through entrepreneurship is acute (Fritsch & Mueller, 2004). Leaders and government officials in emerging economies are strongly interested in growing through entrepreneurial economic development. However, lacking the constellation of resources required (Prahalad, 2004; Sachs, 2005) or even the understanding of how to do so, they rely on economic aid from multinational corporations, global aid organizations, and international nongovernmental organizations (NGOs) to spark their economic engines. While potentially helpful as a first step toward an enhanced economy, such approaches can create dependencies for the indigenous populations on large outside organizations, further distancing them from the pursuit of entrepreneurial activity, economic independence and sustainability, and often contribute to significant losses in local resources, culture, and historical values.

This paper will shed light on entrepreneurial economic development in emerging economies through a focus on resource development and the creation of economic sustainability from within. To do so, we draw upon the management theories regarding resources and resource development (e.g., Barney, 1991; Dierickx & Cool, 1989; Penrose, 1959; Peteraf, 1993; Teece, Pisano, & Shuen, 1997), which have been used previously to examine entrepreneurial economic community development in industrialized nations (West & Bamford, 2005), as well as entrepreneurial economic activity in transitional and emerging economies (e.g., Bruton & Rubanik, 2002; Yiu, Bruton, & Lu, 2005). However, this paper seeks to extend the theory to better understand regions where economic development is still at its most basic stage.

We focus here on subsistence economies, where local employment opportunities in traditional industries are limited, "production is mainly for own consumption and the standard of living yields no more than the basic necessities of life" (Todaro, 1989, p. 649). This is in contrast to previous research on "transition" economies such as Russia's, which are moving toward free market structure (Bruton & Rubanik, 2002), or to "emerging" economies such as China's (Yiu et al., 2005), where a rapid pace of economic activity already occurs and where the focus is on moving into world market exchange (Hoskisson, Eden, Lau, & Wright, 2000). There are distinct qualitative differences between the types of economic activities in these different types of economies. Transition and emerging economies usually enjoy the benefits of electricity, access to technology, and other developed levels of public infrastructure, with new enterprises leveraging these facets. In contrast, subsistence economies have fewer and less sophisticated enterprises and economic infrastructure.

The focus here is on entrepreneurial development in subsistence economies. The World Bank reports that almost half of the population of the developing world lives below the poverty line of $2-a-day per capita income (Tuck, 2007). Moreover, subsistence economies exist within national economies that are otherwise classified as enjoying higher average income levels. Mexico, for example, is classified by the World Bank as an "upper middle income economy," yet over 21% of its population lives below the poverty line. One of the contributions of this paper, therefore, is to focus on subsistence economies, a topic largely absent from management literature to date.

Another contribution of this paper is the extension of resource-based theory. Specifically, we expand the understanding of how resources are generated and what kinds of resources are most important to develop at the earliest stages of economic development. The extant literature in strategy typically deals with existing firms that already have existing resource positions, and so these gestational questions are not addressed (West & DeCastro, 2001). The problem of gestational resource positions in new organizations, although of significant import for the creation of competitive advantage and sustainability, has not

received attention in entrepreneurship research. Employing qualitative data in this research to guide our thinking about the appropriateness of the resource model and local economic development, we can decompose the entrepreneurial economic development challenge into its contributing resource components. This decomposition brings to light critical questions about the entrepreneurial economic development process in subsistence economies, about resource-based theory, and suggests areas for each that require further study (Zahra, 2007).

The paper proceeds as follows. In the next section we provide a brief background on entrepreneurship and regional economic development. The paper then provides an overview of the resource-based view and how this perspective can be useful at the higher macroeconomic level of analysis. To illustrate how resource development theory applies to subsistence economies, we draw on qualitative data from two regions of Latin America (Eisenhardt & Graebner, 2007). In combination, these examples reveal a more refined view of the resource development process in subsistence economies, provide insight into gestational efforts at entrepreneurial economic development, and suggest the primacy of intangible resources in this process.

Foundational Approach Using Resource-Based Theory

Entrepreneurship and Regional Economic Development

The application of endogenous models of entrepreneurship-based economic growth has been called for in the extant literature (Varga & Schalk, 2004). New business start-ups in an area improve the regional stock of knowledge and contribute to industrial infrastructure such as clusters (Porter, 1998) that can lead to knowledge spillovers, which can enhance the economic development of a region (Marshall, 1949), and thereby stimulate economic growth (Fritsch & Mueller, 2004). The bulk of this research, however, has been conducted in more developed regions such as the United States (West & Bamford, 2005) and Western Europe (e.g., Busenitz, Gomez, & Spencer, 2000; Cooke, 2001; Davidsson, 1995), or with respect to technology firms and cluster development (e.g., Cooke & Leydesdorff, 2006; Laukkanen, 2000), where the infrastructures and national economies have the capability of supporting such efforts. More recent work has begun to address transition economies and emerging economies (e.g., Ahlstrom & Bruton, 2006; Bruton & Rubanik, 2002; McMillan & Woodruff, 2002; Yiu et al., 2005); however, questions about entrepreneurship in subsistence economies remain a challenge.

Not surprisingly, subsistence economies often lack the critical infrastructure factors suggested by endogenous models of growth, and thus, exogenous models calling for external aid and investment have formed the starting point for the economic growth arguments in such markets. A recent approach illustrating this direction for emerging economies (Prahalad, 2004) suggests a strategy for economic development through global manufacturing and marketing initiatives. Solow (1957) earlier argued that long-term growth is achieved by increasing the productivity of labor through technological change. An exogenous model therefore recommends massive investment in developing countries by outsiders, injecting capital and creating enterprises that can achieve scale. Under this program, low-cost quality products would be manufactured by local workers for consumption both at home and in world markets. Inspiring consumerism within what are called the "bottom of the pyramid" of economic incomes, improvements can then be accomplished in the economic and social well-being of indigenous peoples of poor countries. The establishment of large scale-efficient manufacturing facilities in poor nations would be accompanied by training and the provision of technological equipment.

In this paper we call this type of exogenously generated economic growth for emerging economies the "top-down" model because it relies upon large investments from outside sources. The top-down approach has received widespread publicity through the 2006 United Nations cosponsored conference on "Business as an Agent of World Benefit," as well as through attention from corporate executives and consultants (Beshouri, 2006). It has also been recommended in recent work examining nascent entrepreneurship around the world. Although emerging economies may enjoy robust levels of new entrepreneurial activity, such activity is often characterized by need (where other work options are either unsatisfactory or nonexistent) and does not contribute substantively to overall economic growth (Wennekers, Stel, Thurik, & Reynolds, 2005). That study also argues that opportunity-based entrepreneurship is positively related to economic development but is unlikely to occur in developing countries. Therefore, "low-income nations . . . should not consider the promotion of new business startups as a top priority . . . [and] may be better off . . . fostering the exploitation of scale economies through foreign direct investment" (p. 306).

For authorities in emerging economies who are responsible for economic development, there are two problems with the top-down approach. First, the potential for a sustainable long-run development remains unclear under this outside top-down model. Stiglitz (2002) has noted the unpredictability of large multinational firms, who base manufacturing and location decisions on market conditions they encounter elsewhere in the world. As other low-wage markets (such as China) open up to global manufacturing companies, what would be the effect on operations previously established in these communities? Under this model, economic growth resides nearly completely in the willingness of the multinationals to expand their operations or to raise wage rates they pay, proceeds from which would flow into local economies and generate higher savings and/or spending. The availability of low wages in other countries places a ceiling on prospects for growth through wage increases locally, and the marketing successes in other nations dictate whether or not additional capital investments would be made. Furthermore, local instability and weak local governments can also prompt organizations to withdraw their economic commitments (Earle & Simonelli, 2005; Jackson & Sorensen, 2003).

Second, this model significantly increases local economic dependency on outside organizations. Manufacturing jobs may appear relatively attractive in the short run to those who have been formerly living in subsistence economies. However, opportunities for upward mobility are limited because the top-down corporate model tends to marginalize participation of the local populations as merely common laborers. Without having developed its own local industries or infrastructure, governments and indigenous populations have no substitute employment opportunities other than to return to subsistence living. Moreover, the relative attractiveness in the short run of paying jobs has the effect of removing locals who might otherwise consider engaging in productive entrepreneurship as a path toward greater economic well-being.

In their study of a subsistence economy in southern Mexico, Earle and Simonelli (2005) offer suggestions as an alternative to the top-down model of economic development for less developed regions. Their model hinges on community-driven initiatives, recognition and appropriation to the local context, and inclusion of the local culture. Here, economic development projects are not designed by the planners and donors at the top of the funding/investing process, but by those in the local context familiar with the needs and demands of the community, essentially from the bottom-up in building up an economic infrastructure.

Microfinancing projects, such as those administered under the United Nations Development Program, organizations like FINCA International, or the Grameen Bank (Prasso,

2007) reflect a growing awareness of the need for a "bottom-up" paradigm of growth. Using small loans, these organizations provide the start-up capital needed for entering into new small entrepreneurial ventures. However, these institutions have seen very mixed results in Bolivia, Uganda, and the Philippines (e.g. Brett, 2006; Capiro, 2004; Morris & Barnes, 2005), demonstrating that merely meeting the need for financial resources is a necessary but not a sufficient means for successfully generating broad entrepreneurial development.

These more recent ideas prompt our consideration of a "bottom-up" model for entrepreneurial economic development. A bottom-up model should focus attention on building the proper foundation for entrepreneurial economic activity that is successful, sustainable, and controllable by local authorities. These ideas are consistent with the tenets of resource-based theory, usually applied at the business unit level of analysis (Barney, 1991) and to new venture organizations (Alvarez & Barney, 2004). The model and theoretical backbone that we explore in this paper suggests that entrepreneurial economic development in emerging markets must go further than the simple provisioning of financial resources to have a beneficial effect. This approach can provide insight on the set of resources that are necessary to gestate an entrepreneurial economy that can be sustained. We propose that this approach can provide a framework within which a more holistic development can occur where information exchange, capital investments, and ultimately start-up firms are made possible through resource development and bundling.

Entrepreneurial Economic Development and Resource-Based Theory

Recent research concludes that resource factors are among the most important conceptual domains explaining the nature and progress of entrepreneurial economic community development (West & Bamford, 2005). Because it draws on these conceptual domains to understand how actions confer legitimacy and longevity on new organizations, resource-based theory offers the opportunity to understand entrepreneurial economic development in subsistence economies. The theory is appropriate for its application to this type of emerging economy because of its focus on generating *competitive advantage* and the *sustainability* of that advantage. We explore each of these dimensions below.

Resource-based theory helps us understand the generation of competitive advantage at the firm level. When resources are valuable for firms, they enable firms to achieve above-average profits or higher market share versus competitors in their industries (Barney, 1991, 2001).[1] A community's economic development effort has a similar relationship to the development of a competitive advantage. Resource positions and configurations can be used to characterize a community's ability to generate entrepreneurial activity and economic benefits from such activity. Each community is bound physically to its local natural resources and may also be endowed with other institutional resources such as schools or with supportive infrastructures such as roads. These endowments are systemic and can be long lasting. Some subsistence economies may also have social resources such as cultural venues and informal networks (e.g., Butler, Brown, & Chamornmarn, 2003), or financial resources such as relationships with local banks or NGOs that can better serve an entrepreneurial population. These existing resources may have value to the community that wishes to encourage entrepreneurial ventures only in so far as they can be mobilized in such a manner that prospective entrepreneurs find them more attractive than other forms of local work and more attractive than those resources

1. Priem and Butler (2001) note that the expressions of the resource-based view may be tautological in the sense that the independent variable "valuable" and the dependent variable "competitive advantage" are defined in terms of each other. In response, Barney (2001) contends that the key to moving away from tautology is how the variables are operationalized.

found in competing communities. For example, many subsistence economies experience the flight of young people to larger cities and developed countries, where work opportunities are more attractive (e.g., Lundahl, 1998; Solis, 2005; Tung & Lazarova, 2006). Thus, communities must compete for new business development relative to other communities by leveraging their resources, in much the same manner as companies compete in a marketplace for consumers. The creation and development of heterogeneous resources can lead some communities to be more successful in entrepreneurial economic development than others.

Attention to sustainability is also a fundamental reason for invoking resource-based theory as an explanatory mechanism at the business unit level. Successful new ventures are those that are able to create value while at the same time insulate themselves from competition. Without the benefits that accrue from valuable assets that are rare, inimitable, nontradable, and nonsubstitutable, anything that a new venture might do can be competed away by other firms both large and small. A resource-based approach to entrepreneurial economic development, similarly, has the advantage of accounting for the unique context that confronts each community and the issue of sustainability. In the resource-based view, performance critically depends on conditions that are idiosyncratic to the community. So the resource-based theory approach can overcome limitations of previous studies that attempt to profile what made Silicon Valley successful and apply it elsewhere. The bottom-up approach of resource-based theory, building a high-performing economic community by starting with a foundation of unique resources, is also in opposition to the top-down approach that international organizations tend to rely upon in attempts to fix the economic conditions of regions in emerging economies. In contrast to such global approaches mentioned in the previous section, which tend to homogenize local areas so that they all look alike, the resource-based theory approach offers the possibility to create inimitability by preserving and leveraging local values and culture as a means of generating economic growth.

Finally, the resource-based view singularly addresses the two problems, outlined earlier, that characterize top-down approaches to entrepreneurial economic development. Because resources are created and developed from within, control of the economic community's path continues to rest locally. Control of resources is consistent with foundational ideas about the entrepreneurial process (Stevenson & Gumpert, 1985). Second, the bottom-up resource-building approach provides local inducements for incremental entrepreneurial activity, since indigenous populations observe that improvements in their economic and social well-being can be related to their own efforts.

Resource-Based Development Issues

A dimension of resource-based theory receiving considerable attention is the dynamic development of resource positions over time (Teece et al., 1997). As competition and contexts evolve, firms must consider the development of new or enhanced resource positions. For new ventures the issue is different. Few new ventures could spring into action with a fully developed set of resources of all varieties (financial, human, organizational, technological, etc.). New ventures by definition come into being at first as only an idea about a potential market opportunity and possess no resources of the type described in the literature (Greene, Brush, & Brown, 1997). Thus, a key challenge for a new venture is the development of an initial resource position. Then, as it grows, the new venture confronts a continuously shifting landscape of life-cycle problems (Kazanjian, 1988) as well as evolving competition and strategy (Dess, Lumpkin, & Covin, 1997), fueling its need to continuously adapt its resource positions in order to meet the evolving

strategic challenges (Greene & Brown, 1997). This suggests that sustainable new ventures are likely to follow a path of resource development, starting with nothing and somehow progressing over time to a broad set that relates to new challenges they confront.

These ideas can be extended to the level of entrepreneurial communities. Exploring the life cycle of entrepreneurial economic development, West and Bamford (2005) propose four stages that communities experience in moving from no entrepreneurial activity to a self-sustaining level of such activity. Each stage is characterized by different levels of entrepreneurial activity and different configurations of resources germane to each stage. In this paper we are concerned with the earliest stage of this developmental effort—the "economic core" stage of development. Economic core communities rely upon traditional industry, local retail shops, and informally organized service providers, and exhibit little entrepreneurial activity. This is a definition that builds on Western ideas of economic core (Greene & Brown, 1997), whereas in many emerging economies—and more specifically in subsistence economies—even this level of economic activity may not be present. By definition, these communities possess no resources that encourage or attract entrepreneurial efforts and are thus mired in historical economic circumstances that are stagnant or declining. At the outset, each community must examine its beginning resource position and then somehow build a set that will be especially attractive to entrepreneurial ventures. In some cases, an investment in attractive resources may complement a community's existing resource position. In most cases for subsistence economies, however, new resources necessary to encourage and support start-ups may be very different from what a community currently possesses.

The question of what resources to develop is complicated because many categories of resources have been identified. The first published paper on entrepreneurship that identifies a variety of resources in the context of resource-based theory (Greene & Brown, 1997) mentions five types of resources: human, social, physical, organizational, and financial. Additional types of resources have since been identified in subsequent research. Recognizing that science- and technology-based new ventures constitute an important dimension of local and national economic development efforts (Venkataraman, 2004), technological resources that encompass intellectual property rights have become more prevalent in the lexicon as it relates to entrepreneurship. More generally, knowledge-based resources have been identified as critical for new ventures. Knowledge resources are complex, encompassing "know-how" and "know-what" (Malecki, 1997; Wiklund & Shepherd, 2003) about markets and customers, innovation capabilities, and dimensions of starting up new ventures (Wright, Robbie, & Ennew, 1997). Since knowledge is often tacit and idiosyncratic to the new venture, it exhibits the character of resources described originally by Barney (1991). Finally, the largest amount of published research appears to be focused on the impact of social resources—specifically the influences and impact of networking—on new venture performance. These ideas help specify our research question for this study: "*What resources are the most important to begin with in order to gestate entrepreneurial activity?*"

Methodology

The bulk of research on entrepreneurial economic development has focused on communities in developed countries, or on emerging or transition economies, which are more sophisticated than subsistence economies. Thus, while we have proposed a theoretical framework for this process, an exploratory qualitative study is deemed more appropriate to assess how well the framework is supported. Following the recommendation of Eisenhardt and Graebner (2007) for "theory driven research . . . to offer insight into complex social processes that quantitative data cannot easily reveal" (p. 26), we contrast two

studies of entrepreneurial development in poor regions of Latin America—Chiapas and Atenas. The data gathered include a rich set of primary data including interviews and also secondary data including histories, archival records, and published articles.[2]

The two regions examined were purposefully selected as they represent polar types of entrepreneurial development (Eisenhardt & Graebner, 2007). Variation in critical variables include the source of the entrepreneurial activity and the presence of community resources. These differences provide the opportunity to understand how theory may be useful in making sense of different settings and enhances the validity of the study (Maxwell, 2002). While offering unique differences, Chiapas and Atenas also share many key characteristics that are representative of conditions experienced by subsistence economies around the world. The conditions include small farms as a main source of income with little surplus, a lack of educational systems, poor infrastructure, and little access to markets and financial resources. In addition, these regions have experienced significant flight of young people to modern cities in their countries and to other countries (notably the United States) in pursuit of better economic and social opportunities.

Chiapas and Atenas also offer rich opportunities for primary and secondary data (Eisenhardt & Graebner, 2007) from multiple sources (Yin, 1994). The initial data collection for both regions included gathering secondary data from published sources. A longitudinal ethnographic study of Chiapas was conducted by two anthropologists (Earle & Simonelli, 2005). The authors of this study spent "six years of summers, winter intersessions, and spring breaks" (Earle & Simonelli, 2005, p. xiii) living in Chiapas between 1997 and 2003, observing and interviewing local residents and community leaders. Their account documents repeating patterns of local engagement in entrepreneurial initiatives (although these were not termed "entrepreneurial" anywhere in the study), essentially providing a "test–retest" validity that entrepreneurship was systematically occurring (Lee, 1999). We augmented this by conducting personal interviews with one of the anthropologists to clarify their ideas. In that process we also suggested our own interpretations of the study data as it related to entrepreneurship, and her agreement with our ideas provided a second-order level of interpretive validity.

Data collection for Atenas followed a similar protocol. Secondary material providing context and historical perspective on rural Costa Rica is not nearly as prevalent. However, one of the present authors spent 6 weeks in Atenas in 2006 and made extensive observations of local businesses while leading a team of local researchers examining economic development. The team conducted personal interviews with 55 area residents, who were representative of the Atenas population in terms of employment and geography. The goal of the interviews was to learn more about the participants' perceptions of past and present commerce in Atenas. The interviewers used a standardized interview protocol, which focused on what had occurred in the past and why, as well as what potential the participants perceived going forward. Our coauthor also had an ongoing series of meetings with local authorities about economic development, and he conducted archival document research on land usage constraints and on previous economic development proposals that had never moved forward. Notes from his observations and interviews, the archival research, and the economic development interviews were formalized into a 40-page summary, which (as in the Chiapas anthropological study) was presented to the local authorities for their review and comment. Their assent to the accuracy and meaning of the summary again provides a measure of interpretive validity for the collected data (Maxwell, 2002). Finally, to provide convergent validity for the Atenas data, back in the

2. A complete listing of sources consulted is available from the authors.

United States we interviewed a Costa Rican expatriate who is knowledgeable about manufacturing and industry in the capital city of San José and the differences that exist between the capital and the outlying Atenas area.[3]

The analysis of the Chiapas and Atenas data followed a four-step process: (1) develop categories of resources that are theoretically meaningful and distinct; (2) identify actions and intentions within the communities that suggested or related to entrepreneurial activity; (3) identify resource positions within the communities; and (4) map resource positions and entrepreneurial actions and intentions onto each other. This approach is similar to a process employed by Lichtenstein and Brush (2001) in a longitudinal qualitative study of resource-based theory and follows recommendations made for qualitative research by Wolcott (1990). Resource-based theory provided the framework that guided the research effort. When applied either to individual business organizations or to entire economic communities, categories of resources have previously been identified that are important to develop and which confer the opportunity for sustainable performance. These include financial, social, knowledge, human, physical, and technological resources (Alvarez & Barney, 2004; Greene & Brown, 1997; Malecki, 1997; Venkataraman, 2004; Wiklund & Shepherd, 2003). We used this categorical framework to code the notes from published sources, field reports, and personal interviews.

For each region, two of the coauthors reviewed the data. Each coauthor independently identified instances of actions or intentions in the data that might relate to entrepreneurship or to preparation to take entrepreneurial action, and mapped the presence of resources, entrepreneurial actions or intentions onto each other. The two coauthors then compared their categorizations and mapping. Where disagreements occurred, the differences of opinion were discussed with the third coauthor not involved in the coding of that case. These discussions led to unanimous agreement to include an instance and its resource mapping or the presence of resources with no related instance, or to drop it from further analysis. Through this process for each case we finally arrived at 100% agreement on initiatives, resource categories, and their relationships.

Results

Chiapas, Mexico, Background

Chiapas is the southernmost state in Mexico, located along the border with Guatemala, and has a population of 4 million in an area of 47,000 square miles (roughly the size of Pennsylvania). The majority of the people are poor, rural farmers working in *milpa* agroecosystems (the intercropping of corn, beans, and other vegetables in small family-sized plots of land combined with slash and burn practices). Earle and Simonelli (2005) note the strange juxtaposition of economic development efforts and subsistence living when discussing how the locals met on project ideas: "We meet to discuss these proposals in jungle rooms where the computer and the newly hatched turkeys share an office . . ." (p. 21).

As NAFTA took effect in 1994, the Ejército Zapatista de Liberación Nacional (EZLN) staged a rebellion in Chiapas following 2 decades of mounting tensions (Collier, 2000). After a cease-fire was brokered, the EZLN began setting up autonomous communities[4]

3. The expatriate is a former president of the Dole Food Company's Latin American Division and a former president and chief operating officer of Chiquita International's North American Banana Division.

4. The EZLN provided a political umbrella for local populations; however, each local town operated with great autonomy from the pan-Zapatista movement. Each town was called an *autonomos*, meaning autonomous community.

(*autonomos*) under their own control rather than the central government (Collier, 2000; Earle & Simonelli, 2005). By late 1996, negotiations had sprung up between the leaders of the *autonomos* and the representatives of the five major NGOs operating in the area.

The NGOs often helped the residents to form new businesses. For example, in Miguel Hidalgo a beekeeping project was developed. This venture ultimately expanded their original 20 hives to 30 within 3 months. They also discovered that locating hives in orange orchards enhanced both honey production and orange tree productivity because of higher pollination activity. But the community then discovered that it was unable to consume all of the honey locally, so they began to seek local markets for their products. They recycled profits from their surplus production back into community support in the form of trucks to carry loads to neighboring towns and buses to establish regular transportation and communication with other Zapatista communities.[5] The local citizens in Chiapas often formed the ideas for other ventures by observing such projects in Guatemalan refugee camps. For example, they converted their traditional knowledge of plants with medicinal values to start up a pharmacy, and local healers learned how to become dentists.

Through this series of incidents, the *autonomos* realized that their own self-sufficiency depended on exchange with other non-EZLN communities. A series of new initiatives were begun that reflected a new exchange and transaction philosophy. For years, as part of their culture, local women had made embroidered shirts and blouses incorporating traditional Mayan designs. However, when they sought and imported knowledge about fashion and stylistic advice about necklines and sleeve lengths, they discovered that they were able to compete more effectively with urban clothing makers in San Cristobal. Enterprising boys observed the tilapia aquaculture techniques from an NGO and started their own operation, selling fish to local markets. Whereas traditional agriculture had often been coffee, local farmers began ripping out coffee plants and experimenting with other crops that had broader market possibilities. The leaders of the community began stockpiling seed corn in order to have an advantage in a future market that they perceived for organically grown produce. The leaders also began to send young people on year-long "missions" to the United States and other developed nations in order to observe how markets worked and how business is conducted, and then to return to Chiapas with such knowledge that would further aid local development.

Atenas, Costa Rica, Background

Atenas is a small town in Costa Rica at high elevation in a mountain region 45 kilometers northwest of the capital San José. Although ideal for growing coffee, record-low coffee prices created a crisis for growers (Varangis, Siegel, Giovannucci, & Lewin, 2003). The local economy has a long tradition of artisanship including jewelry making and woodworking, evidenced by shops selling items ranging from small boxes to elaborate furniture and houseware items. However, this industry, too, is in decline. On the road to Atenas is an old billboard with a faded advertisement for the artisans of Atenas, attesting to the presence of a passing history of crafts work. An older rail line that formerly provided market access was damaged in 1996, and no effort has been made to repair it and bring it back into service.

Atenas's location is near a tropical rain forest that has garnered attention from tour operators. A new government highway provides infrastructure to enable access to the town and its nearby natural resources. Companies headquartered in the United States and San

5. The Zapatistas embrace free markets in their enterprises. However, they operate as a communal system within their *autonomos*, such that the profits from businesses belong to the community at large and are used by the community to further community development efforts.

José arrange for thousands of expensive ecotourism vacations each year (Farrell, 2004), bypassing the town completely.

Atenas also has access to a majority of the key resources that Chiapas was struggling to obtain. It has access to international communication and transportation, nearby university education, technological training, information exchange, and firm service industries in San José. The residents also have the benefit of local resources in the community: a functioning agricultural practice, community services, and local educational institutions as well as international connections through an international study abroad program focused on sustainable environmental practices and development. Yet Atenas is suffering from proximity to San José, which is an educational and employment magnet for young people.

There were few examples of entrepreneurship and innovation evident in Atenas. The remaining artisan shops are not aggressive in pursuing growth in their businesses by courting the ecotourism trade or by extending their efforts to the larger city of San José. Despite the proximity of natural resources in the form of the reserve and the tropical rain forests, Atenas residents are content to let others (outsiders) organize tours and profit from these efforts.

As a consequence, the economic "system" in Atenas is experiencing decline. Just the opposite of what community leaders hope for, jobs are not being created, small shops and other businesses are closing, tax revenue is declining, infrastructures are depreciating without restoration, and young people are moving away. The area's social fabric—and especially its precious historical roots—is disintegrating, while the community increasingly relies on exogenous forces to determine its economic future.

Discussion

There is clear evidence from the Chiapas discussion that by 2003 the region has started down the path of entrepreneurial economic development, moving away from a traditional economic core. In visible terms, this means that the economic picture began moving from a series of local subsistence activities—based on traditional knowledge and focused mainly on the household—to a stage where those traditional practices become businesses serving a wider market area, where a service sector emerges, and where a number of new ventures arise. In contrast, the case of Atenas exhibits a resource profile that would seem to support entrepreneurial activity, but the community faces the disappearance of its youth, the decline of traditional industry with little taking its place, and a dearth of new venturing activity despite opportunities nearby. Below we organize our discussion about the differences in these two communities around the research questions of interest (Eisenhardt & Graebner, 2007) and use categories of resources that the literature suggests are important and which manifest themselves in these two cases. Propositions about resources are developed through this discussion.

Entrepreneurial Orientation Resources

For the Chiapas communities the transition to entrepreneurial economic activity began with the provision of various important resources. The negotiation by the Zapatistas to be included in the NGOs' relief work provides evidence of a critical resource factor—an environment conducive for entrepreneurship. Lumpkin and Dess (1996) characterize entrepreneurial orientation (EO) as exhibiting "autonomy, innovativeness, risk taking" as well as a willingness to experiment with new ideas and technologies. The conversion of traditional activities in communities in and around Miguel Hidalgo into businesses, the adoption of new industries such as beekeeping, and the implementation of educational and

information-transferring institutions provide strong evidence of a growing EO in Miguel Hidalgo. Moreover, the expansion of the original beehives and the reinvestments made in vehicles to expand marketing and forge tighter relations with neighboring communities provide further evidence of the willingness of the locals to engage in new enterprise.

Parallel to the series of new initiatives that arose as a function of the growing exchange philosophy, the appreciation of entrepreneurship as a productive endeavor was no longer held simply by the community leaders. Across the community, individuals were interested in trying out new ideas with commercial possibilities outside their community—shirt making, aquaculture, furniture building, and organic produce. Residents were also willing to take the risk of walking away from traditional *milpa* farming, as evidenced by their willingness to rip out their ordinary crops and experiment with other crops that might have broader market possibilities. Thus, the idea of entrepreneurship became part of the cultural fabric of the community. In fact, the rapid reestablishment of beehives following the 1998 destruction, as well as renewed interest in medicine, marketing, and economic growth, demonstrates a developing culture of innovation.

The five characteristics of EO were certainly evident in Chiapas: innovativeness, willingness to take risks, push for (ideological) autonomy, competitive aggressiveness, and a proactive disposition (Lumpkin & Dess, 1996). Lumpkin and Dess (1996) argue that the combination of those five elements is contextually based, and so the degrees and intensity of each element may vary across experiences. In the Zapatista experience, competitive aggressiveness was manifest in a different form than it might be in U.S. businesses. In Chiapas, that aggressiveness was more a drive to achieve success for and with the community, as opposed to the usual Western interpretation of competing against another company. The variation of the elements is important to remember.

In Chiapas, the communities sought an autonomous ideological system in creating a new economic paradigm apart from that of the mainstream civil and government structure. They were willing to innovate and experiment with new ideas for production and take risks not only with the economy but also in the face of severe negative incentives. Communities in Chiapas were also strongly proactive both individually—the community leader's wife becoming skilled as a midwife before NGO support was available—and collectively as when the community met with NGOs to discuss relief projects that would benefit the entire community. This EO was crucial to success once the other resource elements become instrumentally available through limited funding provided by the NGOs. Our determination, then, is that Chiapas had the more intangible "orientational" resources that are important in sensing opportunity and moving to take advantage of it.

Atenas, on the other hand, has sufficiency in the physical resources, available either locally or nearby in San José. However, the EO is not strongly evident. Innovation, a proactive stance, competitive aggressiveness with new ventures, willingness to take risks: none of these is apparent in the community. It would seem that the main factor that is halting the further development of the economic community in and around Atenas is the lack of potential entrepreneurial orientation, which was manifest in the low rate of returns to the community in technology and knowledge gained in San José, in the emigration of youth who are usually the chief source of innovation, and in the lack of interest in new ventures or entrepreneurial modifications to existing industries. The situation in Atenas serves to reinforce the findings from the Chiapas case on the critical importance of EO in the gestation of new entrepreneurial economic activity. We therefore offer the following proposition:

> **Proposition 1:** The elements of an entrepreneurial orientation are a significant initial resource for communities gestating entrepreneurial economic activity.

Social Resources

Leaders in sparse economic communities must often provide some economic incentives in order to encourage the start-up or location of new firms (West & Bamford, 2005), but of course, discretionary financial capital was nonexistent in the Chiapas communities. Instead, the *autonomous* leaders recruited the NGO to act as a coordinator and an administrator and to serve as a linking network between donors from around the world and its tiny villages of Miguel Hidalgo and Cerro Verde. The NGO was essential in obtaining capital investment for projects, which substituted for the kind of locally based economic incentives normally seen in early stages of community economic development. Serving as a vital networking resource, the NGO also acted as an intermediary for the honey that was produced, since getting to the markets in the larger towns in Mexico was difficult for the locals.

The military intervention marked a dramatic reversal in the growth direction of the region, essentially returning them to a point closer to the economic core, but with a major difference. The people of the region now had experience and knowledge of their industries and how to go about setting up connections with the NGOs in Chiapas. In addition to the old networks, the intervention inadvertently created new resources that the people of the communities were quick to recognize and take advantage of. The new networks established between community leaders in the prisons allowed the exchange of ideas and economic community experiences. As suggested in previous research on the value of new information gained through entrepreneurial networks (Busenitz et al., 2003; Dubini & Aldrich, 1991), these would be useful later in establishing intercommunity workshops (Earle & Simonelli, 2005).

Similarly, the role of the NGO changed from the source of ideas and initial contacts to one of formal networking for the now local innovators, initiators, and administrators. Essentially, those services that the NGO provided at first were identification and acquisition of the needs of the community. Subsequently, as the community itself identified and specified its own needs, the NGOs were asked to help source funds to meet those needs. Lichtenstein and Brush (2001) would argue that this type of change is necessary for the growth of firms. Until the ideas and initiations came from local individuals, until the source of innovation shifted from external to internal, the number of new ventures would remain limited by the capacity of the NGO for administration. Once ideas for new activities began gestating from within, the NGOs acting purely as networks, the other relational networks created became powerful tools for the realization of their ideas.

Atenas provides a studied contrast to the experience of Chiapas. In Atenas, there has been no effort to create networks that will benefit the community. There exists a one-way flow of young people to opportunities, social life, and education out of Atenas; new information from the capital does not flow back to the community. Similarly, there is a one-way flow of people into the Atenas community in the form of the ecotourists and San José companies that bring them there. However, these external parties seldom come in contact with members of the community, simply bypassing them on the way to the rain forests. Interestingly, even though the government built a new highway to the area, it has not served to create a more substantive exchange between Atenas and the capital.

Proposition 2: Social networks are a significant resource for communities gestating entrepreneurial economic activity, yet they are only effective in the presence of the elements of entrepreneurial orientation resources.

Knowledge Resources

Education initiatives in Chiapas included workshops and training sessions that were designed to help local healers and those with knowledge of medicinal plants become dentists and pharmacists. These workshops and the training constitute a form of entrepreneurial education because they were oriented toward leveraging local knowledge into value-adding activities beyond the local level. Thus, they are evidentiary not only of the transition from traditional to more formal industries, but also of the emergence of a service sector.

During this period, growth management and technology education were embraced by community leaders in efforts to expand commercial possibilities for the community. Already part of the curriculum were topics like health care, veterinary medicine, and teacher education, to which leaders wished to add training in management, marketing, and vocational training. With increasing numbers of new economic ventures, for example the furniture business that grew out of a need for desks and chairs for the school, the communities exhibited the resource constraints expected of an emerging economic community. The NGOs had always been needed, but the need shifted from resources for survival and subsistence to those required by start-ups, such as more sophisticated finance, marketing, and administration knowledge.

The type of education that is important for gestating new entrepreneurial economic activity is education about markets and administration and about creating some kind of scalability to a local practice that enables it to create value beyond its immediate context. This type of education builds upon localized knowledge, such as about medicinal herbs or midwifery. While this knowledge represents an indigenous resource, new knowledge about managing and leveraging comes from outside the community. In this sense, both the EO of the community—seeking to experiment—as well as the networks that the community has created appear to be instrumental in building knowledge resources. Thus we propose:

> **Proposition 3:** Knowledge is a significant resource for communities gestating entrepreneurial economic activity; however, it is only effective in the presence of the elements of entrepreneurial orientation resources.

Political Stability Resources

The political context in which entrepreneurial activity is undertaken in emerging markets is also an important social resource. It is worth noting that the beekeeping project in Chiapas came about in the relative calm immediately after the peace accords, making political stability essentially a resource required for a successful venture in the Zapatista experience. This conceptual treatment of political stability is supported by recalling that investment from foreign aid sources was earlier lost due to the instability of the Chiapas region.

With the renewed military intervention in 1998, the resources that had been developed were broken down and many of the elements were removed, including the political stability that allowed for long-term planning and investing in the economic community. Without the stability, contact with the NGO was cut off and with it the funding, market access, and information (in training programs and workshops) so needed by the community. The communities throughout the region were isolated, and physical capital was removed both in Miguel Hidalgo and in Cerro Verde (beehives, crops, and school houses as examples). This not only scattered the labor force but also disrupted the cohesion of the economic community. Moreover, the destruction of the school in Cerro Verde and the removal of the archives was an attack on the education resources, which were key

elements in the transition they had already made and also in additional transitions they would have been preparing to make. Thus we propose:

Proposition 4: Political stability is a significant resource for communities gestating entrepreneurial economic activity; however, it is only effective in the presence of the elements of entrepreneurial orientation resources.

Tangible Resources

Thus far, the discussion has centered exclusively on intangible resources—entrepreneurial orientation, social networks, knowledge, and political stability. Yet there are many more tangible types of resources that are discussed in the resource-based theory literature and which of course are important in entrepreneurial economic development. These include financial resources, local facilities, roads, and communications infrastructures, among others. In Chiapas the villages lacked nearly all of these, while in Atenas the community enjoyed the presence of many of them. Because of these very differences between the two communities, it suggests that the value of tangible resources is dependent on the constellation of intangibles that are also available. Without the presence of an entrepreneurial orientation and knowledge about how to apply tangible resources to opportunities, those tangible resources will not be useful in gestating entrepreneurial activity. This is precisely the case observed in Atenas. On the other hand, where entrepreneurial orientation, networks, and knowledge are present, communities will find ways to source tangible resources that can be productively used in their development efforts. And in some cases—as in Chiapas with crop changes and health care improvements—tangible resources may not be needed in order to gestate new activity and move away from an economic core existence. Therefore:

Proposition 5: Intangible resources are more significant than tangible resources in gestating entrepreneurial economic activity.

Conclusion

The development of an entrepreneurial economy can help emerging economies achieve important economic development and growth objectives. Traditional growth and development economics focus on large injections of capital and support from corporations outside such regions or rely upon massive central government initiatives. In particular, recent thinking further embraces a "top-down" model that calls for multinational corporations to establish large manufacturing facilities in less-developed nations, providing an inflow of capital and creating jobs. These approaches may create dependencies on external organizations, remove natural resources otherwise available for local industry, and diminish the opportunities for productive entrepreneurship to occur. In contrast, a "bottom-up" resource-based theory approach illustrates the kinds of resources required as a foundation to internally gestate entrepreneurial start-ups.

This study contrasts events that occurred in Chiapas in Mexico and Atenas in Costa Rica. The events in Chiapas suggest the applicability of resource-based theory in explaining the observed rise and fall and subsequent rise of entrepreneurial activity. Categories of resources that have previously been identified as important in the start-ups of new firms and in the start-up of entrepreneurial economic communities in developed countries (e.g., Malecki, 1997) are also observed in subsistence economies elsewhere in Latin America. These categories predominately include entrepreneurial orientation (often referred to as "culture" in community studies), social networks resources, and knowledge resources

as foundational elements in entrepreneurial development. The contrast between Chiapas and Atenas, in which these resources and entrepreneurial activity were not evident, strengthens the interpretation that they are critical resources for the initiation of entrepreneurial economic activity.

We also observe that political stability is a community resource that impacts the gestation of entrepreneurial impact. Political stability allows for the pursuit of economic development activities, although it is not clear from these cases whether political stability has a positive effect on such efforts or is simply a neutral effect. In contrast, where political instability exists as witnessed in Chiapas, efforts at entrepreneurial activity are discouraged. The political system can harm entrepreneurial development activities in a variety of ways. In Chiapas, the government was destructive in a very physical way. The removal of the food stores in the Cerro Verde *autonomos* was a way to remove the cushion that exists between production for-profit and subsistence production. This suggests that for-profit production at the community level, not unlike the generation of superior returns in organizations, provides a kind of slack for the community allowing it a greater opportunity to experiment with novel ideas.

Although at the outset we presented an argument that exogenous models of support for emerging economies may present problems for internally generated entrepreneurial activity, the findings of the Chiapas case study indicate the need for and the value of exogenously procured resources even when an endogenous resource-based approach is used. This is good news for less developed communities, in the sense that the resource approach allows for "community authored development" (Earle & Simonelli, 2005) while also encouraging aid from external parties in support of community-directed initiatives.

Just as these interpretations provide insight and guidance to leaders for emerging economies, they also provide insight about resource-based theory. The "black box" of resource-based theory involves questions about the sources of resources and the importance of resources in the early stage of organizational development. Because of the tacit nature of resources and the commensurate difficulty in observing them in organizational analysis, observations at the community level of analysis provide a helpful perspective. Here, intangible resources appear to trump tangible resources in their value to gestating entrepreneurial activity, and entrepreneurial orientation trumps social and knowledge resources within the spectrum of intangibles. Future research should empirically investigate these propositions. That intangible resources can be described using the language of resource-based theory (valuable, rare, inimitable, nonsubstitutable, nontradable) strengthens the argument that they are particularly generative of sustainable competitive advantage for community development.

Figures 1 and 2 capture the sense of the findings about entrepreneurial economic development and resource-based theory. In Chiapas, the critical gestational resource possessed by the community was an entrepreneurial orientation. This led to the development of social networks and knowledge and the acquisition of tangible resources that aided new venture development. This path of resource development existed in the context of political stability. In Atenas, despite the existence of social networks, knowledge, and tangible resources within a politically stable context, there was no entrepreneurial activity in evidence.

The primacy of EO in this process suggests directions for further study. Where does EO come from, in business organizations and in economic communities? A variety of studies have examined the nature of EO (Lumpkin & Dess, 1996; Lyon, Lumpkin, & Dess, 2000) and its relationship to performance in organizations (Lumpkin & Dess, 2001; Wiklund & Shepherd, 2003). However, like questions about the sources of resources, future research should seek to identify the sources or causes of EO. These sources may be

Figure 1

Chiapas Resource Development Path Leading to Entrepreneurial Activity

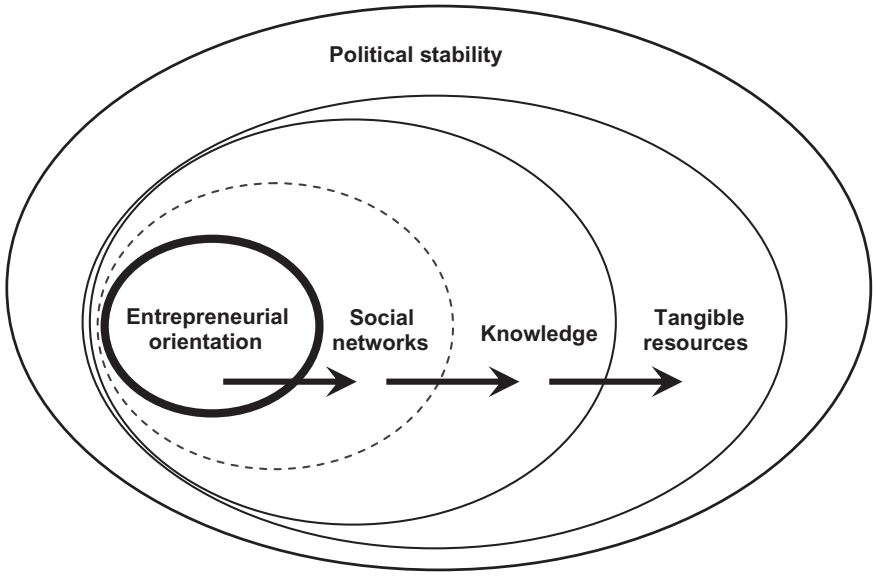
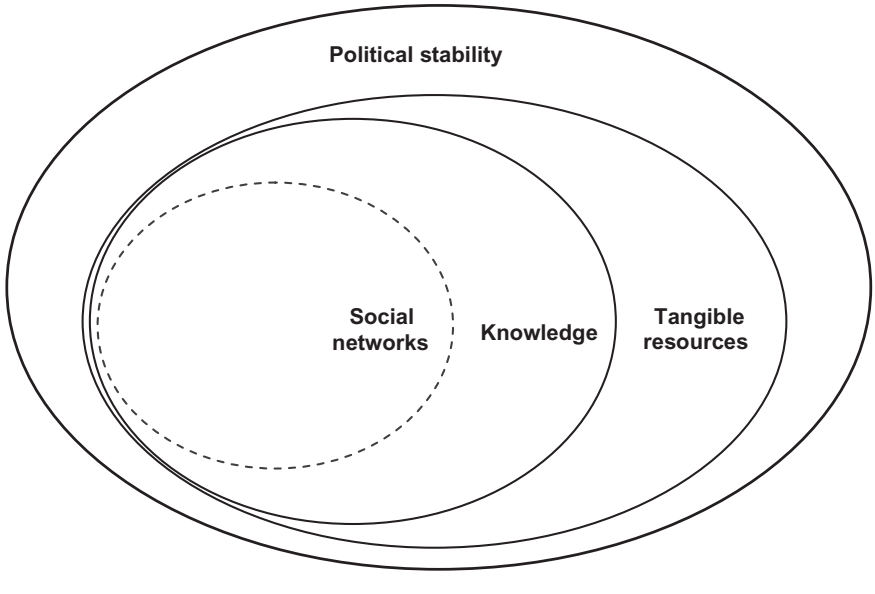


Figure 2

Atenas Resource Profile with No Entrepreneurial Activity



different at the individual and community levels of analysis. It is possible that indigenous populations in subsistence economies are simply institutionalized into a historical perspective on the nature of work, and that mere exposure to examples of other models of generating wealth, such as through entrepreneurship, might seed local entrepreneurship. We have to temper these ideas, though, based on the observations in Atenas where such an exposure has not produced a beneficial effect. Understanding the sources of EO may therefore require the careful examination of various combinations of the five articulated dimensions of the concept. Lumpkin and Dess (2001), for example, argue that proactiveness is more important in early stages, yet in the Chiapas experience there is still something even more compelling that seems to be at work. The Zapatistas craved autonomy—the will to be self-directed (Lumpkin & Dess, 2001)—in an almost desperate way. This suggests that mere exposure to other economic possibilities is insufficient to be generative of entrepreneurial activity. Instead, some combination of circumstances must serve to "break the frame" of what is regarded as acceptable economic activity. Breaking the frame certainly occurred in Chiapas, but not in Atenas. This is speculation, and clearly more work is needed here to understand how EO is created.

It is important to note that resources in subsistence economies may come in forms not typically associated with a highly developed region such as the United States. An incipient stage in Chiapas may not resemble the landscape of many U. S. communities with percolating levels of entrepreneurship occurring, while yet still exhibiting many of the categorical criteria of the resource-based theory model. Recalling the guidelines for authorized community development mentioned earlier in this paper, the resources developed should be locally applicable (Earle & Simonelli, 2005). This is, in fact, one of the local advantages for economic development based on resource theory concepts: that each community does not look or act like other communities and thus develops an idiosyncratic position giving the potential for long-term sustainable advantage. The alternative, where every emerging community develops the same kind of economic underpinnings, is the result of the external corporate investment model and reduces long-term viability because of a more intense competition with other like-minded communities.

These ideas about a community's economic sustainability resulting from idiosyncratic resource development call to mind the arguments of Katz and Gartner (1988) on properties of emerging organizations. The development of boundaries and exchange are important dimensions of any new enterprise. Boundaries help define the emergent organization, while exchange across the boundaries both confers legitimacy and fuels further growth. When pursuing economic development through the establishment of a uniquely endowed entrepreneurial community, an emerging economy uses resource development to create a boundary that defines it and helps insulate it from competition. As leaders in Chiapas discovered when they embarked on this process, exchange with entities outside the boundary becomes necessary and desirable for further growth. Once again, these ideas stand in contrast to the external corporate investment model. Under that model, communities do not build insulating boundaries, which are instead reserved for firms themselves. Any exchanges occur within the framework of the multinational corporation, and the economic legitimacy and sustainability of the local community is not ensured.

Finally, a significant drawback of the resource-based approach to entrepreneurial economic community development is that the pace of development and growth will be slow. Similar to the sole entrepreneur who bootstraps the start-up business for a long period of time, the communities that adopt this approach must be patient for the rewards to materialize. But in contrast to the "McDevelopment" approach (Earle & Simonelli, 2005, p. 140) where large multinationals can make huge investments in short periods of time, the rewards of the bootstrapping approach may be significantly more meaningful to

the indigenous populations. The local people will have greater authority to determine the direction of development. Natural resources would be preserved to a greater extent, promising a future utility to the community that might otherwise be lost forever. In addition, the historic human–land relationships and local cultures will tend to be better preserved than if the large corporation comes to town. As Earle and Simonelli quoted the sentiments of the people in Chiapas, there exists a "seventh generation foresight . . . [in which] we organize, not because it will be better for us, but because maybe our children and our grandchildren won't have to live like we do" (p. 166).

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