

A paradigm shift for a successful launch of a locally-based start-up in the food supply chain

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Abstract: The aim of this paper is to design a friendly-user framework for a successful launch of a locally-based start-up in the food supply chain. Specifically, the study is focused on a Small Medium Enterprises (SME's) cooperative store in a farm school. The store is operated by the students in the context of their entrepreneurship, business and marketing classes. Authors made a number of interviews with the managers and employees of the locally-based store so as to identify its potentials and challenges. The outcome of the study is a framework dealing with managerial, as well as, technological aspects and even if refers to a specific SME it will act as a road map for an effective start-up development.

Keywords: customer loyalty, American farm school, SME co-operatives, agri-business

Citation: Handrinos, M., K. Rotsios, G. Moshonas, D. Folinas. 2014. A paradigm shift for a successful launch of a locally-based start-up in the food supply chain. *Agric Eng Int: CIGR Journal*, Special issue 2014: Agri-food and biomass supply chains, 21–29.

1 Introduction

In today's competitive environment, where size is of extreme importance, and it has become even more essential for Small-Medium Enterprises (SMEs) to be able to compete based on the essence of reputation, trust and loyalty as Ruben et al. (2004) argued in order to guarantee effective governance. As the European Commission (2005) suggests, SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation.

In the literature there are many research initiatives aiming to identify and prioritize the critical success factors of a startup establishment especially for SMEs. Abdullah et al. (2009) listed the following eight key factors of success: achievement oriented, advancement drive, tenacity, commitment, networking, decision-

making, ability, managing risk, and optimism. Tipu and Arain (2011) argued that indiscipline and poor integrity are the key factors contributing to the failure of entrepreneurs in their business, while Norris (2008) suggested that factors such as collective action, decision-making, partnerships formation, and building social capital are critical to the successful entrepreneurship efforts. Benzing et al. (2009) as well as Chawla et al. (2010) pointed out that management skills and environmental conditions are critical for business success for entrepreneurial.

Furthermore, a number of studies have concentrated to the identification of critical success factors for specific countries and business sectors. Wei (2013) cited many studies that have been conducted regarding a number of developing countries (such as Pakistan, Vietnam, Romania, Turkey, etc.). As a common ground of the aforementioned researches, honesty, friendliness, social skills, hard work, good customer services, and product quality were the most important factors. Additionally, other factors include first, the culture (Busenitz and Lau, 1996; Chu and Katsioloudes, 2001); second, the religion (Carter and Jones-Evans, 2006; Turan and Kara; 2007),

Received date: 2013-01-19 **Accepted date:** 2013-12-15

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and third, the gender (Hughes, 2003; Robichaud et al., 2010), that may have a role in entrepreneurial successes. Apart from taking into consideration the critical success factors of the entrepreneurship initiatives another issue of great importance is the identification of its barriers and challenges. BMBF (2007) and Farrell (2004) identified the bureaucratic hurdles and lack of intellectual property rights, while Tiwari et al. (2007) as well as Rammer et al. (2007) pointed out the shortage of capital and hindered access to qualified personnel and the financial bottlenecks.

Nevertheless, there are a limited number of researches focusing on the identification of critical success factors and their barriers for the development and management of a start-up company in the agri-business sector. After synthesizing the literature most studies focused on the establishment of start-up companies for the ICT and services sector (Morrissa et al., 2003).

The purpose of this paper is to design a friendly-user framework for an SME cooperative store, based on empirical and secondary evidence collected from a Farm School’s campus store. The store is operated by the

college students in the context of their entrepreneurship, business and marketing classes. This framework will deal with managerial aspects that will act as a road map for an effective start-up development and management. The proposed framework is based on two loyalty-based models which recognize that customer loyalty is earned by consistently delivering superior value.

The paper is organized as follows. The next section presents two generic models for the loyalty-based start-up. Section 3 presents a framework for an SME cooperative in the agri-business sector based on the above models. The findings of a research about the success of the proposed model are presented in Section 4. Finally, at the conclusions part the findings of that research are presented along with suggestions for future research.

2 Loyalty-based start-up models

In the literature a researcher can find many studies about the loyalty start-up companies. The following table presents a number of researches and the targeted business domain (Table 1).

Table 1 Loyalty start-up models in various business domains

Authors	Title	Business domain
Chen and Hu (2010)	The effect of relational benefits on perceived value in relation to customer loyalty: An empirical study in the Australian coffee outlets industry	Food service sector
Tanford (2013)	The impact of tier level on attitudinal and behavioral loyalty of hotel reward program members	Hotel services
Guillén et al. (2012)	Time-varying effects in the analysis of customer loyalty: A case study in insurance	Insurance services
Auh et al. (2007)	Co-production and customer loyalty in financial services	Financial services
Bayraktar et al. (2010)	Measuring the efficiency of customer satisfaction and loyalty for mobile phone brands with DEA	ICT / mobile services
Ramanathan (2010)	The moderating roles of risk and efficiency on the relationship between logistics performance and customer loyalty in e-commerce	e-Business

In this paper, in order to prepare a framework for the management of a loyalty-based start-up company in the agribusiness sector, two generic models are discussed; one developed by Reichheld (2001) and one suggested by Lazzarini et al. (2001).

There are many research initiatives about the establishment of start-up companies in many industries and business sectors but one could strongly suggest that this is not focused in the area of the agribusiness sector. Therefore, two generic frameworks are presented and analyzed and a brief literature review is presented.

At first, as Reichheld (2001) argued, when customers

do trust an online vendor, they are much more likely to share personal information. This information, he believes, enables the company to form a more intimate relationship with customers and to offer products and services tailored to their individual preferences, which, in turn, further increases the level of trust and strengthens the bonds of loyalty. Such a virtuous circle can quickly translate into a durable advantage over competitors.

One could also suggest that the story is much the same for integrated supply-chain relationships. Unless firms are comfortable engaging in highly transparent relationships and sharing internal information, including

costs and profit budgets, with their partners, little benefit can be achieved through reduced inventory levels, coordinated scheduling, or joint planning. Open, transparent relationships work only when both sides are committed to mutual success (Reichheld, 2001).

However, according Reichheld (2001), loyalty is dead, and the statistics seem to bear them out. As statistics suggest, on average, U.S. corporations now lose half their customers in five years, half their employees in four, and half their investors in less than one. We seem to face a future in which the only business relationships will be opportunistic transactions between virtual strangers.

The strategic advantage now enjoyed by large companies in the United States, like Northwestern Mutual, State Farm, MBNA, and John Deere shows why acquiring the right customers is so critical. It becomes more evident as capital ratios decline, and their competitors, gasping for breath, trade leftover customers back and forth in the increasingly vain and frantic hope of maintaining growth in a mature market. If companies are to prosper into old age, they must build a foundation of loyal customers (Reichheld, 2001).

One could claim that this is true even in newer industries -perhaps especially in newer industries- where many competitors can earn respectable profits for a time, but where sooner or later, there will not be enough good customers to go around. Nevertheless, the smart competitors will find ways to get the best ones early and the smartest of the smart will then shift their growth strategies away from new-customer acquisition and toward building and broadening their relationships with the good customers they have already won. A recent study by Bello et al. (2012) states that the American Farm School (AFS) has a small but very loyal customer pool, based on the AFS image as a safe and ethical food producer.

Customer retention is a subject that simply cannot be confined within narrow limits. We came to understand that business loyalty has three dimensions customer loyalty, employee loyalty, and investor loyalty and that they are far more powerful, far reaching, and interdependent than we had anticipated or imagined.

Loyalty has implications that extend into every corner of every business system that seeks the benefit of steady customers.

2.1 The loyalty-based model

The implicit business model behind most present-day strategic plans and budgeting procedures begins with a profit target and works backward to arrive at required revenue growth and cost reduction. In a research Reichheld (2001) had undertaken, where it lasted for almost a decade studying loyalty leaders and their business systems, what one has learned has radically altered the view of business economics. That research, conducted by Reichheld (2001), led him to develop a very different model, rendered graphically in Figure 1.

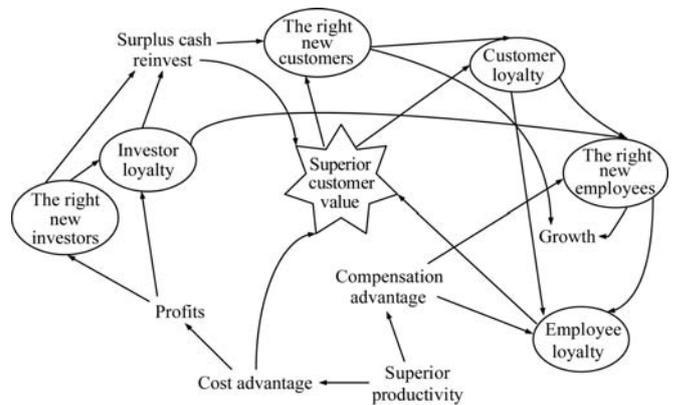


Figure 1 The loyalty-based cycle of growth (adapted from Reichheld, 2001)

As he has discovered, what drives this new model is not profit but the creation of value for the customer, a process that lies at the core of all successful enterprises. Value creation generates the energy that holds these businesses together, and their very existence depends on it. The physics that governs the interrelationships and energy states of a business system’s elementary particles- its customers, employees, and investors- we call the forces of loyalty. Because of the linkages between loyalty, value, and profits, these forces are measurable in cash flow terms.

Reichheld (2001) believes that loyalty is inextricably linked to the creation of value as both a cause and an effect. As an effect, loyalty reliably measures whether or not the company has delivered superior value: Customers either come back for more or they go else-

where. As a cause, loyalty initiates a series of economic effects that cascade through the business system, as follows:

- Revenues and market share grow as the best customers are swept into the company’s business, building repeat sales and referrals. Because the firm’s value proposition is strong, it can afford to be more selective in new customer acquisition and to concentrate its investment on the most profitable and potentially loyal prospects, further stimulating sustainable growth.

- Sustainable growth enables the firm to attract and retain the best employees. Consistent delivery of superior value to customers increases employees’ loyalty by giving them pride and satisfaction in their work. Furthermore, as long-term employees get to know their long-term customers, they learn how to deliver still more value, which further reinforces both customer and employee loyalty.

- Loyal long-term employees learn on the job how to reduce costs and improve quality, which further enriches the customer value proposition and generates superior productivity. The company can then use this productivity surplus to fund superior compensation and better tools and training, which further reinforce employee productivity, compensation growth, and loyalty.

- Spiraling productivity coupled with the increased efficiency of dealing with loyal customers generates the kind of cost advantage that is very difficult for competitors to match. Sustainable cost advantage coupled with steady growth in the number of loyal customers generates the kind of profits that are very appealing to investors, which makes it easier for the firm to attract and retain the right investors.

- Loyal investors behave like partners. They stabilize the system, lower the cost of capital, and ensure that appropriate cash is put back into the business to fund investments that will increase the company’s value-creation potential.

Reichheld (2001) believes that profits are not central to this new model, but they are nevertheless critically important, not just for their own sake but also because they allow the company to improve its value creation, and

because they provide an incentive for employees, customers, and investors to remain loyal. Still, the source of all cash flow, including profit, is the spiraling pool of value that springs from the creation of superior value for customers.

2.2 The netchain model

Lazzarini et al. (2001) launched the concept of netchains at the interface of vertical supply chains and horizontal networks. As Lazzarini et al. (2001) indicated, netchains can be conceptualized as a multi-layer hierarchy between suppliers, processors and retailers where horizontal coordination between reciprocal agents is embedded in a framework of vertical deliveries (see an example of a netchain structure in Figure 2). Horizontal cooperation (e.g., in farmers cooperatives) may be better able to cope with the stringent quality criteria and changing quantity demands emerging from chain partners.

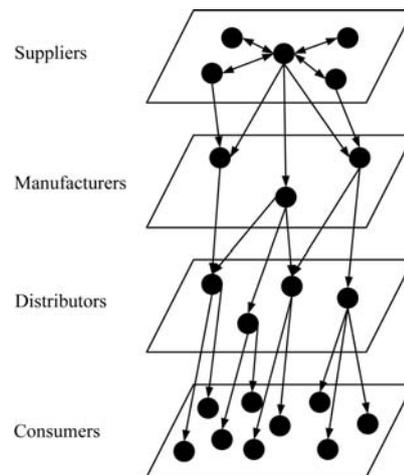


Figure 2 Example of a netchain structure (adapted from Lazzarini et al (2001: 8))

Netchains provide linkages between horizontal networks of suppliers and vertical supply chains. They involve different types of (nested) interdependencies amongst agents, like:

- Reciprocal cooperation based on mutual exchange between suppliers;
- Sequential delivery systems based on planning along the supply chain; and
- Pooled interdependencies at business level to guarantee standardization and harmonization of processes. (Lazzarini et al., 2001)

Finally, as Ruben et al. (2004) argued, contracts play a critical role in the relationships between chain and networks partners. They define the rules and obligations for establishing cooperation, both between network partners and chain agents; in particular, when repeated transactions take place, contracts represent a cost-reducing device. They also argue that for deliveries that involve high-quality demands, self-enforcing contracts that involve trust and loyalty are preferred to reduce monitoring costs. Different options for integrating (horizontal) networks and (vertical) chain contracts are available for guaranteeing risk-sharing and ensuring trust relationships. Given the high risks and the difficulties of monitoring numerous heterogeneous agents, entire-channel process control is increasingly preferred (Van der Laan, 1993; Janssen and Van Tilburg, 1997).

3 Framework for an SME cooperative in the agri-business sector

After presenting the relevant models related to the establishment of start-ups, in this section a framework focused on the agri-business sector is going to be presented and analyzed. This framework is also based in previous comprehensive study conducted by Awas et al. (2010) who concentrated in the food-sector. This model has been applied in the AFS campus store as the basis towards the establishment of its relevant business activities. Authors argue that this model is sufficient towards the necessities of such a business initiative because it handles both managerial and technological issues effectively.

3.1 AFS profile

The organisation that will be applied upon the afore-mentioned model is the campus store located within a farm school (American Farm School - AFS). The Farm School is an independent, non-profit educational institution founded in 1904 to serve the rural population of Greece and the Balkans. Since May 2011, and under the wider frameworks of farm to fork and learn by doing context, a team of five students have upgraded the campus store's services and are promoting sales to a

larger audience, under the supervision of academic and administrative staff. The established AFS products, together with strategically selected AFS graduates' products, enhanced the overall attractiveness of the store by contributing to its product mix. The recent relocation to a bigger and easier accessible site within the AFS campus and the upgrading of the in store facilities both have contributed further to the improvement of the shop's services. The products sold at the store are produced at the school's educational farm. Among others customers can get dairy and pasta products, eggs, and wine. In addition products from strategically selected American Farm School graduates can be found, such as herbs and spices, pies and a variety of dairy products.

3.2 Proposed framework for an agri-business start-up

Awas et al., (2010) in their bibliographical review identified and grouped six managing success factors in entrepreneurial ventures. The scope of this paper is to analyze and compare the AFS campus store experience with the findings of the above research and determine their importance in the store's success. Furthermore, a proposed framework for successful similar enterprises will be presented.

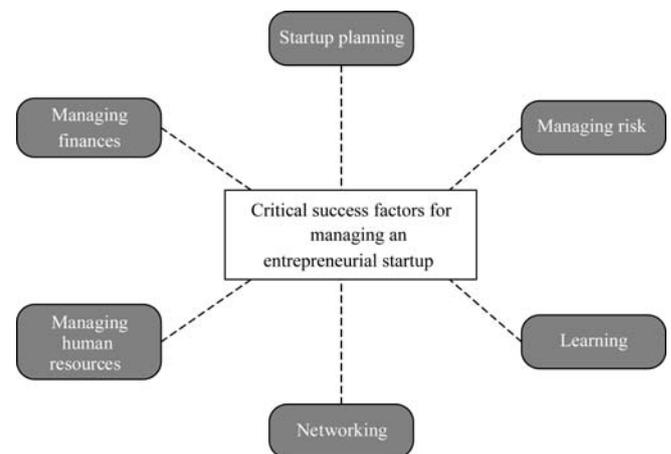


Figure 3 Framework for an agri-business start-up

According to the model above of the critical success factors as well as incorporating the literature review conducted by Avvas et al., (2010), the following table where both the main success factors as well as the particular entrepreneurial success factors are presented. This categorization is the basis for the research which has been conducted in the AFS campus store.

Table 2 Main success and entrepreneurial success factors

Main success factors	Entrepreneurial success factors
Start-up planning	<ul style="list-style-type: none"> ▪ Availability heuristics ▪ No formal business plan – just a general strategic idea ▪ Already existing location ▪ Already existing clientele
Managing risk	<ul style="list-style-type: none"> ▪ Favorable schema of already existing quality food AFS products ▪ Enthusiasm ▪ Academic and administrative support ▪ Focus on nutritional added value e.g. whole wheat pasta with saffron, plus organically and vegetarian certified sausages
Learning	<ul style="list-style-type: none"> ▪ Favorable schema regarding learn by doing approach ▪ RandD, module material ▪ Processes (AFS)
Networking	<ul style="list-style-type: none"> ▪ Strong relationship with suppliers for good credit terms and agreements ▪ Long lasting tradition with a lot of exposure and various contacts globally – little initial effort for networking
Managing human resources	<ul style="list-style-type: none"> ▪ Careful selection of eager and able student team members and entrepreneur spirited team leader ▪ Trust of student employees ▪ Training of employees, through their modules (accounting, finance, marketing entrepreneurship) and seminars (food additives, health benefits)
Managing finances	<ul style="list-style-type: none"> ▪ Favorable schema delaying payments to suppliers initially ▪ Low budget initially ▪ Consignment method where the store is stocked with various quality products from our suppliers and then pay them back

4 Lessons learned from the successful launch of a locally-based start-up in the food supply chain

Based on the model presented in the previous section a research has been conducted and the lessons learned from this research are presented.

4.1 Research methodology

The scope of this research is two-fold: first, to investigate the success of the proposed model in real-life evidence and second, to present the lessons learned from its application. In order to achieve the above-mentioned goals, a qualitative research was undertaken based on in-depth interviews with the managers and employees of the locally-based store so as to identify its potentials and challenges. The manager was asked to: first, to analyze the critical success factors based on the entrepreneurial success factors, and second, to rate the significance of these factors. The interview was conducted within the premises of the AFS campus store during the first week of June 2012 and the data gathering tool was an open-ended questionnaire.

4.2 Findings

With regards to the analysis of the critical success

factors, we received the following information from the AFS campus store manager:

- **Start-up planning.** Since there was an already existing store location within AFS which provided the initial launch of the new student run store, the greatest success factor that the manager pointed out was the availability of existing loyal clientele who knew and appreciated the quality of the AFS products. This quality was the significant factor for the formulation of the general strategic plan for the product selection and mix instead of a formal business plan. Moreover, the availability heuristics had a less important role since there were few changes initially (i.e. shelves, extra freezer).

- **Managing risk.** The favorable schema of already existing quality food AFS products together with the addition of excellent products of AFS graduates as it was in the strategic plan were of great importance. The enthusiasm of all (suppliers-graduates, students, old and new customers, plus academic and administrative supportive staff) was the greatest success factor and can be attributed to the involvement into something entirely new, the creation of new expanded market, the focus on nutritional added value e.g. whole wheat pasta with saffron, plus organically and vegetarian certified sausages. All these while keeping business small, provided a sound ground for minimizing/managing risk.

- **Learning.** The favorable schema regarding learn by doing approach, was a very important success factor since it allows for adjustments in this pioneering food service area. The manager argued that the students and the staff involved had to learn the new procedures, processes and ways of daily operation, fairly quickly and efficiently. The store offered chances for students' modules and research and additionally the development of new products (traditional yogurt) and the exploration of customer tastes and preferences, since research theses were produced, benefiting the students, the suppliers and the store.

- **Networking.** The strong and close relationship with store suppliers (AFS former graduates) allowed for good credit terms and agreements, together with the long lasting AFS tradition, were of greatest importance success factors. The AFS long extensive network and contact

database, the exposure to local and global media, (i.e an interview about the store was broadcasted in German and Dutch radio, the great number of guests and visitors) provided with little initial effort for networking, tremendous benefits. Days and events throughout the year, distribution of pamphlets, and electronic media were therefore very effective reaching a much larger market. Visits from schools and exchanging programs both from the secondary school, the college and the lifelong learning programs, were helpful in networking. Furthermore, the AFS graduates and the AFS sponsors organised events on and off campus provided other channels for networking.

- **Managing human resources.** The careful selection of eager and able student team members and entrepreneur spirited team leader was of greatest importance to the success of the store. Specifically, the team leader, coming from family entrepreneurship background, together with his polite character and hard-over-the-hours’ work, was the most important success factor. A great effort was made to the careful selection and training of the rest student-employees, through their modules (accounting, finance, and marketing entrepreneurship) and on and off the store seminars (food additives, health benefits, customer service) so their contribution to the success of the store is equally great. The trust of all the student employees is neutral to the success of the store but a relationship we cannot do without.

- **Managing finances.** Until the store and the processes were at speed, the favorable schema of occasionally delaying payments to suppliers, gave breathing room for the low budget at first. The extra work load on staff, the new policies and procedures and the contract paperwork were overcome in timely fashion due to this extra time, thus allowing the store student management to concentrate on the daily transactions and day-to-day operations. A Consignment method was used, where the store is stocked with various quality products from our suppliers, and then pays them back; further reduce the need for finances. The close relationship with schools graduates and the mutual trust really facilitated the whole process.

Then, we asked the manager to rate the significance of the factors above, based on a scale from 0 to 4 (where 0 is the unimportant and 4 the most important). According to the responses the following table was developed presenting the range and the mean marks:

Table 3 Significance of the main success and entrepreneurial success factors

Critical success factors	Entrepreneurial success factors	Importance
Start-up planning	▪ Availability heuristics	▪ 1
	▪ No formal business plan – just a general strategic idea	▪ 1
	▪ Already existing location	▪ 2
	▪ Already existing clientele	▪ 4
		<u>Overall 2.00</u>
Managing risk	▪ Favorable schema of already existing quality food AFS products	▪ 3
	▪ Enthusiasm	▪ 4
	▪ Academic and administrative support	▪ 4
	▪ Focus on nutritional added value e.g. whole wheat pasta with saffron, plus organically and vegetarian certified sausages	▪ 3
		<u>Overall 3.50</u>
Learning	▪ Favorable schema regarding learn by doing approach	▪ 3
	▪ RandD, module material	▪ 2
	▪ Processes (AFS)	▪ 1
		<u>Overall 2.00</u>
Networking	▪ Strong relationship with suppliers for good credit terms and agreements	▪ 4
	▪ Long lasting tradition with a lot of exposure and various contacts globally – little initial effort for networking	▪ 4
		<u>Overall 4.00</u>
Managing human resources	▪ Careful selection of eager and able student team members and entrepreneur spirited team leader	▪ 4
	▪ Trust of student employees	▪ 3
	▪ Training of employees, through their modules (accounting, finance, marketing entrepreneurship) and seminars (food additives, health benefits)	▪ 4
		<u>Overall 3.67</u>
Managing finances	▪ Favorable schema delaying payments to suppliers initially	▪ 3
	▪ Low budget initially	▪ 4
	▪ Consignment method where the store is stocked with various quality products from our suppliers and then pays them back	▪ 2
		<u>Overall 3.00</u>

Note: 0 =unimportant, 1= less important, 2 = neutral, 3 = very important, 4 = most important.

Although the main emphasis of the “store” project is hands on education for the students involved, the financial results were also critical for the school’s senior management. At the end of the fiscal year, the financial outcome was positive.

5 Conclusions

In this paper, a framework for an SME cooperative store, based on empirical and secondary evidence

collected from the American Farm School's campus store was suggested. Moreover, the lessons learned from its application were presented and discussed.

According to the findings, the two most critical success factors were "Networking" and "Managing human resources". In particular, with regards to networking it allowed for good credit terms and agreements, together with the long-lasting farm school tradition, were of greatest importance success factors as well as the exposure to local and global media provided with little initial effort for networking, tremendous benefits. With regards to managing human resources the careful selection of eager and able student team members and entrepreneur spirited team leader is of greatest importance to the success of the store. Therefore, empirical evidence indicated that the careful selection and training together with trust is critical for the success of such entrepreneurial venture.

On the other hand, "start-up planning" and "learning" are the least important factors. First regarding the first factor it is true that a business plan demonstrates that a start-up company is "establishing objectives, products and service lines; setting up supply chains; and identifying revenue targets and the investment and financing requirements and marketing strategies to meet those targets" (Boyer et al., 2009). One can say that in the examined company due to its small size managers pay more attention to the operational issues and not to strategic ones. Furthermore, "learning" is a continuous effort and key part of the farm school as an educational and research institute; therefore, both managers and students must elaborate more in the innovative methods and advanced tools. Further research in that area would provide evidence for applicability of the suggested model to other sectors and especially during financial and economic turbulence.

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