

# **Exploring risk adversity in business culture in southwest Manitoba**

**Work-in-progress**

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The data, analysis of data, project analysis and conclusions or other information in this report are those of the authors and the Rural Development Institute and not of the Government of Manitoba or Canada.

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The Institute has diverse research affiliations, and multiple community and government linkages related to its rural development mandate. RDI disseminates information to a variety of constituents and stakeholders and makes research information and results widely available to the public either in printed form or by means of public lectures, seminars, workshops and conferences.

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# INTRODUCTION

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This paper is a work-in-progress, meaning it is a very modest start to exploring risk averse culture, beginning in the rural areas of southwest Manitoba.

The aim of this paper is to explore risk culture in relation to business growth and business support services. Bozeman and Kingsley (1998) define the risk culture of an organization as the perception among workers that co-workers and top managers take risks and promote risk taking. The perception creates the culture, as the perception provides the cues to acceptable behavior. We are using the term “risk tolerant” for risk cultures that are perceived to take risks and promote risk taking, and “risk averse” for cultures that are perceived to avoid risks and not to promote risk taking.

Risk culture is an important factor in business growth and innovation. Klasing (2014) states that more risk tolerant attitudes speed up the rate of economic growth. “Risk-taking is widely considered to be an integral part of entrepreneurial activity”. In fact, some suggest that the lack of a risk tolerant culture may be contributing to the decline in innovation in Canada (Amanda Lang, CBC News). The notion of a risk tolerant culture is of importance since it largely affects the environment within which businesses operate and consequently impacts the likelihood of business success and growth within that environment. If there is a significant difference in the risk tolerance of business people and the business support agents that serve them, it would have implications on that working alliance and the productivity that emerges. Because both of these groups contribute to the culture of risk in their communities, it is necessary to examine the differences in their perception of risk culture.

This paper begins with a literature scan that examines the relationship between risk culture and business people and business supports. We then set out a very preliminary conceptual framework for examining risk averse culture. It is at this stage the paper clearing becomes a work-in-progress in we outline the research method and include responses to the survey questions. We see much more work is needed on the conceptual framework, in large part because we were unable to locate theories or models about factors influencing a risk averse culture. As a result, we call for more efforts in this area.

## LITERATURE SCAN

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This literature scan examines relationships between innovation and a risk within a culture. Generally, the claim is Canada is becoming less innovative and an important factor is our risk averse culture (Conference Board of Canada, 2015). The scan begins with the concept of culture in general, narrows to risk culture in particular, with the intention to understand the relationship between risk culture and businesses and those whose job is to support business development. Given this research is part of the Rural Innovation in Manitoba project, the scan will purposely

consider SME's, given their dominance in the Canadian economy, and a rural small town emphasis.

The concept of culture has changed and adapted overtime, as cultures themselves change over time. William Gudykunst and Young Yun Kim (2003) view culture as "systems of knowledge used by relatively large groups of people" (p.17). They see these knowledge structures as generally, but not always, coinciding with political and geographical boundaries. In a business community, the system of knowledge is built between the people involved in business and the various support services that serve them.

As cultural theory has evolved, the intergroup perspective emerged as another way to analyze culture. The intergroup perspective views culture as defined by group membership. It includes how people identify with groups, how others identify people as members of groups, and how groups separate from and/or compare themselves with other groups. This perspective is less concerned with political, geographical or biological categories in and of themselves, and considers these and other factors as part of group identity. (Hecht, Jackson & Pitts, 2005). In the business context, business people and business supports would each have their own group identity, and still belong to a wider group identity of the "business community".

Many agree that cultures are affected by the economic and political context, changing climates and geographies, and the rise and fall of important ideas. Culture influences how individuals view the world around them, assimilate information, and make decisions. The risk culture in which businesses operate is shaped by both business people and the people in business support services.

The culture of risk in a region can be shaped by the decisions and attitudes of the local businesses and business supports. These two groups create the system of knowledge around business risk culture, as well as the business group identity. By examining the attitudes of these two key groups, we can assess the risk culture businesses are operating in within the region. By determining key differences between the risk culture of business people and business supports, we can identify a barrier to economic growth that could be overcome by introducing a more risk tolerant business support culture.

Risk culture is closely related to economic growth and business success. Canada may be suffering from a risk averse culture, which some suggest is contributing to a lack of innovation and slower economic growth (e.g., Conference Board of Canada, 2015). As noted in Table 1, they use eleven indicators for comparisons about innovation and Manitoba earns a "D" on innovation and ranks 23rd out of 26 comparator regions -10 provinces and 16 peer countries (Conference Board of Canada, 2015). Klasing (2014) found that more risk tolerant attitudes lead to faster economic growth. This can be shaped by policy interventions that create a more risk tolerant atmosphere for business and business supports to operate (Klasing 2014).

**Table 1. Eleven innovation performance measures for provinces in Canada**

Innovation Performance		
Capacity	Activity	Results
<ul style="list-style-type: none"> <li>• Public R&amp;D</li> <li>• Researchers</li> <li>• Connectivity</li> <li>• Scientific articles</li> </ul>	<ul style="list-style-type: none"> <li>• Entrepreneurial ambition</li> <li>• Venture capital investment</li> <li>• Business enterprise R&amp;D</li> <li>• ICT investment</li> </ul>	<ul style="list-style-type: none"> <li>• Patents</li> <li>• Enterprise entry rate</li> <li>• Labour productivity</li> </ul>

Source: Conference Board of Canada, 2015.

Roszowski and Grable (2009) found that public sector employees are less risk tolerant than private sector counterparts. Public sector employees scored lower on a test for financial risk tolerance, and are less risk tolerant in their private financial affairs. It is reasonable to conclude that the business supports participants in our survey will be less risk tolerant than the business people they are supporting. Jurinski and Kolay (2016) state that business supports with a strong understanding of entrepreneurial risk are better able to fulfill their role as financial advisors to business people. This makes the difference in risk culture between these two groups an important area for research.

Risk culture may be particularly important to small and medium sized businesses (SME). New businesses fit into these categories, and starting a new business is a risk-filled process. These are also the types of businesses that business supports typically serve to offer business advice, financing, planning and other services.

Innovation, Science and Economic Development Canada (2016) has found that small and medium businesses are a vital part of the Canadian economy. As of December 2015, 97.9% of Canadian businesses were small businesses, and 1.8% were medium businesses. SME's also account for the majority of Canada's employment and an average of 30% GDP for the Provinces. Though SME's do not have the capital for large R&D investments, the same survey data show that 41.7% of small businesses and 58.3% of medium businesses have implemented at least one type of innovation. This shows that despite their small budgets SME's are an important component of an innovative Canada.

Support for SMEs is extremely important, as they are the backbone of the Canadian economy, though support services are often lacking or difficult to access. This problem can be exacerbated in rural areas as many support services are concentrated in metro areas. Over 80% of start-up businesses Innovation, Science and Economic Development Canada surveyed could not secure financing due to credit history or other barriers, and needed to use their own personal finances to start their business. (Innovation, Science and Economic Development Canada, 2016). This shows a risk aversion in the business support sector that may be limiting the ability of business people to start and run new businesses.

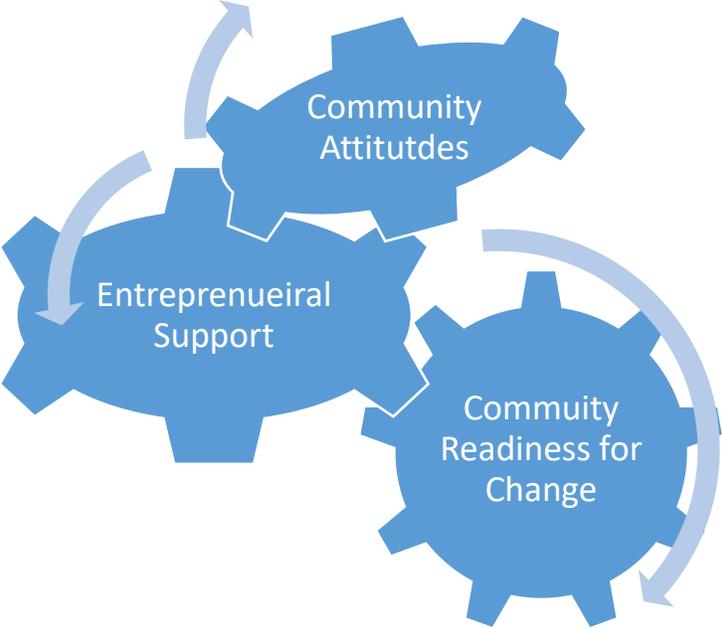
# CONCEPTUAL FRAMEWORK

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Culture has many definitions yet most agree it is shaped by many factors, including geography, politics, ideologies, and the economy. Culture can also be shaped purposefully, through media, laws and policies and other interventions. Risk culture in particular can be shifted to be more risk tolerant or risk averse through policy interventions, training programs, or by funding more risk tolerant business support ventures.

The first step is to examine current state of risk averse culture. Figure 1 sets out such a simplified framework requiring the analysis of three sets of perceptions about Community Attitudes, Entrepreneurial Support, and Readiness for Change. These three areas provide insight on the broad risk culture that businesses operate in, the specific risk culture of business supports, and the readiness of the region to move towards a more risk tolerant culture.

**Figure 1. Simplified conceptual framework of key factors of risk averse culture**



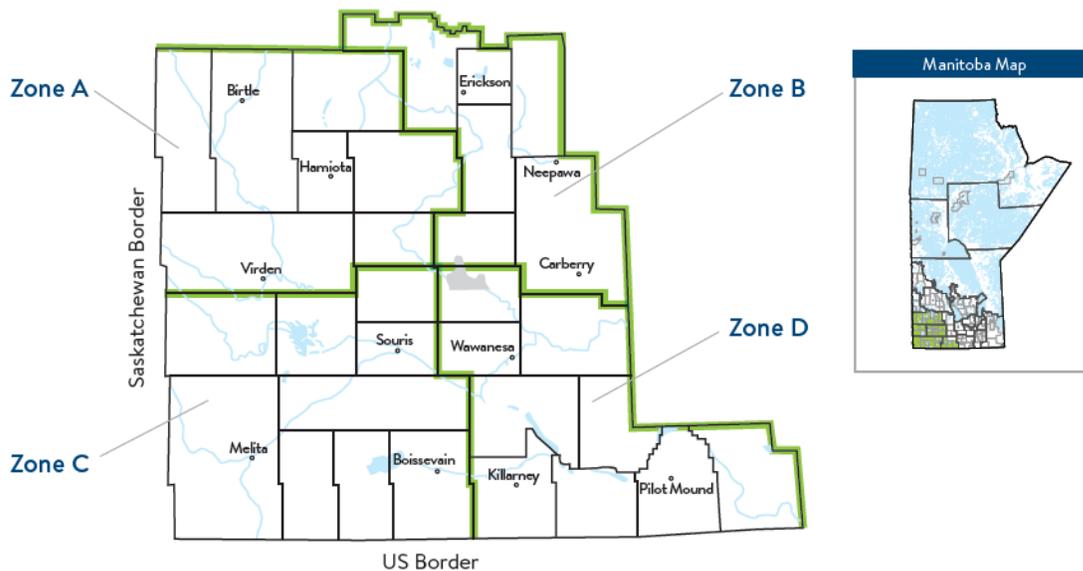
Much more is needed to development such a framework, including the details under each set of factors, balanced against other notions of risk averse culture including the work by the Conference Board of Canada (2015). Even though there is only a simplified framework, we still proceeded to gather information, in part knowing such data might add at some point in the future to its development and our understanding.

## METHODS

A qualitative case study research method enables us to create a data base that can be explored over time about business people and business supports regarding their perceptions of risk averse culture within a rural region. This survey was designed to gather answers about three areas: community attitudes, entrepreneurial support and readiness for change. Below the method is described by determining the case study, target participants, sample size, and how they were recruited, survey, and data analysis.

### *Case study and its geography*

The rural region used for this study was Southwest Manitoba. After several years of working with the Southwest Regional Development Corporation, we agreed as part of the proposal for this project to conduct a survey in their region. This survey fulfills that agreement. The case study was their region, Figure 2, and within that, based on available funding and human resources we conducted surveys in 12 communities: Birtle, Boissevain, Carberry, Erickson, Hamiota, Killarney, Melita, Neepawa, Pilot Mound, Souris, Virden and Wawanesa. Efforts were also made to recruit participants from the surrounding rural area. To keep a rural focus, businesses in the major centre for this region (Brandon) were not targeted for this research.



### *Participants: target groups*

Two groups of people in rural communities were targeted as they would have the best understanding of the culture and challenges of the rural business community: business people and agencies who support business development.

**Business people** were defined as any person who owns or runs a business, including agricultural producers, home or internet businesses. Food processors were also specifically targeted; this included people selling at farmers' market/farm gate, seed cleaners, bakers, butchers, millers, etc.

A number of different target groups of people who could support businesses were identified, these are referred to as **business supports**. These included municipal leaders or officials, members of community groups such as the chamber of commerce or service clubs and business support workers, e.g. Economic Development Officers (EDOs), educators, bankers and professionals such as accountants and lawyers.

#### *Sample size*

The calculated<sup>1</sup> sample of completed surveys at a 95% confidence level with a 5% margin of error for the businesses is 341 off the 3000 business in the 12 communities, and 197 of the support agencies from a total of 400.

#### *Recruitment of Participants*

The survey was open for on-line submissions from June 15 to August 31, 2016. In person surveying occurred from June 22 to July 8, 2016.

Lists of contact information for potential participants were compiled using internet searches, directories and consulting with local key contacts and provincial agencies. Surveyors targeted two groups of participants, businesses people and business supports. These included businesses in target towns, food processors, municipal officials, Economic Development Officers, Chief Administrative Officers, Chambers of Commerce and service clubs.

EDOs and municipal leaders and officials from all the Southwest region of Manitoba were contacted with an invitation to complete the survey, in-person or online.

Researchers visited the 12 target communities to conduct in-person interviews on a date that was arranged with a key contact in the community. Advance publicity for the visit was done through the community contacts, local newspapers or e-newsletters. Between 4 and 8 hours of surveying occurred in each of the 12 towns. The link to the online survey was also distributed to interested businesses by the researchers and others including EDO's, CAO's and Chamber of Commerce.

In-person surveying was conducted using an iPad with the Fluid Survey app while offline, completed by the researcher or individual participants themselves.

Survey data was collected on key demographics, as well as participant's personal risk tolerance, and perceptions community attitudes, entrepreneurial support, and readiness for change.

The first section consisted of questions aimed at obtaining demographic information. Data collected included age, gender, education, geographic location, and business information (if the participant identified themselves as a business person).

Participants were also asked two questions (Dohmen 2005) to assess their personal level of risk tolerance: to rank their general risk tolerance on a scale of one to 10 and their financial risk tolerance by directly answer how much money they would theoretically be prepared to risk in an uncertain investment.

The three areas of the conceptual framework, community attitudes, entrepreneurial support, and readiness to change each had several questions. These questions were analysed with a 3 part likert scale. This section was adapted from "Rural Community Entrepreneurship Survey" by

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<sup>1</sup> Sample size calculator - <https://www.checkmarket.com/sample-size-calculator/>

RUPRI Centre for Rural Entrepreneurship and Heartland Centre for Leadership and Development, (Markley et al, 2005).

**Table. Perception questions related to risk tolerance in rural southwest Manitoba**

Community Attitudes	1. Most people in my community understand that entrepreneurs are critically important to the future of our community
	2. Most people in my community really support entrepreneurs when they fail and are trying again with a new business
	3. Most people in my community really support someone who is creating a new or expanding an existing business
	4. Most people in my community would encourage a younger person to pursue a career creating and growing a business.
	5. Most people in my community would like to create and grow a business.
Entrepreneurial Support	6. My community recognizes and celebrates people who create and grow local businesses
	7. My community has developed programs to encourage and support entrepreneurs to develop and grow
	8. My community has a micro-lending program
	9. My community offers business or entrepreneurial training
	10. My community creates networking and mentoring opportunities for entrepreneurs and local business persons.
	11. My community has access to venture capital and/or angel investors
Readiness for Change	15. The focus of my community's economic development efforts includes: e. Helping new businesses get started
	16. My community is open to new ideas and change
	17. My community is willing to seek help from outside
	18. My community can realistically evaluate future opportunities
	19. My community has a participatory approach to community decision making
	20. My community has a cooperative community spirit
	21. My community has a deliberate transition of power to a younger generation of leaders
22. My community accepts both men and women in leadership roles	

#### *Analysis of Data*

As a work-in-progress, this report serves to bring forward the responses to questions, leaving to other efforts more analyses.

#### **Limitations:**

The proposed unit of analysis are the key stakeholder groups – business people and supports to business.

## Responses to survey questions

### *Response rates*

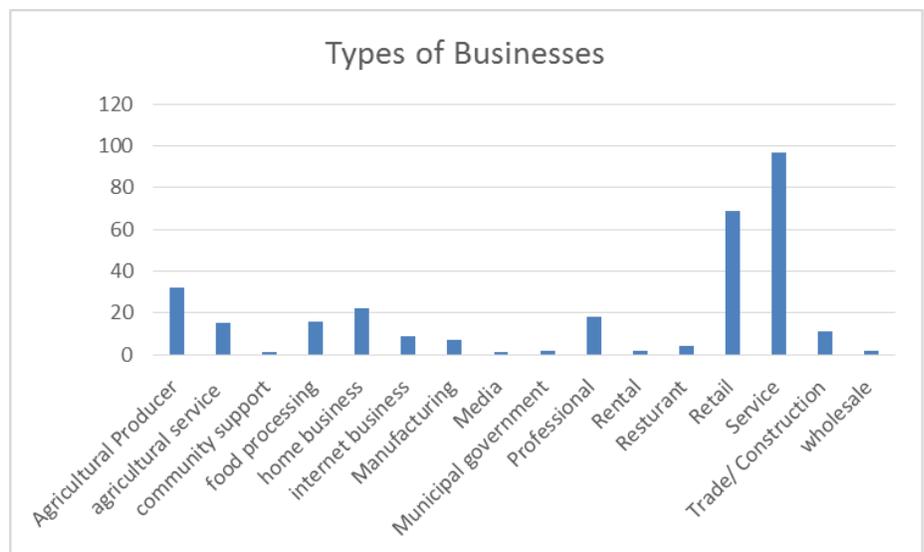
In terms of businesses, 117 completed surveys, resulting in a 41% (117 of 281) response rate, meaning the answers reflect a confidence level of 95% with a 8.5+- margin of error. With 30 completed surveys from business support agencies, this results in a 15.9% response rate, meaning the answers reflect a confidence level of 95% with a 16.4% +- margin of error. While the response rates are favorable for such a report, the relatively high margin of error means care has been taken with making conclusions.

### *Target audiences*

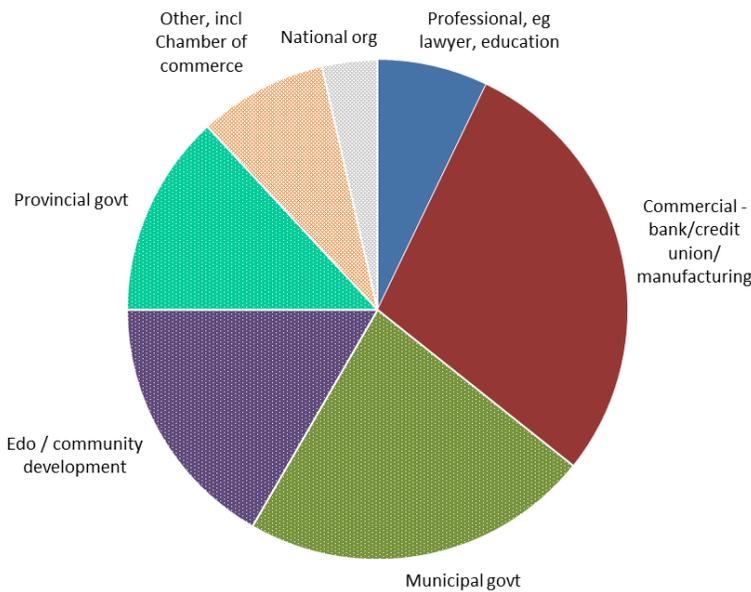
We anticipated finding two groups, business people and business supports. However, a third group emerged where the participants identified as both a business person and a business support. These participants had a role in a business support agency and also identified as a business person. For this report 214 people completed the survey, with 117 (54%) business people, 30 (14%) business supports, and 52 (24%) identified as both business people and business supports.

About 47% are male and 53% female are of working age between 25 and 64, and 2 were younger than 25 and 15 over 65. Nine respondents identified as Indigenous.

As noted in Figure 3, local Service (97) and Retail (69) were the most common business types, followed by 32 agricultural producers, 16 agricultural services, and 16 food processors.



### Type of Business Support

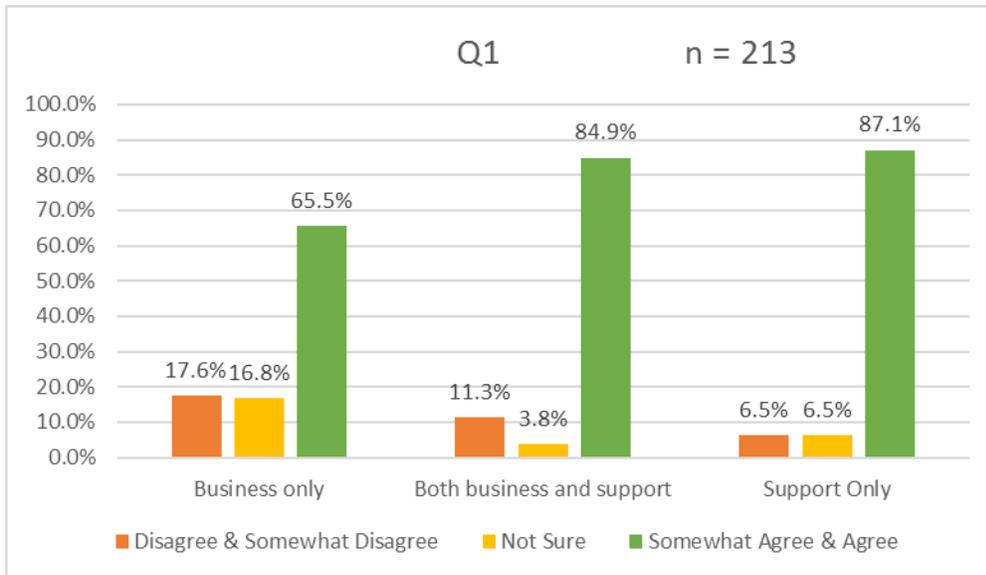


From Figure 4, 84 respondents were employed by an organization that supported business or entrepreneurs. 52% worked for provincial or municipal governments, or EDO/Community development organizations. Most of the others (36%) offered commercial support from banks, legal, or other professional services.

60% of all respondents identified themselves as members of an organization that could help entrepreneurs or businesses; through networking, education or advice. The majority were involved in Chambers of Commerce or other community groups.

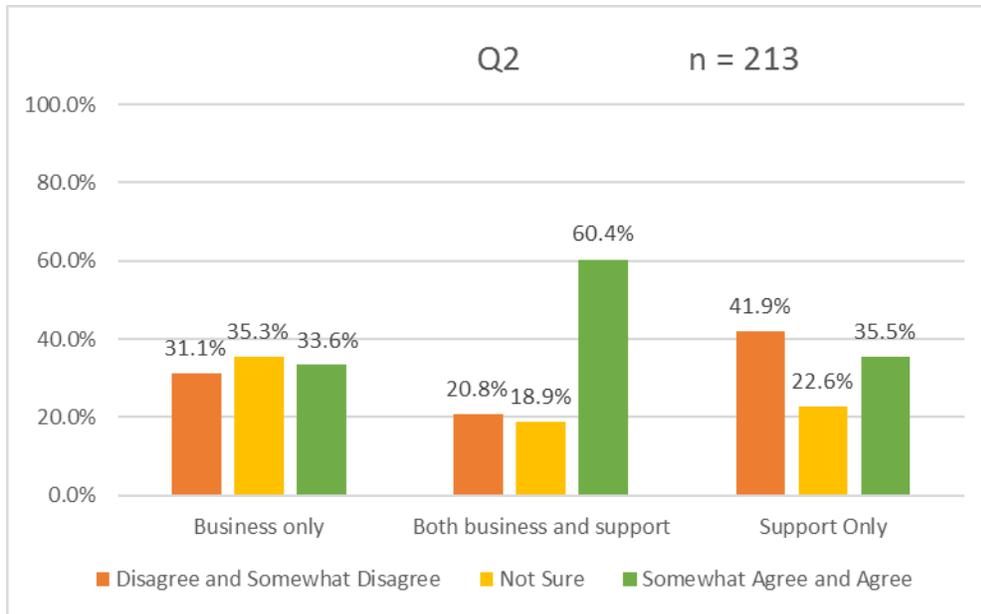
### Community Attitudes:

1. Most people in my community understand that entrepreneurs are critically important to the future of our community



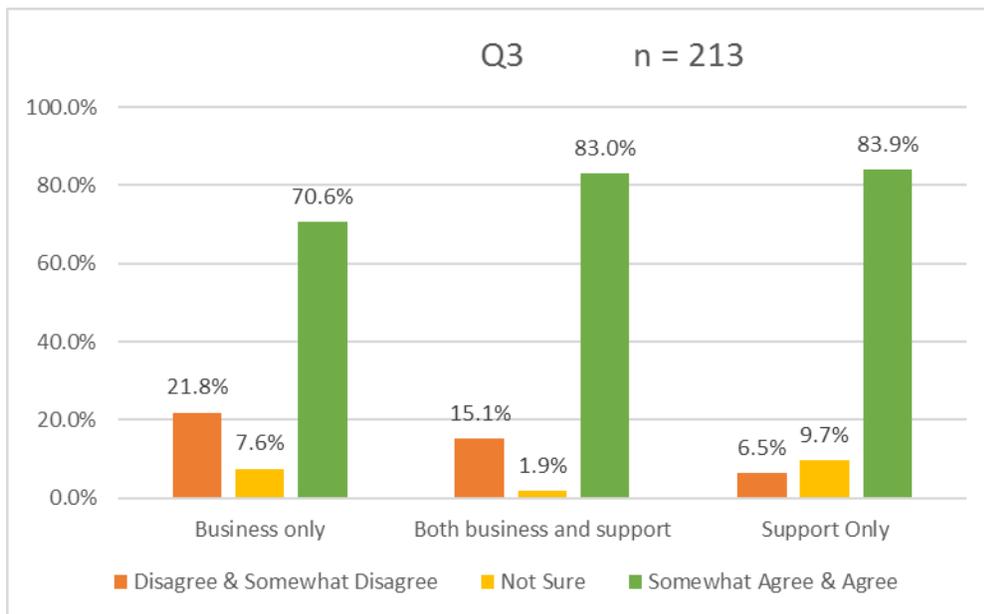
### Community Attitudes:

2. Most people in my community really support entrepreneurs when they fail and are trying again with a new business



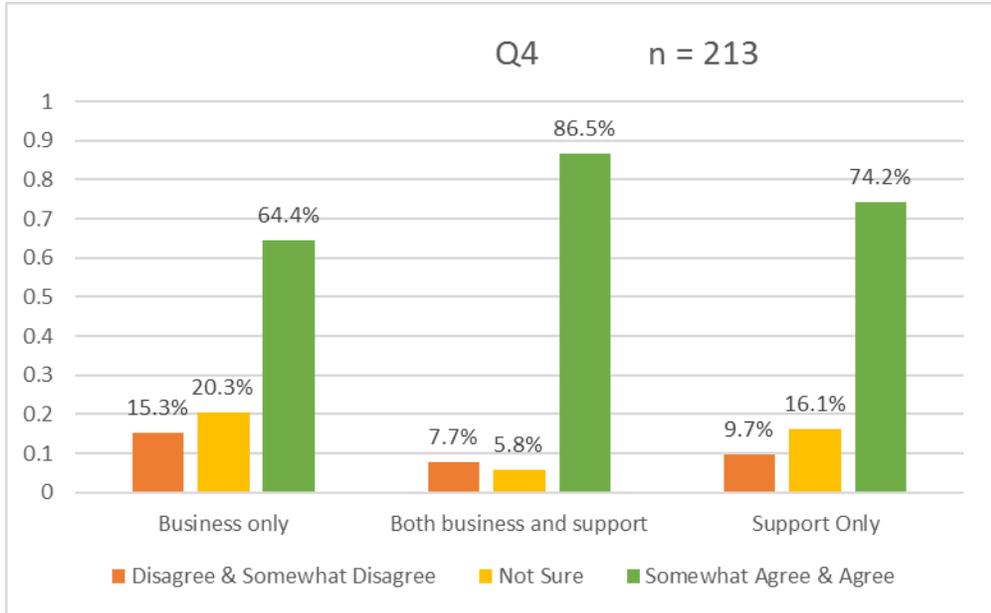
Community Attitudes:

3. Most people in my community really support someone who is creating a new or expanding an existing business



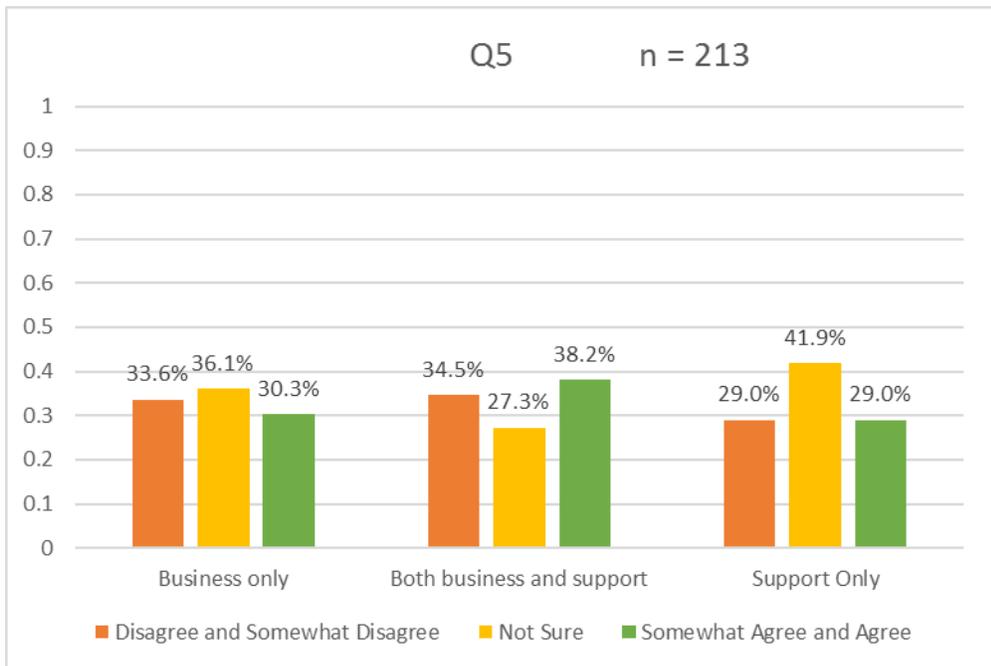
Community Attitudes:

4. Most people in my community would encourage a younger person to pursue a career creating and growing a business.



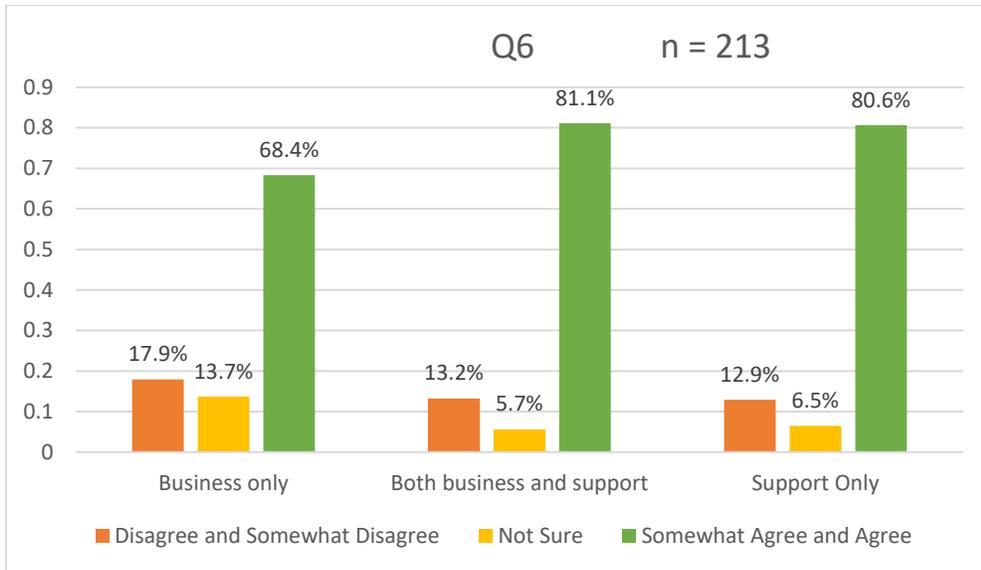
**Community Attitudes:**

5. Most people in my community would like to create and grow a business.



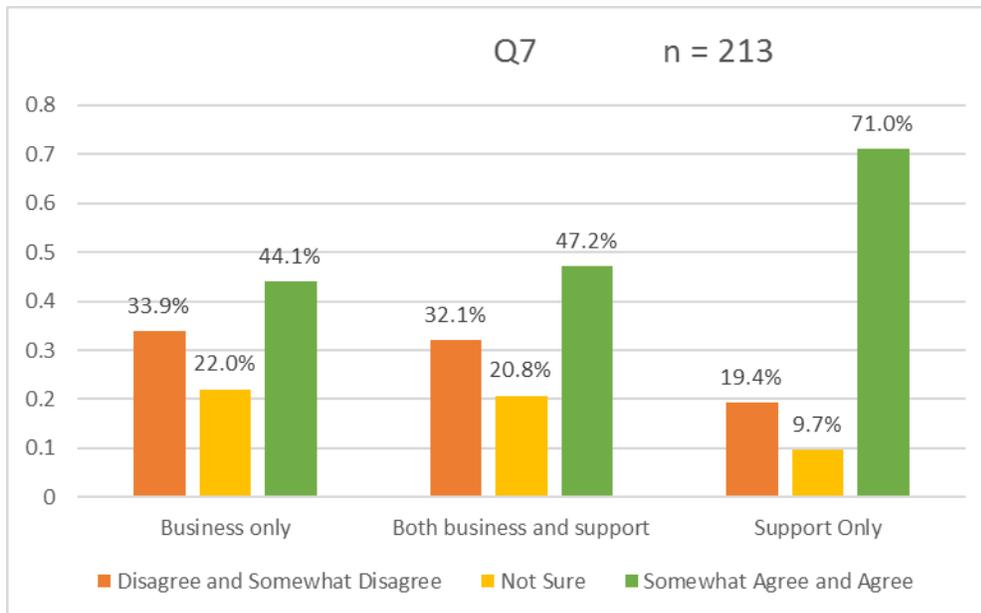
**Entrepreneurial Support:**

6. My community recognizes and celebrates people who create and grow local businesses



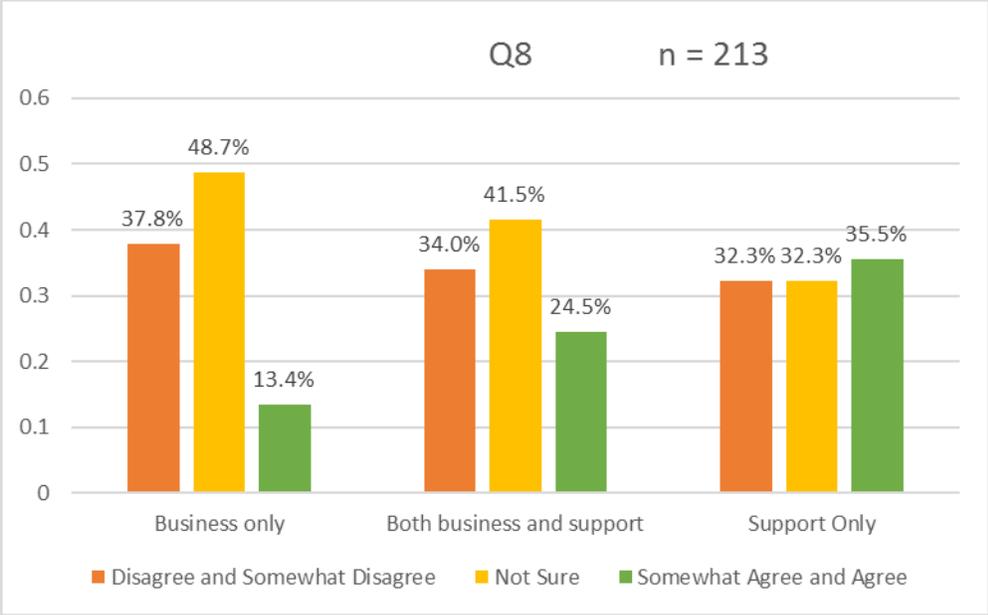
Entrepreneurial Support:

7. My community has developed programs to encourage and support entrepreneurs to develop and grow



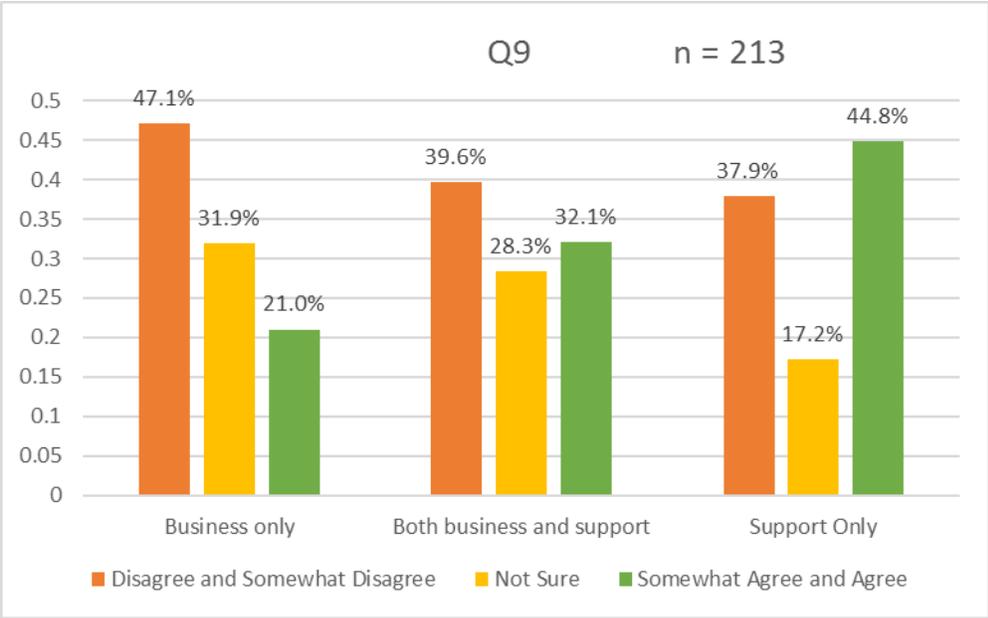
Entrepreneurial Support:

8. My community has a micro-lending program



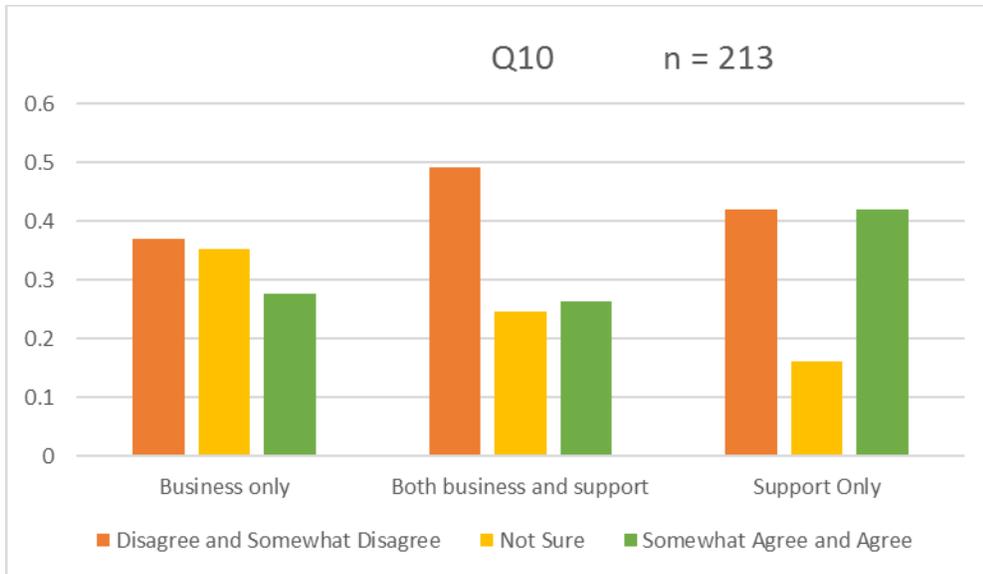
**Entrepreneurial Support:**

**9. My community offers business or entrepreneurial training**



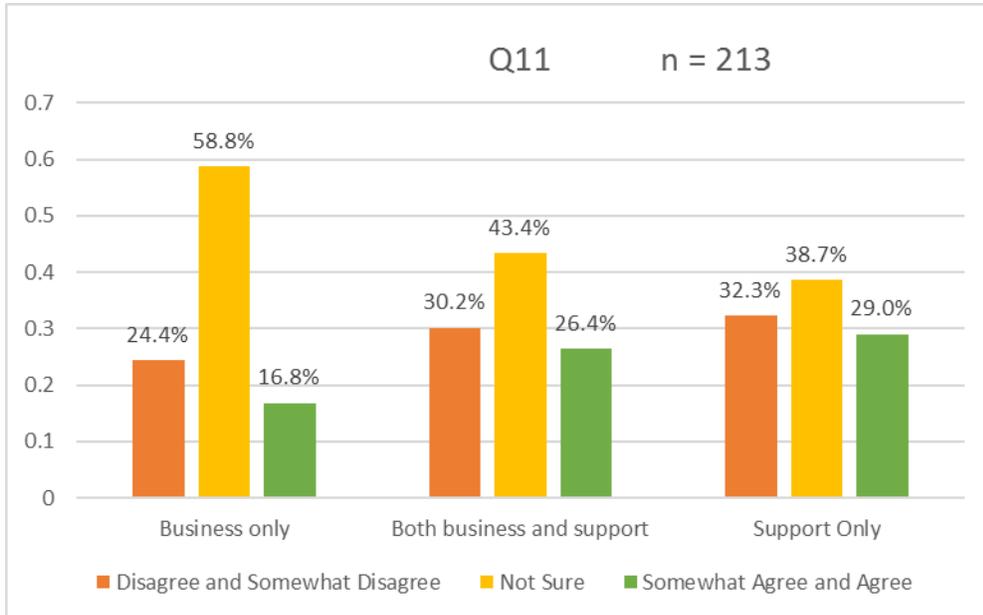
**Entrepreneurial Support:**

**10. My community creates networking and mentoring opportunities for entrepreneurs and local business persons.**

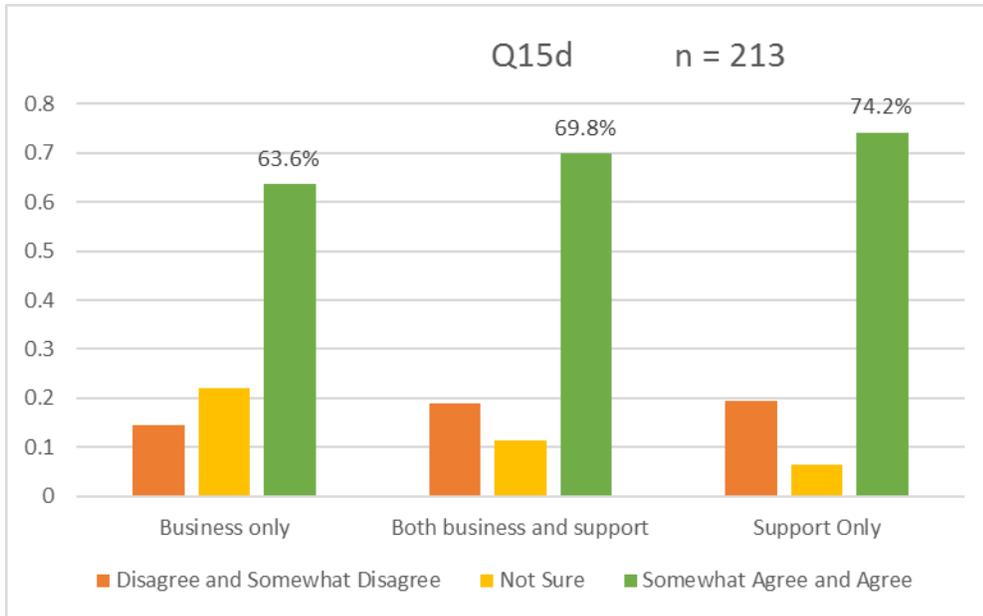


Entrepreneurial Support:

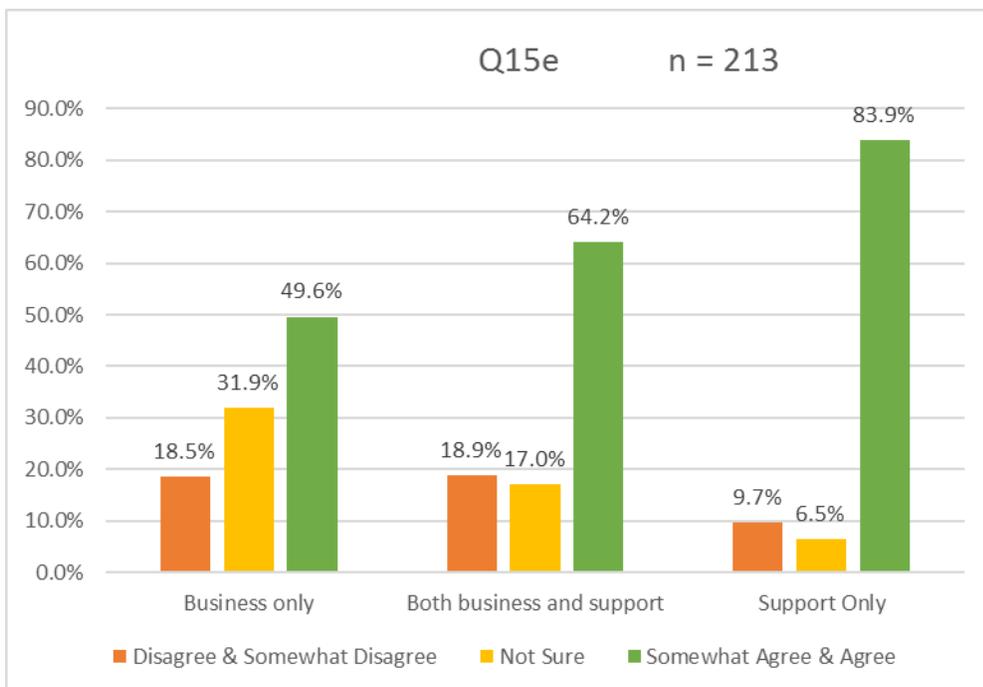
11. My community has access to venture capital and/or angel investors



15. The focus of my community's economic development efforts includes:  
 d. Considering farms and producers as part of the ...

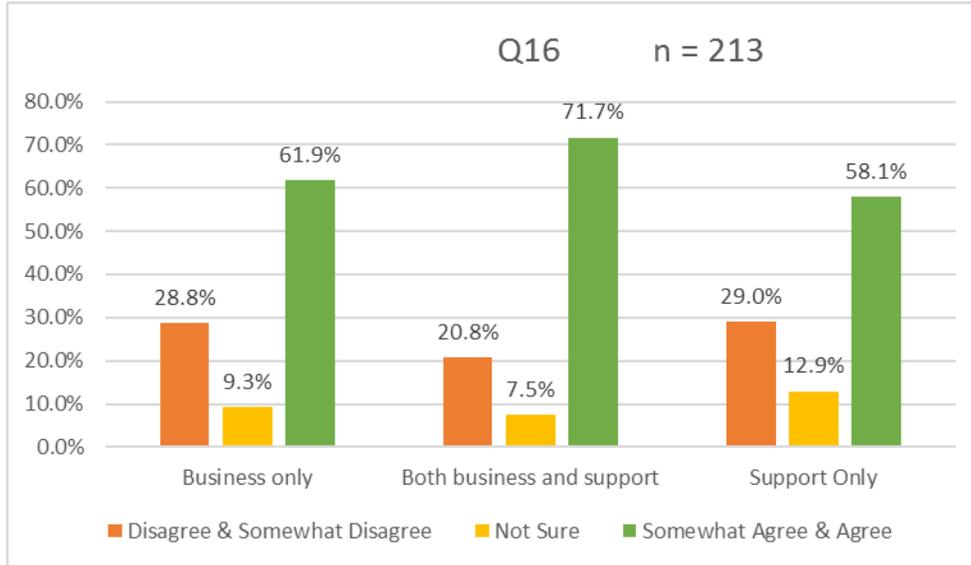


15. The focus of my community’s economic development efforts includes:  
 e. Helping new businesses get started



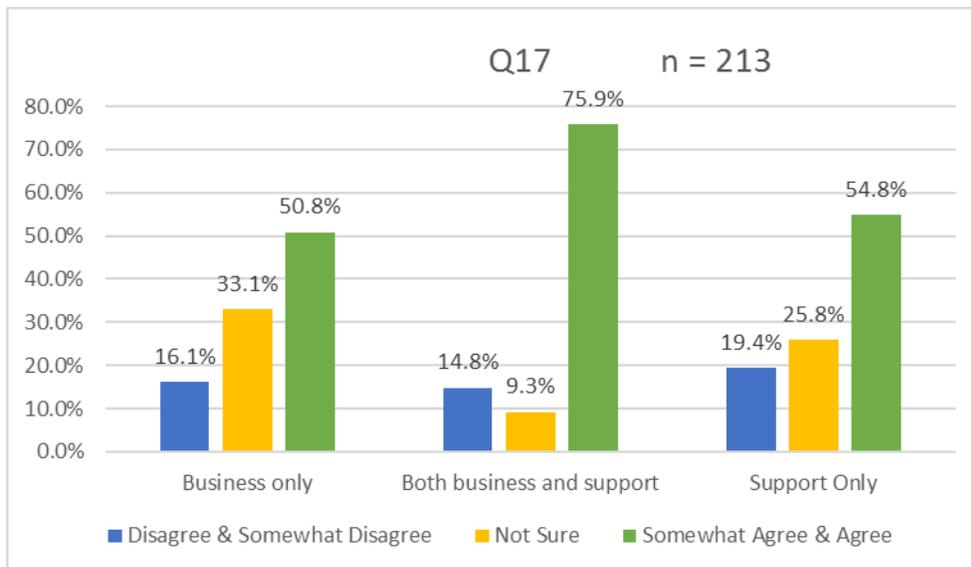
Community Capacity:

16. My community is open to new ideas and change



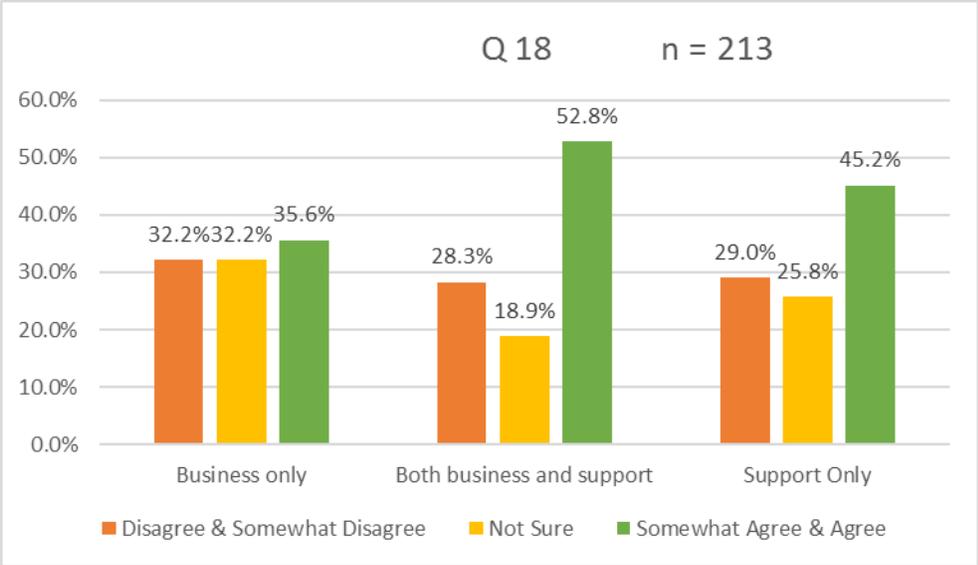
Community Capacity:

17. My community is willing to seek help from outside

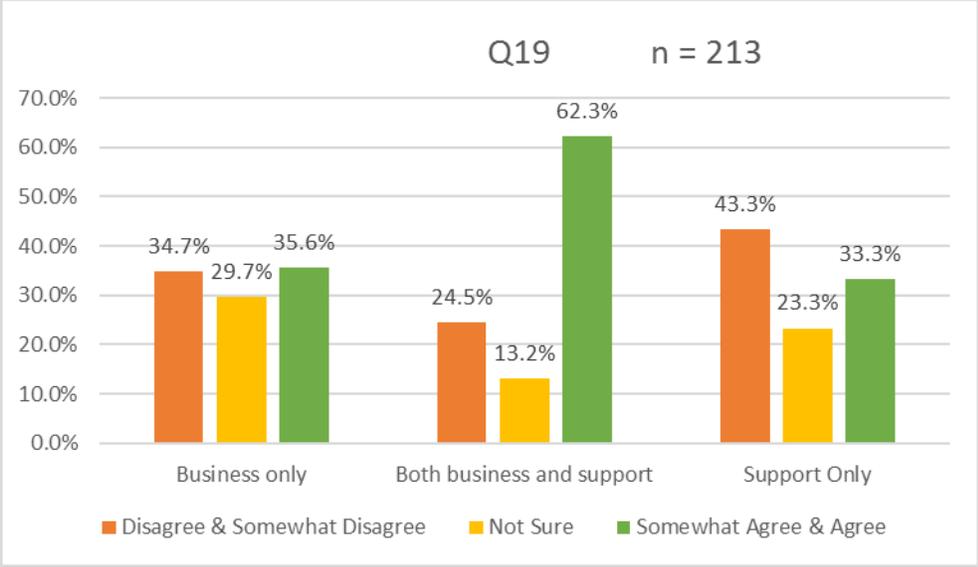


Community Capacity:

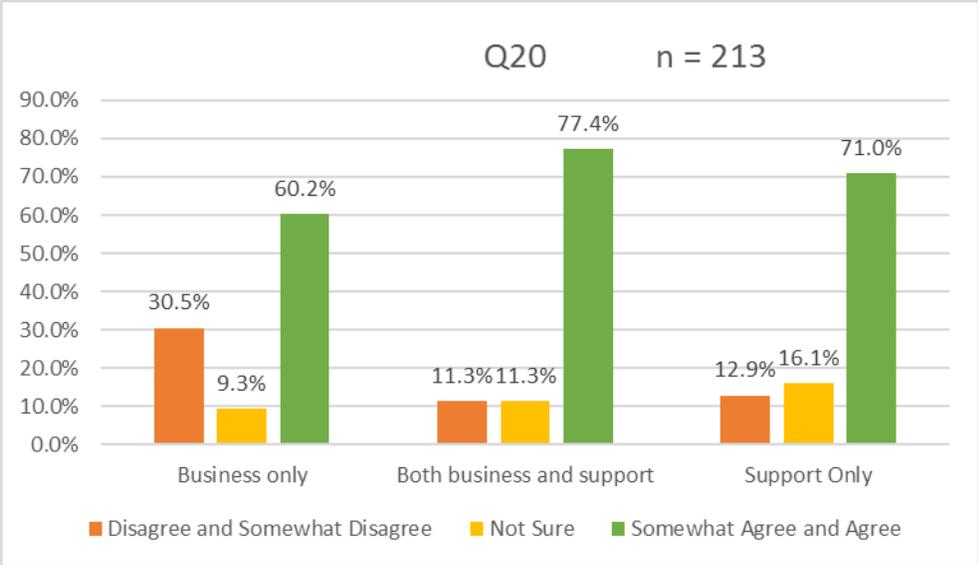
18. My community can realistically evaluate future opportunities



Community Capacity:  
 19. My community has a participatory approach to community decision making

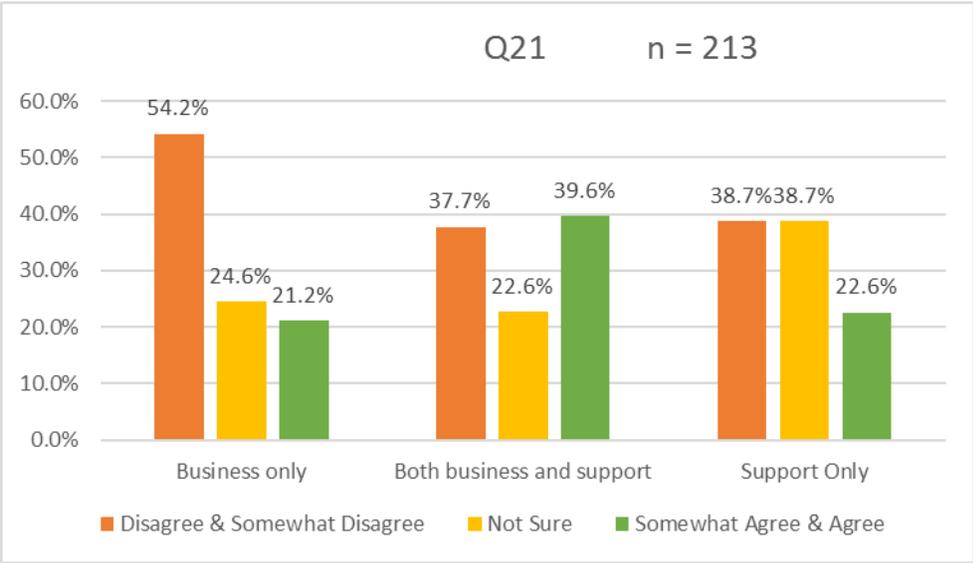


Community Capacity:  
 20. My community has a cooperative community spirit



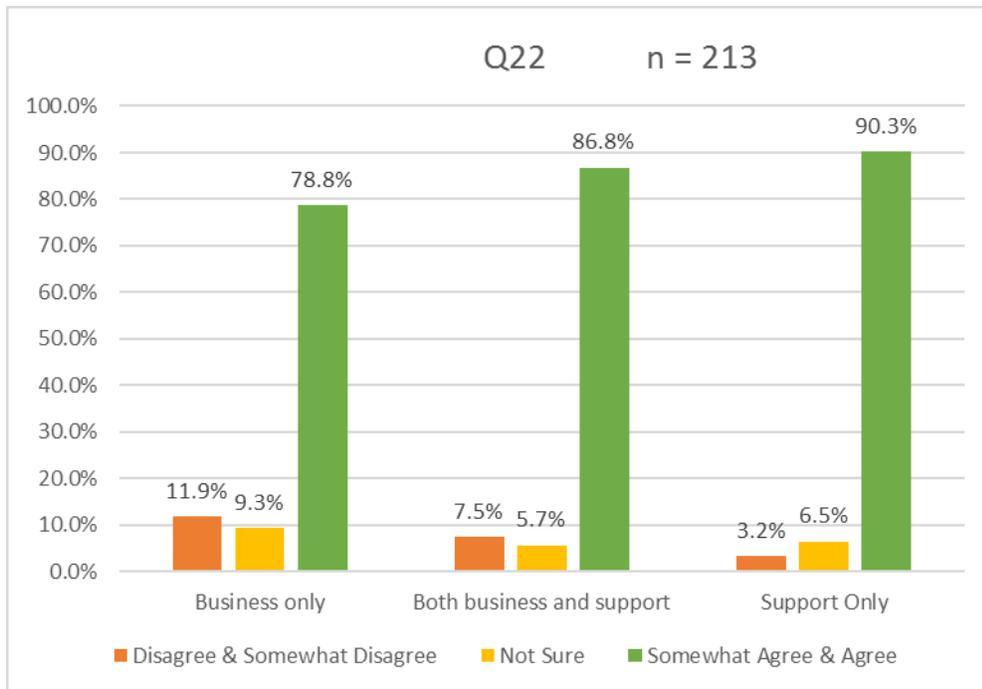
**Community Capacity:**

21. My community has a deliberate transition of power to a younger generation of leaders



**Community Capacity:**

22. My community accepts both men and women in leadership roles



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