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THE PERCEPTUAL EFFECTS OF LOCATION ON THE PERFORMANCE OF SMALL BUSINESSES

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ABSTRACT

Purpose - This study aims to develop a clearer understanding of the effects of location on the performance of small and medium enterprises in Tangier, as perceived by local owner-managers.

Prior Work - Several studies have attempted to explain the role of location on business performance. Whilst some studies have stressed urban and rural locations, other studies have often paid particular attention to the connection of location and taxation and industry clustering effects. While the findings of these studies are important, they are perhaps insufficient in fully understanding the role of location.

Approach - In order to explore the performance of SMEs in Tangier, fifteen in-depth face-to-face semi-structured interviews were conducted with selected owner-managers of SMEs, forming a judgmental selection, to explore their experiences, beliefs, and attitudes with respect to their performance. The selection of particular SME owners was based on sector, location, and gender.

Results - Findings of the study revealed that location is a salient factor that influences the performance of SMEs in Tangier. Although at the research design stage it was considered a classificatory variable, location was mentioned extensively in the interviews, in relation to the 'free zones'. Findings showed that firms located within the free zones enjoyed favourable conditions, in particular, those related to taxation and competition, compared to their counterparts located outside the free zones, which were excluded from these benefits. Furthermore, perceived unfair competition (smugglers from the city of Ceuta, financial & fiscal incentives in the free zones), damage the performance of the SMEs in Tangier. These findings suggest that the placement of the business in relation to the free zones thus became an

important financial and emotionally significant perspective on equality in relation to success.

Implications - The findings of the study could encourage the government to adopt policies that will assist indigenous firms to benefit from advantages that are comparable to those that are available to those in the free zones. Greater attention to the perceptual effects of location would be advantageous.

Value - This research contributes to the theory about SME development in that it highlights the issue of location as a significant factor in the perception of success. For the owner-managers of businesses in the sample, location was a much more acute and multi-faceted issue than in most other studies. In this context of Tangier, 'location' may function as a higher-order concept (than say urban versus rural) in relation to, both the placement of business within a country, and choices between countries as jurisdictions in terms of location. There have been few studies on what might be called the psycho-geography of small business, given the predominant view that we are seeing the 'death of distance'.

Keywords: Location, Performance, SMEs, free zones, unfair competition, Tangier

INTRODUCTION

The important contribution of a vibrant small and medium enterprises (SMEs) sector in the national economic and social development of a country has been widely recognized (e.g. Birch, 1989; Storey, 1994; The European Commission, 2011). In view of its increasing importance, performance of small and medium enterprises (SMEs) has been of interest to many researchers, international organizations, and policy makers, at least since the Bolton report (1971), and therefore has become the subject of a great deal of analysis. Attention to the SME sector has heightened because of the globalizing economy and the increasingly severe competition that is inherent in this development. Specifically, researchers have shown interest on the variables associated with firm performance. Among these variables, location has been identified as a key factor that influences business performance.

In a rapidly changing and hostile environment, owner-managers of SMEs are required to engage in the process of careful selection of their location in order to maximize business performance. In the light of this, the following study seeks to develop a clearer understanding of the effect of location on business performance,

as perceived by local owner-managers of small manufacturing businesses in Tangier.

SMEs in Morocco play a pivotal role in the development of the country. The importance of SMEs is evidenced by their high presence in the economic structure of the country. According to The United Nations Economic Commission for Africa (UNECA) (2008), 93% of all Moroccan industrial firms are SMEs and account for 38% of production, 38% of investment, 31% of exports, and 45% of all jobs. Within Morocco, the city of Tangier has a highly strategic geographical position, enjoys a special tax status, and contains zones that have the status of free economic zones. Located in the Tangier-Tétouan region in the extreme north-west of Morocco, the city of Tangier is Morocco's second industrial centre after Casablanca and the first industrial city in the Tangier-Tétouan region. After decades of neglect, Tangier did not regain attention from the government until 1999. The Moroccan government has engaged since then in developing the economy of the city by seeking to create an enabling business environment for large as well as small and medium companies. Manufacturing SMEs in Tangier account for over half of the total firms in the Tangier-Tétouan region and contribute to 83% of employment (Ministry of Industry, Commerce, and New Technologies: MICNT, 2007). However, despite their value in the regional economy, their contribution to the industrial value added remains limited with respect to the national economy. Recent available data from the MICNT showed that the contribution of the Tangier- Tétouan region to the industrial value added was only 7% in 2010 compared to 49% in the Greater Casablanca region (MICNT, 2011). This does not reflect the potential of the SME sector especially after the recent significant economic developments in the Tangier-Tétouan region.

Recent economic developments in the Tangier-Tétouan region, and particularly in the city of Tangier, have been considerable. Among the recent biggest developments are: the Tanger-Med port which is one of the largest ports in Africa and on the Mediterranean, and a series of 'free zones'. By virtue of these developments, the strategic position of the city manifested in its proximity to Europe, its special tax status, and the economic free zones, several local and international investments have been attracted to the city in the last 10 years, which have transformed the region into a competitive hub for international trade. SMEs in

Tangier have been vulnerable to these business environment challenges which could have an impact on their performance. As argued by Man & Lau (2005), SMEs are more likely than larger firms to be affected by changes in their internal and external environment which are often unplanned for. Thus, an important issue arises concerning the ability of small and medium firms to cope in a very challenging environment through the location factor. In an attempt to address this issue, as mentioned above, the present study has been undertaken with the aim of developing a clearer understanding of the effect of location on business performance.

LITERATURE REVIEW

Laitinen (2002, p. 66) defines performance as “the ability of an object to produce results in a dimension determined a priori, in relation to a target”. Thus, in this definition, the basis of performance has been decided beforehand. A consequence is that performance is a dual variable. This performance may have two strategic outcomes that is often referred to in the literature as firm success or failure (See Dess & Robinson, 1984; Ostgaard & Birley, 1995). In a management field, success and failure can be interpreted as measures of good or indifferent management (Jennings & Beaver, 1997), but it may occur for other reasons such as luck (Storey, 2011).

In the small firm research literature, the concept of success remains a topic of debate (Gorgieveski et al., 2011). This is despite the evidence that the ‘success’ of small firms has been subject to a great deal of research. However, there is no general agreement in the literature on what is meant by the success of a firm. Indeed, a myriad of perspectives, ranging from mere survival to the achievement of certain levels of performance, exist about such a concept in the entrepreneurship literature. Very often, the terms ‘success’, ‘survival’, ‘growth’ are very closely linked and sometimes used interchangeably. Besides the multi-dimensional aspect of success, variables that contribute to the success of SMEs are not unanimously agreed upon by researchers. While some analysts suggested that the dynamics of the success of businesses remain a black box (Dockel & Ligthelm, 2005; Ligthelm, 2010), others argued that the success of enterprises is a function of both external

and internal factors (Penrose, 1959; McCline et al., 2000; Guzman & Santos, 2001; Markman & Baron, 2003).

Among the success factors that have been of great interest to researchers, entrepreneurs, and policy makers alike is the location factor. Sridhar & Wan (2010) defined location as choice of where a business is to be located which could be small, medium and large cities or urban or rural locations. While place is often seen as a physical location, it is also commonly used in the term marketplace. The idea of place in marketing has changed significantly over the years. The original view of a market as a place to buy and sell has continued and place is one of the foundations of marketing as encapsulated in the 4P's – product, price, place, and promotion – of the marketing mix originally proposed by Borden (1964). Place is now perhaps more commonly seen as a 'market', but market has become groups of people – consumers – not physical places. However, the use of the term 'marketplace' has continued, with it now more often meaning a conceptual region than physical space, often differentiated by product: the product-market. So, for some, the meeting ground for the buyers and sellers of products is a bounded arena occupied by the demand for a particular product (Rosa et al., 1999). The product-market becomes the trading space. New products can be seen as filling a 'space' in the market (Lien, 1997: 239).

Several studies have attempted to explain the role of location in business performance (for example: Liedholm, 2002; Harabi, 2003). Dahlgvist et al. (2000) argued that the geographic area, where a firm is located, has implications for its access to markets and resources such as: finance, skilled labour, subcontractors, infrastructure, and other facilities. Liedholm (2002) investigated the determinants of survival and growth of small businesses in Africa and Latin America. Findings of his study showed that location of the firm was an important factor. Firms located in urban and commercial areas were more likely to survive, during a given year, than those located in rural areas. Urban and commercial location was also associated with faster growth, in terms of the number of employees hired in a given year. In Morocco, Harabi (2003) found that the location factor was significant in explaining the performance of SMEs, particularly, their growth. Findings of his study showed that SMEs located in big urban areas such as: Casablanca and Fez grow faster than those located in urban areas of medium size such as Tangier and Rabat.

When examining the role of location, numerous studies have paid particular attention to the role of geographical clusters. While some studies argued that firms based in local or regional agglomerations benefit from locating in clusters as they outperform those located outside (Baptista & Swann, 1998; McCann & Folta, 2008), other studies highlighted the negative repercussions to locating in clusters, which derive from increased competition and potential knowledge leakage (Folta et al., 2006; Alcácer, 2006; Alcácer & Chung, 2007). Birkinshaw & Hood (2000: 142) defined clusters as “an aggregation of competing and complementary firms that are located in relatively close geographical proximity”. Tallman et al. (2004) added the role of the social networks aspect in their definition for a cluster, which was described as: “group of firms tied together by geographical co-location and complex social interaction”. This proximity and networking allow the flows of knowledge (Alemeida & Kogut, 1999), and resources mobilization (Stuart & Sorenson, 2003), which could then have an influence of the performance of firms (Porter, 1998; Cooper & Folta, 2000; Folta et al., 2006). It can be noted that the introduction of free zones in the city of Tangier does have luminal effects. Firms are either inside or outside the zones. Often the foundations of knowledge and collaboration rest on the structure of relationships between firms in a given territory. This issue is complex and dependant on virtual networks as well as proximity. In a study of two industries Coenen et al (2006) found that “spatial proximity was appreciated for easing collaboration, but long distance was not seen as a prime obstacle”.

Whilst the findings of these studies about the impact of location are important, they are perhaps insufficient in fully understanding the role of location, particularly, in the context of Tangier, where scarce studies exist, and which might differ than other contexts . These studies seem to highlight the role of location as something more than a physical place. From the discussion above this location is multifaceted. The performance of a firm cannot solely be determined by geography neither is it completely independent of physical location. Recognizing the value of human networks together with electronic communications have had a big impact here. The thread of the argument is that ‘place’ is simply more than physical location: it is a psychological space as well, and that requires investigation amongst SMEs, not simply adopting ‘place’ as a classificatory variable. Place has then a problematic

nature; it is not outside us, independent; it is made in our minds. This dualism where place sits outside humans and is somehow 'natural' is long-standing: What might be significant is how the small business owners articulate their idea of The authors consider that the role of perception can be an appropriate term for an investigation into these effects.

“underlying terms of the human–nature dualism are held intact within physical geography so long as human activity is understood as something ‘unnatural’. Indeed, the language of ‘modified’ landscape is telling in this regard, since it places human modification in a class of its own” (Bawn, Bruce, p.23)

RESEARCH METHODOLOGY

The present study is exploratory since it attempts to explore the experiences, beliefs, and attitudes of SME owner-managers in Tangier with respect to the impact of location on the performance of their firms. The methodological approach adopted in this paper is to recognize the “inherent temporality of perceptual experience as an open process and as connected to the spatiality of objects (Warren 2009). So the perceptual understanding of location relates real spatiality with the adopted subjective views. This interrelationship is difficult to measure and needs to be explored through the research method adopted. Thus, the study embraced a qualitative approach, based on Geertz (1973) concept of thick description, in order to explain not just the behaviour but also its context. To this end, fifteen semi-structured interviews were used as they are flexible in process and allow the interviewee’s own perspectives to be explored (Bryman, 2008).

INTERVIEW DESIGN

The interview guide consisted of an introduction, main questions, additional questions and clarifying questions. The main questions sought to explore how owner-managers of manufacturing SMEs in Tangier perceive business success factors in relation to their experiences. In order to obtain more information on perceptions of the success factors, a question on the advice that the participants would give to someone who wants to start his or her own business was included in

the main questions. Clarifying questions were used in order to elicit the maximum amount of information. The questions of the interview guide were first designed in English. They were then translated by the researcher (from English to French), and then back-translated by a professional certified translator (from French to English), to ensure, as far as practicable, that the meaning of each question remained as consistent as possible with the English version. The interviews were conducted in French as this is the business language in Tangier.

SELECTION OF RESPONDENTS

The selection of respondents was based on the official definition of SMEs in Morocco which uses the factor of number of employees. The latter was chosen in accordance with the argument of Child (1973) who argued that employment is an adequate criterion for the measurement of the size of an organization, because it is above all human beings who are 'organized'. Therefore, the study considered enterprises with a headcount between 10 and 200 employees as SMEs. Moreover, respondents were selected from the official website of the MICNT, the AZIT directory 2010, as well as its official website, and the website of the Tangier free zone. With regard to the selection of particular SME owners, then judgment was used. The selection criteria were: sector, geographical location, and gender. The judgmental selection was deemed appropriate for the study since this study has an exploratory nature. The intention of the researcher was to explore perceptions and views of the effects of location on business performance in relation to the experiences of owner-managers of SMEs in Tangier, and not to generalize the results to a wider population. As for the sample size, in judgmental selection, the researcher uses his or her judgment to decide when enough participants have been sampled. As suggested by Kvale (1996), new interviews might be conducted until a point of saturation, where further interviews yield little new knowledge. In this qualitative study, the sample size was achieved when fifteen interviews were conducted. The cut-off point was not predetermined, but emerged from the research process and concurrent data analysis (Babbie, 2010).

INTERVIEW ADMINISTRATION

The data collection for the qualitative study took place from September 2011 to November 2011. It was carried out in two separate time frames due to logistical and practical reasons. It was very difficult to get hold of the owner- managers of SMEs in the month of September 2011, since many of them were still on holiday, and therefore only five initial interviews took place within this month. Arrangements were made to meet up with owner-managers in November 2011 to carry out more interviews. As a result, another ten interviews were conducted within this month totalling to a number of fifteen interviews. The break between the two interview periods did provide time to reflect on the preliminary analysis of the interviews. All interviews were individual, face-to face interviews and were conducted using the French language. The duration of the interviews ranged from 32 to 65 minutes. With regard to the settings, the strategy was to allow all informants to choose the location so as they could feel more relaxed. The strategy resulted in nine interviews being conducted at the participants' business premises, five in a coffee shop, and one while driving a car.

Prior to undertaking each interview, a verbal brief about the aim of the study and issues related to confidentiality was given to participants. The permission to audio record the interview by a digital recorder was sought from the interviewee. Permission was granted and all the fifteen interviews were audio recorded. Furthermore, ownership and copyright of transcripts were established at this stage and participants were informed that transcripts will be destroyed once the research study come to an end. During the interview, an open-ended flexible approach to interviewing, which is strongly recommended by Patton (1990), Bogdan & Biklen (2007), and Hammersley & Atkinson (2007), was used. Thus, open-ended questions were deliberately asked to encourage participants to engage in the conversation. The flexible approach was useful and did result in new emerging issues to be explored. Furthermore, participants' responses were frequently rephrased and repeated in order to ensure accurate understanding of the main points and encourage the interviewees to expound their views on these points. At the end of the interview, a standard form was given to participants to fill in their personal characteristics such as: age, gender, and educational background, as well as the

firm characteristics such as: legal status, activity of the enterprise, years in business, and number of employees. Moreover, participants were thanked for taking part in the study, were reassured again about the confidentiality issues and were alerted that they could be contacted should the researcher need more clarification.

RESULTS & DISCUSSION

One of the most significant findings to emerge from this study is that for local owner-managers *location* is a highly salient factor as an influence of the success of SMEs in Tangier. Although at the research design stage it was considered a classificatory variable, location was mentioned extensively in the interviews, particularly in relation to the 'free zones'. Owner-managers whose businesses were located outside the free zones not only felt multiply disadvantaged but also resentful of the 'unfairness' of the advantages enjoyed by businesses with the more favourable location. The strength of feeling expressed by owner-managers who felt both disadvantaged by the free zones and excluded from them was very clear in the interviews. Most respondents had strong views about the free zones, whether positive or negative, to the extent that location of the business in relation to the free zones was an issue that had a strongly personal emotional dimension as well as a managerial one, concerned with business and financial success. In essence, findings showed that firms located within the free zones enjoyed favourable conditions, in particular those related to finance, taxation, and competition, compared to their counterparts located outside the free zones, which were excluded from these benefits. These benefits are of course a function of the social structures that govern the free zones, not a product of any geographical features that happen to be present in them.

With respect to finance, findings showed that businesses that are not located in the free zones showed concerns about the services offered by off-shore banks and felt they are not treated equally compared to businesses located in the free zones of Tangier. A clear and strong message was put forward by a participant who argued that SMEs located in the free zones do benefit from the low cost of services offered by the off-shore banks. The participant, who is located in the normal industrial zone, predicted that the future is truly for businesses located in the Free zones of Tangier.

'Off-shore banks provide services that are much lower compared to other banks. Truly, businesses located in the Tangier free zone benefit from this and therefore we are not on the same footing. That is why I can say that future investments will be in the free zones.' (Enint02)

The issue was further explained by another business owner-manager who expounded:

'Off-shore banks are not located within the free zone. They are located outside the zone. The Tangier free zone (TFZ) is considered to be outside the territory of Morocco and therefore we cannot imagine a bank outside the territory of Morocco because all banks are headed by Bank al Maghreb. However, these banks have off-shore services. They provide services to off-shore companies that are in the free zone.' (Enint04)

In brief, the location of the firm with respect to the free zone became an important factor of perceived success, in relation to the financial services. The development of free zones in a country has profound effects on the perception of location as a factor of success. Being outside the free zone made it feel as the company was in a less favoured position.

Furthermore, the particular elements of taxation were related to location. This emerged from this study because a number of the firms studied were involved in particular locations, which happened to have tax exempt or lower tax situations regimes. Despite the lower tax regulations in Tangier, which are due to its special status, business owner-managers, specifically those of firms located outside the free zones indicated that regulations related to taxation constitute a hurdle to their success compared to their counterparts that are located in the free zones.

'We are not on the same footing compared to firms located in the trade free zone. Firms in the trade free zone benefit from tax incentives that are far better than what we have. Indeed, this is unfair.' (Enint03)

Clearly, this shows that taxation is a function of location and thus the latter becomes a vital ingredient for success.

Furthermore, location was also perceived as important to both competitiveness and protection from competition. Perceptions of SMEs owner-managers were associated with the free zones and the city of Ceuta, which were seen as detrimental to the performance of SMEs in Tangier. Findings suggested that firms located outside the free zones in Tangier claim that they are not competing on equal and fair terms, compared to their counterparts established in the free zones. A plausible explanation for this is the generous incentives that are available to firms in the free zones together with a higher level of infrastructure development. A business owner-manager of a firm located outside the free zone indicated that while these benefits give a competitive advantage to his competitors located within the free zones, it does on the other hand have a negative impact on his competitiveness:

'I think we are not on the same footing compared to our competitor who is located in the free zone. The competitor has several financial advantages that can be used to go far in the business and go ahead of us.' (Enint02)

Findings further revealed that the perceived unfair competition caused by the smuggling of goods from the occupied Moroccan city Ceuta, which is about 29 miles far from Tangier, does affect the industrial production of SMEs, in particular the agri-food firms. This was significantly related to the perception of success. As proclaimed by an owner- manager:

'Due to its closeness to Ceuta, Tangier is well known for the illegal trade of smuggled goods, in particular food products. The smuggling activities devalue our local products which impact our agri-food industrial production' (Enint09)

Another participant in the food business further explained that the evasion of customs duties on smuggled food products enables smugglers to sell the products at lower prices. According to him, in the current economic crisis, consumers seek to minimise their costs by buying cheap products. Thus, they prefer to buy the cheap smuggled products.

'Owing to the non-payment of customs duties, smuggling goods from Ceuta are sold with cheap prices in the market. Consumers prefer to buy these cheap products especially in the current economic crisis. Thus, this has an impact on our production.' (Enint07)

In brief, competition seemed to be all about perceived unfair competition (smugglers, firms in the free zones) and location (as allowing this to happen). It was recognized that unfair competition (smugglers from the city of Ceuta, financial & fiscal incentives in the free zones), damage the performance of the SMEs in Tangier. This was a study of manufacturing firms and this was a significant emerging issue. It can be concluded that the preponderance of grey-imports as well as the attractive incentives available for firms in the free zones significantly affected the perception of success. Owner-managers of firms, particularly the ones that are established outside the free zones could wonder: Are we in the right location? Hence, it can be postulated that unfair competition is a function of location. Being in the right location meant the enjoyment of favourable conditions (exempt or reduced taxation, good infrastructure and non-smuggling of goods). Dahlqvist et al. (2000) argued that the geographic area where firm is located, has implications for its access to markets and resources such as: finance, skilled labour, subcontractors, infrastructure, and other facilities. However, the present study has gone some way towards enhancing our understanding of the competition factor in relation to location. The perceived unfair competition was related to the location of the firm and came out very strongly in the link to perceived success and the ability to achieve that success. In this respect, the location factor can be seen here as an important financial and emotionally significant perspective on equality in relation to success.

CONCLUSION

This research contributes to the understanding of SME development in that it highlights the issue of location as a particularly significant factor in the geographical context of Tangier. For the owner-managers and businesses in the sample, location was a much more acute and multi-faceted issue than in most other studies. For example, Storey (1994) and Liedholm (2002) stressed the impact of urban versus rural locations. Other studies, such as that of (McCann & Folta, 2008) and (Alcacer & Chung, 2007) have paid particular attention to the role of geographical clusters. While the findings of these studies are important and generalizable across many geographical contexts, the current study found that they are insufficient in explaining

the critical role of location in the context of Tangier, where owner-managers' perspectives of location were mainly associated with the 'free zones'. These free zones had profound effects on their perception of location as a factor of success especially when this location governs the access to other factors such as: taxation, financial resources and a degree of protection from competition, which may reveal that the unique situation of Tangier gives rise to effects not seen elsewhere. These insights produced through the particularities of Tangier inform, in turn, the general principles.

Being located within the free zones meant the enjoyment of favourable conditions (exempt or reduced taxation, a degree of protection from competition, cheap financial resources, better infrastructure, good logistics), whereas being outside the free zone made owner-managers feel deeply that their firms were in a less favoured position. Location is therefore significant in the way that firms are excluded from benefits that accrue to other firms that operate under a different regime. Thus, the placement of the business in relation to the free zones became an important financial and emotionally significant perspective on equality in relation to success. In this way, location was universally seen as a very important success factor but also deeply felt to be a disadvantage by those owner-managers who felt unable to locate within the free zones.

Furthermore, location was also perceived as important to both competitiveness and protection from competition. Dahlqvist et al. (2000) argued that the geographic area where firm is located has implications for its access to markets and resources such as finance, skilled labour, subcontractors, infrastructure, and other factors. However, the present study has gone some way towards enhancing our understanding of the competition factor in relation to location. Perceptions of 'unfair competition' were related to the location of the firm and seen as important to success. In addition, the alignment of corporate tax in Tangier with the rest of Morocco (except the free zones), which will happen in 2016, has added a higher degree of uncertainty to owner-managers' expectations of success, in comparison to firms placed within the free zones. In this respect, the location factor can be seen here as an important financial and emotionally significant perspective on equality in relation to success.

It has often been argued that SMEs need a 'level playing field'. One of the benefits of this study is that it demonstrates the effects occurring due to the removal of the 'level playing field'. It can therefore be postulated that in the context of Tangier, 'location' may function as a higher-order concept (than say urban versus rural or industrial clustering) in relation to, both the placement of business within a country, and choices between countries as jurisdictions in terms of location. The interesting factor in this study is the introduction of what we have called the liminal boundaries created by the construction of free zones. This tends to limit the networks and knowledge exchange that could be created across the boundary of the zone. There have been few studies on what might be called the psycho-geography of small business, given the predominant view that we are seeing the 'death of distance' (Cairncross, 2001). It can also be suggested that the effects of factors linked to location, although appear to be separate, they can become cumulative and therefore the inter-relationships between these factors and location may have a large influence on the success of SMEs in Tangier.

In sum, the city of Tangier provides a rich and complex location for the study of factors that influence perceived success of small businesses. It has a rich colonial history and the city has numerous and extensive contacts with Europe. It is also seen as the gateway to North Africa for a number of multi-national French, American, German, and Japanese firms. These factors are overlaid with a predominantly Arab but cosmopolitan culture. The operation of free zones within the city adds to this potent mix. Also, the city of Tangier has adopted a different development path from the rest of the country and often has special laws and customs. Thus, whilst this study is located in Tangier and describes many of the characteristics of that city, this multi-layered context does provide results that could have broader applicability to other countries that have similar development paths.

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