

**Exploring Entrepreneurship in Tonga:  
Factors that Constrain and Promote Entrepreneurial Activity**

**Robert Davis**

Department of Management and Marketing, Faculty of Creative Industries and Business,  
rdavis@unitec.ac.nz, Phone: ++(649) 815 4321, Postal Address: Unitec Institute of Technology,  
Department of Management, Private Bag 92025, Auckland, New Zealand

**Malama Solomona**

Department of Management and Marketing, Faculty of Creative Industries and Business,  
[msolomona@unitec.ac.nz](mailto:msolomona@unitec.ac.nz), Phone: ++(649) 815 4321, Postal Address: Unitec Institute of  
Technology, Department of Management, Private Bag 92025, Auckland, New Zealand

**Abstract**

In 2009, data was collected to explore entrepreneurial behaviour in the Kingdom of Tonga. 30 national experts were interviewed to understand the factors that constrain and promote entrepreneurial activity. Data collection was guided by a conceptual model that is based on the National Expert component of the Global Entrepreneurship Monitor (GEM). Our analysis of the data used grounded theory as the mode of analysis because of the lack of tested theory regarding entrepreneurship in the Pacific. The research implications and limitations are discussed.

**Keywords**

Tonga, entrepreneurship, GEM, Pacific, grounded theory.

## Introduction

Entrepreneurship raises the living standards of developing countries (Cahna, 2008) by creating small to medium sized enterprises (SME's) that contribute economically to their owners and society. However, there is no guarantee that entrepreneurship will enhance economic development (Autio, Kronlund & Kovalainen, 2007). Despite the existent knowledge on the relationship between entrepreneurship and economic development, there is a dearth of evidence from the Pacific region (Saffu, 2003; Yasuf, 1995). Since, Yusuf (1995), few studies have been completed. For example, Yusuf (1998) explored SME's in six developing countries in the South Pacific. It was concluded that the key issues facing entrepreneurs in the Pacific included; finance, deficient industry and market information, poor business knowledge and planning skills, infrastructure barriers and the impact of culture on entrepreneurship. Cahna (2008) supports these findings in an exploration of the synergy and tensions in the relationship between fa'aSamoa and micro-entrepreneurial activity. Saffu (2003) agreed, arguing that Pacific island entrepreneurs are different to Western entrepreneurs.

Therefore, it is concluded that despite some insight into entrepreneurial behaviour in the Pacific, we conclude that there is a lack of understanding of the factors that constrain and promote entrepreneurial activity. Therefore, the key research question governing this study is to explore and understand the relationship between entrepreneurial behaviour and economic development in the Kingdom of Tonga (Saffu, 2003). Specific attention is given to the exploration of factors that constrain and promote entrepreneurial activity within a Pacific context. The paper progresses through a discussion of the underlying conceptualization, method and discussion of the key findings.

## Conceptual Model

Our conceptual model is based on the Global Entrepreneurship Monitor (GEM) which focuses on three main objectives (GEM, 2010). First, measure the level of social and business entrepreneurship (e.g., De Clercq and Bosma, 2008, de Waal, 2004). Secondly, uncover factors determining levels of entrepreneurial activity and finally, identify policies that may enhance the level of social and business entrepreneurial activity (Koellinger, Minniti and Schade, 2007). GEM defines entrepreneurship as any attempt at new business or social enterprise by an individual, teams of individuals, or established businesses or social enterprises. Traditional analyses of economic growth tend to focus on established firms in the commodities, manufacturing, service and knowledge sectors. GEM considers the economic contribution of large and small businesses and social enterprises as well as the people behind them (e.g., Langowitz and Minniti, 2007). GEM links a country's economic activity to the interplay of established and new firms (Aidis, Estrin and Mickiewicz, 2008). It thus allows a clearer understanding of why entrepreneurship is vital to the whole economy. The GEM conceptual model, methodology and data have been widely published and are currently deployed by 57 country research teams in 2010. The National Expert component of the Global Entrepreneurship Monitor (GEM) focus on the factors that constrain entrepreneurial activities and the factors that promote entrepreneurship, and to recommend areas that can be improved in promoting entrepreneurship (Tajnikar and Pusnik 2008; Lee and Wong, 2004).

In conclusion, it is worthy to note that despite this view, there are contradictory reports regarding the contribution of entrepreneurship to economic growth (Beck, Demirgüç-Kunt and Levine, 2005). Hallberg (2003) argues that is often because of policy biases and underdeveloped financial and legal systems (Fielden, Davidson and Makin, 2000). Smallbone and Welter (2004) assert government initiatives need to help foster the development of appropriate market mechanisms. In contrast, entrepreneurs in developing countries often succeed if they are more willing to take calculated risks, have greater creativity and innovation (Nieuwenhuizen and Kroon 2003). Often entrepreneurs must try to integrate advanced technologies to achieve a degree of convergence with the markets in the developed countries (Robertson 2003).

### **Methodology**

Our analysis is guided by the National Expert component of the Global Entrepreneurship Monitor (GEM) as well as the process of using grounded theory as the mode of analysis (Yin, 1994). We use grounded theory in tandem with the GEM conceptual model because of the lack of tested theory regarding entrepreneurship in the Pacific and in particular, Tonga (Levie and Autio, 2008). Grounded theory was employed by Glaser and Strauss (1967) to enable them to discover theory from data rather than having to proceed by quantitatively testing hypotheses derived from the work of a few specialised theorists (Gummesson, 1999; Miles and Huberman, 1994; Strauss and Corbin 1990; Eisenhardt, 1989; 1991).

Operationally, the following process of analysis was applied. The 30 interview transcripts were prepared in verbatim. The analysis employed analysis techniques, advocated by Miles and Huberman (1994) and Yin (1994). For example, a coding scheme was developed by the researchers. This was verified by the other researcher. Emblematic vignettes were then associated with the emerging codes. The case report was then written. Its conclusions were reviewed by both researchers to ensure validity. An interim report of findings was also reviewed by AusAID and GEM.

### **Discussion**

In general, there are many opportunities for starting start up new businesses in Tonga (Saffu, 2003). SQ.MT.12 says that there is “still plenty of opportunities, especially tourism, we need to identify gaps and have the heart for it.” EC.MT.04 says it definitely helps when one is “passionate and has a good know-how about business and if your background reflects that your family has been in business for years.”

However, financial conditions are the most important factor that constrains entrepreneurial activity (Yusuf, 1998). First, there is insufficient capital which arises from the lack of equity or savings. As VM.MT.02 argues “...in my view Tongans want to create business without the necessary capital.” Second, lending institutions make it difficult to obtain capital and are mostly supportive of collectives. Third, the cost of setting up a small business is high. Relative to other countries, finance costs, interest rates, licences fees, and the cost of equipment are higher. As EC.MT.04 asserts “...there is something that is called establishment fees, an amount of 7-10% of the total amount borrowed...” Finally, financial management skills are poor. Profit is not retained due to family and cultural expectations.

Government policies also impede entrepreneurial activity (Smallbone and Welter, 2004). Compliance with the law is complex and time consuming. The costs of compliance with international standards of operation are challenging (e.g., fishing). Foreign investors seem to be getting better support from the government, although some claim that financial means are reserved for local people (Hallberg, 2003). IP.MT.05 asserts that “Tongan govt should have a special policy to protect Tongan businesses against foreign owned businesses.” Also, cheap imports are numerous, stimulated by the Chinese business model of collective purchasing. Finally, there is poor monitoring and enforcement of tax evasion and non-compliance (Fielden, Davidson and Makin, 2000). This encourages unfair and illegal trading that fosters the frustration and de-motivation of the business community. Tonga is a small place. Policies are difficult to enforce as it is usually a family member that is involved in the illegal or unethical practice. Government policies also interface with the extremely hierarchical nature of society that is embedded in everyday life. This creates highly bureaucratic systems. As PJ.MT.19 noted, “if anything is to improve here we really need a Government that believes that entrepreneurship is something that will help the economy.”

The findings indicate the lack of government programmes in Tonga to enhance the entrepreneurial activity. In particular, more work is needed to up-skill current and emerging business people, especially those from the villages and outer islands. The work of the National Economic Development Council (NEDC) is seen as a positive step. The NEDC’s work focuses on fostering a solid partnership between the private and public sector. Their work includes; business incubation, mentoring, advice on alternative business practices, opportunities, international trends and methodologies. This is highlighted by TK.MT.07 that “there are hardly any areas open to people for development here in Tonga...as an example...many people want to engage in business development but there are simply no resources available for this purpose. [Create] something known overseas as [a business] incubator.” The NEDC could help fund an incubator programme.

Business education represents an area of concern. There is a lack of understanding of the business concept and entrepreneurship. This is because of the absence of business education at primary and secondary level. In addition, when knowledge is obtained by government it is not transferred or shared, for example, when government employees do overseas training workshops. This results in an ill-equipped workforce and deters the growth of entrepreneurial behaviour in Tonga. FT.MT.03 stresses that “Tongans are not fully equipped for the culture and life of business.”

However, it is also argued that this is currently being addressed in activities recently put in place to encourage entrepreneurship; workshops for up-skilling collective small businesses, women in small enterprises and youth projects. Most of these workshops and projects are funded mostly by international aid organisations. However, some regard this support as limiting and biased because it is primarily targeting youth and gender (women) based initiatives. Another initiative fostering entrepreneurship in the private sector, according to LF.FT.10 is the “Tonga Chamber of Commerce charge their members subs and in return they get expert advice and consultation, for example on training needs”. PJ.MT.19 also promotes the idea of “a one stop place or shop where you can go and get advice on how to start up a business and you can get all the things you need like a licence and everything you need for setting up a business.”

Research and development transfer in Tonga is absent. This could be attributed to the lack of knowledge and skills in business. Furthermore, the absence of finance constrains research and development transfer. Tongans don't recognise the importance of innovation, new products, markets and growth. The lack of markets and the uncertainty of markets are major constraining influences. For instance, VM.MT.02 says there is a "lack of markets; uncertainty of markets. Especially, [in] fisheries." Access to inputs and suppliers for equipment, parts and other resources represents a major constraint for the manufacturing sector. Moreover, it is noted that established businesses, in particular the Chinese counterparts, present aggressive competition mainly in relation to cheaper imported goods. IP.MT.05 highlights "Chinese firms provide aggressive competition; Chinese business [are] too difficult to compete with".

In Tonga, there is a lack of understanding the concept of high growth. The focus of attention is on overcoming the barriers. The idea of growth is not yet valued by the business community. The size of the market is also a limiting factor. Tongans have an interest in innovation but many focus on the 'now' rather than on 'tomorrow'. There is a need to think about how things can be done differently (Nieuwenhuizen and Kroon, 2003). CB.FP.15 urges to "look at establishing something different." There is a tension though between differentiation and constraints. This creates frustration and causes many to exit from business. Perhaps as MM.FP.11 states, "Tongans should generally be encouraged to strive for experiences outside of Tonga."

Cultural and social norms constrain entrepreneurship (Saffu, 2003). IP.MT.05 argues that "cultural obligations to family and financially supporting all events; business owner[ship] means great respect and status". As VL.MT.07 argues Tongans believe in the "subsistence mode of production." MM.FP.11 says that the "Tongan concept of money, attitude towards saving, group work and the hierarchy of Tongan society" are constraining entrepreneurship. Culture vs. businesses was referred to as 'not a good mix'. Tongans cannot separate business from culture because cultural practices and ceremonies often take priority over business. Similarly, religion was highlighted as a constraining factor, in particular, the practice of donating huge amounts of money to the church.

Interestingly, cultural and social norms were also identified as encouraging entrepreneurship (Cahna, 2008). In this regard, particular references were made to the: (1) the principle of sharing, (2) working together as a community and, (3) having an open mind to looking at things differently. FT.MT.03 states that "there is a good side to culture but there are times when the cultural practice of two-way giving and taking is overly done in nearly all things we do, including business". FT.MT.03 suggests "the time has passed when parts of culture that constrain business be eased off. Normally, a person who runs a business is expected to contribute more to [the] family. This is the thing that 'kills' businesses...that is, for society to change their mentality and perceptions towards people who are engaged in business". Furthermore, AV.MT.17 advocates that "here in Tonga the church is a strong entity so I think the church should do something in terms of the economy...by encouraging the people...because whenever the church leaders tell people something, the people listen...the church should not only take from people but it should also give to the people."

The social image of entrepreneurship is closely associated with wealth, high standing in the community and respect. However, much is expected from business owners to provide for the extended family or 'whanau', as well as contributing extensively to church and community

events financially. FT.MT.03 insists that society must change their expectations of people who are involved in business. “When a person builds a shop...then the whole of the kin group and society raise their expectations of what they can get from that person.” This outlook reflects the common negative attitude towards the conventional business practice that promotes the western accounting principle of keeping business and personal affairs as separate entities. An interesting view and recommendation of one the expert refers to the adoption of the Chinese model as a means to improve business outcomes. Whilst Tongans generally have a healthy perception of entrepreneurship, it is not transferred into profits and savings as these concepts do not appear to be widely valued in society. However, it is recognised that the Chinese, who are also collective and family orientated, seem to thrive on working very long hours, keeping costs down through collective/co-operative buying arrangements and converting these into profits. This model enables the Chinese businesses to be extremely competitive.

Social entrepreneurship plays an important role in Tongan society. It promotes tangible benefits for communities and it sits well with the Tongan mode of production that is subsistence production. This attitude reinforces the fact that the accumulation of wealth and assets is not the norm in Tonga. It was argued that women have certain skills for small business to produce marketable products for the tourist industry. ML.MT.21 states that “... in Tonga to start a business all you need is the material, to make it with...trees...they can just go and ahh...because they can make tapa and grow it...So they grow the little trees....The women... because they make a fine fifty metre long tapa in like two weeks eh...something like that...Umm... they can make things like that craft....like hand crafts.”

In Tonga, there are positive initiatives in place to support women entrepreneurs during the start-up phase. For example, access to micro-financing from international aid and the Tongan Development Bank. However, the support needs to be sustained so that their abilities and knowledge continue to grow. These new start ups generate income for families as the wealth generated by the collective group is re-distributed back to families and communities. Workshops on financial skills and marketing help to sustain knowledge development. For example, ML.MT.21 talks about the “follow up exhibition of what people learn in community outreach training: After the training they have a exhibition of what they have learned and then they will get their products to the market...they have done that and ah the women group have benefited... they have to make their own materials... like when they paint the tupenu they paint it with designs and sell it in the markets.”

The main aim of this paper was to explore the relationship between entrepreneurial behaviour and economic development (Saffu, 2003) with specific attention to factors that constrain and promote entrepreneurial activity within a Pacific context. Despite achieving this, the main limitations that constrain this research relate to the lack of literature regarding entrepreneurship in the Pacific. As Saffu (2003) and Cahna (2008) argue, the Pacific island style is different. Hence, an exploratory rather than confirmatory approach has been taken. There possibly could be validity issues with the data as many of the interviews were conducted in Tongan. The translation into English could have altered the meaning of the text. This was controlled by obtaining the translation services of an expert. The translation was reviewed by one of the Tongan authors. A review of the finding by AusAID with specific expertise in the Tongan context helped to verify the findings.

## References

- Aidis, R., Estrin, S., Mickiewicz, T. 2008. "Institutions and Entrepreneurship Development in Russia: A Comparative Perspective." *Journal of Business Venturing*, 23: 656-672
- Autio, E., Kronlund, M. and Kovalainen, A. 2007. "High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorization and Recommendations." Report prepared for the Finnish Ministry for Trade and Industry.
- Beck, T., Demircuc-Kunt, A., and Levine, R. 2005. "SMEs, Growth, and Poverty: Cross-Country Evidence," *Journal of Economic Growth*, 10(3): 199-229.
- Cahna, M. 2008. "Indigenous Entrepreneurship, Culture and Micro-Enterprise in the Pacific Islands: Case Studies from Samoa." *Entrepreneurship & Regional Development*, 20(1): 1 – 18.
- De Clercq, D. and N.S. Bosma. 2008. "An Exploratory Study of International Commitment by Nascent and Existing Firms." *Journal of Small Business and Entrepreneurship*, 21(3): 223-237.
- De Waal, A. 2004. "Business Start-ups and Early-stage Entrepreneurship." *International Journal of Entrepreneurship and Small Business*, 1 (3/4), 223-229.
- Eisenhardt, K.M. 1989. "Building Theories from Case Study Research," *Academy of Management Review*, 14(4): 532-550.
- Eisenhardt, K.M. 1991. "Better Stories and Better Constructs: The Case for Rigor and Comparative Logic," *Academy of Management Review*, 16(3): 532-550.
- Fielden, S.L., Davidson, M.J. and Makin, P.J. 2000. "Barriers Encountered During Micro and Small Business Start-Up in North-West England," *Journal of Small Business and Enterprise Development*, 7(4): 295 – 304.
- GEM, 2010. "Global Entrepreneurship Monitor (GEM)," [<http://www.gemconsortium.org/>].
- Glaser, B.G. and Strauss, A.L. 1967. "The Discovery of Grounded Theory: Strategies for Qualitative Research." New York, NY: Aldine Publishing Company.
- Gummesson, E. 1999. "Total Relationship Marketing: Experimenting with a Synthesis of Research Frontiers," *Australasian Marketing Journal*, 7, 1, 72-85.
- Hallberg, K. 2003. "A Market-Oriented Strategy for Small and Medium-Scale Enterprises," IFC. Discussion Paper 40. World Bank, Washington D.C.
- Koellinger, P., M. Minniti and C. Schade 2007 "I Think I Can, I Think I Can...: A Study of Entrepreneurial Behavior." *Journal of Economic Psychology*, 28: 502-527
- Langowitz, N. and Minniti, M. 2007. "The Entrepreneurial Propensity of Women." *Entrepreneurship Theory and Practice*, 31(3): 341-364.
- Lee, L. and P.K. Wong, 2004. "Cognitive Divergence among Entrepreneurship National Experts: Analysis of GEM Data 2000-2003." in Zahra et. al. (eds), *Frontiers of Entrepreneurship Research 2004*, Wellesley, Ma.: Babson College 2004, p.620-634
- Levie, J. and Autio, E. 2008. "A Theoretical Grounding and Test of The GEM Model," *Journal Small Business Economics*, 31(3): 235-263.
- Miles, M.B. and Huberman, M. 1994. *Qualitative Data Analysis : An Expanded Sourcebook*. Thousand Oaks: Sage Publications.
- Nieuwenhuizen, C., and Kroon, J. 2003. "The Relationship Between Financing Criteria and the Success Factors of Entrepreneurs in Small and Medium Enterprises," *Development Southern Africa*, 20(1):129-142.
- Robertson, P. 2003. "The Role of Training and Skilled Labour in the Success of SMEs in Developing Countries," *Education and Training*, 44(8/9):461-473.

- Saffu, K. 2003. "The Role and Impact of Culture on South Pacific Island Entrepreneurs." *International Journal of Entrepreneurial Behaviour & Research*, 9(2): 55 – 73.
- Smallbone, D. and Welter, F. 2004. "Conceptualising Entrepreneurship in a Transition Context," *International Journal of Entrepreneurship and Small Business*, 3(2): 190 – 206.
- Strauss, A. and Corbin, J. 1990. *Basics of Qualitative Research: Grounded Theory, Procedures, and Techniques*. Newbury Park, CA: Sage Publications.
- Tajnikar, M., Pusnik, K., 2008. "Determinants of Entrepreneurship in Slovenia from an International Perspective." In Cleopatra Veloutson (ed), *Advances in Entrepreneurship Research* (pp. 19-33). Athene: Atiner. 2008.
- Yin, R.K. 1994. *Case Study Research*. Thousand Oaks: Sage Publications.
- Yusuf, A. 1995. "Critical Success Factors for Small Business: Perceptions of South Pacific Entrepreneurs." *Journal of Small Business Management*, 33; 68 -73.
- Yusuf, A., B. 1998. "Small Business Development and Survival in the South Pacific: Barriers and Strategic Responses." *Journal of Entrepreneurship*, 7(1): 49-65.