

SMALL BUSINESS ENTERPRISES IN WALES (UNITED KINGDOM)

INNOVATION AND ECONOMIC DEVELOPMENT: SMALL BUSINESS ENTERPRISES IN WALES (UNITED KINGDOM) AND NEW SOUTH WALES (AUSTRALIA)

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Abstract

The role of small enterprises in innovation and economic development, and the constraints that they face, have been the subject of pilot studies in Wales and NSW which are discussed in this paper. The pilot studies utilised a questionnaire covering: information and communication technology; exports; innovation; skills, training and human resource development; finance; compliance; networking and supply chain relations; and business support services. Analyses of the results of the survey indicate that small enterprises face many challenges in making their contribution to economic growth, international trade and regional development. There also appear to be major differences between small enterprises in Wales and NSW. The results of the pilot study have implications for both future research and policy makers.

Introduction

In 1998, a memorandum of understanding was signed between government agencies in Wales, United Kingdom, and New South Wales (NSW), Australia which included an emphasis on closer cooperation to achieve greater economic growth. The role of small enterprises in economic growth is well recognised in both the UK and Australia. The purpose of this study is to generate information in support of the learning process within regions, both in New South Wales, Australia and Wales in the United Kingdom. The study addresses small business profiles in the following areas: information and communication technology; exports; innovation; skills training and human resource development; finance; compliance; networking and supply chain relations; and the use of business support agencies. An objective of this research is to encourage the building of networks, to include regional agencies and universities, for the benefit of small enterprises.

The justification for this research is that it should contribute to a process that enables regions to be innovative, self-conscious actors in the new global economy, rather than powerless victims of circumstance. Essentially, regional enterprises need to be open and honest about their capabilities. Regional small enterprises should be knowledgeable about their strengths and weaknesses and be willing to co-operate locally in order to compete globally (Morgan et al, 1998).

Small enterprises and economic development

Economic growth, employment and trade

Perhaps the major concern of governments, world-wide, is economic growth with a major justification for this being the need to maximise employment. Analysis of EU country employment, value added and sale by firm size indicates that small and medium-sized enterprises (SME's) have increased their shares on all measures of economic activity up to 1990 and have at least held their own since (Reynolds 1997). The relationship between job creation and enterprise size, namely whether small enterprises generate disproportionately more jobs than large has been at the centre of the attention given to small enterprises in recent years. The work of Birch (1979, 1981) has been very influential in changing government attitudes away from "the bigger the better" to "small is beautiful". Birch found that 67% of the new jobs in his survey were created by firms with fewer than 20 employees and that 80% were created by firms with fewer than 100. Subsequent studies suggest that these figures may overstate the situation but have, nevertheless, produced similarly positive results for small firms from several countries (Acs and Audretsch, 1989; OECD, 1985; Storey and Johnson, 1987; Williams, 1989) and the proposition that small firms have a large if not vital role to play in job generation is now generally accepted (Acs and Audretsch, 1990).

According to Reynolds (1997), SMEs have a substantial presence in international trade. About 10% of all SME's (mostly in the manufacturing sector) were active in overseas activities. Within OECD member countries, 26% of direct exports were provided by SMEs (35% in Asian countries). Reynolds estimated that there are about 35,000 trans-national firms in the world of which 20,000 have fewer than 500 employees, that is to say, they are SMEs.

Regional development

At the national level, there has been great interest in the role of small enterprises in regional development (Cross, 1981). While the growth of a new type of large-scale business enterprise during the 1920s had led to new conceptions of the firm (Berle and Means, 1932), they had not until more recent times been connected with regional development. According to Cross (1981) these two aspects are related. The growth, but not the inexorable growth, of firms into larger and larger units has led to marked concentration in different regions. Buswell and Lewis (1970) described the heavy concentration of research establishments in the South East of England and Evans (1970) noted a similar distribution of head offices. A great deal of government policy has been devoted to regional development but it is only in the last few decades that attention has swung to the role played by small firms in regional development.

Analyses of business dynamics on regional economic well-being by Reynolds (1997) has indicated that: greater turbulence (firm births, deaths, contractions and expansions) tends to enhance economic growth; there were low correlations between measures of business dynamics and that regions tended to be unique; higher levels of change seemed to have a positive impact even when absolute levels of growth were modest; firms births and deaths seemed to have a more positive impact on economic growth than expansions and contractions; and the single most important factor affecting economic growth was birth rate of small firms. However, according to Davidson et al (1995) neither a high dependence on small firms nor on large firms appears to be optimal. The regions which have experienced the most favourable development of economic well-being are those that had a good mix of industries and business sizes, and whose business sector was characterised by a relatively rapid pace of change.

One example of substantial regional differences is found in Italy (Pike, 1995), where regions of new industrialisation like Emilia Romagna, with a heavy concentration of small firms, grew in prosperity, whilst regions of old industry like Lombardy and Piedmont, with a strong presence of large firms, declined. Between 1963 and 1984 Emilia Romagna's real annual income grew by 14% compared to 6-7% for the other two regions. High levels of out-of-region exports seem to be associated with such growth. Studies of the Italian woollen textiles industry suggest that improvements in productivity more than offset the rise in labour costs unlike in the large firm sector. Collectively in some regions, SMEs have created a sustained competitive advantage for their region.

According to Howard (1990), the critical issue is industrial organisation rather than the size of individual enterprises. What matters is the quality of the business relationships tying companies to each other. Loveman and Singer (1991) argue that small enterprises are able to organise into communal groups to enable them to benefit from the scale economies available to large companies. The communal organisation is able to co-ordinate a range of aspects including purchasing, financing and lobbying. A lot of research into decentralised networks has taken place in Italy (Brusco, 1982; Lazerson, 1990).

High technology firms

Oakey (1985) argues that much of the current interest in small high technology firms lies in their potential for providing propulsive nodes of new high technology growth which act as embryonic vehicles for the industrial structural change of regions. Without improvements in product and process design, the competitive edge of the firm in national and international markets will decline over time (Feller, Ewers and Wettman, 1980). If significant small firm based employment growth is to be achieved in depressed regions it is most likely to come from the minority of small firms in fast growing high technology industries. These firms might act as a basis for medium to long term significant indigenous employment growth through indigenous innovation (Oakey 1983).

Financing innovation

Oakey (1985) also argues that if government bodies working at a local regional level were able to take an equity stake in emerging small firms with potential, in return for investment finance, such indigenous small firms could be encouraged to grow, particularly in depressed areas where industrial structural change is most needed. The conduciveness of local regional resource environments for small high technology firm growth is clearly a significant partial cause of overall regional growth and investment finance is a critical factor in such growth. Currently there is a discernible regional difference in funding.

Mason and Harrison (1995) point out that the supply of venture capital exhibits a high degree of spatial concentration. Initiatives by governments to increase supply of traditional sources of finance in depressed regions have not been very successful. It would be better to provide more informal capital in the form of "business angels", that is to say, private individuals who are looking for local investment opportunities. There could be an important role for government in providing introduction service to overcome the invisibility of business angels and thereby reduce search costs for small enterprises.

Government assistance

When it comes to providing government assistance to small firms, owner-managers will show greater enthusiasm and respect for the agents of government if they can prove their understanding of small firm problems and potential and do not suffocate them in the aid process with irrelevant forms and unnecessary delays (Oakey, 1985).

Concern about regions has led to the provision of government assistance but this may not have been based on a true understanding of the problems. Whilst there have been many evaluations of the value of government assistance to regions, the conclusions have often been critical according to Cross (1981) who argued that a more systematic, holistic approach was needed.

Cross (1981) took the view that an examination of the number of small firms in a peripheral region would also be an examination of both the causes and symptoms of the problems of that peripheral region. According to Hull (1987) small firms frequently fail to tackle effectively impediments which threaten their current and future attainment of higher levels of output and employment. Such impediments could be removed if firms made greater use of assistance. Hull (1987) identified eight impediments: finance, purchases, technical change, personnel, sales, management, premises and other. Again, he argued that the broad spectrum of assistance is not spatially uniformly available. Small enterprises often do not use the assistance which is available because of cost, lack of awareness and lack of acceptance. In Germany banks play a bigger part in providing assistance which has the advantage of involving a local player.

According to Hull (1987) local knowledge and continuing relationship are important. What are required are intermediaries of broad remit, actors who link local firms, on the one hand, and the many kinds of local regional and national resource-providing institutions on the other. A problem that is often encountered is that most resource providers deal with specific problems. What are needed are strategic generalists. Ideal intermediation results in firms moving systematically through the interconnected stages of problem definition, resource identification and resource mobilisation. Intermediation is of growing importance in local economic development because of the need to mobilise indigenous potential.

Australian studies

Most of the above studies have been carried out in Europe and North America. There has been considerable interest in Australia, also, in the contribution of small enterprises to economic growth and the problems that they face in making this contribution (Beddall, 1990; Johns, Dunlop and Sheehan, 1989). A major source of information on Australian small enterprises is the Business Longitudinal Survey (BLS) carried out jointly by the Industry Commission and Department of Industry, Science and Tourism (DIST). This survey collects data on several areas covered by the questionnaire used in the survey reported on in this paper and, therefore, acts as a useful check on the profile of Australian small enterprises and provides some validation of results.

According to a recent survey (DIST 1997): (1) the most common form of small enterprise is the limited company; (2) most small enterprises have no unionised employees with 92% of firms employing fewer than 5 persons having no union members whereas most large enterprises do have unionised employees; (3) most very small enterprises do not have documented business plans but the proportion which do increases with size such that about half of enterprises employing between 50 and 99 people do have documented plans and over 80% of the largest enterprises do; (4) smaller enterprises have much lower propensity to export than larger enterprises with only about 2% of firms employing fewer than 5 people exporting either goods or services compared to 46% of the largest business, nevertheless, firms employing fewer than 20 people account for about 15% of Australian exports; (5) smaller firms tend to rely much more on loans and overdrafts from banks than do large firms; (6) just over one in ten firms employing fewer than 5 people and one in three employing 5 to 9 provide some formal training whereas 80% of firms employing more than 100 provide it and small firms are much less likely to provide managerial training than large ones; (7) about 6% of the smallest enterprises undertook innovation in the preceding period compared to about 33% of the largest firms. From the above, it can be seen that various factors emerge as important for small enterprise growth, namely: internationalisation and ability to export; innovation and ability to keep up with technological change; human resource management, especially training; finance; networks with other firms,

customers and suppliers; and the provision of assistance from government and the related issue of compliance with government requirements. These are the subject of the pilot studies reported on in this paper.

Method

Samples and response rates

The research was carried out initially at Cardiff Business School (CBS), in the United Kingdom and involved comparative studies with other regions in Europe (Basque Country, Emilia Romagna and Central Macedonia). A study was then carried out, by researchers at the University of New England (UNE) and Southern Cross University (SCU), involving small enterprises in the mid-north coast area of NSW, Australia. Random, stratified samples (60% manufacturing, 40% services) of enterprises with fewer than 250 employees were drawn from databases held at CBS and SCU and questionnaires were mailed to each firm involved. Table 1 summarises the sample sizes and response rates for the various regions from which it can be seen that the mid-north coast of NSW had a low response rate along with Central Macedonia.

Region	No. of Q'res despatched	No. of Q'res returned	Response Rate (%)
NSW (m-n coast)	266	23	8.6%
Wales	100	19	19.0%
Basque Country	110	19	17.3%
Emilia Romagna	184	39	21.2%
Cent. Macedonia	350	37	10.6%
Total	1,010	137	13.6%

Questionnaire and data analysis

The research team at CBS had extensive practical and theoretical experience of regional development, from involvement in both regional agencies and universities. This experience was crucial in identifying the broad categories of inquiry outlined above (Morgan et al, 1998). The questions for the CBS project were designed by a local research consultancy firm to assist in the questionnaire design. In Australia the CBS project questionnaire was modified to suit the local environment. Pre-testing of the questionnaire led to the inclusion of more questions and the decision to have one questionnaire for both manufacturing and service firms rather than separate ones for each.

The questionnaire comprised of 195 items arranged under 42 questions. The levels of measurement used in scoring the answers were nominal, ordinal and interval with most questions making use of a five-point scale.

The objective of the data analysis in this research was to demonstrate the potential within the research approach for useful and meaningful analysis of key factors in small business growth. For this reason, and because of the small number of cases involved, it was not intended to carry out complete and exhaustive analyses on all data collected in the survey but to use them to highlight areas which would be investigated in greater depth with much larger samples in a subsequent study for which funding was sought.

Findings

The findings discussed here are restricted to those for NSW and Wales as those dealing with Wales and the other European regions have been reported elsewhere (Morgan et al, 1998).

General information

Information was collected about firms' location, people completing the questionnaire, their position, firms' sales turnovers, number of employees, type of ownership, type of business and whether firms had business plans. Most of this information was used for administrative and sampling purposes. Firms were typically "micro" i.e. employing fewer than 10 people and with turnovers in the hundreds of thousands to low millions Euro equivalent. Most of the firms were companies with the next most frequent type of organisation being sole traders. All were involved either in manufacturing or service industries but the numbers involved did not make for meaningful analysis at a lower level of industrial classification. Two thirds of Welsh firms had a business plan compared to half of NSW firms.

Importance of success factors

The questionnaire contained questions about the importance of the various factors for the success of the firm. Respondents were asked to indicate importance on a five-point scale ranging from very important (1) through fairly important (2), neither important nor unimportant (3), fairly unimportant (4), and very unimportant (5). Table 2 summarizes the average score for the factors from which it can be seen that none was rated unimportant or fairly unimportant.

Table 2: Respondents' assessment of importance to success of factors covered in questionnaire

Factor	NSW	Rank	Wales	Rank	Rank-all
I&CT	1.44	3	1.29	1	1
Exports	2.81	7	1.73	5	7
Innovation	1.43	2	1.41	3	3
S,T&HRD	1.55	4	1.33	2	4
Finance	2.04	6	2.26	7	6
Networks	1.09	1	1.68	4	2
BSServices	1.95	5	1.95	6	5

The ranking of the importance of the factors for all respondents as a group were, in order of importance: information and communication technology (I&CT), networks (and supply chain relations); innovation; skills, training and human resource development (S, T&HRD), business support services (BSServices); finance; and exports. The ranking for finance might not give a true assessment of its importance since the question was phrased in terms of access to flexible forms of finance. Also, as will be seen later, firms in NSW more frequently reported that finance was a problem than those in Wales. Exports were not ranked highly in either region and were ranked last overall indicating that whilst exports are not unimportant, the other factors are more important.

Table 2 also shows some, but not very great, differences between firms in NSW and Wales in terms of scores and rankings, with those in NSW ranking networks highest and those in Wales ranking information and communications technology highest. Differences between the regions became more apparent with the analysis of questions that probed deeper into the various success factors, details of which follow.

Information and communication technology

Questions were asked about the use of fax machines, personal computers, computer terminals and networks; and about constraints on using technology. Most firms in both regions made use of fax machines and most firms in Wales made use of personal computers and computer networks but use of these in NSW was much less. The most important constraints were lack of availability of staff with appropriate know-how in Wales and lack of finance in NSW.

Exports

Questions were asked about whether firms exported, what they found the constraints on exporting to be and how prepared their firms were for dealing with the Euro.

58% of Welsh firms exported compared to 14% of NSW firms. In both regions, access to information about opportunities in foreign markets and language capabilities were seen as the main constraints. Not surprisingly, firms in Wales felt that they were much better prepared for the introduction of the Euro than firms in NSW.

Innovation

Respondents were asked about their innovative activities during the period 1994-97. They were asked whether their firms had introduced any technologically changed products or undertaken any systematic or continuous research and/or development activity, what were the important sources of innovation, what the major constraints were on innovation, and the nature of any links with universities.

Most firms in both regions claimed to have introduced technologically improved products or processes during 1994-7, with a higher score for Wales than NSW. Just over half of Welsh firms claimed to undertake R&D compared to just over a third of NSW firms. The most important sources of innovation in both regions were in-house technical expertise followed by customers, suppliers, other companies/trade associations, technical journals, external advisers/consultants, and links with universities. The only major difference between the two regions was that firms in NSW ranked government assistance ahead of external advisers/consultants whereas firms in Wales ranked government assistance last. In terms of constraints, again, firms in NSW ranked finance as the most important and firms in Wales ranked lack of staff skills. Respondents were asked about the nature of links with universities, i.e. whether they were in the form of joint research, graduate placement, and involvement with the recruitment process. These activities were, however, generally regarded as fairly unimportant.

Skills training and human resource development

Respondents were asked whether their firms had a program of staff development, how important various aspects of staff development were, whether their staff was unionized, whether lower level staff made significant contributions to ongoing product and process development, and what the constraints were in terms of skill training and human resource management.

Around 60% of firms in both regions claimed to have staff development and training programs. The most important aspect was technical skills followed by management skills training and salary/wage incentive systems. The use of long-term contracts instead of casual or temporary employment and the recruitment of graduates were not seen as important. The incidence of union membership was higher in Wales (21 %) than NSW (6%). Employees were seen to seldom make significant contributions to product and process development. The most important constraint, in Wales, was seen to be a lack of time/resources for proper staff training and in NSW, the retention of staff.

Finance

Questions on finance covered the importance of various types and sources of finance and whether the firms' owners would be prepared to give up some equity in order to raise finance.

Respondents in both regions indicated that retained profits were the most important type of finance. There was then a divergence with the next most important type in NSW being private equity whereas in Wales, overdrafts and government grants ranked next. Of the seven types of finance identified (others being term loans, leasing, and venture capital), government grants ranked last for firms in NSW. The main source of finance for firms in both regions was high street banks with the least important being investment markets. 45% of small firm owners in NSW, compared to only 22% in Wales, were prepared to give up equity to raise finance.

Compliance

Respondents were asked how much of a burden were the administration of taxation affairs, environment protection legislation and legislation on labelling. In both regions the administration of tax matters was seen as a significant burden. The administration of environmental protection and labelling legislation was seen as a small burden in Wales and a negligible burden in NSW.

Networking and supply chain relations

Questions were asked regarding relationships with customers and suppliers, networks, and scope for improvements.

Respondents indicated that they: strongly agreed that they collaborated closely with their customers and suppliers regarding detailed design of their product /service; agreed that deliveries to customers and from suppliers were well organised; agreed that they were receptive to customers' and suppliers' innovative ideas; agreed that they would take every opportunity to explore collaborative relationships with other firms; disagreed that they would never collaborate with a competitor; and disagreed that problems with deliveries to/from customers/suppliers were likely to be the fault of the customers/suppliers. The majority of respondents in both regions agreed that their network of contacts was continually developing and expanding to fully exploit development/trading opportunities. Close relations with customers and suppliers were rated as very important for success by respondents in NSW, compared to fairly important in Wales.

Business support services

The final set of questions covered: ways in which improvements could be made in the provision of advice and information for small businesses and what the most effective ways would be of informing small businesses of the advice and information that is available.

Responses showed that improvement was needed in all aspects of provision, namely, that information should be: more directly relevant, provided locally, more up to date (particularly in NSW), available electronically; be available through a single point of contact; and that there should be publicity as to where to obtain advice/information. The most effective way of informing small business about the business services available was seen to be by email for the Welsh respondents and by local newspapers and magazines in NSW.

Conclusions

The results of the pilot studies in NSW and Wales provide the basis for further large-scale research into small enterprises in the two regions. Performing the research proved to be a useful exercise at a number of levels: the analysis of the data revealed some interesting relationships which can benefit from further analysis; important lessons were learned concerning the design of small firms research with clear pointers being highlighted for improving the quality and relevance of farther work; and significant strategic learning networks have been established and strengthened.

The results confirm that the issues raised in the literature are important to small enterprises and provide some indication of the relative importance of them. The use of information and communications technology, networks, innovation, and human resource development ranked ahead of the provision of business services, finance and exporting. Although networks were regarded highly, links with universities were not highlighted. Major constraints appear to be appropriately trained staff and, in NSW, finance.

The situation of small enterprises in NSW is broadly consistent with that described for Australian small enterprises in the BLS (DIST, 1997), with small firms being likely to: have no employees who are members of unions; not be involved in exporting; and have a high reliance on bank financing. NSW small enterprises in the pilot study did, however, have a higher proportion producing business plans, innovating, and providing training than might have been expected from the BLS survey.

There are several differences between small enterprises in NSW and Wales that are worth further investigation. Small enterprises in NSW seem to be lagging behind those in Wales in the use of information and communication technology, exports and innovation. In the case of both the use of information technology and innovation, the major constraint reported in NSW was lack of finance. This raises the possibility that their may be more of a "finance gap" facing small enterprises in NSW than in Wales. It would be useful to follow up this finding with a more extensive survey of the availability of finance to small enterprises in the two regions.

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