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Growth and performance of small and medium sized enterprises in rural peripheral locations

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**THE GROWTH AND PERFORMANCE OF SMALL AND MEDIUM SIZED
ENTERPRISES IN RURAL PERIPHERAL LOCATIONS**

by

MATTHEW JOHN GORTON

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in partial fulfilment for the degree of

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ABSTRACT

Since the 1970s the number of small firms in the UK has risen, but at temporally and spatially uneven rates. These trends have heightened interest in the role of local economies in shaping small firm growth and performance. This thesis considers the growth and performance of small and medium sized enterprises (SMEs) based in rural peripheral locations in the UK. In measuring this, quantitative survey work was undertaken in rural core as well as rural peripheral localities, with the former acting as a benchmark for comparison. Utilising returns from standardised postal questionnaires both the performance of the agricultural and non-agricultural business sectors can be compared. By contrasting the performance of both sectors the distribution of existing public sector funds aimed at rural local economic development (LED) is called into question. There is little support for the notion that farm diversification will contribute in any meaningful way to LED. When non-agricultural SMEs in rural peripheral localities are compared with enterprises of a similar age and standard industrial classification (SIC) code in core localities, few significant spatial variations are apparent in business strategy and structure. The main problem for rural peripheral locations would appear to lie not with the firms they already have, but rather the ones which are not present, and in particular their relative structural weakness of fewer medium sized manufacturing companies. When government SME policy is examined, the institutional proliferation and increased government spending which occurred during the 1980s did little to solve this structural weakness. It is contended that a key need for SMEs based in rural peripheral localities is to transcend restricted local markets and the main barriers, and possible solutions to, this process is drawn out in the concluding sections.

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DECLARATION BY THE AUTHOR

At no time during the registration for the degree of Doctor of Philosophy has the author been registered for any other University award.

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Publications and Presentations:

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ABBREVIATIONS

ABCC	Association of British Chambers of Commerce
BAD	Business Awareness Day
BL	Business Link
BSUS	Business Start-Up Scheme
CAP	Common Agricultural Policy
CEC	Commission of the European Communities
CSO	Central Statistical Office
DoE	Department of the Environment
DTI	Department of Trade and Industry
EAS	Enterprise Allowance Scheme
EU	European Union
FTE	Full Time Equivalent
HLCA	Hill Livestock Compensatory Allowances
LEA	Local Enterprise Agency
LED	Local Economic Development
LFA	Less Favoured Area
MAFF	Ministry of Agriculture, Fisheries and Food
MMB	Milk Marketing Board
NFI	Net Farm Income
NFU	National Farmers' Union
NAO	National Audit Office
OECD	Organisation for Economic Co-operation and Development
OGAs	Other Gainful Activities
OMD	Owner-Managing Director
PLC	Public Limited Company
PPG	Planning Policy Guidance
RDA	Rural Development Area
RDC	Rural Development Commission
RED	Rural Economic Development
ROA	Return on Assets
ROSE	Rest of the South East (south east economic region excluding Greater London)
SME	Small and Medium Sized Enterprise
SPQ	Standardised Postal Questionnaire
SYOB	Start Your Own Business
TEC	Training and Enterprise Council
TFI	Total Farm Income
TFW	Training for Work
UBR	Uniform Business Rate
VAT	Value Added Tax

CHAPTER ONE - INTRODUCTION

1.1 INTRODUCTION

This thesis considers the growth and performance of small and medium sized enterprises (SMEs) in rural peripheral localities within the UK. The aim of this first chapter is to define the key terms used in this study and provide an overview of the SME sector, rural localities in the UK and the nature of rural economic development. It is argued that the objective of this thesis, to measure and understand the growth and performance of SMEs in rural peripheral localities, is timely given the increasing importance that has been attached to small businesses within rural economic development programmes and to the economic well-being of the country as a whole. Successive governments have stated that one of their key aims is to create the right economic conditions and support environment for small firms to start-up, grow and thrive. In consequence, since the 1970s local economic development (LED) programmes have increasingly stressed the importance of stimulating the growth of SMEs as a method of increasing regional employment, growth and innovation. This belief has also been incorporated into supranational as well as national and regional policies: in the current EU Objective 5b programmes in the UK (structural funds designed to initiate local economic development in disadvantaged rural regions) the bulk of resources have been given to SME business development and the encouragement of alternative enterprise creation by farmers (see chapter 2.2).

This growing interest in SME based development policies was in part stimulated by the restructuring of large firms in the 1970s and 1980s which led to a net loss in jobs and record post-war levels of unemployment throughout the more developed world (OECD, 1994). This coincided with the growing economic importance of the SME sector. At the beginning of 1996 businesses employing less than fifty people accounted for 99.1 per cent

of the total stock of firms, 45.9 per cent of non-government employment and 37.6 per cent of total business turnover (excluding financial intermediation) (DTI, 1997). The vast majority of these businesses are micro firms: of the 3.7 million businesses at the start of 1996, over 2.5 million were 'size class zero' businesses - those made up of sole traders or partners without employees (DTI, 1997). Since the early 1980s, in the UK, small firms have accounted for a growing proportion of total employment and have contributed disproportionately to total job creation in relation to their overall share of employment (Daly *et al.*, 1992). Particular attention has been focused on the unprecedented increase in new firm formation: during the 1980s there was a 370,000 net increase in the number of VAT registrations and a rise in self-employment levels by over seventy per cent (Department of Employment, 1992). However, while commentators agree on the importance of the SME sector there is little consensus as to what government policy should be to such businesses. This thesis by looking at the performance of SMEs in rural peripheral areas also thus aims to see whether the present distribution of public resources aimed at supporting rural SMEs is justified and identify areas for improvement. Two objectives can thus be outlined for the research:

- (i) To record and understand the performance of SMEs in rural peripheral localities;
- (ii) To question whether the present distribution of public resources aimed at supporting SMEs in rural peripheral localities is justified and identify areas for improvement if they exist.

As we shall see in chapter two the present distribution of resources for rural development is biased towards the agricultural business sector and attempts to encourage farmers to diversify and create new, alternative enterprises. To assess whether this distribution of resources is justified there is a requirement to adequately record and compare the performance of SMEs within the agricultural and non-agricultural business sectors. The rest of this chapter seeks to define the key terms being used, outline the approaches taken

to rural economic development in the UK, provide a broad topology of SMEs in the UK and the evidence to date on spatial variations in enterprise performance. From this, a more detailed assessment of the agricultural business sector and alternative enterprise creation by farmers is given in chapter two and the factors affecting the growth and performance of SMEs is discussed in chapter three. The aim of these chapters is to provide a framework for analysing the factors affecting SME growth in the rural peripheral locations of the UK, reviewing the extent and limitations of the literature to date, and in so doing provide a basis for the original research⁴ conducted. The rationale for separating agricultural from non-agricultural business sectors is detailed in section 1.2.4, and this distinction is incorporated into the research methodology outlined in chapter four. The results of the research into the agricultural and non-agricultural business sectors are profiled in chapters five and six respectively, with this evidence appraised in chapter seven in the light of the qualitative data collated. The salient conclusions from these three chapters are drawn out in the eighth, and final, chapter. However, our first requirement is to outline the definitions used within, and terms of reference of, this study.

1.2 DEFINITIONS AND TERMS OF REFERENCE

1.2.1 Rural and Urban Locations

While the term rural is clearly linked to areas with low population density and small settlements, a firm dichotomy between rural and urban is hard to draw:

Whilst most people have a generalised conception of what constitutes a 'village' and associates the term 'rural' with farming or 'unspoilt countryside', a more concrete definition is much harder to produce (Robinson, 1990: 10).

A clear definition is made more difficult by the fact that the boundary between urban and rural has been blurred by suburbanisation, the development of commuter villages, increasing mobility, rural industrialisation and the extinction of many local monopolies.

There is no clear point where 'urbanity' disappears and 'rurality' begins (Carter, 1981). Official designation, while usually relying on a critical size of population, varies enormously from country to country, so for example, Norway and Iceland designate localities of less than 200 inhabitants as rural but in Austria all communes of less than 5,000 inhabitants are classed as rural (Robinson, 1990: 3).

Four broad ways of classifying 'rural' have been employed within the literature: (i) agriculturally based definitions, (ii) sociological distinctions, (iii) social representation studies and (iv) statistical analysis. The cardinal rationale of agriculturally based definitions is that the essence of rurality is agriculture (Friedland, 1982). Yet, as developed in chapter two, agriculture can no longer, if it ever should have been, be taken as a synonym for rural and when one looks at its importance to the local economy, employment structure and social environment it is clear that a solitary focus on the farming sector would exclude much of what we inherently understand as rural. Sociological definitions have been traditionally grounded in distinctions between urban and rural modes of living (Frankelberg, 1973). However, these socio-cultural definitions ignore the diversity and interpenetration between, and within, the modes. Sociological characteristics of a place cannot simply be 'read off' from its relative location on the continuum (Halfacree, 1993: 25). Young and Wilmott (1957) discovered, for example, 'model rural societies' in the East End of London while Connell (1978) and Pahl (1965) found the foundations of 'urban' societies in central Surrey and Hertfordshire respectively.

In moving away from these attempts to present an objective definition of rural, social representation theorists have approached the issue from the viewpoint that 'the rural and its synonyms are words and concepts understood and used by people in everyday talk' (Halfacree, 1993: 29). In this way rural is a social representation of space, emerging out of individuals' mental constructs of their interaction with what is 'visible' and 'what must be responded to' (Moscovici, 1984: 35; Halfacree, 1995). The methodological approach this

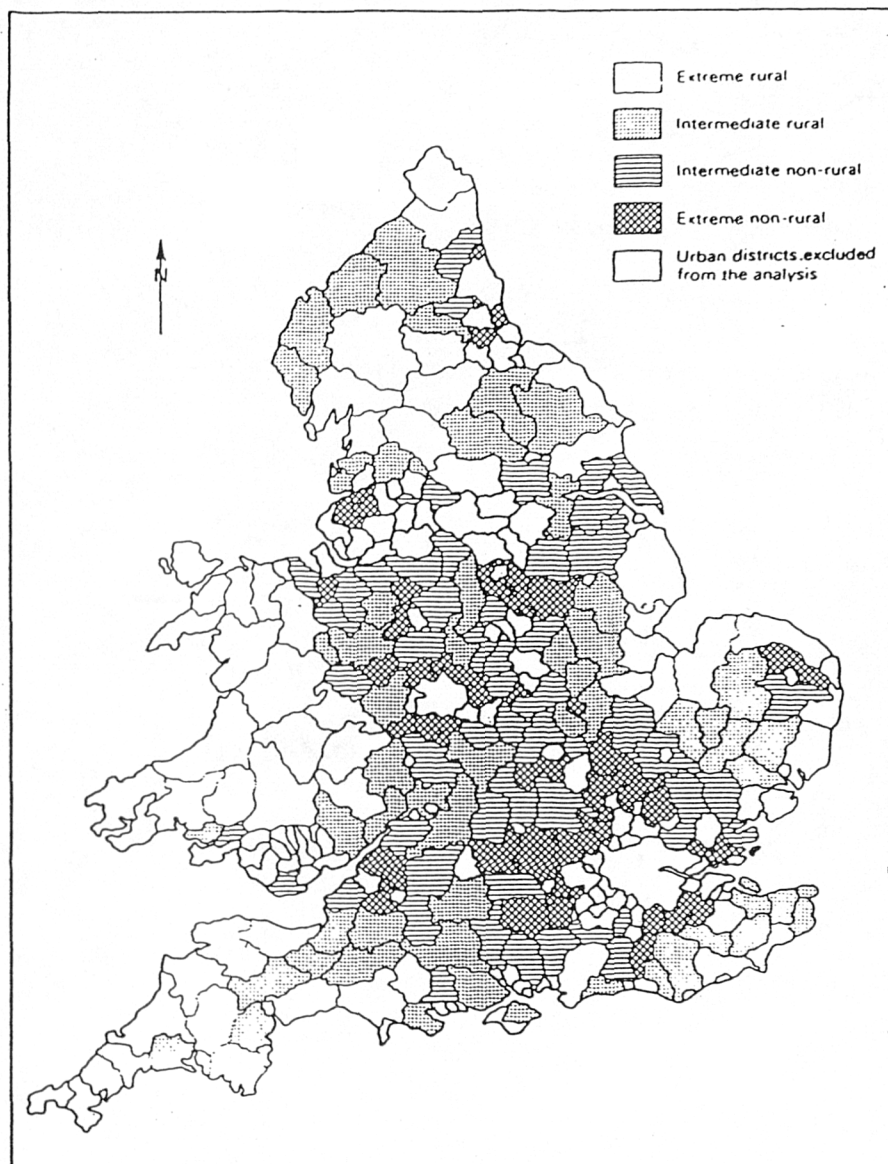
leads to is discourse analysis, referring to 'all the ways in which we communicate with one another, to that vast network of signs, symbols and practices through which we make our world(s) meaningful to ourselves and others' (Gregory, 1994: 11). Yet discourse analysis does not really offer a solution either in terms of understanding the dynamics of communication, or understanding the economic processes which lie behind interactions. In seeing the 'verbal-cum-visual' as the only home of knowledge, such studies 'cut us off from much that is most interesting about human practices' (Thrift, 1996: 7). Moreover, it does not provide a framework for criticism, as Saunders (1995: 396) argues 'one of the blights of the recent rise of cultural studies has been the principle of 'if you can say it, it's so', the reasons an actor may give for an occurrence do not necessarily have to be correct and causal processes may operate outside an agent's understanding (Thrift, 1996: 71).

The final approach to classifying the 'rural' is a statistical one, and it is argued that for our purposes this is best way forward, with the most sophisticated exposition being Paul Cloke's index of rurality (1979). Analysing 1981 census data Cloke and Edwards (1986: 298), constructed their index on the basis of eight variables: distance from nearest urban node of 50,000 population, the percentage of population who are women aged between fifteen and forty-five, in-migration, population density, occupational structure, population over sixty-five, household amenities and commuting out patterns. The index has the advantage that it eschews a single reductionist measure such as a demographic, occupational or ecological definitions (Cloke, 1979) but classifies local authority districts into five categories: extreme rurality, intermediate rural, intermediate non-rural, extreme non-rural and urban (see figure 1.1).

Four major blocks of extreme rural areas were identified by the authors: the south-west, including most of Devon and Cornwall; mid and west Wales; the agricultural lowlands surrounding The Wash and a clump of districts straddling the Pennines (Cloke and Edwards, 1986: 301). A comparison of the 1981 returns with previous census findings

revealed that lowland areas of southern Britain were being increasingly subjected to urban pressures, causing a decrease in rurality, with a growing urban influence in extreme rural areas, together with intensifying urban pressures in east Anglia and motorway corridor belts. The advantages of this classification tool are thus it provides an objective basis for distinguishing between localities and it avoids single measure reductionism that plagues several of the other conceptualisations.

Figure 1.1 Index of Rurality based on the 1981 Census, classifying local authority districts into five clusters (reproduced from Cloke and Edwards, 1986, p.301).



1.2.2 Peripheral and Core Locations

Drawing a distinction between peripheral and core areas bears similar problems to that of defining urban and rural, in that there is no clear dichotomy or single satisfactory measure. Within the academic literature the periphery-core distinction has been used in two senses: (i) as an economic theory of dependency and (ii) as a classification device to differentiate localities with varying external and internal economic structures (Williams, 1990: 108). It is the latter approach that is taken here and core regions can be defined as 'those which have achieved a high level of economic activity per capita relative to others' (MacMillian, 1990: 95).

The rationale for studying rural peripheral regions rather than rural locations *per se* is that the rate and nature of socio-economic change in core rural areas has been very different from that in remoter locations, leading to increased divergence. For example in April 1991 outside Greater London, the rural core counties of southern England had the highest average male gross full time earnings (£372.80 per week [p.w.] in Berkshire and £361.00 p.w. in Surrey) while the rural peripheral counties had the lowest (£246.30 p.w. in Cornwall, Dyfed £260.20 p.w. and £268.10 in Devon) (CSO, 1992: 160). A similar picture emerges from comparative female figures with the lowest averages being £178.00 p.w in Cornwall and £174.58 in Borders (CSO, 1992: 161). The degree of difference is much greater between rural areas than between core and peripheral urban counties. Amalgamating rural areas into one would mask the significant differences between peripheral and core rural areas and the relationship between the socio-economic locality and the development of SMEs. One of the central tenets of this thesis is that studies which have sought only to distinguish small businesses in urban from rural locations (Blackburn and Curran, 1993) will fail in the fundamental requirement of understanding the role of localities in SME performance. Reviewing the literature (Britton, 1986: Boyle, 1995), the best index of local socioeconomic indicators was devised by Webber and Craig (1976) and

separates the then 403 local authority districts into eleven categories, ranging from the largest urban centres to the most remote rural districts. The classification was achieved using a cluster analysis of a variety of social and demographic information from the 1971 Census. By using this statistical approach based on local authority districts one is using the same spatial unit of analysis employed in Cloke's index of rurality and this helps ameliorate several potential difficulties in classification as detailed in chapter four.

1.2.3 Small and Medium Sized Enterprises and Growth

Following the generally accepted approach of the European Commission Directorate - General for Enterprise Policy (Commission of the European Communities, 1992) SMEs are defined as independent businesses (not establishments) employing less than 250 workers, with small businesses defined as independent enterprises employing less than fifty people and within this, a subset of micro enterprises employing less than ten full-time equivalents (FTEs). This classification is broadly accepted within the SME literature and the terminology is readily understood.

In 1959, Edith Penrose remarked that the literature on the theory of the firm contained no standard accepted definition of growth and reviewing the contemporary methodological approaches taken, (chapter three) this remains the case nearly forty years on. In its broadest sense, however, growth can be seen as:

For a specified level or unit of analysis, organizational growth is an increase in size, measured by structural or functional characteristics of the unit. Negative growth, or shrinkage, involves a decrease in size (Cardozo *et al.*, 1995: 4).

However, measuring these structural and functional characteristics is problematic. Four different groups of proxies for growth can be identified: (i) *inputs* (acquiring resources such as employees), (ii) *throughput* (combination / integration of resources), (iii) *resource base* (physical and tangible assets) and (iv) *output* (units produced, profits and sales turnover) (Cardozo *et al.*, 1995: 4). It is clear, however, that individual proxies for growth

may not be commensurate (for example the introduction of new technology could increase sales turnover but decrease employment). Moreover, one is limited with SMEs in the amount of information on growth which it is possible to collect. Many OMDs simply do not know, for example, the value of their assets or resource inputs (Nayek and Greenfield, 1994) and so data collection responses suffer consequent biases (see chapter 4.4). In this study it was decided to measure two main proxies for growth: annual sales turnover and levels of employment. These are the two most known measures of growth (by SME OMDs) and employment generation remains the cornerstone of local economic development initiatives (see chapter 2.4).

1.2.4 The separation of agricultural and non-agricultural business sectors in this study

The physical distinctiveness and the setting of specific goals by the state for agriculture, the attainment of which has led to a perceived need for public sector intervention, has given rise to a long history of 'agricultural exceptionalism' (Grant, 1995: 166) - a political economic framework for food production far removed from other economic sectors. Support for the notion of agricultural exceptionalism is manifest in the level of food production subsidies and direct transfers to farmers, and agriculture's set of special institutions, not least its own government department in the UK not enjoyed by any other economic sector. The expenditure on these transfers is striking: in 1993 the operation of the Common Agricultural Policy (CAP) of the European Union (EU) cost £32.7 billion, which given an inclusive population of 327 million, equates to £100 per person, per year (Rose, 1995). This long history of exceptionalism means the environment faced by food producers is very divergent from non-farming small businesses and these differences must be uncovered if a fuller understanding of the rural economy is to be made.

Exceptionalism has derived from the physical and essential characteristics of agriculture, and the way in which policy makers have adapted to them. By being more

directly dependent upon nature than industrial sectors farmers are limited by the prevailing climate in terms of output (with often large fluctuations in yield), quality control and choice of crops (Grigg, 1995: 70). Agriculture throughout Europe has historically been dominated by small, discreet plots of land geared toward meeting the aim of self-sufficiency, and despite widespread amalgamation and concentration of land ownership, these output problems are still faced by a largely atomistic production base, made up of price-taking, family farms. With familial based units of production farms cannot thus be seen merely as production units: the cultural, economic and social characteristics of the family will determine to a significant degree how the farm is run. Given this socio-economic milieu, ownership tends to be more stable than other economic sectors with a farmer deciding what combination of crops and/or livestock will give the best return rather than deciding to raise a particular crop and then seek the optimum location (Grigg, 1995: 70). Farming has thus not be characterized by large spatial shifts in location of activity in that same way as manufacturing and heavy industrial sectors.

Governments worldwide have attempted to deal with this different and hazardous production environment by setting specific objectives for agriculture (usually the maintenance of a stable and overall reasonably self-sufficient domestic food supply). In meeting this aim governments have implemented an array of price and production support measures. Within the European Union these financial transfers to farmers (either by consumers or governments in the form of market price support, direct payments or other forms) are particularly high. While there has been much talk of reform, reductions have been difficult because of agricultural exceptionalism itself, with usually fairly closed and complex institutional arrangements (Moyer and Josling, 1990: 204). The operating environment and inherited organisational structure for the agricultural sector is thus far removed from other economic sectors, so that the factors underlying performance will be

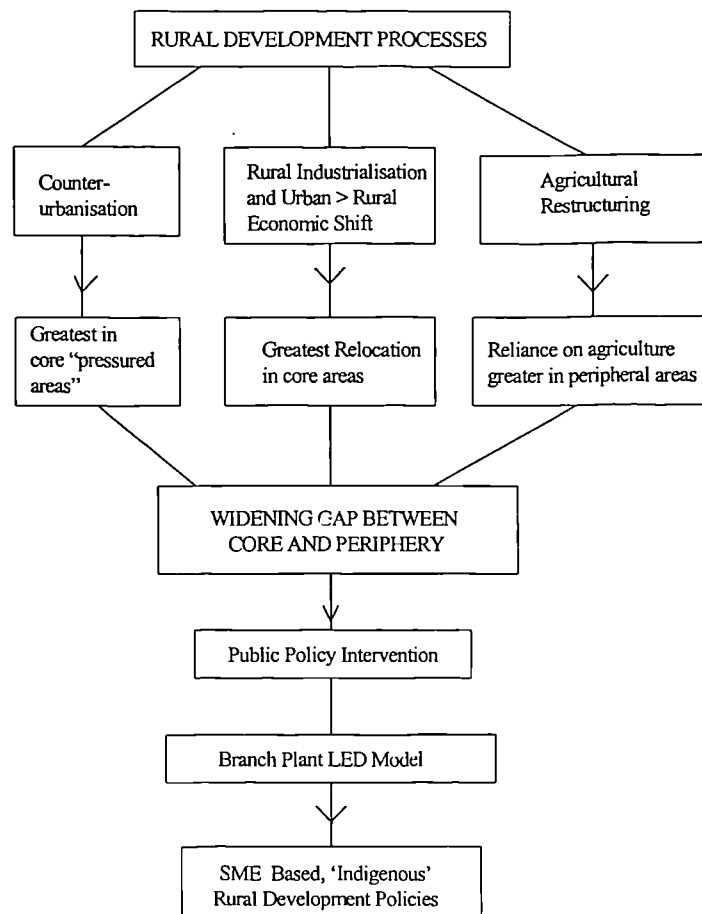
similarly distinctive and it is for these reasons that such a dichotomy (between agricultural and non-agricultural business sectors) is made.

1.3 RURAL ECONOMIC DEVELOPMENT IN THE UK

In considering rural economic development in the UK it is useful to distinguish between:

(i) market-led economic development processes in rural areas and (ii) public sector led initiatives to foster rural economic development (RED). Three key market-led processes can be distinguished: (a) an urban to rural switch in manufacturing activity and business services, (b) counterurbanisation and (c) agricultural rationalisation (see figure 1.2).

Figure 1.2: Rural Development in the UK: Processes and Public Policy



These three processes have combined to widen the gap between rural core and rural peripheral areas. Counterurbanisation and the urban to rural switch in business activity has

been greatest in accessible rural areas, boosting employment and growth levels in these localities. Rural peripheral localities have gained fewer inward investors or migrants and are more dependent on agricultural and other traditional, but declining, sources of employment. In the immediate post-war period governments attempted to aid rural peripheral areas in the same way as urban peripheral areas with a mixture of grants and tax incentives aimed at luring branch plants to depressed areas (see section 1.3.4). This approach proved less and less effective in the late 1970s and early 1980s, prompting a move to more community-based, small scale initiatives. This switch in development policy as a response to market-led changes is discussed in the next sections.

1.3.1 Urban-Rural Switch in Manufacturing and Business Activity

In the post-war period there has been a broad diversification of the rural economic base in part stimulated by a movement of manufacturing and producer services activity from urban areas. Using Census of Employment data, *Hodge and Monk (1987)* show that since 1970 rural areas are the only category to have experienced a net increase in manufacturing employment. The most detailed analysis of rural industrialisation has been conducted by Fothergill and his co-researchers (1985) using Census of Employment data for the period 1960 to 1981. Between 1960 and 1978 manufacturing employment in rural areas (classified as local authority districts in which all settlements have fewer than 35,000 population) increased by 38.0 per cent. This compares to a 42.5 per cent decrease in London, a drop of 26.5 per cent in conurbations and a fall of 13.8 per cent in free standing cities (with more than 250,000 people). The only other grouping to record an increase other than rural areas were small towns (districts including at least one town with 35,000-100,000 people) in which manufacturing employment increased by 15.7 per cent (compared to the overall British average of an 11.5 per cent decrease). During the 1978-81 period all categories lost manufacturing jobs but in rural areas the rate of loss was the

smallest. There has thus been a clear divide between manufacturing employment fortunes in favour of rural areas.

The next stage of Fothergill and his colleagues' research was to compare the changes in peripheral and core regions, the results of which are shown in table 1.1.

Table 1.1: Centre-Periphery Differences in Manufacturing Employment Change by Type of area 1960-81 (as % of 1960 manufacturing employment)

	Peripheral Regions*	Southern England^
London		-51.4
Conurbations	-44.3	-40.9
Free-Standing Cities	-35.7	-23.5
Large Towns	-24.9	-8.0
Small Towns	- 8.6	+3.4
Rural Areas	+ 9.7	+32.4

* Scotland, Wales, North, north-west, Yorkshire and Humberside

^ South-east, east Anglia, south-west, West Midlands and East Midlands

Source: Fothergill *et al*, 1985

In each category the employment performance of peripheral regions has been worse than southern England, with rural areas being the only growth location. Rural core regions easily outperformed rural peripheral regions, admittedly based on the rather crude division between peripheral regions and southern England by the researchers (see footnotes to table 1.1 and the average income figures for Devon and Cornwall in chapter 1.1.2).

Many of these themes will be developed in later sections but for our purposes the existing literature on the urban to rural shift in economic activity is disappointingly limited in that it tends to focus on large firm relocations (with a lack of consideration of SMEs), and only on manufacturing industry (without consideration of the linkages with other sectors), which is especially restrictive as it has been the service sector that has been the largest source of growth in rural localities. However, we can see that this trend, insofar as it increases the proportion of managerial and professional people living and working in rural areas, expands the size of local rural markets and creates possible spin-offs and subcontracting opportunities, that can be conducive to SME start-up and growth.

1.3.2 Agricultural Restructuring

Under a system of price supports, stemming from the 1947 Agriculture Act and reinforced by the Common Agricultural Policy (CAP) of the European Union, agricultural production has been comprehensively enlarged. Britain has gone from an inter-war position of being able to produce only one-third of its domestic food requirements to being a significant net exporter of temperate food stuffs (Marks, 1989: 5). These rises in agricultural production⁴ have been achieved by increased mechanisation, input intensification and farm amalgamation with consistent falls in the number employed - within Britain the number of farms has fallen by about one half and the work-force has been reduced by approximately three quarters since 1951 (Clark, 1991). Three quarters of British farms now employ no full-time hired hands (Cox, *et al.*, 1986). By the beginning of the 1980s even within rural areas the percentage of the work-force engaged in agriculture (fourteen per cent in 1981) was half that in manufacturing and construction (twenty-eight per cent), and less than one third of those engaged in services (fifty-eight per cent) (Department of the Environment, 1988: 1). Capital intensification accelerated during the 1980s with farming playing an increasingly subordinate role within highly complex agri-food chains (Whatmore *et al.*, 1990: 235), with an ever diminishing role for labour. UK agriculture in 1989 accounted for only 1.2 per cent of GDP (the lowest within the EU) and only 2.1 per cent of total employment (also the lowest within the EU) (Eurostat, 1992: 145). By the end of the 1980s even in the three most rural counties of Wales (Dyfed, Powys and Gwynedd) the working population in agriculture, forestry and fishing was only thirteen per cent (Day and Thomas, 1993: 36). Britain's rural economy can no longer be seen as agrarian based and the space taken up by agriculture is thus in stark contrast to the employment opportunities it now offers.

This implies that agriculture and related industries will not provide nearly enough jobs for the rural work-force and there is a clear need for diversification within rural economies. This diversification has been achieved in many areas via market-led changes, like counterurbanisation and the urban-rural shift in manufacturing and services. However, in peripheral and less attractive areas, the extent of these processes has been more limited. These peripheral localities, have not attracted a large manufacturing base and thus tend to be characterised by a low skilled, poor opportunity local economy of ever decreasing agricultural demand and a service sector highly geared to part-time and seasonal work (particularly in tourism, catering and retail sectors) (Gilligan, 1984). While developed nations have been characterised by a growth of service industries, this is a very heterogeneous grouping ranging from management consultancy to market stalls and, by and large, rural peripheral areas have proportionately more of the low paid, unskilled and semi-skilled employment opportunities.

1.3.3 Counterurbanisation

Counterurbanisation can be defined as a 'de-concentration of population from urban to rural areas' (Robert and Randolph, 1983: 85); with two distinct forms: that within the urban-rural fringe and that arising in remote rural areas (Harper, 1991). The first sizeable migrations out of urban areas, which began during the inter-war era were to rural areas immediately surrounding conurbations, particularly around London (Cloke and Little, 1990). Until about the mid-1960s growth was largely confined to the accessible countryside, within easy commuting distance of major employment centres. Since the 1970's migration has spread farther out to remoter regions reversing long term trends of depopulation (Phillips and Williams, 1984). Some of these gains have been substantial - in Cornwall, for example, between 1971 and 1981 there was an increase of 50,000 on a base population of 380,000 (Robert and Randolph, 1983: 90). Between 1961 and 1971 the

population of rural areas increased by 1.6 million, or nearly eighteen per cent, and between 1971 and 1981 by another million, or nearly ten per cent, while the total population of England and Wales increased by only 5.7 per cent and 0.5 per cent in these two periods respectively (Department of the Environment, 1988: 1). In both forms (urban-rural fringe and remote rural) migration has been selective towards more affluent families and individuals (Lewis *et al.*, 1991).

Following Sant and Simons (1993) counterurbanisation may be seen as having three major dimensions:

1. *Place Utility*: the value put on different living environments.
2. *Ability to Move*: the economic and personal attachments one has to present locations.
3. *A Willingness to Move*: the desire to relocate to non-metropolitan localities (Sant and Simons, 1993: 124).

Significant numbers of the population, particularly middle classes, have consistently placed a premium on rural, as opposed to urban, living environments (the first dimension). This rural idyll initially became obtainable through the growth of private transport (facilitating commuting) and the provision of reasonably cheap housing in the immediate post-war era (the second dimension) (Pahl, 1965). More recently, further advances in transport infrastructure provision, rural industrialisation and improved communications have meant that urban dwellers have been able to move farther from the metropolitan core and maintain the degree of mobility and service provision they desire (the third dimension). In addition, tight planning controls (green belt legislation) around the major cities have pushed housing pressures farther out into free-standing towns and villages and more remote regions (Buller and Lowe, 1990).

There has been no systematic survey comparing the characteristics of migrants who relocate to rural core and rural peripheral localities, but several separate surveys within each group (Pahl, 1965; Jones *et al.*, 1986; Dean *et al.*, 1984; Harper 1991). Dean and his

associates (1984) look at the characteristics of migrants and non-migrants in rural peripheral districts of West Cornwall. Within the seven study areas examined, only 22.4 per cent of migrants were born in Cornwall. From the area questionnaires migrants accounted for 43.3 per cent of total respondents and around one-third were aged over fifty-nine. The migrants compared to non-migrants, were significantly more likely to have completed higher education courses, be owner occupiers and members of socio-economic groups A and B. These 'new to Cornwall migrants' also contained the lowest percentages of persons aged fifteen to twenty-nine, persons completing their full-time education before seventeen and members of socio-economic groups C2 and D. The new migrants were disproportionately attracted to the three most environmentally attractive coastal study areas, suggesting a high degree of local selectivity, particularly for retirees who represented forty per cent of migrants in these areas.

While retirees were very significant, the majority of adult immigrants were however economically active. Although few were under thirty years of age, higher proportions of migrants compared with non-migrants fell into the 30-44 and 45-59 age groups. Importantly, there was a marked tendency for economically active migrants to be of a higher occupational status than non-migrants. The profile of new migrants is thus very different from that of established residents, increasing the diversity of rural peripheral localities. Second, while the overall profiles of the two groups are different there is also a significant spread within each - the new immigrants includes a wide range of 'mature, middle class households, the elderly and the occasional urban dropout' (Lewis, 1991: 173). In terms of Sant and Simon's place utility, the way in which they value the countryside is thus multifarious and cannot be attributed to a single disposition (Bolton and Chalkley, 1990).

Compared to core areas, the peripheral regions appear to gain proportionately more elderly migrants and fewer young family migrants than rural core areas (Harper, 1991).

The preference of elderly people for less developed, particularly coastal environments, is indicated by the clear concentration of retirees in the coastal counties of southern Britain, with a belt stretching from mid-Wales, around the south-west, along the south coast and up into east Anglia (CSO, 1992: 37). For the study of rural economic development in peripheral locations the greater proportion of elderly people amongst migrants is important as these age groups are unlikely to form, or expand existing, businesses.

1.3.4 Public Sector Initiatives to Foster Rural Economic Development

From the immediate post-war years to the beginning of the 1980s, public sector led rural development strategies in the UK were based on encouraging the relocation attraction of branch plants to areas of high unemployment and relatively low wage levels. Incentives typically involved the offer of loans, capital subsidies and/or tax concessions. In this way rural development was seen as part of regional development with little differentiation in the tactics of dealing with disadvantage between rural and urban locations.

However, from the 1970s onwards this approach was seen as increasingly ineffective and there was a broad move away from the branch plant model for RED (but never its complete abolition) towards stimulating 'indigenous potential' and the development of native SMEs. This shift in approaches was promoted both by the 'push' of previous development failures and the 'pull' exerted by studies (Birch, 1979) purporting to show the dynamic economic potential of new and small businesses.

Dissatisfaction with the branch plant model was manifest on four counts: (i) the increasing international competition for such plants, (ii) concerns surrounding the stability of employment, (iii) qualms about the degree of linkage between plants and the wider economy and (iv) the levels of profit repatriation and leakage. With the global recession, commencing with the first OPEC oil shock of 1974, rural peripheral regions in developed countries found themselves competing for a diminishing supply of mobile branch plants

with once prosperous core regions and less developed countries (LDCs). With a general fall in the rate of profit, transnational companies (TNCs) were forced to review and restructure, producing and marketing in new locations (Thrift, 1988). The existence of cheaper labour and greater autonomy in LDCs, placed rural peripheral locations in the British Isles at a disadvantage. The UK share of world accumulated direct investment fell from thirteen per cent in 1970 to nine per cent in 1978 (Kirby, 1983). As capital became more footloose and decision making speeded up, branch plant manufacturing has become more volatile. The consequence is 'a constant process of strategic rationalisation in which plants are set up and shut down more frequently than before' (Thrift, 1988). Gwenda Jones (1995) cites how between 1966 and 1978, fifty-two manufacturing companies located in Gwynedd, but by 1980 only thirty-two were to remain. The branch plants attracted to peripheral areas have tended not to bring the level of positive linkages and economic opportunities for local small firms that were often envisaged. Too little attention was paid to the way in which the ownership structure and functional composition of corporations has an important determining influence on opportunities for local small businesses. Establishments that are part of multi-plant companies generally have limited freedom to source inputs independently of the overall corporate decision-making process (Mason, 1991). This structure of purchasing is inimical to local supplier involvement and where strong, the linkages between externally owned plants and the rest of the local economy will be weak (Turok, 1993). Finally, concerns have been raised about the levels of profit repatriation from branch plants. Estimates vary enormously and problems arise in the compilation of GNP and GDP statistics. For example, Ireland's GDP has been grossly exaggerated because of transfer price fixing by TNCs that locate profit in the Republic in order to exploit the low corporate tax regime (Shirlow, 1995).

Coupled with this dissatisfaction surrounding branch plant development has been the increasing allure of micro-solutions. In particular, attention has focused on the potential

role of small businesses. This has been stimulated by the turnaround in the number of small businesses in Western economies since the mid 1970s, after a long era of decline (Storey, 1994); employment analysis by Birch (1979) which prepared convenient if not critical findings in support of the dynamic nature of new and micro-enterprises and how successive Conservative governments have seen small business ownership correlating well with their ontological view of human beings as individualistic, goal oriented and aspirational.

In rural areas this led to a new development approach often referred to as integrated rural development (IRD)⁴. IRD can be defined as an approach to stimulating economic regeneration that acknowledges 'a greater role for local people and for local institutions in the planning, implementation and evaluation of local development programmes' (Keane, 1990: 295). Deriving from this central philosophy three key strands (interdependence, individuality and involvement) can be outlined (Murray and Hart, 1989). Interdependence refers to the need to recognise the heterogeneity of actors in rural areas and the interdependence of economic and social spheres (Everitt and Annis, 1992). Dissatisfaction with previous strategies has stemmed from how single, departmentalised approaches have ignored issues of, and implications for, the wider well-being of rural communities which lie outside the individual department / agency's remit. Second, this has led to a call for policies to be individually tailored with 'programmes accommodating the priorities, problems and opportunities of individual localities' (Murray and Hart, 1989). This is based a recognition that the socio-economic structure of rural localities is heterogeneous - impoverished Scottish fishing communities have little resemblance to recession hit commuter villages in the English Home Counties. IRD schemes can thus be defined more by similarities in the procedural processes of planning formation than through actual policy prescriptions, which will fluctuate according to local circumstances. Finally, proponents of IRD postulate that 'economic regeneration must come from within the locality if it is to be sustained in the long run' (Murray and Hart, 1989: 147). This individual and group

mobilisation may manifest itself in many forms: local co-operatives, small businesses, public - private partnerships, community based projects and opportunities for self sufficiency. This 'development from within' philosophy is in stark contrast to the previous, branch plant models of development.

These themes have emerged increasingly strongly in policy formation, and within the British context are explicitly outlined in the latest rural White Paper (MAFF and DoE, 1995) and forms part of most Objective 5b schemes. At the heart of the White Paper is a view of community involvement and independence, with a vision of rural communities: as "active communities which take the initiative to solve their problems themselves", that are "close-knit and balanced", and that nurture "traditions of independence, partnership and voluntary action." This has been echoed in the EU *Cork Declaration for a Living Countryside* that called for an integrated approach based on self-sustaining private and community-based initiatives (EU, 1996). Underlying this is a belief that communities are best able to articulate and manage their own affairs, including economic development, with a consequent view that the scope for 'meeting local needs via local effort' should be expanded.

1.4 SMALL AND MEDIUM SIZED ENTERPRISES IN THE UK

The aim of this section is to provide an introductory briefing on the number of SMEs in the UK, their size and the employment opportunities and growth they have produced. While forty-four databases of official information on firms categorised by size have been identified none provide comprehensive coverage of all firms in the economy (Daly and McCann, 1992). This has meant that to estimate the total number of firms in the UK researchers have had to 'sew together' different data sets. The most sophisticated attempts have been initiated by the Department of Employment (Bannock and Partners, 1989) and on their methodological basis it was estimated that 2.471 million businesses existed 1986.

This total was comprised of 1.488 million VAT registered firms and 983,000 unregistered enterprises, with a legal status distribution of fifty-five per cent sole proprietorships, twenty-six per cent partnerships and nineteen per cent limited companies. Since 1986 the overall number of businesses has grown and currently stands at around three million (Daly and McCann, 1992).

Table 1.2 Numbers of UK Businesses, Employment and Turnover Share By Size Band						
Size Band	Numbers ('000)		Businesses (%)		Employment (%)	
	1979	1991	1979	1991	1979	1991
	*	◊	*	◊	*	◊
1-2	1099	1735	61	64	7	11
3-5	319	565	18	21	6	10
6-10	179	196	10	7	7	7
11-19	109	97	6	4	8	6
20-49	46	65	3	2	7	9
50-99	16	20	1	1	5	7
100-199	15	10	1	1	10	8
200-499	5	6	-	-	8	9
500-999	2	2	-	-	8	6
1000+	2	1	-	-	35	27
TOTAL	1791	2697	100	100	100	100

* Daly and McCann (1992); ◊ McCann, (1993) cited in Storey (1994), p.21

Since the late 1960s the importance of the small firm sector has risen when measured in terms of both the share of the stock of businesses and the percentage of the labour force self employed (Storey, 1994: 19). This growth, however, has been temporally uneven with a sizable downturn in the years from 1990 to 1992. Moreover, while the total number of firms has increased since the 1960s, the majority of firms and new firms in particular, are tiny (see table 1.2). The largest growth has been in the smallest size band of firms, so that by 1991 nearly two-thirds of UK firms had two employees or less.

As table 1.2 makes clear, the absolute numbers and shares of medium sized companies and the larger-smaller companies has remained broadly static. It is the numbers

of micro-businesses rather than SMEs as a whole which have grown most rapidly. Micro-businesses, when defined as firms with ten employees or less, thus make up around ninety-two per cent of the total stock of businesses (Storey, 1994: 20).

While the absolute numbers of businesses have increased, figures on net changes mask the high level of birth and deaths (churning). During the 1980s, each year nearly fourteen per cent of all VAT registered enterprises had registered during the previous twelve months. For the same period on average, ten to eleven per cent of all VAT registered enterprises deregistered each year (Stanworth and Gray, 1991). This means that high turnovers can occur but only modest net changes be recorded - for example in 1990 there were approximately 235,000 new additions to the VAT register and 185,000 deregistrations giving a comparatively small overall change of 50,000 (Daly, 1991). There is also evidence that amongst the firms which are not registered for VAT, churning rates are even higher (North and Smallbone, 1993).

The small business population is heterogeneous - the firms which come under this heading range from subsistence self-employment to state-of-the-art high-tech companies, meaning that size may be far from being the most important defining characteristic (Rainnie, 1991: 177). However, when the performance records of small firms are compared it is clear that very few new or small businesses grow into large or even medium sized operations. Storey (1982) on the basis of a survey of new manufacturing firms in the north-east calculated that the probability of a new firm having 100 or more employees within ten years of start-up was 0.5-0.75 per cent. A follow up survey found (Storey and Strange, 1992) that while the numbers of start-ups in this region had increased during the 1980s the average quality of start-ups had diminished with a consequent decrease in the already tiny probability of achieving medium sized status. This means that with so few start-ups growing beyond the micro phase only a very small number of new firms will make a significant contribution to employment creation. For example, a survey of employment

change in 350 service sector enterprises between 1990 and 1993 found that out of a net gain of 266 jobs recorded just one firm accounted for over 100 new jobs alone and that employment growth over the period only took place in one-fifth of the surviving firms (Woods *et al.*, 1994: 5). In North and his associates study of mature manufacturing SMEs over the 1979-90 period, seventy-one per cent of all new jobs were created by twenty-three per cent of firms (North *et al.*, 1994). Employment growth is thus not a characteristic of SMEs *per se* but rather a feature of only a tiny proportion of enterprises.

Trying to understand these huge variations in growth will be a major feature of chapter three but one can already see how this characteristic is the crux of the debate concerning public policy towards SMEs. If potential high growth SMEs can be identified it should be possible to target these firms with the assistance they require (if required) and produce a more cost effective SME based employment creation policy (Storey, 1994). However if these growth potential firms cannot be identified, as is argued by David Birch (1979) in opposition to Storey, the emphasis turns towards almost a 'numbers game' scenario of encouraging as many start-ups as possible, in that the more new enterprises which are started, according to this logic, the greater the number of fast growth companies generated overall.

1.5 SPATIAL VARIATIONS IN SME GROWTH AND PERFORMANCE

Spatial variations in new firm formation and growth have been recorded on an international scale (Shane *et al.*, 1990), national and regional levels (Lloyd and Mason, 1984; Whittington, 1984), intraregional basis (Beesley and Hamilton, 1986), between the inner and outer city, between urban and rural locations (Gudgin and Fothergill, 1984) and within less developed countries (LDCs) as well as developed countries.

The growth of new and small businesses in the UK has been both sectorally and geographically uneven (Keeble, 1990). Table 1.3, based on VAT statistics, highlights a

broad north-south divide in new firm formation. The south-east, south-west and east Anglia have achieved the highest rates of new VAT registration. The northern regions of Scotland, Yorkshire-Humberside, the north and north-west experienced the lowest rates of new firm formation. The south-east stands out in particular with 850,000 new business registrations for the period 1980-90 (the next highest region is the North West with 207,000 new registrations during the same period). The south-east also has the highest net growth in firms (193,400), with the next largest being the south-west with 41,400 in the same period.

Table 1.3: Regional New Firm Creation Rates and Small Business Growth in the UK 1980-90

Region	New Firms ('000)	New Firm Rate	Net Growth ('000)	Net Growth Rate*
South East	850	100.3	193.4	22.8
South West	190	99.7	41.4	21.7
East Anglia	97	95.8	17.9	21.7
East Midlands	140	79.3	28.1	15.9
Wales	93	77.5	16.5	13.8
West Midlands	180	72.1	32.7	13.1
Yorks. / Humberside	158	70.3	24.3	10.8
North West	207	68.7	23.8	7.9
Northern Ireland	39	61.1	9.3	14.5
Scotland	134	55.4	21.7	9.0
North	77	55.3	11.0	7.9
United Kingdom	2147	81.4	420.4	15.9

* per 1000 Civilian Labour Force, 1981
Source: Daly (1991)

This growth has been closely linked to sectoral differences between the regions as highlighted in table 1.4. The greatest rates of new firm formation occurred in finance, property and professional services and 'other services', the latter being dominated by business services including management consultancy and software houses (Keeble *et al*, 1993). The figures also reflect the small numbers now involved in agriculture and the process of concentration which has reduced the number of farmers (see chapter 2.2). The high growth in construction businesses in the 1980s building boom, much of which was focused on rural areas, facilitating the processes of counterurbanisation and rural

industrialisation is also evident. However for our purposes the figures are limited in that the regional and sectoral figures do not distinguish between rural and urban areas within them (so for example Scotland as a region contains both the urban areas of Glasgow and Edinburgh and the remote rural Highlands and Islands).

Table 1.4 Sectoral Variations in Small Business growth: Net Change in VAT Registered Businesses, 1980-90

Sector	No. of Businesses (‘000s)	% Change
Agriculture	-1	-2
Production	37	28
Construction	88	48
Transport	15	28
Wholesale	28	28.5
Retail	-10	-4
Finance etc.	82	107
Catering	11	9
Motor Trades	12.5	19
Other Services	145	117

Source: Keeble et al., (1993), p.3

The only sub-regional, government collected and accessible to researchers data of reference to the study of SMEs is that based on the VAT register. The sub-regional data helps separate rural from urban counties, but is imperfect where a county contains both rural and urban modes - such as Humberside that contains both urban Hull and the surrounding rural hinterland. However, it clearly does provide a much greater level of disaggregation than the regional figures and one is able to compare wholly urban counties such as Greater London with almost totally rural ones such as the Highlands and Islands of Scotland. The VAT register providing information on the absolute number of registrations and deregistrations disaggregated to the county level, has been used extensively by previous researchers (Moyes and Westhead, 1990; Batstone and Mansfield, 1990; Ashcroft *et al.*, 1991; Keeble *et al.*, 1993). However, before reviewing this literature the methodological problems associated with using the VAT register must be noted. First, the assumption made is that registrations will provide a measure of small business vitality and new firm formation.

However not all registrations will be of SMEs (but as the vast majority of new firms start small so this is not that a serious problem) and not all new registrations will be new firms (new subsidiaries of existing firms will be counted). This leads on to the second main problem - not all SMEs have to be VAT registered. Only firms where annual turnover exceeds a certain threshold (£45,000 in 1994) have to register. This will exclude many micro-businesses and self employed individuals (although a very small minority do register voluntarily). The seriousness of this problem is indicated by Jennings's (1991) estimation that up to one half of all small businesses are not registered. This is an even greater problem for those studying rural businesses as these tend to be smaller than urban firms and therefore even less likely to be registered for VAT (Curran and Storey, 1993). Third, certain types of business do not have to be VAT registered, so that the figures become even less complete. Finally, the figures will not give any assessment of individual growth nor the quality of SMEs within a particular county. It is vital to remember that small businesses are heterogeneous: for example area A could have ten new firms and area B fifty new firms which at initial glance would suggest that area B has higher levels of entrepreneurial activity and growth. However if those ten firms in area A are high-tech, rapid job generating new firms and the fifty new firms in area B are merely small scale, low growth self employment ventures, then the picture looks very different. The figures provide no basis for qualitative assessments. Given these problems one has to conclude that VAT data can only provide, at best, a broad introductory outlook on changes within the SME sector. In fact, its prominence within the literature must in part be attributed to the lack of alternative data sets and that the data does, on the whole, show similar conclusions to the body of smaller surveys carried out by individual academic researchers. However neither of these excuse the methodological problems that must be regarded in the following discussion.

Considering the county level VAT based research, the study by Keeble *et al.*, 1993 supersedes the previous studies as Moyes and Westhead (1990) only consider the production sector, Batstone and Mansfield (1990) only scrutinise England and Wales while Ashcroft *et al* (1991) is based on a shorter time-series. In this review we will thus concentrate mainly on the results of Keeble and his associates, which covers the eleven year period 1980-90 as well as the two sub-periods: 1980-84 and 1985-90. The county distribution of three sectors is also considered: production (overwhelmingly manufacturing); consumer services; and financial, professional and business services (an amalgamation of the finance, property and professional services and other services sectors). The VAT register provides information on the absolute numbers of firm registrations and deregistrations, but as counties differ in size, there needs to be some form of standardisation procedure to allow comparison of rates of start-up and failure. Keeble and his fellow researchers adopt two measures - the stock of existing businesses and the size of the local labour force. The former procedure is problematic in that it assumes that there is a causal link between new and existing firms and where the stock of existing business is low the rate will be misleadingly high. This is important from our purposes where we are looking at changes within the production sector within rural peripheral counties; as the stock is historically low, changes in the rate will appear extravagant. The local labour force is a better denominator in that it focuses on individuals not existing businesses, and it includes the unemployed as well as the employed in the stock of potential firm founders. Given this situation, our study will concentrate on the evidence derived from the local labour force procedure. Following the previous studies, Keeble and his associates attempt to model new firm formation rates, deregistration rates and net growth using ordinary least squares multiple regression techniques to estimate the impact of a number of possible explanatory variables.

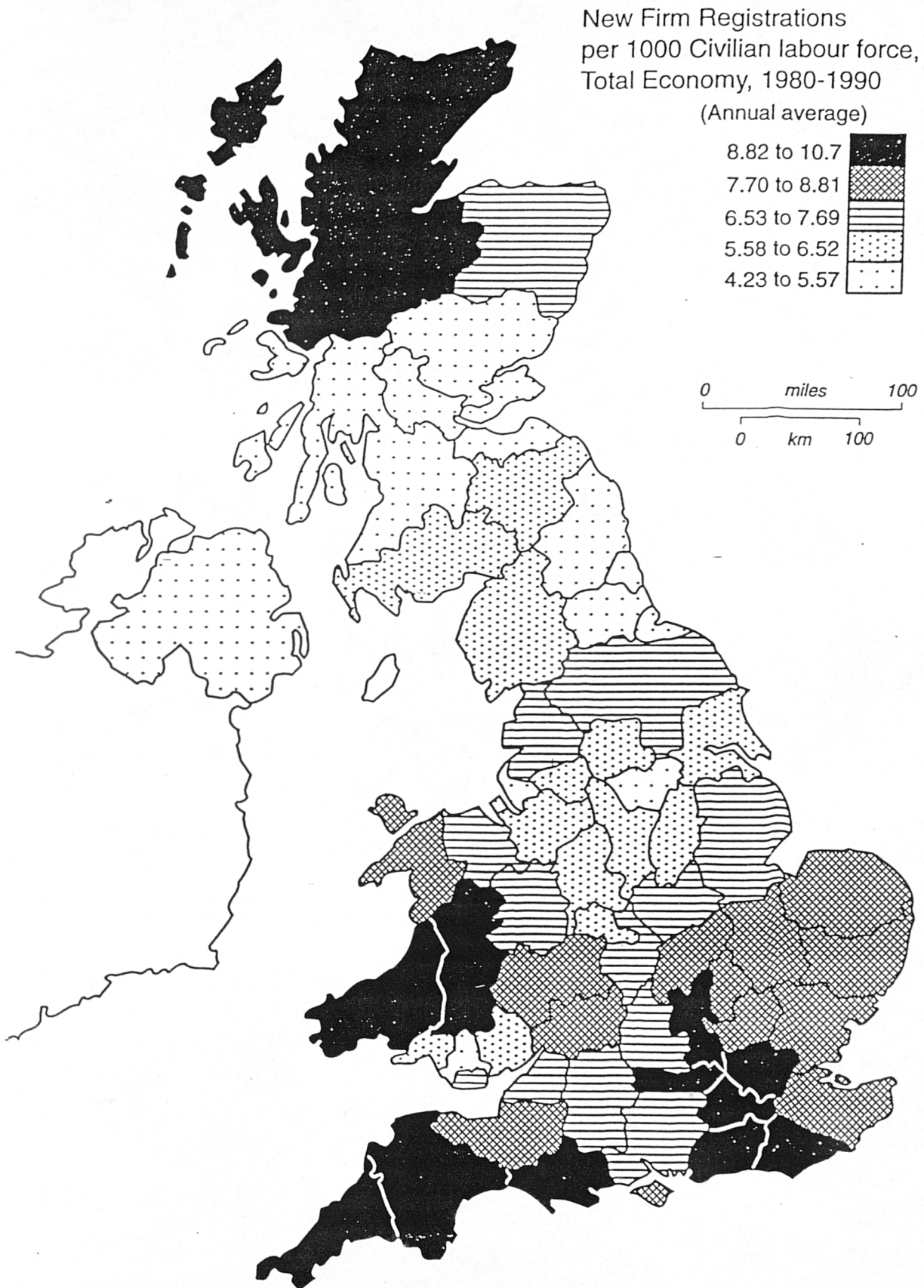
1.5.1 New Firm Formation

Figure 1.3 indicates the spatial variations in the rate of new firm formation for the period 1980-90, based on the 1981 civilian labour force. The map highlights the broad north-south divide witnessed in table 1.3. The new firm formation rate for some counties was three times higher than that of others during the 1980s. High rates, however, are not confined to the south-east but also include the peripheral south-west, south-west Wales and the Scottish Highlands. Outside London, urban areas have low rates.

Analysis of the spatial correlations for the labour force derived new firm formation model indicates that the highest correlations are with rising local-market demand (measured by GDP or personal income per head), by the local availability of capital and of professional or non-manual expertise. The explanatory variable that was consistently identified as significantly positive was the rate of change of population during the previous five-year period (Keeble *et al.*, 1993). This conclusion does thus provide some support for the importance of counterurbanisation in providing growing local-market opportunities (especially as most SMEs start off by serving local markets) and increasing the actual and potential stock of entrepreneurs within a particular locality.

The stimulus of concentrated urban demand is identified as being important in new firm formation, especially in the role of contacts and spin-offs from traditional centres of information and employment (a theme which will be developed later). The positive influence of capital availability (as measured by local house prices) reflects the need for an adequate collateral base in new business start-ups (especially given the period of the study where house prices were a more acceptable collateral base and their rising value contributed to greater confidence). Sectoral analysis highlights the previously mentioned factors of local population growth, geographically concentrated urban demand and small firm size structures as significant positive influences on new production firm formation in the UK (Keeble *et al.*, 1993: 46).

Figure 1.3: New Firm Formation Rates in the Total Economy, 1980-1990 (Labour force based)
Reproduced from Keeble *et al.*, 1993, p.41)



One interesting difference however is for finance, professional and business service sectors where a strong association between new firm formation and areas dominated by large not small firms is apparent. This would appear to reflect previous research findings concerning the role of large firms within this particular sector in providing essential training, expertise and client contacts. The fact that these services are highly concentrated in and around London with very low levels in rural peripheral areas in particular, does provide a need to think about their strategic importance.

1.5.2 Net Changes

The 1980s saw a substantive growth in the number of SMEs as measured by VAT registrations minus deregistrations. Spatial patterns of net change based on the civilian labour force and business stock normalisation procedures both highlight a broad north-south divide, with the highest rates being in central southern England. In terms of net growth the rural peripheral counties perform less well than on solely new firm formation figures, indicating the lop-sided analysis of considerations using only start-up rates - registration and deregistration rates must be taken together. Outside London there is a strong anti-urban bias and familiar north-east / south-west divide. The spatial correlations again indicate that net growth is uniformly and positively related to population change in the previous five year period and negatively related to highly urbanised environments. This leads to the researchers' conclusion:

The clear implications of these findings are that rapid growth in the numbers of small businesses is most likely in areas where earlier population growth has increased local market opportunities and the pool of potential entrepreneurs, and where professional expertise combined with high levels of personal financial resources equip entrepreneurs to establish and operate successful small businesses (Keeble *et al.*, 1993: 54).

The urban results tie in with other research, that while built-up areas act as incubators for new firms in terms of a concentration of contacts and specialist services conducive to start-up; population loss, diseconomies of agglomeration and low spending power may reduce chances of survival (Cross, 1981).

The levels of explained variance are poorer for the sectoral analysis, but nonetheless regression equation t-values are still significant at the one per cent level. For the production sector firms the important influences are again population change, small firm size and a negative relationship with rising unemployment - reflecting the effects of declining local market demand (downward multiplier effects). There is also a significant and positive relationship between small manufacturing firm growth and the impact of local enterprise agencies. This would appear to offer some evidence for the view that enterprise agencies have been beneficial but clearly this kind of analysis can only give a broad outline and no specifications as to which policies and activities have been most advantageous can be made. The finance, professional and business services sector results again reflect the importance of local population growth and the local impact of large, not small firms, on new firm formation. The consumer services model is poorest in terms of explained variance but again highlights the effects of population change and capital availability. For each sector local population change is significant at the 0.01 per cent level.

1.5.3 Firm Dissolution

VAT deregistration is taken as a surrogate index of small business deaths and closure. This a slightly rougher approximation than VAT registrations being a proxy for new firm formation because while the vast majority of new registrations are small firms, deaths will include a greater proportion (but still a very small minority) of larger firms and deregistration could reflect shrinkage of turnover below the registration threshold rather than death. Low death rates are revealed in northern areas with the highest figures in peripheral Wales, the south west and the south east.

The most significant influence on death rates is high new firm birth rates with the results overwhelmingly consistent for all coefficients:

In other words, areas in which particular supply-side or demand-side forces stimulate high levels of new business formation will inevitably in due course also exhibit high death rates, simply because there are more new, vulnerable firms in these areas than elsewhere (Keeble *et al*, 1993: 69).

Given the strong relationship between death and formation rates, the next step is to look at the variables that differ in their significance between the firm dissolution and creation models. The greatest variation is given by the population change variable, with income per head and local labour market demand also less frequently a significant influence on local death rates than upon formation rates. In other words, areas with large population increases or market growth stimulate high birth rates but do not exhibit the predicted equally high death rates. Second, and of interest for public policy, there is again a significant and consistently negative relationship between firm deregistration rates and enterprise agency activity (Keeble *et al*, 1993: 79). This leads on to a clear need, for more direct research into which activities are the most effective and the nature of the businesses aided in this way.

The broad north-south divide, with low rates of new firm formation in old industrial localities and higher rates in rural areas where population is expanding, presented by Keeble and his co-researchers in their research mirrors findings from similar studies conducted in the rest of Europe (Keeble and Wever, 1986; Aydalot, 1986; Fritsch, 1992), so that three distinct spatial groups can be outlined (Mason, 1991):

1. **Large metropolitan core cities and regions** (such as London and the south-east, the Paris region) have exhibited high rates of new firm formation in all sectors, particularly higher value-added services.
2. **Unindustrialised rural regions**, especially around core regions but increasingly spreading out into the periphery (such as southern France (the Midi), southern

Germany bordering the Alps, central Italy and, east Anglia and the south-west in the UK), have seen high rates, but lower volumes of new firm formation.

3. **Older urban-industrial regions** (such as central Scotland and the Nord and Lorraine regions of France and Flanders) have exhibited the lowest rates of new firm formation.

1.6 CONCLUSIONS AND RESEARCH PLAN

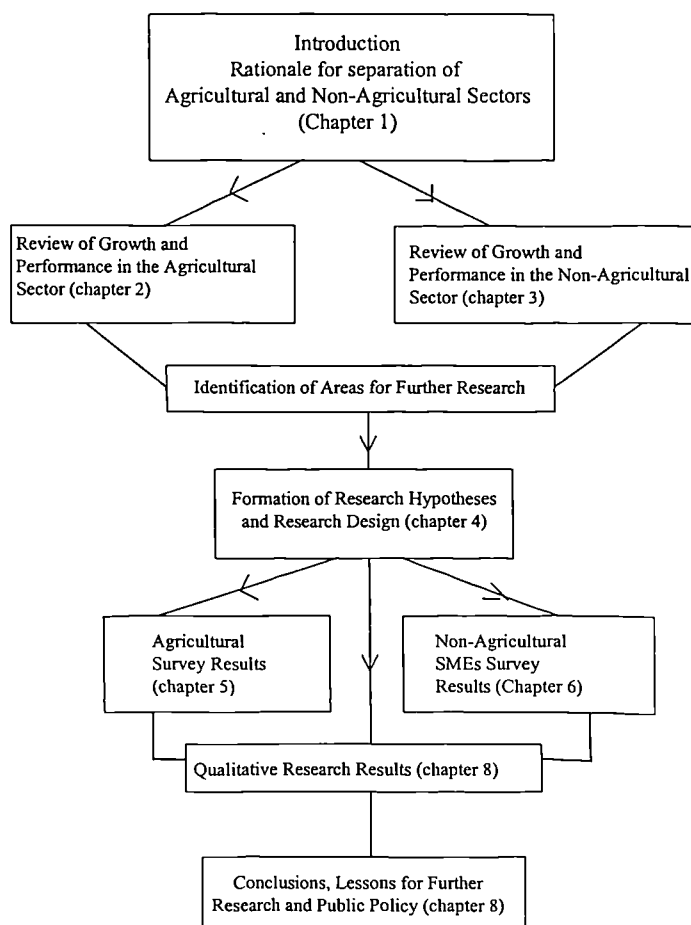
Considerable variations exist between rural areas in terms of their socio-economic situation. There is thus unlikely to be a single, uniform specifically 'rural policy' for local economic development. This heterogeneity of rural localities has been heightened by spatial variations in the processes of agricultural restructuring, counterurbanisation and rural economic diversification. The diversification of the rural population that has occurred since the 1960s means that the stock of potential and actual small business proprietors will be equally varied. The actors responsible for the diversification of the rural economy have come principally *from outside the agricultural community; not only has the importance of agriculture within the rural economy been diluted, but the importance of farmers as economic actors has as well.*

The VAT data analysis highlights the role of local environmental influences and occupational structure as determinants of spatial variations in start-up and net registration growth. The most influential and positive factors are population growth, growth in labour market demand and the availability of personal financial resources and possession of professional and managerial skills. These results are in keeping with previous empirical research both in Britain and the rest of Europe. For the investigation of rural areas the studies point towards a clear link between new firm formation and counterurbanisation. However, while recording absolute numbers of small firms (albeit imperfectly) VAT

register data does not provide any information on the *individual* growth records of firms, which given the objectives of this study remains a central area of inquiry.

The structure of subsequent chapters and the order of this thesis is indicated in figure 1.4. Chapters 2 and 3 review the growth and performance of small businesses in the agricultural and non-agricultural sectors respectively. From these reviews of the literature areas for further research are identified in the final section of each chapter. These form the core of the research hypotheses for testing that are detailed in chapter 4. From the research hypotheses identified appropriate methodologies for testing have been selected and also outlined in chapter 4.

Figure 1.4: Growth and Performance of SMEs in Rural Peripheral Localities: A Research Plan



A three phase research design was selected consisting of: (a) a postal questionnaire survey to farmers on agricultural diversification, looking at the linkages between alternative enterprise creation by farmers and local economic development in rural peripheral and rural core localities, (b) a postal questionnaire to non-agricultural SMEs in rural peripheral and rural core localities to understand the growth and performance of, and spatial variations within, this sector and (c) a qualitative phase consisting of a series of interviews with farmers, non-agricultural SMEs and support agencies to understand the perceptions of the actors involved. The results from the first phase of the research (postal questionnaire survey to farmers on agricultural diversification) are discussed in chapter 5. In chapter 6 the responses of non-agricultural SMEs to their respective postal questionnaire are analysed. The results of final strand of the research programme (interview analysis) are discussed in chapter 7. Conclusions from all three phases of the research are outlined in chapter 8 and lessons for public policy drawn out.

CHAPTER TWO - THE AGRICULTURAL BUSINESS SECTOR AND ALTERNATIVE ENTERPRISE CREATION BY FARMERS

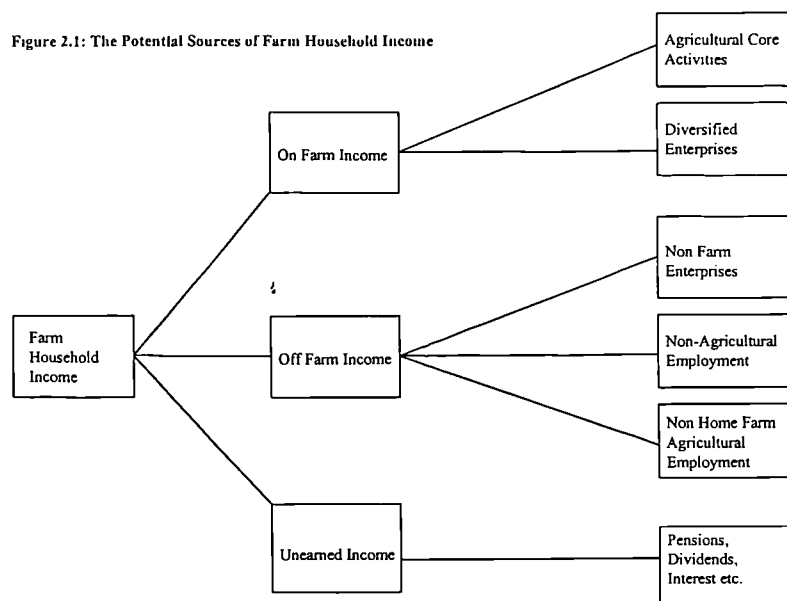
2.1 INTRODUCTION

This chapter looks at the performance of the agricultural sector and alternative enterprises created by farmers. Section 2.2 considers the trends within farming and highlights the consistent fall in the numbers employed in agriculture, so that the space taken up by the latter is in stark contrast to the numbers employed within the sector. As part of dealing with this trend, public agencies have encouraged farmers to diversify and set up new businesses. The literature on agricultural diversification is reviewed in section 2.3 and it is argued that further research is needed to more adequately analyse the employment generation and growth performance of these alternative enterprises (section 2.4). However, before embarking on these tasks it is necessary to clarify the terms used in this chapter, most notably the distinction between agricultural and diversification activities. This is done in the subsequent section by considering the potential sources of income available to farmers and distinguishing between agricultural core activities, employment diversification and enterprise diversification.

2.1.1 Terminology and Components of Farm Income in the UK

One approach to reviewing the performance and structure of contemporary agriculture in the UK is to consider the potential sources of income available to each farm household. The traditional and main component has been income from agricultural core activities. With reference to figure 2.1, *agricultural core* activities can be defined as those enterprises taking place on predominantly agricultural proprietorial units which fall inside the price support mechanism of the CAP and are based on the primary production of food or fibre (derived from Slee, 1986: 2). However, since the 1980s farmers have been encouraged to develop alternative sources of income and diversify. In defining diversification and other

gainful activities (OGAs) of farmers two central problems emerge: (i) recognising and ordering the multifarious nature of income sources and, (ii) capturing the appropriate unit for income analysis.



A plethora of terms to capture the OGAs of farmers have emerged: (pluriactivity, diversified, multiple job-holding)¹, leading to a series of binary classifications: between full and part-time farms (Gasson 1988, 1989), pluriactive and non-pluriactive farmers (Bateman and Ray 1994) and diversified and non-diversified occupiers. However these single dichotomies are unable to capture the absolute and relatively diverse nature of income sources. For example, the most prevalent distinction, between full and part-time farming, usually defines the latter as including any farmer who has OGAs outside central agricultural operations. However, would this mean that a small landowner who owns a few privatisation shares, but ostensibly still depends on agriculture for the vast majority of his/her income, would be classified as part-time (McInerney *et al.*, 1989). Moreover, can this person be placed in the same classification bracket as another landowner who has substantially diversified their holding, by developing a golf course, driving range and

¹Pluriactivity can be defined as the phenomenon of farming in conjunction with another gainful activity, whether on or off-farm (MacKinnon *et al.*, 1991: 59).

leisure complex and now only earns a minority of total farm income (TFI) from agricultural activities?

To deal with this issue, this study takes the approach of a component analysis of potential sources of income. On farm income can come from both agricultural core activities and diversified enterprises operating from the farm. Potential sources of off-farm income can be divided into three components: income from *non-home farm enterprises*, *non-agricultural employment* and *non-home farm agricultural employment* (see figure 2.1). As such, one can distinguish between *enterprise* and *income diversification*. Enterprise diversification activity embraces both on and off-farm business creation outside of agricultural core activities. Income diversification will embrace these two components plus any movement towards non-home farm employment (whether agriculturally based or not). Finally, a third source of revenue is *unearned income* (such as pensions, dividends and interest), which while usually ignored, can very substantial in certain cases and decisions made in this sphere may have an important bearing on such crucial choices as time of retirement and intensity of farming. Potential sources of income are therefore disparate, likely to vary substantially in importance between farmers, and exhibit wide variations in their attractiveness as sources of pecuniary gain. These variations between components of income are therefore likely to have a major effect on the decision making of farmers and there is a need to understand the importance of each rather than subsuming them all into binary classifications such as the part/full-time dichotomy. Moreover, there is thus no reason why income diversification has to include setting up new enterprises or be farm based at all - for many, other options may prove more fruitful or promising. However, given our focus here on small businesses, the nucleus of this review will be on the agricultural core activities of farmers (section 2.2) and the potential for, and performance of, enterprise diversification (section 2.3).

2.2 AGRICULTURAL CORE ACTIVITIES IN THE EUROPEAN UNION (EU)

2.2.1: Productivity and Technical Progress

Via both improved labour productivity and higher product yields the EU, and Britain in particular, has achieved significant increases in production per unit of input and aggregate output levels. Between 1973 and 1983 in the UK, (the first decade of EU membership), there was a forty-nine per cent increase, at constant prices, in gross product per person engaged in agriculture while during the same period the agricultural labour force declined by twelve per cent (NAO, 1985: 3). For the three key commodities of wheat, barley and milk, for example, the increases in yield for the UK between 1973 and 1983 were: forty-five percent for wheat (per hectare), seventeen percent per hectare for barley and twenty-five per cent for milk per cow (NAO, 1985: 3).

With the choice of a price-based support mechanism under the Common Agricultural Policy (CAP), however, the gains from these increases in output disproportionately went to larger farmers within the Community and so by the mid-1980s over eighty per cent of EC spending went to only twenty per cent of the Community's farmers (CEC, 1993: 15). With traditionally unlimited intervention guarantees, these advances in yields have led to an ever growing problem of surpluses: in the EU as whole during the 1970s and 1980s agricultural production rose on average by two per cent per annum, far outstripping the 0.5 per cent growth rate of internal demand per year (Clout *et al.*, 1994: 168). This led to a situation in 1989/90 of the EU producing twenty per cent more cereals than it needed, twenty-seven per cent more wheat and six per cent more vegetables than required (CEC, 1993: 12).

2.2.2 Holdings and Employment Structure

In the 1992 UK annual agricultural census, 242,000 main agricultural holdings² were identified. The most common form of contemporary ownership is owner occupation, with

² A holding is classified as minor if all of the following criteria are true: (a) the total area is less than 6 hectares, (b) there is no regular whole-time farmer or worker, (c) the estimated annual labour requirement is less than 100 days (of 8 hours productive work by an adult worker under average conditions), (d) the

the proportion of let land having declined steadily from ninety per cent at the beginning of the century, to approximately thirty-five per cent in 1995 (Tufnell, 1995: 1). The unpopularity of letting owes much to previous tenancy law with its problems of two generation successions and low returns to landowners. This has stimulated the growth of alternative schemes such as share cropping and farming partnerships and the introduction of the Agricultural Tenancies Act 1995, aimed at making rented land more readily available and encouraging new entrants into farming.

The numbers employed on main agricultural holdings has steadily decreased, with the labour force falling by 6.5 per cent between 1987 and 1992, to a total figure for the latter year in England of 420,074 (MAFF, 1993: 2-2). This total labour force was comprised of 168,853 farmers, partners and directors, 91,740 regular whole-time workers, 41,736 regular part-time workers and 66,264 seasonal or casual workers (MAFF, 1993: 3-6). The decline in the agricultural labour force has not been uniform across these groups. For example, between 1987 and 1992 the biggest fall was in regular full-time male workers (-21.9 per cent), but for the corresponding group of female workers a 9.4 per cent increase was registered. For part-time workers, the gender difference was reversed with male employees falling by 1.8 per cent compared to a decrease of 11.3 per cent for women over the same time period. While the historical decline in the labour force has been greatest for male non-family salaried workers, there is increasing evidence that family labour has also more recently been pruned: between 1987 and 1992 male full-time family workers decreased by 21.0 per cent and the corresponding female figure fell by 17.1 per cent. Overall, it can be seen that the agricultural labour force is declining (at approximately 1.5 per cent per annum) but not proportionally across the various component cohorts (for example, the numbers of farmers, partners and directors is decreasing by less than 0.5 per

glasshouse area is less than 100 square metres and (e) the occupier does not farm another holding. If any of these conditions is not satisfied the holding is categories as "main" and is sent a census form in June.

cent per annum) (MAFF, 1994a: 5). Cheaper female labour has displaced male labour, with full-time work falling at a greater rate than part-time employment. This full / part-time switch has been echoed in farm management: during 1993 the number of part-time farmers showed an increase of 1.5 per cent and whole-time farmers a decrease of 1.5 per cent (MAFF, 1994a: 5).

2.2.3 Agricultural Incomes

UK real farm incomes have been characterised by a considerable degree of volatility since Britain's entry into the European Union. In real terms, average farm incomes halved between the early 1970s and early 1980s, then almost halved again by the early 1990s (Harrison and Tranter, 1994: 9). The huge growth in volume of output stimulated under the CAP, through the build up of massive capital inputs, turned the terms of trade against the agricultural industry (Harrison with Tranter, 1989). Between 1978 and 1993, product prices lagged behind current inputs by twenty per cent and behind capital inputs by over forty per cent (Harrison and Tranter, 1994: 5). While rationalisation, reductions in labour and new technology helped in the short term for individual farms, the collective effect of such actions only had a detrimental effect. The purchasing power of aggregate Net Farm Incomes (NFI) between 1978 and 1985 fell by fifty-one per cent and real income per holding declined by forty-seven per cent (Harrison with Tranter, 1989: 8).

However this major trend was dramatically reversed by the fall in the value of sterling precipitated in 1992, (due to the consequent devaluation of the green pound), following Britain's withdrawal from the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). This led directly to higher producer returns which, aided by a fall in interest rates, meant that the total income from farming, representing the income from agriculture of farmers, partners, directors, spouses and family workers, rose by thirty-nine per cent in real terms between 1992 and 1993 (MAFF 1994a: 1). The

corresponding figure for farming income, which covered only farmers and their spouses, indicated a rise of fifty-nine per cent in real terms (MAFF 1994a: 1). This upward trend has continued; real farm incomes rose by 5.9 per cent in 1994, stemming from continued devaluations of the green pound (Stones, 1995a: 7).

Arable farmers in particular have benefited, for while they were compensated for anticipated falls in income because of the 1992 CAP reforms they have not actually experienced cuts in prices. World market prices have been kept firm by a strong international demand for food and feed and reduced harvests in southern Europe and north America (due to a continuing drought) (*Cropping*, 1995: 10). However the average incomes of upland farmers are substantially less and have not partook in the upturn of fortunes enjoyed by other sectors. Hill and upland farmers have suffered from cuts in hill livestock compensatory allowances (HLCAs) over the past two years, with more than thirty per cent earning less than £5,000 in 1992/93 and one in seven making a loss in the same year (*Farmers Weekly*, 1994: 15). In 1994 alone their income dropped by eleven per cent in nominal terms from £16,000 to £14,300 (counting only agricultural income) (Mason, 1995: 7). This depression has also been felt by agricultural workers with the full time LFA workforce falling by more than twenty per cent in the past five years (*Farmers Weekly*, 1994: 15). Yet these figures should not be interpreted as indicating a lack of state support: the government has to pay out more than two pounds to generate every one pound of net income on hill sheep farms in Scotland (Wright, 1994: 11).

These changes and variations in incomes have been reflected in land prices. Since Britain's withdrawal from the ERM land prices have risen considerably, with rises reflecting the varying fortunes of farm systems, with hill pasture land values rising by approximately ten per cent compared to a rise of seventy six per cent for top quality arable land such as Lincolnshire silt, which by 1994 was fetching up to £3,000 per acre (Hornsby, 1994: 5).

2.2.3 The Future of Agriculture in the UK

Since its inception attempts have been made to reform the CAP, culminating in the most recent and heralded to be the most fundamental adjustment, 1992 reforms (also referred to as the MacSharry reforms). The kernel of the 1992 reforms was a series of price cuts linked to the withdrawal of land from production with farmers directly compensated for the consequent loss of income. The beef and COP (cereals, oilseeds and protein) crops were the two main sectors targeted, with an announcement that cereal prices would be reduced by twenty-nine per cent over three years starting in 1993/94 (bringing prices to just above world market prices). Linked to this was a set-aside agreement for arable land (taking land out of food production for a specified period in return for a financial incentive).

Arable farmers if they wished to claim direct support to compensate for the loss of income stemming from the reforms had to remove a fixed proportion (fifteen per cent in the first year) from primary production. Only the smallest EU cereal farmers defined as those producing less than ninety-two tons of cereals (15.5 hectares in England) are exempt from set-aside requirements. However, while land has to be removed from primary production by the vast majority of arable farmers, set-aside land can be used for an array of non-food uses such as the harvesting of cereals for biomass.

Compensation for this loss of revenue is paid in the form of direct income support to the farmer, with individual amounts based on average yields in each farming region. These arable area payments were £121.40/hectare in England in 1993/4 (£94 in Wales), and will be approximately £218/hectare in England for 1995/6 (£171 in Wales). Although reforms were in theory voluntary, the option of staying outside the scheme would have caused a greater fall in farm income for all except the very highest yielding farms in 1993 and for all farms in future years (NFU, 1993: 3). Set-aside was first introduced on a voluntary basis in 1988. However, it is only since it has become a condition for receiving arable support

payments that the land area involved has become significant - between 1990 and 1993 the EU cereal area has fallen on average by 3,239 thousand hectares or approximately 9.2 per cent (NFU, 1995: 1).

A similar set of arrangements was designed for the beef sector, with price cuts balanced by new forms of compensation. From 1993/94 it was announced that over three years beef prices would be cut by fifteen per cent. Compensation for these cuts currently derives from two sources: (i) farmers raising beef cattle on open grazing land receive extra per-head premiums to encourage 'extensive' farming over intensive factory farming and (ii) existing premiums paid for bulls, steers and suckling cows have been increased (CEC, 1993: 23). In the first year of the MacSharry reforms the set-aside requirement was fixed at fifteen per cent. Yet each year the rules of the scheme have been altered, with the latest system (for 1995/96) a ten per cent set-aside requirement (regardless of the form of set-aside taken). This supersedes the previous year's agreement of a fifteen per cent rate for flexible set-aside and twelve per cent requirement for those entering rotational set-aside agreements (Johnson, 1995: 16).

This change-over from price support to direct income support brings the cereals sector in line with the principle applied to other products such as oilseeds, processed vegetables, olive oil and tobacco. It also makes subsidies far more visible. As Stephen Carr notes:

To read the national press is to believe that farming has become a license to print money. Nothing could be further from the truth. In the 1996 edition of his Farm Management Pocketbook, Professor John Nix points out that specialist cereal farm incomes are nowhere near the levels enjoyed in the early 1980s. Indeed, he predicts that for this year, 1995, real farm incomes for cereal growers will be less than half what they were in 1980. So what is all the fuss about? The only answer must be that the objection is not to the amount of money that is paid to farmers but rather the way it is paid. All the time the subsidy was 'hidden' in the form of intervention buying or cereal export restitutions, it did not matter that those who produced the most, i.e. the biggest farmers, received the most support. But suddenly it is highly controversial if any farmer receives, say, £100,000 in the form of a 'visible' IACS cheque - no matter how much rent he pays or how many millions of pounds he has invested in, or borrowed against, his farm (Carr, 1995: 5).

However, the switch to direct income support has not removed the bias towards larger farms. Michael Jack, the then junior agricultural minister, in response to a parliamentary question disclosed that under the arable area payments scheme a total of 651 English landowners were each paid more than £100,000 in 1993. Out of these, forty gained between £250,000 and £500,000 and a further seven each received more than £500,000 (Ghazi, 1994: 2).

While much dissatisfaction remains with the CAP even after the MacSharry reforms, further or more fundamental reforms seems unlikely in the short to medium term. In February 1995 the EU farm commissioner Franz Fischler specifically ruled out further CAP reform (Stones, 1995a: 7) and the current agreement on compensation payments will remain in place until the year 2005 when the results of the next round of world trade negotiations will come into force (Stones, 1995b: 20).

The former UK Minister for Agriculture, Douglas Hogg, has argued for a more radical reform of the CAP and endorsed a report drawn up by his predecessor's CAP think-tank (Bullen, 1995: 7). However, while the report argues that the CAP will become unworkable over the next decade as EU enlargement incorporates central and eastern European countries and the system will be incompatible with further GATT liberalisation, it does not represent a detailed blueprint. As the Minister admitted timetables, costs and detailed policies will all hinge on winning the agreement of other member states (Bullen, 1995: 7), for which there is, as ever, no agreement. The report in many ways is systematic of the whole problem: on the one hand it wants to cut the level of government support with a phased reduction of production-linked support and a corresponding removal of quotas, set-aside and similar controls so that prices fall into line with world market levels. On the other hand it recognises that undoing what has been done is never easy, so that 'some compensation may be needed as a sweetener to push through reforms'. However, if as in

the MacSharry reforms one form of subsidy is cut only to require compensation in another form, one has to argue what fundamental change is actually occurring: politically it seems the only reforms that are acceptable are those which take with one hand to only give back with another. For successive British Ministers of Agriculture it has also been possible to call for fundamental reform of the CAP in line with its 'rolling back the state', free market principles but without ever having to make the cuts itself or really ever seemingly likely that such calls will be heeded. They are thus able to win populist brownie points with calls to cut bureaucracy and the taxation burden of EU support without ever having to follow through these calls and deal with the downside losses to farmers and the agricultural population.

Despite environmental, budgetary and world trade pressures it is thus unlikely that further fundamental reform will occur in the short to medium term. Fundamental changes cannot occur overnight, investment decisions have been made on the basis of the current level of support and the huge dislocation a sudden overnight change would cause would be politically unacceptable (Hill, 1990: 64). The outcome of the MacSharry reforms in terms of reducing the long-run financial cost of the CAP is thus likely to be more disappointing than its supporters had envisaged. The 1993 price round was completed by ministers agreeing to a predominantly French compiled list of extra concessions to farmers costing nearly one billion ECU over three years, suggesting a tendency to revert to 'business as usual' in the Council of Agricultural Ministers (Grant, 1995: 168). As Grant (1995: 169) concludes 'exceptionalism in agricultural policy has been challenged and eroded, but has not disappeared'.

2.3 AGRICULTURAL DIVERSIFICATION AND ALTERNATIVE ENTERPRISE CREATION BY FARMERS

2.3.1 Introduction

Farm diversification or multiple job holding as a mechanism to sustain or improve farm income is not a novel strategy (Haines and Davies, 1987: 1). For very small farms the necessity of additional off-farm income has been a historically continuous feature and until the last century larger holdings were far more likely to be vertically integrated into the food production process³. It has thus never been possible to apply a methodological approach that reduces farms and farm structures to being merely raw material production units. For example, the Ministry of Agriculture found that in 1955 nearly half of the 370,000 agricultural holdings in England and Wales were 'part-time'⁴ (Ashton and Cracknell, 1961); with a subsequent survey indicating that twenty-three per cent, seven per cent and sixteen per cent of holding occupiers having other full-time, part-time or miscellaneous sources of income respectively (Turner, 1991: 73). However it was not until the 1980s that direct national and supra-national government support for diversification became an explicit policy via grants⁵, advice, training and promotional literature aimed at the whole spectrum of size holdings (MAFF 1994b; MAFF 1994c; MAFF 1994d; MAFF 1994e). In fact this emphasis placed on diversification represents a considerable reversal in state promotional activity which had previously stressed specialisation and farm amalgamation as 'positive trends towards a more modern, more efficient farming industry' (Shucksmith *et al.*, 1989: 351).

³ As opposed to narrow agricultural specialisation, farming was usually combined with the activities needed to transform raw materials into usable products (e.g. milling, fueling, spinning and weaving, butter and cheese making) (Haines and Davies, 1987: 1).

⁴ Using the full/part time farm threshold of the equivalent of one full-time worker (275 standard man days), derived from combining standard labour coefficients with census details of stock and cropping.

⁵ Grant support was administered in the UK under the Farm Diversification Grant Scheme (FDGS) which was withdrawn completely on the 16th January 1993. Some grants have been made under EU Objective 5(b) programmes.

2.3.2 The Rationale for Enterprise Diversification

Encouragement for the creation of on and off-farm enterprises by farmers has been made on the basis of meeting five broad goals:

(a). Welfare benefits to farmers. This has been the clearest and most focused appeal, arguing that under intensifying pecuniary pressures farm families must adapt and develop new forms of income as agricultural returns will no longer be sufficient (Day *et al.*, 1989).

As such:

The farm must become a centre of mixed entrepreneurial activity - tourism, craft production, new ventures in marketing products - and in paid work to conserve and improve the rural landscape....The emphasis is on the cultivation of more dynamic values and new forms of economic activity which will allow growth from within (Day *et al.*, 1989: 241).

The case for such actions was most apparent in the 1980s - UK farm incomes in real terms halved between the early 1970s and early 1980s, then almost halved again by the early 1990s, as detailed in section 2.2.3. However, as stated, this major trend was dramatically reversed by the fall in the value of sterling in 1992, (due to the consequent devaluation of the green pound), following Britain's withdrawal from the ERM.

This reversal of income fortunes has, for many farmers, been substantial and there is a need to re-examine diversification activities since 1992 to see if any discontinuities emerge. This is particularly pertinent as diversification was usually offered as a strategy for generating *supplementary income* (usually in the region of ten to twenty-five per cent of TFI). For many, rising agricultural returns have meant that this amount of additional income has already been generated and exceeded without the aid of diversification. It must be questioned that if farmers are like other SME owners who are not predominately growth oriented (Gray, 1993), but have some target income to which they aspire - and now these aspirations are being met without diversification, whether further appeals on these grounds are likely to be resoundingly ignored.

(b). Dealing with overproduction. The rationale behind this argument rests on the premise that diversification, by lessening dependence on agricultural production will ease the reform of regulatory systems, so that supply and demand can be 'better balanced' without huge welfare dislocation in the EU (Munton *et al.*, 1987: 20). Resources can be diverted to alternative uses producing commodities to replace current imports, open up new export opportunities or nurture original indigenous markets (Carruthers, 1987: 12). As such, this debate surrounding the possible role for diversification is inherently linked with the question of whether a movement from a 'productionist' to a post-productionist paradigm in agriculture is occurring, or can be managed so that transitional costs can be reduced (Commins, 1990: 46; Whatmore, 1991: 305). Particular interest has been shown in the fate of state deregulation in Australia and New Zealand (Le Heron, 1994; Lawrence, 1990). Australiasian evidence, so far, supports the view that unmanaged deregulation benefits agribusiness at the expense of local farming families and the viability of rural settlements (Lawrence, 1990), and it is within such a framework diversification as a mitigating strategy needs to be discussed.

At the moment in the UK, however, deindustrialisation or 'postproduction' agriculture sounds a particularly hollow note in capturing contemporary agricultural relations in the light of the rise in direct income payments and *de facto* state dependence. The crux of the question in the UK is thus if core agricultural activities still provides a satisfactory and in most cases increasing income, even if farmers' long term views are gloomy are they likely to take preemptory remedial action and diversify in preparation for deregulation/cut in state support?

(c). Local economic development. As detailed in section 1.3.1, the space taken up by agriculture is in stark contrast to the employment opportunities it now offers with the implication for rural policy being that agriculture and related industries will not provide

nearly enough jobs for the rural work-force and that diversification of the economic base is essential (see chapter 1.3.1).

Diversification of the economic base has been achieved through market-led change in many rural areas, via the effects of rural industrialisation and counterurbanisation (Gorton *et al.*, 1994). However, as discussed above, in peripheral and less favoured areas, the extent of these processes has been more limited and they tend to be characterised by a low skilled, poor opportunity local economy of ever decreasing agricultural demand and a service sector highly geared to part-time and seasonal work (particularly in tourism, catering and retail sectors) (Gilligan, 1984: 93; Day and Thomas, 1993: 38). It is within this context by creating new enterprises outside core agricultural activities, with consequent job generation, that diversification is seen as a plausible strategy for local economic development. Clearly the ability to reach this aim rests on the performance of new enterprises created and the quality and quantity of jobs which stem from them. However as we shall see below, while this clear criteria exists it has not been adequately tested. Nevertheless significant amounts of public resources have been ploughed into agricultural diversification as indicated by the structure plan for the south-west 5(b) programme (see table 2.1). Objective 5(b) are areas designated by the EU as declining rural regions and cover parts of twenty counties in England and Wales (Black and Conway, 1995: 230). Objective 5(b) is part of the structural operations of the EU and is resourced by three funds: the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF) (Frazer, 1995: 4). Reviewing the south-west scheme, if agri-tourism is added to the sums for agricultural development and diversification it is clear the two most heavily resourced sectors are SME business development and agricultural diversification - the two principal areas of inquiry in this project.

Table 2.1: Financial Plan 1994 - 1999 for the South West 5(b) Programme

	EU	UK	Private	Total
BUSINESS DEVELOPMENT AND SMEs				
Business Facilities and Infrastructure	34.9	34.9	7.0	76.8
Business Support and Development	19.4	19.4	3.9	42.7
Training, HRD and Access to Jobs	8.9	10.9	3.5	23.3
Recruitment, Retention and Enterprise Initiative	3.5	4.3	1.9	9.7
				152.5m
TOURISM				
Tourism Facilities and Infrastructure	19.9	19.9	4.0	43.8
Tourism Support and Development	7.7	7.7	1.6	17.0
Agri-Tourism	4.0	4.0	2.8	10.8
Training, HRD and Access to Jobs	5.4	6.6	1.3	13.3
				84.9m
AGRICULTURE				
Development and Diversification	14.6	14.6	10.2	39.4
Agriculture and Horticultural Skills	3.8	4.6	1.5	9.9
				49.3m
COMMUNITY REGENERATION				
Regeneration & Enhancement of Towns / Villages	19.6	19.6	3.9	43.1
Isles of Scilly	0.8	0.8	0.5	2.1
Training in Rural Communities	1.6	1.9	0.9	4.4
				49.6
ENVIRONMENT				
Protection & Enhancement of the Environment	8.9	8.9	6.2	24.0
Energy	3.1	3.1	2.2	8.4
Restoration and Environmental Initiatives	10.0	10.0	2.0	22.0
Training for Environmental Management	1.9	2.3	0.5	4.7
				59.1m
TOTALS	168.0m	173.5m	53.9m	395.4m

Notes: Figures in £.(millions)

Source: EU/ Department of the Environment (1994), *Cornwall, The Isles of Scilly, Devon and Cornwall: Rural Development Strategy 1994 - 1999*, London: DoE**(d). Achieve new and/or additional environmental benefits in the farmed countryside.**

The notion that diversification will help deliver environmental benefits is based on what Batie and Taylor (1989) call the expansion of 'opportunity sets', with diversification by generating alternative income, allowing farmers to remove themselves from the 'capitalist treadmill of production maximalisation' (Pierce, 1993: 384). This treadmill according to its proponents has been created by the penetration of non-family and non-farm capitals into agriculture, turning the terms of trade against the industry so that for survival, individual farmers are forced to maximise the output of food commodities. Farmers' maximalisation strategies, in terms of choice of crop, technology and intensity of production, have

contributed to a variety of environmental costs or externalities (Troughton, 1991: 78) as market transactions for food production generally do not reflect the entire costs involved in the use of land resources. As such, maximalisation has produced a clear gap between 'farmers economic interests in commodity values and society's interest in environmental values' (Crosson, 1990: 6).

However, there is no reason why, just because farmers have alternative sources of income that a less intensive agriculture, with fewer negative externalities will prevail. One must still assume that professionally managed farms will be controlled on a (private) profit maximisation basis. The division between private and social costs and benefits will remain, and if farmers are being encouraged to find supplementary sources of income why are they not going to concentrate on their initial market and maximise production, which may be even more incompatible with these environmental objectives?

(e) Reduce public expenditure on agricultural support / welfare benefits. This aim incorporates many of themes discussed above, but takes as its central theme the imbalance in the distribution of support to rural areas and the inefficiencies rendered by such a skewed resource allocation. This imbalance in resource allocation has been investigated by Slee (1981), Hearne (1985) and Hill (*et al.*, 1989). The latter, in a project funded by MAFF and the DoE sought to investigate the pattern of direct public support in rural areas. The study team developed a taxonomy of support which segmented payments to producers, tax concessions, income transfers, payments to households, payments to public institutions for the provision of goods and services, payments to public institutions for the provision of advice and payments to public institutions for the provision of marketing⁶. Over 178 discrete policy programmes that targeted funds specifically to rural areas were identified and evaluated. From this a database of support measures was constructed, revealing that

⁶ On this criteria the activities of local government, and policies which were not specifically rural were excluded from the analysis.

seventy per cent of total support for rural areas went into supporting agricultural prices. Farmers were comprehensively the main intended beneficiaries of total support, absorbing ninety two per cent; with the aim of farm income support accounting for eighty per cent of total expenditure. However, the funds targeted for farmers exhibited considerable leakages with sixty per cent of funds aimed at direct income support for farmers going to traders and processors. The dominance of farmers for receiving even non-agriculturally targeted benefits is however striking. Farmers received ninety-four per cent of specifically rural funding aimed at improving business efficiency, provided principally by MAFF and the Forestry Commission. The corresponding figure for farmers' slice of employment creation schemes was eighty per cent, coming largely from the RDC.

The overall inventory thus displays an overwhelmingly skewed distribution of public expenditure to agriculture despite the fact that many of the goals set such as employment generation work against the main trends in farming such as labour shedding, which has ironically been encouraged by the subsidisation of new capital under the CAP. So despite the fact that in the rural areas of England and Wales less than twenty per cent work in agriculture even on a part-time basis, and that agriculture accounts for less than 1.7 per cent of economic activity in rural areas, nonetheless ninety-two per cent of all public support still went to farmers.⁷

These figures demonstrate a huge distributional imbalance in resources, but decisions made on the basis of such a support framework, have had a clear impact on the agricultural industry and the decisions of farmers. If an overnight switch in resource distribution is impractical the question then becomes: does diversification offer a mechanism for managing change by generating alternative sources of income to cushion losses from

⁷ A similar set of findings was reported by Hearne (1985) in his investigation of public expenditure in Radnorshire, Wales. During 1981, 80% of public expenditure in the district went to agriculture and only 14% to manufacturing, 3% to services, 2% to social development and 1% to environmental enhancement.

diminishing agricultural support? To answer this, there is a need to look at the empirical evidence and it is to this that we now turn.

2.3.3 The Diversification Literature

The literature on diversification can be broadly divided into two forms: (i) practical advice and (ii) academic-empirical studies. The former literature is aimed broadly at individual farmers and/or consultants, seeking to provide 'a checklist of alternatives' or 'an action kit for new business development' considering what options are available, start-up costs and nature of probable market demands (see Williams, 1989; Carruthers, 1986; Crocker, 1986; Haines and Davies, 1987; Slee, 1989). These materials provide valuable advice for farmers on the practicalities of forming new enterprises, which call for skills, knowledge and resources the individual farmer often does not pre-possess. Two key points are stressed by nearly all of the authors. First, while diversification is broadly encouraged as a business strategy it is not claimed to be a universal panacea, and for many it will be 'inappropriate and ill-judged' (Haines and Davies, 1987: 2). Second, new business development should follow, and not be prior to, attempts to make core farming business efficient 'otherwise the second business may only compound the mistakes of the first' (Williams, 1989: 11).

The academic studies, are not surprisingly, more quantitative in their approach, and address five key themes:

- (i) Understanding the degree to which farmers have diversified together with charting the nature of variations in diversification activity (Ilbery 1987a; Bateman and Ray, 1994; McNerney *et al.*, 1989; Magee, 1990; Dalton and Wilson, 1989).
- (ii) A discovery of the principle markets farmers have entered (Ilbery 1987b; McNerney *et al.*, 1989).

- (iii) An investigation into the characteristics of diversifiers and non-diversifiers and whether significant differences between the two groups demographic and socio-economic profile exist (Shucksmith and Smith, 1991; Davies and Dalton, 1993).
- (iv) An exploration into the problems of, and barriers to, diversification faced by farmers (ATB, 1986a; McInerney and Turner, 1993).
- (v) Studies of the effects of government grants, such as the now discontinued Farm Diversification Grant Scheme (FDGS) had on the diversification process (Ilbery and Bowler, 1993).

The principle findings of these studies into the nature and extent of diversification in England and Wales⁸ are summarised in table 2.2, with findings on farm tourism (the most prevalent form of diversification) outlined in table 2.3. From these studies a number of common themes can be deciphered:

⁸ For evidence from Scotland see Dalton, G.E. and Wilson, C.J., (1989), *Farm Diversification in Scotland*, Aberdeen: Agricultural Economics Division, North of Scotland College of Agriculture. For Northern Ireland consult Magee, S.A.E., (1990), *Diversification on Northern Ireland Farms 1989*. Belfast: Economics and Statistics Division, Dept. of Agriculture for Northern Ireland.

Table 2.2: Diversification Studies Conducted in the UK

Author	Survey Area	No. of Responses	% of farms diversified	PROPENSITY TO DIVERSIFY				Reasons For Diversification	% of Income from diversification	Types of diversification
				Larger Farms	Nature of Production	Close to Urban	Age of Farmer			
Ilbery (1987a)	W. Midlands Rurban fringe	120	93% (all selected)	+		+		80% rate generation of extra income as most important factor	60% earn less than 10% from diversification	Direct marketing 45.6%, accom. 15.6%, small ind. 13.3%
Warren (1989)	Devon & Cornwall	562 (45% URR)	33%	X	X		+			
Bateman & Ray (1994)	LEAs of Wales	427	69% pluriactive 25% diversified	- pluriactive + diversified	Hill & Sheep +	+	+	Predominance of non-financial objectives in lifestyle choice	17% of income earned from non home-farm activities	
ATB (1986a)	Dorset	143	34% had non farming enterprises					Majority wanted extra 5-20% income. Other factors cited: existing expertise (25%), spare labour / finance (26%), spare buildings (20%).	On average 89% of income from farming production enterprises, 6% from outside employment and 2% from other enterprises	Tourist accom. 29%; tourist attractions 30%; others 30%.
McInerney <i>et al.</i> , (1989)	England & Wales	6877 (68.8% URR)	42.4% diversified in England	+	Crops + Dairy -					England: services (19.7%), contracting (16.3%), sales & processing (12.4%) speciality products (8.4%)
McInerney & Turner (1991)	England & Wales	488 personal interviews	all diversified - nature of sample	- (in terms of no. of enterprises)	Crops +					Services 21.8%, accom. 19.7%, equine 11.0%, crop-based 10.7%, recreation 9.8%

Key: + = positive relationship; X = no significant statistical relationship; - = negative statistically significant relationship

Table 2.3: Empirical Studies of Farm Tourism

Author	Survey Area	No. of Responses	(% of farms offering tourism)	PROPENSITY TO ENTER TOURISM MARKETS					Reasons for Farm Tourism	% Income from Farm Tourism
				Larger Farms	Nature of Production	Close to Urban	Age of Farmer	Education		
Frater (1983)	Herefordshire	200	59% (nature of sample)	-					Increase income (35%), enjoy company (20%), offset fall in agri. income (20%), utilise disused resources (16%)	13-19% of total farm income
Jones and Green (1986)	LFAs Wales	95 (11% URR)		medium size most likely	-	+		+	Supplement farm income (34%), utilise disused Resources (39%), personal reasons (interest in company) (20%)	
Neate (1987)	Scilly Isles	70 (all farms)	66%	+					Seasonal and sexual division of labour, flowers winter / spring, supplement income together with opportunity to do so.	10-25% of total farm income
Winter (1987)	LFA England & Wales	10% of all holdings in LFAs	19.8% (30% SW 17.5% NE)	+			(+ with closeness to coast)		Butter on the bread' main attitude. Labour force decline has released tied cottages which have been used for self catering.	0-5% of total farm income for 72% of farms
Denman and Denman (1987)	West Country Tourist Board Area	754 useable returns (46% URR)	23.5% (Cornwall 35%, Devon 22%)	+	X				% saying very important: supplementary income 34%, major contribution to family income 28%, redun. buildings 17%, hobby 16%, enable family member to stay on farm 13%	
Evans & Ilbery (1993)	Dorset, Lincs. & Staffordshire	132	all (nature of sample)	+					Two groups (i) <i>pressured</i> , generate extra income for viability (ii) <i>agricultural production incidental</i> to economic well-being	

Key: + = positive relationship; X = no significant statistical relationship; - = negative statistically significant relationship

(a). The Majority of farmers have OGAs outside core agricultural activities. Evidence from the Inland Revenue Survey of Personal Incomes (SPI)⁹ indicates that only about eight per cent of UK farmers in 1988-9 had no additional income whatsoever from investments, pensions or employment (MAFF 1992: 70). The vast majority of farmers thus have some form of income, albeit very small in many cases, derived from outside agricultural core activities. In terms of the relationship between size of holding and OGAs, a 'U' shaped distribution is apparent (Ilbery, 1987b: 5). The nature of these OGAs, however, differs with small farms most likely to have off-farm employment with larger enterprises more likely to have substantially diversified. The lowest levels of diversification and highest levels of commitment to continued farming are exhibited by medium sized, family farms (Gasson *et al.*, 1992). The domination of off-farm employment for small holding farmers reflects their non-viability as sole sources of reasonable income levels and thus the necessity to gain outside employment by owners and tenants (Evans and Ilbery, 1993: 956).

The activities of small farm dwellers have been studied by Jenkins (1989) and Turner (1991). The former study considered the very smallest farms in Wales and found that just three per cent of the 250 interviewed relied only on farming for their incomes. Across the whole sample, (surveyed in 1988), off-farm income averaged £7,800 per farm while net income from farming was negative (-£276 per farm) (Jenkins, 1989). Turner's investigation was based on a sample of 1217 very small holdings in England and Wales¹⁰ and found, on average, farm activities (on some 11 ha) contributed barely a thousand pounds to occupier's income (less than a twelfth of total income). However, the working time spent jointly by

⁹ The SPI estimates of farmers' total income assessed for tax are derived by grossing up from a sample of confidential and anonymous tax records analysed by the Inland Revenue. For farmers there were 1,300 cases in the sample (0.5% of the total number of such cases). For further information see MAFF (1992) pp.63-70.

¹⁰ A very small holding is classified as having a calculated value of between 0.1 and 3.99 BSU. One BSU is equal to 2000 European Currency Units of Standard Gross Margin (SGM) at average 1978-80 value. The total SGM of each farm is calculated by applying appropriate SGM coefficients to the livestock and crops on the holding on the 1st June (Turner, 1991: 80).

the farmer and spouse on farming activities was roughly fifty per cent, with total work input accounting to perhaps 1.25 full-time equivalents (2425 hours) (Turner, 1991: 75).

(b). The 1980s agricultural recession saw greater, but not mass diversification. The late 1970s and 1980s saw a rise in the farms per year diversification rate, but these rates were still modest (Ilbery, 1988: 37; Errington and Tranter, 1991: 130). The most widespread strategy for dealing with falling real incomes was to cut costs, particularly labour and capital inputs (Errington and Tranter, 1991: 130). Very few farmers attempted to diversify completely out of farming or close their businesses down altogether (Warren, 1989; Shucksmith *et al.*, 1989). In terms of the personal characteristics of diversifiers *vis-à-vis* non-diversifiers, the former are more likely to be younger, have entered higher education and come from non-farming backgrounds (Shucksmith and Smith, 1991: 349; Davies and Dalton, 1993: 118). There is also some evidence that diversification is often as much linked with 'internal family dynamics as with economic opportunities' (Shucksmith *et al.*, 1989: 354), with new enterprises a way of employing family labour, especially sons and daughters on the farm before they succeed their parents in gaining full control. However, these various groups still comprise a minority of the total farming population and in terms of the two ways of adding value (increasing the value of the products sold or decreasing the costs of goods and services bought in) (Dickinson, 1985: 26), the latter approach was a vastly more prevalent tactic.

(c). Farm tourism is the most widespread form of enterprise diversification. Farm accommodation is the single most common form of diversification enterprise and in traditional holiday destination localities it is well established with activities pre-dating the academic recognition of diversification, and its elevation to 'buzzword'. Its contribution to TFI is usually modest (between five and fifteen percent) and is normally based on a sexual division of labour (typically organised by the farmer's wife). In most traditional areas, markets are now saturated with often low occupancy rates (Hill, 1989: 31). The most

comprehensive survey on farm tourism (Denman and Denman, 1990: 42) found that it was positively associated with larger holdings, closeness to coastal areas and only in thirteen per cent of cases did it enable a family member to remain on the farm. Overall, as indicated in table 2.3, farm tourism tends to make no more than a supplementary flow to farm income.

(d). Choice of diversification strategy often depends on a desire to stick to familiar markets and minimise start-up costs. In line with the rest of SME population, to use Schumpeter's distinction, most farmers opt for *adaptive* rather than *innovative* development strategies. Most seek to find new uses for existing assets and are primarily risk averse rather than profit maximising:

To pretend that the provision of self-catering accommodation can be seen only in the light of current income requirements of farmers is entirely fallacious, and yet this is the usual path trodden by economists and others keen to persuade farmers to increase their involvement in tourism. Clearly in the overwhelming majority of cases farmers with surplus property will be larger and more wealthy than the average (Winter, 1987: 31).

(e). Capacity building. Capacity building can be defined as 'increasing the ability of people and institutions to do what is required of them' (Newland and Wall, 1989 cited in Murray and Greer, 1993: 265) and it is important to see what additional skills, resources and expertise are required to enter new markets. In particular, diversification often involves the interaction with wholly different kinds of market structure, especially given the unique nature of state support in agricultural production (Marsden and Murdoch, 1990: 28). A number key business skill expertise areas (such as marketing, price-setting and customer-care) which given the nature of agricultural markets, are usually lacking¹¹ but will be vital to diversification, exist.

Haines and Davies (1989) argue that the utilisation of external forms of advice and training by farmers will be vital to the success of diversification activities. However,

¹¹ The proportion of farmers having completed a further education qualification including some business education is small compared to that of principals of businesses in other industries (Warren, 1989).

research on the involvement of external advisory and training services in the diversification process has been patchy, with the evidence garnered to date suggesting few farmers utilise such assistance. Ilbery (1988) for his sample of farmers in the Birmingham-Coventry urban fringe found that less than one-third of principals had received advice before establishing alternative enterprises on their farms. Even fewer had conducted serious research into the possible options, constraints, profitability, sources of advice or planning procedures. Using telephone surveys and focus groups, Warren (1993) highlighted a considerable degree of resistance and antagonism towards external training and advisory bodies. The study concluded that 'most farmers are highly insular and reactionary in their response to business problems' (Warren, 1993: 35) with widespread indifference to training and advisory services, with all state agencies being resented and even the NFU being distrusted by some. Unfortunately, these studies did not consider the relationships between the growth of diversified enterprises, employment generation and the use of external training or advice.

While the literature on diversification and external training and advice is limited, the attitudes and utilisation of these services by farmers with regard to their *core agricultural activities* has been more fully documented. With regard to these core agricultural activities most farmers learn through informal mechanisms, gaining their understanding on the job, often serving an *ad hoc* apprenticeship on the family farm. An ATB commissioned survey of Somerset farmers found four out of five acquired their basic practical skills from working alongside their elders and just over two-thirds acquired their management skills through similar means (ATB, 1986b).

However, while these informal mechanisms remain important, there has been a steady increase in the levels of formal agricultural education. In 1970 less than ten per cent of farmers aged over thirty-five had obtained an agricultural qualification at tertiary level, but the proportion rose to twenty-five per cent among those aged between twenty six and

thirty four, and for the age cohort under twenty-six, thirty-five per cent (Agriculture EDC, 1972). A follow up study conducted by the NatWest Bank twenty-one years later found that by this time three-quarters of farmers younger than thirty-five had studied “farming practice” (Girdler, 1995/6). By 1991, farmers younger than thirty-five were four times more likely to have attended a full-time course at agricultural college than those aged over sixty (Errington and Harrison-Mayfield, 1995). The most popular career path of young farmers is thus growing up on a family farm, attending school followed by agricultural college or university before returning to their home farm.

The alternative to improving one’s own skills is to use external business advisory services. Within Warren’s (1989) survey forty-five per cent of farmers had used or were intending to use, to such facilities. The main sources of advice used were: ADAS (twenty-one per cent of all respondents), commercial suppliers (such as feed and fertiliser firms) (fifteen per cent) and the MMB’s Farm Management Services (FMS) (eleven per cent) (Warren, 1990: 205). Fearne (1990) found that over half of all farmers in his random sample had employed a paid for consultancy service but again there was a clear age divide: over three quarters of the oldest had never used paid for consultancy advice, compared to less than half of those between thirty-five and forty-nine years of age.

For training agencies one of the main problems is communicating the notion that training can deliver real benefits to the farmer. One of the reasons why this has been difficult is that to quantify the benefits of training the performance of subjects has to be measured before, during and after the training process. Where this has been done, via profile analysis, real benefits have been recorded. A private ATB Dairy Group study found the increases in milk yields recorded (four to thirteen per cent) over the two year staff training period were positively related to increases in knowledge and skills levels (two to forty per cent) (cited in Girdler, 1995/6). Girdler’s own study of pigperson training revealed a significant, positive relationship between stockperson levels of knowledge,

skills and attitudes and unit physical results, e.g. pigs reared per sow per year (Girdler, 1995/6). Although real benefits have been demonstrated, getting the message across is still a major hurdle. One of the problems relating to this is the prevalent attitude to training which treats it along the lines of 'Did you enjoy your day? Did you find it useful?' rather than as an integral part of farm development (Girdler, 1995/ 6).

In Warren's study (1989) approximately fifteen per cent of farms interested in acquiring new skills anticipated problems. Farmers cited two key issues: (i) the need for easier access to information on training opportunities and, (ii) how courses must be relevant, held at suitable times, and as near to the farm as possible with direct and simple instruction (Warren 1990). Among the associated professionals surveyed as part of the study (mainly accountants and training providers) the numbers who anticipated problems was far greater (seventy-six per cent). This group highlighted both supply and demand side factors: lack of time available to farmers for training (thirty-four per cent), reluctance to make the effort to learn (thirty-three per cent), failure to realise the need of acquired skills (ten per cent) and the lack of suitable provision (twelve per cent).

2.3.4 Areas for Further Research

The data collection procedures on agricultural core activities is highly sophisticated and it is the only UK economic sector for which a government census is conducted annually. The trends towards labour reduction, output augmentation and farm amalgamation are well established. However, the literature on alternative sources of income, particularly enterprise diversification, which is important to our study of small businesses in rural peripheral localities is less well developed. From the preceding literature review and investigation of the aims attached to diversification strategies promoted by state agencies, four broad areas for further research emerge.

(a). The importance of variations in the socio-economic environment in determining the nature and extent of diversification. Previous studies have either focused on a particular locality or attempted to make a national assessment of diversification activities. No attempt has been made to understand differences between rural core and rural peripheral localities. While McInerney (*et al.*, 1989) did break their sample down into four EU statistical regions (North, East, West and Wales) these are too broad (and include both core and peripheral localities) to make conclusions. So while Ilbery (1988: 39) states ‘the laws of supply and demand dictate the viability and spatial distribution of alternative farm enterprises’ no assessment of the precise effects have been made.

(b). There is a need to understand the process of capacity building in much greater depth, looking at the linkages between farmers and support agencies. The role of training and advice in subsequent enterprise performance has not been adequately investigated and this should be an important objective for future research.

(c). There is also a need to move away from the farm-centric approach that most studies take towards diversification and understand the wider consequences (if any) for local economic development. There is a need to measure the quality and quantity of jobs created by diversification enterprises. This is particularly important given that diversification is often espoused as a means of rural regeneration and farms still take the lion’s share of public spending on employment and development matters.

(d). There is also a need to more accurately record the range of income sources of farmers, and understand that enterprise diversification strategies may be off-farm as well as on-farm and do not have to be agriculturally based (a flaw in many of the previous studies). As section 2.2 indicates, further reductions in financial support for

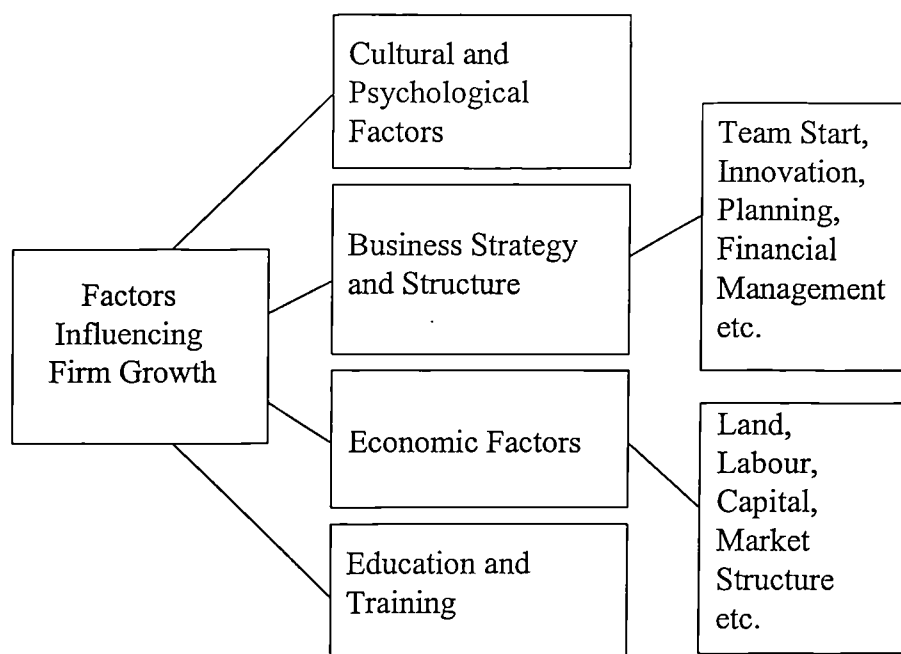
agricultural core activities looks unlikely in the short to medium term. It is within this framework that choices about enterprise diversification will be made. By recording the growth and performance of these alternative enterprises and considering the well established trends within agricultural core markets, it is possible to see to what extent farmers differ from other SME OMDs and in consequence whether specialist support measures aimed at farmers are needed or justified.

CHAPTER 3: FACTORS AFFECTING THE GROWTH AND DEVELOPMENT OF SMEs WITHIN RURAL PERIPHERAL LOCALITIES

3.1 INTRODUCTION

This chapter reviews the literature on factors which may affect the growth and performance of SMEs. The approach taken here is to review these factors under four separate headings: issues concerning business strategy and structure, economic factors, the roles of education and training, and finally, cultural and psychological factors (see figure 3.1).

Figure 3.1 Factors Influencing SME Growth: An Introduction



In section 3.2 aspects of business strategy and structural factors are considered, with economic determinants discussed in section 3.3. Part 3.4 reviews the literature on the role of education and training in SME development and this is followed by a consideration of psychological and cultural factors (chapter 3.5). From these reviews, areas for further investigation are identified and outlined in table 3.16 and these form the basis for the research hypotheses drawn out in chapter 4.

3.2 BUSINESS STRATEGY AND STRUCTURE

Within the social action literature there is broad agreement that the concept of strategy synthesises three elements: *rational calculation* tempered by *constraints*, particularly to do with resource allocation, oriented towards the achievement of objectives in the *medium to long term* (Jenkins, 1992: 82). Business theorists, however, have been more diverse in their approaches. For example, Chandler (1962: 8) defines strategy ‘as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals’. Yet other writers are more inclusive, seeing strategy as ‘the basic characteristics of the match an organisation achieves with its environment’ (Hofer and Schendel, 1978: 4). However, there is broad agreement that strategy does include *all* ‘patterns of decisions in a company that determines and ... defines the range of business the company is to pursue’, rather than a narrow focus on what the organisation does to ensure survival and profitability (Andrews, 1980: 18).

While controversy surrounds the definition of business strategy, three broad findings on business decision-making processes can be discerned. First, individuals’ mental models incorporate their unique past experiences so that knowledge used by SME OMDs is selected, configured, reconstructed, and used differently by contrasting decision-makers (Bartlett, 1932). In such a way the relationship between knowledge and decision making will be mediated by the cognitions of agents, (the specific belief systems of decision-makers), with actors drawing upon subsets of available knowledge in formulating expectations and in making choices (Swan, 1995: 1245). Moreover, humans also have a limited capacity for processing information, so that decision-makers tend to construct simplified mental maps when dealing with complex problems (March and Simon, 1958), based on heuristic reasoning and analogies (Tversky and Khaneman, 1974; Swan, 1995).

Finally, the type of strategy business managers attempt to implement tends to influence the implementation actions that they adopt. In other words, managers appear to recognise the differences between strategies and the implications strategy has for implementation (Waldersee and Sheather, 1996: 118).

Table 3.1: Business Strategy and the Growth of SMEs - A Summary of Empirical Evidence									
Survey	Team Start	Marketing	Business Planning	Financial ratio analysis	Cash Flow Forecasting	New Product Innovation	High Technology		
Barkham (1994)	+								
Birley and Westhead (1990)		+				X			
Cambridge S.B.R.C. (1992)									+
Dunkelberg <i>et al.</i> (1987)						+			
Jones (1991)		+							
Kalleberg and Leicht (1991)		X				X			X
Kinsella <i>et al.</i> (1993)	+					X			
MacPherson (1994)						+			+
Macrae (1991)		+							
Nayek and Greenfield (1994)					+				
Reid (1992)									
Reynolds (1993)	+								
Schabecker (1960)						X			
Siegel <i>et al.</i> (1993)		+							+
Smith <i>et al.</i> (1993)									+
Solem and Steiner (1989)		+				+			+
Storey <i>et al.</i> (1989)	(+)					(+)			X
Thomas and Evanson (1987)								X	
Westhead & Birley (1993)	X								
Woo <i>et al.</i> (1989)	+		+						+
Wynarczyk <i>et al.</i> (1993)		+							+

Key: + Positive relationship between the element and growth of the firm
- Negative relationship between the element and growth of the firm
() Relationship present in a univariate context, but weak in a multivariate context
X Element not shown to be significant in influencing growth

Source: Framework derived from Storey (1994, p.127) with additional studies added by the author.

The overall coverage of the impact of different business strategies and structures on SME enterprise growth has been patchy, but broadly six areas of quantitative inquiry within the literature can be identified, focusing on the relationship between business growth and marketing, financial management, business planning, new product innovation, number of founders and technology. The major findings of this empirical research on the relationships between enterprise growth and business strategy are summarised in table 3.1.

3.2.1 Number of Founders

The theoretical rationale for businesses started by more than one individual (team starts) being superior to individual start-ups rests on three possible grounds: psychological benefits, complementary skills and resource exchange. The psychological benefits argument rests on the premise that the team environment acts as a medium for countering the high degree of loneliness and stress associated with entrepreneurship (Boyd and Gumpert, 1984). The resource exchange theory, meanwhile, postulates that potential entrepreneurs can overcome financial barriers to growth by pooling capital or by attracting a sleeping partner and thus will exhibit higher growth rates than individual start-ups. Finally, the reasoning behind the complementary skills argument is that a successful enterprise demands a range of skills and that entrepreneurs can overcome their individual weaknesses by co-operating with those who possess the skills and abilities they lack in return for giving the business competencies and experience the co-operating parties do not possess. In this way the range of skills required to manage the business are provided by the group overall, a case that would not be possible if each member were on their own (White *et al.*, 1996: 39).

The empirical evidence to date would seem to support the hypothesis that businesses founded by more than one person will be significantly more growth oriented. Reynolds (1993) presents particularly startling results from a sample of 1,709 enterprises in the USA. He found that only six per cent of 'hypergrowth' firms were founded by a single person;

fifty-four per cent had two founders and forty per cent had three or more. This contrasted with low-growth companies of which forty-two per cent were started by individuals. Other surveys on team starts not focusing directly on growth performance also found positive findings - Cooper and Bruno (1977), discovered they had lower failure rates and Timmons (1986) found they were more adept at gaining venture capital. However one must be very careful about drawing too much from these univariate studies. For example it could be that as a structure, the greater number of founders is not superior *per se*, but rather the findings reflect that those with a good business idea prior to start up are more likely to attract interested potential investors and partners than those without a coherent enterprise plan.

The application of univariate analysis in business strategy analysis, where one is considering a range of potential variables, in distinguishing between groups of high and low growth enterprises, has two key weaknesses. First, the use of fragmented univariate tests leads to a greatly inflated overall type I error rate (the probability of at least one false rejection) (Stevens, 1986: 114). This can be illustrated by considering a two-group problem with ten dependent variables. The question that arises is what is the probability of one or more spurious results, if we do ten *t* tests, each at the .05 level of significance? If we assume that the tests are independent, then the probability of no type I errors is:

$$(.95) (.95) (.95) \dots (.95) = .60$$

-----10 times-----

since the probability of not making a type I error for each test is .95. Therefore, the probability of at least one false rejection is $1 - .60 = .40$, which is unacceptably high (Stevens, 1986: 114). Moreover, although groups (for example high and low growth enterprises) may not be significantly different when measured by any of the variables individually, jointly the set of variables may reliably differentiate between the groups. That is, small differences on several of the variables may combine to produce a reliable overall difference. The use of multivariate tests will thus be more powerful in this case (Stevens,

1986: 114) and it is suggested that future research should adopt such techniques rather than relying on a series of separate univariate measures.

3.2.2 Marketing

The research into the role of marketing in SME growth can be split into studies considering the benefits of marketing as a competence to the entrepreneur and second, analysis of the importance of market positioning. Two studies (Jones, 1991; Wynarczyk *et al.*, 1993: 249) which have compared those OMDs with marketing backgrounds with other entrepreneurs, found that those with marketing experience were more likely to form businesses which exhibit rapid growth than businesses founded by individuals with other functional (e.g. finance) skills. In other words, of all the business skills identified as being associated with success, those whose principal skill background is in marketing, *ceteris paribus*, are likely to be the most successful. This is an important finding and the results could have important implications for the balance and structure of SME training provision. The results are also important given that the level of understanding of marketing principles tends to be poor within the majority of small businesses. For example, Carson and Cromie (1990) established that of a sample of sixty eight owners of four-year-old firms in Ireland: approximately two-thirds adopted a non-marketing approach to marketing planning, almost one-third were implicit marketeers and only a very few were sophisticated marketers (classified by the authors on the basis of adherence to a standard list of marketing principles).

Particular weaknesses have been identified concerning market research (Smith, 1989) and establishing appropriate customer contacts (Dodge and Robbins, 1992) with product-driven new firm starters habitually overestimating potential sales (Hisrich, 1992). However where entrepreneurs have been introduced to appropriate market research techniques the

results, as reported by the entrepreneurs only (i.e. no quantitative evidence) have been favourable (Peterson, 1991).

The studies into market orientation and growth provide less clear results stemming from problems in defining niche markets and market positioning. In one sense all firms are market oriented as they have to sell their products or services to some entity to survive - the real questions are whether they understand the needs of those actual and potential customers and if target markets are adequately researched and evaluated. It is these questions concerning the *quality* of marketing and their impact on SME growth, rather than producing a binary classification between market and non-market oriented firms, that are important and have been poorly researched. Storey *et al* (1989), however, did find that fast growth firms were somewhat more likely to see comparative advantage in terms of the quality of the product or service it offered, whereas the matched group of average growth firms were more likely to see their comparative advantage in terms of price. Yet, Kalleberg and Leicht (1991) found no statistical relationship between market positioning and growth and further analysis in this area is needed, developing studies that move away from classifications relying solely on the respondent's view of orientation type.

3.2.3 New Product Innovation

Any analysis of empirical studies considering the impact of innovation on growth is hampered by the range of definitions used - some surveys include products which are new to the company but already established in the market, some include changes such as packaging redesigns, while others restrict their conceptualisations of new product innovation to entirely new inventions. The diverse scope of measures used is reflected in the patchy nature of the results attained with only six out of ten studies detailed in table 3.1 finding a relationship between higher growth and the introduction of new products. Where more stringent rules are applied a clearer relationship is obtained. One of best surveys, in this regard, was conducted by MacPherson (1994) on firms in western New York within

the scientific instruments, electrical products, textiles, industrial machinery and metal fabricating sectors. He found that seventy-eight per cent of firms who had implemented both product and process innovations had achieved above average sales growth compared to only nine per cent of the firms which had implemented neither. A similar and significant relationship was also found for export growth, change in value-added, and shifts in profitability. In each case the best performance (when measured in terms of sales turnover) was associated with the groups that had implemented both product and process innovation (indicating a more radical shift rather than either one or none). Similar results on the positive relationship between innovation and growth have also been demonstrated for just medium sized firms (Coopers & Lybrand, 1994). However, one interesting finding of the MacPherson study is that the sample of firms which implemented both product and process innovation had the poorest employment growth, reflecting a high degree of labour substitution with new technology, and that the often proposed linkage between investing in high technology and job creation is much more problematic than statements to such an effect admit.

3.2.4 Technology

The linkages between high technology SMEs and local economic growth have been discussed at length (Rothwell and Zegveld, 1982) and the overriding finding which emerges is that very few SMEs can be classed as high technology enterprises (North and Smallbone, 1993). Keeble and Gould (1985) considering the rapid growth region of east Anglia in the 1980s found that out of a sample of 703 new firms only ten per cent could be classified as high-tech concerns, with three-quarters of them located within thirty miles of Cambridge. High-tech enterprises appear to be virtually absent in remote rural and old industrial regions in the UK (Goddard *et al.*, 1986; North and Smallbone, 1993) - but one should note even in the south-east the proportion of high-tech SMEs is small (Goddard *et al.*, 1986). Surveys conducted in the United States, Germany and France have pointed

towards a strong and positive link between high technology research and development and employment growth (Rothwell and Zegveld, 1982; Oakey and Rothwell, 1986). In the UK the evidence is positive but much less dramatic - for example Oakey (1991) found that UK companies in the electronics and instruments sectors created on average eleven jobs, against a mean of twenty-eight jobs for comparable firms based in Silicon Valley, USA during the 1980s. A survey of the UK biotechnology industry, often hailed as a sector with prime growth prospects, found insignificant levels of employment generation with only one firm established after 1975 growing to employ more than 100 people by 1989 (Oakey *et al.*, 1990). However, the biotechnology sector appears to be a worst case scenario (Oakey, 1993) and the degree of sectoral variations in performance within the high-tech sector should be noted (Oakey and Cooper, 1991). Smith *et al.*, (1993) investigating high-tech firms in electrical data processing equipment, electrical components, precision instruments, medical and surgical equipment, and plastic products sectors found that in a four year longitudinal survey the return on assets (ROA) of these firms appeared to approximate the performance of high growth enterprises rather than average small company turnover figures. However, a consistent but often ignored finding is that, when one looks at variations in the high-tech sector performance, firms only succeed where the use of technology is linked to appropriate marketing and customer-oriented product development strategies. Empirical evidence points to this often being far from the case (Pavia, 1991; Moore and Garnsey, 1993).

3.2.5 Financial Management

McMahon and Holmes (1991: 29) sum up their review of the north American small business financial management literature by arguing 'rigorous statistical analysis of the results has been virtually non-existent'. The evidence from the UK is for the most part similarly anecdotal and patchy. One of the few rigorous studies conducted, by Nayek and

Greenfield (1994), on 200 manufacturing firms employing less than ten people in Redditch found that only thirty-four per cent of firms used any form of budgeting and sixteen per cent of firms with debtors kept no debtor records. This appears lower than Lindecamp and Rice's (1983) evidence on the familiarity with financial statement analysis garnered from 102 owner-managers of small retail stores in Mississippi. In the latter study, about seventy-three per cent reported that they analysed a detailed breakdown of their cost figures on a frequent or regular basis but sixty per cent indicated that they did not maintain up-to-date figures on the contribution to profit of individual products. However, DeThomas and Fredenberger (1985) found much lower figures: only eleven per cent of their respondents reported using financial statement information as part of their formal process of managerial evaluation, planning, and decision making, although sixty-one per cent of respondents felt the statements provided the information they required for planning and decision making. One reason for these variations is probably the differences in size of firms included in the varying studies: larger firms tend to have more sophisticated monitoring procedures. None of these studies linked financial reporting with measures of performance, but Thomas and Evanson (1987) were unable to demonstrate a significant association between the number and frequency of financial ratios used and small business profitability or survival. They hypothesised that this may have been due to a lack of sophistication in financial ratio interpretation on the part of owner-managers that prevented usage from making a discernible difference.

While, cost-volume-profit analysis or break-even analysis has long been presented to small business proprietors as a sound basis for the management of profitability and its component parts (costs, volumes, and prices), there is very little published evidence on the use of these techniques in small businesses (McMahon and Holmes, 1991: 23). Luoma (1967) in his survey of smaller manufacturing businesses in the US, recorded that sixty-two per cent of the respondents claimed to undertake break-even analysis, of which forty-

seven per cent reported that the founder was actively involved. This use of break-even analysis was more prevalent in larger firms (sixty-three per cent) than in smaller firms (thirty-three per cent), underlining the general bias towards larger firms in the use of financial management tools.

The research from the USA points to approximately twenty to thirty per cent of small businesses engaging in some form of budgeting. However, the preparation of budgets does not mean they are integrated into the formation of business strategy. Luoma (1967) found many firms that prepared budgets but did not use them. Again the analysis of financial management and growth is highly patchy, but Schabecker (1960) found no significant relationship between the use of formal cash flow forecasting and growth in his sample. So while McMahan and Holmes decry the state of knowledge about financial management, and the lack of utilisation of financial controls and techniques within small businesses, without evidence to prove its usefulness, the question remains why should owner-managers take notice?

3.2.6 Business Planning

It would appear that a significant proportion, perhaps the majority, of small business owner-managers engage in shorter term operational planning, and that this is often done informally “in the back of their minds” or “on the back of envelopes” with poor monitoring of strategy plans, even if they had them (McMahan and Holmes, 1991: 23; Nayek and Greenfield, 1994). However, the evidence on the importance of business planning is fairly substantial. Woo *et al.*, (1989) discovered that those firms that claimed to spend a higher proportion of their time in planning activities were significantly more likely to experience high growth. Kinsella *et al.*, (1993) make a distinction between small firms that had a written business plan at start-up, and those which introduced one later. They ascertained that ninety-three per cent of the fast-growth firms in the study had a written business plan, compared with only seventy per cent of match firms, but that fewer

differences existed between the two groups at start-up. Finally, it can be discerned, that like financial management procedures, formal planning procedures and their monitoring appear to be more characteristic of larger businesses (Storey, 1994: 149). However, while it may be the case that faster-growing firms are more likely to devise and implement formal planning procedures, the evidence is less clear as to whether this is a factor which encourages growth, or whether it is merely associated with a movement towards greater size and formality (Storey, 1994: 149).

3.2.7 Business Strategy and Rural SMEs

In terms of empirical evidence, the only sophisticated survey comparing SMEs in urban, remote rural and accessible rural areas in the UK was conducted by PA consultants on behalf of the Department of the Environment in 1992 (Keeble *et al.*, 1992). The 1,000 firm survey was based on a matched pairs approach to allow direct comparison between urban, remote rural and accessible rural firms. It focuses on industrial sectors that are presumed to have a choice in their location, thus ignoring agriculture, forestry and businesses providing services exclusively to the local population. While the survey was not confined to SMEs it did reflect the general economic profile with over eighty-eight per cent of firms employing less than 100 workers. The aim of the survey was to discover 'in what ways business performance, efficiency and growth in the countryside may be influenced by the rural economic environment, relative to that provided by urban areas' (Keeble *et al.*, 1992: 3). The authors' main line of inquiry was to find what owners, managers and founders saw as critical success factors on a five point scale ranging from "very important" to "not important" - the results of which are shown in table 3.2:

As table 3.2 indicates, the top five rated success factors as reported by three-quarters or more of rural firms are product quality, personal service to customers, speed of service, professional and technical skills and established reputation. In addition, for remote rural firms the quality of the labour force and managerial expertise are identified as important

success factors. Access to capital, marketing skills and cost considerations are ranked as less important by remote rural firms.

Table 3.2: The Importance of Factors Influencing Company Success

% Reporting Factor Very Important or Important	Remote Rural	Accessible Rural	Urban Areas
Quality of Product / Service	88	91	92
Personal Attention & Responsiveness	88	90	91
Speed of Service	79	83	82
Professional / Technical Skills	76	82	79
Established Reputation	75	76	74
Quality of Labour Force	69	79	74
Management Experience	68	77	82
Design of Product / Service	64	71	67
Cost Advantage	57	53	53
Price	56	47	62
Access to Capital	54	49	56
Flair and Creativity	53	68	59
Marketing & Sales Skills	51	58	56
Innovative Product / Service	46	57	41
Innovative Production Methods	46	57	41
Financial Assistance from Public Sources	22	14	18

Source: Keeble *et al.*, (1992) p.19

Comparing differences in the rates of importance between the three groups, contrasts are most apparent between remote rural and urban firms (statistically significant in six cases). While this analysis is interesting and will be developed further below, it must be pointed out these are subjective ratings - what individual businesses think are important and very important - through imperfect information and bias, may not represent what are the true key factors affecting success.

The downgrading of managerial and marketing issues by remote rural firms may reflect a lack of expertise in these areas (ignorance of possibilities), constraints on serving clients and / or a lack of firms for whom these areas are most critical. Differences are also highlighted in the significantly higher ratings which accessible rural enterprises give, relative to the other two groups, on the group of indicators associated with new product

development, innovation and technological expertise. Accessible rural firms report significantly higher rates of successful introduction of new products or services over the last three years (86.4 per cent, compared with 68.7 per cent for urban firms and 65.3 per cent for remote rural firms). Moreover, this profile holds for the development of products or services based on new technology (56.8 per cent in accessible rural firms, compared with 42.6 per cent for urban firms and 37.9 per cent for remote rural firms). Analysis of the introduction of technologically improved equipment produces similar results (69.3 per cent in accessible rural firms, as opposed to 59.3 per cent for urban firms and 62.0 per cent for remote rural firms) (Keeble *et al.*, 1992: 23). Finally, accessible rural firms report a significantly higher rating for the importance of in-house technological expertise in their competitive success, with 71.0 per cent regarding it as important or very important compared with 59.0 per cent of urban and 60.2 per cent of remote rural firms. Taken together these indicators present an image of proportionately more accessible rural firms being innovative, market-focused and technologically advanced than their urban and rural peripheral counterparts. In terms of innovation there appears to be clear spatial differences and these results do call for further empirical research to better establish the linkages involved.

The next stage is to look at how firms believed they achieved their development (see tables 3.3 and 3.4 below):

	Company Location		
	Remote Rural (%)	Accessible Rural (%)	Urban (%)
Does the Company Produce for a Niche Market?			
YES	72.7	80.1	73.4
NO	27.3	19.9	26.6
TOTAL	100.0	100.0	100.0

Source: Keeble *et al.*, (1992), p.21

	Company Location		
	Remote Rural (%)	Accessible Rural (%)	Urban (%)
Rising Incomes	33.4	20.8	16.1
Increasing Complex Business Needs	27.5	47.2	30.1
Other Specialisation	39.1	32.0	53.7
TOTAL	100.0	100.0	100.0

Source: Keeble *et al*, 1992, p.21

The vast majority of enterprises regard themselves as having achieved their development by providing specialised products or services for a particular market niche (see table 3.3). Significant differences, however, do occur in terms of market structure (table 3.4), where the authors divide the reasons for development into three: those firms stimulated by rising household incomes and demand for quality products, those growing through increasing complexity of business needs in terms of both professional and technological inputs and none of these. The remote rural firms appear to be most dependent on rising consumer incomes (one third) compared to twenty-one per cent of accessible rural firms and only sixteen per cent of urban firms. In contrast, accessible rural firms are significantly more oriented to market niches that reflect increasing complexity in business, not consumer, needs.

To summarise the evidence on the relationships between business strategy and growth, a number of influencing factors have been identified, in particular the roles of marketing and innovation. A number of other possible positive relationships have also been discussed (such as team starts) but these may just reflect better business ideas and initial prospects rather than being root causes of growth *per se*, and further multivariate research is required. The evidence on urban-rural variations points to accessible rural locations having the healthiest overall profile of SME innovation and technological sophistication. On these grounds a number of significant differences between remote and accessible rural localities are apparent.

3.3 ECONOMIC FACTORS

The economic factors that may affect the growth of SMEs can be split into supply side issues (the distribution of factors of production: land, labour and capital) and demand influencing factors. This section will consider these factors in turn and present evidence on rural peripheral localities where it has been conducted.

3.3.1 Land and Location

3.3.1.1 Land and Location: Supply-Side Considerations

The supply of small factory units in the UK is greatest in the south-east of England, in terms of both the overall stock and the amount of small factory units as a proportion of total factory floor space (Fothergill *et al.*, 1987). This is largely due to the profit-driven locational preferences of property developers having concentrated their activities within the most prosperous parts of southern Britain. The impact of schemes to stimulate private sector provision of small commercial units, such as the Small Workshops Scheme, has been concentrated within the south east so that public sector agencies are largely responsible for the supply of small units in remote rural and old industrial regions (Ambler and Kennett, 1985). In traditional industrial regions some of the problems may be overcome by renewing old buildings to act as 'seedbed' premises (Foley and Green, 1987) but this has less potential in rural peripheral areas that have never had a substantial manufacturing base. Given the dominance of private provision, new development is usually concentrated in the most prosperous areas, causing further disparities with a mismatch between those areas of greatest development and those areas most in need of economic stimulation. However, premises should not be treated as the dominant factor in determining enterprise performance: Blackburn and Curran (1993) found that problems concerning premises constituted only a very minor constraint upon the overall ability of businesses to grow especially when considering, as in their sample, one half of rural firms

and one third of urban enterprises owned their own premises. Problems have further declined since the onset of recession in the early nineteen-nineties, but even survey evidence conducted during property boom years of the mid-1980s found that a lack of suitable premises tended not to see the abandonment of start-up plans but rather a "making do" with sub-optimal premises or using premises not authorised for industrial or commercial use (Ambler and Kennett, 1985).

If there is a problem concerning premises it tends not to be at the start-up phase but when the SME wants to relocate to a larger site, yet remain within the same locality (North and Smallbone, 1993). This is a problem in rural areas that have tight planning restrictions and a rural enterprise may not be able to fulfil its expansion plans within its present area, forcing it to look elsewhere for larger premises. The shortage of larger premises for expanding firms is a highly controversial, political issue in many rural areas as it brings together conflicts between preservation of the landscape and the need to keep and promote employment in the local area. In many areas the stimulation of SMEs is seen as a way of reconciling these two aims - preservation and employment creation - (small units blending into the rural landscape better than large factories) but clearly in some cases the very success of local SMEs will necessitate a choice between the two aims. However, this problem is likely to occur in only a handful of cases given the evidence on how the overwhelming majority of small firms stay small (Storey and Strange, 1992).

There has been little specific research into the provision of premises in rural peripheral areas. One such survey was conducted by Perry and Chalkley (1985) on premises in Cornwall. They found that private developers were unwilling to consider building small units in the county because such estates were prone to many voids, high failure rates (bad debts) and an inability of start-ups to afford 'market' rents. Where the private sector did develop it tended to be in the west of the county (the most accessible districts) rather than the more remote north or south-east Cornwall. Even on this micro

scale one can thus see the problem of mismatch of provision with private developers concentrating on the more profitable, accessible areas which tend not to be those most in relative need of enterprise stimulation. Within Cornwall, the overall inaccessible nature of the county meant that of the 191 new 5,000 square feet or less units, built between 1975 and 1981, over two thirds were developed either wholly by the public sector or by public-private partnerships. Very little solely 'market forces' led new small unit development occurred.

3.3.1.2 Land and Location: Demand-side Factors

Entrepreneurs prefer, on the whole, to set up businesses close to where they live (Keeble and Wever, 1986: 4). For example, Baker (1993: 41) looking at new manufacturing firms in Hinckley, Leicestershire found that they had all been established by individuals employed locally prior to start-up (within a radius of fifteen miles). Markusen and Teitz (1985: 206) found that only eleven per cent of entrepreneurs surveyed, starting businesses in the Bay Area of San Francisco, had moved into the area to set up their enterprises. However, more comprehensive research conducted specifically on rural areas has highlighted the importance of locational moves into these localities for subsequent business development.

Keeble and his fellow researchers (1992) found that eighty-four per cent of remote rural firms, eighty-five per cent of accessible rural firms and ninety per cent of urban firms were founded locally. However while the proportion of those who moved directly to found their business in rural areas was small (fifteen and sixteen per cent) the number who moved prior to setting up their firm was much more significant (see table 3.5).

Table 3.5: The Origins of Founders

	Company Location		
	Remote Rural (%)	Accessible Rural (%)	Urban (%)
Born in the County	42.4	34.2	65.6
Moved to the County Before Setting Up Firm	36.5	52.5	25.9
Moved to Set up the Firm	21.1	13.3	8.6
TOTAL	100.0	100.0	100.0

Source: Keeble *et al.*, 1992: p.14

Most rural firm founders are in-migrants, with the majority moving before they set up their firms. However, the fact that over one fifth of remote rural OMDs moved there to specifically set up their firms provides an unequivocally strong connection between population migration into rural areas and subsequent or contemporaneous new enterprise formation in these localities. This is very different from urban founders who are predominantly indigenous (Blackburn and Curran, 1993). Forces uncovered for this locational movement are detailed in table 3.6.

The survey highlights the role of local factors such as nearness to founders' home and markets. However, in remote rural areas environmental attractiveness is much more significant in location decisions (15.9 per cent compared to 3.8 per cent for the urban group). The lack of locational choices based on accessibility to clients, staff and suppliers by remote rural firms (0.2 per cent) compared to urban companies (9.4 per cent) may highlight informational deficiencies in the former localities.

Table 3.6 Reasons for Choice of Company Location

	Company Location		
	Remote Rural (%)	Accessible Rural (%)	Urban (%)
Nearness to Founders Home	18.0	20.7	18.6
Environmental Attractiveness	15.9	9.9	3.8
Labour Advantages	9.2	9.3	9.5
Premises Advantages	25.9	30.0	25.1
Local Market / Materials	9.2	6.4	7.4
Good Communications	7.4	12.5	14.4
Government Grants	4.6	0.0	0.7
Historic Reasons	2.3	4.7	6.1
Company Acquisition	3.2	1.7	2.4
Access to Clients, Staff, Suppliers	0.2	4.1	9.1
Other	4.2	4.1	2.6
TOTAL	100.0	100.0	100.0

Source: Keeble *et al.*, 1992, p.15

The results also highlight how locational choice cannot be purely seen in terms of profit maximisation by firms, but rather decisions tend to be part of a whole range of lifestyle choices made by the small business owner and his/her family. These lifestyle choices appear to be particularly important in remote rural areas as highlighted by a study of in-migrant entrepreneurs in Looe, Cornwall (Shaw and Williams, 1988; Shaw *et al.*, 1987). In-migrants were primarily driven by a desire to migrate to Cornwall, particularly those setting up businesses in the accommodation sector (35.8 per cent), coupled with the chance and availability to do so (18.2 per cent) rather than meeting financial objectives (18.2 per cent) (Shaw *et al.*, 1987). This suggests that the decisions made by entrepreneurs as to where to locate their businesses cannot be separated from other key lifestyle decisions: where do I want to live? What family commitments do I have? Where do I want to retire? Location decisions cannot thus be reduced to pure profit maximisation, and the tendency of some commentators to analyse economic factors in the SME literature with reference to purely the profit maximisation criterion is misplaced. To sum up the literature on location, constraints concerning premises exude a minor influence on UK SMEs but the

entrepreneur's decision as to where he/she wants to live, and differing individual abilities to achieve this, is of much greater salience.

3.3.2 Labour

The central finding that emerges from empirical research conducted in this area is that when skill levels and sectoral differences are controlled for, SMEs offer poorer remunerative packages than their larger counterparts, with higher turnover rates of employees (Atkinson and Storey, 1994). The central reasons behind this are: a simple inability on the part of many SMEs to finance salaries at market rates (particularly at and immediately after start-up), the use of family labour and the insecurity of SMEs (higher failure rates) which make them comparatively less attractive to prospective employees (O'Farrell and Hitchens, 1988; Atkinson and Storey, 1994; North and Smallbone, 1993). Where labour shortages are reported, they are predominately quality rather than quantity oriented - a conclusion that holds for both depressed and prosperous regions.

Both Keeble *et al.* (1992) and the Cambridge Small Business Research Centre (1992) studies investigate urban-rural differences in labour shortages. The Cambridge study pointed towards greater shortages of skilled manual workers in rural areas with sixteen per cent of rural firms reporting this constraint, against 8.3 per cent of conurbation based enterprises (but this result may merely reflect the greater proportion of manufacturing firms in the former sample). The results of the Keeble *et al.* (1992) study are detailed in table 3.7. For both managers and skilled/technical staff rural firms report greater recruitment problems. For remote rural areas the greatest relative problem appears to be with the supply of managers and professionals, which probably originates from the smaller labour pool and lack of large firm head-quarters in these areas. This would appear to make SME OMD training even more vital in these areas (North and Smallbone, 1993). However, both of these studies are limited in that they depend solely on OMD reports and do not attempt to quantify the impact of recruitment problems on SME growth.

Table 3.7: Labour Skill Constraints on Rural Businesses

A. Recruitment of skilled/technical staff

	Remote Rural (%)	Company Location	
		Accessible Rural (%)	Urban (%)
Recruitment a Problem (Recruitment a Serious Problem)	49.3 (22.6)	55.6 (27.0)	44.1 (17.2)

B. Recruitment of Managers / Professionals

	Remote Rural (%)	Company Location	
		Accessible Rural (%)	Urban (%)
Recruitment a Problem (Recruitment a Serious Problem)	35.3 (17.8)	32.8 (16.4)	27.1 (10.6)

Source: Keeble *et al.*, (1992), p.28

3.3.3 Capital

The difficulties faced by small firms in obtaining capital for start-up and growth have long been discussed (Bolton, 1971): In Keeble and his associates study (1992), survey of firms in urban areas, accessible- and remote- rural locations, all placed finance as the most important constraint upon business growth and efficiency. Small business owners, likewise when giving reasons for enterprise failure have placed undercapitalisation and debt management at the top of the agenda (although clearly perceptions may not be precisely commensurate with actual reasons) (Hall and Young, 1993). Townroe (1992) found in his survey of rural firms in Norfolk, Northumberland, Devon and Derbyshire that financial factors (particularly interest rates and overdraft terms) dominated the elements indicated by entrepreneurs as restraining growth, with market demand and access to skilled labour important subsidiary factors. Given the importance of capital and labour as factors of production, spatial variations in the cost and availability of these commodities can contribute to local variations in the rates of SME growth.

3.3.3.1 Capital: Personal Savings

As most new businesses are started largely on the basis of the founder's personal financial resources, the economic position of the entrepreneur prior to start-up is crucial. A survey of start-ups in Scotland found that of the £400 million invested each year in new ventures fifty-one per cent came from personal sources, forty per cent from banks, six per cent from the public sector, two per cent from informal investors and one per cent from venture capitalists (Scottish Enterprise, 1993: 33). Those people who prior to start-up have higher levels of savings derived from above average incomes or inherited wealth are thus in a better position to adequately fund their enterprise. Those who are owner occupiers are likewise in a better position in terms of having a larger collateral base. Regions with low levels of home ownership, such as the north and Scotland, will thus have a lower collateral base from which individuals may be able to obtain bank loans (Mason, 1985a, 1985b). Whittington (1984) identifies a positive statistical association between new firm formation and owner occupation at the regional level. Moyes and Westhead (1988) found a negative statistical association between new firm formation and local authority housing at the county level. However, one must remember these relationships will also reflect other structural factors such as the occupational profile (Mason, 1991).

3.3.3.2: Bank Finance

Banks are easily the most important source of external finance for SMEs but when scrutinizing the empirical evidence concerning SME-bank relationships two important points must be remembered that are all too often overlooked in the literature. First, within the UK most research was carried out during the 1980s, particularly within the boom years of the mid- to late-1980s. The lending criteria of financial institutions during this period may be very different from the procedures currently in place. While there have been few longitudinal studies to monitor changes, anecdotal evidence at least would point towards sharp intertemporal variations. The results from the surveys conducted during the 1980s

must not be assumed *carte blanche* to be as valid today. Second, the majority of research into SME-bank relationships has been conducted in the USA. The USA has a very different banking system, with a preponderance of local and regional banks that is in contrast to the dominance of national banks in the UK and likewise evidence from the USA cannot be assumed to be just as valid for the UK.

Lending to SMEs is more risky for banks, given their higher failure rates, than loans to large organisations. Given this, there is a clear need for lenders to recognise the heterogeneity of enterprises, and in consequence have a clear targeting policy with adequate procedures of selection (Chaston, 1993; Deakins and Hussain, 1993: 184). This need for selection is highlighted by the occurrence of very poor financial management procedures in a sizeable proportion of SMEs (see chapter 3.2.5).

There has been surprisingly little research into rural-urban differences in the provision of bank loan finance in the UK. The 1992 study by Keeble and his associates pays little attention to this area but based on the critical success factors evidence, the authors conclude: 'no significant differences actually exist in frequency or valuation of different sources between the...samples of urban and rural firms' (Keeble *et al.*, 1992: 34). Yet, the 2000 firm national SME survey conducted by the University of Cambridge Small Business Research Centre found that conurbation-based firms recorded a lower level of constraints than rural firms with respect to the availability of finance (Cambridge SBRC, 1992). However, further analysis of this area is hampered by the lack of systematic research and more detailed empirical work is needed. Particularly frustrating for our purposes is the lack of assessments of specifically rural schemes such as the RDC loan initiative and, for larger initiatives, the Assistance for Co-ordinated Rural Development (ACCORD) project. The RDC loan scheme offers loans to small businesses for buildings, plant and equipment up to a maximum amount of £75,000 and thirty per cent of the project cost (unless it is in a priority area), with interest rates charged at 'competitive levels' (RDC,

1993b). The ACCORD scheme is targeted at RDC priority areas and provides finance for commercial development which 'will help revitalise the economies of rural areas'. This is in addition to what the RDC calls its association with High Street banks, so that the latter offer 'special terms to rurally based small businesses' for sums between £2,000 and £250,000 for buildings, plant and / or working capital (RDC, 1993b). Unfortunately the lack of published feedback and financial evaluations preclude further analysis of these schemes at this stage.

3.3.3.3 Capital: Venture Capital and Equity Finance

While the analysis of bank loan finance is limited, more attention has been given to variations in the provision and up-take of equity finance. Two central characteristics of the SME venture capital market can be discerned. First, very few SMEs seek venture capital - its percentage share of sources of finance in the UK is below two per cent (Scottish Enterprise, 1993). Second, when those investments financed by venture capital are analysed it is apparent that the distribution of arrangements is spatially uneven. In the UK, investments have been concentrated within the south-east which accounted for sixty per cent of the total funds invested and fifty-two per cent of the companies financed between 1984 and 1987, but contained only thirty-four per cent of the country's business stock (Mason, 1991). This spatial concentration of investments reflects the dominance of London: in 1987 sixty-four per cent of all UK venture capital firms were based in the capital, and these entities managed eighty-three per cent of the total venture capital pool between them (Martin, 1989; Mason, 1987). Similar findings of few SMEs desiring venture capital and a high spatial unevenness of investments have been reported for the USA (Leinbach and Amrhein, 1987; Florida and Kenney, 1988).

In a more detailed, demand-side survey Mason and Harrison (1993a) analyse attitudes to equity finance in larger SMEs (above fifty employees) in three different types of locality: Rural Development Commission (RDC) Rural Development Areas (RDA)

(areas with the most impoverished rural economies), Assisted Areas of England (predominately old industrial conurbations) and Unassisted Areas (the most prosperous districts of England). Unfortunately Mason and Harrison's response rate was poor - 149 useable completed postal questionnaires out of a total of 1,500 dispatched - hampering statistical analysis, with the problem that the sample might be biased towards more educated, externally oriented SME OMDs. From the 149 responses only ten firms (seven per cent) had raised equity finance since 1980 in a total of thirteen financing rounds. This response is in line with previous results (Small Business Research Trust, 1991) and provides further evidence for the limited use of external equity finance even among larger and longer established SMEs in Britain, with its status amongst many OMDs as 'a last resort' (Walker, 1989; Burns *et al.*, 1992). The amount of finance raised in each round ranged from £48,000 to £3.62 million, with a median of £240,000. The most common form external equity finance raised was venture capital with the majority of investments involving management buy-outs. Analysis of those firms that did not seek external equity finance is presented in table 3.8.

As table 3.8 indicates, over two thirds of firms saw no need for external equity finance and believed that all their financial requirements could be met through the use of retained earnings, bank loans and/or overdraft facilities. The desire to retain control again emerges as the most important factor in answering the question as to why SMEs do not seek external equity. From the small sample it is not possible to identify statistical differences between the three types of locality surveyed but no striking variations are readily apparent.

Table 3.8: Reasons for Firms Not Obtaining Equity Finance

	Number of Firms			Total
	Assisted Areas	RDC RDAs	Unassisted Areas	
No Need	51 (76.1%)	12 (62.2%)	78 (48.0%)	151 (69.6%)
Examples of specific response: ^a				
Other finance used: e.g. retained earnings; bank loan, overdraft.	37	7	7	51
Adequate capital reserves	3	1	1	6
Finance not required	3	1	4	8
Did not seek: ^b	25	15	10	40
Examples of specific responses ^c				
Loss of ownership/control [†]	14	2	5	21
High costs	2	1	1	4
Other	3	2	4	9
Other reasons	3	1	1	5
Unsuccessful	0	1	2	3
Not Applicable ^d	5	4	8	17
No Response	5	7	8	20

Notes

^a Firms could give multiple responses.

^b Firms giving no response (including 'not applicable' category excluded from the calculation).

^c Not every firm provided a specific comment, hence numbers do not add up to the total number.

^d This includes firms that have raised external equity finance

Source: Mason and Harrison (1993a), p.153

More important than venture capital for equity funding appears to be informal risk capital provided by private individual investors (usually referred to as 'business angels') (Wetzel, 1986). The value of these investments usually varies from £1,000 to £50,000, with a tendency for individuals and organisations to prefer investments in locations that are reasonably accessible and within sectors in which they are familiar (Wetzel, 1983: 27; Mason and Harrison, 1996: 36). In the UK there appears to be poorer use of business angels and informal investor networks compared to the USA where it is estimated that such networks provide equity finance for forty times the number of businesses than that assisted by institutional funds (Mason and Harrison, 1993b).

The empirical evidence (Solem and Steiner, 1989; Cambridge SBRC, 1992; Kinsella *et al.*, 1993) points towards a link between owners who are willing to share equity

and enterprise growth. These individuals constitute a small proportion of the SME population which is characterised by great resistance to parting with equity. Only thirty per cent of small manufacturers in a Nottingham survey were willing to sell a stake - not necessarily a controlling share - in their company (Binks and Vale, 1984). However, as with the case of team starts these univariate analysis-based results may be misleading in that it could just be that those interested in external equity deals have a higher desire to grow and will seek out all possible means to achieve this objective, rather than the existence of an external equity arrangement being the source of growth *per se*.

3.3.4 Market Structures

3.3.4.1 Local Markets

As most new firms begin by serving a restricted (local) geographical market variations in the growth of regional and local demand will also have an important bearing on business start-up and growth rates (Mason, 1991). This will be particularly pertinent for those firms supplying goods that are not easily tradable over space such as the vast majority of consumer services. The differing effects of growing or stagnant / declining local market demand can be introduced simply by recourse to figure 3.2 below:

Figure 3.2: Local Economic Demand and SME Growth

		LOCAL DEMAND	
		Growing	Declining
SECTOR	Services	Rising Discretionary Income	Downward Multiplier
	Industrial	Post Fordist Restructuring + Multiplier	Dislocation Skill Mismatch - Multiplier

The relationships between service sector activity and long run local economic growth have been poorly studied. The most dominant view has postulated that services are inferior to manufacturing, being dependent activities living off the endeavours of other sectors and thus providing little benefit to local economies (Kaldor, 1966). Such a view divides the economy into two sectors: "basic" industries that generate external income and "non-basic" industries that serve only the local economy and thus merely circulate money within the region. As an economy needs to earn external income in order to grow, "real jobs" are said to be those in "basic" industries whilst jobs in "non-basic" industries are considered "dependent" jobs (Williams, 1994). Services are thus traditionally seen as "non-basic" activities. However, some forms of both producer and consumer services can be traded inter-regionally and services can be important in attracting, and keeping money, within the locality. The provision of services within a local economy deters money from leaking out of the locality by reducing imports and keeping spending of local people in the area, which would otherwise be spent outside the region. In other words it reduces leakages and lessens the need for so much external income generation since money is no longer required to pay for imports (Williams, 1994). Unfortunately little empirical evidence has been accumulated on this role of service sector SMEs in the local economy.

Within the industrial sector, at its most simple, local demand will vary with the opening and closing of manufacturing plants. Market opportunities for SMEs will be limited in regions experiencing plant closures (such as the North and central Scotland in the early 1980s) with falling household expenditure stemming from redundancy and fear of redundancy, consequently reducing consumer demand. The restructuring of heavy industry in the 1980s substantially reduced the opportunities for sub-contracting and component supply new and small firms (Rabey, 1977). SMEs that served declining, heavy industry sectors found it particularly difficult to survive the closure of their main customer (Rabey, 1977; Gibb and Quince, 1980). Gibb and Quince (1980) in their survey of shipbuilding,

marine engineering and ship repairing industries found high levels of dependency when measuring responsiveness to change in the environment. The more dependent firms were particularly likely to perceive the market as limited with regard to the number of other potential customers even when there was little in the nature of the products they supplied that objectively suggested such restricted usage. In addition suppliers tended to overestimate their importance, as part of a behavioural mechanism to dispel anxiety, which if their main customer did close left them even less prepared to respond to the transformed environment.

Conversely in fast-growth, high-technology areas such as Silicon Valley, Boston and Cambridge considerable market opportunities emerged in the same time period for directly supplying goods and services to manufacturers of high technology products and meeting the symbiotic growth in demand for related business and consumer services (Mason, 1991; Storey and Johnson, 1987a). However the relationship between changes in local demand and opportunities for SMEs is far from uniform and a number of important variables, which cannot be confined to the local scale of analysis, must be considered in any assessment of this subject.

3.3.4.2 Regional and National Markets

Market structures and their influence on SME opportunities have been most convincingly studied at the regional and national level. However, as with local markets there has been a strong bias towards manufacturing and industrial sectors. For our investigation, four themes can be picked out: (i) the internationalisation of regional and national markets, (ii) the role of ownership on input-output structures within the regional economy, (iii) the trend towards new production processes (most commonly labelled post-Fordist restructuring) and (iv) the influence of plant and firm size on SME opportunities at the regional and national level.

The immediate post-war era has been characterised by an increasing globalisation of economic activities with international trade moving from an almost sole concern with the exchange of raw materials and foodstuffs to a world trade in the production and manufacture of finished and semi-finished goods and international currencies (Root, 1990: 7; Hobsbawm, 1979: 313). As Dicken (1991: 41) argues 'national boundaries no longer act as 'watertight' containers of the production process' but rather act 'more like sieves through which extensive leakage occurs'. This has meant that state boundaries are less and less important in determining production systems (Johnston, 1982: 61), and this theme can be elucidated by deciphering the importance of the linkages between ownership structure, plant size and opportunities for SMEs.

The ownership structure and functional composition of corporations have an important determining influence on opportunities for local SMEs. Establishments that are part of multi-plant companies generally have limited freedom to source inputs independently of the overall corporate decision-making process (Mason, 1991). This means that sourcing of key inputs is usually controlled by divisional or head offices with individual branch plants having limited powers of discretion. These structures of purchasing are inimical to local supplier engagement and where such systems are prevalent, the linkages between externally owned plants and the rest of the local economy tend to be weak. Turok (1993) studying electronics manufacturers in Scotland found that very few of the inward investors obtained considerable proportions of their components from within Scotland, with little evidence of the sector becoming either self-sustaining or integrated into the broader regional economy. Foreign owned firms obtained less than half of their inputs from within the UK (compared to eighty per cent for UK-owned companies) with the components sourced locally tending to be bulky, low-value goods that had a relatively low potential for technology transfer (Turok, 1993). Similar findings for the effects of foreign investment on local SMEs in peripheral regions have been recorded for

Ireland (Cogan and Onyenadum, 1981; Irish Government, 1992; Grimes, 1993). O'Farrell (1986b: 179) highlights how relatively few small indigenous firms meet the skilled sub-supply requirements of the overseas subsidiaries that have located in Ireland. Much of the growth that has occurred in sub-supply industries has been, like Scotland, within the lower skill areas, such as general welding, plastic mouldings, simple metal fabrication or packaging (O'Farrell, 1986a).

However, not all branch plants have such few SME spin-off possibilities. Those plants engaged in non-routine and batch production, manufacturing products at the beginning of their life cycle (problem child and rising stars using the terminology of the Boston Consulting Group matrix) tend to have far greater discretion to obtain material inputs from local suppliers (Thwaites, 1978; Sweeney, 1987). Given the spatial divisions of production in the UK, with new product development establishments overwhelmingly located in the south and routine branch plants disproportionately sited in the north, one can see that local opportunities are far from uniform.

Since the 1970s large firms have moved away from Ford-Taylorist production methods based on mass production, single-purpose machinery and the separation of mental and manual labour (Smith, 1994). Attempts by commentators to understand these changes have been presented in terms of competing notions of neo-Fordism (based on shifting production to low wage regions of the world and automation) (Piven, 1995), lean production (focused on just-in-time inventory management, greater attention to customer demands, shorter production runs and closer relationships with suppliers (Smith, 1994) and craft production (decentralised small artisan firms that are able to easily adapt to changes in technology and fragmented demands) (Piore and Sabel, 1984). The simple fact is however, that while all large firms have restructured no single or uniform way of reorganising has been implemented with a considerable degree of intra- and inter-corporation variability, which defies universal generalisations (Rainnie, 1993). However broad, but not universal,

trends towards multiskilling (MacLennan, 1995), reduction of inventory costs (Sayer, 1986), preferential supplier agreements (Imrie and Morris, 1988; Peck, 1988) and team-work environments (Peters, 1989) can be identified.

One particular area of large firm restructuring that has attracted much attention has been changes in manufacturing management and so called just-in-time (JIT) systems of inventory management. The JIT system essentially involves operating with a minimum level of stock, requiring suppliers to make more frequent, smaller deliveries (Sayer, 1986). Where implemented three key findings emerge: first, inventory costs are passed on to the supplier aiding credit management of the producer, second, there has been a movement towards fewer, large primary status suppliers and, finally, responsibility for R&D and quality assurance is passed down the line to suppliers (Rainnie, 1993). These changes have led some commentators to argue that such changes can aid regional development and SME growth by providing a framework for bonding existing and new local actors, fostering the stable development of manufacturing production systems (Schoenberger, 1987; Estall, 1985). However these assessments were based on little empirical work, and later findings have shown few or diminishing opportunities for SMEs in large firm production. Rainnie (1993) classifies suppliers into three groups and the findings are presented in table 3.9.

Table 3.9: Buyer-Supplier Status and Large Firm Restructuring

Nature of Work	Nature of Relationship	Size of Firm	Spatial Effects
Intermittent Specialist	Unplanned-reliant on flexibility	Small	Local
Primary Supplier	Long term planning	Large	None
Secondary, Tertiary Suppliers (sub-contractors)	Sometimes long term, often unpredictable, dependent	Small	Local

Source: Rainnie (1993), p.71

Small firms are very unlikely to gain primary supplier status due to not possessing an ISO 9000 award (often a set requirement), not being able to finance the working capital required or handle long term contracts (Imrie and Morris, 1988), with the greater the number of long term deals in place, the fewer the opportunities for new entrants. The evidence points to small firms only being able to gain lower skilled sub-contracting or contracts that are less stable and certainly offer no 'miracle cure' to regional development.

Several studies have marked plant-size structure as being an important influence on the rate of new firm formation and SME growth. Small firms are far more likely to act as seedbeds and incubators for new firms than large corporations, with start-up rates being higher in areas where the industrial structure is characterised by small rather than large firms (Fothergill and Gudgin, 1982). Beesley (1955) found that new establishment formation was seventy per cent higher in south-west Birmingham, dominated by small component manufacturers, than north-west Birmingham, which was then characterised by large assembly plants. Cross (1981) found that the spin out rate of new enterprises in Scotland was seven times higher for small plants (1-25 employees) than larger plants (more than 250 employees). Likewise, Fothergill and Gudgin (1982) found that in East Midlands' towns and cities dominated by large plants, manufacturing firm formation rates were only one-third as high as those in other parts of the region. The only contrary evidence (Keeble and Gould, 1985) was uncovered for East Anglia where only a very weak association between local plant size structure and new manufacturing firm formation was found. However this finding probably reflects the role of in-migrants who may locate in a large plant town or city but whose skills and experiences are not tied to it like existing employees.

Rural peripheral regions tend to be characterised by a low concentration of ownership (excepting oligarchical agricultural communities) and small plant size due primarily to the lack of local mass markets and industrialisation. While variations to this

may have a very important local impact (such as coal mining in the Rhondda, south Wales), the more typical profile is illustrated by Shaw *et al.*, (1987) in their survey of enterprises in Looe, Cornwall. From the 411 enterprises sampled 70.6 per cent were owned by one individual, with only fifteen per cent of the establishments limited or public limited companies. The tourist sector (accommodation, restaurants and cafes) was particularly dominated by small firms; with only twenty-two per cent of establishments being part of a larger organisation, with just thirteen per cent controlled by organisations with headquarters outside Devon and Cornwall. Crucially, as firm size is limited by the extent of the market, those enterprises serving local needs in areas of low population density will tend to be small. This implies both the issues of access to major markets and the attitudes and skills of entrepreneurs (given the domination of single person controlled enterprises) are of crucial importance.

3.3.4.3 Exporting and International Markets

It has been argued that exporting may be conducive as a strategy for maximising long run profitability for *certain* small and medium sized enterprises (Deschampsneufs, 1988: 10), with specific arguments based on three broad grounds. The most frequently cited reason is that exporting may improve a company's customer base, either in terms of reducing risk or the exploitation of niche markets. Kinsella *et al.*, (1993) found within the Republic and Northern Ireland that high levels of exporting were perceived as the only way of gaining significant growth, as domestic markets were too limited. O'Farrell *et al.*, (1995), studying business service firms in Ireland and Scotland found that many were at a similar 'crossroads' in their development whereby they had reached the limit of their potential market share in Ireland and either had to remain static or grow on the basis of export sales (O'Farrell *et al.*, 1995: 126). Operation within a range of markets may also be beneficial by reducing dependence on any particular one (Piercy, 1982: 73), especially when the economic fortunes of countries are not codeterminous (Deschampsneuf, 1988:

11). It may also be the case for SMEs that it is easier to enter a range of markets rather than build up a substantial market share in one as the latter may involve substantially higher marketing investments than gaining footholds in several small markets (Piercy, 1982: 75).

The second strain of arguments relates to how exporting may improve individual company competencies. This viewpoint stresses how competing internationally exerts pressures on the firm that make it more efficient and competitive within domestic markets. By getting in touch with sophisticated foreign buyers, internationalisation in this case is used partly as a means to sustain and strengthen the firm's technological and / or organisational leadership. In order to keep a leading position, corporations have constantly to improve and upgrade their products. Becoming international early can lead to learning *advantages* which help sustain the firm's innovative position (Nilsson, 1996: 9). O'Farrell *et al.*, (1995: 127) in their work on professional business service firms show how vigorous rivalry is linked to the creation and maintenance of competitive advantage, enabling firms to sell extra-regionally and internationally. Within the business service sector in London, where strong competition and geographical concentration prevails, good ideas are imitated and improved upon by local competitors, raising the overall rate of industry innovation, with intense competition educating local buyers, making them more sophisticated and demanding. In the absence of powerful local rivals and if demand is somewhat less sophisticated, as in the cases of Scotland and Ireland, there is less incentive for local suppliers to improve their competencies and competitive advantages which may lead to the regional business service system, including sub-contract suppliers, becoming insular and inward-looking. By lacking local competition an area's business service industries are significantly disadvantaged in competing outside their region.

The final set of arguments relates to changes in the world economy, focusing on the erosion of barriers between domestic and foreign markets. This suggests that firms should scan wider for potential customers and understand the opportunities which relate to more

open world trading schemes and developments such as the Single European Market (SEM) and the North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the USA (Spiller and Campbell, 1994). These changes in world economic systems compound the increasing pace of technological change and the shortening of product life cycles and consequent repayment periods. This has necessitated internationalisation by certain firms in order to achieve production volumes large enough to cover R&D investments (Nilsson, 1996: 10).

The empirical evidence testing these theories has, however, been patchy with the results displayed in table 3.10.

Table 3.10: Enterprise Growth of SMEs and Exporting: A Summary of Empirical Evidence

Survey	Exports
Cambridge S.B.R.C. (1992)	X
Kinsella <i>et al.</i> , (1993)	(+)
Reid (1992)	+
Storey <i>et al.</i> , (1989)	(+)
Westhead & Birley (1993)	X

Key:

- + Positive Relationship between the element and growth of the firm
- Negative Relationship between the element and growth of the firm
- () Relationship present in a univariate context, but weak in a multivariate context
- X Element not shown to be significant in influencing growth

Source: Framework derived from Storey (1994), p.127. Additional studies added by author.

As table 3.10 indicates there is no conclusive evidence of a clear link between exporting and growth. Where linkages between exporting and growth exist these may reflect the existence of more primary skills or growth-orientation such as a disposition to enter new markets, seek out new customers and identify new opportunities rather than exporting being a key ingredient in success *per se*. However, in those countries or regions where the local market is impoverished firms may have to go beyond these boundaries to achieve significant growth. Gavin Reid drawing on seventy-three detailed administered questionnaires conducted in 1985 and a follow-up survey conducted in 1988 found that the

less the dependence on local markets, and the greater the internationality of markets for the main product, the greater the growth rate *ceteris paribus* (Reid, 1992: 18).

Finally, it should be noted that the majority of SMEs (particularly service firms) do not export. The main reason for this phenomenon is that the output of many SMEs is not suitable for internationalisation. This is particularly pertinent for the UK where the expansion in SMEs in the 1980s was overwhelmingly dominated by service sector growth (Curran and Downing, 1993). However, not all those SMEs which produce products or services suitable for export actually do so, SMEs operating in international markets face dynamic and shifting uncertainties, in which returns are subject to the vagaries of exchange rates (Garnier, 1982), lower information sets and the impediments of higher costs and trade restrictions (Kaynak and Stevenson, 1982). Linked with these environmental factors are the organisational difficulties of preparing to enter export markets and the specific issues of: capacity restraints, lack of information and difficulties in getting distribution (Tesar and Tarleton, 1982). O'Farrell *et al.*, (1995: 127) in their survey of Scottish and Irish business service organisations found they are faced with a mismatch between local and international needs. To succeed locally, firms needed to be *generalist* providing a range of services, given the limited size of the market; while to penetrate extra-regional and export markets it was important to be a *specialist*. Moreover, psychological barriers to exporting may exist, with OMDs desiring to 'stick with what we know.'

Little or no comparative research has been conducted into spatial variations in exporting activity. One survey however, (Thwaites and Wynarczyk, 1996) found some limited evidence of spatial variations in export propensity within the UK. From their sample of innovative firms drawn from the Science Policy Research Unit database (University of Sussex), found at the time of innovation, firms in both regions (south east and 'rest of the UK') exported approximately thirty-one per cent of sales. Four years later, however, the proportion of sales to overseas markets remained unchanged in 'other

regions'; while firms in the south east had increased exports to nearly fifty per cent of output (Thwaites and Wynarczyk, 1996: 143). The authors tentatively conclude that firms in the south-east appear to focus on exports with greater success than their counterparts in the rest of the UK, but recognise the limitations stemming from the small sample size (fifty-one firms) and the need for further research.

3.4 EDUCATION AND TRAINING

The impact of education and training have probably been the two factors most considered in the quantitative analysis of factors impinging on SME growth; and the fruits of this research are presented in table 3.11:

Table 3.11: The Relationship Between Education and Training, and Growth

Survey	Management Training	Education	Workforce Training	Management Experience
Barkham (1992)		X		+
Birley and Westhead (1990)	+			
Box <i>et al.</i> , (1994)		X		+
Cambridge S.B.R.C. (1992)			X	
Dunkelberg <i>et al.</i> , (1987)		X		-
Dunkelberg & Cooper (1982)		+		+
Johnson (1991)		+		
Jones (1991)		+		
Kalleberg and Leicht (1991)		+		
Kinsella <i>et al.</i> , (1993)	(+)	+	X	X
Macrae (1991)		+		+
Reynolds (1993)		+		
Solem and Steiner (1989)		X		X
Storey (1994)		+		+
Walsh (1994)		X		
Westhead & Birley (1993)		X		X
Woo <i>et al.</i> , (1989)		X		X
Wynarczyk <i>et al.</i> , (1993)	X	X	X	

Key:

- + Positive Relationship between the element and growth of the firm
- Negative Relationship between the element and growth of the firm
- () Relationship present in a univariate context, but weak in a multivariate context
- X Element not shown to be significant in influencing growth

Source: Framework Derived from Storey (1994), p.127; additional studies added by author

3.4.1 Education

As table 3.11 indicates, eight studies have found a positive relationship between education and SME growth and this is exactly balanced by the number of studies reporting no such significant linkages. The majority of these studies measure education in terms of the level attained, predominantly distinguishing between graduates and non-graduates. This is limited in that it does not distinguish between, for example, type of degree subject read and therefore provides no analysis of the *content* of education. In the little work that has discussed this factor, it has been found that SME OMDs who took business studies degrees, as a group, have a significantly higher growth profile than the general population (Rosa, 1993). However, clearly the relationship with the content of education is complex as those taking business degrees may be more growth oriented and motivated prior to taking their degree and this could have been the basis of their subject selection. Yet while this issue concerning the role of *content* of education remains under researched, it is difficult to assess how spatial variations in occupational structure will have a bearing on SME growth within a locality.

Even if educational attainment is significant it is far from sufficient and there is a need to separate the actual benefits of education *itself*, as far as possible, from the importance of concurrent factors such as gaining professional contacts, entry to networks and increasing confidence. For the rural periphery we can note that a traditionally poorly skilled and low paid economy, with the absence of research and development establishments, is inimical to high growth new firm formation but that counterurbanisation has helped increase the level of technical and managerial skills within these areas. However these skills may not be in active use given the demographic profile of an ageing population.

3.4.2 Training

The relationship between small business performance and the skills of owner managers is complex. Several qualities associated with success such as need for achievement and imagination appear difficult to directly enhance through advice or education (Townroe and Mallalieu, 1991). However, other aspects appear capable of enhancement, through practical advice, training and education: financial management, technological and market knowledge, production supervision and marketing (Gill, 1985).

While training has long been considered important to the performance of small businesses, this has not been fully transformed into rigorous empirical research. For example, a review of the literature for the (former) Training Agency concluded that:

...the UK literature on SMEs is distinguished by...a lack of specialised attention to training and HRM issues' (Pettigrew *et al.* 1990: 4; cited in Johnson and Gubbins, 1991: 28).

A series of, more specific, criticisms have been made concerning the tendency of studies to ignore micro firms (employing under ten people), the paucity of evidence on reasons for lack of training, a bias towards formal training in the definitions adopted within previous studies¹ and how, in consequence they have excluded informal guidance and learning by experience which may be more appropriate to the flexible, uncertain markets which considerable SMEs find themselves operating within (Lester and Zoob, 1995: 8; Johnson and Gubbins, 1993: 29).

As table 3.11 details if there is a relationship between training and growth it rests with management rather than workforce courses. For the former, Kinsella *et al.* (1993) found that firms providing management training constituted seventy-three per cent of fast growth firms compared with forty per cent of their match firms. However, as Storey (1994)

¹ For example the Training Agency study defines training as the process of 'acquiring the knowledge and skills related to work requirements by formal, structured or guided means' (1989: 14)

points out, the limits of univariate analysis are apparent here in that it could be that the growth firms, because they have grown require training, rather than training being a source of growth itself. The second problem with the growth-training relationship studies, is that they are based on a binary classification between those which provide or utilise training and those which do not, and as such do not provide any analysis of the quality or content of training. Given this, the piecemeal evidence on types and best practice for the delivery and content of training is important in supplementing the studies presented in table 3.11.

The most consistent finding, is that small businesses conduct less formal training than their larger counterparts. This has been highlighted from employer surveys conducted within the South London Training and Enterprise Council boundary (Joyce *et al.*, 1995), Devon and Cornwall (NOP Social and Political, 1995), Yorkshire (Johnson and Gubbins, 1993), rural England (Bennett and Errington, 1995) and for Britain as a whole (Training Agency, 1989).

The main reasons given by owner-managers for the lack of formal training, uncovered by Johnson and Gubbins (1993: 32), were: perceptions that it was unnecessary to their business, a shortage of spare time, and the inability to lose key workers during the training process. The most important demand-side reason for low levels of formal training cited by SMEs is a lack of perceived need. The majority of SMEs are not growth oriented, are fiercely independent and many associate with the stigma: "training is only for those who can't cope" (Tait, 1990). Combined with this is a view that most formal training, by external agencies, is "just not practical", too general, provides inadequate feedback (Vesper, 1982) and lacking trainers who can respond and discuss problems from personal experience (Kiesner, 1985). This low regard thus means that many SMEs, when faced with the time constraints imposed upon them and the inability to cover for key employees while they are away on training (Hogarth-Scott and Jones, 1993; Bennett and Errington, 1995), conclude that 'the costs of training outweigh the benefits.'

Without detailing evidence, it has been assumed that owner-managers compensate for this lack of formal training by a greater reliance on informal systems. This has been postulated as informal systems may be a more appropriate way of introducing new recruits to the job (with 'learning by doing' seen as more valuable than the theoretical approach which is thought to pervade college courses) and how the alternative of external, formal courses are perceived to be too costly (in both pecuniary and temporal terms) (Johnson and Gubbins, 1993: 32).

While courses need to be in line with training needs, these requirements vary enormously between enterprises. After start-up, two groups have been identified for which training has been presumed as vital to their future performance. The most commonly cited group for support is those which are seeking to, or currently within a phase of *significant growth*. Johnson and Gubbins (1993: 40) cite how the firms which seem to be in most need (but usually not perceived) of assistance, are those which are growing beyond a certain level, particularly beyond ten to twelve employees, where OMDs often lack an overall strategic view of the business, being heavily involved in day-to-day 'fire-fighting' activities. Moving away from this growth-centric approach other commentators have stressed how even *stable employers* and low growth oriented firms require formal training as part of creating sustainable local economic systems. Two arguments in support of this contention have been postulated. First, given the complexity of taxation and legislation systems, across the board training is required to ameliorate the shortage of rudimentary advice and help with implementation (Collins and Murtagh, 1979: 44). Second, training is perceived to be particularly important as small firm managers are more likely to be younger and have achieved less formal educational qualifications. Deeks (1972: 102), for the furniture industry, found that less than one per cent of small-firm managers, were graduates, whereas other broadly comparable studies of managers in large firms showed that between nineteen per cent and forty-three per cent of managers had degrees. Under this

schema there is thus a need to make up for this lack of preparation. While this can be questioned in terms of its generalisations, the problem of appropriate preparation is exasperated by the way in which voluntary counselling services are resource intensive, difficult to operate commercially and geared to providing solutions to specific client problems rather than long-term client learning (Gibb, 1987: 85).

Research into spatial variations in the use and form of training in the UK has been conducted, albeit indeterminately. The focal point of these considerations has concerned the distance between firms and training centres, and the consequent effects on take up and whether an urban-rural divide exists (Townroe and Mallalieu, 1991, 1993; Bennett and Errington, 1995). Townroe and Mallalieu (1993) administered a postal questionnaire to small businesses (ninety per cent of the respondents with fewer than ten employees) in Devon and Northumberland. Two key areas of questioning were pursued: *where did SME OMDs gain advice from in setting up their business?*; *what business skills and competencies did they think they were endowed with, and which did they perceive could be improved upon?* The results of this research are presented in tables 3.12 and 3.13 respectively:

Table 3.12: Sources of Advice used by SMEs in setting up Business

Source of Advice	% Using Source
Enterprise Agency	19
Bank manager	29
Solicitor	14
Accountant	43
Friends and Relatives	17
Similar Tradesmen	23
Local Government	7
Central Government	11
Consultants	5
None	33

Source: Townroe and Mallalieu (1992), p.183

Table 3.13: Business Skills and Competencies of SME OMDs in Devon and Northumberland

Task	Satisfactory Gained By Experience (%)	Satisfactory Gained By Education & Training (%)	Could Be Improved Upon (%)	Number of Respondents
Risk Taking	70	5	25	148
Innovation	67	3	30	135
Arbitrage	64	3	33	132
Marketing	53	10	37	133
Application of technology	54	6	40	134
Quality Control	63	6	31	141
Production Supervision	58	8	34	140
Financial Management	49	8	43	154
Team Building	53	8	39	131

Source: Townroe and Mállalieu (1991), p.183

The results highlight that a significant minority recognises that their skills could be improved upon, with financial management and marketing singled out as particular weaknesses. The majority of SME OMDs see *experience* rather than *training* as the source of satisfactory competencies. The role of bank managers and accountants as key sources of advice, also underscores how important they might be to establishing any system of referral networks. However, interpretation of the results is hampered by the lack of comparative analysis with urban, or between rural, areas which could provide a test of the 'training take-up is lower in rural areas because of distance from the training centre' hypothesis and analysis of spatial variations in perceived and actual competencies.

In terms of the take up of training provision, it has been argued that rural firms are at a disadvantage compared to their urban counterparts as attendance rates at training courses will be inversely proportional to distance from the training centre. This is considered to be important for dispersed rural peripheral localities that may be a considerable distance from a regional centre. Bennett and Errington (1990) in their study of rural training needs see *access* rather than *any particular* skill deficiencies faced by rural industries as the central problem of existing training provision. This access problem has two aspects - the dispersion of potential trainees and the small size of many rural businesses. Dispersion means that potential trainees must travel further to reach providers

and the small population of settlements results in the costs of taking the training directly to rural areas being greater. This leads to several conclusions:

- (i) it may not be feasible to organise training for one or two individuals (especially if they are located in a relatively remote rural area),
- (ii) a small firm may have considerable difficulties in releasing a key employee for training since he/she may represent a third or half the total work force,
- (iii) small firm employers tend to be less aware of the training opportunities available (Bennett and Errington, 1990: 15).

In overcoming these problems, several commentators have suggested a need to develop a two-level approach comprising a strategic body with local outreach for effective coverage in rural areas (Bennett and McCoshan, 1993). This has been reflected in the geographical sub-structures of many Training and Enterprise Councils (TECs) and Business Links (BLs) that cover rural areas (Bennett and McCoshan, 1993). Outreach centres, sponsored buses and mobile guidance vans have all been used as devices for increasing training provision in rural areas (Bennett and Errington, 1990) but full cost-benefit analyses of these schemes have not been undertaken or made available. Finally, for training agencies the absence of large firms with concentrations of workers and some precedent for employer-led training, means that the task of identifying training needs priorities within rural areas may prove to be more difficult (Dunford and Turner, 1990: 397).

These surveys are limited as variations between different types of rural areas or rural-urban variations have not been considered. One survey by Smallbone *et al.*, (1993b) attempts to deal with this by considering the use of external assistance by a panel of mature manufacturing SMEs measured over a ten year period from 1979. As table 3.14 shows, fifty-five per cent of all firms were able to identify some form of external assistance that they had received during the 1980s, implying that nearly half the firms relied solely on their internal management resources to guide their business. Rural firms showed the highest propensity to use outside support (sixty-six per cent) and firms in London the lowest (forty-six per cent), a variation which the authors explain by the stronger presence

of public sector support organisations in remote rural areas, and by the activities of the RDC in particular. In fact, outside the remote rural areas, external support for established SMEs is almost entirely delivered by private sector sources (Smallbone *et al.*, 1993b: 281).

Table 3.14: Number of firms using different forms of external assistance by region

Source of assistance	London		OML		Rural		All firms	
	No.	(%)	No.	(%)	No.	(%)	No.	(%)
Public and semi-public agencies ^a	7	(6)	(14)	(55)	(21)			
Paid consultants	28	(22)	(34)	(16)	(25)			
Banks and accountants	20	(16)	(17)	(18)	(17)			
Informal sources ^b	6	(5)	(13)	(10)	(9)			
Trade Associations & Chambers	8	(6)	(13)	(4)	(8)			
Other sources	9	(7)	(6)	(4)	(6)			
Firms using external assistance ^c	58	(46)	(57)	(66)	(55)			
Number of firms in panel	126	(100)	(100)	(100)	(100)			

Notes:

^a Public and semi-public agencies include enterprise agencies, local authorities, the Small Firms Service and the Rural Development Commission

^b Informal sources include friends, business associates and non directly involved family members

^c This is the total number of different firms using external assistance. Since some firms used more than one source, the figure is often less than the total for the column.

Source: Smallbone *et al.*, (1993b), p.281

3.5 PSYCHOLOGICAL AND CULTURAL FACTORS AFFECTING THE GROWTH OF SMEs

3.5.1 Local Culture

The importance of local entrepreneurial cultures in the development of SMEs have long been discussed (Gill, 1985; Takyi-Asiedu, 1993) but precise measurement of their impact is extremely difficult. An entrepreneurial culture can be defined as:

a social setting where entrepreneurial behaviour, i.e. economic risk taking involving investment in and organisation of resources and challenge of existing (market) structures, is encouraged (Johannisson, 1984: 33-4).

While all SME creation involves some degree of risk, and to survive existing market structures must be changed (*post hoc* if the pre-existing market structure has not changed the new firm has not gained any market share); determining the precise effects of local

cultures on this is extremely difficult. This is particularly hazardous as one has to make an assessment of opportunities lost arising from pessimistic community attitudes - a counterfactual of what could have been gained (Jones and Clark, 1976).

One approach to this problem has been offered by Illeris (1986) who distinguishes between three possible life modes: self employment, career advancement and wage earners, which are socially and culturally determined and influence the propensity of individuals to start-up enterprises. In the self-employment life-mode the dominant job-related motivation is to be self-employed, to own the means of production and to control the production process (Illeris, 1986). Independence is very important, with a strong cultural tradition passed down familial generations. Within Denmark, Illeris sees this tradition over-represented in rural areas, with SMEs often incorporating whole families, influencing the upbringing of young people and stimulating complex webs of mutual help.

In the career life mode the dominant value is the advancement of one's career. This is most likely to be achieved via educational achievement and employment within large, hierarchical private or public sector organisations. These individuals will set up their own firms only if this becomes the best option for profiting from their experience, skills and production knowledge. For the last grouping, wage earners, the dominant motive is to sell one's labour at the highest possible price in order to maximise leisure time (Illeris, 1986). These individuals are unlikely to set up their own business unless they are unable to find alternative paid employment. Illeris's groupings can be criticised in that they do not cover all possibilities, do not show how individuals may change life-modes nor indicate the roots of the life-modes. However, empirical evidence does support the fact that the proportions within each group will vary spatially and that the most dynamic centres of SME growth have a pre-existing preponderance of self-employed individuals (Johannisson, 1984; Karlsson and Larsson, 1993). SMEs will breed SMEs by offering employees within them the opportunities to see how businesses are run, role models and contacts.

Within rural areas, the self-employment life-mode has traditionally predominated in areas characterised by independent and self-reliant small-scale farmers or under sharecropping or '*metayage*' farming systems that predominate in the Emilia-Romagna, Tuscany, Umbria and Marche districts of Italy (Keeble and Wever, 1986). Where land ownership is characterised by small, family holdings each farm is a seedbed for autonomous decision making and the growth of managerial capabilities that enrich the local stock of entrepreneurial qualities (Brusco, 1982, 1986). Such agricultural systems also offer a base for diversification in that other opportunities can be exploited with farming providing a financial safety net for each family (Brusco, 1986). In contrast, this life-mode is much less common in areas where land ownership is highly concentrated, with a polarisation between the landed aristocracy and the landless agricultural worker. Where the vast majority are landless labourers an indigenous business class is unlikely to develop - a finding confirmed by Spilling (1985) for Norway and Illeris (1986) for Lolland-Falster in Denmark. Culture thus inevitably has a historical dimension and the distribution of land will affect the development of a region in any transition from an agricultural to a manufacturing or service based economy. A land tenure structure of small family plots is much more conducive, by providing experience, a financial safety net and basis for co-operation, in the development of an SME based transition from an agrarian economy.

The statistical tests conducted on possible relationships between SME growth and psychological factors have, in contrast, focused on the individual as the unit of analysis and investigations into the role of family history, social marginality and motivation factors are detailed in table 3.15.

Table 3.15: Psychological and Cultural Factors Affecting the Growth of SMEs

Survey	Family History	Social Marginality	Motivation
Barkham (1992)			+
Dunkelberg <i>et al.</i> , (1987)		X	X
Johnson (1991)			+
Kinsella <i>et al.</i> , (1993)			+
Storey <i>et al.</i> , (1989)			+
Storey (1994)		+	
Westhead & Birley (1993)	X	X	X
Woo <i>et al.</i> , (1993)		-	
Wynarczyk <i>et al.</i> , (1993)			X

Key:

- + Positive Relationship between the element and growth of the firm
- Negative Relationship between the element and growth of the firm
- () Relationship present in a univariate context, but weak in a multivariate context
- X Element not shown to be significant in influencing growth

Source: Framework Derived from Storey (1994), p.127

3.5.2 Family History.

One study that has looked specifically at business growth and family backgrounds (Westhead and Birley, 1993), found no statistical relationship between parental background and SME employment growth. While the author has not identified any similar surveys concerning growth, more evidence is available on the relationship between family history and the probability of start-up. Rosa (1993) conducted a postal questionnaire to ex-students from five Scottish and five English Universities who graduated between 1983 and 1985, gaining 2801 usable replies - a response rate of fifty-six per cent. Graduates from a business family background showed a greater tendency to enter self-employment than those from employee backgrounds. Significant differences were also found on attitudes to work. Graduates with family business backgrounds tended to be less disposed towards comfort and security in work, were less likely to favour working in the public sector, were more favourably disposed to working in their own business, had more positive attitudes about entrepreneurs, and a greater internal locus of control. Particularly interesting is the apparent role of intergenerational links with the most important group identified being grandparents. Graduates with both parents and grandparents involved in business

ownership registered the highest incidences of entrepreneurial activity and attitudes. However, the study is limited in that while it identifies these important linkages it does not inquire into the importance of *specific* forms of family support such as role models, resources and sources of contacts. Without doing this, it is not possible to distinguish between family support that is *resource based* and advantages that come through *psychological dispositions*.

3.5.3 Social Marginality

Social marginality can be defined as 'where there is a marked incongruity between the individual's personal attributes - physical characteristics, intellectual make-up, social behaviour patterns- and the role(s) he/she holds in society' (Stanworth and Curran, 1976). Stanworth and Gray (1976) see Jews as a classic example fitting their definition; a race whom have developed, in response to discrimination from others, business skills and a supporting culture. All of the studies of social marginality listed in table 3.15 have followed Stanworth and Curran (1976) in using racial variations as their proxy. From the four studies that have tested this hypothesis listed in table 3.15 only Storey (1994) in his investigation of business growth in Cleveland found that those established by in-migrants grew more rapidly than those formed by natives, with the in-migrant group only including a small proportion from ethnic minorities. Evidence from the United States (Woo *et al.*, 1989) suggests that businesses established by minority races grew less rapidly than those established by the majority population but this is counteracted by both Dunkelberg *et al* (1987) and Westhead and Birley (1993) (the latter for the UK) who identified no such relationship.

The source of these contradictory findings is most likely to be found in the fact that they do not distinguish between racial backgrounds but merely lump all minority groups together. In attempting to overcome this methodological failure Jones, McEvoy and Barrett (1994) considered and found marked differences in the types and growth rates of

businesses established in the United Kingdom by those from Asian and Afro-Caribbean backgrounds. The latter group were found, overall, to have formed smaller and lower growth enterprises than those set up by individuals with Asian backgrounds whose performance at least matched a control sample of white owned businesses. The evidence on social marginality is thus inconsistent at best and there is a clear need to separate and understand the differences between racial groups.

3.5.4 Motivation

A number of different tests on motivation have been conducted in which the most prevalent approach has been to distinguish between those start-ups formed for positive and negative reasons. The former is taken to be those start-ups based on perceptions of positive market opportunities while negative reasons include such factors as unemployment and redundancy. The results from these tests are given in table 3.16. Four out of seven studies found a relationship between the existence of a positive motivation and growth. Yet to aid understanding of this area there is a need to study the two groups of exceptions in greater depth - those who were positive about growth but failed to succeed and also the 'surpassed growth grouping' - those who did not start their business with positive aspirations but performance, nonetheless has been good.

In addition to the positive and negative dichotomy several commentators have investigated whether links exist between business success and psychological characteristics of SME OMDs. Perry (1990: 30) reviewing the North American and Australian literature on the psychology of entrepreneurs controlling high-growth enterprises reports how, compared to other small business owners, they are more independent, have greater internal loci of control and different cognitive styles. However, taking the entrepreneurial personality literature as a whole, one must note several weaknesses. These 'results' will only be as good as the validity of the tests applied and the measurements of independence and need for achievement are by no means complete or totally satisfactory. Second, the

evidence on cognitive styles of high growth entrepreneurs can be questioned in that one must ask if the 'after the event results' reflect differences which have been apparent since before start-up or merely reflect new outlooks which have *emerged from* the experience of high growth. Third, these attribute tests are limited as, acknowledged earlier, a range of different traits, skills and competencies will be needed by the OMD to meet varying and complex situations (Gibb and Davies, 1990). There will thus not be a single skill or competence that will distinguish between high-growth entrepreneurs and the rest of the population - the factors involved in business success are far too complex for such a reductionist conclusion. Finally, most of these motivation tests revolve around interviewee or interviewer ranking schemes conducted in artificial surroundings rather than through observation of actions and it should be questioned whether the results actually reflect day-to-day practices that are not observed as part of the tests themselves.

3.6 SUMMARY OF THE ACADEMIC LITERATURE AND IDENTIFICATION OF AREAS FOR FURTHER RESEARCH

Table 3.16 provides a summary of the evidence contained in this chapter on factors that may potentially effect enterprise growth, spatial variations in development and details of specific research conducted on rural peripheral locations. It should be remembered that the construction of any summary is an exercise in reduction and as such provides merely an outline of previous research. The reader is referred back to the preceding sections for assessments of the validity and conflicts presented in the research on which this summary is constructed.

Table 3.16: Summary of Research conducted on factors influencing the performance and growth of SMEs

No.	Factor Influencing Growth	Relations	Spatial Variations	Rural Periphery
Business Strategy and Structure				
1.	Number of Founders	Positive	No Evidence on Variations	No Evidence on where team starts occur
2.	Market Orientation	Positive	Firms located in accessible rural locations more market orientated compared to remote rural	Overall, Poorer strategies
3.	New Product Development	Positive	Firms in core areas are more innovative	Less innovative, on the whole, compared to accessible rural firms
4.	Technology	Positive	More high-tech firms based in South East	Under-representation of high-tech firms, but no complete figures
5.	Financial Management	Unproven	No evidence	No evidence
6.	Business Planning	Positive	No evidence	No evidence
Economic Factors				
7.	Land & Location	Importance Vary with Sector	Movement to rural areas around core locations, urban > rural shift	Locations here by SME OMDs more environmentally motivated
8.	Government Grants	Positive (Variations)	Take-up rates higher in South and North-West	No evidence on take-up rates
9.	Personal Savings	Positive	Higher in core areas. Role in business angel networks not quantified	Lower overall, but very important variations in wealth
10.	Bank Finance	Positive	Conflicting	No conclusive evidence
11.	Venture Capital	Positive	Access Greater in Core Areas	Lower levels of formal agreements
12.	External Equity	Positive	Core areas concentration	Ignored by Venture Capitalists?
13.	Labour	Positive	Skill levels higher in core areas but with highest demand for them	Greater recruitment problems for skilled workers
14.	Local Demand Growth	Positive	North - South Divide	Over dependence on a few service sectors, often low paid
15.	Large Firm Restructuring	Depend on size & type	Relocation of suppliers around main production plants	Remote, problems of transport costs being higher for JIT suppliers

No.	Factor Influencing Growth	Relations	Spatial Variations	Rural Periphery
16.	Local Ownership	Positive	Lower opportunities for SMEs based in branch plant economy localities	No real empirical evidence
17.	Increasing Plant Size	Negative	More smaller plants in rural areas and South	Average plant and establishment size smaller
18.	Exporting	Not significant	No Evidence	No Evidence
Education & Training				
19.	Formal Education	Broadly Positive	Higher attainment levels in South	Mixed, little analysis
21.	OMD Training	Positive	No evidence on variations	No evidence
Cultural and Psychological Factors				
22.	Local Culture	Unproven	No evidence	Positive relationship with sharecropping land tenure systems
23.	Family History	Unproven	No evidence	No evidence
24.	Social Marginality	Vary with Racial Spread	No evidence	Low numbers from racial minorities in rural peripheral areas
25.	Motivation	Positive	No Evidence	No Evidence

Table 3.16 indicates several areas where future research is required either because empirical evidence is currently unavailable or studies contain methodological weaknesses rendering their results questionable. The majority of studies have only taken one proxy of growth (either change in turnover, profitability or employment generation) and assumed it would be highly correlated with other measures. However this may not always be the case: as MacPherson (1994) found, firms that implemented both product and process innovation, while rapidly increasing their turnover, had the poorest employment growth, reflecting a high degree of labour substitution with new technology. The processes underlying job generation and turnover growth may differ in certain key ways, indicating the need for future studies to incorporate both measures of growth.

The upsurge of interest in small businesses in the 1980s coincided with macroeconomic growth and a credit boom in the UK. It was within this time period that the majority of growth studies were conducted. Factors underlying growth in the 1990s may be very different from those uncovered during the 1980s and as it is only really in the last fifteen years that small businesses have become a legitimate area of academic study in themselves, so that our knowledge of historical discontinuities is comparatively weak. One must ask whether internal structure and strategy choices at the firm level have become more or less important? and this should link with a consideration of the balance between structure and agency in *determining firm performance*.

There has also been a poor consideration of, as highlighted in the literature review above, crucial areas of strategy and structure. Reid notes how the small business field is 'an area where much of the evidence used for policy purposes has, inappropriately, been drawn from the analysis of large corporate enterprises' and the role of financial variables 'are generally neglected in growth studies'(Reid, 1992: 22). This has not been helped by the use of subjective, respondent completed, measures of performance (such as Likert scales). These responses will be highly prone post-hoc rationalisation. If a firm has performed well there is a tendency by respondents to rank their competencies highly, which provides a circularity rather than a benchmark for comparing firms. For example, the relationship found between those OMDs who were most happy with their firm's performance and financial records, by Nayek and Greenfield (1994), is a case in point.

In summary, it is clear that there is no single factor that separates high-growth enterprises from other firms. This is, of course, not surprising - if there was, business success would be simple. Yet many commentators ignore and try to distinguish between high and low growth enterprises on the basis of a few binary classifications and produce policy recommendations and criteria for selective support dependent on them (such as the theory of supporting all team starts in preference to individual start-ups as team starts have,

on average, higher growth performance overall). Yet, if business success and competitive advantage is complex and depends not only on what the individual firm is doing, but others in the same industry as well, trying to predict growth on the basis a very small number of indicators centred solely on the internal nature of the enterprise is misguided. For example, if ICI were deciding whether to launch a new product or subsidiary they would not do it on the basis of the fact that because they are a public limited company, and PLCs have on average the highest return on assets (ROA) then they should proceed. The same approach is flawed when applied to SMEs. Effective identification of growth prospects depends on understanding the varying impacts of influencing factors on SME performance and their interrelationships.

In peripheral rural areas the heterogeneity of start-up prospects and performance is apparent, especially considering the diversification of the local population stemming from counterurbanisation, and to a lesser extent, rural industrialisation and agricultural restructuring. However, within this framework a number of areas for further investigation can be elucidated. First, while all regions appear to contain SMEs with a range of growth prospects and performance, the question of the spatial distribution of high-growth enterprises, and whether they are under- or over- represented in rural peripheral areas still remains (a question which cannot be answered with recourse to the VAT register data). The literature on factors influencing performance has focused primarily on whether firms "do something or not", rather than the quality of that "something". For example, the literature on training and growth is based almost solely on divisions between firms that undertake training and those that do not, and then whether the performance of the two groups differs. Yet this approach ignores any assessment of the impact of different types of training strategies on growth, and this should be incorporated into future research design. Finally, meaningful research on SMEs in rural peripheral areas can only be undertaken when the results from firms in these localities are compared with comparative samples from rural

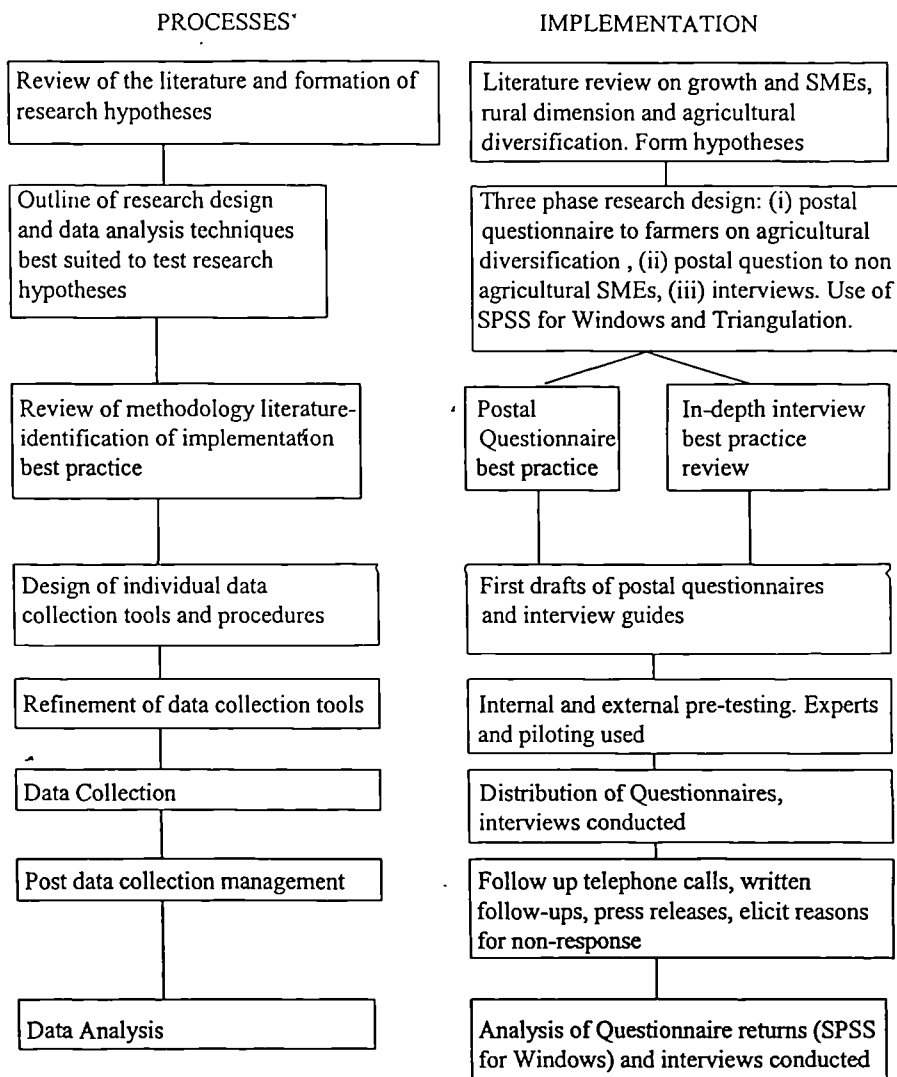
core localities. If this is not done, one cannot make any conclusions as to whether the results from the rural peripheral sample merely reflect national SME trends and performance, or whether there are substantial differences between localities. This is crucially important for the formation of public policy. If SMEs in rural peripheral areas entirely mirror their counterparts in other localities, with no substantial differences in the problems faced, an effective national policy should be sufficient - the problems SMEs face, on this conclusion, operate entirely at a national level. However if substantial differences are found, with important additional problems faced by SMEs in rural peripheral areas, the rationale for additional support to meet these needs becomes more apparent. Comparative research is thus important, and these points will be addressed in the research design that follows.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

This chapter details the research hypotheses formed out of the two literature reviews (chapter 2 on alternative enterprise creation by farmers and chapter 3 on factors affecting the growth and performance of non-agricultural SMEs) and the methodologies employed to test these hypotheses. Sections 4.2.1 and 4.2.2 detail the research hypotheses generated on agricultural diversification and the non-agricultural SME sector respectively. The hypotheses developed in 4.2.1 emerge out of the four areas identified for further research on this topic outlined in section 2.3.4. The hypotheses on the growth and performance of the non-agricultural small business sector are based on the areas identified and summarised in table 3.16. The research methods employed to test these hypotheses are detailed in section 4.3 and a three phase research design outlined. Techniques employed to boost response rates for the two postal questionnaire surveys are detailed in 4.4 and the piloting procedures discussed in section 5.5. The results of this three phase research design are unveiled in chapters 5 to 7. Figure 4.1 provides a summary of the stages involved in developing the research methodology, detailing the processes followed and how these were implemented, and as such provides a guiding framework for this rest of this chapter.

Figure 4.1: Methodology flow chart



4.2 FORMATION OF RESEARCH HYPOTHESES

In areas where no research, or further more complete evidence is required on the growth and performance of rural peripheral SMEs, research hypotheses were generated and separated into those concerning the agricultural and non-agricultural business sectors respectively.

4.2.1 Agricultural Business Sector

This study draws together the findings detailed in chapter two and develops the four areas identified for further research outlined in section 2.4. The research hypotheses below reflect how the majority of previous studies have been largely counting exercises (ATB,

1986a; Halliday, 1989). Appropriate econometric techniques have not been fully utilised and a key aim here is to see if significant background differences are apparent between diversifiers and non-diversifiers and between enterprises that have led to the creation of new jobs and those which have not. Moreover an attempt is made to understand the importance of the local socio-economic environment in determining the nature and extent of diversification. Previous studies have either focused on a particular locality or attempted to make a national assessment of diversification activities. No sophisticated attempt has been made to understand differences between rural core and rural peripheral localities.

Finally, there is a need to move away from the farm-centric approach that most studies take towards diversification and understand the wider consequences (if any) for local economic development. There is thus a need to measure the quality and quantity of jobs created by diversification enterprises and whether significant patterns emerge which distinguish job creating from non-job generating enterprises. This is particularly important given that diversification is often espoused, and funded in Objective 5(b) projects, as a means of rural regeneration and farms still take the lion's share of public spending on rural employment and development matters. Given this, a series of research hypotheses for testing can be specified:

[A1] (i) There will be no difference between the study areas in the number of farmers who have pursued enterprise diversification.

(ii) There will be no difference between the study areas in the average turnover of diversified enterprises.

(ii) There will be no difference between the study areas in the number of job generating diversified enterprises.

[A2] (i) Larger farms are more likely to have diversified.

- (ii) Farmers whose main aim is to maximise income will be more likely to diversify as they will be more proactive in seeking alternative enterprises.
- (iii) Farmers with outside employment will be less likely to diversify.
- (iv) Farms with large agricultural workforces will have higher propensities to diversify as labour demand becomes increasingly seasonal and owners look for opportunities for redeployment.
- (v) Tenant farmers will have a lower propensity to diversify.

[A3] (ii) The employment generation of diversified enterprises will be higher in rural core as opposed to rural peripheral localities.

(i) Diversification enterprises set up to exploit a market opportunity are more likely to create new jobs.

(ii) Farmers who have diversified into tourist accommodation are less likely to have created of new jobs.

(iii) Diversified farmers who have used external training and advisory services are more likely to have created new employment opportunities.

[A4] (i) There will be no significant differences between enterprises which use and do not use external training and advisory bodies.

4.2.2 The Non-Agricultural SME Sector

Reviewing the summary of findings displayed in table 3.17 it is clear that the study needs to focus on those areas where the need for further research is most pressing. There is a limit to how much information respondents can be asked to provide; too thin a coverage, skimming a range of subjects will not give sufficient depth, and there is a need to avoid

those topics which are impossible to accurately test within the financial and time constraints of this project. On this basis, the issue of local culture is to be ignored as this would require the collection of a very large number of responses internationally for effective comparison. This is in addition to the problems of accurately measuring meaningful cultural differences as outlined in section 3.5.4. There is no support for the contention that the psychological profiles of rural and urban entrepreneurs are significantly different in the UK on the basis of previous research and no further testing is proposed here. The research design will also eschew primary data collection on the role of national macroeconomic trends as this would require the collection of data over the whole economic cycle and UK economy which time does not permit here. Rather, given the focus on rural peripheral localities, it is suggested that data collection is concentrated in these areas with rural core localities acting as a comparison group (as discussed in chapter 1.2.1). Given this, a series of research hypothesis for testing can be outlined:

BUSINESS STRATEGY

- [B1] (i) Team start enterprises will experience higher growth levels than enterprises formed by single founders.
- (ii) Fewer multi-founder enterprises will be formed in rural peripheral areas due to the more dispersed population base.
- [B2] SME OMDs who conduct on going market research experience higher levels of growth.

[B3] (i) Enterprises with a computerised accounting system will achieve higher growth.

(ii) Businesses which set financial targets each year will be more likely to record high growth.

[B4] (i) Those firms which introduce new products to the market will achieve higher growth.

(ii) Firms in core areas are more likely to have introduced new products to the market within the past three years.

[B5] (i) Firms which introduce new high technology products to their range will have superior growth records.

(ii) The propensity of firms in core localities to introduce new high technology products to their range will be greater.

(iii) Firms which manufacture new products will have superior growth records.

(iv) The propensity of manufacturing firms in core localities to manufacture new products will be greater.

[B6] The performance of SMEs as a group will be higher in core localities.

ECONOMIC ISSUES

[B7] (i) There will be a greater concentration of businesses located for reasons of environmental attractiveness in rural peripheral localities.

(ii) SMEs located in core localities will cite that accessibility and transport links as more important considerations in their location decision than their peripheral counterparts.

(iii) Fewer peripheral SMEs will cite closeness to founder's home as an important factor in the choice of their present location.

[B8] (i) Firms which have sought external equity will display higher growth.

(ii) Lower numbers of firms will have sought external equity in rural peripheral areas.

[B9] (i) Firms which supply markets outside their own county will have achieved higher levels of growth.

(ii) Enterprises in rural peripheral locations will be more dependent on their local markets.

[B10] (i) Enterprises which export will have achieved higher growth.

(ii) There is a positive association between propensity to export and being engaged in manufacturing.

(iii) The propensity of rural peripheral firms to engage in exporting will be lower than their core counterparts.

EDUCATION AND TRAINING

[B11] (i) Those SME OMDs with a specific business education background will achieve higher growth.

(ii) The educational attainment of SME OMDs will be higher in core areas.

[B12] (i) Those businesses which employ training will have achieved above average growth.

(ii) Those businesses which do not use external training agencies or formal internal training systems will compensate with higher levels of informal internal training.

(iii) The take up of external training will be lower in rural peripheral areas.

[B13] (i) Firms which have achieved superior growth records in the past will have a higher propensity to cite significant growth as their main future business objective.

(ii) Peripheral firms will have a lower propensity to cite significant growth as their main business objective.

4.3 HYPOTHESIS TESTING AND RESEARCH DESIGN

The research design chosen consists of three main strands: (i) a standardised postal questionnaire to farmers on agricultural diversification and alternative enterprise creation by farmers, (ii) a standardised postal questionnaire to non-agricultural small and medium sized enterprises in rural peripheral and rural core localities and (iii) a series of interviews encompassing the agricultural and non-agricultural business sectors, together with appropriate support agencies. The rationale for each of the phases is detailed in the sections below.

4.3.1: Standardised Postal Questionnaire 1 - Agricultural Diversification

The rationale for separating the study of agricultural businesses, and new enterprise creation by the farming community, from the rest of the SME population is that the level of subsidies and grants that the former receive makes it unlike any other sector. As discussed

in section 1.5 it would be impossible to incorporate the significant differences in the operating environments each of the two groups face in a single, pertinent questionnaire. By separating the agricultural sector a far more detailed and relevant picture can be gained. While the farming community now makes up only a minority of rural businesses, the greater levels of wealth, and public sector assistance provided by both the UK government and the EU for farm diversification points to this being of key strategic importance. It will be important to test whether farm diversification ventures achieve greater levels of growth and assess to what extent such initiatives can contribute to dealing with the problems of unemployment and low wages in rural peripheral localities.

Considering the research hypothesis it was clear that there was a need to compare large numbers of farms, which are spatially dispersed, collecting information that had not already been accumulated, on standardized points of comparison. This suggested that for the bulk of testing standardised postal questionnaires (SPQs) were most appropriate. Face to face interviews (as sole data collection method) would be inappropriate because of the need to gain information from a large number of farms over a wide geographical area (time and resource constraints) and the requirement of standard questions is more difficult to impose on face-to-face situations. In telephone surveys it is difficult to provide the assurances of confidentiality that are required (particularly given the nature of some of the information on performance required) - the respondent cannot see any proof of university and research status and anonymity cannot be guaranteed.

To test spatial variations initially two study areas were drawn: (i) Devon and Cornwall (economically peripheral) and (ii) Surrey, Hertfordshire and Berkshire (economic core). The core - periphery divide is based on Webber and Craig's (1976) index of local authority districts, as indicated in chapter 1.2.3 with the identification of rural localities given by Cloke's index of rurality (chapter 1.2.1). In addition through contacts made by the author a third study area, Teesdale was added, with the questionnaire being distributed

by Teesdale District Council. Teesdale is an economically peripheral area, like Devon and Cornwall, but in contrast to the latter it does not have such a significant tourism sector. By adding this third study area one can enhance our understanding of the importance of locality in enterprise development. For each study area, the sampling frame was provided by Yellow Pages classified telephone directories and Electronic Yellow Pages (EYP). These directories are the most comprehensive lists of farmers available to a researcher who is not funded by the Ministry of Agriculture, Fisheries and Food (Errington, 1985). The use of Yellow Pages is considered by Errington (1985), who concludes that of the four potential problems in a sampling frame - missing elements, clusters of elements, foreign elements and duplicate listings - only the first constitutes a potential source of significant bias (Warren, 1989: 3). The questionnaire was sent out in the winter of 1995 with this season chosen as it is the time of the year when farmers have most spare time.

The design of the questionnaire involved both a pre-testing and pilot phase. It was recognised that a problem in constructing the questionnaire was that the sample frame contained a wide diversity of farm holdings and farmers with a multifarious involvement in farming. This implied that producing a standard design which would be applicable and understandable to all may be difficult. The pre-testing phase thus consisted of in depth discussions with several farmers on how they conceptualise and understand diversification. The results made it clear that there was a need to avoid jargon and technical terms, which while well known to many, were not universally understood and thus presuppositions of knowledge could seriously bias the results.

4.3.2: Standardised Postal Questionnaire 2 - Non- Agricultural SMEs in rural Peripheral and Rural Core Localities

Building on the contemporary literature and the identification of areas for further exploration there is again a need to compare large numbers of enterprises based on

standard points of comparison, and thus a requirement for standardised rather than non-standardised survey work. Likewise, for adequate testing, information drawn from a large number of highly dispersed OMDs was required, together with assurances of confidentiality. Given this for the bulk of testing standardised postal questionnaires (SPQs) were again deemed most appropriate.

In measuring growth performance three criteria for sampling were apparent:

- (i) Named owner-managing directors for the questionnaire to be addressed to personally.
- (ii) The sampling frame should give the age of businesses, so that enterprises started before 1990 could be eliminated. This measure was taken to avoid start-up businesses, which face unique problems, distinguishing them from their more established counterparts (Storey, 1985: 225). Moreover, as this study is concerned with growth and performance, the enterprises considered must have been in business long enough for valid conclusions to be drawn.
- (iii) As the study includes a spatial dimension, there was a consequent need for spatially consistent (homogenous) measuring procedures and recording processes.

Given these requirements a review of possible databases was conducted (see table 4.1) and Dun and Bradstreet directories were chosen as the best available source.

Table 4.1: Database: Opportunities and Choice

Database	Advantages	Weaknesses
Yellow Pages	Very wide coverage, all sectors and sizes.	Listings not possess names of contact individuals or information on sizes. Difficult to gain random selection. Postcodes not usually listed so spatial analysis required more difficult.
County Council Directories	Regularly updated, usually give information on named contacts, size and economic sector.	Each County Council different collection procedures, dates of publication. Some only voluntary inclusions. Not all counties maintain directories (i.e. Berkshire has not since 1992). Because of differences difficult to compare spatial variations.
District Council Uniform Business Rates (UBR) database	All businesses that pay business rates.	Not include businesses operating from home. Problems of access. Anecdotal evidence points towards many databases being considerably out of date.
Dtn and Bradstreet Directories	Based on credit references. Same collection and information listing procedure in all regional directories.	Weak on those business sectors that are less credit dependent. Skewed towards larger and more established businesses.
Local Enterprise Agency (LEAs) Lists	Concentrate on start-ups.	Problems of access. Poor coverage of larger and well-established SMEs.
VAT register	Spatially consistent rules for entry.	Researchers not allowed access to individual names and addresses of those registered.

The same two rural study areas were chosen: (i) Devon and Cornwall (economically peripheral) and (ii) Surrey, Hertfordshire and Berkshire (economic core). Again, the core - periphery divide was based on Webber and Craig's (1976) index of local authority districts. A total of 650 internally funded questionnaires were dispatched (divided equally between the core and periphery study areas) together with a further 500 questionnaires funded by a grant from the Cornwall Education and Research Trust and distributed to businesses in that county (using the same selection procedures).

4.3.3 Interviews with Support Agencies, Farmers and OMDs

The interviews were designed to elaborate on the key points that emerged from the SPQs, on the basis of three aims:

- (i) To enhance the overall knowledge of the SME policy framework and the perceptions of key actors in rural peripheral areas, supplementing statistical evidence generated in the first two phases.
- (ii) To aid understanding of the decision making processes that underlie the results generated from the SPQs.
- (iii) To question further, where results from the SPQs were ambiguous or presented surprising conclusions.

The primary aim and strength of interviews is the ability to garner inner perspectives on outward behaviours. This phenomenological perspective attempts to understand social phenomena from the actor's own viewpoint (Douglas, 1970: ix). In capturing this process of interpretation, the central premise is that people *construct* the meaning and significance of their realities via their inherited framework of personal beliefs and values which are used to 'categorise, characterise, explain and predict the events in their worlds' (Taylor and Bogdan, 1984: 9). In other words, in order to understand *why* persons act as they do we need to understand the meaning and significance people give to their actions (Jones, 1985: 45-46). Interviews also allow us to learn about things we cannot directly observe which includes all feelings, thoughts, intentions, the meanings individuals attach to environments and actions, and perspectives on the future and past behaviour (Patton, 1987: 109). Finally, they can be extremely valuable for identifying patterns of association and accommodation between factors on the ground, when compared with the statistical correlations obtained from the analysis of large scale postal surveys (Hakim, 1987: 28).

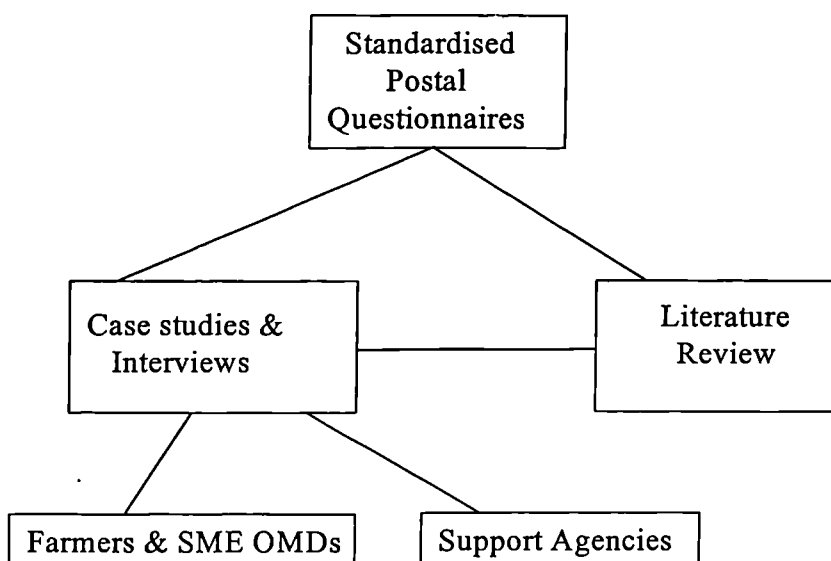
Yet it should also be noted that interviews, like SPQs, have their limitations, the most pertinent of which are: (a) their susceptibility to distortions and bad memories (what Riley

(1963) calls a "biased viewpoint effect") on the part of respondents; (b) the problem of interviewer bias, (c) the continued dependence on co-operation as interviewers can only report the material respondents are willing to give, and (d) the difficulties that surround the accurate recording of interaction (Phillips, 1971: 99) and, (e) the understating of causal processes may be beyond the grasp of respondents. In noting these problems it is recognised that there is no single, omnipotent data collection method that would be sufficient in this study. Rather a combination of tools is more appropriate and this is captured in the triangulation approach adopted.

4.3.4 Triangulation

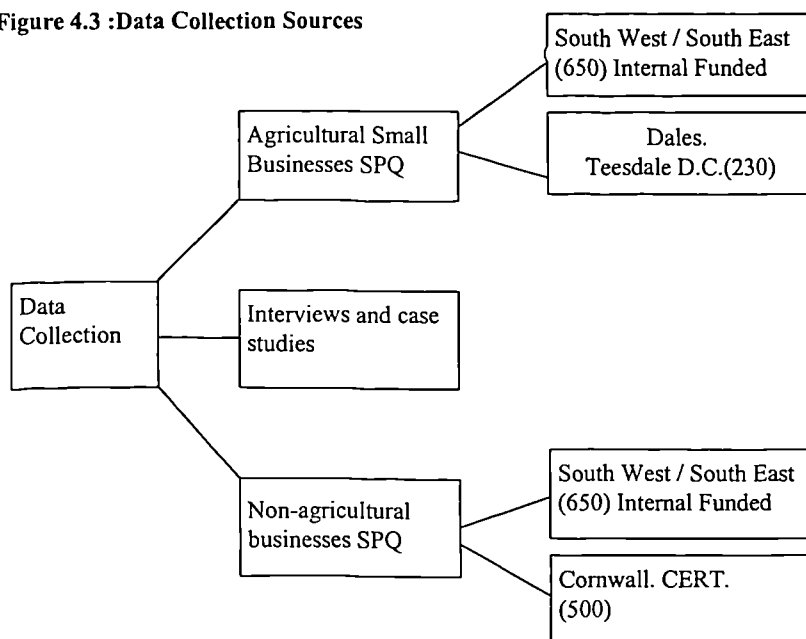
Developing from these conclusions a methodological approach based on the principle of triangulation was followed, whereby the latter can be defined as involving 'the combination of methodologies in the study of the same phenomenon' (Denzin, 1978). By using an alliance of data sources the research can aid the amelioration of personal biases and check the internal consistency and external validity of the information garnered (Burgess, 1982). The methodological data collection tools are used as complements rather than supplements and such a framework is outlined in figure 4.2.

Figure 4.2: Triangulation Methodological Approach



Triangulation methods attempt to analyse and control the quality of data collection, by assessing ‘the validity of the overall results through the suitability of the results from each method’ (Romano, 1989: 39-40). In this study the three data collection points are (i) the review of the existing literature, (ii) the two standardised postal questionnaires and (iii) the interviews and case studies. The results from each method are compared with the other two points to check internal consistency and external validity by asking the question: ‘do the different data collection techniques produce results which are contradictory or comparable?’ (Romano, 1989: 40). The actual number of contacts and study areas covered are detailed in figure 4.3. This process of cross-checking, it is argued here, is particularly important for small business research where there is no one perfect database or methodological procedure and response rates, regardless of technique adopted, tend to be low. Given this latter fact, the next section looks at issues surrounding response rate management.

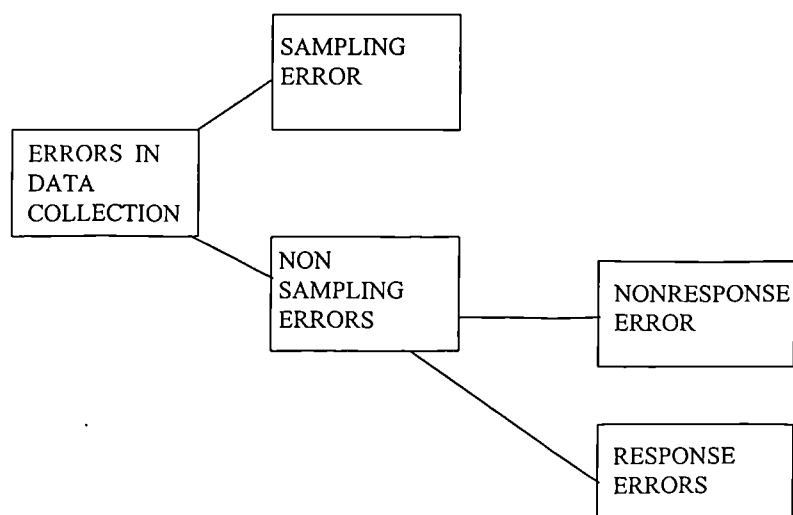
Figure 4.3 :Data Collection Sources



4.4 RESPONSE RATE MANAGEMENT

While postal questionnaires have become increasingly popular with researchers, they have become progressively more unpopular with potential business respondents (Haggett and Mitchell, 1994: 102). Petry and Quackenbush (1974) found that sixty per cent of executives believed they now received a greater number of questionnaires, with seventy-three per cent stating their company had introduced stricter rules concerning responding to mail surveys. A similar study by Tootelian and Gaedeke (1987) on company attitudes to academic research, revealed that twenty-four per cent of companies had an outright policy of refusing to answer surveys, compared to only eight per cent when contacted twelve years previously. All this has been occurring within an environment of rapidly expanding direct mail and postal communication: in the UK between 1976 and 1982 the total expenditure on postage and production for outgoing direct mail increased from just under £90m to nearly £330 million (Mouncey, 1985: 1). Given this shift in attitudes and environment there is a need to reassess the use of standardised postal questionnaires (SPQs) as a data collection method and in particular, it is pertinent to consider some of the techniques employed to improve low response rates.

Figure 4.4: Potential Sources of Error in Data Collection



As figure 4.4 indicates three possible sources of bias exist with regard to mail surveys: sampling error, nonresponse errors and response errors, the latter two being forms of nonsampling errors (Schneider and Johnson, 1995: 266). Sampling error is the difference between the results that would have been obtained from a sample under ideal measurement conditions and those that would have been obtained from a full population census under similar measurement conditions. In contrast, nonsampling errors are generally defined as the difference between the results that were actually obtained from a sample and those that would have been obtained under ideal measurement conditions. Nonsampling errors fall into two groups: response errors (where inaccurate information is obtained, which may stem from: ambiguous or poorly worded questions, misunderstood questions, purposely distorted answers to sensitive questions and so forth) and nonresponse errors (where the response pattern differs from the sample population, with some groups within the sample *over or under represented within the respondent groups*).

Following a review of the literature on questionnaire response rates the following procedures were employed:

(i) Respondents were not pre-contacted. Dillman and Frey (1974) found that telephone pre-contact did not increase the overall response rate, although it did stimulate earlier return of questionnaires. A British study of 800 marketing and managing directors of large companies showed that a pre-contact letter acted adversely on the response rate (Jobber and Sanderson, 1983).

(ii) An offer of feedback, summary of results and a telephone number in case of additional questions or queries was made. This was in line with Powers and Alderman's (1982) findings for 2,012 high school juniors registered for Scholastic Aptitude Tests, where an offer of feedback was found to be statistically significant in inducing higher response rates.

(iii) Respondents did not have to give their name or address and anonymity and confidentiality were both assured in the covering letter. Futrell and Hise (1982), from a survey of 500 industrial accountants randomly selected from the membership directory of the American Institute of Certified Public Accountants, on perceived levels of role conflict, clarity, tension and job satisfaction, found that the response rate (23.6%) for those exposed to the anonymous identification stimulus was significantly higher than that found for industrial accountants exposed to the identified stimulus (14.0%) (chi-square value 7.54, statistically significant at the 0.1 level).

(iv) All questionnaire envelopes were hand addressed to named individuals, with covering letters signed personally by the researcher. Dillman and Frey (1974) in a questionnaire to alumna of Washington State University, found that the response rate for the personalised group (covering letter with name, address and Dear M_ ____ typed individually on letter and each signed in pen) was nine percent higher (chi square $p < 0.01$) than the control group who received letters addressed to "Dear Alum" with a pre-printed signature.

(v) The fact that the research was being conducted from a university was displayed prominently on the covering letter and on the questionnaire. Jones and Lang (1980) investigated the effect of sponsorship (university versus local board of retailers trade association), covering letter messages, the form of notification method and questionnaire format on response rates, sample composition bias and response bias. The sample was comprised of 2,926 residents who had purchased homes in an urban county in 1977. The main effect for sponsorship was significant at the 0.01 level. The university sponsorship yielded a significantly higher response rate than the private agency sponsorship. Likewise, Peterson (1975) conducted a field experiment to investigate the effect of five response inducement techniques: (source, stamped or metered outgoing envelop, business reply or stamped reply envelop, follow up postcard versus no follow-up postcard, and the type of

addressing) on response rate, response speed, quality of response, and the undeliverability of the questionnaires. He questioned 3,840 consumers from a metropolitan directory on their banking and financial attitudes. The source of the questionnaire was the most influential factor and it affected all measured variables with the university sponsor achieving significantly higher response rates compared to those distributed under the auspices of a market research company. A similar positive bias in favour of universities was uncovered by Greer and Lohtia (1994) sampling 800 senior sales executives drawn from the Dun and Bradstreet Million Dollar Directory, on computer programs for informing sales teams.

(vi) The number of questions was minimised and the practical nature of the project was stressed. In a multivariate analysis of previous studies on response rates, Heberlein and Baumgartner (1978) showed that the number of questions was a significant, but minor factor affecting response rates but response rates do depend heavily on the salience of the questionnaire topic to the respondent. A mailed questionnaire survey in which respondents are committed to, or interested in, the aims and outcome of the research will have substantially bigger response rate than a less specific survey aimed at the general public. One clear argument for keeping questionnaires as short of possible stems not from the number of responses, but the quality of those garnered. Helgeson and Ursie (1994) looked at the use of affective processing (feeling, subjective and emotion oriented aspect of human thinking) against cognitive decision making (seen as more analytical and effort inducing than affective processing) in answering questionnaires by undergraduate students. Three groups of students were given a 100-item questionnaire, 50-item questionnaire and 10-item questionnaire respectively. In forming their answers subjects were asked to verbalise their thoughts as they were completing the questionnaire and this dialogue was recorded. The results pointed towards questionnaire length being positively related to affective decision making. The longer the survey, the more affective decision making becomes dominant,

with thus more question marks surrounding the reliability of the information garnered (significant at the 0.01 level).

(vii) Second class postage was used. Harvey, (1986: 299) in order to assess the impact of using different class of mail on return envelopes, sent questionnaires to a random sample of people living in the West Midlands. The survey examined the interest and involvement of 800 people in local arts activities; with half of the sample sent a questionnaire including a return envelope with a second class stamp, and the rest a first class stamp. Apart from the class of postage all other factors were kept constant, but the response rates between the two groups were not significantly different.

(viii). User friendly. The questionnaire was designed to make respondents feel that their own views and perceptions were important with feedback elicited via a suggestions box on how the questionnaire could be improved, providing a space also for additional comments on agricultural diversification / SME growth.. The covering letter contained a telephone number that could be called if the respondent wanted further information on the survey or was unsure on answering any of the questions.

(ix). Language. The aim was to make the questionnaire easy to understand, with regard to both the wording of questions and the design of answer categories. Questions were constructed so as to be as short as possible; avoid double-barreled questions, proverbs, double negatives, leading questions; and not overtax respondents' memories.

4.4.1 Interview Procedures

An interview guide approach was followed, where a set of key questions was prepared prior to the interview for discussion. Using the interview guide method, answers to key questions were elicited from all of the relevant sample. The interview guides thus simply served as a basic checklist to make sure that all relevant topics were covered. The advantage of the interview guide approach is that it makes sure the interviewer is focused

on how to best use the limited time available in an interview situation but gives the flexibility for a degree of tailoring to individual circumstances rather than treating subjects as clones of one another (Patton, 1987: 111). Moreover, the interview guide approach is particularly appropriate where 'the researcher has already learned something about informants through fieldwork...[and] the guide can be expanded or revised as the researcher conducts additional interviews' (Taylor and Bogdan, 1984: 92). This was the case with this study as interview questions developed out of the postal questionnaire returns.

Given this structural choice the following best practise procedures were followed:

(i) Pre-interview requests. Potential respondents were initially contacted by a telephone call rather than letter, and this appears to more effective in stimulating a response (Easterby-Smith *et al.*, 1991: 77).

(ii). Farmers and SME OMDs were assured that they would remain anonymous, with pseudonyms adopted for people and places if necessary. As Taylor and Bogdan (1984: 87) note 'there are few legitimate research interests served by publishing people's names...but the risks are substantial: embarrassment of the informant or others; legal problems; self-aggrandizement; concealment of important details and information.' For support agencies, where the name of the organisation needed to be identified to the reader such action was taken, but the names of individual employees interviewed are withheld.

(iii) At the beginning of interviews respondents were: (a) informed of the purposes and objectives of the research, and (b) enlightened as to the method by which they were selected. This is in line with accumulated wisdom as to how subjects can feel most at ease with the interviewer (Cannell and Kahn, 1966: 354). Following specific research on small business owners, interviewees were first engaged in general discussions about their business: as this tends to be an area they know, understand and feel most relaxed in discussing (Easterby-Smith *et al.*, 1991: 79).

(iv) Tape Recording Interviews. Where agreement from subjects was obtained interviews were tape recorded, permitting greater accuracy in data collection (Patton, 1987).

4.5 PILOTING AND POST QUESTIONNAIRE DISTRIBUTION MANAGEMENT

4.5.1 Agricultural Diversification Questionnaire

The pilot returns indicated that while respondents were happy to tick boxes about the size and nature of their farm, open-ended questions on revenue and income tended to be ignored. If this was repeated in the main sample the responses obtained would be severely limited and this would represent a weakness in the overall project. Four corrective measures were thus implemented. First, the number of open ended questions, which are time-consuming and require a lot of writing, was reduced. These were replaced with multiple choice questions (such as asking the respondent to tick which turnover band their enterprise belonged to, rather than asking for a precise figure). These questions are easier to answer, require less time and respondents appear happier to place themselves in a particular band than provide a precise figure on issues such as income, revenue and growth. Second, the anonymity of respondents was more clearly stressed in the covering letter. Third, a greater use of filter questions (which exclude some respondents from a particular question sequence if those questions are irrelevant to them) was made so that time was not wasted by respondents but neither was vital information sacrificed. Finally, it was stressed in the covering letter that even if farms had not diversified would they please tick the relevant boxes, as these returns were just as valuable and this potential source bias needed to be eliminated.

A farm diversification event was organised by the RDC at Dingles Steam Village, Devon on the 17th March 1995. The aim of this event was to assist farmers who had diversified or who were thinking of diversification. At the event, attended by

approximately 330 farmers, relevant individuals were asked to read through, fill in and respond to the questionnaire. Twenty-nine farmers completed the questionnaire on the day and useful information was gained on ambiguous questions and areas of additional interest. This procedure had the advantage over the postal pilot in that responses were gained on the day and it was possible to discuss questions with farmers (gaining a better understanding of how to improve the wording of instructions).

After two to three weeks of the questionnaires being dispatched, a series of telephone follow-up calls was conducted. The aim of these follow ups was three fold: first, to elicit reasons for non-response, second to collect key information statistics on non-respondents (to see if a respondent bias existed) and finally, to act as a reminder to farmers who were willing to complete the questionnaire but had not already acted. Those farmers who had already returned their questionnaires (which given the anonymous nature of returns were not known prior to telephoning) were thanked for their time and co-operation.

Between four and six weeks after the questionnaires were dispatched a press release was sent to local farming newspapers and magazines which geographical boundaries coincided with the study areas. Five such publications were identified from the BRAD directory (South West Farmer, Farming Life, South East Farmer, Three Counties Farming Review and Devon and Cornwall Farmer). The press release thanked all those farmers who had taken part in the survey on agricultural diversification, indicated that the response rate had been most encouraging and if any farmer who had received a questionnaire and was willing to complete it, but has not yet done so, responses were still most welcome.

4.5.2 Non-Agricultural SME Sector

A similar set of procedures was followed for the non-agricultural SME sector. Telephone follow-up calls were conducted between two and four weeks after distribution to a random sample of fifty firms. A letter was issued after one month to twelve relevant newspapers for publication to act as reminder to non-respondents and to thank those who

had completed the questionnaire. The response rates these methods produced and the results elicited for the agricultural and non-agricultural sectors are discussed in chapters five and six respectively.

In summary, from the areas for further research identified and the consequent research hypotheses generated it was clear that for the bulk of testing standardised postal questionnaires were most appropriate. Evaluating the databases available the most appropriate sampling frames were chosen. Reviewing the literature on postal questionnaire management, which has been largely ignored by small business researchers (to their own detriment) a series of procedures to maximise response rates were adopted. Finally, it is clear that for SMEs there is no omnipotent data collection method and given all the possible sources of bias, the results from individual approaches should be cross-checked against each other, and this point is incorporated in the triangulation procedures embraced.

CHAPTER FIVE: THE AGRICULTURAL BUSINESS SECTOR AND ALTERNATIVE ENTERPRISE CREATION BY FARMERS - RESULTS

5.1 INTRODUCTION

Chapter 5 presents the results from the first phase of the research design on the performance of alternative enterprises created by farmers. This phase is based on postal questionnaire returns and the response rate achieved is detailed in 5.1.1. The results are organised on a hypothesis-by-hypothesis basis. Section 5.2 outlines the tests on hypothesis A1 concerning spatial variations in diversification activity. Hypotheses A2 and A3 are tested using logistic regression analysis and the findings detailed in sections 5.3 and 5.4 respectively. The findings on the use of training and advisory services by diversified farmers are discussed in section 5.5 and all the results are summarised in table 5.19. Conclusions from these results are drawn out in chapter 8.7 and the lessons for public policy detailed in section 8.8.1.

5.1.1 Response Rate

A total of 880 questionnaires were dispatched in this phase of data collection. These were divided between the south-east (economic core) and south-west (peripheral) study areas (325 in each), with the remainder (230) distributed in Teesdale, a rural peripheral area in County Durham, by Teesdale District Council. From the 880 dispatched, twelve were returned by the Post Office, and twenty-six were returned uncompleted (with given reason) due to being outside the sampling frame: principally due to retirement, sale of the farm and duplicate listings. From the telephone follow-up calls a further seventeen were found to be outside the sampling frame because of either being incorrectly listed in Yellow Pages or having retired (often selling farmland but retaining the farmhouse). This gave a total of fifty-five to whom questionnaires were distributed but who were outside the sampling

frame target group. A total of 301 usable returns were received, a usable response rate of 36.48 per cent (301/825).

$$\text{URR} = \frac{\text{usable returns}}{\text{total dispatched - those outside sampling frame}} = \frac{301}{(825)} = 36.48\%$$

The usable returns comprised of 112 responses from south-east core localities (37.21% of usable responses), 126 from the south-west (41.86% of usable responses) and sixty-three from Teesdale (20.93% of responses). The rest of the chapter is concerned with testing the research hypotheses formed in chapter 4.2.1, with each section headed by the relevant hypotheses, followed by a discussion of the statistical methods used and the results of the analysis undertaken.

5.2 ENTERPRISE DIVERSIFICATION ACTIVITY

Hypothesis

- [A1] (i) *There will be no difference between the study areas in the number of farmers who have pursued enterprise diversification.*
- (ii) *There will be no difference between the study areas in the average turnover of diversified enterprises.*
- (ii) *There will be no difference between the study areas in the number of job generating diversified enterprises.*

Overall nearly forty-five per cent of respondent farmers operated some form of diversified enterprise. However, differences between the three study areas (south-east, south-west and Teesdale) are apparent. In the south-east study area only 37.50 per cent of respondent farmers operated no alternative enterprises, in contrast to Devon and Cornwall

and Teesdale where the corresponding figures were 57.14 per cent and 82.54 per cent respectively (see table 5.1).

Table 5.1 Enterprise Diversification Activity in the Three Study Areas

	South-east	Devon & Cornwall	Teesdale	Total
Have Diversified	70 (62.50)	54 (42.86)	11 (17.46)	135 (44.85)
Have Not Diversified	42 (37.50)	72 (57.14)	52 (82.54)	166 (55.15)
Total	112 (100.00)	126 (100.00)	63 (100.00)	301 (100.00)

Percentages in brackets

To check the null hypothesis A1(i) a chi-square test was conducted. The chi-square test is appropriate here as the data is nominal and nonparametric (no assumption is made about the distribution of the variable in the population) (Munro and Page, 1993: 82). The chi-square test compares the actual number (or frequency) in each group with the expected frequencies based on the assumption of zero association. The results are given in table 5.2.

Table 5.2 Chi-Square test on Variations in Diversification Activity Between Study Areas

Chi-Square	Value	Deg. of Freedom	Significance
Pearson	33.41	2	0.0000

Minimum Expected Frequency - 28.256

The chi-square value is significant at the 0.0001 level and the null hypothesis A1(i) that there are no spatial variations in diversification activity between study areas can be rejected.

An analysis of enterprise activity highlights the most prevalent areas of operation being tourist accommodation, equine centres and commercial property. The core localities have proportionally more sports and leisure operations which have far higher job creation potential than the provision of tourist accommodation which dominates in Devon and Cornwall (see table 5.3).

Table 5.3: Classification of Diversified Enterprise Activities

	CORE	PERIPHERY (South-west & Teesdale)
Farm Shop	8	1
Mail Order	0	1
Pick Your Own	4	1
Other Retail	3	1
Contract Agriculture	8	11
Commercial Property	15	2
Business Services	4	3
Other Services	6	2
Food Production	3	0
Other Production	2	2
Golf	2	0
Water Based Sport	1	2
Equestrian	16	4
Other sport	9	0
Organic	0	1
Forestry	6	2
Biomass	1	0
Other land based	4	3
Tourist accommodation	5	39
Tourist attraction	1	1
Other	6	2
TOTAL	104	78

The majority of these diversified enterprises are small scale with the bulk having a turnover of less than £15,000 per annum. In core localities the average turnover is higher, with 20.3 per cent having a turnover of over £100,000 per year, in contradistinction to peripheral areas where no enterprises fall into this category (see table 5.4).

Table 5.4: Agricultural Diversification Enterprises by Turnover Bands

Total Turnover Band	South-east	South-east (%)	Periphery	Periphery (%)	Total	Total %
£1-£1,000	4	6.25	6	9.68	10	7.94
£1,001-£5,000	12	18.75	28	45.16	40	31.75
£5,001-£15,000	11	17.19	15	24.19	26	20.63
£15,001-£30,000	14	21.88	8	12.90	22	17.46
£30,001-£100,000	10	15.63	5	8.06	15	11.90
£100,001+	13	20.31	0	0.00	13	10.32
Total	64	100.00	62	100.00	126	100.00

A chi-squared test was conducted to test the null hypothesis A1(ii) that there is no difference between the study areas in the turnover ranges of diversified enterprises. The result is significant at the 0.001 level. The returns for Teesdale and Devon and Cornwall were amalgamated into a single (peripheral) category given that the number of diversified enterprises in the former study area was so low. If Teesdale had been included as a separate category the minimum expected frequencies would have been less than five in well over twenty per cent of the cells included (a standard benchmark for legitimacy with chi-squared tests) (Hinton, 1995: 250). The results of the chi-square test (table 5.5) indicate that we can reject the null hypothesis that there is no difference between study areas in the turnover range of diversified enterprises.

Table 5.5: Chi-Square test on Variations in the Size of Diversification Activities Between Study Areas

Chi-Square	Value	Deg. of Freedom	Significance
Pearson	23.69264	5	0.00025

Minimum Expected Frequency - 4.921
 Cells with Expected Frequency <5 1 of 12 (8.3%)

South-east based farmers sampled, collectively, operate diversified enterprises which have generated 106 full-time jobs and fifty-five part-time jobs. The corresponding figures for Devon and Cornwall are five full-time jobs and twenty part-time positions (see table 5.6). For Teesdale, the figures are even less, with two full-time and two part-time positions created. If one adjusts for differences in the sample sizes, a differential is still apparent. On diversified farms in the south-east, an average of 1.38 new jobs have been created (counting a part-time job as equivalent to 0.5 of one full-time position) in contrast to Devon and Cornwall and Teesdale where the respective figures are 0.31 and 0.27 jobs created per diversified farm. If one remembers also that more farms in the south-east have diversified, the absolute differential in job generation is clearly greater.

Table 5.6: Employment creation by diversification enterprises

	South East	Devon and Cornwall	Teesdale
Total number of full -time jobs created	106	5	2
Total number of part-time jobs created	55	20	2
Diversified Jobs Per Total Farms Sampled*	1.19	0.12	0.05
Average No. Of Jobs Created on Diversified Farms*	1.38	0.31	0.27

*Part-time jobs counted as 0.5 of full-time positions

To test the null hypothesis that there is no difference between the study areas in the employment performance of diversified enterprises two types of nonparametric test were conducted. First, a Mann-Whitney U test (which is analogous to the parametric students' *t* test) was used to rank the individual farms in order of the number of full-time and part-time jobs created to see if there was a significant difference between the two groups (core and periphery). The data under consideration here meets the three criteria for a Mann-Whitney U test that: (i) both samples are randomly drawn from their respective populations, (ii) there is mutual independence between the two samples (no one subject can be classified into both groups), and (iii) the measurement scale should be at least ordinal (Conover, 1980:216). On the last assumption the data on full and part-time job generation is the *real* number of employment positions, satisfying the criteria. The results of the test are detailed in table 5.7.

Table 5.7: Mann-Whitney test on Variations in Employment Generation between Diversified Farms in Peripheral and Core Localities.

	Core		Periphery		U	W	Corrected for Ties	
	Cases	Mean Rank	Cases	Mean Rank			Z	2- Tailed P
Full-time Jobs	21	17.67	8	8.00	28.0	64.0	-2.9476	0.0032
Part-time Jobs	23	21.20	15	16.90	133.5	235.5	-1.2482	0.2120

The results indicate that for full-time jobs, the difference between the core and peripheral samples, is significant at the 0.01 level but no significance can be attached to the figures for part-time jobs. This may be because the enterprises in the south-east are much larger on average, demanding full-time staff, whereas the smaller scale of enterprises in the south-west and Teesdale will create needs more suited to part-time work. In testing the null hypothesis a distinction can also be drawn between those diversified farms that have created new jobs and those which have not, considering whether a core - periphery divided exists. A chi-squared test is thus conducted to test this proposition and the results are presented in table 5.8.

Table 5.8 Chi-Square test on Variations in Employment Creation Between Study Areas

		Core	Periphery	Total
Diversified Enterprise(s) Created new jobs		34	17	51
Diversified Enterprise(s) not Created new jobs		33	47	80
Total		67	64	131
Chi-Square	Value	Deg. of Freedom	Significance	
with Yates' correction	7.06711	1	0.00785	

Minimum Expected Frequency - 24.916

As there is only one degree of freedom, (a two by two contingency table on which differences between the observed and expected frequencies are based), Yates' correction is applied to the test. Yates' correction for discontinuity corrects the chi-square (X^2) formula, so that:

$$\text{Corrected } X^2 = \sum \frac{(|O - E| - 0.5)^2}{E}$$

The X^2 for every cell is reduced by 0.5 before it is squared. This will result in a smaller calculated value of X^2 and will reduce the risk of a Type I error. However, the Yates' correction does tend to overcompensate for discontinuity and may result in a more conservative decision than necessary. As a simple rule, if a result is still significant with the correction or still significant without it, then we can become confident in our decision (Hinton, 1995: 251). Given this, with Yates' correction the chi-square test statistic is still significant at the 0.01 level and we can reject the null hypothesis that there is no difference between the study areas in terms of employment generation. Even if Teesdale is ignored and the tests are run with just the south-west and south-east data, the same significant pattern is obtained. However, as the Mann-Whitney U test results indicate, the significance appears to lie with the differential between full-time jobs created rather than part-time positions.

So far we have tested null hypotheses that that there are no significant differences between the study areas and in effect tested for non-zero association. Having disproved the null hypotheses, one can now consider the directions of association and the factors underlying these relationships in greater depth.

5.3 PROPENSITY TO DIVERSIFY AND THE BACKGROUND CHARACTERISTICS OF FARMERS AND THEIR FARMS

Hypothesis:

- [A2] (i) *Larger farms are more likely to have diversified.*
- (ii) *Farmers whose main aim is to maximise income will be more likely to diversify as they will be more proactive in seeking alternative enterprises.*
- (iii) *Farmers with outside employment will be less likely to diversify.*

(iv) Farms with large agricultural workforces will have higher propensities to diversify as labour demand becomes increasingly seasonal and owners look for opportunities for redeployment.

(v) Tenant farmers will have a lower propensity to diversify.

As argued in the literature review, it is important that potential factors are considered in a multivariate context. The aim is to see if the background characteristics of diversifiers and non-diversifiers are significantly different. Five potential factors are identified from the previous discussion of the literature and outlined in hypothesis A2. Together with these five potential factors, the core - periphery divide can also be included given its potential significance, highlighted in the preceding section. To undertake this multivariate analysis, the technique of logistic regression is applied, and the coding for the independent and dependent variables is detailed in table 5.9. With logistic regression analysis, not only can the importance of individual factors be considered, but also the degree to which significant variables as a whole explain variations in the data.

Table 5.9: Independent and Dependent Variables in the Logistic Regression Analysis

Variable Name	Variable Description	Coding	
		1	0
Dependent Variable			
YESNODIV	Diversified into Alternative Enterprises	Yes	No
Independent Variables			
PERICORE	Location	Core (south-east)	Periphery (Devon, Cornwall and Teesdale)
LARGFARM	Size of land holding operated over 100 hectares	Yes	No
LARGAGEM	Size of agricultural workforce greater than 3 full-time equivalents	Yes	No
TENANTS	Land tenure	Non-tenants	Tenants
OUTEMP	Member of farm household holds external salaried employment	Yes	No
ECONAIM	Main aim in farming	Income Maximise	Other Aim

The dependent variable was set as the decision to diversify (YESNODIV) with diversifiers coded as 1 and non-diversifiers 0. The six independent variables initially included were: PERICORE, LARGFARM, LARGAGEM, TENANTS, OUTEMP and ECONAIM. PERICORE represents the periphery core divide, with farms in core locations (south-east) coded 1 and those in peripheral areas (south-west and Teesdale) coded 0. LARGFARM discriminates between farmers on the basis of size of land holding, with farmers operating over 100 hectares coded 1 and those below this threshold, 0. The 100 hectares threshold is a standard MAFF classification divide (MAFF, 1992). LARGAGEM (size of agricultural workforce) divides those farms employing more than three full-time equivalents (coded 1) from those which employ under this threshold (coded 0). TENANTS (land tenure) splits non-tenants (coded as 1) from tenants (coded 0), with the 0 and 1 coding following the presumed pattern of direction. The variable OUTEMP, distinguishes between farms which have a member(s) of the household holding external salaried employment (coded 1) and those farms without such positions (coded 0). Finally, ECONAIM considers farmers' main objective in farming with those for whom the primary aim is maximisation of income coded 1 and those with other primary motivations coded 0.

Logistic regression is designed for the analysis of data where there is one categorical dependent variable which is to be explained by other (categorical) variables (Gilbert, 1993). The general framework for logistic regression is that there are m groups to be compared, with group i consisting of n_i items, of which Y_i exhibit a positive response (a 'success') and $n_i - Y_i$ exhibit a negative response (a 'failure') (Manly, 1989). The assumption is then made that the probability of a success for an item in group i is given by equation 1.1:

$$\pi_i = \frac{\exp(\beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_p x_{ip})}{1 + \exp(\beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_p x_{ip})} \quad (1.1)$$

where x_{ij} is the value of some variable X_j that is the same for all items in the group. In this way the variables X_1 to X_p are allowed to influence the probability of a 'success', which is assumed to be the same for all items in the group, irrespective of the 'successes' or 'failures' of the other items in that or any other group. Similarly, the probability of a 'failure' is $1 - \pi_i$ for all items in the i th group. It is permissible for some or all of the group to contain just one item.

The function that is used to relate the probability of a success to the X variables is called a logistic function. Unlike the standard multiple regression function, the logistic function forces estimated probabilities to lie within the range zero to one. It is for this reason that logistic regression is more sensible than linear regression as a means of modeling probabilities (Manly, 1989).

While one does not have to assume a multivariate normal distribution to use logistic regression analysis the following assumptions are still important: a simple random sample, correct knowledge of group membership and data that are free of miscellaneous errors and outliers. Logistic regression models are susceptible to being driven by outliers and it is advisable to rerun any model twice using only 50% of the sample in each case and remove extreme outliers. Logistic regression analysis should not be used to evaluate risk factors in longitudinal studies in which the studies are of different durations (Woodbury *et al.*, 1981). It should also be remembered that the coefficients for a variable in a logistic regression equation depends on the other variables in the model. The coefficients for the same variable, when included with different sets of variables, could be quite different. If a matched sample analysis is performed, any variable used for matching cannot also be used as an independent variable (Afifi and Clark, 1996). Finally, with regard to the limitations of logistic regression analysis, there are circumstances where the maximum likelihood method of estimating coefficients will not produce estimates. If one predictor variable

becomes a perfect predictor then that variable must be excluded to get a maximum likelihood solution (Hirji *et al.*, 1987).

The SPSS statistical package was used for fitting equation (1.1) to data, and for estimating the values of β_0 to β_p , based on the principle of maximum likelihood - which means that the equations for the estimation of the β values do not have an explicit solution. As a result, the calculations involve an iterative process of improving initial approximations for the estimates until no further changes can be made. Beginning with all the variables the most parsimonious model was identified by a process of backward elimination. Variables were evaluated for removal from the model using a likelihood ratio test statistic defined as -2 times the log likelihood ratio. This statistic has a chi-square distribution with degrees of freedom equal to the difference in the number of terms between the two models being compared. A 10% level of significance was used to identify variables for removal. Here the focus is on identifying significant explanatory variables, but the overall fit of a model can be assessed by using the model chi-square statistic (deviance) defined as the difference between -2 times the log likelihood for a model containing only a constant and the best model. This statistic can be used to test the hypothesis that all the variable coefficients are zero and is analogous to the F-test in standard regression analysis (Hosmer and Lemeshow, 1989). The classification table also assesses the fit of the model by comparing the numbers predicted within each category against the observed values. The model was run with equal numbers of diversifiers and non-diversifiers (selected at random from the overall sample) so that the initial step of model calculation was not inherently biased toward predicting one or other of the groups (have or have not diversified) - a procedure which was followed in all subsequent logistic regression models constructed. Once this procedure was completed the model was rerun using only half the sample to discover whether the same variables were identified as

significant. In these tests this was the case and this check adds to the robustness of the results. The results of the model are given in table 5.10 below.

Table 5.10: Logistic Regression Model considering the Background Characteristics of Farmers and Propensity to Diversify

Number of cases included in the analysis: 264

Model Statistics

-2 Log Likelihood 344.642, Goodness of Fit 263.811

	Chi-Square	df	Significance
Model Chi-Square	21.279	2	0.0000

Variables in the Equation

	B	S.E.	Wald	df.	Significance	R	Exp(B)
PERICORE	0.9210	0.2634	12.2228	1	0.0005	0.1671	2.5119
TENANTS	0.7285	0.2731	7.1127	1	0.0077	0.1182	2.0719
Constant	-0.7746	0.2241	11.9518	1	0.0005		

Model if Term Removed

Term Removed	Log Likelihood	-2 Log LR	df	Significance of Log LR
PERICORE	-178.600	12.558	1	0.0004
TENANTS	-175.953	7.264	1	0.0070

Variables not in the Equation

(Residual Chi Square 3.3728 with 4 df Sig = .4976)

Variable	Score	df	Sig	R
OUTEMP	0.8119	1	0.3676	0.0000
LARGAGEM	0.0283	1	0.8664	0.0000
LARGFARM	0.0486	1	0.8254	0.0000
ECONAIM	2.4229	1	0.1197	0.0340

Classification Table for YESNODIV

Observed	Score	Predicted	% Correct
	0.00	0.00	
	0.00	96	71.64%
	1.00	64	50.77%
		Overall	61.36%

The significance of the model chi-square statistic allows the rejection of the null hypothesis that all the variable coefficients in the final model are zero. By taking the exponential of the estimated coefficients which are in log form one can derive the estimated likelihoods and so assess the quantitative importance of individual variables. In the model two variables (TENANTS and PERICORE) are significant. In core localities farmers are just over 2.5 times more likely to have diversified than their peripheral counterparts. Farmers who are non-tenant farmers are over twice as likely to control a diversified enterprise than their tenant counterparts (values indicated by the Exp.(β) column in table 5.10).

No evidence is found for the hypothesis that larger farmers (in terms of land area) will have a higher propensity to diversify (see 'variables not in the equation' column in table 5.10). This supports the findings of Warren (1989) in Devon and Cornwall who found no such relationship, but is contrary to McNerney *et al.* (1989) and Ilbery (1987) who found a positive relationship between propensity to diversify and land area farmed.

The evidence supports the anecdotal contentions presented by Whitehead (1995) that tenants find it more difficult to diversify. The results here probably reflect how agricultural tenancy agreements often specify use restrictions (either absolute or specified), with terms preventing the parting with, sharing possession or applying for planning permission. Proposed changes of use may also affect the tenants ability to observe the Rules of Good Husbandry (s11 Agriculture Act 1947). The system of security of tenure differs for agricultural tenancies (Agricultural Holdings Act, 1986) from business tenancies (Landlord and Tenant Act, 1984) and a change of use may result in a tenancy falling out of the former and into the latter (to the disadvantage of the tenant).

The variable ECONAIM is almost significant at the 10% level and does become so when Hosmer and Lemeshow's recommendation of fifteen per cent confidence level is

taken (as indicated in the significance column under 'variables not in the equation' in table 5.10). As no previous studies on agent motivation and propensity to diversify have been undertaken, it is not possible to compare or validate this finding. However, from the interviews it is apparent that agent motivation will have a bearing on propensity to diversify, but it may be better psychologically grounded tests will be needed to more accurately understand this dimension.

The two other background characteristics considered were found not to be significant. Farm households in which a member(s) holds an external salaried employment position are not statistically more or less likely to pursue enterprise diversification. This may reflect how the employment decision of one member may have little bearing on the activities of others, particularly with breakdown of gender barriers and the growth of part-time employment. Likewise, no significance can be attached to the size of the agricultural workforce in influencing diversification. This would appear to reflect that farm managers have not attempted to create opportunities for redeployment as labour demand diminishes and grows more seasonal, a point supported by the long-term fall in the farm workforce.

In the light of the logistic regression model results, hypothesis A2(v) that tenant farmers will have a lower propensity to diversify can be accepted along with the contention that core based farmers will have a higher propensity to diversify than their peripheral counterparts. The other elements of hypothesis A2 cannot be accepted on the basis of the evidence here: there is no support for the notion that larger farms are more likely to have diversified, that farmers with outside employment will be less likely to diversify nor farms with large agricultural workforces will have higher propensities to diversify as labour demand becomes increasingly seasonal and owners look for opportunities for redeployment.

Given the results on propensity to diversify it is interesting to now consider the reasons given by non-diversifiers for not pursuing this option (table 5.11). The two most

frequently cited factors are a desire to concentrate on farming and the feeling that farming brings sufficient income. The latter factor was far stronger in the south-east and probably reflects the earning differentials between arable and upland sheep farming. For example, 42.85 per cent of non-diversifiers in the south-east cited 'farming brings sufficient income' as a reason for not pursuing such an option, compared to only 25 per cent of non-diversifiers in Devon and Cornwall and Teesdale. When looking at the barriers to diversification, a range of issues surrounding risks, tenancy and planning restrictions are cited and these are developed more fully in the interview phase and discussed in chapter seven.

5.11: Reasons for Non-Diversification Cited by Non-Diversifying Farmers

Number of non-diversified farmers citing a particular factor

Reason	South-east		Devon & Cornwall		Teesdale	
	No.	%	No.	%	No.	%
Farming Brings Sufficient Income	18	42.85	18	25.00	13	25.00
Risks of Diversification	6	14.29	15	20.83	5	9.32
Remoteness	1	2.38	3	4.17	8	15.38
Insufficient Capital	5	11.90	17	23.61	9	17.31
Insufficient Know how	5	11.90	11	15.28	6	11.54
Lack of Demand	3	7.14	8	11.11	3	5.77
Wish to concentrate on Farming	16	38.10	38	52.78	20	38.46
Tenancy Restrictions	5	11.90	7	9.72	10	19.23
Planning Restrictions	6	14.29	12	16.67	7	13.46
No spare time	8	19.05	20	27.78	15	28.85
Other	2	4.76	3	4.17	2	3.83
Total Number of non-diversifiers	42		72		52	

Note: Individual farmers could highlight more than one factor

5.4 VARIATIONS IN THE PERFORMANCE OF DIVERSIFIED ENTERPRISES

Hypothesis

[A3] (i) *The employment generation of diversified enterprises will be higher in rural core as opposed to rural peripheral localities.*

(ii) *Diversification enterprises set up to exploit a market opportunity are more likely to create new jobs.*

(iii) *Farmers who have diversified into tourist accommodation are less likely to have created new jobs.*

(iv) *Diversified farmers who have used external training and advisory services are more likely to have created new employment opportunities.*

This section investigates whether the characteristics of farms where employment generating diversification activities have been established differs from those where no such jobs have been created. The analysis thus only includes farms which have pursued enterprise diversification. Six factors were investigated including three from the previous model (periphery-core divide, economic aim in farming and outside employment - for similar reasons to those outlined above). In addition, a further three new factors were considered (see table 5.12).

Table 5.12: Independent and Dependent Variables in the Logistic Regression Analysis

Variable Name	Variable Description	Coding	
		1	0
Dependent Variable			
NEWJOB2	Diversification Enterprise(s) led to the creation of new jobs	Yes	No
Independent Variables			
PERICORE	Location	Core (south-east)	Periphery (Devon, Cornwall and Teesdale)
ACCOM	Tourist Accommodation Enterprise	No	Yes
MARKETOP	Enterprise set up to exploit a market opportunity	Yes	No
ANYTRAAD	Use of Training and / or Advisory Agency	Yes	No
OUTEMP	Member of farm household holds external salaried employment	Yes	No
ECONAIM	Main aim in farming	Income Maximise	Other Aim

The three additional right-hand side variables are: MARKETOP, ANYTRAAD and ACCOM. ACCOM separates those farmers which have diversified only into tourist accommodation (coded 0) and farmers which have not limited themselves to this sector (coded 1). MARKETOP distinguishes between farmers who set up enterprises to exploit a market opportunity (coded 1) from other aims, such as providing employment for family members (coded 0). Finally, ANYTRAAD divides those diversified farmers which have used training and / or advisory agencies (coded 1) from individuals which have not utilised such support provision (coded 0).

The significance of the model chi-square statistic allows the rejection of the null hypothesis that all the variable coefficients in the final model are zero.

Table 5.13: Logistic Regression Model on Factors Separating Job Generating and Non-Job Generating Diversified Enterprises

Number of cases included in the analysis: 95

Model Statistics

-2 Log Likelihood 119.646, Goodness of Fit 94.420

	Chi-Square	df	Significance
Model Chi-Square	12.042	3	0.0072

Variables in the Equation

	B	S.E.	Wald	df.	Significance	R	Exp(B)
PERICORE	0.7667	0.4487	2.9202	1	0.0875	0.0836	2.1527
ANYTRAAD	0.8406	0.4414	3.6271	1	0.0568	0.1112	2.3178
MARKETOP	0.8758	0.5143	2.8997	1	0.0886	0.0827	2.4009
Constant	-1.4045	0.5128	7.5009	1	0.0062		

Model if Term Removed

Term Removed	Log Likelihood	-2 Log LR	df	of Log LR
PERICORE	-61.310	2.973	1	0.0846
MARKETOP	-61.320	2.995	1	0.0835
ANYTRAAD	-61.662	3.678	1	0.0551

Variables not in the Equation

(Residual Chi Square 1.239 with 3 df Sig = 0.7436)

Variable	Score	df	Sig	R
OUTEMP	0.1953	1	0.6586	0.0000
ECONAIM	0.9663	1	0.3256	0.0000
ACCOM	0.0789	1	0.7788	0.0000

Classification Table for NEWJOBS2

Observed		Predicted		% Correct
		0.00	1.00	
0.00	0.00	34	13	72.34%
1.00	1.00	24	24	50.00%
Overall				61.05%

In the model for employment generation three variables are significant: (MARKETOP, PERICORE and ANYTRAAD). Farmers who set up their enterprise with the intention of exploiting a market opportunity are 2.4 times more likely to have created new jobs. Farmers in core localities who control diversified enterprises are 2.15 times more likely to have created new jobs and those farmers who have used external agencies for training and advice are 2.3 times more likely to have created new jobs. The periphery core divide on

employment generation in the logistic analysis is not quite as marked as maybe one would expect given the figures for the absolute number of jobs created in table 5.6. This is because just four enterprises in core localities accounted for over fifty jobs created. The results for farms would thus seem to follow the rest of the small business sector in that few start-ups grow beyond the micro phase with only a very small number of new firms making a significant contribution to employment creation.

The fact that those enterprises which were set up to exploit a market opportunity are statistically more likely to generate new jobs supports the general SME literature where market orientation has been identified as an important component of success. Jones, (1991) and Wynarczyk *et al.* (1993) both found that OMDs with marketing backgrounds when compared with other entrepreneurs found that those with marketing experience were more likely to form businesses which experience rapid growth than businesses founded by individuals with other functional (e.g. finance) skills. In other words, of all the business skills identified as being associated with success, those whose principal skill background is in marketing are likely to be the most successful.

Farm accommodation as an option is not statistically significant in terms of being more or less likely to lead to employment generation. This is important given that farm accommodation is the single most common form of diversification enterprise. However, it should be noted that when one looks at the type of jobs created it is heavily biased towards part-time work and in most traditional areas, markets are now saturated with often low occupancy rates (Hill, 1989; Denman and Denman, 1990).

The utilisation of external forms of advice and training by farmers is found to be significant. The issues surrounding training and advice will be explored in greater detail in the next section. However, the findings do echo Warren's (1993) discoveries, drawn from telephone surveys and focus groups which highlighted a considerable degree of resistance and antagonism to external training and advice.

Finally, the model is rerun with the same independent variables as considered in the employment generation model but with the dependent variable set as TOTURN. Farmers controlling diversified enterprise(s) with a turnover of less than £30,000 per annum were classified as being in the low turnover bracket. In contrast, those with a turnover above the £30,000 threshold were classified as being in the higher group. The results are displayed in table 5.14.

Table 5.14 : Logistic Regression Model Considering Factors Separating High and Low Turnover Diversified Enterprises

Number of cases included in the analysis: 99

Model Statistics

-2 Log Likelihood 116.865, Goodness of Fit 99.883

	Chi-Square	df	Significance
Model Chi-Square	20.287	2	0.0000

Variables in the Equation

	B	S.E.	Wald	df.	Significance	R	Exp(B)
ANYTRAAD	0.5782	0.2287	6.3905	1	0.0115	0.1789	1.7827
PERICORE	0.8316	0.2348	12.5428	1	0.0004	0.2773	2.2969
Constant	0.1768	0.2310	0.5861	1	0.4439		

Model if Term Removed

Term Removed	Log Likelihood	-2 Log LR	df	of Log LR
ANYTRAAD	-61.810	6.756	1	0.0093
PERICORE	-65.428	13.990	1	0.0002

Variables not in the Equation

(Residual Chi Square 1.264 with 4 df Sig = 0.8674)

Variable	Score	df	Sig	R
OUTEMP	0.0829	1	0.7734	0.0000
MARKETOP	0.1564	1	0.6925	0.0000
ECONAIM	0.8063	1	0.3692	0.0000
ACCOM	0.2417	1	0.6230	0.0000

Classification Table for TOTURN

Observed	Score	Predicted		% Correct
		0.00	1.00	
0.00	0.00	30	21	58.82%
1.00	1.00	11	37	77.08%
			Overall	67.62%

Again, two of the same factors (ANYTRAAD and PERICORE) are found to be significant indicating a degree of robustness in the results from turnover and employment generation measures. Enterprises with an annual turnover above £30,000 are nearly 2.3 times more likely to be based in core, as opposed to peripheral, localities. Likewise, enterprises with an annual turnover above £30,000 are nearly 1.8 more likely to have used a training and / or advisory agency than farmers whose diversified enterprise(s) have a combined turnover of below this threshold. This rise in propensity to use training and advisory services as enterprise size increases mirrors previous findings for the SME population as a whole, and it is to the use of such services which we now turn.

5.5 TRAINING, ADVISORY AGENCIES AND DIVERSIFICATION ACTIVITY

Hypothesis:

[A4] *(i) There will be no significant differences between enterprises which use and do not use training and advisory bodies.*

The results from the two preceding logistic regression models indicate a significant bias in the use of training and advisory agencies towards enterprises with higher turnover and job generation records, so that the null hypothesis A4 can be rejected. The questionnaire returns however also give some interesting additional information on the utilisation of training and advisory services which can be considered in this section.

Just under half of the farmers who had diversified had used a training and / or advisory agency with regard to their diversification enterprises (see table 5.15). This figure was higher than might be expected and exceeds the levels recorded by Ilbery (1988). Although it should be noted that these overall figures include the whole spectrum of contacts and the degree of involvement for some farmers could be comparatively small.

Table 5.15: Diversification and Use of Training or Advisory Services

	Number of diversifiers	%
Use training and /or advisory service	59	43.4
Not use training and / or advisory service	77	56.6

Missing: 4

When disaggregated into the particular agencies used, the three most popular were: ADAS (23.53 per cent of diversifiers), ATB Landbase (13.97 per cent) and the NFU (12.5 per cent). There is thus a bias towards using agriculturally oriented support agencies, regardless of the sector being entered. In contrast, the use of non-agricultural agencies such as Business Link, TECs and Local Enterprise Agencies (LEAs) was poor. For Business Link, this may reflect its relative infancy and the fact that at the time when the survey was conducted the network did not cover all of the study areas. However, no such time constraints surround TECs or LEAs (see table 5.16).

Table 5.16: The Use of Particular Specialised Agencies

	Number of Diversifiers Using a particular agency	% out of 136
ADAS	32	23.53
ATB Landbase	19	13.97
Business Link	0	0.00
Local College	10	7.35
Enterprise Agency	2	1.47
NFU	17	12.50
Private Firm	4	2.94
Training and Enterprise Council	5	3.68
Other	7	5.15

Missing: 4 respondents

In collecting the data, a distinction was made between the use of training and advisory services before and after start-up. One can test whether there is a significant difference between the use of training and advisory services before and after start-up by

executing a McNemar test. The McNemar test can be used with two dichotomous measures on the same subjects and is used to measure change (Munro and Page, 1993: 93).

Table 5.17: McNemar test on Pre- and Post start-up use of training and advisory services

		Use of training and / or advisory services <i>before</i> start-up		Total
		Yes	No	
Use of training and / or advisory service <i>after</i> start-up	Yes	19	27	
	No	13	77	
Total				136
Chi-Square	Value	Significance		
	4.2250	0.0398		

The results presented in table 5.17 indicate that there a bias towards the use of training and / or advisory services after start-up which is significant at the 5% level.

Table 5.18: Age of Diversified Enterprises

Year Formed	Number of Diversified Enterprises
Pre 1970	9
1970-1979	25
1980-1985	34
1986-1990	57
1991 +	42

Note: Numbers indicate year formed for each diversified enterprise created by farmers

When one looks at the demographic profile for diversified enterprises (table 5.18) it is clear that the overall low levels of use of external training and advice cannot be attributed to the youthfulness of the businesses included. Only 25.15 per cent of diversified enterprises have been established since 1991. The bulk of the returns represent well established operations: a noteworthy finding given the employment generation figures detailed in table 5.8. It is often espoused that support should be concentrated on established businesses rather than start-ups (Walsh, 1994) but the job generation figures indicate that in peripheral areas both

new and mature alternative businesses created by farmers have not generated significant numbers of new jobs.

5.6 SUMMARY

Table 5.19 summarises the hypotheses tested and the results of the analysis on agricultural diversification and alternative enterprise creation by farmers.

H ⁰ .	Hypotheses	Statistical Test	Result
[A1]	(i) No difference between the study areas in the number who have pursued diversification.	Chi-square	Rejected
	(ii) No difference between the study areas in the average turnover of diversified enterprises.	Chi-square	Rejected
	(iii) No difference between the study areas in the number of job generating diversified enterprises.	Chi-square	Rejected
[A2]	(i) Larger farms are more likely to have diversified.	Logistic Regression	Not significant
	(ii) Farmers whose main aim is to maximise income will be more likely to diversify.	Logistic Regression	Not significant
	(iii) Farmers with outside employment will be less likely to diversify.	Logistic Regression	Not significant
	(iv) Farms with large agricultural workforces will have higher propensities to diversify.	Logistic Regression	Not significant
	(v) Tenant farmers will have a lower propensity to diversify.	Logistic Regression	Accepted
[A3]	(i) The employment generation of diversified enterprises will be higher in rural core as opposed to rural peripheral localities.	Logistic Regression	Accepted
	(ii) Diversification enterprises set up to exploit a market opportunity are more likely to create new jobs.	Logistic Regression	Accepted
	(iii) Farmers who have diversified into tourist accommodation are less likely to have created new jobs.	Logistic Regression	Not significant
	(iv) Diversified farmers who have used external training and advisory services are more likely to have created new employment opportunities.	Logistic Regression	Accepted
[A4]	(i) There will be no significant differences between enterprises which use and do not use training and advisory bodies.	Logistic Regression	Rejected

In terms of the overall findings a remarkable degree of consistency is highlighted through tables 5.1 to 5.9. Peripheral farmers control fewer, smaller and lower job

generation enterprises than their core counterparts. The job generation performance has been particularly poor: just five full time and twenty part-time jobs have been created in Devon and Cornwall and two full-time and two part-time jobs in Teesdale. Public sector promotion of diversification as part of a strategy to deal with rural unemployment in the peripheral localities is unlikely to be successful in itself.

The spatial divide also indicates the mismatch between need for, and where diversification is actually occurring. In the more remote rural localities, where income levels and job opportunities are most constrained, the performance of diversified enterprises has been most limited. In contrast, where employment and income levels are most buoyant, the greatest number of new jobs have been created. A national, across the board scheme for encouraging diversification is thus most likely to stimulate further regional polarisation.

Finally, the spatial variations displayed in diversified farm enterprises reflect the overall small business findings of the 1980s where the number of start-ups and employment generation was skewed to the south of England (Keeble *et al.*, 1993). Farms in this area were particularly well placed to exploit rising discretionary incomes and the market for leisure, tourist and sporting activities. Farmers overall, and arable farmers in particular, however have not faced the same financial squeeze from the macroeconomic recession due to the rise in incomes from core farming activities, as outlined in chapter 2.2. A rationale for diversification often postulated is the effective management of cyclical sectors: which *ad hoc* seems to have worked well for farmers in core localities: the exploitation of rising discretionary incomes in the 1980s during a time of farming recession, with during the 1990s macroeconomic downturn a turnaround in agricultural incomes. This strategy however could neither be predicted or planned and could not be advocated as a panacea for fluctuating agricultural fortunes. Moreover, for those farmers in

remote, often upland localities, with local economies with lower disposable incomes and smaller agricultural revenues such a strategy was never feasible.

This brings one to the question of whether farmers are the most appropriate agents for meeting the aims of local economic development. Through self-interest and survival instincts farms will diversify, so the argument runs, and in so doing create new enterprises which will create beneficial collective benefits such as job creation. This a classic case of Smith's invisible hand (1986) - individual self interest bringing collective benefits. However, one must ask that if the self-interested motive (in this case supplementary incomes) can be met through other means (at the moment higher EU payments) what happens to the other laudable collective objectives? If the invisible hand of self-interest is broken (as satisfactory income levels are met through core agricultural activities) one must seriously question the notion that farmers are the appropriate agents for meeting these collective goals.

CHAPTER SIX: THE GROWTH AND PERFORMANCE OF NON- AGRICULTURAL SMEs IN RURAL PERIPHERAL AND RURAL CORE LOCALITIES - RESULTS

6.1 INTRODUCTION

Chapter 6 presents the results from the second phase of the research design on the performance of non-agricultural SMEs in rural peripheral and rural core localities. This phase is based on postal questionnaire returns and the response rate achieved is detailed in section 6.1.1. As in chapter 5, the results are organised on a hypothesis-by-hypothesis basis. The hypotheses on business strategy and structure are examined in section 6.2 and this involves the use of logistic regression analysis and the construction of a matched sample. Section 6.3 outlines the tests on hypotheses B7 to B10 on economic factors and utilises log linear analysis and the matched sample. Section 6.4 enumerates the research findings on the relationships between education, training and enterprise growth. The final hypothesis, B13, is tested in section 6.5 and all the results are summarised in table 6.52. Conclusions from these results are drawn out again on a hypothesis-by-hypothesis basis in chapter 8 and the lessons for public policy detailed in section 8.8.2.

6.1.1. Response rate and Sample Characteristics

A total of 1150 questionnaires were dispatched using the Dun and Bradstreet database, with 378 questionnaires being returned, of which 366 were usable. From the 1150 dispatched, 44 subjects were eliminated as these firms were identified either as: no longer trading, part of a larger group or individually employing in excess of 250 employees, or the enterprise could not be traced by the Post Office. This gave a usable response rate (URR) of: $366 / (1150 - 44) = 366 / 1106 = 33.09\%$

Table 6.1 : Spatial distribution of respondents.

	Number	% of responses	No. Of valid dispatches*	URR (%)
Rural core	93	25.41	303	30.69
Rural peripheral	273	74.59	803	34.00

* total number of dispatches minus those sent to firms identified as no longer trading, or part of a larger group and / or individually employing in excess of 250 employees

Table 6.1 details the scale of responses, with the level of returns comparing favourably against similar postal questionnaire surveys of SMEs (Westhead, 1995). The bias in *absolute* returns to rural peripheral localities is due largely to the additional funding secured from CERT to distribute an additional 500 questionnaires in Cornwall. The slight bias in *relative* response rates, which also occurred in the questionnaire to farmers, may reflect the closer proximity of the sponsoring university to the rural peripheral study area.

Table 6.2: Current employment of respondent SMEs (including owner manager and counting two part-time jobs as equal to one full-time job).

	Number of enterprises	%
Less than 1 full-time equivalent	2	0.5
1 full-time equivalent	17	4.6
2 -3 full-time equivalents	31	8.5
4 -10 full-time equivalents	180	49.2
11-50 full-time equivalents	118	32.2
51-250 full-time equivalents	18	4.9
250 or more full-time equivalents	0	0.0

Missing: 0

Tables 6.2, 6.3 and 6.4 indicate the distribution of employment, current turnover, and the past five year performances for turnover in the sample businesses respectively.

Table 6.3: Current turnover per annum of respondent SMEs

	Current turnover (per annum)									
	£1- £1000	£1001- £5000	£5001 - £15000	£15001- £30000	£30001 - £100K	£101K - £500K	£500K - £1M	£1M- £2M	£2M - £5M	£5M+
n	0	3	12	21	52	116	65	47	28	15
(%)	(0)	(0.8)	(3.3)	(5.7)	(14.2)	(31.7)	(17.8)	(12.8)	(7.7)	(4.1)

Missing: 7

Table 6.4: Average change in turnover per annum for SMEs in real terms over the last five financial years.

	Decrease by more than 11%	Decrease 10% to 2%	Turnover stay about the same	Increase by 2 - 10%	Increase by 11 - 25%	Increase by 25% +
No.	22	52	54	101	61	35
%	(6.8)	(16.0)	(16.6)	(31.1)	(18.8)	(10.8)

Number not trading for five years or missing: 41

The distribution of responses in table 6.2 to 6.4 indicate, that when compared to estimates for SMEs as a whole (see table 1.3) the sample is under represented in the smallest cohort of enterprises. As the sample was designed to include businesses that were established before 1990, this finding is not surprising as new businesses tend to be very small (Storey and Johnson, 1992). As our concern here is with growth and performance it is necessary to consider only established SMEs, as recent *start-ups* have no record that can be analysed. Moreover, the literature highlights how start-ups face different challenges to their more established counterparts, which need to be considered on their own terms (Storey, 1994).

Table 6.5: The Sectoral Distribution of Firms in the Core and Peripheral Study Area Samples

SIC Code	Description	Number of Core Firms	% of Core Firms	Number of Peripheral Firms	% of Peripheral Firms	Total No.
100	Agriculture., Forestry, Fishing and Mining	1	1.10	11	4.33	12
200	Metal manufacturing	19	20.88	43	16.93	62
300	Other manufacturing	8	8.79	19	7.48	27
400	Construction	11	12.09	20	7.87	31
500	Dist., Hotels, Shops	24	26.37	88	34.65	112
600	Transport and Communication	3	3.30	13	5.12	16
700	Finance, bus. services	24	26.37	51	20.08	75
800	Public admin. & health	0	0.00	0	0.00	0
900	Other services	1	1.10	9	3.54	10
Total		91	100.00	254	100.00	345

Number Missing: 21

Table 6.5 shows the sectoral distribution of firms in the core and peripheral study area samples. The larger number of responses in each sectoral category for the peripheral study area is due to the larger sample size. Comparing the percentage of returns in each sectoral category, few significant variations are apparent. In the peripheral area there is a greater proportion of returns from the distribution, hotel and retail sector (34.65% against 26.37%) and a slightly lower proportion of manufacturing firms. This is in line with the overall sectoral distribution of firms in these two regions (see table 6.33). The SIC classification above differs from that presented in table 6.33 as the latter is based on the scheme in existence up to 1991 while the table 6.5 follows the SIC92 procedures. No responses are recorded for the SIC code 800 group (public administration and health services) as this survey focuses only on private sector businesses. Finally, there are proportionally more firms in peripheral sample operating in either agriculture, fishing, forestry or mining and again this is in line with the regional picture of spatial variations.

6.2 BUSINESS STRATEGY, STRUCTURE AND SME PERFORMANCE

Hypotheses:

[B1] (i) Team start enterprises will experience higher growth levels than enterprises formed by single founders.

(ii) Fewer multi-founder enterprises will be formed in rural peripheral areas due to the more dispersed population base.

[B2] SME OMDs who conduct on going market research experience higher levels of growth.

- [B3] (i) *Enterprises with a computerised accounting system will achieve higher growth records.*
- (ii) *Businesses who set financial targets each year will be more likely to record high growth records.*
- [B4] (i) *Those firms which introduce new products to the market will achieve higher growth.*
- (ii) *Firms in core areas are more likely to have introduced new products to the market within the past three years.*
- [B5] (i) *Firms which introduce new high technology products to their range will have superior growth records.*
- (ii) *The propensity of firms in core localities to introduce new high technology products to their range will be greater.*
- (iii) *Firms which manufacture new products will have superior growth records.*
- (iv) *The propensity of manufacturing firms in core localities to manufacture new products will be greater.*
- [B6] *The performance of SMEs as a group will be higher in core localities.*

Table 6.6 details the preparations for start-up made by respondents. By far the most common form of preparation was possession of existing knowledge on the market to be entered (79.7 per cent of subjects), indicating how new business formation is usually embedded in past employment experiences. However, on several grounds preparation looks inadequate: only just over half the sample had spoken to potential buyers or produced a

financial plan, with merely 25.2 per cent conducting market research. When one considers that the sample is designed to include only businesses formed in 1990 or before, and so have been successful in advancing beyond the launch phase, it may be expected that the actual number of start-ups which follow these procedures is considerably less. Less than one out of ten start-ups were formed as teamstarts, confirming previous anecdotal evidence as to their relative scarcity.

Table 6.6: Preparations made by founders in starting-up enterprises.

	Yes		No	
	Number	%	Number	%
(i) produce a mission statement	43	13.0	287	87.0
(ii) produce a marketing plan	114	34.5	216	65.5
(iii) conduct market research	85	25.2	245	74.2
(iv) speak to potential buyers	139	51.3	191	57.9
(v) produce a financial plan (including profit and loss, cash flow and balance sheet forecasts)	173	52.7	154	47.3
(vi) formed the business as part of a team (teamstart)	29	8.8	301	91.2
(vii) have prior knowledge of the market	263	79.7	67	20.3

Number who did not set up their business / missing = 34

Having considered start-up preparations, table 6.7 records the on-going activities of respondent SMEs with regard to seven key structural issues. The overall picture is of much greater procedural controls, with over two-thirds maintaining a computerised accounting information system and more than three-quarters possessing a database of customers. However, still more than four out of ten respondents set no annual financial targets and less than half conduct on going market research. The latter figure may reflect what OMDs perceive as market research, seeing it as a formal organised procedure, ignoring informal but vital channels of communication such as talking regularly to customers, suppliers and distributors. Just over one half of the survey respondents have introduced a new product or service to their range in the last two years. When one considers that this new product or service does not have to have been manufactured or developed by the SME themselves (for

example it could be a retailer stocking a new line of goods) the static nature of so many SMEs product offerings are apparent.

Table 6.7: Business Structure and Enterprise Procedures employed after start-up.

	Yes		No	
	Number	%	Number	%
(i) maintain a database of customers	278	76.6	85	23.4
(ii) conduct ongoing market research	166	45.7	197	54.3
(iii) set financial targets for each year	208	57.5	154	42.5
(iv) introduced a new high-technology product in the last 2 years to your range	91	25.2	271	74.9
(v) introduced a new product or service in the last 2 years to your range	183	50.4	180	49.6
(vi) manufactured and developed a new product in the last 2 years	91	25.2	270	74.8
(vii) maintain a computerised accounting information system	246	67.8	117	32.2

6.2.1 Logistic Regression Analysis

Developing from these responses on business structure, the next stage of the analysis considers what effect, if any, these strategy choices have on enterprise performance. To investigate the potential importance of these factors two separate logistic regression models were developed. In the first, the dependent variable was whether the enterprise had increased net employment in the last three years by two or more FTEs (NETCHAN2) with those meeting this criterion coded as 1 and the remainder listed as 0. The figure of two or more FTEs was used as Hart and Scott (1994) calculate from their analysis of public sector support that this is the minimum benefit threshold required to justify the costs of consultancy and support provision. As this study is interested in SME growth and better targetting of support the identification of factors which separate firms above this threshold from their low growth counterparts is clearly of vital importance. In the second logistic regression model, GROWCHAN was set as the independent variable, defined as whether turnover per annum had increased by over eleven per cent in real terms, on average, over the last five years, so that those enterprises which had grown by over eleven per cent were coded 1 and others coded as 0.

Table 6.8: Independent and Dependent Variables in the Logistic Regression Analysis for Business Strategy Factors

Variable Name	Variable Description	Coding	
		Yes	No
Dependent Variables			
NETCHAN2	Increased net employment in last 3 years by 2 or more FTEs	1	0
GROWCHAN	Turnover per annum increased by over 11% in real terms, on average, over the last five years	1	0
Independent Variables			
COMPACCO	Maintain a computerised accounting information system	1	0
FINTARGE	Set financial targets for each year	1	0
MAINDATA	Maintain a database of customers	1	0
MANUNEW	Manufactured and developed a new product in the last 2 years	1	0
NEWHITEC	Introduced a new high-technology product in the last 2 years to your range	1	0
NEWPROD	Introduced a new product or service in the last 2 years to your range	1	0
ONGOMARK	Conduct ongoing market research	1	0
TEAMSTAR	Formed the business as part of a team (teamstart)	1	0

The theoretical outline and justification for logistic regression analysis is given in section 5.3 and the reader is referred back for an explanation of the procedures followed. Again the SPSS statistical package was used for deriving parameter estimates based on the principle of maximum likelihood. Likewise, variables were evaluated for removal from the model using a likelihood ratio test statistic defined as -2 times the log likelihood ratio with a 10% level of significance used to identify variables for removal. Business strategy and structure factors were taken together as these represent potential variables that individual SMEs have a greater control over (than for example local economic demand) and it provides an introductory assessment of the degree to which an enterprise may control its own destiny. Following the procedures adopted in the agricultural diversification logistic regression models, equal numbers of high and low growth enterprises (the GROWCHAN dichotomy) were entered into the initial model. The results of the two models are given in tables 6.9 and 6.10 respectively.

Table 6.9: Logistic Regression Model on business strategy decisions and enterprise performance separating firms on the basis of employment performance (NETCHAN2).

Number of cases included in the analysis: 274

Dependent Variable: NETCHAN2 (The net change variable separate firms which have grown by more or less than 2 employees).

Model Statistics

-2 Log Likelihood 320.262, Goodness of Fit 269.621

NETCHAN2

	Chi-Square	df	Significance
	59.349	4	0.0000

Variables in the Equation

	B	S.E.	Wald	df.	Significance	R	Exp(B)
COMPACCO	-0.3633	0.1712	4.5023	1	0.0338	-0.0812	0.6954
FINTARGE	-0.3789	0.1418	7.1431	1	0.0075	-0.1164	0.6846
MAINDATA	-0.5035	0.1959	6.6058	1	0.0102	-0.1101	0.6044
MANUNEW	-0.6119	0.1673	13.3765	1	0.0003	-0.1731	0.5423
Constant	-0.1356	0.2036	0.4438	1	0.5053		

Model if Term Removed

Term Removed	Log Likelihood	-2 Log LR	df	Significance of Log LR
COMPACCO	-162.385	4.508	1	0.0337
FINTARGE	-163.707	7.152	1	0.0075
MAINDATA	-163.543	6.824	1	0.0090
MANUNEW	-167.458	14.654	1	0.0001

Variables not in the Equation

(Residual chi square 1.273 with 4 df Sig = .8659)

Variable	Score	df	Sig	R
NEWHITEC	0.1190	1	0.7301	0.0000
NEWPROD	0.8854	1	0.3467	0.0000
ONGOMARK	0.0953	1	0.7575	0.0000
TEAMSTAR	0.0063	1	0.9369	0.0000

Classification Table for NETCHAN2

Observed	Score	Predicted		% Correct
		0.00	1.00	
0.00	85	48	63.91%	
1.00	43	98	69.50%	
		Overall	66.79%	

Table 6.10: Logistic Regression Model considering business strategy decisions that separate high and low growth enterprises based on change in turnover (GROWCHAN)

Number of cases included in the analysis: 195
 Dependent Variable: GROWCHAN

Model Statistics

-2 Log Likelihood 221.445, Goodness of Fit 170.876
 GROWCHAN

Chi-Square	df	Significance
15.605	2	0.004

Variables in the Equation

	B	S.E.	Wald	df.	Significance	R	Exp(B)
COMPACCO	-0.4528	0.1889	5.7462	1	0.0165	-0.1257	0.6359
MANUNEW	-0.5156	0.2018	6.8797	1	0.0087	-0.1435	0.5890
Constant	0.0852	0.2291	0.1382	1	0.7100		

Model if Term Removed

Term Removed	Log Likelihood	-2 Log LR	df	Significance	of Log LR
COMACCO	-113.724	6.002	1		0.0143
MANUNEW	-114.410	7.375	1		0.0066

Variables not in the Equation

(Residual chi square 2.510 with 6 df Sig = .8674)

Variable	Score	df	Sig	R
FINTARGE	0.7219	1	0.3955	0.0000
MAINDATA	0.2216	1	0.6378	0.0000
NEWHITEC	0.2783	1	0.5957	0.0000
NEWPROD	0.7212	1	0.3957	0.0000
ONGOMARK	0.4213	1	0.5163	0.0000
TEAMSTAR	0.1233	1	0.7255	0.0000

Classification Table for GROWCHAN

Observed	Predicted		% Correct
	0.00	1.00	
0.00	27	58	31.76%
1.00	12	74	86.05%
		Overall	59.06%

In both cases the significance of the model chi-square statistic allows the rejection of the null hypothesis that all the variable coefficients in the final model are zero. By taking the exponential of the estimated coefficients that are in log form one can derive the estimated likelihoods and so assess the quantitative importance of individual variables.

Considering the first model (dependent variable - NETCHAN2) four variables are significant. Enterprises with a computerised accounting system are 1.43 times more likely

to have increased net employment in the last three years by two or more FTEs than those without such a system. Businesses that set financial targets each year are 1.46 times more likely to have created two or more net new full time jobs than those firms which do not set such standards. Those respondents who maintain a database of customers are 1.65 times more likely to have increased net employment by two or more FTEs. Finally, businesses who have manufactured a new product within the last two years are 1.72 times more likely to have increased net full-time employment in the last three years than their control group counterparts. The model correctly assigns two out of three businesses to their respective categories with little difference in its predictability power between categories.

In the second model for turnover growth, only two variables were significant (COMPACCO and MANUNEW). Those enterprises with a computerised accounting system are 1.57 times more likely to be within the high growth rate bracket than enterprises without such a system. Firms that have manufactured a new product within the last two years are 1.7 times more likely to be a *high growth enterprise than those firms which have not innovated in this way*.

The models were rerun including first, only enterprises employing less than ten FTEs (microenterprises), followed by just those employing more than ten FTEs. In both cases the same variables were significant although MANUNEW was more important in the latter size cohort (indicating the link between larger firm size and manufacturing). It was hoped to run the model including only enterprises employing between fifty and 250 FTEs - but the sample numbers involved were too small (compared to the number of data points) to draw meaningful conclusions. Finally, however, it should also be remembered that the coefficients for a variable in a logistic regression equation depends on the other variables in the model. The coefficients for the same variable, when included with different sets of variables, could be quite different.

TEAMSTAR was not significant in either of the models and this goes against several previous empirical studies and policy developments such as the MIDAS programme¹. The multivariate analysis suggests that team-starts are not superior *per-se*. At this juncture it is interesting to reflect on why the results of this study diverge from previous findings. First, the most impressive results have been garnered in the USA - for the UK the findings of previous studies are more mixed: one positive relationship, another with no relationship, and Storey *et al.*'s inconclusive results (see table 6.1). This study fits with this pattern and indicates the possibility of cultural factors in explaining the results. The role placed on team-work in corporate management has a far greater depth and history in the USA and is in stark contrast to 'individual enterprise culture' which has been dominant in the UK. Second, the measure of growth used in these previous tests has usually been employment size (Woo *et al.*, 1989) - but this, on its own is not a good measure of firm change. Very few firms will aim at increasing employment size *per se* and the whole downsizing movement has been geared to improving profitability and sales growth while reducing the company's workforce.

The one previous UK study which found a positive relationship (Barkham, 1994) was based on financial data supplied by accountants after firms had been trading for three years. The proxies for growth used were total assets and sales turnover after the end of third year of trading. A number of factors could account for the disparity between Barkham's results and the findings of this study. In Barkham's sample it could be that the team-starts are clustered in sectors where start-up costs and asset commitments are high. This would be consistent with the notion that team-starts can aid founders to enter the market by pooling their available capital, and that average total asset values were higher. Second, Barkham's results only consider the start-up phase (up to year 3) while this study only looks at firms

¹ This is a Business Link initiative being piloted to stimulate 'quality' start-ups, advocating the promotion of team-starts.

which have been trading for more than five years. While a team-start structure could help in the start-up phase (pooling capital, sharing knowledge and risks) these benefits may wear off with time and could explain the differential in findings. Finally, Barkham does not control for sectoral effects so it could just be that team-starts were more common in high growth sectors during the period of his study (1976-1986) rather than being superior *per se*.

The analysis suggests that innovation and new product development alone will not be sufficient for success. If new jobs and growth do stem from innovation, the main gains are likely lie with manufacturing new goods rather than within adjutant services. There were no significant relationships with NEWPROD or NEWHITEC. These findings would support the growing reassessment within the literature concerning innovation. Rogers (1983: 83) for example, outlines the risk of a “pro-innovation bias” which assumes that there is a best practice solution that should be adopted by all firms, so that ‘the implication...is that an innovation should be diffused and adopted by all members of a social system’ (Rogers, 1983: 83).

6.2.2 Spatial Variations in Business Strategy and Structure Success Factors

The next stage of analysis considers whether spatial variations are apparent in the occurrence of the business strategy and structure success factors discussed above. However a potential problem exists in that if the whole sample of responses is used, it is possible that differences between the demographics of the peripheral and core samples could overwhelm the exploratory analysis (Gartner, 1989: 33). The difficulty is that spatial variations highlighted may merely show ‘sample’ differences rather than real environmental factors (Westhead, 1995: 371). For example, Walker (1995: 205) for Scotland shows how younger firms have a greater tendency to grow. Now if for example, the rural core sample had a greater proportion of youthful firms, analysis may show superior growth rates in core localities - but this finding may have nothing to do with a spatial divide but merely reflect demographic differences in the two samples.

To overcome this potential problem a matched sampling procedure was followed. This procedure involves matching one firm from rural peripheral areas with another from a core locality, so that other potentially distorting effects are controlled for and a genuine comparison can be made. The selection of matching criteria drew on the literature review in chapter three and the finding that growth and performance is influenced by life cycle and age effects and sectoral differences (Birley and Westhead, 1992; Storey, 1994). Respondents were asked to state the nature of their business (for example vehicle repairs) and from these replies enterprises were classified according to 1992 Standard Industrial Classification (SIC) group classifications to the three digit level taken from the NOMIS database, although in approximately ten per cent of cases classification was only possible to two digits. Peripheral firms were matched with core enterprises with corresponding SIC codes and fitted into the same age bracket. Firms were divided into four age groups: those formed between 1985 and 1990, between 1980 and 1984, from 1970 to 1979 and before 1970. In applying this procedure of controlling for demographic and sectoral factors, the total sample of 366 firms was reduced to 82 matched pairs.

To test spatial variations within the matched sample, a series of chi-square tests was conducted and the results displayed in tables 6.11 to 6.17 shown below.

Table 6.11: Chi-Square test on variations in the occurrence of team-starts Between Study Areas

		Core	Periphery	Total
Non team start		69	71	140
Team start		9	7	16
		78	78	156
Chi-Square	Value	Deg. of Freedom	Significance	
with Yates' correction	0.06964	1	0.79186	(also insignificant at any level with normal chi-square test)

Minimum Expected Frequency - 8.000, Number of Missing Observations: 8

No significant spatial differences are apparent in the number of team starts. The belief that the number of multi-founder enterprises in rural peripheral areas will be lower, because of

a sparser and more dispersed population structure is unfounded and hypothesis B1(ii) can be rejected.

Table 6.12: Chi-Square test on variations in the use of computerised accounting information systems Between Study Areas

		Core	Periphery	Total
No computerised accounting system		17	33	50
Have computerised accounting system		63	49	112
Total		80	82	162
Chi-Square	Value	D. of Freedom	Significance	
with Yates' correction	5.98515,	1	0.01443	also significant (0.00888) with normal chi-square test)

Minimum Expected Frequency - 24.691, Number of Missing Observations: 2

Table 6.12 indicates that there is a significant spatial divide (at the 5% level) between the study areas in the use of computerised accounting information systems. Within the matched sample, while only 59.8 per cent of rural peripheral firms had such systems, the corresponding figure for core localities is 78.8 per cent. When one considers that demographic and sectoral differences have been controlled for, and that COMPACCO was identified as a significant factor in the logistic regression analysis, this result is especially interesting.

Table 6.13: Chi-Square test on variations in the setting of annual financial targets between study areas

		Core	Periphery	Total
No financial targets set		34	42	76
Financial targets set		46	40	86
		80	82	162
Chi-Square	Value	Deg. of Freedom	Significance	
with Yates' correction	0.91088	1	0.33988	also insignificant (0.26620) with normal chi-square test)

Minimum Expected Frequency - 37.531, Number of Missing Observations: 2

While fewer peripheral firms set financial targets, the divide is not significant (table 6.13). Given the findings for COMACCO it can thus be concluded for accounting procedures, that while there are no significant differences in the setting of financial targets,

in terms of monitoring those targets and other pecuniary concerns, core based firms are more likely to be technologically sophisticated.

Table 6.14: Chi-Square test on variations in the manufacture of a new product between the study areas

	Core	Periphery	Total
Not manufacture new product	22	25	47
Manufacture new product	12	8	20
			67

Chi-Square with Yates' correction	Value	D. of Freedom	Significance
	0.52030	1	0.47072
			also insignificant (0.32299) with normal chi-square test)

Minimum Expected Frequency - 9.851, Number of Missing Observations: 1

The chi-square test displayed in table 6.14 considers only manufacturing firms (identified by SIC 1992 group codes) within the matched sample. No spatial variations in the propensity to manufacture new products are apparent in this sector. This is an important finding given the role MANUNEW plays in employment generation. The problem for peripheral areas appears not lie with the quality of existing manufacturing firms in these localities, as there are no significant differences in their propensity to develop new products when compared to core based firms. Rather, given the relationship between MANUNEW and employment generation it is the relative scarcity of manufacturing enterprises, detailed in section 1.2, which is a cause for concern. In other words the weakness of the peripheral manufacturing base appears to lie in the *quantity* of producers rather than existing producers being inferior to their core counterparts *per se*.

Table 6.15: Chi-Square test on variations in the introduction of a new product or service to a SME's product range in the last two years Between Study Areas

	Core	Periphery	Total
Not introduce new product or service	45	42	87
Introduced new product / service	35	40	75
	80	82	162

Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance
	0.23465	1	0.62809

also insignificant (0.52088) with normal chi-square test)

Minimum Expected Frequency - 37.037, Number of Missing Observations: 2

The chi-square test for new product innovation (table 6.15) indicates no significant spatial divide. The argument that SMEs in peripheral areas are less innovative is not supported on this evidence, nor is the contention that the introduction of high technology products for sale will be biased towards the south-east (table 6.16).

Table 6.16: Chi-Square test on variations in the Introduction of new high-technology products to a SME's product range in the last 2 years between study areas

	Core	Periphery	Total
Not introduce new high tech product	62	56	118
Introduced new high tech product	18	26	44
	80	82	162

Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance
	1.30101	1	0.25403

also insignificant (0.18775) with normal chi-square test)

Minimum Expected Frequency - 21.728, Number of Missing Observations: 2

These findings support the results of Vaessen and Keeble (1995: 502), who without making a distinction between urban and rural areas, found that growth-oriented peripheral SMEs introduced successful innovations at least as frequently as their south-east counterparts. The final test in this section considers variations in employment performance between the matched sample of peripheral and core based firms between 1992 and 1995 (table 6.17). The results of the Mann-Whitney test indicate a significant disparity (significant to the 5% level) between the samples.

Table 6.17: Mann-Whitney test on Variations in Net Change in Employment in the last 3 Years between Matched Sample of Peripheral and Core Firms.

Mann-Whitney U - Wilcoxon Rank Sum W Test			Corrected for Ties			
	Cases	Mean Rank	U	W	Z	2- Tailed P
Core	73	62.18				
Periphery	64	76.78	1838.0	4914.0	-2.1612	0.0307

In terms of net change in employment the peripheral based firms have faired significantly better between 1992 and 1995, as indicated by the lower mean rank of core based firms. This finding reverses evidence accumulated in the early 1980s and reinforces Vaessen and Keeble's (1995: 502) finding, that a significantly greater proportion of SMEs in Wales, Scotland and Northern England were able to achieve relatively rapid growth during the later 1980s than was the case with south-east firms. Their conclusion that 'economic conditions in peripheral Britain do not inevitably adversely affect the performance and growth of small and medium sized firms located in these regions' (1995: 502) appears to apply likewise with this survey for the period 1992 to 1995.

The factors underlying this finding can be more easily demonstrated with recourse to figure 6.1.

Figure 6.1: Spatial Variations in Employment Change 1992-1995

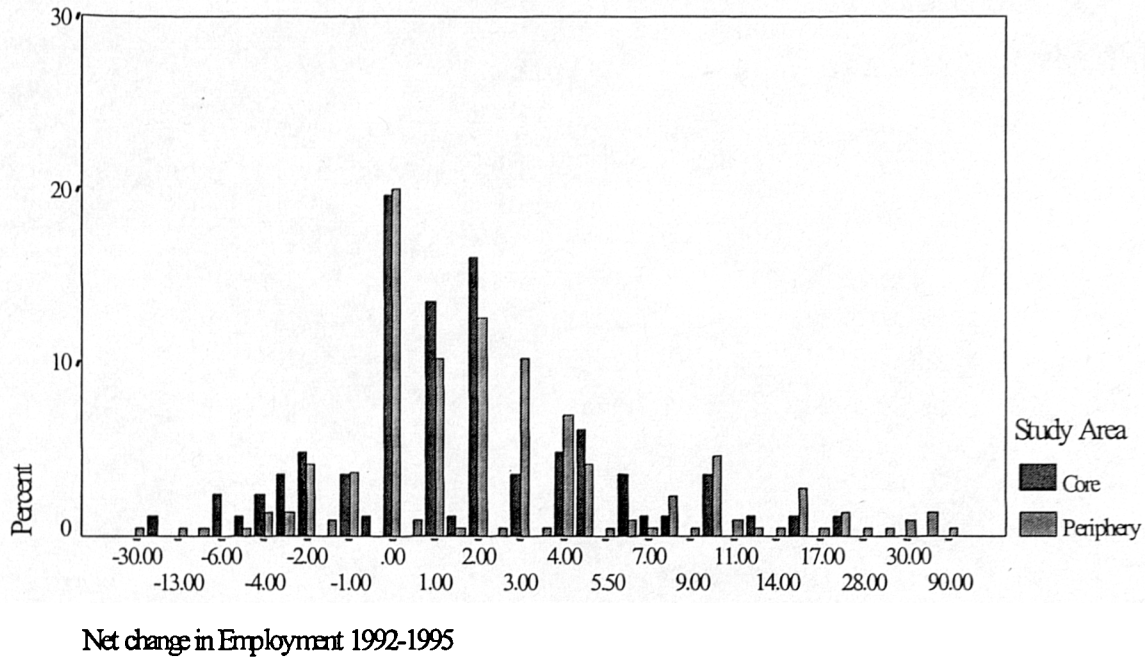


Figure 6.1 shows the percentage number of firms in each study area against the net change in individual enterprise employment for the years 1992 to 1995. Percentage values are shown to eliminate the distortion of unequal sample sizes between the study areas. In both core and peripheral areas the mode value is 0. The largest single grouping of SMEs report no change in their employment levels between 1992 and 1995. However, this figure masks a considerable spread of enterprise level employment change. If one looks at those enterprises which have stimulated most jobs (up to ninety in one case) they have been predominantly located in peripheral areas. This is in contrast to the opposite end of the spectrum (sizeable job losses) which have been concentrated in core areas. These employment trends for non-agricultural SMEs are also the reverse of the findings on agricultural diversification and indicate how a considerable degree of sectoral variations may occur.

Spatial variations in employment change, as indicated in figure 6.1, are thus not caused by differentials between 'average' firms but rather differences at the 'extremes' - where rapid growth and substantial decline firms are based. Rapid employment growth firms for the period 1992 to 1995 were predominately based in the extreme south-west not

the south-east: a finding which would appear to reverse conclusions and assumptions drawn for the 1980s. Moreover, it indicates that explanations of spatial variations in employment change which focus solely on regional differentials in the effects of macroeconomic change offer little in the way of causal explanation. There is little to choose between the 'average' firm in core and peripheral locations and south-east based firms have not all performed worse than their extreme south-west counterparts. Differentials emerge not so much from the 'average' firms in a particular part of the UK performing better than another, but rather variations in the spatial distribution of rapid growth firms and it is understanding the critical success factors underlying such records where attention should be focused. For both the agricultural and non-agricultural business sectors spatial variations in employment change are largely accounted for by variations in the location of *high job generating* enterprises but crucially where these enterprises are based varies between the sectors.

The evidence on the role of business strategy and structure on performance can be delineated with the regard to the hypotheses set out at the beginning of this section. Considering team-start enterprises, both hypothesis B1(i) that such businesses will experience higher growth levels and B1(ii) that fewer multi-founder enterprises will be formed in rural peripheral areas can be rejected. There is also no support for the contention that SME OMDs who conduct on going market research experience higher levels of growth (hypothesis B2). This may be due to how OMDs perceive market research with respondents ignoring informal channels of communication such as talking regularly to buyers.

Both logistic regression models, however, give credence to the proposition that enterprises with a computerised accounting system will achieve higher growth records and hypothesis B3(i) is accepted. The evidence concerning the importance of setting annual

financial targets is less clear cut, with the variable being significant when employment change is used as the proxy for growth but not with the turnover measure.

Merely introducing new products or services to a firm's range, regardless of whether they are high technology based or not, is not sufficient in itself to bring higher growth levels and hypotheses B4(i) and B5(i) can be rejected. There appears to be no variation in the propensity of core and periphery based firms to introducing new products or services to their range and hypotheses B4(ii) and B5(ii) can in consequence likewise be rejected. If there is a relationship between new product development and growth it appears to lie with the manufacture of such innovations. The dependent variable MANUNEW is significant when both employment generation and turnover are taken to be proxies of growth. As a result hypothesis B5(iii) can be accepted. Using the matched sample of core and peripheral firms there appears to be no significant variation in the propensity of core and peripheral manufacturing firms to introduce new products and hypothesis B6(iv) can be rejected. The implications of this finding will be developed in greater depth after the evidence on spatial variations in market coverage are considered in section 6.3.3. Finally, there is no evidence to support the contention that the performance of SMEs as a group will be higher in core localities. Rather, the survey data for the years 1992 to 1995 indicates the opposite, when employment generation is taken as a measure of growth and life-cycle and sectoral differences are controlled. Understanding the factors underlying this phenomenon is important, and the next section considers the issue of location in greater depth.

6.3 ECONOMIC ISSUES

6.3.1 Spatial Variations in the Locational Decisions of SMEs

Hypotheses:

- [B7] (i) *There will be a greater concentration of businesses located for reasons of environmental attractiveness in rural peripheral localities.*
- (ii) *SMEs located in core localities will cite that accessibility and transport links are more important considerations in their location decision than their peripheral counterparts.*
- (iii) *Fewer peripheral SMEs will cite closeness to founder's home as an important factor in the choice of their present location.*

The three most important factors cited by SME OMDs in choosing their present premises were: proximity to home (37.7%), good access and / or transport links (29.2%) and attractive locality (28.1%). This mirrors the findings of Keeble *et al.*, (1992: 15) with regard to the importance of proximity and environmental considerations. Grants would appear to a relevant factor in only a small minority of cases and there is support for the notion that the locational decisions of SMEs are more likely to be made with regard to wider, lifestyle preferences, than profit maximisation *per se* (see table 6.18).

Table 6.18: Reasons cited by OMDs for choice of current premises

Factor	Number citing it	%
Close to home	138	37.7
Good access / transport links	107	29.2
Availability of grants	22	6.0
Attractive locality	103	28.1
Market opportunity	81	22.1
Cheap rent	70	19.1
Work from home	40	10.9
Fit in with family commitments	21	5.7
Premises already there	27	7.4
No other suitable premises	5	1.4
Other	26	7.1

Number of missing firms = 6

To consider the relationships between locality, motivation for location and SME performance log linear analysis can be utilised. This methodology attempts to discover the existence of relationships amongst a set of categorical variables that can be arranged in the form of a contingency table (Wrigley, 1985). Log-linear analysis fits the various models to the logs of the cell frequencies, with the taking of logs enabling the components of the model to be expressed in a linear fashion. The technique also has the advantage of not requiring the specification of a dependent variable but rather attempts to discover meaningful relationships amongst all variables included. In this case four variables (the three most popular reasons for choice of location and the core - periphery dichotomy) were chosen as detailed in table 6.19. Additional factors identified by OMDs as important in the choice of their present premises were excluded as the numbers involved precluded significant statistical analysis. The matched sample of firms was used so that life-cycle and sectoral differences could be controlled for in the analysis.

Table 6.19: Variables included in the Log-Linear Analysis for Locational Factors

Factor	Variable Name	Code
Proximity to OMD's home	CLOSE	C
Accessibility and Transport Links	ACCESS	A
Locality Attractiveness	LOCALITY	L
Core - periphery Divide	SPATIAL	S

The procedure adopted in the present study is that of hierarchical log-linear analysis. This methodology proceeds by fitting a variety of log-linear models to the cell frequencies and attempting to find the most parsimonious model that adequately fits the data. Analysis begins with the "saturated" model that fits the data perfectly as it includes all variables independently and all possible two way, three way and four way interactions amongst the variables. This model can be expressed in the following form:

$$\ln F_{ijkl} = \alpha + \alpha_i^C + \alpha_j^A + \alpha_k^L + \alpha_l^S + \alpha_{ij}^{CA} + \alpha_{ik}^{CL} + \alpha_{il}^{CS} + \alpha_{jk}^{AL} + \alpha_{jl}^{AS} + \alpha_{ki}^{LS} + \alpha_{ijk}^{CAL} + \alpha_{ijl}^{CLS} + \alpha_{ikl}^{CAS} + \alpha_{jkl}^{ALS} + \alpha_{ijkl}^{CAL S}$$

In F_{ijkl} , F denotes the (natural) log of the $ijkl$ th cell where i refers to the i th level of the proximity to founders' home variable, j the j th level of accessibility variable, k the k th the locality variable and l the l th level of the spatial variation (core-periphery divide) variable. The term α denotes the overall mean of the logs of the expected cell frequencies and the other right hand side variables represent deviations from this mean accounted for by the variables independently or the interactions between variables. Thus α_i^C represents the deviation from the overall mean attributable to being at the i th level of the closeness to owner-managing directors home variable (usually referred to as the main effect of the variable), whereas α_{ij}^{CA} represents the deviation attributable to the interaction between closeness to OMD's home and accessibility. Using the crossing operator the saturated model represented by the above equation can be abbreviated as $C*A*L*S$.

After specifying the saturated model, terms are successively deleted in a manner analogous to stepwise procedures in multiple regression analysis. At each stage of analysis the term with the smallest and non-significant impact upon the likelihood ratio chi-square statistic is eliminated from the model. The procedure ends when the removal of any additional terms would have a significant effect upon the chi-square statistic and hence no further terms can be eliminated. Table 6.20 shows the sequence of deletion of variables from the model, the relevant likelihood ratio chi-squares and probability levels. A 5% level of significance was employed and hence effects with a probability of greater than 0.05 were deleted from the model. It should be noted that a principle of log-linear analysis is that a lower order term is not deleted whilst the higher order term of which it is a subset is present in the model. A corollary of this is that the presence of a higher order interaction term in the model also implies the presence of the lower order terms (interactions or main effects) of the variables involved.

Table 6.20: Deleted Effects in Hierarchical Log Linear Analysis for Locational Factors

Deleted Effect	Change in Likelihood Ratio Chi-Square	Probability
C*A*L*S	0.249	0.6180
C*L*S	0.030	0.8617
C*A*S	0.012	0.9113
L*A*S	0.055	0.8143
C*A*L	0.095	0.7575
C*L	0.020	0.8869
S*L	1.270	0.2598
C*A	0.091	0.7627
A*L	0.314	0.5753

The final model that arises from the hierarchical analysis is one that contains two significant two way interaction effects detailed in table 6.21.

Table 6.21: Interaction effects retained in best log-linear model for Locational Factors

Likelihood ratio chi-square =2.55499, degrees of freedom = 9, probability = 0.979
 21158 cases accepted, 6 rejected because of missing data

Effect	Change in Likelihood Ratio Chi-Square	Probability
A*S	5.346	0.0208
C*S	5.706	0.0169
L	17.437	0.0000

All other interactions were strongly excluded from the model. The overall fit of the final model is satisfactory with a likelihood ratio of 2.55 and a probability of 0.979 well in excess of the critical 0.05. In addition, table 6.22 shows the standardised residuals of the model, none of which are significant at the 5% critical value, which again implies a reasonably good fit.

Table 6.22: Standardised residuals and Expected frequencies of the Final Model for Locational Factors

Factor	Code	OBS count	EXP count	Residual	Std. Residual
SPATIAL	Core				
ACCESS	No				
CLOSE	No				
LOCALITY	No	13.0	13.4	-0.04	-0.01
LOCALITY	Yes	7.0	6.6	0.42	0.16
CLOSE	Yes				
LOCALITY	No	16.0	16.9	-0.87	-0.21
LOCALITY	Yes	9.0	8.5	0.48	0.17
ACCESS	Yes				
CLOSE	No				
LOCALITY	No	8.0	9.6	-1.56	-0.50
LOCALITY	Yes	6.0	4.8	1.17	0.53
CLOSE	Yes				
LOCALITY	No	11.0	12.4	-1.37	-0.39
LOCALITY	Yes	8.0	6.2	1.76	0.70
SPATIAL	Periphery				
ACCESS	No				
CLOSE	No				
LOCALITY	No	27.0	24.9	2.08	0.42
LOCALITY	Yes	11.0	12.6	-1.58	-0.45
CLOSE	Yes				
LOCALITY	No	16.0	15.0	1.05	0.27
LOCALITY	Yes	6.0	7.5	-1.55	-0.56
ACCESS	Yes				
CLOSE	No				
LOCALITY	No	9.0	8.3	0.69	0.24
LOCALITY	Yes	3.0	4.2	-1.19	-0.58
CLOSE	Yes				
LOCALITY	No	5.0	5.0	0.02	0.01
LOCALITY	Yes	3.0	2.5	0.48	0.31

Standardised residuals = (observed value - expected value) / $\sqrt{\text{expected value}}$. They are approximately normally distributed with mean 0 and standard deviation of one. The five per cent critical value is ± 1.96 .

Although parameter estimates for the various terms can be computed, the estimates are highly dependent upon the computer package that is used (Page, 1977; Holt, 1979). A better method of estimating the quantitative relationship between two variables is to calculate odds ratios, which has the advantage of being independent of the technique used to derive the log-linear estimates (Page, 1977). For any two variables, A and B, the odds ratio simply represents the ratio for the two categories of variable A evaluated at one category of B divided by the ratio of the frequencies of A evaluated at the other category of

B. Thus, if A and B were spatial divide and, the odds ratio would estimate the odds of a company located in a core locality citing access as an important factor in their choice of present as compared to the odds of a peripherally based highlighting accessibility as an important factor in their choice of current location.

Odds ratios for the significant relationships can be calculated from the expected frequencies predicted by the model that are depicted in table 6.22. As the significant relationships are both pairwise, the odds ratios can be calculated for any given set of values of the other two variables. Thus, the odds ratios for the interaction effect A*S can be evaluated, for example, by holding the other two variables “constant” at “No”. The odds of a core based firm citing accessibility as an important factor in their choice of location was $9.6 / 13.4 = 0.7164179$ and the odds of a peripheral firm for which access was a factor in its location choice is $8.3 / 24.9 = 0.3333$. The odds ratio is thus $0.7164179 / 0.33333 = 2.1492591$, which indicates that firms in core localities were over twice as likely to cite accessibility as an important factor in their choice of present premises than peripherally based enterprises.

Considering the other significant interaction and calculating the appropriate odds ratios from table 6.22 one can conclude that core based businesses were just over twice as likely to cite proximity to the founders home as an important factor than peripheral respondents. The final odds ratio calculation is $1.261194 / 0.6024096 = 2.0935821$.

The proximity of premises to the OMD's home appears less important for peripheral owner-managers (37.5% citing it as a factor opposed to 56.41% of entrepreneurs in core localities). A chi-square test on these two variables (applying Yates' correction) indicates a highly significant divergence (a value of 4.93; $p=0.026$). This could be due to both demand and supply side factors. First, the poorer availability of industrial units in peripheral areas may mean founders have to locate further away, on average, than their core based

counterparts. Second, a greater proportion of owner-managers in peripheral areas are counterurbanites, so they may be less rooted and more willing to travel.

Finally, and surprisingly, there is no relationship between locality attractiveness and spatial location (or any of the other variables). It was expected that firms based in peripheral localities would be more likely to cite environmental factors in their choice of location, particularly given the role of counterurbanites. When the model was rerun to include all firms again no positive relationship was found. This may reflect that those based in Devon and Cornwall see little to choose between the rural areas available so that particular sites were not chosen especially for locality attractiveness or that as fewer units are available, indicated by owners having to travel further from their home, OMDs have to be less choosy with regard to environment in these areas. There is no way of distinguishing between these factors from the survey data and this implies an area for further research. Referring back to the hypothesis at the beginning of this section, the contention that there will be a greater concentration of businesses located for reasons of environmental attractiveness in rural peripheral localities (B7(i)) can be rejected. The other two parts of the hypothesis however are supported: SMEs located in core localities do have a higher propensity to cite that accessibility and transport links were more important considerations in their location decision and fewer peripheral SMEs will cite closeness to founders home as an important factor in the choice of their present location.

6.3.2 Financial Issues and SME Performance

Hypothesis:

- [B8] (i) *Firms which have sought external equity will display higher growth.*
- (ii) *Lower numbers of firms will have sought external equity in rural areas.*

Table 6.23 and Table 6.24 indicate the use of potential sources of finance for SMEs in setting up and after start-up respectively. The tables indicate a familiar pattern of a reliance on high street banks as the main source of external finance with only a small minority using venture capital or commercial banks. The questionnaire was designed not only to look at use but also the degree to which small businesses investigated potential options or were thwarted in attempts to gain finance from a particular source. This gives a more informed breakdown than previous studies, which tend to only consider only the use / not use dichotomy.

Table 6.23: Investigation, denied access and use of potential sources of finance by SMEs during start-up.

	Investigate Only	Sought but not gained	Used	Not Considered
High street bank	17	8	230	90
Commercial bank	11	8	12	314
Venture Capital	14	5	5	321
Business angel	8	2	8	327
Family and friends	5	2	43	295
Personal savings	4	0	154	187
RDC loan	3	4	12	326
County / District Council loan	2	3	0	340
Enterprise Allowance scheme	2	0	2	341
Other	4	1	14	326
Not set up business	21			

There is little evidence that SME OMDs when forming their businesses, investigate potential funding options on any sophisticated level. Only with regard to venture capital, was investigation higher than actual use. The survey also considered the utilisation of informal sources of finance, as well as the familiar menu of formal choices. On this point, the use of known individuals (family and friends) appears far more important than business angels.

Table 6.24: Investigation, denied access and use of potential sources of finance by SMEs since start-up

	Investigate Only	Sought but not gained	Used	Not Considered
High street bank	16	12	235	103
Commercial bank	18	7	27	314
Venture Capital	17	8	4	337
Business angel	11	8	3	344
Family and friends	6	2	35	323
Personal savings	4	1	92	269
RDC loan	7	4	8	347
County / District Council loan	4	2	2	358
Other	4	1	18	343

After start-up, slightly more firms appear to be proactive in investigating potential sources of finance. With their establishment firms rely less on personal savings and family and friends, with a consequent shift to formal sources of capital: high street and commercial banks. After start-up the interest of OMDs in business angel arrangements appears no higher, with loan schemes operated by RDC utilised by only a handful of enterprises.

Given the small number of firms that have used venture capital it was not possible to test hypothesis B8. This is disappointing and will require a larger data set for adequate testing. With the matched sample it was possible, however, to test whether there were spatial variations in the use of high street bank finance and the utilisation of family and friends as sources of money during and after start-up. The results of the chi-square tests are given in table 6.25 and indicate that no spatial variations are significant.

Table 6.25: Chi-Square tests on use of potential sources of finance in the matched sample of core and peripheral enterprises.

Source	Chi-Square Value with Yates' correction	Deg. of Freedom	Significance	Normal Chi-Square Significance
High street bank for start-up	0.51636	1	0.47240	(0.37760)
Family and friends for start-up	1.01694	1	0.31325	(0.21016)
High street bank after start-up	0.10194	1	0.74951	(0.63199)
Family and Friends after start-up	0.00000	1	1.00000	(0.75492)

6.3.3 Markets Served

Hypotheses:

[B9] (i) *Firms which supply markets outside their own county will have achieved higher levels of growth.*

(ii) *Enterprises in rural peripheral locations will be more dependent on their local markets.*

[B10] (i) *Enterprises which export will have achieved higher growth.*

(ii) *There is a positive association between propensity to export and being engaged in manufacturing.*

(iii) *Enterprises in rural peripheral locations will have a lower propensity to export.*

Table 6.26 details the final value of goods and services respondent SMEs supply to four different geographical markets: their own county, own region, on a national level and for export. So, for example, if a company was based in Exeter their own county would be Devon and the region would be the south-west. Respondents were asked to give the

percentage value of goods and services they supply to each of these four geographical markets. These percentage values are grouped into five bands for comparison in table 6.26. Thirty-five per cent of all respondents supply more than seventy-per cent of their final value of goods and services to their own county, indicating that for many small is local. In contrast the number which export is low (30.5%), with the majority exporting only a small proportion of their output.

Table 6.26: Percentage of the final value of goods and services supplied by SMEs to different geographical markets

	None		Between 1 and 25%		Between 26 and 50%		Between 51 and 75%		Greater than 75%	
	n	%	n	%	n	%	n	%	n	%
Own county	69	19.1	76	21.1	43	11.9	45	12.5	128	35.0
Own region (but exclude own county)	146	40.4	134	37.1	44	12.2	18	4.9	19	5.2
On a national level (excluding own county and region)	146	40.4	89	24.7	36	10.0	30	8.3	60	16.4
Export	251	69.5	81	22.4	14	3.9	5	1.4	10	2.8

Missing: 5

Table 6.27 establishes whether spatial variations exist between core and peripheral firms in terms of the percentage value of goods and services supplied to different geographical markets. To conduct these tests the matched sample of core and peripheral firms was again used to control for differences in sectoral composition and life-cycle. With regard to dependence on own county (table 6.27) peripheral firms supply a significantly higher percentage of goods and services to these markets. The level of statistical significance implies thus that hypothesis B9(ii) can be accepted. In contrast, core firms are more oriented to the whole region to which they belong and national markets.

Table 6.27: Mann-Whitney test on Variations in Percentage of Value of Goods and Services Supplied to Different Geographical Markets between Matched Sample of Peripheral / Core Firms.

	Mann-Whitney U - Wilcoxon Rank Sum W Test				Corrected for Ties	
	Cases	Mean Rank	U	W	Z	2- Tailed P
Own County						
Core	79	69.62				
Periphery	82	91.96	2340.0	5500.0	-3.0674	0.0022
Own Region (excluding own county)						
Core	79	89.86				
Periphery	82	72.46	2339.0	7099.0	-2.4513	0.0142
National Level (excluding own region and county)						
Core	79	87.02				
Periphery	82	75.20	2763.5	6874.5	-1.6699	0.0949

There are no significant differences between core and peripheral firms in the value of goods and services supplied to export markets. This reverses previous assumptions within the literature (Thwaites, and Wynarczyk, 1996), and hypothesis B10(iii) can be rejected.

Table 6.28: Mann-Whitney test on Variations in Percentage of Value of Goods and Services Supplied to Export Markets between Matched Sample of Peripheral and Core Firms.

	Mann-Whitney U - Wilcoxon Rank Sum W Test				Corrected for Ties	
	Cases	Mean Rank	U	W	Z	2- Tailed P
Core	79	82.63				
Periphery	82	79.43	3110.0	6528.0	-0.5255	0.5993

Table 6.29 compares the percentage of each SME's final value of goods and services supplied to their own county against whether the firm achieved high growth. High growth was again measured by the proxy variable GROWCHAN. The results indicate that high growth enterprises have a significantly lower dependence on their own county and hypothesis B9(i) can be accepted.

Table 6.29: Mann-Whitney test on Percentage of Final Value of Goods and Services Supplied to Own County and Growth Performance

Mann-Whitney U - Wilcoxon Rank Sum W Test			Corrected for Ties			
	Cases	Mean Rank	U	W	Z	2-Tailed P
NO GROWCHAN	226	168.01				
GROWCHAN	95	144.32	9150.5	13710.5	-2.1003	0.0357

Table 6.30 shows the result for repeating the previous test when each SME's percentage of final value of goods and services supplied to export markets is considered. Using GROWCHAN as proxy high growth enterprises are significantly more likely to be supplying export markets to a greater extent than their low growth counterparts.

Table 6.30: Mann-Whitney test on Percentage of Final Value of Goods and Services Supplied to Export Markets and Growth Performance.

Mann-Whitney U - Wilcoxon Rank Sum W Test			Corrected for Ties			
	Cases	Mean Rank	U	W	Z	2-Tailed P
NO GROWCHAN	226	153.52				
GROWCHAN	95	178.78	9045.5	16984.5	-2.6874	0.0072

Finally, two tests can be conducted to compare manufacturing and service enterprises in terms of their relative dependence on own county (table 6.31) and propensity to export (table 6.32). Firms were classified as manufacturing or service sector enterprises based upon SIC 1992 group codes. As table 6.31 indicates, service sector enterprises, as a whole, are more dependent upon their own county. This is not surprising given that many service sector enterprises (for example newsagents, grocers and post offices) will all serve fairly limited geographical markets). The difference between the manufacturing and service sectors is significant to the 0.0001% level.

Table 6.31: Mann-Whitney test on Variations in Percentage of Value of Goods and Services Supplied to Own County between Manufacturing and service firms

	Cases	Mean Rank	Ties		Corrected for	
			U	W	Z	2-Tailed P
Manufacturing	98	131.09				
Services	231	179.39	7995.5	12846.5	-4.2365	0.0000

As to be expected, manufacturing firms have a higher propensity to export compared to their service sector counterparts (table 6.32). Again the result is significant to the 0.0001% level.

Table 6.32: Mann-Whitney test on Variations in Percentage of Value of Goods and Services Supplied to Export markets between Manufacturing and Service Sector Firms

	Cases	Mean Rank	Ties		Corrected for	
			U	W	Z	2-Tailed P
Manufacturing	98	201.44				
Services	231	149.54	7747.5	19741.5	-5.5997	0.0000

Reviewing the material presented in this section, together with the evidence on business strategy two structural problems facing rural peripheral areas are apparent. The first problem is that while individual manufacturing enterprises in rural peripheral localities are no less innovative than their core counterparts, the sector as a whole is under represented. Table 6.33 presents evidence of this from the census, comparing the sectoral distribution of employees in Cornwall and the Isles of Scilly against ROSE (the South East region excluding Greater London). For each manufacturing category the figures for Cornwall are lower (except in the case of male employment in metals, minerals and chemicals which is accounted for by mining activities in the peripheral county). For some categories the disparity is wide: while the percentage of male employees in metal goods, engineering and vehicle industries for Cornwall is 7.0, the comparative figure for ROSE is

15.4%. Given the linkage between the manufacture of new products and employment generation identified above, this comparative weakness of the peripheral manufacturing base is a key structural problem.

Table 6.33: Employees in Employment by Standard Industrial Classification and Sex, 1991

Sector	Male		Female	
	Cornwall and Isles of Scilly*	ROSE*	Cornwall and Isles of Scilly	ROSE
Agriculture, forestry and fishing	8.6	1.7	2.6	0.9
Energy and water supply	1.7	2.1	0.5	0.6
Metals, minerals and chemicals	4.2	3.2	1.0	1.7
Metal goods, engineering, vehicle industries	7.0	15.4	2.5	4.5
Other manufacturing	5.6	8.0	4.9	4.6
Construction	15.1	6.0	1.6	1.4
Distribution, hotels, catering and repairs	21.0	20.4	31.3	24.1
Transport and communication	7.0	9.1	2.5	3.1
Banking, finance, insurance, business services & leasing	6.8	12.4	9.0	14.3
Public administration & other services	21.3	21.6	42.8	44.7

* Figures in percentages, so that all industries and services equal 100%

Source: OPCS (1993), Census Returns 1991, Luton: OPCS

The second major weakness is that peripheral firms, on average, are more dependent on their own county as a geographical market. This relationship holds even when sectoral and life-cycle variations are controlled. This presents problems as the performance of those dependent on local markets is more embedded in the fortunes of their own locality. In disadvantaged peripheral areas this presents a major hurdle, as a manufacturer of decorative totem poles in Cornwall illustrated:

Down here they fetch around the two hundred pound mark. In London its up to seven hundred and fifty quid (Interview, totem pole manufacturer, Cornwall).

Transcending limited local markets would appear to be a crucial issue and is developed further in chapter eight. However, it is clear only those goods that are capable of being traded over wider geographical areas are suitable for such a transcendence of local markets.

A newsagent in Bodmin cannot target Surrey as a new market! In recognising this, the focus turns to which goods are capable of transcending local markets? Except for certain financial and business services the majority of services are not easily tradable over wide geographical distances unlike the vast majority of manufacturing goods. This implies that rural peripheral areas are thus doubly handicapped by their poorer manufacturing base: in terms of the linkage between the manufacture of new products and employment generation and the greater ability of these goods, compared to the majority of services, to transcend local markets.

Developing this, performance can also be compared against size of firm. If employment performance over the previous three years is measured against the prior size of the firm (enterprises divided into those employing more or less than ten FTEs), it is apparent that the records of larger SMEs, as a whole, are superior (table 6.34).

Table 6.34: Mann-Whitney test on the relationship between employment growth performance in the last three years (NETCHANG) and prior employment size of firm.

	Mann-Whitney U	Wilcoxon Rank Sum	W Test		Corrected for	
			Ties			
	Cases	Mean Rank	U	W	Z	2-Tailed P
Size under 10 FTEs	168	115.76	5251.0	24213	-7.5165	0.0000
Size more than 10 FTEs	127	190.65				

This has important implications for rural peripheral areas, where the size distribution of firms is skewed toward microenterprises and the service sector. As this sample indicates (table 6.35) manufacturing firms are likely to be larger in terms of employment levels, a finding supported by national statistics (Storey, 1994: 34). The greater importance of microenterprises in rural peripheral areas is likewise indicated by the fact that in 1987 the south-west had the joint lowest proportion of its total firms sized between 50 to 99 employees and 100 to 499 employees of any region in the UK (Gallagher *et al.*, 1993: 78).

These figures includes all counties in the south-west planning region and if one looks at the distribution of employment (table 6.34) the proportion of medium sized firms in rural peripheral counties such as Cornwall is undoubtedly lower.

Table 6.35: Chi-Square test on the relationship between employment size of firm and sector in complete sample of firms.

		Size less than 10 FTEs	Size greater than 10 FTEs	Total
Manufacturing		75	48	123
Services		159	51	210
Total				333
Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance	
	7.37549	1	0.00661	also significant (0.00451) with normal chi-square test)

Minimum Expected Frequency - 36.568, Number of Missing Observations: 33

6.4 EDUCATION, TRAINING AND ADVICE

Hypotheses:

[B11] (i) *Those SME OMDs with a business education background will have achieved higher growth.*

(ii) *Educational attainment of SME OMDs will be higher in core areas.*

[B12] (i) *Those businesses which employ training will have achieved above average growth.*

(ii) *Those businesses which do not use external training agencies or formal internal training systems will compensate with higher levels of informal internal training.*

(iii) *The take up of external training will be lower in rural peripheral areas.*

6.4.1 Education

Table 6.36 details the educational qualifications of respondents. In collecting the data a distinction was made between business and non-business related qualifications. By far the most common qualifications were O Levels (56.0% of respondents possessed at least five gained at grade C or above) followed by business professional qualifications (30.9% of the sample). Less than five per cent of the respondents possessed a business studies related degree but less than one in five listed no educational qualifications.

Table 6.36: Educational Qualifications gained by SME OMDs

	Number	%
5 O levels / GCSE to grade C or above	205	56.0
2 A levels to grade E or above	90	24.6
Higher National Diploma (HND)	58	15.8
<i>Business Studies related Degree</i>	18	4.9
Non business studies related degree	39	10.7
MBA/Masters business related degree	1	0.3
Non business related Masters degree	6	1.6
Business Professional Qualifications	113	30.9
Non business professional qualifications	45	12.3
None	61	16.7
Other	22	6.0

To test hypothesis B11(i) that those with a business education background will display higher growth performance, the overall sample was divided into two groups: (i) those with either / or: a business degree, business higher degree or professional business qualifications and (ii) those without any such qualifications. The performance of the two groups was measured in terms of net change in employment in the last three years (table 6.37).

Table 6.37: Mann-Whitney test on Variations in SMEs Net Change in Employment in the last 3 Years between OMDs with and without business qualifications.

Mann-Whitney U - Wilcoxon Rank Sum W Test		Corrected for			
	Cases	Mean Rank	Ties		2-Tailed P
			U	W	Z
No business qualification	197	152.78			
Business qualification	98	138.38	8710.5	13561.5	-1.3748
					0.1692

As table 6.37 indicates there is no statistically significant variation between the two groups and hypothesis B11(ii) can be rejected. This finding works against the grain of previous assumptions within the literature about the benefits of business education. It has been presumed that where educational qualifications as a whole (such as distinguishing between graduates and non-graduates) were found to be insignificant this may reflect how degrees in for example English or French are of little use to enterprise management, rather than reflecting the limits of a business education *specifically*. The finding may be due to the way in which business degrees are biased towards large firm corporate strategy with often few or no courses specifically on small business management and the unique problems they face. Likewise, professional business qualifications tend to be grounded in a particular area of competence (such as marketing) rather than geared towards small businesses *per se*. An interesting topic for further research would be to question business graduates who have proceeded to form their own business about the usefulness of the material they learned at university actually was in their own enterprise management.

Hypothesis B11(ii) argues that there will be a positive bias towards core areas in the level of business educational qualifications. Using the matched sample, to eliminate any possible life-cycle or sectoral effects a chi-square test was conducted to test this postulate (table 6.38).

Table 6.38: Chi-Square test on Possession of business education background between Study Areas

	Core	Periphery	Total
No business qualification	49	50	99
Business qualification	33	32	65
	82	82	164

Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance	
	0.0000	1	1.0000	also insignificant (0.87316) with normal chi-square test)

Minimum Expected Frequency - 32.500, Number of Missing Observations: 0

The test indicates that no significant spatial variations exist in the level of attainment of business education qualifications between the matched samples. If all firms are included the relationship still persists. This finding again works against previous assumptions in the literature and may indicate the role of counterurbanisation in increasing the qualification portfolio of rural peripheral study areas, particularly as this migration process has been biased towards professional and older workers (Dean *et al.*, 1984).

6.4.2 Training

As highlighted in chapter three, studies that focus merely on whether firms 'train' or 'not train' are limited, in that they ignore the huge range of forms and intensity of training. In trying to avoid this trap a distinction was made between three types of training: (i) informal internal training (such as 'sitting by Nelly'), (ii) formal internal training (with a set programme and achievements, and (iii) external training (where an outside agency or provider is used). As table 6.39 indicates this distinction is valid as the variations in the utilisation of these different forms of training are large.

Table 6.39: The use of different forms of training by SMEs

	Yes		No	
	Number	%	Number	%
Used external training	126	34.4	240	65.6
Conducted in-house informal training	236	65.4	125	34.6
Conducted in-house formal training	87	24.1	274	75.9

Table 6.40 considers in greater depth the use of external training agencies. A distinction is made between sources of advice and training providers used, and between utilisation before and after start-up.

Table 6.40: The use of different forms of external training agencies by respondent SMEs

	Management Training		Workforce Training		Before start-up Advice		After start-up advice	
	No. used	%	No. used	%	Yes	%	Yes	%
Bank	0	0.0	2	0.5	49	13.4	103	28.1
Accountant	12	3.3	4	1.1	83	22.7	181	49.5
Family and Friends	3	0.8	2	0.5	28	7.7	48	13.1
Business Link	4	1.1	7	1.9	2	0.5	10	2.7
County / district Council	3	0.8	6	1.6	5	1.4	7	1.9
TEC/ Enterprise Agency	32	8.7	45	12.3	10	2.7	33	9.0
Local College	12	3.3	36	9.8	1	0.3	7	1.9
RDC	0	0.0	2	0.5	2	0.5	7	1.9
Private Firm	27	7.4	39	10.7	6	1.6	22	6.0
Other	8	2.2	19	5.2	6	1.6	15	4.1

Tables 6.41 to 6.43 highlight that smaller SMEs are far less likely to employ formal or external training systems. For example, 77.78 per cent of firms which employ between 51 and 250 full-time equivalents (FTEs) utilise external training agencies, in contrast to only 6.45 per cent of firms with between two and three FTEs. This finding mirrors previous studies that have considered the effect of size on training (Joyce *et al.*, 1994; NOP Social and Political, 1995; Johnson and Gubbins, 1993 and Training Agency, 1989). The most common sources of external training were: TECs, private firms and enterprise agencies.

Table 6.41: The use of external training by employers

Employment Band	Number Yes	%	Number No	%
1 or > FTEs	1	5.26	18	94.74
2-3 FTEs	2	6.45	29	93.55
4-10 FTEs	48	26.67	132	73.33
11-50 FTEs	61	51.69	57	48.31
51-250 FTEs	14	77.78	4	22.22

Number Missing: 0

FTEs = Full Time Equivalents

Table 6.42: The use of internal informal training by employers

Employment Band	Number Yes	%	Number No	%
1 or > FTEs	4	5.26	15	78.95
2-3 FTEs	7	22.58	24	77.42
4-10 FTEs	105	59.66	71	40.34
11-50 FTEs	102	87.18	15	12.82
51-250 FTEs	18	100.00	0	0.00

Number Missing: 5

It is noteworthy that the relationship between size and uptake of formal and external training also appears to hold for informal training (tables 6.42 and 6.43). For example, 87.18 per cent of firms with between 11 and 51 FTEs engage in informal training, against only 22.58 per cent of firms employing between two and three FTEs. This appears to refute the commonly held view that SMEs compensate for their lack of formal training by employing informal systems.

Table 6.43: The use of internal formal training by employers

Employment Band	Number Yes	%	Number No	%
1 or > FTEs	0	0.00	19	100.00
2-3 FTEs	0	0.00	31	100.00
4-10 FTEs	38	21.59	138	78.41
11-50 FTEs	36	30.77	81	69.23
51-250 FTEs	13	72.22	5	27.77

Number Missing: 5

The next requirement is to analyse these figures in a more statistically robust manner and log linear analysis is again appropriate. By employing log linear analysis again it is possible to look at the interaction between four variables (use of internal formal training, the utilisation of internal informal training, the deployment of external training agencies and growth performance); and it is to this that we now turn. The analysis follows that outlined in section 6.3.1 and the reader is referred back for an explanation of procedures. Given the four variables under consideration here the log linear model can be expressed as:

$$F_{ijkl} = \alpha + \alpha_i^F + \alpha_j^I + \alpha_k^E + \alpha_l^G + \alpha_{ij}^{FI} + \alpha_{ik}^{FE} + \alpha_{il}^{FG} + \alpha_{jk}^{IE} + \alpha_{jl}^{IG} + \alpha_{ki}^{EG} + \alpha_{ijk}^{FIE} + \alpha_{ijl}^{FIG} + \alpha_{ikl}^{IEG} + \alpha_{jkl}^{FEG} + \alpha_{ijkl}^{FIEG}$$

In F_{ijkl} , F denotes the (natural) log of the $ijkl$ th cell where i refers to the i th level of the internal formal training variable, j the j th level of the informal internal training variable, k the k th level of the use of external training variable and l the l th level of the growth performance variable. The term α denotes the overall mean of the logs of the expected cell frequencies and the other right hand side variables represent deviations from this mean accounted for by the variables independently or the interactions between variables. Thus α_i^F represents the deviation from the overall mean attributable to being at the i th level of the use of internal formal training variable (usually referred to as the main effect of the variable), whereas α_{ij}^{FI} represents the deviation attributable to the interaction between formal internal training and informal internal training. Using the crossing operator the saturated model represented by the above equation can be abbreviated as $F*I*E*G$.

Table 6.44 details the sequence of deletion of variables from the model, the relevant likelihood ratio chi-squares and probability levels. Again a 5% level of significance was employed and hence effects with a probability of greater than 0.05 were deleted from the model.

Table 6.44: Hierarchical Log Linear Analysis for Training and Growth

Deleted Effect	Change in Likelihood Ratio Chi-Square	Probability
$F*I*E*G$	0.576	0.4477
$F*E*G$	1.041	0.3076
$I*E*G$	3.320	0.0684
$F*I*E$	0.123	0.7256
$F*I*G$	0.429	0.5125
$E*G$	0.005	0.9457
$I*G$	2.342	0.1259

The final model which arises from the hierarchical analysis is one that contains the four significant two way interaction effects detailed in table 6.45. The model contains all four of variables in combination with each other.

Table 6.45: Interaction effects retained in best log-linear model for Training and Growth

Likelihood ratio chi-square = 8.07996, degrees of freedom = 7, probability = 0.326

Effect	Change in Likelihood Ratio Chi-Square	Probability
F*I	35.737	0.0000
F*E	5.308	0.0212
F*G	8.920	0.0028
E*I	12.377	0.0004

All other interactions were strongly excluded from the model. The overall fit of the final model is satisfactory with a likelihood ratio of 8.08 and a probability of 0.33 well in excess of the critical 0.05. In addition, table 6.46 shows the standardised residuals of the model, none of which are significant at the five per cent critical value, which again implies a good fit.

Table 6.46: Standardised residuals and Expected frequencies of the Final Model for Training and Growth

Factor	Code	OBS count	EXP count	Residual	Std. Residual
EXTERNAL	No				
FORMAL	No				
INFORMAL	No				
HIGROWTH	No	68.00	65.5	2.46	0.30
HIGROWTH	Yes	20.00	22.7	-2.67	-0.56
INFORMAL	Yes				
HIGROWTH	No	65.0	65.2	-0.23	-0.03
HIGROWTH	Yes	23.0	22.6	0.44	0.09
FORMAL	Yes				
INFORMAL	No				
HIGROWTH	No	1.0	1.5	-0.55	-0.44
HIGROWTH	Yes	2.0	1.2	0.76	-0.68
INFORMAL	Yes				
HIGROWTH	No	17.0	17.3	-0.34	-0.08
HIGROWTH	Yes	14.0	13.9	0.13	-0.03
EXTERNAL	Yes				
FORMAL	No				
INFORMAL	No				
HIGROWTH	No	18.0	14.7	3.30	0.86
HIGROWTH	Yes	2.0	5.1	-3.09	-1.37
INFORMAL	Yes				
HIGROWTH	No	34.0	39.5	-5.54	-0.88
HIGROWTH	Yes	19.0	13.7	5.32	1.44
FORMAL	Yes				
INFORMAL	No				
HIGROWTH	No	1.0	0.7	0.32	0.40
HIGROWTH	Yes	0.0	0.5	-0.54	-0.73
INFORMAL	Yes				
HIGROWTH	No	21.0	20.4	0.56	0.12
HIGROWTH	Yes	16.0	16.3	-0.35	-0.09

Standardised residuals = (observed value - expected value) / $\sqrt{\text{expected value}}$. They are approximately normally distributed with mean 0 and standard deviation of one. The five per cent critical value is ± 1.96 .

Odds ratios for the four significant relationships can be calculated from the expected frequencies predicted by the model and depicted in table 6.46. As detailed in chapter 6.3.1, all the significant relationships are pairwise, and thus the odds ratios can be calculated for any given set of values of the other two variables. Thus, the odds ratios for the interaction effect F*E can be evaluated, for example, by holding the other two variables “constant” at “No”. The odds of a firm employing internal formal training also using external training agencies are $0.7 / 1.5 = 0.466$ and the odds of a firm not adopting internal formal training

using external training are $14.7 / 65.5 = 0.2244274$. The odds ratio is $0.466 / 0.2244274 = 2.0793655$, which indicates that firms using internal formal are over twice as likely to also be employing external training agencies.

Calculating the odds ratios for the other three significant interactions indicates that those firms utilising internal formal training systems are over eleven times more likely to also be employing internal informal training than those who do not make use of such formal training. Those enterprises which utilise internal formal training are over 2.3 times more likely to be high growth enterprises (when high growth is recorded as turnover per annum increasing by more than eleven per cent in real terms, on average, over the last five years) than the probability of those not using internal formal training being high growth enterprises. Finally, those using external training services are 2.69 times more likely to also be utilising internal informal training than those businesses which do not make use of such external agencies.

These results therefore suggest that internal informal training, internal formal training and external training are far more likely to be employed on a *complementary* rather than *supplementary* basis. In other words, and against implicit assumptions within the literature, those employing either formal internal or external training are far more likely to also use internal informal forms. Those which do not employ formal or external appear unlikely to make up for this deficiency with greater levels of informal training.

Table 6.47: Chi-Square tests on use of different forms of training in the matched sample of core and peripheral enterprises.

Form of Training	Chi-Square Value with Yates' correction	Deg. of Freedom	Significance	Normal Chi-Square Significance
External	0.11929	1	0.72980	(0.60440)
Internal Formal	0.72026	1	0.39606	(0.29837)
Internal Informal	1.55899	1	0.21181	(0.15980)

As table 6.47 indicates, no significant spatial variations are apparent in the use of different types of training. This would seem to suggest that the notion that firms in rural peripheral areas will be less likely to use external training agencies because of greater distances from regional training centres is overplayed. The activities of specialist agencies, such as the RDC, and a recognition of the problems involved by TECs and LECs would appear to have overcome these problems. In addition, it should be remembered that the degree of isolation of any locality in England is limited, in that the vast majority of rural locations are still within two hours drive of a regional city (Hodge and Monk, 1991).

6.5 OBJECTIVES AND FUTURE PERFORMANCE

Hypothesis:

- [B13] (i) *Firms which have achieved superior growth records in the past will have a higher propensity to cite significant growth as their main future business objective.*
- (ii) *Peripheral firms will have a lower propensity to cite significant growth as their main business objective.*

Table 6.48 records the main objectives cited by SME OMDs in relationship to their businesses over the next three years. The responses highlight how the majority wish to achieve moderate growth or maintain operations as they are, results which parallel the findings of Gray (1993) who found the majority of OMDs are not significantly growth oriented. Only just over one in five respondents in this study identified that they wanted to achieve significant growth.

Table 6.48 Main objective cited by SME OMDs for their business over the next three years

	Number cite as main objective	%
Scale down operations	5	1.4
Sell the business	24	6.6
Maintain operations as they are	30	8.2
Retire	20	5.5
Achieve moderate growth	199	54.5
Achieve significant growth	83	22.7
Other	4	1.1

Missing: 1

With regard to business objectives two further tests are relevant: to see if those who wish to achieve significant growth in the future also have past high performance records and, secondly, whether there is a spatial divide in those seeking significant growth.

The results from table 6.49 highlight how past performance is entwined with future objectives. There is a significant and positive relationship between past high growth performance (measured in terms of turnover per annum increased by over 11% in real terms, on average, over the last five years) and propensity to cite significant growth as a future objective. The relationship is significant to the 0.0001% level.

Table 6.49: Chi-Square test on relationship between past growth performance (GROWCHAN) and propensity to cite significant growth as main business objective for the next three years.

	Not achieve GROWCHAN	Achieve GROWCHAN	Total
Not have significant growth objective	198	56	254
Significant growth objective	30	40	70
Total			324

Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance
	30.75591	1	0.0000

also significant (0.000) with normal chi-square test)

Minimum Expected Frequency - 20.741, Number of Missing Observations: 42

The chi-square test shown in table 6.50 analyses whether there is a spatial divide in the number of SMEs citing significant growth as their main business objective. The matched sample of core and periphery firms is used in this case so that sectoral and life-cycle effects can be controlled. The chi-square value indicates that there is no significant spatial divide in the number of SME OMDs citing significant growth as their main business objective.

Table 6.50: Chi-Square test on core-periphery divide in the propensity of SME to cite significant growth as their main business objective for the next three years.

		Core	Periphery	Total
Not have significant growth objective		67	62	129
Significant growth objective		15	19	34
Total		82	81	163
Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance	
	0.38262	1	0.53623	also insignificant (0.41717) with normal chi-square test)

Minimum Expected Frequency - 16.896, Number of Missing Observations: 1

While no relationship is apparent between core and peripheral areas *per se*, propensity to cite significant growth as the main business objective would appear to vary with size of firm. As table 6.51 indicates, firms which employ greater than ten FTEs appear more likely to cite significant growth as their main business objective, although the result is only significant at the ten per cent level. However, this higher propensity is in line with the evidence that larger SMEs are more likely to record higher employment generation (table 6.34) and that past high growth performance seems to generate desires for further growth (table 6.49).

Table 6.51: Chi-Square test on propensity of SME to cite significant growth as their main business objective for the next three years and size of firm.

	Size less than 10 FTEs	Size greater than 10 FTEs	Total
Not have significant growth objective	185	45	230
Significant growth objective	97	38	135
Total	282	83	365

Chi-Square with Yates' correction	Value	Deg. of Freedom	Significance
	3.56696	1	0.07853

significance of 0.07853 with normal chi-square test)

Minimum Expected Frequency - 30.699, Number of Missing Observations: 1

The evidence concerning past performance and future objectives supports hypothesis B13(i) as firms that have achieved superior growth records in the past do have a higher propensity to cite significant growth as their main future business objective. However, there is no significant spatial divide in the propensity of firms to cite significant growth as their main future business objective and B13(ii) can be rejected.

6.6 SUMMARY

Table 6.52 summaries the hypotheses tested and results of the analysis on non-agricultural SMES in rural peripheral and core localities.

The full conclusions of these results will be drawn out in chapter eight, but it is useful here to draw out the key interim findings.

A clean slate, did he say? As if the initial word of each our destiny were not graven in imperishable characters upon the face of a rock (Conrad, 1986: 179).

Small business researchers have also asked the question as to whether the fortunes of enterprises are inevitable, predictable or subject to improvement from external agency assistance. Reviewing the logistic regression analysis here, it can be concluded that there are essential structural prerequisites for long term growth, but these are *necessary* rather than *sufficient*.

Table 6.52: Summary of Hypotheses Tested and Results on Non-Agricultural SMEs in Rural Core and Rural Peripheral Localities

H°	Hypotheses	Statistical Test	Result
[B1]	(i) Team start enterprises will experience higher growth levels than enterprises formed by single founders.	Logistic Regression	Not significant
	(ii) Fewer multi-founder enterprises will be formed in rural peripheral areas.	Matched sample chi-square	Rejected
[B2]	SME OMDs who conduct on going market research experience higher levels of growth.	Logistic Regression	Not significant
[B3]	(i) Enterprises with a computerised accounting system will achieve higher growth records.	Logistic Regression	Accepted
	(ii) Businesses which set financial targets each year will be more likely to record high growth records.	Logistic Regression	Accepted
[B4]	(i) Those firms which introduce new products to the market will achieve higher growth.	Logistic Regression	Not significant
	(ii) Firms in core areas are more likely to have introduced new products to the market within the past three years.	Matched sample chi-square	Rejected
[B5]	(i) Firms which introduce new high technology products to their range will have superior growth records.	Logistic Regression	Not significant
	(ii) The propensity of firms in core localities to introduce new high technology products to their range will be greater.	Matched sample chi-square	Rejected
	(iii) Firms which manufacture new products will have superior growth records.	Logistic Regression	Accepted
	(iv) The propensity of manufacturing firms in core localities to manufacture new products will be greater.	Matched sample chi-square	Rejected
[B6]	The performance of SMEs as a group will be higher in core localities.	Matched sample chi-square/ Mann-Whitney	Rejected
[B7]	(i) There will be a greater concentration of businesses located for reasons of environmental attractiveness in rural peripheral localities.	Log Linear	Not supported
	(ii) SMEs located in core localities will cite that accessibility and transport links are more important considerations in their location.	Log Linear	Accepted

Table 6.52 (continued) : Summary of Hypotheses Tested and Results on Non-Agricultural SMEs in Rural Core and Rural Peripheral Localities

H ^o	Hypotheses	Statistical Test	Result
[B7]	(ii) Fewer peripheral SMEs will cite closeness to founder's home as an important factor in the choice of their present location.	Log Linear	Accepted
[B8]	(i) Firms which have sought external equity will display higher growth.	Insufficient sample size	No result
	(ii) Lower numbers of firms will have sought external equity in rural areas.	Insufficient sample size	No result
[B9]	(i) Firms which supply markets outside their own county will have achieved higher levels of growth.	Mann-Whitney	Accepted
	(ii) Enterprises in rural peripheral locations will be more dependent on their local markets.	Matched sample Mann Whitney	Accepted
[B10]	(i) Enterprises which export will have achieved higher growth.	Mann-Whitney	Accepted
	(ii) There is a positive association between propensity to export and being engaged in manufacturing.	Mann-Whitney	Accepted
	(iii) Enterprises in rural peripheral locations will have a lower propensity to export.	Matched sample Mann-Whitney	Rejected
[B11]	(i) Those SME OMDs with a business education background will have achieved higher growth.	Mann-Whitney	Not significant
	(ii) Educational attainment of SME OMDs will be higher in core areas.	Matched sample chi-square	Not significant
[B12]	(i) Those businesses which employ training will have achieved above average growth.	Log Linear	Only significant with internal formal training
	(ii) Those businesses which do not use external training agencies or formal internal training systems will compensate with higher levels of informal internal training.	Log Linear	Rejected
	(iii) The take up of external training will be lower in rural peripheral areas.	Matched sample chi-square	Rejected
[B13]	(i) Firms which have achieved superior growth records in the past will have a higher propensity to cite significant growth as their main future business objective.	Chi-square	Accepted
	(ii) Peripheral firms will have a lower propensity to cite significant growth as their main business objective.	Matched sample chi-square	Not supported

The clearest prerequisite to emerge is effective financial management, with the setting of clear targets and employment of computerised accounting systems. This relationship holds when size of firm is controlled for, remaining highly significant for both micro and non-micro SMEs alike.

The clamour for 'high technology' is not supported in this analysis, and if employment gains are to be made from high-tech enterprises, it appears to emerge from manufacturers rather than ancillary service firms. This leads to two conclusions: the competitive advantages stemming from new technologies are relative rather than absolute - where the majority of establishments introduce new technologies at the same time, the benefits to individual enterprises tend to be minor (Foley and Watts, 1996). Even if benefits are accrued, these will be easily dissipated if other aspects of a firm's business strategy are seriously flawed. Moreover, while innovation is usually taken as a synonym for high-technology, the introduction of other new practices, such as effective financial controls, may prove far more fruitful in improving performance.

Smaller firms undertake less formal training than their larger counterparts. This shortfall is not made up by higher levels of informal training or the employment of external training agencies. Researchers thus need to turn their attention to why less training *en masse* occurs in small businesses, and the implications, if any for enterprise performance rather than assuming that a kind of balance between formal and informal training will naturally occur in all firms.

This paper supports the notion that spatial variations in the factors underlying the choice of location by SME OMDs exist. Firms based in rural core localities are more likely to be motivated by questions of access and proximity to the OMD's home. The latter may reflect how those located in peripheral locations have more limited

options in terms of the choice of premises and so have to search a wider geographical area to meet their requirements.

Peripheral firms did not perform worse than their core counterparts and for the period 1992 to 1995 and in fact the survey data points to superior growth records when measured in terms of employment generation. One possible reason for this is the differential effect of the national recession which had a disproportional effect on the south-east. However, it should be noted that when business strategy and structural variables are considered peripheral SMEs are no less innovative or professionally managed than their core counterparts. It would thus be wrong to see 'good' peripheral SME performance as an artificial mirage, being 'propped up' merely by differences in recessionary impacts. There is little evidence to suggest that peripheral SMEs are worse managed, less likely to train or that OMDs are less suitably qualified than their core counterparts.

If there is a problem for rural peripheral areas it is not in terms of the *quality* of existing SMEs compared to core localities but rather the *paucity* of manufacturing SMEs. Peripheral areas would appear to be doubly handicapped by their weaker manufacturing base both in terms of the linkage between new manufacturing product innovation and employment generation (rather than other types of product innovation) and in the fact that overall, manufacturing goods are more able to transcend local markets as they are more easily tradable over space than the majority of services. These issues are central to the series of interviews conducted and it is to this which we now turn.

CHAPTER SEVEN: RURAL SMEs, QUALITATIVE RESEARCH AND PUBLIC POLICY

7.1 INTRODUCTION

The purpose of this chapter is to review the material collected from the qualitative research phase, considering the relationships between rural SMEs, support agencies and the critical success factors identified in chapters five and six. The number and nature of the telephone and personal interviews conducted as part of this research phase is detailed in table 7.1. Selected additional comments supplied by questionnaire respondents are also reviewed. At the end of each questionnaire farmers and SME OMDs were given the opportunity to add their own comments on the topics concerned and relay personal experiences. In numerous cases these comments provided interesting feedback. Section 7.2 details the interview findings on the agricultural business sector and diversification. Four themes are expanded upon in this section: (a) adviser-advised and trainee-trainer relationships, (b) the use of non-agricultural support provision, (c) the main fears expressed by farmers concerning diversification and (d) the implications for public policy. Findings from the non-agricultural business section are detailed in section 7.3 and cover issues such as market access and sources of finance. The interactions between SMEs and public sector support agencies are discussed in sections 7.4 and 7.5. Using this evidence, recommendations for improving public policy are made and discussed in chapter 8.8.2.

Table 7.1 Structure of Interviews Conducted

	Farmers	Non- Agricultural SMEs	Support Agencies	Total
Rural core	4	5	4	13
Rural peripheral	7	6	8	19
Total	11	11	12	34

As part of identifying relevant support agencies, a review was undertaken to record the activities of support agencies in terms of their interaction with agricultural and non-agricultural rural SMEs. The assistance available was separated into five broad functions: finance (either grants or loans), advice, marketing assistance, training and premises, with the results detailed in table 7.2. This review provided a framework for identifying the most relevant agencies to be interviewed and in selecting the topics to be discussed in each interview.

As apparent from table 7.2, the 1980s was characterised by *ad hoc* growth in small business support and institutional proliferation, with the UK government spending over £2 billion on supporting small firms in the decade overall (Curran and Downing, 1993: 139). With regard to rural SMEs, the five main support agencies of relevance are: MAFF / ADAS, Training and Enterprise Councils (TECs), Local Enterprise Agencies (LEAs), the Rural Development Commission (RDC) and Business Link (BL). The latter is designed to be the flagship network for small and medium sized business support in England and Wales. Table 7.3 outlines for these five main support agencies their objectives, competencies, geographical coverage and funding.

Table 7.2: Sources of public assistance for SMEs in rural areas

	Premises	Finance (loans / grants)	Advice	Marketing	Training
ADAS	1	1	1	1	1
Agenda				1	1
ATB-Landbase			1	1	1
Business Link	3	3	3	3	3
Countryside Comm.				3	3
County Councils	3	3	3	3	3
DTI	3	2	3	3	
District Councils	3	3	3	3	
English Nature			3		
English Partnerships	3				
English Tourist Board			3		
Farm Retail Association			1		
Local Enterprise Agency	3	3	3	3	3
MAFF	1	1	1	1	
NFU	1	1	1	1	1
Prince's Youth Trust*		3	3	3	3
Regional Tourist Boards	3		3	3	3
RDC^	3	3	3	3	3
Sports Council	3		3		
TECs		3	3	3	3

1 agriculture based businesses only, 2 non-agricultural based businesses only, 3 both agricultural and non-agricultural based businesses

* Prince's Youth Business Trust assistance is only available to individuals aged between 18 and 29 years old.

^ RDC services are normally only available in Rural Development Areas

Sources: RDC (1995), *Action for Rural Enterprise: 1995/1996 Edition*, Salisbury, Wilts: RDC, p.33; personal communications

Table 7.3: The Main Sources of SME Support in rural areas: Objectives, coverage and funding

Agency	Objective	Coverage	Organisations involved	Geographical Coverage	Funding
ADAS	Provide a scientific, technical and business management service to farmers.	Operates in three main market sectors: farmer and grower (its traditional market); corporate (including work for national and local government other than its parent departments); and work for or on behalf of the Ministry of Agriculture, Fisheries and Food and the Welsh Office.	farmer and MAFF. corporate government	England & Wales.	Since 1987 the focus of ADAS's activities has shifted from a free education service to a user paid for consultancy service. ADAS set its 1994/95 cost recovery target for commercial consultancy at 63 per cent, with the remainder coming from government. A new charging scale introduced.
Business Link	Provide small and medium sized businesses with high quality support services from a single local contact point.	(i) An information service to local businesses; specialist advice on exports, innovation and technology, design, finance and management / skills development; (iii) an individual advisory service, using independent Personal Business Advisers (PBAs); (iv) local business promotion. Raising awareness and skills amongst the local business population via events, seminars and conferences; and (v) appropriate arrangements to support start-ups and micros.	(ii) Partnership and between relevant TEC, Chambers, LAs, and other business organisations where appropriate.	Based on existing TEC boundaries.	4 main sources: (i) TEC Enterprise Funds, (ii) DTI and other Government support (including DTI pump priming for the first three years and in the longer term, contractual income for the delivery of Government services), (iii) resources provided by partners and (iv) income from commercial activities. It is intended that public funding will only form a small part of the resources of a fully operational Business Link. The DTI are currently spending £38.5m on pump priming, £17.1m on development and £50m for enterprise services delivered. With a further £100m promised (Jones, 1996: 72).

Table 7.3 (continued): The Main Sources of SME Support in rural areas: Objectives, coverage and funding

Agency	Objective	Coverage	Organisations involved	Geographical Coverage	Funding
Local Enterprise Agencies (LEAs)	Support for start-ups and growth of local small businesses.	Core activities of advice and counseling to start-up businesses, with follow-up after-care and often a series of more specialised 1-2 day training courses for established businesses offered on a costed basis. The national figures for LEAs in 1989 were: 60% of counseling to pre-start businesses, 24% to businesses less than three years old, and only 16% to established businesses (Bennett, 1995: 36). Now mainly operate as providers to TECs of start-up assistance.	Independent boards.	By 1991, 421 agencies were in operation in the UK.	Most now operate as training providers to TECs under the Training for Work (TFW) (Enterprise option) scheme. Under this scheme LEAs are contracted to provide three key services: (i) Business Awareness Days (BADs), (ii) assistance in producing business plan for start-up (iii) an after-care service for business start-ups to monitor and guide their progress.
RDC	Stimulate job creation and the provision of essential services in the countryside.	Bulk of grants for rural development, housing, premises and transport. For 1994/5, the RDC's three main areas of expenditure were: £7.1m on staff costs, £8.5 million on other operating costs and depreciation and £22 million in grants paid out.	Department of Environment, Audit Commission.	Support concentrated on RDA areas.	The RDC's income in 1994 / 1995 was just over £41.5 million made up largely of £29 million in grant in aid from the Departments of the Environment and Transport, with a further £8.8 million deriving from fully funded factory workspaces (RDC, 1995: 58).
TECs	To contract with Government to plan and deliver training and to promote and develop small businesses in their area (ED, 1988: 40).	The functions of TECs were specified as: (i) analysis of local labour markets, (ii) assessment of key skill needs, (iii) identification of prospects, (iv) assessment of the adequacy of existing training opportunities, (v) management of training programmes for youths and adults and (vi) small business support (Hodgson, 1993: 5).	Managed by TEC boards of Directors drawn mainly from the private sector but also LAs, voluntary groups, TUs, educational and employers' associations.	81 TECs in England and Wales (as of February 1996) (Hart <i>et al.</i> , 1996).	Overwhelmingly public funding. Average budget in 1992/3 of £18m per TEC. Over 70% of the TECs budgets were allocated to the 2 national training schemes - Youth and Employment Training. Business Enterprise Support account for 10.7% of budgets (Thomas, 1994: 264).

Having identified the key agencies, farmers, SME OMDs and support agencies were interviewed. For the interviews with SME OMDs, the main areas of inquiry were the competencies identified as important elements in business success, as detailed in chapter six, the ability of support agencies to enhance these competencies within rural SMEs and the co-ordination and efficiency of support agencies in achieving these aims. For farmers, where diversification success was, at best, patchy the interview questions focused on: (i) the empathy and relationships between advisers and the advised, the trainers and trainees; (ii) the linkages between diversified farmers, agricultural training / advisory specialists and non-agricultural specialists; (iii) the main fears of diversifiers and key needs for capacity building and finally, (iv) the appropriate methods for the communication of best practice. Each of these factors can be considered in turn:

7.2 THE AGRICULTURAL BUSINESS SECTOR

7.2.1 Adviser - advised and trainer - trainee relationships

The most salient point for understanding the attitudes of the majority farmers towards diversification is that they 'just want to be farmers' with a marked degree of antagonism towards the development of alternative enterprises. Two responses from medium sized, family farmers in Devon and Cornwall respectively, present this view most eloquently:

In a world in which millions starve, the job of a farmer is to grow food, not run zoos, circuses, shops, golf courses, hotels or places of entertainment. If politicians do not wish food to be grown they should pension off farmers in the same way as steel, coal and ship building workers and take land out of production, allowing it to revert to nature. Starting with so called less favoured areas. So-called diversification is a political stunt and not viable in more than the short term. If at all (Questionnaire comment, Cornwall).

We are ruled by too many administrators (politicians etc.) and criticised by too many unappreciative, ignorant members of the general public who currently have the luxury of complaining with full bellies. This has, and is, forcing farmers into searching for alternative (but basically unwanted) ways of supplementing ever eroding agricultural incomes. I, personally, despite my love for what I do, am becoming increasingly despondent about the future for both me, and more

importantly, my little boy (and girl) - I hope she marries well!! (Questionnaire comment, Devon).

The main complaint against external agencies was that they failed to understand these subjective and motivation issues, thus producing unrealistic schemes.

There has to be financial help available other than to partly fund ADAS feasibility studies - which in our case was money, ours, thrown down the drain. The expensive plans and estimated cost fell light-years outside our capabilities. Our bank manager could not believe such hair brained schemes could be put forward. It was converting buildings for light industry in an area with empty units in abundance (Interview, medium-sized farmer, Surrey).

The gap between advisers and advised would seem to be greatest for small and tenant farmers. Most felt disenfranchised from support agencies:

Most small tenanted holdings have limited capital, so we just plod along I'm afraid, with not too much headway made. Most diversification needs lots of money, time and thought (Interview, tenant farmer, Devon).

This gap can lead to a feeling of betrayal, particularly where different agencies appear to give conflicting advice with a lack of co-ordination or consistency:

We started a business on this farm repairing and servicing farm machinery and Land Rovers. Caradon Council, whom we come under, would only give us two years temporary planning permission to see if the business was a success. The business grew, employing two local men and one part time man on the farm, as I didn't have the time for all the farm work owing to increased demands in the workshop. When we applied for permanent permission for the workshop, which was an existing farm building, we were given two more years temporary, and told we would then have to move out to an industrial estate, because it was unsuitable to stay on the farm. The business was 400 yards off road, and was not visible from any other property. We appealed against the decision and lost. In April 1994, we moved to an industrial estate. This was completely impractical, having the farm one and a half miles from the business, especially with cows calving and Christ knows what, also because of the cost of renting a unit, and the insecurity of the premises, and also the size of the building, which was much smaller, one employee lost his job, and the part time man on the farm had to go. We have since disposed of the business, and I am now back where I was six years ago. Diversification has left a very bitter taste in my mouth....We received no help whatsoever from Caradon District Council, who were always most unhelpful and two-faced (Interview, dairy farmer, Cornwall / Devon border).

7.2.2. Linkages with non-agricultural specialists

There tends to be poor linkages between farmers and agriculturally based agencies and non-agricultural small business agencies, supporting the findings displayed in table 5.5. Two comments from a TEC business adviser and a Business Link information manager illustrate these fissures:

I don't have much contact with farms - the numbers who take up [support] services I could count on one hand. From experience many have buried their heads in the sand and the point of contact is desperation when its too late. Unless you build up a relationship you will be used as a last resort. One farmer had just let the overdraft go up and up and was going to be repossessed the week after he got in touch, if he had been in touch six months before we probably could have done something about it but as it was it was too late and he lost the lot (Interview, TEC Business Adviser).

To tell the truth we haven't had much contact with them in the past. However, with the 5b money coming on stream we had had several meetings and it is an area we are looking closely at (Interview, Information Manager Business Link).

Farmers' reluctance to use non-agricultural based agencies stems from both supply and demand side factors, especially ignorance of the services available and feeling that these agencies 'don't understand farming'. Advisers should be aware of this and be careful not to denigrate the practical experience of farmers. In successful relationships, both parties worked in sympathy with the aims and prior beliefs of farmers, so that the latter feel 'less out of control' in the adviser relationship. Moreover, given the poor take up of training schemes by many of those who would benefit most from them, there is a need for other respected sources of advice (such as bank managers and accountants) to be knowledgeable about local training provision so as to make appropriate referrals.

7.2.3 The fears surrounding diversification and capacity building

The main fears surrounding diversification as perceived by farmers, were concerns, about planning and bureaucracy, especially the anxiety of 'falling foul of government

regulations'. This was a major barrier in the use of external agencies as they were perceived as 'being all on the same side', 'bureaucrats' or 'not knowing about each other let alone us'. Particular concern was raised about the lack of co-ordination between the economic development and planning departments of district councils. Farmers felt there was a lack of consistency and ambiguities in the advice given. This has not been helped by changes in central government guidance towards development in rural areas (Department of the Environment, 1988) and the reluctance of some planning authorities to fully accept these guidelines (Evans, 1989).

We have been applying for planning permission for a golf driving range in this area. One of the main stumbling blocks from planners is that it is taking away grade II agricultural land. MAFF have really been no help at all and we feel no one is really there to help you. In fact our farm shop is under threat because of an Asda superstore is opening on the same road (Interview, Mixed farm, North Cornwall).

I feel local planners could be more co-operative towards diversifying farmers, who in the long term will be providing employment and facilities in the area (Questionnaire comment, Berkshire).

10 years ago I leased some redundant farm buildings in which 12 people got employment. The planners stopped it and put most of them out of work (Questionnaire comment, Surrey).

Farmers are encouraged by the government to diversify but when planning goes into local councils are turned down. Not worth the effort most times (Interview, estate farmer, Berkshire).

Many farmers are simply ignorant of the planning process as most agricultural development has been exempt from planning permission requirements under the General Development Order (Evans, 1989).

Given the distrust of external agencies by farmers, one alternative considered was the viability of self-help schemes between farmers as an appropriate structure for diversification. One scheme where self-help has worked to the satisfaction of members is the Cream of Cornwall Farm Holiday Group. The group is a network of farms providing

serviced accommodation for the tourist market. The county group currently has fifty-two members and is part of the nation-wide Farm Holiday Bureau.

The county branch was established in 1985 as part of a joint initiative by ADAS, Farmers Weekly and MAFF. The branch became independent in 1993 and still operates on a voluntary self-help basis. A county brochure of farm accommodation is published annually, with farmers recommending each other when they themselves have no vacancies. No central booking agency exists as farms prefer 'individual communication from the beginning'. Membership fees cover the cost of publishing the county brochures and contribute to the national Farm Holiday Bureau: no subsidies or external funding are currently garnered.

Membership has remained highly stable with less than five farms leaving since the formation of the scheme. In 1994 the membership jumped from thirty to fifty and the unpaid co-ordinators found this:

...a great deal to manage. I am not sure we could cope with anymore as we are. As it is we limit membership to working farmers and their wives (sic) and all properties are inspected and approved by the West Country Tourist Board. A large member approximately three to four self catering units or twelve in-house bed spaces and small is about one self catering unit or six bed spaces (interview, holiday group chairperson).

The only ongoing form of external assistance derives from the regional tourist board which provides marketing and professional advice. Marketing advice has focused on how farms can become more customer oriented. Developing from this, several farmers have sought to combine lets with sporting activities (especially fishing, horse riding and golf). A small group have attempted to establish County Village Weekend Breaks (CVWBs) in the off-season and others 'novelty attractions' such as spinning and carriage driving lessons. The majority, however, focus solely on bed and breakfast accommodation and 'point out good local walks and sites of special interest.'

The membership committee believed that the group was at a cross-roads:

We have to make a decision as to whether to go for 5b funding which would mean funding for a full-time co-ordinator or as stay as well are now (interview, holiday group chairperson).

When asked about farmers reactions to this dilemma the co-ordinator responded:

It's extreme caution. The problem is if a full-time co-ordinator was employed on the basis of 5b funding, what happens if, and when, the money runs out? No one wants commitments they could not afford... There is also the issue of losing personal attention (interview, holiday group chairperson).

It would appear that self-help schemes work best where individuals have to make low commitments; the potential responsibilities additional employment and external funding bring were viewed with a great deal of wariness. This conservatism was also uncovered during an interview with a couple who wished to set up a biomass production co-operative involving farmers. The biomass initiative idea was formed by two former agricultural research station employees with higher degree level scientific qualifications and several years of practical experience in plant technology. When formed, neither had a source of stable employment or access to external funding so the initiative had to be quickly self-financing. Their core idea was to manage a biomass scheme acting as a go-between individual farmers and electricity generators, operating principally as consultants and hiring machinery to the former and negotiating collectively on behalf of the farmers with the latter. Through collective negotiation it was believed farmers could gain a better deal with the initiators taking a set fee in return for this, their technical expertise and access to appropriate machinery.

Interest in biomass has been fueled by government subsidies under section 32 of the 1989 Electricity Act, which established the Non-Fossil Fuel Obligation (NFFO). As part of the third NFFO renewables order for England and Wales nine new contracts for electricity generation from energy crops and agricultural and forestry waste were announced in December 1994. There has been much optimism recently surrounding the potential of biomass. ATB Landbase (1995) have predicted that 'farmers and growers producing

biomass energy crops could, if fully exploited, supply more than sixty per cent of the country's present electricity demand, provide agricultural diversification and new jobs for rural communities, and benefit the environment.'

Despite this optimism the biomass initiative failed to be launched, due to four broad problems: (i) the conservatism and relative prosperity of farmers, (ii) the difficulty of outsiders being taken seriously as commercial players, (iii) the oligopolistic nature of the alternative energy market and (iv) the lack of external funding, necessitating speedy returns. While soliciting considerable interest from farmers, few were willing to proceed further.

They all wanted to stick to what they know. Many are OK now and as one bloke said you can always make a living out of potatoes. It's his choice but it's like a brick wall at times...We were interested in growing cannabis for fibre production and called a meeting. But it seemed to attract the wrong type. One bloke had feathers in his hair...Its getting something off the ground which is the hard part, chicken and egg really. The farms won't commit without a firm offer but the generators won't give firm figures as it depends on your size, plus they've got the market sown up (Interview, partner, biomass scheme).

While convinced of the long term soundness of the scheme, the unpaid co-ordinators, without external funding, did not feel as they 'could hold out' and sought other salaried employment positions.

7.2.4 Public Policy and Agricultural Diversification.

Like their small business counterparts, the vast majority of farmers are *satisficing* in their business attitudes. The majority wish to earn their living purely through farming, have strong attachments to the way of life and view enterprises outside of agriculture as very risky. In a time of relative prosperity for arable farmers the pressure for diversification has been lifted (see chapter 2.2). While upland sheep farmers have not shared in the income turnaround, their often remote location and poorer capital base imposes heavy restrictions on the viability of most diversification options. In understanding these attitudes and

practices of farmers there is a need to see how actions are embedded in past experiences and dispositions of farmers.

The plethora of agencies to assist small businesses are not well understood by farmers and there is little use of any agency outside of the agricultural community (ADAS, NFU and ATB). Business Link is virtually unknown and given the fact that diversification often involves markets well outside of agriculture (for example tourism and retailing) it should be a more appropriate gateway to services than the traditional agricultural agencies. However, given that Business Link should act as a gateway to support services, which in rural areas must include the farming community, it seems odd that the network ignores farmers' main points of external contact (especially ADAS, NFU and ATB). A similar argument can also be made with regard to local authorities (LAs), in that while LAs are part of the Business Link network the main point of contact is via economic development officers, with planners not directly involved. Yet it would appear that of all the functions of LAs it is planning regulations which most concern farmers.

For those farmers which do use training and advisory services, their two principal requirements are: (i) information on how planning systems operate and relevant legislation will impact on their proposed or already operating enterprise and, (ii) practical suggestions for the implementation of strategy. While these farmers are more enthusiastic about support agencies, it is also clearly apparent that they still firmly want the relationship of external parties to be 'hands off' and for themselves to remain fully in control of decision making.

Viewing the published literature of support agencies on diversification, it is clear too much advice in the past has been 'list based' with a summary of possible sectors for start-up (accommodation, farm shops etc.). In many areas these markets are already saturated and some localities are too isolated or sparsely populated to support certain ventures. As the table 5.6 indicates, planning and advice needs to be more aware of the limits and

potential of local markets to be effective. Finally, it should be noted that the potential numbers of farmers which are interested in diversification to any meaningful extent is small and this calls into question the distribution of present rural LED resources (see chapter 8.7).

7.3 THE NON-AGRICULTURAL BUSINESS SECTOR

This section reviews the qualitative evidence accumulated from the non-agricultural business sector. The focus of questioning was mainly on the contribution of support agencies to enhancing the critical success factors identified in chapter six within SMEs and whether this assistance was being delivered efficiently.

7.3.1 Markets served

As the illustration of the totem pole manufacturer who could successfully price his wares at £750 in London but only £200 in Cornwall demonstrates, exploiting differentials in demand can be crucial, particularly in rural peripheral areas where sparse populations offer severely limited demand. To transcend local markets, however, requires information concerning potential markets and a product which is tradable over distance. The problem of obtaining accurate information on firms was cited by several respondents and academics should reflect that the often mentioned non-comprehensive statistical and listing sources on SMEs (Storey, 1994: 15) applies not only to them but too businesses as well, which lack the former's time and expertise in data collection:

Largest problem is in identifying prospective new business contacts from accurate database. Chamber of commerce / local government lists incomplete. Surely compulsory survey submission / questionnaire with annual rates demand would provide accurate and complete county by county database and provide income to local authorities in selling the information (Questionnaire response, computer software firm, Hertfordshire).

In transcending the local economy most SMEs only want to grow gradually, and as the comments from the Business Link Information Manager and TEC Business adviser below indicate many have psychological barriers to going beyond their immediate locality:

...most businesses in the county want to target the county. When asking for information on possible clients, we ask them what areas are they looking at, most clients its Hereford and Worcester. When the whole UK is mentioned many say that they do not want to go that far (Interview, Business Link Information Manager).

Many in Cornwall regard selling in Devon as exporting, exporting overseas does not cross their mind. Manufacturing though is a different ball game. They have woken up and exports are up. However services are not exportable, you have to have a product and that's the problem in the West Country. Twenty-three per cent are self employed, the highest in the country. This is more through necessity due to distance and depressed wages - self-employment is the only alternative. We are missing the next step up the ones employing five to fifty. There are 11,000 businesses in East Cornwall, fifty per cent employing less than five people (Interview, TEC Business Adviser).

In addition to this psychological barrier, the dominance of service sector firms in rural peripheral localities is inimical to this transcendence of the local economy as the vast majority of services are not tradable beyond these borders. Moreover, as one SME OMD remarked traditional natural monopolies for local shops and services are being eroded by the expansion of supermarket and other national retail chains:

The majority of small businesses in the West Country have been or are retail trade related. Competition from national multiples have had a dramatic effect. Our customer base has declined forty per cent in six years. Most of our competitors have ceased to trade in this time (Interview, bakery, Cornwall).

7.3.2 Location

The majority of SMEs interviewed did not view their location as a disadvantage, supporting the findings displayed in chapter 6.3.1. However, a smaller number of peripheral SMEs for whom access was more directly linked to competitive advantage, were worried by a perception of deteriorating rail and road links, particularly in Cornwall:

Good rail transport is essential to the competitive nature of our business in relation to its location. We do not charge traveling time to clients, therefore consultants are expected to use trains as mobile offices / restaurants etc. to maximize effective use of time (Questionnaire return, Consultancy firm, Devon).

Cornwall is cut off from the UK by bad road / rail system which means too high costs for transport to the UK or export. No major port or airport to attract new business, so lack of investment. Planning restrictions and bureaucracy stifle local business investment (Questionnaire return, machine tool manufacturer, Cornwall).

7.3.3 Finance

On financial matters SMEs were asked about: whether they had considered venture capital, if their rural location was a disadvantage in pursuing this option and the service offered by High Street banks. Concurrent with the questionnaire evidence only a very small minority were interested in venture capital. For the one OMD interviewed who had pursued this option his rural location was not seen to be an issue, but rather the lending structure of the market itself:

Having been round the problem of raising venture capital, I find that there are no facilities for raising between 150,000 and 800,000. Venture capitalists start at one million and business angels want to lend less. Business angels don't want to 'gear' the investment and venture capital firms only want short term investment...Britain needs a source of capital for use by medium to small companies for five years plus, which doesn't require the owner to sell the majority of his / her shares (Interview, specialist manufacturer, Cornwall).

With regard to bank lending, rural SMEs did not perceive they were disadvantaged on account of their rural location, but many were openly hostile of the former's financial practices:

High Street banks are the biggest source of problems for a growing business. No business could afford to be as bad as banks and yet stay in business (damn the lot!).(Questionnaire response, Hotel proprietor, Devon).

It is very difficult to pass comment on individual 'horror stories' because one only hears the OMD's viewpoint but some of the strongest criticisms came from support agencies:

...business advisers in banks have just done their banking exams and that's it. They are there to learn from the business people who come in. They only advise them on their services and have limited knowledge, its the blind teaching the blind. There is a credibility and knowledge problem. From branch to branch there is little consistency, policies come and go. This means many are reluctant to talk to their bank manager because they have their house for security, it's a last resort which is often too late. The charges are unreal - thirty per cent plus for unauthorised overdrafts with a base rate of fourteen to fifteen per cent with business loans base rate plus two to three per cent. The charges are bleeding them dry (Interview, TEC Business Adviser).

These complaints are outside of our immediate concern and there would appear to be no evidence to support the contention of spatial variations in UK bank practices. However a survey into the competencies and experience of small business advisers within banks would appear valid. This would be justified not just because of the dominance of banks as a source of external funding (see table 6.23) but also in their considerable advisory capacities (table 6.38).

7.4 GOVERNMENT INTERVENTION AND RURAL SMEs

The attitudes of rural SMEs to government intervention is considered in this section. Before conducting these interviews it was expected that questioning would mainly concern the range of support services offered. However, it emerged that while researchers and public policy reviews have focused on evaluating support services, SMEs were more concerned not with the spending for them, but the costs imposed on them, by government.

7.4.1 Taxation

As the quotations below indicate. particular anger was expressed about the Uniform Business Rate (UBR):

First, we need better understanding from councils regarding business rates and the importance of cash flow. Second its customs and Excise, again same problem (Questionnaire response, Cornwall).

Biggest problem business rates. We receive no services. We even have to pay extra to have bins emptied (Questionnaire response, Hertfordshire).

If tax was not as high we could reinvest our own money. Grants and loans would not be required and I'm too busy to apply (Interview, specialist manufacturer, Devon).

Reduce red tape and local taxation (Questionnaire response, Surrey).

The majority of respondents felt that a banded system that was tied more to firm size and ability to pay was required. Reviewing recent academic small business journals, it is clear that little has been published on the UBR and this would appear to be an area for further investigation.

7.4.2 Legislation

The second biggest area of concern with regard to government intervention and SMEs surrounded legislation. Comments fitted into two categories: those who wanted additional legislation (consisting overwhelmingly of calls for tighter laws surrounding late payment of debts) and second, demands for the reduction of 'red tape':

Main problem is getting paid on time. Legislation needed to ensure payment within 30 days or less (Questionnaire response, Devon).

A major problem is having to collect government taxes (PAYE/VAT) free of charge - companies should be reimbursed for this work (Questionnaire response, Surrey).

Efforts should be made to eliminate, or at least simplify, many of the regulations concerning employment law which combine to make the duties, responsibilities and risks of employing people progressively more onerous. One faces health and safety, Employer's Liability (insurance premiums have rocketed since the Employer always seems to be presumed to be "responsible"), PAYE, enforcement of court orders, SSP., SMP, statutory holidays, dismissal procedures and redundancy rights, which are unfair (Interview, machine tool manufacturer, Devon).

Wise use of legislation. Cut out Gestapo. Cut rates. Check doorstep selling to our level of firm (Questionnaire response, Devon).

For medium sized firms and exporters it was not just British legislation which was perceived as a barrier to growth:

E.E.C. - Dreadful paperwork now required that 'Europe is open for business. Debtors - length of time customers take to pay. International laws are required to regulate this (Questionnaire response, Cornwall).

Problem. Increasing red tape from Brussels - we are made to comply with ridiculous regs. that other countries will and are ignoring. The UK government are quite happy to crush small businesses out of existence (Questionnaire response, Cornwall).

However, as with taxation rural SMEs did not feel more restricted compared to their urban counterparts and the problem was seen to operate at a national or European level. Concerning grants and incentives, spatial variations in attitudes were apparent and these are discussed in the section below.

7.4.3 Grants and Incentives

On the issue of grants and incentives the interviews highlighted four fairly common themes: (i) a belief that grant aid assistance should be locally focused, (ii) that there is a lack of focus for development (particularly in the south-west study area), (iii) a better relationship with planners needs to be established and (iv) there is general ambivalence towards Business Link. The idea that assistance needs to be targeted locally was expressed in terms of both large employers establishing better linkages with local small firms and that inward investment aid was often abused by 'outsiders':

The main problem I have faced is that national and local organizations i.e. SWGAS, SW Water, Caradon, Plymouth councils etc. Do not want to employ small local companies and use London or out of County based (hence expensive) companies. My work is almost all overseas (Questionnaire response, Devon).

More grant aid for genuine small businesses attempting to grow - generating real employment. Tighter control of the 'big boys' who relocate to Cornwall for the grants and then asset strip the new site (Questionnaire response, Devon).

It is interesting to note the parallel with the development economics literature, which has recounted similar disadvantages of large firms, with poor linkages to the local economy

(Turok, 1993). The perception of a lack of focus for development stems from the proliferation of agencies involved, with a confusion as to precisely what assistance is available and a belief, particularly strong in the south-west of being ignored by central government (as indicated in the batch of comments detailed below). In the south-east study area, by contrast, there was no perception of a need for a regional focus or separate spatial focus. While Business Link has been designed to reduce the confusion surrounding agency proliferation and assistance available there is little evidence of this actually occurring.

Investment grants should be made available for business to start investing in capital again. There appear to be so many schemes but no single source of information (Interview, steel fabricators, Cornwall).

It would be nice to see some real development and investment in the Plymouth area to employ the wealth of skills which are wasting away through age and neglect by our government...start trying to identify land the other side of Bristol (Questionnaire response, west Devon).

Total lack of real support and relevant action by local and national Government to support small businesses. All activities are cosmetic at present (Questionnaire response, Devon).

Business rates, Corporation tax, employers NIC and bank interest rates should be lowered to give an incentive to companies to employ. Why do we keep getting offers from the Welsh Development Agency? Do we have a similar agency? If so what do they do for a living? (Questionnaire Response, mid-Devon).

There is a need for local authorities and the Government Office for the South-west to invest in real jobs for twelve months of year instead of promoting tourism which is for only twelve weeks of the year. Investment in infrastructure is essential (Interview, timber merchant and panel manufacturer, Cornwall).

The process of applying for grants has no become so complicated one County Council offers SMEs a grant to obtain grants:

We have also found problems of attracting grants from the DTI. This was often due to applications being unprofessional. so we are now offering a grant to get professional advice to get other grants. Are you with me? (Interview, County Council Economic Development Officer).

The Business Link network has not reduced these complications as much as initially envisaged as the partner agencies only include a small selection of the key relationships maintained by SMEs. In rural areas the planning process can be particularly controversial and, like farmers (interviewed in section 7.2.3), OMDs felt the advice they received poor.

Yet the Business Link network has no direct links with planning departments:

Problems encountered with highways authority in signing our business on the public highway particularly as we are 60% tourist reliant. This does not appear to be a problem in other, EEC countries especially France. (Questionnaire response, Cornwall).

Our main problem has been the complete obstruction and delays to development at district and county Council by bureaucrats. They pay lip service to industrial requirements. (Interview, timber merchant, Cornwall).

The criticisms of Business Link cited by SME respondents ranged from views that it was unnecessary to disappointing personal experiences:

As a small and successful business we went to Business Link for help with business planning. They said they had no experience with such a successful company and could offer very little help. We welcomed their honesty and good service however it would have been advantageous to have *something more tangible* (Questionnaire return, Service sector firm employing under ten people in Surrey).

A gripe cited by one OMD and several of the other public sector agencies was the size of the initial capital investment involved in establishing the network and the level of on-going fixed costs.

If Business Link spent as much on small firms as feathering their own offices I might have some time for them (Interview, Medium sized manufacturer, Devon).

These issues we put to representatives from three Business Links. They stressed that individuals were not always going to be happy with advice they receive. When asked how blunt this advice was, one respondent replied:

Very blunt - its futile not to be honest. They will tell people not to waste their time. On each review [PBAs] file a report, currently on paper, to individual offices but we

hope to have all reports on computerised database which can be accessed centrally.... Many businesses who come to us say they are interested in growth but really its much more a question of survival than growth (Interview, Information Manager, Business Link).

On the issue of the costs of establishing the network respondents were more conciliatory:

It wasn't thought out. But we have to be self-funding in three years that has concentrated peoples minds (Interview, Marketing Manager, Business Link).

Given the importance of going beyond local markets, the provision of information on external markets would appear to be crucial. However, the information most desired by SMEs relates to planning, legislation, finance and market contacts. Crucially though these are not the strengths of the Business Link partners. There are currently no direct linkages with planning departments, accountants and banks. It would thus appear difficult for Business Links to reduce institutional proliferation and confusion if its own internal relationships do not include those areas that SMEs themselves perceive as being most important. At this juncture it may be useful to contrast this with the operation of information centres in the Emilia-Romagna province of Italy as detailed by Brusco (1990: 17). The information centres collect extensive information on export markets for selected products (for example on packaging machinery) within and outside Europe. The information collected includes details on local legislation, calls for tender and import specifications (for a cluster of packaging firms) on a cost price basis. This collection of information is often impossible by SMEs given time and knowledge constraints and the establishment of export offices would be far more costly than using this fee-paid public sector service. The emphasis is thus on facilitating external growth, rather than direct subsidies or 'hands on control' by agencies. Such services aid businesses with a genuine desire to grow, particularly those based in localities with limited local demand, without affecting the OMD's desires to remain firmly in control of business decision making.

7.5 SUPPORT AGENCIES AND ATTITUDES TO RURAL SMEs

7.5.1 The Direction of Policy in Rural Areas

There was widespread criticism of the 1980s small business policy of focusing on start-ups and in particular the emphasis placed on 'getting people off the dole'. With institutional proliferation and very frequent changes in assistance (both in terms of regulations and the actual names of schemes) confusion was only heightened. As one TEC Business Adviser describes:

With the fragmented provision I mentioned before there is great reluctance and many are unaware. The quality has not been there in the past. Training providers were generally low quality focusing on burns on seats and geared up to business start ups. This has changed with the end of the Business Start-up Programme in March 1995 with the quality of start-ups hit (Interview, TEC Business Adviser).

A Local Enterprise Agency trainer who specializes in start-ups also questioned the usefulness of policies to encourage the unemployed to set up their own businesses in his rural locality:

Most of the businesses created involve basic skills: mobile hairdressers, plumbers, odd jobs, child minding services, cleaning, you name it (Interview, LEA Business counselor).

These choices reflect the skills and background of the clients; very few have higher qualifications or employment experience that they could utilise. Most of the businesses launched under such schemes are thus into already developed, often saturated markets. Though there have been some notable successes, very few businesses grow to employ more than the founder:

you get a few. there is _____ and _____ [names of a parcel delivery firm and pastry maker]. They were mine. But for everyone of them you get the rest. It's getting worse, they've change it again so that now you have to be unemployed six months before getting on TFW [Training for Work] Enterprise¹. In some areas its stopped altogether. We are only keeping going with Euro cash (Interview, LEA Business Counselor).

¹ There are some notable exceptions to the six month rule: ex-armed forces personnel, ex-prison offenders and certain disabled groups.

The long term unemployed on the scheme face key problems, in addition to saturated basic markets, surrounding access to resources and markets. Bank managers are unwilling to fund new business proposals without the provision of collateral and / or matching funding by the prospective client. Yet the vast majority of participants are simply incapable of meeting this criteria, with little or no personal savings after long term unemployment. Moreover, these groups are, to a certain degree, disconnected from the local business community. Few have connections or ready access to markets and, even less have the confidence to undertake business negotiations. As outsiders, many find it difficult to enter new markets and as the LEA respondent describes:

They haven't got a lot going for them. It's really a question of inputs and outputs. You cannot expect them to be big deal entrepreneurs. They've got no money and no experience. I'd say about ten per cent of the people I see cannot fill in the forms. You're not going to get Richard Branson. Let's face it, you can't make chicken soup out of chicken shit (Interview, LEA Business Counselor).

Support agencies were also asked about the design of their initiatives and whether there was consideration of two potential pitfalls (displacement and additionality) of external funding. Additionality refers to the extent to which public sector initiatives stimulate net increases in activity, as opposed to activities which would have occurred anyway within the market. Measures of displacement seek to quantify the extent to which supporting some firms leads to the decline or death of others which have not been helped. On both issues there appeared to be little quantitative monitoring or synergy between agencies. To give an example, one district council in the south-west offers a £1,000 business loan scheme to SMEs based within its boundaries but receives 'about one application a month' (according to the local economic development officer), past users were not monitored as to whether the service was beneficial to performance and a Business Link information manager, when questioned, did not know of its existence.

7.5.2 Relationships between Support Agencies in Rural Areas

It is a stated aim of public policy that support services should be better co-ordinated and integrated, with local Business Links acting as the chief gateway and co-ordinator of an array of complementary but specialised agencies. The rationale for integration and co-ordination rests on three principal grounds: the benefits from synergy, the advantages which may accrue from an environment of trust and as a form of competitive advantage. Amin and Thrift (1994a: 14) argue that institutions involved must be actively engaged with, and conscious of, each other, with future developments between agencies encompassing both resource and policy synergies. Resource synergies occur where co-ordination increases the overall 'added value' of funding provision and policy synergy as a concept conceptualises advantages stemming from agencies learning from one another and altering individual strategies accordingly (Hastings, 1996: 263).

By co-ordinating efforts advocates envisage that an environment of trust can be established between agencies and their clients. This is seen as conducive to referrals, generating self-generating positive feedback in the creation of synergistic effects and as a way of controlling rogue behaviour (Amin and Thrift, 1994a: 14). Finally, several commentators, drawing on the experience of Baden-Württemberg in Germany (Cooke and Morgan, 1994) and the Emilia-Romagna province in Italy (Bellini, 1996a: 3) have seen institutional co-operation within a sophisticated framework of support for SMEs as a source of competitive advantage in itself:

Competitive advantage (and therefore competitive inequality in intra-European markets) emerges not through direct public subsidies to firms but through the creation of complex regional public spheres in which the structural adjustment of industries grows from a distributed 'working intelligence' in which strategic choice, publicly contested and defined, is the collective property of many actors rather than the exclusive domain of 'strategists', 'planners' or even 'the market'. The social and economic cohesion of Europe, as well as the success of European industry within changing patterns of competition, are better served by horizontal networking between diverse spatial entities than by bureaucratic attempts to regulate 'unfair' competition (Pratt and Totterdill, 1992: 379).

The evidence from the support agencies studied here, however, indicates these aims of integration and co-ordination are for the large part, so far, not being met. As comments below indicate this was a widespread view not just from small businesses and farmers but those employed by the agencies themselves:

MAFF are based in Exeter, the Government Office for the South West in Bristol and Plymouth and never the twain shall meet. It's a real problem (Interview, NFU Regional Director).

There are seventy two different agencies in Devon and Cornwall alone offering some form of support to small businesses. With seventy two bodies including banks, small business advisers, accountants and local authorities (there are six in Cornwall alone) all operating there is enormous duplication and fragmentation. Business Link will pull this together (Interview, Enterprise Agency Workspace Manager).

No. They very much do their own thing (Interview, TEC Business Adviser on contact with MAFF, ADAS and NFU).

We have a good reputation and our main aim is carrying that forward (RDC business adviser, south-west on individual and network priorities).

These findings are substantiated by two other reports: KPMG Peat Marwick (1994) on the experiences of the first wave of BLs highlighted that although partners may have worked together previously, bringing all the partners together for Business Link has been far more difficult, with the integration of partner staff taking considerable time. Deakins and Philpot, (1995: 56) highlight how networking between financial institutions and external support agencies was higher in Baden-Württemberg than in the West Midlands and the general low-level integration in the latter region. In fact as table 8.2 indicates, little appears to have changed in terms of institutional proliferation since the early 1980s, when Ritchie *et al.*, (1984: 62) identified 125 agencies offering some form of assistance to SMEs within the single county of Humberside.

The reasons for this lack of integration between rural public sector services for SMEs can be divided, albeit not cleanly, into questions concerning internal and external agency relations. The implicit, and not surprisingly, chief priority of each agency was to continue

their own existence: agencies tended to begin by searching for new sources of funding to prop up diminishing or soon to be withdrawn existing revenues rather than devising innovative co-operative solutions.

For all the talk of responding to local needs, the most striking point about the majority of support agencies is their reliance on external funding, usually from central government and / or the EU. Agencies overseeing SME support projects are not independent, but rely upon higher patronage. The key relationship for each agency is thus with central government not other agencies as it is the former which decides their level of future funding and even existence. This leads to a series of questions surrounding the imperatives of agencies to justify their own existence and the stability of this external funding.

Even schemes funded by local government are still heavily dependent on central government policy. Under the British constitutional system, with the sovereignty of parliament, the ultimate power still lies with executive-parliamentary relationships, from routine Ministerial rulings (such as the go ahead for housing developments and road bypasses) to the dramatic (abolition of the GLC and other metropolitan county councils). Moreover, government funding for small business support has been subject to much chopping and changing in the annual spending round conducted with the Treasury. The environment for local agencies is thus unstable, with the interviews conducted highlighting how each agency felt an acute need for self-justification. Future funding was often felt to be contingent on successful past phases, where success would be measured by national government and Whitehall. This instability in public sector funding was cited by the farm holiday group as one of the main drawbacks to obtaining external finance, as commitments could be accumulated which could then not be met if funding was subsequently withdrawn. Such objective 5b funding would also necessitate the scheme to be more professionally managed and accountable (following central government and EU procedures). The same

organisational style of informal, internally-oriented self-help relationships would not be compatible with the requirements of external funding agencies.

This defensive and introverted stance exhibited by many agencies also stemmed from a belief that they had 'responsibility without power'. Agencies had pre-set targets and objectives to reach, but with minimal influence on the local economy within which these targets were to be met. As the LEA representative remarked:

At the end of the day you do your best but don't expect too much.

The need for agencies to justify their existence, and the way in which consequent funding is contingent on 'success' often leads to a dilemma for agencies surrounding the trade offs between meeting most pressing needs, those most willing to participate, short term results and the long term amelioration of the problems they seek to tackle. Empirical studies detail how those living in the poorest rural conditions, with the most constrained opportunity sets are also the least accessible community for agencies to reach (Shaw, 1979: 6). As Cloke *et al* (1995: 364) notes 'their problems are 'hidden away' by the responses of more affluent rural dwellers and, indeed, by the attitudes often adopted by rural professionals and decision makers.' With the instability of funding and the self-justification treadmill, this stratum in many cases is ignored in the quest for short-term results, which can generated from more accessible, 'cost effective' and less constrained groups.

This conflict is apparent in TEC funding, as highlighted by the LEA representative and noted at a national level (Employment Department, 1994; M. Jones, 1995). The finances of TECs are now increasingly subject to payment by results and output related funding. This has been against a backdrop of in 1993/94 an average cut of seventeen per cent in the cost of youth training and a forty per cent cut in the cost of TFW. Within this payments system, TECs are free to allocate any surpluses generated to activities they

consider to be of strategic importance (M. Jones, 1995). An Employment Department report (1994) investigated the surpluses of nine TECs, which amounted to £43.5 million, ninety-four per cent of which had accrued from youth and adult training programmes. In building up these surpluses, the report found training was skewed towards producing clerical officers and hairdressers, the training of which was quick, cheap and easily assessable. Those TECs which placed greater effort in higher cost, skilled training (such as engineering and the provision of special needs) were less able to achieve surpluses (ED, 1994). Cost effectiveness and results for the TEC may have very little correlation with the needs of the local community, with a kind of 'Tom and Jerry' politics existing between TECs and central government in terms of obtaining autonomy in spending budgets. Those TECs which place greater emphasis on meeting the needs of more disconnected groups or dealing with long-term, sophisticated skill shortages are penalised by the funding system. The system of funding also means that individual SMEs are really the secondary customer, after the government, as it is the latter, in most instances, which pays the (initial) bill. The agents who are supposed to be served can easily get lost in an environment in which agencies concentrate on maintaining their own existence (Hastings, 1996: 266).

The lack of historical integration is also inimical to contemporary drives aimed at sustaining co-ordinated action. One cannot expect meaningful collective representations or mutual awareness between institutions to develop overnight and it is interesting to note the longevity of the institutional framework within successful SME based economies in Europe (Amin and Thrift, 1994a: 16). Trust and co-operation if it has any depth is not by its very nature instantly produced. Moreover, integration in the rural study areas is not merely restricted within the public sector, but also extends to relationships between firms. Stimulating co-operation between firms, appears to try to 'work against the grain' of the motivations and desires of most SME OMDs in the UK. Very few want active involvement with other firms let alone support agencies. Only if the government has something to offer

which is desired by SMEs will OMDs be interested. With the slimming down of direct grants and a greater emphasis towards expertise and training provision, which most do not believe is needed, only a small subset of SMEs will want active relationships with support agencies. This has been recognised in the experience of BL PBAs. Several high profile BLs (such as Doncaster and Congleton) have altered the way in which the PBAs operate, with greater emphasis on smaller portfolio businesses with potential to grow rather than large diversified portfolios based on memberships schemes (where the only qualifying criteria for getting a PBA's time was to be a member) (Agar and Moran, 1995: 1056).

Finally, co-operation should not be perceived as an end in itself, and in fact closely integrated but closed systems of specialists can become isolated from the very sectors they are supposed to be aiding. A precedent for this problem is highlighted in Dintenfass' (1993) review of co-operation and integration of coal owners in the first half of this century. Coal mine owners shared very similar educational backgrounds that set stability and institutional loyalty as a high priority, a tendency also noted by Church (1995) within ICI, with a corresponding leaning to favour decisions of a conservative nature. With strong networks embodying trust and information, established and reinforced at school, university and in various clubs, the information gained from these networks was often used to resist innovation in production techniques and marketing strategies. The efficiency of the network may have contributed to a wider inefficiency in the use of resources (Chick, 1995: 10). Integration is only desirable to the extent that it aids the performance of SMEs and one should not confuse *institutional* efficiency with *policy* efficiency. Co-ordination may lead to a more efficient delivery of services but this does not answer in itself whether such services are actually necessary. It is on this latter question as to whether support services actually aid SME performance which remarkably little sophisticated research has been undertaken - a point which will be further developed in chapter 8.3.

7.6 SUMMARY

The number of small business support agencies has burgeoned since the 1970s in an *ad hoc* manner. This fragmented growth has led to considerable confusion within both the agricultural and non-agricultural rural business sectors. The introduction of Business Link has, so far, rather than reducing this confusion merely added to proliferation. The much heralded need for co-ordination in support has been limited by the structural environment inhabited by support agencies. The dependence of agencies on funding from Westminster, the frequent changes in policy, individual agency targets and the ambivalent nature of Conservative support for SME provision have all been inimical factors to co-operation and integration of support provision. Moreover the present support framework often does not embrace links with the most important external actors - for example with land based developments the role of local planners is crucial, but contact between these local authority departments and support agencies appears minimal.

While the academic literature has detailed these changes in spending *for* small businesses, when enterprise managers are asked to detail their priorities they are far greater concerned with *costs imposed on* SMEs. These costs, and in particular the burden of the Uniform Business Rate, have not been given the same prominence in academic considerations, and this marks an area for further research.

When the operations of support agencies are considered, analysis is limited by the lack of monitoring of programme performance. A more comprehensive monitoring system, recording the actual impact of support aid on the performance of SMEs assisted, and the impact which these measures have in turn on competitors, is vital (see chapter 8.3). Within this framework, the main complaint against external agencies was that they failed to understand the motivations of farmers and OMDs. Where motivations were not understood, much dissatisfaction with the schemes and proposals of external consultants usually resulted. Given these findings on support provision in rural areas, the next stage is

to draw together these findings with those from the preceding questionnaires and it is to this which we now turn.

CHAPTER EIGHT: CONCLUSIONS - EMBEDDEDNESS AND SMALL ENTERPRISES IN THE RURAL ECONOMY

8.1 INTRODUCTION

This chapter attempts to draw together the results from the preceding three chapters, highlighting the key findings, the implications which stem from them and identify areas for further research. Section 8.2 makes some general remarks concerning SME growth before discussing the conclusions which can be drawn from each hypothesis in turn. Section 8.3 is concerned with the implications of the findings on business strategy and structure and suggests a framework for further research. The conclusions which derive from hypotheses B7 to B10 (economic issues) are outlined in part 8.4 with education and training matters discussed in 8.5. The implications of the relationship between past business success and future objectives are deliberated in 8.6. The conclusions which emerge from the survey on agricultural diversification are discussed in section 8.7 with the final part (8.8) bringing together all the lessons for public policy.

8.2 GROWTH

Given the focus on the performance of firms in rural peripheral localities a pivotal question is to what extent is the performance of an individual enterprise tied to the locality in which they are based? In answering this question a contradiction is at first apparent between the farming and non-farming surveys, with the former highlighting strong and consistent spatial variations in performance in favour of core localities while the latter questionnaire returns indicate at least for the period 1992 to 1995 better employment generation in the peripheral study area. This issue will be discussed with regard to the ability of enterprises, to varying degrees, to transcend their local economy and a distinction will be made between locality embedded and non-locally embedded enterprises.

Christine Hakim once dismissed much of the content and rationale of the small business literature:

[It is] impossible to pinpoint any distinguishing feature of fast growth firm compared with no growth firms (Hakim, 1989: 41).

The results from this study indicate that this statement presents a half truth and fuller understanding can be gained by utilising the philosophical distinction between *necessary* and *sufficient* conditions. Hakim is correct in that there is no single *sufficient* condition for high growth. Business success depends on a range of competencies with customer satisfaction a multifaceted concept. Moreover, competitive advantage is relative - it depends also on the strategies of other firms in the market. For example, the introduction of cost reducing new technology may give a firm a hefty competitive advantage if no others innovate in such away, but as Foley and Watts (1996) point out, the individual firm-level advantages from new technology are quickly dissipated if universally applied within an industry. It is thus unrealistic to expect a logistic regression model, taking firms out of their competitive context, to have a 100 per cent correct classification of high and low growth firms. However, the multivariate analysis undertaken here does point towards *necessary* (vital but not sufficient on there own) conditions for growth. The study of non-agricultural SMEs quantifies the importance of planned financial management through the setting of annual targets and the maintenance of comprehensive accounting systems. While often recommended, little empirical evidence has previously existed to support the linkage between these procedures and growth and it is clear that these previous recommendations have often gone unheeded (Nayak and Greenfield, 1994). Having acknowledged this framework of *relative, necessary* but not *sufficient* critical success factors the subsequent sections develop the linkages between each research hypothesis, empirical findings, lessons for public policy and the wider conclusions that can be drawn.

8.3 NON AGRICULTURAL SMEs AND BUSINESS STRATEGY

The conclusions and requirements for further research that have emerged from the analysis of business strategy and structure in non-agricultural SMEs are summarised in table 8.1.

The table links together the findings for each hypothesis, followed by the significant points for public policy and further research - a format observed for subsequent sets of research hypotheses.

Hypth.	Findings	Public Policy	Conclusions and Future Research
B1	Team-starts not achieve significantly higher growth nor are relatively fewer team-starts created in rural peripheral areas.	Team-starts encouraged under MIDAS programme- 'quality' start-ups.	Not take one factor out of context. Goodhart's Law. Problems of teams as most OMDs desire to be own boss.
B2	No significant differences exist between the growth performance of those SMEs that record they conduct on going market research and those which do not.	Market research advocated strongly. Need to stress role of informal channels	Informal mechanisms (speak to buyers) look at lack of preparation. MR just the first step.
B3	Enterprises with a computerised accounting system achieve higher growth records and businesses which set financial targets each year will be more likely to record high growth records.	While previously stressed as important little empirical support to back up claims.	Identified as major area for improvement in SMEs. Look at poor control. Start-up training business plans often not working plans but means to getting TEC funding.
B4	Firms which introduce new products to the market do not achieve higher growth <i>per se</i> and no core-periphery divide in this form of innovation. Link between manufacturing and employment growth.	Innovation viewed as key to long term success in the past. Policy needs to be more specific as to the strengths and pitfalls of different types of innovation.	Spectrum of innovation. Just introducing new products is no answer <i>per se</i> . Financial innovation may be more valuable than product innovation.
B5	Firms that introduce new high technology products to their range do not have superior growth records. No spatial divide in this form of innovation. Rather advantage lie with manufacturing new products, no spatial variations in matched sample.	High-tech heavily promoted in the past. Manufacturing not encouraged in 1980s - service sector boom. Sector specific incentives grants, assistance.	Uneven distribution. Periphery problem not the firms which it does have but the ones it does not - weaknesses of manu. base.
B6	The performance of SMEs as a group is not higher in core localities. There are more high growth SMEs in peripheral areas.	Needs to be more focused: multi-faceted selectivity is advocated	Role of <i>sectoral variations</i> not just in start-up rates but growth performance.

8.3.1 Hypothesis B1

Team-starts have not achieved significantly higher growth nor are relatively fewer formed in rural peripheral areas - a finding that goes against previous findings and several public programmes such as the MIDAS scheme. This study suggests that team-starts should not be treated any differently from single founder enterprises in terms of access to public funds or support. A bad business proposition is still poor regardless of whether it comes from a single founder or group of entrepreneurs.

The evidence on OMD motivation would also suggest that only a small fraction of businesses formed will be team-starts. The main reason for starting-up their business cited by OMDs was a desire to be their boss: with team-starts such autonomy is lost. Other evidence on OMD dispositions toward venture capital and informal equity funding also points to similar strong desires for independence. It would be foolish to try to 'manufacture' team starts as the majority of potential entrepreneurs create their businesses precisely not to have to compromise and make joint decisions. While past research on team-starts and networks has concentrated on supply-side limitations to their formation (lack of knowledge on potential partners and forming legal agreements) the evidence from this study points towards potentially more important demand side factors (OMDs simply do not want to share decision making but rather be their own boss). It is recommended that support agencies work within this framework; it would be no good to try to 'manufacture alliances': the formation of grand schemes for team businesses is futile when this works against the grain of the motivations of those intended to carry out such plans.

8.3.2 Hypothesis B2

No statistical relationship was found between the growth performance of those SMEs that recorded conducting on going market research and those which did not. This finding may be due to two factors (i) there is actually no relationship between market research and

growth or (ii) SME OMDs perceive market research in very narrow terms ignoring informal mechanisms of communication. It would appear counterintuitive that there are no benefits from talking to buyers and suppliers, scanning markets or understanding changing consumer trends: giving an impression that further more detailed research is required. It is therefore suggested that future research should be more specific in the information collected: distinguishing between formal and informal market research and then testing the relationships with growth separately. A parallel can be drawn here with previous research on SME training that tended to just distinguish between those firms which train and those which do not, often implicitly denigrating informal training. Following the way in which this study distinguished between informal internal training, external training and formal internal training (giving the respondent examples of each to clarify definitions {see section 8.5.1}) similar distinctions should be taken with market research.

If the importance of communication becomes clearer from this proposed survey work it could be concluded that OMD perceptions of market research need to be changed where the concept is perceived merely as formal and costly survey work, which is inappropriate to the small enterprises. Rather the benefits that may result from buyer and supplier feedback should be stressed in start-up and subsequent support training. This does not appear to be case at the moment: it seems frightening that only forty-one per cent of OMDs when starting their business actually spoke to potential buyers (table 6.6). There would also appear a need for banks as the main point of contact for both start-ups and established businesses to stress the benefits of informal market research mechanisms as the evidence from this survey suggests that the message is not being received by SMEs. This leads on to a wider point: at the moment the majority of advice for SMEs in terms of best practice is channeled through public sector support agencies such as Business Link and TECs but only a minority of businesses actually make contact with these agencies. The degree of market coverage is thus weak. Given SME attitudes to external agencies uncovered in chapter

seven, such disregard for external agencies is likely to remain at least in the short to medium term. This leads to the conclusion that banks and accountants should play a much wider role in disseminating lessons of best practice as their linkages with SMEs are so much greater. At present banks and accountants are not partners in Business Links, nor are they well represented on TEC Boards (Thomas, 1993). A rectification of such imbalances with banks and accountants playing a larger role in advisory services would appear important (especially given that the evidence from tables 6.6 and 6.7 indicates that the basic business strategies of so many SMEs are fundamentally flawed). The potential role of such financial agents is discussed in greater depth with regard to hypothesis B3 and it is to this that we now turn.

8.3.3 Hypothesis B3

Enterprises with a computerised accounting system achieve higher growth and businesses that set financial targets each year will also be more likely to record superior growth records. While the importance of financial management has been previously accented, little empirical work has existed to support such claims. Now that this link has been established, a number of implications follow. First, while empirical evidence points towards a link between adequate financial management and growth, only 52.7 per cent of start-ups in the survey produced a financial plan. Moreover, if one remembers that this sample was designed to include only businesses established for over five years, therefore excluding firms that failed shortly after start-up, the overall figures for adequate financial planning as part of business foundation are likely to be even lower.

Financial management is therefore identified as major area for improvement within large numbers of SMEs. This applies to both start-up and established businesses, as for the latter only 57.5 per cent set annual financial targets (table 5.6). One way to help improve financial management procedures would be to reorganise TEC, Business Link and

Enterprise Link training to SMEs. The qualitative evidence indicates how private training providers, contracted to the TECs to provide start-up assistance are paid in part on the number of start-ups approved, with approval based on a business plan presented to the relevant TEC. There is thus an incentive for these private sector training advisers to 'push through' clients who may complete a balance sheet without any real understanding of its importance. As the educational base of many on such schemes as the Training For Work (Enterprise) option is low, far more time is probably required than is currently allotted for clients under present arrangements. This begs the question of whether the unemployed are the right client base for small business assistance and this issue is discussed in greater depth in section 8.3.8.

For established businesses, while the reorientation of provision towards improving financial management in SMEs may be worthwhile, as the majority of businesses do not have regular contacts with such agencies it is unlikely that on its own such schemes are going to dramatically increase abilities throughout the whole sector - the degree of 'market coverage' of TECs and Business Link is too small. A more fruitful approach may be to consider the relationships between banks and accountants, who are far more important sources of advice to SMEs in both rural and urban areas. One scheme that has been piloted in Norfolk in partnership between the local TEC and National Westminster Bank offers potential OMDs who successfully complete a preparatory course for start-up (weighted heavily toward financial management) an incentive of a reduction in the overdraft base rate charged. Given the empirical results in this study such a scheme warrants further investigation and could be applicable on a national basis. For banks those SME OMDs with knowledge of appropriate financial management techniques appear to be a far less risky option given the linkage with enterprise performance. For start-ups such schemes would help increase the chance of (but clearly not ensure) success and in reducing their overdraft costs (highlighted by Townroe [1992] as a major concern for OMDs) offers a

pecuniary incentive to attendance. The deadweight costs to society which stem from small business failure would also be reduced. However, empirical results from the scheme have not been disclosed to date and further monitoring is required before its avocation on a wider scale can be endorsed. Section 8.3.8 offers a framework for how this, and other small business programmes could be assessed and this represents an important agenda for further research.

8.3.4 Hypothesis B4

In terms of employment generation, the development of new manufacturing products appears significant and this concurs with Lawton Smith's (1990) study of 'take-offs' within the advanced technology sector in Oxfordshire and it is interesting to note how the 'success stories' of SME-based, low unemployment economies have a manufacturing backbone: Baden-Württemberg (precision engineering), Cento (mechanical engineering), Sassuolo (ceramic tiles) (Pyke and Sengenberger, 1990: 2), Mirandola (biomedical), Bologna (packaging machinery) (Belussi, 1996: 10), Prato (fashion garments) (Dei Ottati, 1996: 39). However the requirements for successful manufacturing product innovation are substantial: the financial, technical and marketing competencies required have to be embedded within the firm and thus within the local economy from which they derive. One cannot take two sixteen year olds who have left school with no qualifications or business experience and expect them to develop a fast-growth, innovative manufacturing small firm (although as discussed, past UK SME support has been biased towards the unemployed). In remote rural localities it would also appear vital for manufacturing SMEs to transcend their local economy as otherwise growth will be constrained by the small size of local markets.

The occurrence of wide sectoral variations in employment generation and the advantages to rural peripheral based firms of goods that transcend local markets generates the question whether enterprise assistance should be more industry specific. There are

several examples where public programmes by not being more sectorally targeted have led to less than satisfactory results. For example, the Farm Diversification Grant Scheme (FDGS) did not distinguish between enterprise options in the distribution of the finite moneys available. This led to a preponderance of grants for tourist accommodation activities, which while less risky to farmers failed to stimulate substantial new activity (Ilbury and Bowler, 1993). As the evidence from chapter five indicates, the employment performance of farmhouse accommodation has been poor with the market characterised by low occupancy rates and excess capacity. This money could have yielded better returns in other sectors. It is suggested that in rural peripheral areas priority should be given to those firms that produce goods capable of being traded in core markets rather than those tied to the immediate economy. A restructuring of support to favour certain sectors will help create a more appropriate framework for dealing with structural problems within local economies. If sectoral variations are the main factors behind local differentials rather than 'urbanity' or 'rurality' *per se* then this should be the central focus of development agencies. Evidence for supporting such a shift towards more sectorally specific policies is also apparent from the testing of hypothesis A2 and this discussed in section 8.7.2.

8.3.5 Hypotheses B5

Firms that introduce new high technology products to their range do not have superior growth records and there is no evidence of a spatial divide in this form of innovation. Rather if there are employment benefits which stem from high-technology it rests with the manufacturing of new products rather than just their distribution. On this issue, no statistically significant spatial variations between the matched samples of rural core and rural peripheral manufacturing firms concerning their propensity to introduce new products were uncovered. This finding reverses the implicit assumptions of many small business commentators (for example: Dykeman, 1992). In many writings there is a vision of a very

naive 'virtuous circle' surrounding high technology SMEs, with such enterprises stimulating jobs, regional regeneration and even more advanced technology start-ups. However, employment policy cannot be based on merely supporting high technology SMEs - multidimensional selectivity of support is needed and this is developed in section 8.3.8.

8.3.6 Hypotheses B6

The evidence from the non-agricultural SMEs, reverses the expected spatial pattern for job generation in that the performance of rural peripheral SMEs for the period 1992 to 1995 is superior to their core counterparts. This superior peripheral employment performance lies with a small number of 'super-growth' (largely manufacturing based) enterprises rather than the average peripheral firm being marked better than the average core firm. Just because the employment performance of peripheral areas is better does not therefore infer that, overall, firms in these areas are better managed or that it is not worthwhile to advocate any public sector assistance. Moreover, the vast range of employment experiences in both core and peripheral areas indicates that the superior record of firms in the latter localities cannot merely be attributed to regional variations in the impact of macroeconomic recession. Regional variations in macroeconomic fortunes cannot explain why in each of the regions the fortunes of individual firms are so diverse.

These variations in *intra-regional* and *inter-industry* performance points towards the importance of sectoral studies and how traditional region level surveys (or the North - South dichotomy) may mask considerable variations between sectors. Instead of talking of growing versus declining regions it may be more fruitful to analyse variations in the fortunes of different sectors and then consider the spatial distribution of actors within these industries. If SMEs are not hostages to macroeconomic fortunes and various linkages with performance can be established (financial management and transcending local markets) the

rationale for more selective public sector assistance becomes apparent and a framework for assessing such schemes is devised in section 8.3.7. However before undertaking this task it is important to consider how much weight should be placed on the findings of these surveys.

8.3.7 Interpretation of Results.

Before proceeding, one must ask how much faith should be placed in these results? On this issue three potential biases can be identified: (i) sample bias, (ii) location bias and (iii) matched sample bias. Regarding sample bias, the argument is that those OMDs that return questionnaires may be significantly different from the SME population as a whole, and that the database used here may be distorted in a similar way. For both the farming and non-farming questionnaires it is argued that the choice of datasets (electronic Yellow Pages and Dun and Bradstreet directories respectively) were the best available from the choices available (see chapter 4.3.1 and table 4.1). The problems surrounding questionnaire response rates are recognised, and a review of the literature pertaining to postal surveys was undertaken and lessons of best practice followed. This literature has been underutilised within small business research and it argued that academics should be more aware of the lessons from these studies (see chapter 4.4). To test sample bias, early returns were compared with responses received after follow-up procedures (telephone calls, press releases) and no significant differences were found, when measured in terms of propensity to diversify, firm size or growth performance. This would indicate that unprompted responses do not differ significantly from follow-up responses. While it is impossible to tell whether non-respondents differ measurably from respondents, (as the characteristics of the overall population are not known) the reasons given for non-response during telephone follow-ups were not sector or size specific ('lack of time' and 'don't believe in research' being the most frequent retorts). For both the agricultural and non-agricultural surveys

exactly the same procedures and datasets were used in each of the study areas. While it cannot be argued that no sample bias exists, it is evinced that feasible steps, within the time and financial constraints of the study, were taken to try to eliminate potential problems.

The second set of potential biases concern the choice of study areas - to what extent are they representative of core and peripheral locations in the UK as a whole? The selection of study areas being based on Cloke and Edwards' (1986) index of rurality and Webber and Craig's (1976) local authority clusters does provide an objective classification. However, it may be that Devon and Cornwall are unlike other rural peripheral counties, particularly in their greater dependence on tourism. The agricultural diversification survey, while in the main highlighting core periphery differences, did indicate variations between the peripheral study areas of the extreme south-west and Teesdale (largely accounted for by tourist accommodation). Within the non-agricultural business sector, there was no comparable study area to Devon and Cornwall used and validation of these findings is an area for further research. However, based on the economic and social proxies of core-periphery utilised in this study, the correct classification of study areas was readily apparent and regardless of the inclusion of future study areas, the contrasts and similarities between the south east and south west rural study areas offers interesting insights and questions previous assumptions within the literature.

The final set of potential biases concerns the use of matched samples. It is argued (Peters, 1990) that matched samples in themselves may be potentially distorting, for while controlling for sectoral and demographic effects, it is these sectoral differences that contribute most to spatial variations. The validity of this argument is recognised in this study and sectoral differences are not ignored but considered alongside the matched sample results (see tables 6.29 to 6.33). Where the matched sample contrasts are not statistically significant, it should not be interpreted that no spatial variations exist but rather they are not due to locality *per se*. By conducting matched sample, complete sample and sectoral

analysis (in this study distinguishing between manufacturing and services and agricultural and non-agricultural business sectors) it is possible to select the most appropriate sub-samples for testing each research hypothesis and give a richer picture of SME performance across localities.

8.3.8 Further Research on Business Strategy and Public Policy

When age and sector are controlled for, few variations in business strategy are apparent between the matched rural core and rural peripheral enterprises. This is not say that spatial variations do not exist, but rather for rural peripheral areas the main problem appears to lie with the quantity of manufacturing firms (which are under-represented, as detailed in table 6.33) rather than existing producers being inferior to their core counterparts *per se*. Spatial variations between core and peripheral localities appear not to lie with distinctions between firms within the same sector but rather with *variations in the sectoral composition of different local economies*.

David Storey draws an analogy between horse race betting and UK small business policy, with successive governments acting the part of an unwise bookmaker. They are foolish in that they take odds regardless of the horse's pedigree or form (in other words indiscriminate in choice) so that:

...despite the risk of falling / failure, government still persists in putting its (or 'our money') money on the horses at the start of the race, when it would be much better advised to study their 'form' ...(Storey, 1993: 25).

In correcting this Storey advocates a policy of 'picking winners', concentrating small firm assistance on a key target group of growing young firms, aged between three and five years old, covering all sectors, having at least twenty employees and being independently owned (Storey, 1993: 23). Such calls for this targeted approach have found many supporters (Amin and Goddard, 1986: 19; Chittenden and Robertson, 1993: 10). However, to continue the horse racing analogy in betting one would not just look at the past form of a horse in

isolation, but also at the quality of the competition it faces in the race: in other words winning is another case of relative rather than absolute advantage. The 'picking winners' approach of targeting assistance at SMEs with a certain demographic profile is in one way another attempt to find a magic formula for predicting success which ignores the specific nature of sectoral change and abstracts the profile of the individual firm from the sector and markets within which it is competing. Moreover, it does not answer the fundamental question of whether support provision actually helps significantly improve the performance of the SMEs it aids. It is this question that we now address.

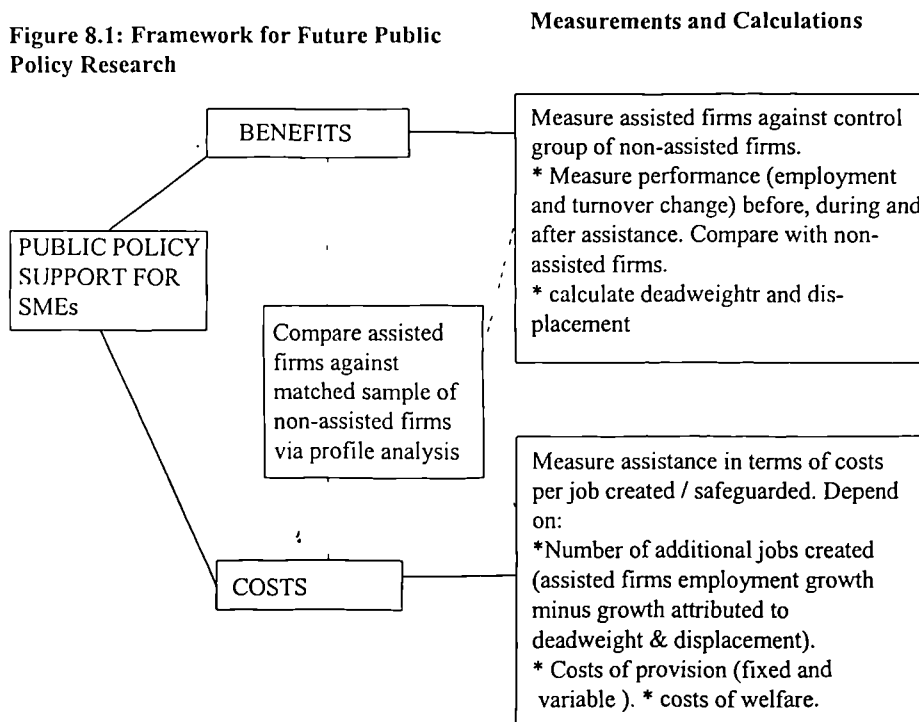
8.3.9 Assessing the Costs and Benefits of Support Provision

On this issue, the most frustrating matter is the lack of published material concerning the impact of support agencies on SME performance. For example if one conducts a search of the BIDS database of journal abstracts¹ for the years 1993 to 1996, 102 articles have the words 'small businesses' within the title or abstract - but only one addresses the issue of evaluating support programmes (Chrisman and McMullan, 1996) and this is a methodological discussion and contains no empirical evidence.

The framework proposed here is outlined in figure 8.1 and has its roots in Hart and Scott's (1994) public policy framework for Northern Ireland but is substantially adjusted to accommodate an original form of profile analysis which is outlined in section 8.5.2 with regard to training.

¹ The BIDS database does contain details of all journals which relate to small businesses but does include The Journal of Small Business Management, Regional Studies, Journal of Business Venturing, Environment and Planning and Small Business Economics, and so is fairly representative of the field in general.

Figure 8.1: Framework for Future Public Policy Research



Profile analysis records the performance of subjects measured before, during and after ‘a given event’. If a random sample of firms in several key sectors are studied regularly at given intervals over a long time period (probably upwards of five years for SMEs), it is possible to compare the performance of those firms which have received of public sector assistance, those which have not and the overall industry performance. Each type of assistance received should be recorded (for example Business Link PBA consultancy). From this the relationships between different forms of public sector assistance and firm performance can be better understood. From the time series data it should be possible to see whether public sector assistance precedes an upturn in performance or whether it is merely a reaction to significant growth.

By covering a random sample of firms in an industry and measuring overall sectoral performance it is possible to measure the growth among the recipients of government financial assistance that can be judged would have occurred anyway, without assistance. By considering the markets of firms aided by public sector agencies it should also be possible to measure the degree to which additional business came at the expense of other local competitors. For development agencies promoting employment generation in a

particular locality there is little benefit if in assisting growth in one firm this merely creates equivalent or worse job losses in unaided local competitors (a further argument in support of SME LED programmes which seek to transcend local markets). By measuring local dislocation, the performance of firms aided and industry averages it is thus possible to make a rough calculation of the benefits of individual public sector programmes. Against this the costs of each programme can be weighed, measuring the fixed and variable social costs of schemes. This would be the first step in analysing the impact of SME support provision which on the basis of evidence in chapter seven is currently woefully inadequate. The cross comparison of firms in the same sector also concurs with the overall thrust of this study towards future research considering *relative* competitive advantages rather than *abstract* factors.

While the questions surrounding the impact of support agencies remains, it must be remembered that whatever the quality of such assistance, of far more importance to the long term development of individual SMEs will be the competencies and motivations contained within the enterprise. On this issue more firm conclusions can be drawn. Understanding performance must focus on the desirability of the objective and subjective structures firms are embedded within and their ability to transcend such boundaries. Being based in a rural location *per se* would appear not be a major barrier within the study areas. Where location presents a problem it derives from restricted local demand coupled with the inability to transcend such immediate markets, often resulting from products that are not tradable over space (most of the diversification options pursued by farmers).

8.4 ECONOMIC ISSUES AND NON-AGRICULTURAL SMEs

Hypoth.	Findings	Public Policy	Conclusions and Future Research
B7	No spatial variations in businesses located for reasons of environmental attractiveness. SMEs located in core localities cite that accessibility and transport links were more important considerations in their location decision. Fewer peripheral SMEs cite closeness to founders home as an important factor in location.	Consider role of electronic links across space.	Firms for which access is more of an issue will locate in more accessible areas. Can 'virtual access' overcome actual peripherality
B8	Not able to draw conclusions on venture capital due to small numbers. Considering factors of production as a group, SME new firm formation tends to be heavily embedded in locality.	Public policies more locality and therefore sector specific. Greater understanding of sectoral changes that alter the economic structure of localities.	Need to understand the role of the locality as incubator. Given the requirements for growth, need people present with the necessary abilities and motivation to create employment generating firms. Call for study of migration and how it might alter a locality's incubator nature.
B9	Firms that supply markets outside their own county achieved higher levels of growth. Enterprises in rural peripheral locations are more dependent on their local markets.	Stimulating local markets not suitable policy option.	Look at barriers to this process. Information and access.
B10	Enterprises which export achieve higher growth, there is a positive association between propensity to export and being engaged in manufacturing and no spatial variations in matched sample.	Avoid 'North-south' / 'Severn to the Wash' characterisations. Support agencies need good understanding of the processes operating at the sector level.	Need for more sector specific approach based on products tradable over space.

8.4.1 Hypothesis B7

No spatial variations are apparent in the number of businesses located for reasons of environmental attractiveness. However, SMEs located in core localities did cite that accessibility and transport links were more important considerations in their location decision, as may have been expected, and fewer peripheral SMEs cited closeness to

founders home as an important factor in location. The latter may reflect how those located in peripheral locations have more limited options in terms of the choice of premises and so have to search a wider geographical area to meet their requirements. Further research is required on whether SMEs in rural peripheral areas can overcome physical disadvantages in terms of accessibility with virtual access via internet and email communications. While this proposition has been much talked about little empirical research has been conducted (Clark, 1995) and there is a need to link together the issues of accessibility, the possibilities of electronic communication and the critical success factors identified as part of this study. This would be far better than the somewhat woolly preliminary studies which ask SME OMDs to rank the usefulness of varying forms of communication, which has been conducted so far.

8.4.2 Hypothesis B8

There is little evidence that SME OMDs, when forming their businesses investigate potential funding options in any great detail. Only with regard to venture capital, was investigation higher than actual use (table 6.23). With regard to the utilisation of informal sources of finance, the use of known individuals (family and friends) appears far more important than external business angels, indicating how informal finance is most likely to come from the founder's contemporary social world. After start-up, enterprises appear only marginally more proactive in their investigation and use of external finance; relying less on personal savings and family and friends, and more on high street and commercial banks (table 6.24). Using the matched sample of firms no significant spatial variations in the use of high street bank finance and the utilisation of family and friends as sources of money during and after start-up were apparent (table 6.25). This reverses Thwaites (1982: 378) finding that small firms in south east England were more successful in raising finance than firms in other regions, even though they all sought finance from the same sources. As a

more rigorous control of the potentially distorting effects of sectoral variations are contained in this study (in terms of sample size and sectoral coverage) it would appear that although bank managers vary widely in the lending criteria they apply (Deakins and Hussain, 1994: 328), this would appear to occur from branch to branch rather than region to region. It can thus be concluded that there is no evidence to support the notion that special rural lending institutions should be set up to compensate for perceived deficiencies in bank provision in remote areas. There is also no significant pent-up demand for venture capital or informal equity capital and the importance of these sources of finance is likely to remain modest. Further research within a larger sampling frame is required to see if those businesses which seek or gain venture capital or informal equity exhibit higher growth performance. It would be important to see if SMEs sought equity finance prior to, or as a result of, growth and it is suggested that the profile analysis framework outlined in section 8.5.2 is appropriate for dealing with this chicken and egg situation. If a linkage between external equity and growth is discovered then more specific proposals may be appropriate to inform relevant SMEs where they may seek such finance and counteract any sources of market failure. At present a number of Enterprise Agencies and TECs are running 'dating agencies' between angels and SMEs, but given the poor contact between public sector providers and SMEs it may be more appropriate to stimulate referrals through accountants and banks. At present the author is not aware of any study which has looked at the knowledge of accountants of business angel networks and potential sources of venture capital. A study to consider the awareness of, and referrals to, such agents by accountants would provide insights into how well existing systems of informal communication are working. Given the greater linkages between accountants and SMEs, stimulating referrals by these agents rather than public sector bodies is likely to be more efficient in the long run.

8.4.3 Hypothesis B9

On the issue of markets served, thirty-five per cent of all respondents supplied more than seventy-per cent of their final value of goods and services to their own county (table 6.26). Using the matched sample of core and peripheral firms, controlling for differences in sectoral composition and life-cycle, it was possible to test whether spatial variations existed in terms of the percentage value of goods and services supplied to different geographical markets. With regard to dependence on own county (table 6.27) peripheral firms supply a significantly higher percentage of goods and services to these markets. In contrast, core firms are more oriented to the whole region to which they belong and national markets, but rather surprisingly there are no significant statistical differences with regard to exporting (table 6.28).

At this stage it is interesting to consider why there is a spatial divide in the dependence on local markets. First, it should be remembered that the matched sample controls for sector and demographic factors which are usually deemed to be most important. The spatial differences recorded may therefore reflect cultural variations. The Business Link representative in Devon and Cornwall remarked that many firms in Cornwall regard Devon as a foreign market and this was echoed [unprompted by the researcher] by his counterpart in Hereford who remarked that firms in that county regarded 'Worcestershire as exporting.' However, the fact that no significant spatial variations in real exporting were evident may seem surprising in this context (table 6.28). Yet, as the Business Link Hereford and Worcester respondent remarked, exporters are often a 'different breed' and so while both core and peripheral groups may be matched with regard to exporting, amongst the non-exporting majority a cultural insularity may persist in peripheral areas. More sophisticated, psychometric testing on cultural values would be needed to test this proposition. Second, the south-east results could reflect the unique importance of London as a market and a nexus of economic relationships. Firms in the

survey drawn from Surrey, Berkshire and Hertfordshire if conducting business in London would be serving a market within their own region but outside of their own county. In the south-west there is no economic centre approaching the size and importance of London - the biggest city within the region is Bristol which is over 150 miles from Penzance and has less than one-twelfth the population of the capital. To test this proposition it would be interesting to see if such a spatial divide existed between core and peripheral areas in Germany where no one city is as dominant as London.

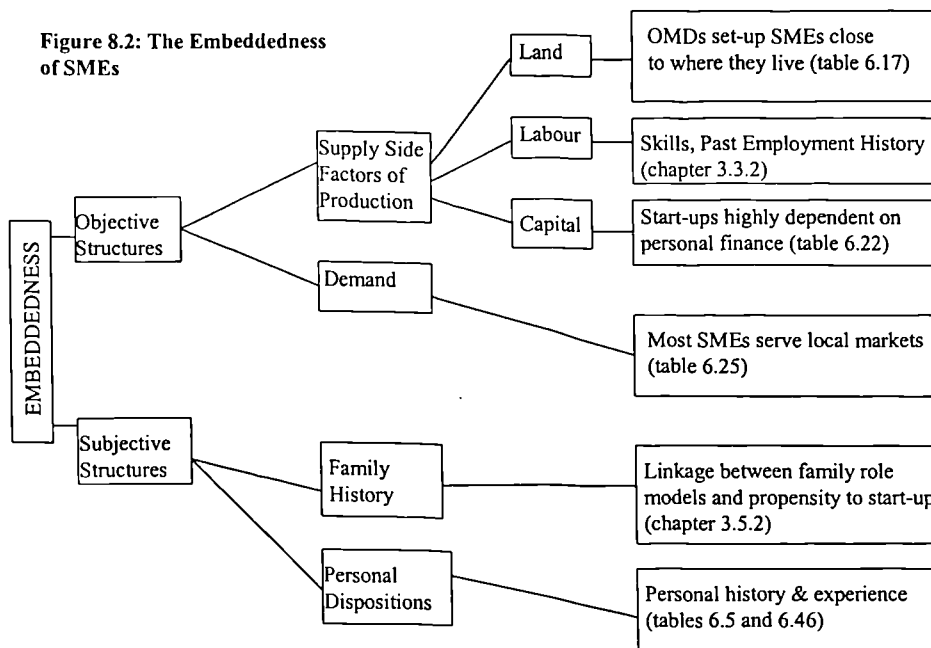
The importance of variations in markets served is indicated in table 6.29: high growth enterprises have a significantly lower dependence on their own county. The ability to serve non-local markets is sectorally uneven, with manufacturing firms being less likely to be dependent on local markets (table 6.31) with the difference between the sectors significant at the 0.0001% level. It is therefore argued that priority should be placed with stimulating the growth of manufacturing firms in rural peripheral localities.

Some may argue that this emphasis on manufacturing enterprises is questionable on the grounds that certain services are geographically tradable and can make a significant contribution to local economic development. Williams (1994) in a survey of SMEs in Cambridgeshire found that 11.4% of manufacturing establishments did not export any of their production outside of the local economy whilst 14.9 per cent of the service sector respondents sold none of their output locally. Bryson *et al.*, (1993) in their study of management consultancy and market research organisations based in London, the outer south-east and the north-west of England found one half of firms served markets outside of their own region. Employment in other business services (SIC groups 838 and 839) more than doubled between 1981 and 1990, growing by 354,000 (122%) (Keeble *et al.*, 1991). In addition a vibrant service sector may reduce seepage from a local economy, increasing local multipliers. A healthy service sector may deter money from leaking out of a region by reducing imports and keeping the spending of locals within its own boundaries.

However, while the ability of certain service sectors to produce inter-regionally or internationally is acknowledged (such as management consultancy firms) this should not distort the fact that far more manufacturing products are capable of being geographically tradable. In this study the difference between the numbers of manufacturing and service firms serving markets outside of their own county was significant at the 0.0001% level. While the research by Bryson *et al.*, (1993) did find business service firms trading inter-regionally this was mainly firms in the outer south-east serving large corporations based in inner London. While such firms serving London markets may be viable in Hertfordshire or Surrey this is not to say that they could be run from Cornwall or other rural peripheral areas as face-to-face contact making appears vital. Bryson *et al.*, (1993: 129) note that the growth of these consultancy firms has been centred on 'increasing demand for specialised advice and information in a rapidly changing and turbulent business environment. Informal contacts and professional reputation derived from previous employment in large companies, the main incubators for small business service firms, are crucial to successful establishment and growth.'

Urban contacts and large firms with the demand for such services are conspicuously lacking from rural peripheral areas and there is little evidence that such activities constitute a potential and untapped growth market in rural peripheral areas. However, where the capability of serving core markets is feasible and there is a legitimate requirement for public sector support such firms should not be unduly discriminated against. Finally, service sector firms dependent on the local economy tend to be more exposed in a recession through an inability to geographically reorient to other, less badly hit, markets. Woods *et al.*, (1994) in their study of firms in the recession of the early 1990s found those most affected were consumer and personal services in the south-east where the recession hit hardest and were unable to serve other geographical markets as a countercyclical strategy.

Drawing out this conclusion together with previous results highlights how the performance of small businesses is embedded within the founder's immediate world, not just in terms of objective structures (factors of production, the configuration of the local economy) but also with subjective configurations such as family background. The evidence supporting this proposition is summarised in figure 8.2 and the relevant literature review sections and results tables cited.



In terms of objective structures, the linkages which bind formation and performance to accumulated factors of production (land, labour and capital) and the exoskeleton of the local economy can be drawn out. Entrepreneurs tend to set up businesses close to where they live (table 6.18) and most new businesses are started largely on the personal financial resources of the founder the financial position of the entrepreneur (both savings and collateral) prior to start-up is crucial (see chapter 3.3.3). Moreover, most new businesses begin by serving local markets embedding their own performance to some degree into the fortunes of the immediate economy (table 6.26). With regards to subjective structures, dispositions tend to be reproduced from familial and personal experiences. Rosa's (1993)

study highlighted how graduates from a business family background showed a greater tendency to enter self-employment than those from employee backgrounds and were also more likely to pursue a business idea further. Individuals' mental models also incorporate their past experiences (Bartlett, 1932) and this study found a high correlation between past achievement of high growth and future desires of OMDs for their business (table 6.49).

Three key implications of this embeddedness can be drawn out. First, as most businesses emerge out of previous employment in the local area, the structural and sectoral composition of a locality is once again shown to be of paramount importance. In the 1980s, discussions in this area tended to be based on the disadvantages of a manufacturing base for new business creation (Checkland, 1990). However, this study indicates that the importance of sector and local economic structure are continuous features (not bounded to the specific spatial and temporal factors of the 1980s) and optimal seedbeds (economic structure promoting growth of SMEs) (Cross, 1981: 182) are dynamic rather than static. In other words, what is the best economic structure is liable to change over time rather than be a historically continuous feature, but a high tradability of output with other regions and states can help iron out the impact of local demand changes and limitations.. Second, most studies which have tried to understand SME growth (including this one to some degree) have operated at arms' length in that they have solicited responses from SMEs in different sectors and sought to draw conclusions from them. However, given the argument that individual success factors may be necessary but can never be sufficient, and that competitive advantage is a relative rather than absolute concept it is argued that future research should be sector specific and business fortunes understood from within the framework of the sector. Moreover, given that the competitive advantage of firms is a relative rather than absolute concept it is argued that the competitive advantage of regions (which will be an aggregate of these enterprises) should be viewed in relative terms as well. One cannot identify 'recipes for success' for the rest of time - something which so

many commentators on Emilia-Romagna seem to ignore. The final implication of this embeddedness is what can be called the ‘double edged sword of localisation’ and this dealt with in greater depth below.

The majority of micro businesses are heavily tied to their locality both in terms of where inputs are sourced from and the location of customers (figure 8.2). However, for growth, those based in restricted markets need to transcend local markets (table 6.29) and compete on a national and international basis. This will entail not only entering core markets but also looking at input sources on an international scale. If an international competitive advantage is to be sustained then the search for the best offering for each major input needs to be conducted on the same level. While growing firms may continue to use some local suppliers this cannot be on the basis of local favouritism and at the expense of weakening the firm’s competitive offering to the market. There will thus be a tendency for the firm as it grows to become increasingly disembedded as markets and sourcing transcend the local level (table 8.3). This presents mixed fortunes for development agencies in peripheral areas in that while they desire growing and job creating firms the best option from their point of view is firms that exploit core markets but continue to source locally so gaining higher local multiplier effects.

Table 8.3: Markets and Sourcing by Firms

	Markets	Sourcing
Start-ups	Local	Local
Growth Firms	Core Markets	Should be global
Local Economic Development (best option)	Core Markets	Local

Development agencies need to understand that as firms grow, there is a tendency for them to become less embedded in the local economy, both for markets served and

sourcing, implying that SME growth may not bring the local multiplier effects which are often anticipated. This is especially likely if the overall competencies of potential suppliers within a region are low as any agglomeration benefits will be more than counteracted, to growing firms looking for suppliers, by the poorer market offerings of local firms. In this situation, individual growing firms are not going to be direct “engines” of development, stimulating the improvement of low performance local suppliers. This also hints at a dynamic: as firms grow they become less embedded, and so there is a need for a continuous stream of high quality start-ups. It is dangerous for any region to be either overly biased towards a small group of large firms (as the experiences of towns like Consett in County Durham during the 1980s easily testify) or for peripheral areas to be overly dominated by new small firms, as in the latter scenario enterprises are likely to just displace each other and will not have the established knowledge to serve international and core markets.

Given the rationale for individual firms advancing beyond the local economy, what impediments are faced by small firms that embark on such a strategy? First, those serving restricted rural markets often have to transform from generalists to specialists, in that in the former, without concentrated demands, firms have to supply a range of goods or services because the demand for any single components within their range is not sufficient in itself to support a viable business. However, when entering larger markets, firms often need to develop more specific, focused, competencies for which they can develop good reputations. This need for transformation is highlighted in Hitchens’ *et al.*, (1996) study of professional business service firms in the Republic of Ireland. The firms interviewed argued that to sell service products successfully outside Ireland, there is a need for specialist knowledge and experience to develop high quality focused products.

Crucial importance must also be attached to the nature of the products and services offered by SMEs as only some are capable of being tradable over space. The majority of

personal services such as hairdressing and cleaning can only serve restricted local markets. In contrast far more manufacturing products are capable of transcending the local economy. The House of Lords Select Committee on Science and Technology (1991) calculated that only twenty per cent of services are tradable overseas.

This was one of the main problems faced by diversifiers in the south-west and Teesdale. Agricultural diversification has been dominated by moves into service industries (sports, leisure, retail and tourist enterprises) (table 5.3). Excepting tourism, these products tend to serve local markets, with products not easily tradable over space. With more limited demand and sparser population structures the growth of these diversification enterprises in Cornwall and Teesdale was severely restricted (tables 5.6 and 5.10). While many peripheral manufacturing firms are able to bypass this problem by serving core markets, given the nature of the product ranges offered by diversifiers this is not an option. If sustained growth is to occur in enterprises serving only indigenous markets, local demand must be consequently buoyant. While this may appear fairly self explanatory it is an issue that was largely disregarded within the public policy documents examined as part of the study (see chapter 7.3).

An interesting parallel to these findings on access to core markets can be drawn with Ash Amin's (1989a; 1989b) studies of the informal economies of Stella, Naples and the industrial district of Santa Croce in Tuscany. While the literature on the 'Third Italy' stresses local integration of production networks, access to external markets for finished goods is just as important. Both districts are characterised by a preponderance of small footwear firms yet those in Naples exhibited much lower growth rates and income levels (Amin, 1989b: 245). One of the key problems for producers in Stella was that while firms possessed the professional skills to produce good quality shoes for which there was a growing demand, their potential for growth was ultimately frustrated by an inability to develop direct market outlets, on the best possible terms. Producers sell within the local

quartiere where there are no collective or independent agencies providing services that help the producers to find markets and the city as a whole lacks the private and public business services and infrastructure to help them resolve their marketing difficulties (Amin, 1989b: 252). In contrast, as Brusco highlights (1990) local centres for information collection operate in Tuscany (see chapter 7.4.3) enabling SMEs to more easily transcend their local economy. While production systems may be local, information collection and markets are in contrast, international.

8.4.4 Hypothesis B10

To compete on this national or international level, the pressure on SMEs to source inputs globally consequently increases, as they cannot rely on local monopolies and pockets of isolated demand. Success on a national or international scale depends on having a competitive advantage that operates on this spatial level. This implies that local favouritism (in terms of sources of supply) cannot be a strategy for development (Mueller and Loveridge, 1994: 15). New and existing small businesses to be successful long term suppliers of goods and services operating in national and international markets must have some form of competitive advantage (Porter, 1985). Competitive advantage can be segmented into two main forms: price based (people buy from a firm because they are cheaper than anyone else) or a differentiation strategy (the offering is positively distinguished from competitors). A price based strategy is commensurate with comparatively healthy profits in the long run only if the organisation has a lower cost structure (usually stemming from economies of scale and scope). If the latter is not in place, and price is still the key buying determinate, a lower rate of profit has to be accepted. Many small firms fit with the latter such as local shops and stores. It is not that leading supermarkets like Sainsburys or Tesco could not develop a chain of village shops, but rather that the rate of return would be so much lower than from their other activities. Yet

other individuals are willing to accept these lower returns and manage corner and village shops, but with the scope for development being consequently modest.

A differentiation strategy encompasses several options such as technological superiority, after-sales care and effective branding. For any competitive advantage an array of key competencies have to be in place and the linkages between growth and business strategy and structure are detailed in chapter 6.2. The implementation of successful strategies, such as the launch of a new manufacturing product, necessitates multi-faceted competencies and these are not easily gained. One point to emerge clearly from the interviews with support providers was the poor nature of most start-ups especially those stimulated under the Enterprise Allowance Scheme (EAS), Business Start-up Scheme (BSUS) and latterly, the Training for Work (TFW) Enterprise option. It was rare for enterprises stimulated under such schemes to possess these core competencies for developing a differential advantage (as indicated by the LEA representative); as argued above one cannot expect two sixteen year olds who leave school with no qualifications to establish a rapid growth high-technology enterprise.

Finally, for these conclusions on transcending local economies one should note the evolving relationship between time and space. Post-war regional studies in their focus on space identified transport costs as the paramount factor. Yet space-adjusting technologies have altered these relationships by diminishing the time it takes, albeit unevenly, for communicating and traveling from one place to another (Lash and Urry, 1987: 26). The diminution of communications costs, by occurring on a global scale, through satellite and fibre-optic cable links means that space is being torn away from place, enabling the fostering of relationships between “absent” others. As Giddens writes:

Modern organisations are able to connect the local and the global in ways which would have been unthinkable in more traditional societies and in so doing routinely affect the lives of many millions of people (Giddens, 1990: 19).

At once this process both presents a new threat and opportunity to rural peripheral SMEs. By reducing communication costs interaction with core based producers and information networks becomes easier. Several rural peripheral communities have benefited from large firms relocating data processing activities, from the south-east, to their communities to exploit lower relative wages. Yet this advantage based on wages is limited: while Ireland may be cheaper than Greater London, labour costs are still far higher than, for example, India or Turkey. While the latter were unthinkable locations for the data processing activities of western multinationals even up to ten years ago, British Airways central reservations are now co-ordinated from Delhi (Grimes, 1993: 484). The penetration of large, external core-based firms into previously isolated communities, breaking down local monopolies of rural SMEs is also apparent. With reducing transport and communication costs, the linkages between core and peripheral localities are both technically and financially easier. The determination of who benefits from these linkages will be decided by the relative advantages of the competing enterprises and this represents a key challenge for development agencies.

8.5 Education and Training

Table 8.4: Conclusions emerging from research hypotheses tests on education and training in non-agricultural SMEs			
Hypth.	Findings	Public Policy	Conclusions and Future Research
B11	Those SME OMDs with a specific business education do not record significant higher growth. In matched sample, no spatial variations in educational attainment.	Review provision to see if it is too 'big firm' based.	Role for more qualitative work on SME OMDs who took Business Degrees. Changing role of GCSEs, A Levels in Business Studies
B12	Those businesses that use internal formal training achieve higher growth but no relationship exists with informal internal growth or external training. Businesses which do not use external training agencies or formal internal training systems do not compensate with higher levels of informal internal training. No spatial variations.	Role for stimulating internal SME training rather than one off external assistance. Peripheral SMEs do not appear disadvantaged in access to external provision.	Try to deal with Chicken and egg situation of which comes first training or growth? using profile analysis.
	Business Link has not solved the problem of institutional proliferation or confusion on the part of SME OMDs. Co-operation between agencies is hampered by the structural framework they operate within.	The issues of additionality and displacement are rarely addressed.	More sophisticated tests on contribution of agencies to SME performance. Poorly studied. Focus on how to help develop competencies.

8.5.1 Hypothesis B11

No significant spatial variations were apparent in the attainment levels of business education qualifications between the core / periphery samples, reversing previous implicit, but untested, assumptions in the literature. The possession of a specific business education background (defined as either / or: a business degree, business higher degree or professional business qualifications) was not found to be statistically significant regarding growth performance. Where education has previously been found to be insignificant, the results have often been attributed to the measure of high education achievement (usually a university degree) not discriminating between business and non-business graduates. The research here, however, was specifically designed to avoid this ambiguity. The lack of

linkage between business education and growth is an interesting new finding and there is a clear need for further research: it may be that undergraduate degrees, which are heavily biased towards corporate strategy, offer scant preparation for entrepreneurship. The best way to investigate this further would be to conduct in-depth interviews with business studies graduates who subsequently founded their own businesses. Topics of interest would be: the extent to which they thought their degree prepared them for start-up, what subjects areas they wished had been covered in their degree and if there was an any component of their degree that they found irrelevant or even unhelpful to their business development.

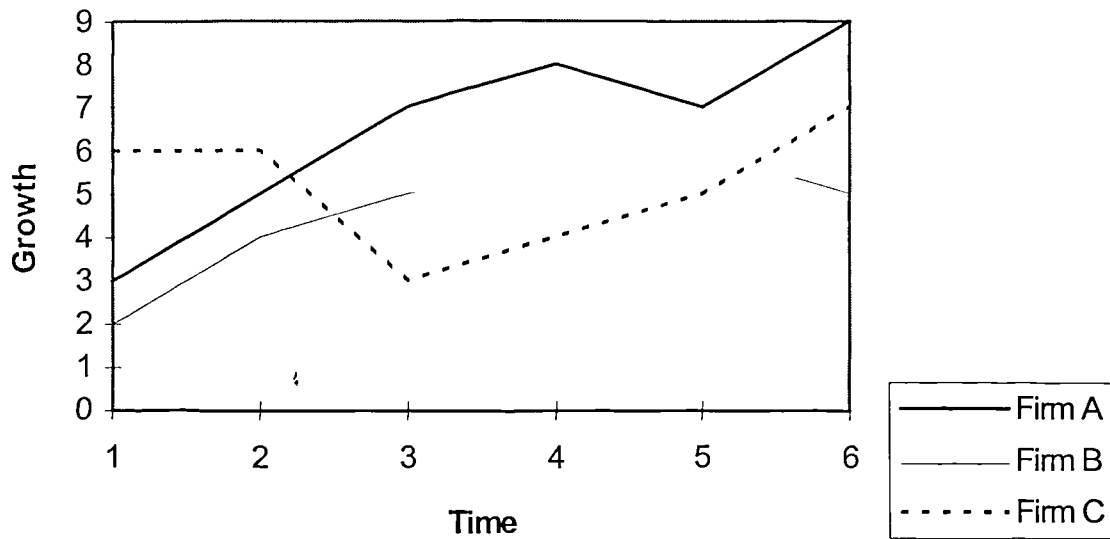
8.5.2 Hypothesis B12

Smaller SMEs are far less likely to employ formal or external training systems: 77.78 per cent of firms which employ between 51 and 250 full-time equivalents (FTEs) have used external training agencies, while only 6.45 per cent of firms with between two and three FTEs have done likewise (table 6.41). The use of different types of training (measured here as internal informal training, internal formal training and external training) are far more likely to be employed on a *complementary* rather than *supplementary* basis: those using external training services are 2.69 times more likely to also be utilising internal informal training (table 6.46). When the three types of training are considered in turn, the only statistically significant linkage with growth is with regard to internal formal training.

The study therefore recognises that the *linkage between different types of training and the growth process is not uniform*. Training should not be treated as a homogenous entity and the triumvirate distinction between external training, informal internal training and formal internal training should be maintained in future research. It is suggested that such research should attempt to deal with the 'chicken-and-egg' conundrum of which comes first - growth or training by developing the profile analysis proposed below.

Such analysis would be based on monitoring the performance of firms in a particular sector over a considerable time series (a scale outside the boundaries of this thesis) and include both firms utilising training and those not pursuing such an option. At each point in time, along with recording the performance of the firm (for changes in turnover and employment) the types of training being pursued in each firm would be recorded (see figure 8.3). This would help establish whether it is more common for training to precede growth or if it is merely a reaction to it. By recording performance against different types of training it is possible to assess whether internal formal training is a stronger stimulant to growth than, for example external training as may be hypothesized from table 6.41. Cointegration analysis would be suitable for this type of analysis. The results of such work would provide vital information to public sector agencies: if it was found that internal formal training was a greater stimulant to growth it would follow that external assistance should be reoriented to encouraging SMEs to develop their own systems, tailored to individual firm needs rather than offering generic programmes and courses open to all at regional training centres. The emphasis would be on enabling SMEs to create their own on-going internal, enterprise specific programmes rather than encouraging management representatives to attend external courses as is the case with many public agencies at the moment.

Figure 8.3: Profile Analysis of Firm Performance



8.6 FUTURE BUSINESS OBJECTIVES

Table 8.5: Conclusions emerging from research hypothesis test on business objectives and non-agricultural SMEs

Hypth	Findings	Public Policy	Conclusions and Future Research
B13	Firms that have achieved superior growth records in the past have a higher propensity to cite significant growth as their main future business objective. Peripheral firms do not have a lower propensity to cite significant growth as their main business objective.	The degree and access to assistance should be assessed more closely on the criteria of past performance.	Understanding of how past and future performance is entwined. Monitoring high-growth enterprises. Role for developing local databases.

8.6.1 Hypothesis B13

The overall responses highlight how the majority wish to achieve moderate growth or maintain operations as they stand. Only just over one in five respondents in this study identified that they wanted to achieve significant growth. The occurrence of enterprises wishing to achieve high growth is biased toward achievement of past high growth

performance (significant at the 0.0001% level) but controlling for life-cycle and sectoral effects, no significant spatial divide in the number of SME OMDs citing significant growth as their main business objective was detected (table 6.49).

The importance of motivation has been misunderstood in the devising of public sector programmes, and this can be illustrated in the ‘myth of independence’ that surrounds practical small business literature. As this study indicates, the main desire of SME OMDs is to be their own boss, but as number of failed enterprises indicates, desires and realisations often differ markedly. During the 1980s successive Conservative governments championed ‘the enterprise culture’, individual choice and the creation of new small businesses. However as failure rates indicate, in too many start-ups there would appear to be a large gap between the imperatives set by *market sovereignty* and personal desires, which one could call *individual sovereignty*. Individuals’ desires to realise their own ends will be limited by the nature of the market, and its application of sanctions and rewards to individual firm offerings. As both an enabling and constraining mechanism, the government’s promotion of the market’s enabling properties, tied to its individualistic philosophical outlook, meant that while market solutions were championed, its constraints were never fully realised by too many founders: ‘the desire to be one’s own boss’ does not mean freedom to pursue the whims of owners. This can be illustrated with a very simple example. Let us suppose that only two types of car can be produced: red cars and blue cars. Now suppose that the interaction of all producers and consumer preferences brings forth the outcome that at cost price or above, only red cars will be purchased and no blue cars will ever be sold. The producer, with the first imperative of survival has to produce red cars, s/he has no independence whatsoever to manufacture blue cars. The decision to produce either red or blue cars is thus not made at the level of the unit (the producer) but at the level of the system (the market). Under this approach, those who set up their own business with the desire of greater independence will soon become disillusioned.

The desire 'to be your own boss' has in the past been treated as a positive factor and an essential part of entrepreneurship (Brockhaus, 1980). However, it is concluded here that it is not in itself a stable basis for firm formation. The desire to be one's own boss is limited by the nature of the market and the consequent need to transact successfully with buyers and sellers. As the evidence that only forty-one per cent of OMDs actually spoke to potential buyers before establishing their business shows, these transactions with others are poorly developed in far too many enterprises. It is suggested that perceptions need to be changed so that business formation is seen as developing new interdependent linkages with suppliers and buyers not as a means independence *per se*.

8.7 Agricultural Business Sector

Table 8.6: Conclusions emerging from research hypotheses tests on Agricultural Business Sector and Alternative enterprise creation by farmers.			
Hypth.	Findings	Public Policy	Conclusions and Future Research
A1	Significant difference between the study areas in the number of farmers who have pursued enterprise diversification, the average turnover of diversified enterprises and the number of job generating diversified enterprises.	Not studied previously if these differences occur	Mismatch between where diversification has occurred and where it is most needed. Offers little for remote rural areas.
A2	Neither larger farms (both in terms of size and employment) nor farmers with outside employment are significantly more likely to have diversified. Tenant farmers have a lower propensity to diversify. Those whose main aim is maximisation of income may be more proactive in seeking diver. options.	Needs to (a) recognise limitations of diversification as an employment generation mechanism and (b) bias towards farmers for access to public sector support should be eliminated.	Advice for tenant farmers, delivered through NFU, RDC and ADAS. Linkages between economic development agencies and planners need to more developed.
A3	The employment generation of diversified enterprises is higher in rural core localities. Diversified farmers who have used external training and advisory services are more likely to have created new employment opportunities. Diversification enterprises set up to exploit a market opportunity are more likely to create new jobs.	Farm diversification schemes with regard to obtaining public sector support should be assessed on the on same criteria as other SMEs.	Diversification will not be a major contributor to employment generation in rural areas. Present policy funds misguided.
A4	Enterprises that use external training and advisory bodies have a higher propensity to create new jobs.	Farmers, if using support provision, tend to rely on agriculturally based agencies.	Linkages with non-agri. based agencies poor. Need better referral system. Knowledge of banks and accountants as to what is available to farmers needs to be improved.

8.7.1 Hypothesis A1

The agricultural sector findings show consistent spatial variations with peripheral farmers controlling fewer, smaller and lower job generation enterprises than their core counterparts.

The job generation performance in rural peripheral localities has been particularly poor: just five full time and twenty part-time jobs have been created in Devon and Cornwall and two full-time and two part-time jobs in Teesdale. Public sector promotion of diversification

as part of a strategy to deal with rural unemployment in peripheral localities is unlikely to be successful in itself. The spatial divide indicates the mismatch between need for, and where diversification is actually occurring. In the more remote rural localities, where income levels and job opportunities are most constrained, the performance of diversified enterprises has been most limited. In contrast, where employment and income levels are most buoyant, the greatest number of new jobs have been created.

The development of rural development programmes has consistently ignored the motivations of those actors which are supposed to deliver economic growth. In particular the financial support of farm diversification programmes as a means for local economic development is not supported by this study. If one recalls the findings of Hill *et al.*, (1989), whom analysed the pattern of direct public support in rural areas, they identified over 178 discrete policy programmes that targeted funds specifically at rural areas (chapter 2.3.1) The results indicated that farmers were not only the overwhelmingly dominant beneficiaries of total overall support, but also received ninety-four per cent of specifically rural funding aimed at improving business efficiency, and eighty per cent of the total funding for employment creation schemes.

These figures demonstrate a huge distributional imbalance in resources, and given that the overwhelming desire of most farmers is to remain within the land based sector, are satisficing with regard to income and for most these target incomes are being met currently by agricultural support payments there is little support for the belief that farmers will make a significant contribution to local economic development. This study by specifically comparing agricultural and non-agricultural SMEs in rural areas highlights the greater employment and growth performance of the latter group and how *the distribution of current funding uncovered by Hill et al. (1989) for improving business efficiency and employment generation in rural areas is totally misguided.*

8.7.2 Hypothesis A2

Given the desire of the majority of farmers to concentrate on farming, how agricultural core incomes have not been threatened by previous CAP reforms and future reform has been ruled out in the short to medium term, if one is looking at sources of innovation and employment generation in the UK agro-food chain, it is suggested that public agencies look towards downstream sectors (food processors and manufacturers) rather than farmers. As downstream sectors do not have the same income guarantees, they are far more competitive and innovative (Hughes, 1993). These companies should be more favourable to identifying and implementing strategies for new product and market development. Advances in food storage, processing and packaging means that the range of goods that are not perishable in the short term and tradable over large distances (potentially serving core markets) is now greater than ever. The majority of farmers however, are not really interested in identifying new sources of added value as their incomes are largely guaranteed for just producing commodities - a situation that does not apply to food manufacturers and processors. The development of niche markets and consumer desires for more exotic and novel food products also contributes to an environment more favourable to product innovation. These themes have been tentatively addressed in one scheme now operating in the extreme south-west. Under the South West Horticulture 2000 project (SWH2000) groups of horticultural companies (enterprise teams) receive support to create a 'production base and market produce'. The overriding aim of the project is enable the horticultural industry to better exploit market opportunities, increasing their share of added value, with a presumed positive multiplier of 'increasing wealth and create jobs in the rural community of the South West Objective 5b Area'.

The main mechanism for, and philosophy behind, the individual enterprise teams is industry -generated collaboration. As such SWH2000 is designed to be a facilitator for, and catalyst to potential collaborators, rather than an actual actor. It is envisaged that each

team should bring together a range of actors, and in particular break down barriers growers and marketing companies. The scheme is therefore designed to diffuse best practice and not subsidise or prop up financially inefficient enterprises. At the time of writing ten collaborative ventures have been initiated and industry interest has been strong. Such schemes while at this stage not fully assessed would appear more promising than farm diversification *per se* as actors possess management capabilities, stronger motivation and experience in the sectors involved. It is therefore recommended that the resources involved in agro-food rural employment schemes should be switched from their heavy bias to farmers (as indicated in findings of Hill *et al.*, 1989) towards downstream sectors where the scope and potential for meaningful development appear far greater. This is commensurate with the overall thrust of these conclusions towards more sectoral based support policy and these initial schemes into downstream development should be monitored and lessons of best practice drawn out.

8.7.3 Hypothesis A3

The logistic regression model separating job and non-job generating diversified enterprises (table 5.14) highlights a positive association with enterprises set up to exploit a market opportunity. This concurs with evidence from the non-agricultural business sector about identifying sufficient markets to underwrite growth and how the ‘desire to be your own boss’ is *in itself* a poor reason for business formation. Market opportunities need to be identified before the firm begins trading, rather than ‘start-up and see’ which appears to be an all too common strategy.

An interesting area for further research would be to compare the levels of, and employment generation by, diversification activities in this study with countries where significant agricultural deregulation has occurred such as New Zealand (see table 1.1). During the mid-1980s New Zealand dismantled the vast majority of its agricultural support

mechanisms with domestic prices falling to world market levels. It would be interesting to see if such action increased farmers interest in, and active pursuit of, diversification activities and whether this created employment opportunities in both accessible and remote rural areas. This would help model the possible effects of more significant CAP reform in the EU with regard to the ability of farmers to find new enterprise opportunities and generate employment. Given the EU's commitment to enlarge and include central and east European countries together with its obligations under the latest World Trade Organisation (WTO) agreement, pressures for CAP reform in the medium term are growing (Tangermann, 1995: 278) and the likely actions of farmers to such changed circumstances is an important issue. The initial evidence from the UK would predict that in remote areas the opportunities are severely constrained and most farmers do not possess the management skills to enter new markets effectively if faced with severe cuts in their incomes from agricultural core activities. However, comparative research would help our understanding of farmers' decision making under such pressures and model potential outcomes more effectively.

8.7.4 Hypothesis A4

Agricultural diversification enterprises that have used external training and advisory bodies have created more jobs, but it is not known whether this relationship represents training and advice being a stimulant or consequence of growth, an ambiguity apparent with the data on the non-agricultural business sector. To clarify the relationship between agricultural diversification, training, advice and enterprise growth a similar methodological approach to that outlined as part of the conclusions on hypotheses B12 could be followed.

The qualitative evidence on farmer-external agency relationships points towards a reliance by farmers, if using support provision, on agriculturally based agencies with the linkages to non-agriculturally based bodies being poor. As most of the successful farm

diversification schemes enter markets outside agriculture (leisure and sporting activities) it would appear that these non-agriculturally based agencies may be able to offer more appropriate advice and the referral system between agencies should be strengthened. It appears odd that linkages between MAFF and the Business Links and TECs interviewed was so poor in the rural areas surveyed.

If farmers did approach non-agriculturally based agencies the interviews in chapter seven imply that it was as a 'last desperate measure', with contact being too late for advisers to save or restructure businesses. Such a system is clearly inefficient where consultants' time is being taken up with businesses that are 'beyond redemption.' A more appropriate maxim would thus be 'prevention is the best remedy', with banks and accountants with whom farmers are in greater contact *being a more active gateway to small* business support services and assistance (as outlined in section 8.3.8.1).

8.8 PUBLIC POLICY

The research results have generated a raft of findings that are relevant to the development of public policy and this section aims to draw these lessons and conclusions together. The next section considers the lessons for agricultural diversification (8.8.1) and this is followed by a discussion of public support for the non-agricultural SME population.

8.8.1 Public Policy: Agricultural Diversification and Alternative Enterprise Creation by Farmers

When present rural development strategies are considered, the resources and attention given to farmers do not appear justified. In the most disadvantaged rural areas where economic development is most needed the performance of diversified businesses has been modest. There is no reason for suspecting that this trend will be reversed in the future and it is unlikely that agricultural diversification in these areas will never make more than a

marginal contribution to employment generation. This calls in to question whether specific services to aid agricultural diversification should be provided by the public sector.

Given the low social benefits of agricultural diversification, in terms of job generation and that most successful schemes enter markets outside of the agro-food supply chain, it would appear more efficient for agricultural business support to be subsumed into non-agricultural business support services. Under such a system access to support would not be biased to one sector, with enterprises ranked on objective criteria in terms of need for, and benefits from, assistance. The changing structure of ADAS has to a degree embraced this point with a move towards consultancy services being self-financing. However, it should be seen that self-financing consultancy services may differ markedly from socially efficient support services if market failures exist. The further research proposed from the conclusions on hypothesis B6 would help determine the social benefits and costs of support provision and whether a rationale for public sector intervention exists. If such a rationale does exist it is clear that agricultural diversification ideas should not be unfairly supported to the detriment of other firms (as there is no evidence of this sector deserving additional aid given the economic returns from such enterprises). By removing special additional assistance to agricultural diversification enterprises a fairer system of support, focusing on the likely benefits from assistance would be possible.

Such a reorientation would facilitate agencies to concentrate resources on those sectors and enterprises where potential benefits are greatest. For the south-west this corresponds to dealing with the fact that its structural problems appear not lie with the firms it does have (as when considering business strategy and competencies few, if any, relative weaknesses are apparent in the matched sample), but rather rests with the firms it does not possess. In particular, there is a comparative shortage of manufacturing enterprises or professional service sector firms that can transcend local markets. While quantification of this problem is difficult due to incomplete national datasets, and limited

sub-regional statistics which makes the separation of urban and rural areas problematic (see chapter 1.5), it is clear that the small business policies of the 1980s being skewed to consumer and personal service sector start-ups by the unemployed did little to redress this problem. The way forward for dealing with this problem, supported by this study, is more sectorally and multi-faceted selectivity in small business assistance within rural areas that removes the unjustified imbalance in resources which presently goes to agricultural businesses.

Regarding the current provision of support services, no significant spatial variations are apparent in the use of different types of training, suggesting that the notion that firms in rural peripheral areas will be less likely to use external training agencies because of greater distances from regional training centres is overplayed (table 6.47). This finding holds for both the agricultural and non-agricultural business services. Access to external training provision does not appear to be a major barrier in rural peripheral areas.

One area of concern expressed by diversifying farmers was the granting of planning permission. Within local councils there appears to be little contact between planning and economic development officers. Support agency advisers in rural areas should be better informed about planning matters to advise clients (whether agricultural or non-agricultural) on the likelihood of any particular scheme's chances of being granted planning permission. This could be done by providing summaries of the government's Policy Planning Guidance (PPG) notes that are designed to guide local authorities in planning decisions. The main PPGs of relevance are: PPG7 on rural development, PPG4 small firms, PPG2 Green Belt regulations and PPG21 on tourism.

8.8.2 Public Policy and the Non-Agricultural SME Sector

The results of the survey to non-agricultural SMEs provides lessons for public policy concerning both: (a) the nature and content of support provision for SMEs and (b) the

mechanism and structures for the delivery of such support and are discussed in that order. On the issue of the nature and content of support provision four themes are apparent: (i) the weakness of 'single criteria' support provision, (ii) the requirement for a more selective attitude to training, (iii) the specific problems for rural development in peripheral areas and (iv) the need for support packages giving selective incentives.

Single criteria support provision refers to schemes where access to public sector assistance is based on only one aspect of the firm's structure or strategy. An example of this is the initiatives to nurture team-start businesses where access to public funding and services has been based on whether a firm has more than one founder. This study found that team-starts have not achieved significantly higher growth nor are relatively fewer formed in rural peripheral areas, suggesting that team-starts should not be treated any differently from single founder enterprises in terms of access to public funds or support (for a discussion of this in relation to the existing literature see chapter 6.2.1). A poor business proposition is still bad regardless of whether it comes from a single founder or group of entrepreneurs. A wider conclusion can also be drawn that it is foolish to take one aspect of business structure and make it the basis of support policy. If the factors that contribute to success are multifaceted with no single distinguishing characteristic separating high and low growth enterprises the criteria for support should similarly not be based on one aspect in isolation. From such a conclusion it is possible to see how 'Goodhart's law' from economics also operates in the field of small businesses. Goodhart (1970) stated that any single econometric relationship will break down when it becomes government policy. For small business support one can see that as competitive advantage is relative, similarly an approach of taking one relationship as a basis of policy is likely to produce similar poor returns: management cannot be boiled down to such simplicities.

In the past training has been treated almost as motherhood and apple pie - something which always good and beneficial. This study points toward a more selective view - by

distinguishing between three types of training (internal informal, external and internal formal training) it is evident that training is a diverse entity and the relationship between these different forms and enterprise growth is not uniform. It is recommended that public sector training provision in the future should be based on the results of longitudinal studies that have monitored the performance of particular types of training as outlined in Figure 8.3.

A framework for developing SME support policies is outlined in table 8.7. The left hand side of the table details generic categories that must be considered irrespective of specific objectives while the right hand side draws together the lessons for programmes aimed at encouraging SME growth. Each programme needs to begin with an adequate conceptual framework outlining the aims and objectives of the support provision. While this may seem elementary, in too many schemes such as those supporting farm diversification and SME low interest loans by LAs (table 7.2), objectives were confused with insufficient preparation as to whether OMDs would actually benefit from the initiatives taken. If the objective is taken to be improving firm performance and job generation a realistic targeting strategy is required which recognises that the majority of SMEs are not growth orientated. Again this may seem elementary but the ubiquitous nature of the preposterously unrealistic 'small business growth models' indicates how too many writers have an impoverished understanding of the field. Recognising that SMEs are not growth orientated *per se* and therefore cannot be the basis of an employment generation strategy *per se* leads to the need for *multi-faceted selectivity*.

Table 8.7: Criteria for Developing SME Policies

Framework for Programme Development	If Growth and Employment Creation main objective
Conceptual framework, setting out the aims and objectives of the programme.	Improve firm competitiveness and job generation
Realistic targeting strategies that reflect a combination of insider and outsider priorities based on a process of consultation and negotiation	Multi-faceted selectivity in peripheral areas * Product capable of transcending local economy (bias toward manufacturing) * Consider past performance of enterprise * Consider use of financial accounting procedures * Focus on <i>relative</i> strengths
Identification of most appropriate agencies for implementation	Banks, accountants, information centres
Design of institutional arrangements that will allow for efficient co-ordination in planning and management	Information centres. Sector led, improving access to core markets

In rural peripheral areas the strongest preconditions for growth and criteria for multi-faceted selectivity appear to be:

- (a) the existence of products capable of transcending local economies (sector specific policies);
- (b) an examination of past performance;
- (c) the use of appropriate financial management techniques in business management;
- (d) a focus on *relative* strengths (for evidence on these propositions see discussions under relevant research hypotheses).

In transcending local markets, growth oriented firms require information as to new outlets in core areas and the information centres established in the Third Italy would appear to warrant further investigation as this may provide a basis for a more distinctive role for Business Links (see chapter 7.4.3).

While the importance of financial management in the start-up phase has been previously accented, little empirical work has existed to support such claims and only 52.7 per cent of start-ups in this survey produced a financial plan. Financial management is

identified as major area for improvement within large numbers of SMEs and banks and accountants could play a larger role in meeting this objective. One scheme which has attempted to do this (see section 8.3.3) in Norfolk is run in partnership by the local TEC and National Westminster Bank and offers potential OMDs who successfully complete a preparatory course for start-up an incentive of a reduction in the overdraft base rate charged. The scheme thus offers a primary benefit of reduced overdraft costs that have been highlighted as a major concern by SMEs to deliver the secondary benefits of better financial control. Rather than a fairly distant approach of providing literature and check lists for 'successful' start-up (which does not appear to have improved financial competencies in the mature SMEs surveyed) the more targeted approach of selective benefits recognises that the 'quality' of both start-up and mature SMEs will only improve if there are sufficient benefits to owner-managers. If the ability to start a business was tied to particular provisions then the high failure rate in the UK may be reduced and the volatility and inconsistency in bank provision might be improved.

Regarding the delivery of support it is important that modifications in public provision are made within the current framework for delivery (e.g. Business Link) rather than developing another completely new system. SME owner-managers are already confused by the number of agencies operating and by the frequent changes in government provision (see chapter 7). The initial impact of BL, far from ending confusion, was merely to fragment provision and bewilder potential clients. Any attempt to replace BLs or introduce other separate agencies would intensify this problem, producing more confusion among SMEs and be counterproductive. A period of stability is required to develop SME-support agency relations with efforts concentrated on ameliorating deficiencies within the present system rather than any replacement or abolition.

The overhead cost of the current system of support is very high with most agencies being located in separate, often high rent, buildings. However, despite this extensive

network of facilities public agencies still have a low 'coverage' of the SME market particularly compared to banks and accountants. It may be that it would be better for independent Business Link PBAs to be based inside banks and accountants (i.e. separate offices in the same building) where direct referrals can be made. There is considerable disquiet about the quality and experience of existing small business advisers in banks and the relocation of PBAs inside larger branches could help SME OMDs receive better advice. Banks would also be aided in that with better advice the number of business failures and bad debts should be cut. For the public sector, such a network should be more efficient as greater contact with SMEs would be possible with lower overhead costs.²

Taken together, it is hoped that this work by contributing to our understanding of the factors affecting the growth and performance of SMEs in rural peripheral locations, will encourage a more informed policy debate and provide a framework for dealing with the new research agenda identified.

² While questions as to how PBAs could maintain their independence when inside specific banks need to be thoroughly considered such a scheme does warrant further investigation.

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APPENDIX I



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Mr D T King, BSc (Econ), MSc, FBIM
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Dear Sir / Madam,

NATIONAL SURVEY ON SMALL AND MEDIUM-SIZED BUSINESSES

Small businesses have recently been championed as a means for creating new employment opportunities and aiding local economic development. New support services have been introduced such as *Business Link to support local firms, with an array of new initiatives*. However, little feedback has been collected on employment opportunities created, the use of support services and what small business managers actually want in terms of assistance. The aim of this very practical project is to understand the problems faced by small businesses, their past performance and how individual enterprises may be best supported in dealing with the problems they face.

In meeting these aims I ask for your help in answering the enclosed short questionnaire and returning it in the **FREEPOST** envelop provided. The questionnaire is totally anonymous - you do **not have to give your name and address** - and there is no way individual returns can be traced back. Even if you are a sole trader or a very small firm please tick the relevant boxes as these responses are just as valuable. It will take **only five minutes** of your time. Please feel free to add any extra comments about your own experiences, or on how this questionnaire can be improved in the box provided at the end of the questionnaire. If you have any questions about this project or if you would like a summary of the results when published, please do not hesitate to contact me directly on 01752 232881. I do hope you can assist me in my work,

Yours faithfully,

Matthew Gorton
Project Director.



THE QUEEN'S
ANNIVERSARY PRIZES
FOR HIGHER AND FURTHER EDUCATION

1994

NATIONAL SURVEY ON AGRICULTURAL DIVERSIFICATION

ABOUT YOUR FARM

Please tick the relevant boxes

1.1 What is the form of ownership ?

- | | | | |
|------------------------------|--------------------------|-----------------|--------------------------|
| Tenancy | <input type="checkbox"/> | Owner Occupancy | <input type="checkbox"/> |
| Both Tenant & Owner Occupier | <input type="checkbox"/> | Contract Farm | <input type="checkbox"/> |
| Other (please state) _____ | | | <input type="checkbox"/> |

1.2 How many hectares do you farm?

- | | | | |
|-----------------------|--------------------------|------------------|--------------------------|
| Less than 10 hectares | <input type="checkbox"/> | 51-100 hectares | <input type="checkbox"/> |
| 10-20 hectares | <input type="checkbox"/> | 101-300 hectares | <input type="checkbox"/> |
| 21-50 hectares | <input type="checkbox"/> | 301+ hectares | <input type="checkbox"/> |

1.3 How many people does your farm employ (including yourself) in agricultural activities only? (Please count two part-time jobs as equal to one full-time job)

- | | | | |
|----------------------------------|--------------------------|-----------------------------------|--------------------------|
| Less than 1 full-time equivalent | <input type="checkbox"/> | 2.5 - 3 full-time equivalents | <input type="checkbox"/> |
| 1 full-time equivalent | <input type="checkbox"/> | 3.5 - 5 full-time equivalents | <input type="checkbox"/> |
| 1.5 - 2 full-time equivalents | <input type="checkbox"/> | 5.5 or more full-time equivalents | <input type="checkbox"/> |

1.4 What is your MAIN aim in farming ?

- | | | | |
|---|--------------------------|--------------------------------|--------------------------|
| To maximise income | <input type="checkbox"/> | To enjoy living in the country | <input type="checkbox"/> |
| To provide for the next generation of your family | <input type="checkbox"/> | To generate sufficient income | <input type="checkbox"/> |
| | | Other (please state) _____ | <input type="checkbox"/> |

1.5 What is your principal type of farming?

- | | | | |
|--------------------------|--------------------------|----------------------------------|--------------------------|
| Specialist dairy | <input type="checkbox"/> | Hill and upland cattle and sheep | <input type="checkbox"/> |
| Mainly dairy | <input type="checkbox"/> | Mainly cropping | <input type="checkbox"/> |
| Lowland cattle and sheep | <input type="checkbox"/> | Other (please state) _____ | <input type="checkbox"/> |

SOURCES OF INCOME

2. How much of your total household income do the following sources contribute? If a particular item contributes nothing please leave blank.

	Less than 20%	Between 21-40%	Between 41-60%	Between 61-80%	More than 81%
Farming	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Agricultural Paid Employment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Non- Agricultural Paid Employment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other on-farm enterprises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other Off-farm enterprises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Unearned Income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

POTENTIAL DIVERSIFICATION ACTIVITIES

3. Have you diversified into any of the activities listed below? If yes please tick all that apply and then go to question 5. If not, please go straight to question 4.

RETAIL

- Farm shops
- Craft centres
- Pick your own
- Other retail (please state) _____

SPORT

- Golf course / driving range
- Water-based
- Equestrian
- Other sport (please state) _____

SERVICES

- Contract agriculture
- Commercial property
- Business services
- Other services (please state) _____

LAND BASED

- Organic produce
- Woodland / forestry
- Biomass
- Other land based (please state) _____

PRODUCTION

- Food processing
- Other production (please state) _____

TOURISM

- Tourist accommodation
- Tourist attraction
- Other tourist (please state) _____

OTHER ACTIVITIES (please state) _____

NON-DIVERSIFIERS

4.1 If you have NOT diversified, why is this the case?

- | | | | |
|-----------------------------------|--------------------------|-------------------------|--------------------------|
| Farming brings sufficient income | <input type="checkbox"/> | Insufficient capital | <input type="checkbox"/> |
| Risks of diversification | <input type="checkbox"/> | Lack of demand | <input type="checkbox"/> |
| Insufficient knowledge | <input type="checkbox"/> | Remoteness | <input type="checkbox"/> |
| Want to concentrate on farming | <input type="checkbox"/> | Restrictions of tenancy | <input type="checkbox"/> |
| Planning restrictions | <input type="checkbox"/> | Personal age | <input type="checkbox"/> |
| Could not spare the time required | <input type="checkbox"/> | Other (please state) | <input type="checkbox"/> |
- _____

4.2 Would any of the following potential initiatives significantly increase the likelihood of you diversifying?

- | | Yes | Possibly | No | Don't Know | Other |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| (i) better information on public sector assistance | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (ii) co-operation on development with other farmers | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (iii) free appraisal of idea by consultant | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (iv) assistance with marketing | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (v) assistance with financial planning | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (vi) availability of low cost finance | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (vii) other assistance (please state) _____ | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If you have **not** diversified your enterprise into any of the areas listed in question 3, and have answered question 4, please do not answer any of the following questions. Thank you for completing this questionnaire.

DIVERSIFIERS: REASONS FOR DIVERSIFICATION

5. Why did you diversify your operations?

- | | | | |
|--------------------------------------|--------------------------|--------------------------------------|--------------------------|
| To generate sufficient income | <input type="checkbox"/> | To employ family members | <input type="checkbox"/> |
| To diversify away from agriculture | <input type="checkbox"/> | Identification of market opportunity | <input type="checkbox"/> |
| Availability of government grants | <input type="checkbox"/> | Other (please state) | <input type="checkbox"/> |
| Conservation / environmental reasons | <input type="checkbox"/> | _____ | |

EMPLOYMENT EXPERIENCE

6.1 Have your diversified enterprises created any NEW jobs?

Yes No

If Yes, please go to 6.2

If no please go straight to question 6.5

6.2 Please state how many full-time and part-time jobs have been created.

Full-time _____

Part-time _____

6.3 Have the jobs created been filled by members of your family?

Yes

No

Some but not all of the jobs

6.4 If jobs have been filled by non-family members, what percentage of new employees have been recruited:

Locally _____%

Regionally _____%

On a national level _____%

6.5 In the next three years do you expect to increase the number of people working in your diversified enterprises?

Yes No

If yes please state how many full- and part-time jobs you expect to be created?

Full-time _____

Part-time _____

7.1 Have you sold any of your farmland for commercial development?

Yes No

If yes please go question 7.2

If no please go to question 8

7.2 Has this development led to the creation of any jobs?

Yes No

If Yes please estimate how many full-time and part-time jobs

Full-time _____

Part-time _____

9.2 For each diversified enterprise please estimate how you think your turnover will change in real terms over the next three years

Nature of Enterprise	Turnover			Increase by 11-25%	Increase by more than 25%
	will decrease	Stay about the same	Increase by 2-10%		
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9.3 What is the main objective for your diversified enterprise(s) in the next three years?

- Scale down operations Retire
- Sell the business Achieve moderate growth
- Maintain operations as they are Achieve significant growth

9.4 If you wish to achieve moderate or significant growth please rate the importance to your business of the following in achieving those specific ends:

	Very Important	Quite Important	Slight Importance	Not Important
(i) Improving communication with existing customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) Improving communication with potential new customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) Lower interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iv) Moving to new premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) Introducing new products / services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vi) Expanding your geographical coverage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vii) Continuing with existing business strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(viii) Eliminating skill shortages in your workforce	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ix) Gaining better information on public sector assistance available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9.5 Suggestions. If you wish to make any additional comments on agricultural diversification or offer ideas for how this questionnaire can be improved please use the space below.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE

University of Plymouth
**NATIONAL SURVEY ON SMALL AND MEDIUM
 SIZED BUSINESSES**

EMPLOYMENT EXPERIENCE

Please tick the relevant boxes and fill in the appropriate spaces.

1.1 What is the nature of your enterprise? (e.g. vehicle repairs).

1.2 How many people does your enterprise currently employ (including yourself)? Please count two part-time jobs as equal to one full-time job.

- | | | | |
|----------------------------------|--------------------------|-----------------------------------|--------------------------|
| Less than 1 full-time equivalent | <input type="checkbox"/> | 4-10 full-time equivalents | <input type="checkbox"/> |
| 1 full-time equivalent | <input type="checkbox"/> | 11-50 full-time equivalents | <input type="checkbox"/> |
| 2-3 full-time equivalents | <input type="checkbox"/> | 51-250 full-time equivalents | <input type="checkbox"/> |
| | | 250 or more full-time equivalents | <input type="checkbox"/> |

1.3 Has your enterprise created any new jobs since start-up?

- | | | | |
|----------------------------------|--------------------------|--|--------------------------|
| Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| If yes please go to question 1.4 | | If no please go straight to question 2 | |

1.4 How many full-time and part-time jobs have been created?

Full-time	_____
Part-time	_____

1.5 Have the jobs created been filled by members of your family?

- | | | | |
|-------------------------------|--------------------------|----|--------------------------|
| Yes | <input type="checkbox"/> | No | <input type="checkbox"/> |
| Some, but not all of the jobs | <input type="checkbox"/> | | |

1.6 If jobs have been filled by non-family members, what percentage of new employees have been recruited:

Locally	_____ %
On a regional level	_____ %
On a national level	_____ %

1.7 In your enterprise, what has been the net change in numbers employed in the last three years? Please count two part-time jobs as equivalent to one full-time job.

+or - _____ full-time equivalents

FINANCE

2.1 In SETTING UP your enterprise, did you use, seek or investigate any of the following sources of finance? If you have not considered a particular item please leave blank.

	Investigated only	Sought but not gained	Used
High Street bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other commercial bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Venture capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private business angel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family / friends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personal savings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RDC loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
District/County Council loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2.2 SINCE START-UP, have you used, sought or investigated any of the following sources of finance? If you have not considered a particular item please leave blank.

	Investigated only	Sought but not gained	Used
High Street bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other commercial bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Venture capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private business angel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family / friends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personal savings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RDC loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
District/County Council loan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ADVICE, TRAINING AND ENVIRONMENTAL SCANNING

3.1 In relation to your own enterprise, have you used any of the following bodies for training or advice? If you have not used them in any training or advisory capacity please leave blank.

	Management Training	Workforce Training	Advice Before Start-up	Advice After Start-up
Bank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accountant	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Family / Friends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Business Link	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
County / District Council	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TEC / Enterprise Agency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Local College	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RDC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private Firm	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please state) _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3.2 Do you regularly or occasionally, participate or attend any of the following:

	Participate / attend regularly	Participate / attend occasionally
Trade Mission	<input type="checkbox"/>	<input type="checkbox"/>
Business Exhibition / Fair	<input type="checkbox"/>	<input type="checkbox"/>
Business Club / Chamber	<input type="checkbox"/>	<input type="checkbox"/>
Trade Association	<input type="checkbox"/>	<input type="checkbox"/>

3.3 Have you used any of the following sources for information on potential business contacts and customers?

Local business magazine	<input type="checkbox"/>	CD-ROM database	<input type="checkbox"/>
Overseas Trade Services	<input type="checkbox"/>	Public library	<input type="checkbox"/>
Business Link	<input type="checkbox"/>	Computer network (Internet)	<input type="checkbox"/>
Other information source (please state) _____	<input type="checkbox"/>	Trade magazines	<input type="checkbox"/>
		Trade / business directories	<input type="checkbox"/>

INDIVIDUAL BACKGROUND AND MOTIVATION

4.1 Before your current enterprise what was your occupation? Please count a small firm as an enterprise employing less than twenty people.

- Unemployed
- Student
- Owned another business / self-employment
- Employed at managerial level in a small firm
- Employed at managerial level in a large firm
- Employed at non-managerial level in a small firm
- Employed at non-managerial level in a large firm
- Other (please state) _____

4.2 Please tick which of the following qualifications you have gained.

- 5 'O' Levels / GCSEs at grade C or above
- 2 'A' Levels at grade E or above
- HND / BTEC
- A business studies related degree
- A non-business studies related degree
- MBA / business studies related Masters
- A non-business studies related Masters degree
- Business professional qualifications
- Non- business professional qualifications
- None
- Other (please state) _____

4.3 Why did you set-up or take-over your enterprise?

- Wanted a new business experience
- To generate sufficient income
- Wanted to be own boss / become independent
- To avoid unemployment
- Availability of government grants
- Identification of market opportunity
- Other (please state) _____

PERFORMANCE AND FUTURE PROSPECTS

5.1 For your enterprise please give the year of formation and tick the appropriate turnover band.

Year Formed	Current Turnover (per annum)									
	£1-£1000	£1001-£5000	£5001-£15000	£15001-£30000	£30001-£100K	£101K-£500K	£501K-£1M	£1M-£2M	£2M-£5M	£5M +
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.2 In the last financial year what has been the change in turnover for your enterprise?

Decrease by more than 11%	Decrease between 10% and 2%	Turnover stay about the same	Increase by 2-10%	Increase by 11-25%	Increase by 25% +
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.3 Over the last FIVE financial years what has been the average change in turnover per annum for your enterprise? If you have not been trading for five years please leave blank.

Decrease by more than 11%	Decrease between 10% and 2%	Turnover stay about the same	Increase by 2-10%	Increase by 11-25%	Increase by 25% +
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.4 Over the next THREE financial years what do you expect to be the average change in turnover, in real terms, per annum for your enterprise to be?

Decrease by more than 11%	Decrease between 10% and 2%	Turnover stay about the same	Increase by 2-10%	Increase by 11-25%	Increase by 25% +
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5.5 In the next three years do you expect to increase the number of people working in your enterprise ?

Yes No

If Yes please state how many full and part-time jobs you expect to be created

Full-time _____
Part-time _____

BUSINESS STRATEGY AND OPERATIONS

6.1 In setting up your business did you do any of the following:

	Yes	No	Other (please state)
(i) Produce a mission statement	<input type="checkbox"/>	<input type="checkbox"/>	_____
(ii) Produce a marketing plan	<input type="checkbox"/>	<input type="checkbox"/>	_____
(iii) Conduct market research	<input type="checkbox"/>	<input type="checkbox"/>	_____
(iv) Speak to potential buyers	<input type="checkbox"/>	<input type="checkbox"/>	_____
(v) Produce a financial plan (including profit and loss, cash flow and balance sheet forecasts)	<input type="checkbox"/>	<input type="checkbox"/>	_____
(vi) Formed the business as part of a team (teamstart)	<input type="checkbox"/>	<input type="checkbox"/>	_____
(vii) Have prior knowledge of the market	<input type="checkbox"/>	<input type="checkbox"/>	_____

6.2 Since setting up your business do you:

	Yes	No	Other (please state)
(i) Maintain a database of customers	<input type="checkbox"/>	<input type="checkbox"/>	_____
(ii) Conduct ongoing market research	<input type="checkbox"/>	<input type="checkbox"/>	_____
(iii) Set financial targets for each year	<input type="checkbox"/>	<input type="checkbox"/>	_____
(iv) Introduced a new high-technology product in the last 2 years to your offering	<input type="checkbox"/>	<input type="checkbox"/>	_____
(v) Introduced a new product or service in the last 2 years to your offering	<input type="checkbox"/>	<input type="checkbox"/>	_____
(vi) Manufactured and developed a new product in the last 2 years	<input type="checkbox"/>	<input type="checkbox"/>	_____
(vii) Maintain a computerised accounting information system	<input type="checkbox"/>	<input type="checkbox"/>	_____
(viii) Conducted in-house informal (on-the-job) training	<input type="checkbox"/>	<input type="checkbox"/>	_____
(ix) Conducted in-house formal training (i.e set programme and achievements)	<input type="checkbox"/>	<input type="checkbox"/>	_____
(x) Have insurance against fire and burglary	<input type="checkbox"/>	<input type="checkbox"/>	_____
(xi) Have insurance against public liability and employers liability	<input type="checkbox"/>	<input type="checkbox"/>	_____

6.3 What percentage of your final value of goods and services do you supply to:

Your own county (e.g. Devon)	_____ %
Own region (but excluding own county)	_____ %
On a national level	_____ %
Export	_____ %

GEOGRAPHICAL LOCATION AND TRANSPORT

7.1 Have you lived in your present county (e.g. Devon) for more than the last twenty five years?

Yes

No

If yes please go to question 7.5

If no please to question 7.2

7.2 If you have moved to your present county within the last twenty five years what was the reason for moving?

- | | | | |
|---------------------------------|--------------------------|----------------------------|--------------------------|
| Employment relocation | <input type="checkbox"/> | Parents or others decision | <input type="checkbox"/> |
| Personal reasons (eg. marriage) | <input type="checkbox"/> | For your family | <input type="checkbox"/> |
| Liked locality / environment | <input type="checkbox"/> | To set up a business | <input type="checkbox"/> |
| Other (please state) _____ | | | <input type="checkbox"/> |

7.3 From which county did you move from? _____

7.4 If you moved to set up a business why did you choose this COUNTY?

- | | | | |
|------------------------------|--------------------------|---------------------------------|--------------------------|
| Suitable premises | <input type="checkbox"/> | Availability of grants | <input type="checkbox"/> |
| Market opportunity | <input type="checkbox"/> | Fitted in with chosen lifestyle | <input type="checkbox"/> |
| Knew the area / had contacts | <input type="checkbox"/> | Good access / transport links | <input type="checkbox"/> |
| Other (please state) _____ | | | <input type="checkbox"/> |

7.5 Why did you choose your present PREMISES?

- | | | | |
|-------------------------------|--------------------------|-----------------------------|--------------------------|
| Close to home | <input type="checkbox"/> | Attractive locality | <input type="checkbox"/> |
| Good access / transport links | <input type="checkbox"/> | Market opportunity | <input type="checkbox"/> |
| Availability of grants | <input type="checkbox"/> | Cheap rent | <input type="checkbox"/> |
| Other (please state) _____ | <input type="checkbox"/> | Work from home | <input type="checkbox"/> |
| | | Fit with family commitments | <input type="checkbox"/> |

7.6 How do you rate the following potential problems as being important to the performance of YOUR business

	No Problem	Slight Problem	Fairly Important	Major Problem
(i) recruiting employees because of lack of public transport	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) recruiting people because of your geographical location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) finding suitable premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iv) expanding your customer base because of your location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) obtaining planning permission for future development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

DEVELOPMENT AND MISCELLANEOUS

8.1 What is the main objective for your business in the next three years?

- | | | | |
|---------------------------------|--------------------------|----------------------------|--------------------------|
| Scale down operations | <input type="checkbox"/> | Achieve moderate growth | <input type="checkbox"/> |
| Sell the business | <input type="checkbox"/> | Achieve significant growth | <input type="checkbox"/> |
| Maintain operations as they are | <input type="checkbox"/> | Other (please state) | <input type="checkbox"/> |
| Retire | <input type="checkbox"/> | _____ | |

8.2 If you wish to achieve moderate or significant growth please rate the importance to your business of the following in achieving those specific ends:

	Very Important	Quite Important	Slight Importance	Not Important
(i) Improving communication with existing customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ii) Improving communication with potential new customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iii) Lower interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(iv) Moving to new premises	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(v) Introducing new products / services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vi) Expanding your geographical coverage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(vii) Continuing with existing business strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(viii) Eliminating skill shortages in your workforce	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(ix) Improving workforce skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(x) Better information on public sector assistance available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8.3 Please tick your appropriate gender and age boxes.

- | | | | |
|---------------------------|--------------------------|---------------|--------------------------|
| Gender: Male | <input type="checkbox"/> | Female | <input type="checkbox"/> |
| Age: Aged under 24 | <input type="checkbox"/> | Between 45-54 | <input type="checkbox"/> |
| Between 25-34 | <input type="checkbox"/> | Between 55-64 | <input type="checkbox"/> |
| Between 35-44 | <input type="checkbox"/> | Aged over 65 | <input type="checkbox"/> |

8.4 Suggestions Box. If you wish to make any additional comments on problems faced by small businesses or offer ideas for how this questionnaire can be improved please use the space below.

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE