# A Survey of Some Small Firms in the Rural Areas of England:

## Their Structure and Functions, With Special Reference to Factors that Affect their Development.





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## SYNOPSIS

This study was concerned with the structure, functions and development, especially the performance, of some rural small firms associated with the Council for Small Industries in Rural Areas (CoSIRA) of England. Forty firms were used as the main basis of analysis. For some aspects of the investigation, however, data from another 54 firms, obtained indirectly through nine CoSIRA Organisers, were also used.

For performance-analysis, the 40 firms were firstly ranked according to their growth and profitability rates which were calculated from their financial data. Then each of the variables hypothesised to be related to performance was tested to ascertain its relationship with performance, using the Spearman's Rank Correlation technique.

The analysis indicated that each of the four factors - the principal, the firm itself, its management, and the environment - had a bearing upon the performance of the firm. Within the first factor, the owner-manager's background and attitudes were found to be most important; in the second, the firm's size, age and scope of activities were also found to be correlated with performance; with respect to the third, it was revealed that firms which practised some forms of systems in planning, control and costing performed better than those which did not and, finally with respect to the fourth factor, it was found that some of the services provided

by CoSIRA, especially credit finance, were facilitative to the firm's performance.

Another significant facet of the firms highlighted by the study was their multifarious roles. These, meeting economic, psychological, sociological and political needs, were considered to be most useful to man and his society.

Finally, the study has added light to the structural characteristics of the sampled firms, including various aspects of their development, orientation and organisation, as well as their various structural strengths and weakness.

PREFACE

This thesis embodies the report of the research project jointly supervised by the University of Aston in Birmingham, and the Council for Small Industries in Rural Areas[1], within the former's Inter-disciplinary Higher Degree Scheme.

The I.H.D. Scheme was inaugurated by the University as "an experiment in broader-based graduate studies involving the investigation of a problem of concern to an individual firm or other organisation which forms the basis for a thesis for a degree". Therefore, the emphasis is on tackling a problem in its actual context and of immediate and practical value to the organisation in question. Preferably, as has been done in the present study, the research should also generate proposals which can be evaluated and implemented during and after the study period.

The inter-disciplinary approach of the investigation, ensures a total approach of the problem under investigation, as opposed to the traditional Ph.D where often a narrower field or a single variable is studied in entirety, within a single discipline. The I.H.D. method affords the elucidation of the problem from various angles, involving many variables, from more than one discipline. In this way, a more balanced picture of the problem can be obtained.

The project described in this report was started, principally because it was of immediate and long term value to the writer's sponsor, the Malaysian Government's MARA. While the investigation itself was conducted within a U.K. organisation, CoSIRA, the similarities of functions of the two organisations ensure some relevance of the findings to both organisations, since each provides various services to facilitate the development of small firms. There has, however, never been any systematic study, by either organisation, of the development of the firms with which they were associated. It was to meet this need that the writer was persuaded to elucidate the pattern of development of their small firms, especially with respect to their roles and determinants of performance, so that the organisation could effect more effective programmes.

While this report represents the results of the investigation, several other shorter briefs and reports have also been submitted to the Organisations. One major report[2] contains various suggestions and recommendations, based on this research, for establishing small-business extension services. This report, while geared to the home-sponsor, MARA, was also made available to CoSIRA, though it was with the former that several of the recommendations have been implemented.

Acknowledgements:

In completing this report the writer records his appreciation to the home-sponsor for selecting him to undertake the present Ph.D study programme, as part of the training for the subsequent higher appointment; to the

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1. A brief resume on CoSIRA is provided in Appendix IV
2. The Report, "The Establishment of Small-Business Extension Service - Recommendation for the Reorganisation of MARA's Advisory Services", was submitted and accepted by Malaysia's Ministry of Rural and National Development in May, 1972.

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# PART ONE

## CHAPTER ONE

## INTRODUCTION

### I The Development of the Study

#### A Studies on Small Firms:

Until very recently the small firm or small business, as a unit of economic activity or as an economic or social institution, has received comparatively little attention or study. This has consequently led to a disappointing dearth of literature in this field, especially of the type based on actual empirical research. On the other hand, the large firm has been extensively studied from many points of view, so that its activities, its share in the national production, its organisation and its structure are relatively well understood.

This lack of interest and hence scarcity of research information regarding small businesses can generally be attributed to the following reasons:-

1) The structural, legal and statistical characters of the small firms are such that they render research difficult. For example, their number is large, their distribution so dispersed and their activities so extremely diverse that comprehensive studies would require very great expenditure of time, effort and funds.

2) There are relatively less readily available statistical and other data pertaining to small firms, obtainable from the various official sources. For example, until very recently, their private legal status exempted most of them from submitting their annual financial accounts. On the other hand, for the larger firms, their data are easily accessible from scores of sources, official or otherwise, throughout the country.

3) Researchers find it more fruitful to pursue their investigations into the problems and practices of management within the larger companies. Therein, it is somewhat easier to obtain reliable and representative information. The degree of management sophistication and specialisation is such that it facilitates communication between members of the firm and the investigators.

4) The attitude and personality of the small businessmen, especially their individualism and independence, are apt to be barriers against any effort directed at studying them. Their aversion to any public scrutiny and their resentment against any probing of their methods are well known.

5) The smaller firm is also usually less organised. This can militate against fruitful enquiry, since information is often more difficult to obtain and requires a considerable amount of 'digging' or reconstitution.

Furthermore, managers of smaller companies are usually preoccupied with day-to-day activities, which make it difficult for them to give adequate time and attention to the investigator's requirements.

6) For the deployment of any given research resources, the general yield of significant information is likely to be less when focussed on the small business, than on the large business sector, and the findings are also likely to take longer to disseminate. This is probably in part due to the greater variety in this sector, and the likely greater divergence in motivation and objectives of owner-managers of the small firms than of the professional salaried-managers of the large companies and corporations.

7) There has also been less financial support for research in this area. While big businesses themselves contribute to, finance, sponsor or even directly undertake research, the small firms are either apathetic to it or are not able financially to support it. And until very recently there has been little development in the formation of small-firm associations or agencies which could perhaps undertake or sponsor research in this field.

8) Finally, there has also been, especially in the past, the erroneous assumption that those practices and techniques which served the large firms well, were suitable for all businesses irrespective of size.

Therefore, within university research, government departments, business schools and in the mass media, there was an obsessive concentration on large organisations as the source of information about industrial society. As a result, studies of the relationship between an individual and his work, for example - behavioural, motivational and organisational studies - have been almost exclusively undertaken in large organisations, and a whole range of elaborate theories have been built around their findings.

This lack of interest in the small firms and the corresponding preponderance of studies in the large business sector, perhaps would possibly have continued had it not been for various developments in the United States in the late thirties, and in the United Kingdom in the late sixties. In the former country, the developments culminated with the establishment of the Small Business Administration in 1953, which not only devised and implemented various programmes aimed at stimulating the healthy development of the small firm sector, but also sponsored and undertook numerous researches in this field.

The Depression of the inter-war years stimulated American interest in small business, since the latter is very sensitive to changes in economic conditions. During this period, the number of business failures increased rapidly, whilst the number of new firms decreased. Furthermore, the ratio of business making a profit plummeted to the point where industries as a whole were scarcely. breaking-even. R. Osborn (1955) stated that, "small manufacturing corporations, those with less than $250,000 of assets, were so disrupted that 84 per cent. of them lost money in 1932".

As business profits returned, but unemployment continued, the doctrine of secular stagnation gained a vogue. Since it is apparent that small business ordinarily employs a significant percentage of the labour force, the specific problem of small business and its lack of investment opportunities became publicised. Furthermore, the United States Government was then considering providing assistance to all depressed groups and institutions, and small business was clearly in this category.

However, without a doubt the more important force providing the impetus to the notion of aid for small firms was political. Just as it has been politically expedient to call for lower taxes, it is plausible to warrant that something be done for the small men as a simple argument of social justice, and politicians tend to rally to so emotive a call.

"~~But~~ However, the clamour for aid to the small man was strategically connected with the depression period. Business generally was in the social and political dog-house, but the 'small men' must not be put in the same classification as the large business. Something should be done for, rather than to, him." (Osborn : 1955 : 4)

This climate of opinion eventually became translated into a more concrete desire to assist the small businesses, and this was accompanied by two related stimulants: an intensified 'anti-big-business' feeling and an enthusiasm for small business as the bastion of the free-enterprise society, and thus a prerequisite for democracy. Indeed, these became excellent raison d'être for political assistance for this sector. Thus any aid to the small firm was viewed not only as contributory to the restoration of prosperity, but as support of the American way of life.

Following this renewed concern for the small firm sector was a corresponding interest in the area as a focus of study, and this led to the proliferation of units and bureaux on campuses throughout the States, all concerned with providing the much-needed information and guidance for small businesses. Thus, from these bureaux, and the Small Business Administration, came an increasing number of books, handbooks, periodicals and other literature on and for the small firms.

Other countries followed though, in the United Kingdom, parallel development was not evident until the sixties. This period saw a whole series of developments which were widely regarded as a threat to small business - viz, a vast wave of take-overs, frequent mergers and the rise of conglomerates, the imposition of complex training levies, various statutory requirements of company law and, not least in importance, several periods of prolonged economic 'squeeze'. All these served to make the life of small businesses difficult, and eventually triggered off widespread complaints and representations to government by various bodies and agencies. The Confederation of British Industry, for example, became actively engaged in promoting the interest of small business with the setting up of a Standing Committee for the Problems of Small Firms in 1967, two years after the Confederation was established, in consequence of the merger of the Federation of British Industries and the National Union of Manufacturers - the latter mainly consisting of smaller firms.

The Continued representations and frequent complaints by and on behalf of the small-firm sector eventually made ~~its~~ their impression on successive governments. However, official government interest became really established in July, 1969, when the President of the Board of Trade announced the setting up of a Committee, under the chairmanship of John Bolton, ".... to consider the role of small firms in the national economy, the facilities available to them; and the problems confronting them; and to make recommendations....".

The Committee undertook a comprehensive survey, in the process of which it commissioned more than a dozen[1] studies pertaining to various aspects and fields of the small business. This was the first major study of its kind undertaken in the United Kingdom; its Report, and 18 research reports, being released in 1971/72. Since then, an increasing number of articles and books on the small business have appeared.

Almost concurrent with the official interest in this sector was a parallel development of research and educational units geared primarily to the needs of the small business sector. The Furniture and Timber Industry Training Board undertook a comprehensive study of constituent firms, which were in the main small, in 1969. The principal researcher for this project, Deeks has since then contributed a number of articles on the small firms[2]. Universities and other tertiary educational institutions also established Small Business Departments, the leading one being the Aston University Small Business Centre, set up in 1967. These units, apart from providing consultancy services for small firms, have also through their personnel undertaken researches in this field.

Despite the above developments there is still a relative dearth of published literature on the small business in this country. Apart from the Bolton material, other works available include case-studies e.g. Miller (1963), Clarke (1972) and studies of specific areas of the small business e.g. Florence (1948), Venables and Williams (1961), Bates (1971) and Boswell (1973). Other publications on this topic are mainly managment books for the small businessmen e.g. Matthews and Mayers (1968). There have also been an increasing number of articles appearing in the various journals dealing on various problems of the small business.

Studies of the British rural industries are also scarce, especially those pertaining to the small industrial firms. Williams (1958), one of the few available, concentrates on the craft industries but, fortunately for the present study, it covers much of the work of the Rural Industries Bureau, the predecessor of CoSIRA.

In Malysia, where there has developed a recent awareness of the extreme importance of the small-business development within the country's overall economic programme, there has been virtually no study at all devoted to this area, and this void has inspired the present study. Although it is deliberately based on the British institution, it is anticipated that this research, when introduced to the Malaysian scene, will trigger off empirical studies of small businesses and small industries located there.

## B Choice of Topic:

Against the above background it was decided that a study of small firms in Britain would not only usefully add to the existing pool of knowledge in this field, but would also meet the specific needs of the writer's home country, Malaysia.

In order that maximum application of the research findings might occur the situation in Britain closest to the Malaysian type was selected - this being that of small firms in the rural areas[3], of England. This was selected on the assumption that this sector of the industry approximates closest to the majority of the industrial units in Malaysia.

In the light of the relatively little research-based literature on the small business in this country, it was decided that a study which might yield significant fundamental internal knowledge of the sector would be worthwhile. Such a study would encompass an analysis of the sector through a survey of a sample of firms, with the aim of elucidating the structural orientations of small firms in the rural areas, their multiple roles, and the forces that immediately affect their performance and development.

As indicated earlier, this particular area of research would also afford ample scope for an inter-displinary view point, thus fulfilling one of the principal tenets of the Inter-displinary Higher Degrees programme.

C The Significance of the Study:

1) As indicated, there has been relatively few empirically researched studies of small firms in the United Kingdom, especially those in the lower bracket of the small class. The few that are available are mostly urban-based. The rural areas, which also provide a significant proportion

of the country's total business population, have seldom, if at all, been studied. The significance of the present study is therefore reflected in the fact that it is a new area of study in this field.

2) An inter-disciplinary approach on the question of the structure, functions and development of rural firms, is relatively a pioneering effort. The significance of the study in this respect is the integrated analysis, rather than a microscopic study of one variable. It tries to understand the rural small firms in terms of interweaving variables emanating from different disciplines, thereby contributing to a comprehensive picture of the situation.

3) The analysis of the roles of rural small firms and the assessment of their future, will highlight not only the place of this sector in the country's economy, but also their other latent and manifest functions for the individual and society. Such knowledge is of definite value to planning authorities, as well as in the determination of training policies for the country. end.

4) The value to both academics and consultants alike, of data on such key issues as the relevance and applicability of the modern managerial practices to rural small firms, and the analyses of the factors affecting their pattern of development, may prove of significance.

5) The study also evaluates the role played by external agencies towards small firms and, in particular, by the

Council of Small Industries in Rural Areas, CoSIRA. This is significant both in terms of its evaluative function and of its general feed-back value.

## II Definition of Terms

### A Small Firm or Small Business:

The definition of the terms small firm and small business, gives rise to some difficulties, as there is a fairly wide range of opinion and particularly varying methods or criteria used for the delineation of size areas. Marking off 'small' firm from other sized firm is 'like marking off cold from hot water' - a lot depends on the purpose: water reckoned to be hot for one's ablution is cold from the view point of generating a steam turbine. Similarly for firms, many size-gradations are possible, and any boundary line must necessarily be arbitrary.

The environment also makes a difference: a firm that seems large in Tapah[4], would seem small in Birmingham. Similarly, a plant regarded as small in the steel industry might be many times larger than a plant accepted as large in the apparel trade. Therefore there can be no single best or correct way to classify industrial units as small or as large. Different delineation methods are appropriate for different purposes and in different locations.

Generally speaking, the various definitions found in the literature can be classified according to the following:

1) Administrative classifications.

2) Statistical or quantitative definitions.

3) Functional or qualitative definitions.

It is not suggested, however, that the above categories are mutually exclusive. The classification above is simply to group the different definitions within the most relevant slots.

<u>Statistical or Quantitative definition:</u> This method of definition uses specific quantifiable measures, such as one or more of the following easily definable parameters:

a) number of employees.

b) sales turnover volume.

c) assets size.

d) number of echelons in the management/supervisory structure.

e) a mixture of any of these parameters.

Classification of firm sizes using these parameters has been popular with government departments and statistical bureaux, for example:

Department of Commerce U.S.A.: This department uses both the size of employment and sales turnover. Thus, firms are regarded as small if they have less than 100 employees for the manufacturing sector; or less than $ 200,000 turnover for wholesaling; or less than $ 50,000 for retailing and servicing industries.

Bureau of Labour Statistics U.S.A.: The Bureau resort to the statistical kind of delineation by using 'average size'. It establishes the 'average size' for a number of industries and then regards a firm as small if it is below the computed average.

The Royal Charter of the Confederation of British Industries has defined any company with less than 200 employees as being small, while the Companies Act of 1967 adopted sales turnover as the yard-stick, classifying firms as small if their sales were below £50,000 per annum.

The use of assets size is adopted by the U.S.A. Securities and Exchange Commission - it regards firms as small if they have less than $ 250,000 assets.

Classification of small businesses in terms of physical volume or such measurable yardsticks is useful and convenient for tabulation of overall statistics, but it is not expected to cover all firms that have small-business problems. This is especially true since the application of different yardsticks can yield different results. Thus, a firm which is considered as small using criterion (a) above, may be categorised as large using another parameter.

Functional or qualitative definition: In order to avoid the various inadequacies of the quantitative definition, several authors, (e.g. Hollander (1967), and agencies (e.g. International Labour Office and the Committee for Economic Development U.S.A.) use the functional definition. Firms are thus categorised according to their size, in terms of the principal traits, characteristics and functions.

To Hollander, for example, small business refers mainly to enterprises that,

"i) are business in the sense that they involve all or most of the business functions and decisions concerning production, marketing, financing and management, and

ii) do not exceed a size which, considering the nature of the business, permits personalized management in the hands of one or a few executives, as opposed to institutionalized management characteristic of larger enterprises."

The I.L.O. on the other hand, regards a business or firm as small if it displays two or more of the following characteristics:

a) relatively little specialization in management.
b) close personal contact of top management with production workers, customers, suppliers and owners.
c) lack of access to capital through the organised securities market and often difficulty in obtaining even short-term credit.
d) no special bargaining strength in buying or selling.
e) a relatively close integration with the local community through local ownership and management, and dependance on nearby markets and sources of supply.

Perhaps a better functional definition of small firm is put forward by the Committee of Economic Development U.S.A. Again, a firm or a business is regarded as small if it fulfills two or more of the following traits:

a) its management is independent and frequently the manager is also the owner.

b) capital is supplied and ownership held by an individual or a very small group of individuals.

c) area of operation is mainly local. Workers and owners are in one home-community. The market, however, need not be local.

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d) size within the industry is relative: the business is small when compared to the biggest unit in its field. The size of the top bracket varies greatly, so that what might seem large in one field would definitely be small in another.

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Composite definition: Other authors e.g. (Kaplan 1948) and Perrigo (1972) and agencies e.g. (the U.S. Congress, and the S.B.A.) compromising the two earlier delineation methods discussed above, have offered what is referred to as the composite definition i.e. by combining the two methods together, thus using simultaneous quantitative and qualitative terms.

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Kaplan therefore reckons that any approach for a common denominator for small business must consider the following four-fold criteria:

a) Size: Arbitrary limits of one million for volume of business; $500,000 for total assets and 250 employees for personnel.

No

b) Management: Small business consists of a single independent organisation directly under the supervision of its owners who are also its managers, whether incorporated or not.

c) Financing: The equity of capital of small business is held within the inner circle of owner-managers. It does not ordinarily go to the open market to sell securities or credit paper, but depends on community credit, bank credit and mostly ploughed-in profits to meet its financial requirements.

d) Area of operations: It is local in character....Integration with the home locality is found in the ownership, product, workers and customers, so that it ordinarily has a direct tie with the growth and well-being of the community in which it resides.

The Bolton Committee, on the other hand defines a small business as one employing 200 people or fewer and having the following characteristics:

a) it has a relatively small share of the market.

b) it is managed by its owners or part owners in a personalised way and not through the medium of a formalised management structure.

c) it is also independent in the sense that it does not form part of a large enterprise and that the owner-manager is free from outside control.

Finally a most different but very effective and analytical composite definition is offered by Perrigo, a definition which has been adopted as the official guiding line for the Aston University Small Business Centre. The Centre initially fixed the ceiling for the size at 250 employees for purposes of convenience, but Perrigo redefined a small firm as "one which cannot, or thinks it cannot, afford those specialist services or facilities which it needs if it is not to be at a grave disadvantage vis-a-vis its competitors".

Perrigo adds ~~to state~~ that, "the words 'cannot, or thinks it cannot' are important. The firm which cannot afford the specialist services or facilities is really a small firm in the markets within which it operates. On the other hand, the firm which 'thinks it cannot' afford these services - but ought to have them - is small-firm minded. Each will exhibit the same characteristics, but for different reasons".

This definition underlines the vital characteristic which is central to the problem of the growing small business: the need for assistance to overcome competitive disadvantage. Furthermore, the definition would probably include almost all firms with the characteristics of small business, including those which are not necessarily small by any measurable yardstick, but 'small' in attitude and outlook and, ipso facto, having similar problems.

Therefore, it can be seen that there is a wide range of definitions which have been used for demarcating the small from the large firms. However, there is a general consensus of opinion on the principal characteristics or common denominators; where the divergence occurs is in fixing the numerical ceiling for the classification. In terms of employment for example, the ceiling varies as widely as from 50 (I.L.O.) to 500 (U.S. Congress).

This ceiling difference is perhaps understandable if we consider the environment for which each definition is intended. Generally, for our purpose we could use the employment size of 200 as the upper statistical boundary, as beyond this figure the firm would generally require a significant amount of specialization within its management. Furthermore the choice is convenient since it coincides with the normal census breakdown.

Finally, as all of the firms in the sample of this present study have been selected from the population of small firms which were 'associated' with CoSIRA, it is important that the Agency's own definition be stated here. Its demarcation is simple and uses a different yardstick, viz skilled employees, thus:

> "a small firm is taken to mean that which employs not more than 20 skilled persons".

This definition however gives room for various interpretation in that the term 'skilled' is not defined. Indeed many CoSIRA Organisers[5] have indicated that they have used this yardstick as a means of achieving flexibility for accepting or rejecting specific firms with regard to the extension of the agency's services.

While CoSIRA's definition has its obvious limitations in the light of the preceeding discussion, in this study the firms, being selected from the agency's registers, are defined as small in the context of this delineation. Nevertheless, firms with a maximum of 20 skilled employees, if skill is defined as having acquired a trade through formal or informal training, are also likely to exhibit many of the characteristics attributed to small-sized firms, discussed above.

B Rural Area:

The term 'rural' in this study is used exactly as defined by CoSIRA viz.

"areas or country towns having population of not more than 10,000"

This is an arbitrary boundary and the firms selected for the study have been selected in accord with this definition.

C Development and Performance:

The term 'development' is used in this study to refer to the changes, growth and expansion attained by the firm. This concept, therefore, is not unlike that being used in psychology when refering to the development of the individual from conception to birth and leading to maturity and death.

Performance is a specific phenomenon in development, and in this study it refers to the economic attainment of the firms as measured by the following considerations:

1) Innovation: The extent to which firms are responsible for technological or market innovations, in terms of new products, processes or methods.

2) Growth: The growth of firms is viewed over a five-year period in terms of the percentage changes in their sales turnover, net assets and net profits before tax.

3) Profitability: This is assessed in terms of the firms' achievement measured by profits in relation to the amount of capital employed.

In this study this reckoning is achieved by the following measures:

a) Profit margin - i.e. percentage of profits with respect to sales.

b) Return on net assets - i.e. percentage of net profit over net assets.

c) Return on total assets - i.e. percentage of net profits over total assets.

4) Efficiency: The economic efficiency of firms, defined more stringently in terms of resource utilisation, i.e. the ratio of outputs to inputs of capital, materials, management or labour. (e.g. Added value per employee)

Of the four considerations above, item (1) has limited applicability in the study, save as an indicator of contribution through innovation. Although measurement (4) is ideally preferred, detailed information especially on costs, productivity and value added, was not readily available in the research. Therefore, unavoidably, the study has to rely on considerations (2) and (3) above, and it is in these contexts that the performance of the firms in the study will be mainly assessed.

## III The Small-Firm Sector: An Overview

The small firm sector accounts for a significantly large percentage of the total firms in the economy. Table 1-1 shows the breakdown of the different size-classes for manufacturing industries, in 1963, in terms of several parameters. From these data, it is fairly clear that the lower size-classes (below 200 employees), predominate in terms of establishments, and enterprises, but are less so in terms of employment, net output and capital expenditure.

The table delineates between 'enterprises' and 'establishments', and it indicates quite evidently that for the smaller enterprises there is a negligible difference between the two. For businesses having less than 100 employees, for example, enterprises are 96 per cent of establishments, whereas for units with employees in excess of 100 persons, enterprises are only 36 per cent of establishments. This proportion diminishes as the size increases. The smaller the establishment, the more probable it is to be a business unit in its own right; 90 per cent of enterprises employ fewer than 100 persons, whilst 71 per

TABLE 1-1

ENTERPRISES AND ESTABLISHMENTS IN THE UNITED KINGDOM, 1963

| SIZE OF ENTERPRISE (total number of persons employed in all industry groups) | ENTERPRISES | ESTABLISHMENTS | EMPLOYMENT | NET OUTPUT | NET OUTPUT PER HEAD | CAPITAL EXPENDITURE LESS DISPOSALS | CAPITAL EXPENDITURE PER HEAD |
|---|---|---|---|---|---|---|---|
| TOTAL - ALL INDUSTRIES | Number<br>- | Number<br>174,353 | Thousands<br>9,114 | £ million<br>12,193 | £<br>1,338 | £ million<br>1,093 | £<br>120 |
| All Manufacturing Industries | 64,367 | 83,774 | 7,695 | 10,470 | 1,361 | 983 | 128 |
| 50,000 and over | 10 | 692 | 728 | 1,173 | 1,612 | 153 | 211 |
| 20,000 to 49,999 | 28 | 1,404 | 941 | 1,356 | 1,440 | 143 | 152 |
| 10,000 to 19,999 | 60 | 1,726 | 824 | 1,237 | 1,501 | 134 | 163 |
| 5,000 to 9,999 | 112 | 2,209 | 799 | 1,217 | 1,523 | 116 | 146 |
| 2,000 to 4,999 | 318 | 2,879 | 942 | 1,335 | 1,418 | 121 | 128 |
| 1,000 to 1,999 | 449 | 2,489 | 630 | 840 | 1,333 | 70 | 111 |
| 500 to 999 | 845 | 3,021 | 594 | 780 | 1,314 | 61 | 103 |
| 200 to 499 | 2,342 | 4,923 | 725 | 874 | 1,205 | 67 | 93 |
| TOTAL: 200 and Over | 4,164 | 19,343 | 6,183 | 8,812 | 1,482 | 865 | 140 |
| 100 to 199 | 3,376 | 5,004 | 468 | 535 | 1,142 | 42 | 89 |
| 25 to 99 | 11,551 | 13,582 | 606 | 676 | 1,115 | 47 | 77 |
| 1 to 24 | 45,276 | 45,845 | 438 | 447 | 1,019 | 30 | 69 |
| Below 200 | 60,203 | 64,431 | 1,512 | 1,658 | 1,092 | 119 | 78 |

Source: 1963 Census of Production No. 132, Table 13

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cent of establishments employ less than 100 persons. They also employ almost 14 per cent of the working population in manufacturing industry, and account for 11 per cent of the net output and 8 percent of capital expenditure. Per capita net output and capital expenditure are shown to increase with growth in the size of the enterprise.

It is also possible to break down and analyse the different size-classes in terms of the various industry classifications, as has been done elsewhere, (Bates 1971; Bolton 1972) but it is not possible to distinguish the small firms in terms of their geographical locations, i.e. rural or urban. There is no readily available data that could achieve this. However, a rough indicator of the size of the rural small-firm sector, could perhaps be taken from the Census of Small Industries in Rural Areas, undertaken by CoSIRA, in 1966 and 1968 - (Summary in Table 1-2).

These figures must, however, be taken with reservation, as they were based on the returns made by the agency's Small Industries Organisers. The report in fact explains, 'S.I.O.s were asked to return the numbers of firms in categories according to their records and including those they knew could be serviced, if such service was available from CoSIRA. The returns varied in so far as some S.I.O.s only returned firms on their records'[6].

These returns, therefore, provided only a rough estimate of the rural small-firm sector, at least that to

TABLE 1-2

SUMMARY OF CoSIRA SURVEY OF
RURAL SMALL FIRMS AND MANPOWER

| Year | Number of Firms | Manpower Total |
|---|---|---|
| 1966 | 14,378 | 69,470 |
| 1968 | 13,905 | 71,230 |
| Difference | 473 | 1,760 |
| Percentage Difference | -3.3% | +2.5% |

Source: CoSIRA Census of Small Industries in
Rural Areas (December 1968)

which CoSIRA was orientated, in terms of its many services. For this study, this sector represents the population from which the sample was to be taken.

An analysis of these returns reveals that the number of firms in this sector has declined slightly between the two years. The difference, however, was only 473 firms, i.e. about 3.3 per cent. On the other hand, the number of employees embraced by these firms has increased in the same period - by about 2.5 per cent.

This decline in the total number of firms is also observable in the trend analysis of the returns of the Censuses of Production. Table 1-3, shows the total number of establishments and employees respectively, accounted for by enterprises within each of the size-classes of 1-24, 25-99, 100-199, 200-499, and over 499 employees. A percentage breakdown of number of establishments and employees within each size-class is also indicated. These statistics reveal that the number of establishments has declined during the period covered by the years 1958 and 1963, (about 2.5 per cent in the manufacturing industries and 5.9 per cent in the non-manufacturing industries). However, just as in the CoSIRA survey, the total manpower employed during this period shows an upward trend; 2.6 per cent and 9.5 per cent respectively for manufacturing and non-manufacturing. Table 1-4a and 1-4b show a more detailed analysis of the changes of the total number of establishments and employees, experienced by the lower size-classes (under 200 employees).

TABLE 1-3

ANALYSIS OF ESTABLISHMENTS AND EMPLOYMENT
BY SIZE OF ENTERPRISE, FOR MANUFACTURING AND
NON-MANUFACTURING INDUSTRIES - 1958 and 1963

| SIZE-CLASS OF ENTERPRISES (NUMBER OF EMPLOYEES) | MANUFACTURING | | | | | | | | NON-MANUFACTURING | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1958 | | | | 1963 | | | | 1958 | | | | 1963 | | | |
| | Number of Establish-ments | % | Number of Employees | % | Number of Establish-ments | % | Number of Employees | % | Number of Establish-ments | % | Number of Employees | % | Number of Establish-ments | % | Number of Employees | % |
| 1-24 | 47,297 | 55.0 | 441 | 5.9 | 45,845 | 54.7 | 438 | 5.7 | 88,471 | 91.9 | 432 | 33.3 | 80,470 | 88.8 | 444 | 31.3 |
| 25-99 | 16,549 | 19.3 | 744 | 9.9 | 13,582 | 16.2 | 606 | 7.9 | 5,464 | 5.7 | 255 | 19.7 | 7,170 | 7.9 | 295 | 20.8 |
| 100-199 | 5,998 | 7.0 | 597 | 8.0 | 5,004 | 6.0 | 468 | 6.1 | 1,055 | 1.0 | 127 | 9.8 | 1,045 | 1.2 | 125 | 8.8 |
| 200-499 | 5,319 | 6.2 | 912 | 12.2 | 4,923 | 5.9 | 725 | 9.4 | 625 | 0.7 | 147 | 11.4 | 622 | 0.7 | 138 | 9.7 |
| Over 499 | 10,796 | 12.5 | 4,806 | 64.0 | 14,420 | 17.2 | 5,458 | 70.9 | 676 | 0.7 | 335 | 25.8 | 1,272 | 1.4 | 417 | 29.4 |
| TOTAL | 85,959 | 100 | 7,500 | 100 | 83,774 | 100 | 7,695 | 100 | 96,291 | 100 | 1,296 | 100 | 90,759 | 100 | 1,419 | 100 |

Source: Report on the Census of Production, 1963 (Table 13 and 14)

TABLE 1-4a

CHANGES IN TOTAL NUMBER OF ESTABLISHMENTS FOR MANUFACTURING AND NON-MANUFACTURING SECTORS (1958 AND 1963)

| ENTERPRISE SIZE-CLASS (NUMBER OF EMPLOYEES) | MANUFACTURING SECTOR | | | NON-MANUFACTURING SECTOR | | |
|---|---|---|---|---|---|---|
| | TOTAL IN 1958 | TOTAL IN 1963 | % CHANGE | TOTAL IN 1958 | TOTAL IN 1963 | % CHANGE |
| 1-24 | 47,297 | 45,845 | -3.1 | 88,471 | 80,470 | -9.9 |
| 25-99 | 16,549 | 13,582 | -17.5 | 5,464 | 7,170 | +31.2 |
| 100-199 | 5,998 | 5,004 | -16.6 | 1,055 | 1,045 | -1.0 |
| Under 199 | 69,844 | 64,431 | -7.9 | 94,990 | 88,685 | -6.6 |

TABLE 1-4b

CHANGES IN TOTAL NUMBER OF EMPLOYEES FOR MANUFACTURING AND NON-MANUFACTURING SECTORS : 1958 and 1963

| ENTERPRISE SIZE-CLASS (NUMBER OF EMPLOYEES | MANUFACTURING SECTOR | | | NON-MANUFACTURING SECTOR | | |
|---|---|---|---|---|---|---|
| | TOTAL 1958 (in 000,s) | TOTAL 1963 (in 000,s) | % CHANGE | TOTAL 1958 (in 000,s) | TOTAL 1963 (in 000,s) | % CHANGE |
| 1-24 | 441 | 438 | -0.7 | 432 | 444 | +2.8 |
| 25-99 | 744 | 606 | -18.7 | 255 | 295 | +15.9 |
| 100-199 | 597 | 468 | -21.6 | 127 | 125 | -1.6 |
| Under 199 | 1,782 | 1,512 | -15.2 | 814 | 864 | +6.1 |

Source: Report of the Census of Production 1958 and 1963

A more thorough trend analysis of statistical changes within the small-firm sector, during the same period, has been done adequately by Perrigo (1972). The analysis clearly highlights these changes, in terms of several parameters.

## IV Statement of the Problem and Hypotheses

### A The Problem

In recent decades, there has been an increasing emphasis on bigness for commercial and industrial undertakings. The prevalance of mergers and takeovers seems to indicate a faith in 'economies of scale' or large-scale operations. Statistical returns provided by the various surveys and censuses of production, some of which have been discussed in the preceeding paragraphs, reveal that the percentage of small firms in the various business-sectors has declined appreciably. There is also an apparent movement towards fewer but larger plants in most industries. These developments stimulate questions as to the future of the small-firm sector in the modern economy. Yet, despite such a decline of the small-firm sector and the increasing dominance of big enterprises, the small firms still plays an important, if not indispensable, role in the economy.

However, as a result of the rapid advancement of technologies and the increasing complexities of modern administration, production and distribution, and the aforesaid apparent bias towards bigness, small firms are increasingly in need of greater support and wider assistance than hitherto. Such assistance can facilitate the viability and profitability and, therefore, the healthy development of the sector. In consequence, so that the right kind and quality of assistance might be provided for the small firms, it is important that we fully understand the demography, characteristics and roles of this sector, as well as ascertain the conditions and forces that can stimulate or impede its development. These aspects can be achieved through a systematic research on the small firms in the economy.

With these developments, there is also an increasing concern about rural industrialisation. On the one hand, this has been called for to check urban drifts and rural depopulation as well as to bring about a more even development throughout the country; on the other hand, the fear of environmental pollution affecting the country-side has provided a valid argument for checking any further, at least uncontrolled, development of industries in the rural areas.

Therefore, in order that the polemic can be resolved, and to ensure a better programme for the future, a study of the roles and development of industries in the rural areas will provide at least some basis for fruitful resolution.

## B Aims of the Study

In the light of the above developments, this study has the following objectives:

Generally, the study aims at examining the structure, functions and development of a sample of small firms in the rural areas of England, to ascertain various issues including:

1) Their demographical and structural characteristics.
2) Their circumstances and reasons of establishment.
3) Their pattern of development in infancy years.
4) The attributes of the men who founded these firms.
5) Their economic and non-economic functions to the men involved and the communities in which they are located.
6) Their pattern and orientation of growth, including their levels of performance.
7) The relationships between the man who establishes the firm, and his firm and the external environment.
8) The factors that are significant in governing the level and quality of performance of the firms.
9) The relevance of modern management techniques to the small firms, including the extent to which they are being adopted, and the value of the various practices to the firms.
10) The future of the small firms within the rural areas.

C Statement of Hypotheses:

The main hypothesis which will be verified in this study is that:

The principal's personal attributes, including objectives, motivation, and his background of training and experience, the firm's policy and methods of production, administration and distribution, and their interaction with the external environment, all combine to affect the development and level of performance of the firm.

The above hypothesis and the following sub-hypotheses have been constructed and based on the need to fulfil the stated aims of this study, as well as on the initial 'hunches' and tentative findings which emanated from a preliminary survey undertaken at the beginning of the research. In some other cases, the present study has also taken suggestions and implications of findings of earlier studies, as reported in the literature. In the latter, therefore, the present exercise attempts either to replicate these investigations, or to ascertain trends which were only implied or generated by their studies. These earlier works include Mayer et al (1961 Fox (1963), McGuire (1963), Stekler (1963), Hoad and Rosko (1964 Deeks (1970) and Matthews (1971).

Sub-hypotheses:

1) That there is positive correlation between operational success of the rural small firms and the management attitude and practices.
2) That the age of the firm has a bearing on its performance; the younger the better.
3) That the size of the firm does not influence its level of attainment.
4) That family-owned firms and family-participation firms perform better than non-family owned or non-family-managed firms.

5) That first-generation owner-managed firms perform better than later-generation owner-managed firms.

6) That the degree of personal commitment and involvement in the firm at the initial stage, has a direct and positive effect on the performance of the firm.

7) That the need for independence is the most frequent reason for starting a small business.

8) That the principal's family circumstances and occupational experience have a positive bearing on the performance of his firm.

9) That firms which solicit and receive external assistance perform better than firms which do not.

V Thesis presentation:

In order to elucidate the three principal facets of the rural small firm; structure, functions and development, and with a view to verifying the above hypotheses, this report is arranged in the following order:

The next chapter, which concludes Part One, the methodology and research techniques employed are outlined, with the specific purpose of highlighting the various strategies resorted to in an effort to obtain the data on which this report is to be based. The methods employed for analysing the data, particularly with respect to ascertaining the qualitative and quantitative performance of the sampled firms, are also explained.

Part Two covers the investigation and findings. It is divided into three chapters, each discussing one of the three facets of the study.

The first of these chapters elucidates the structural orientations of the rural small firms, in terms of their demography, origin, initial development, ownership pattern, founders' attributes, management structure, production and manpower structure, accounting and financial systems, marketing pattern and external relationships. A brief analysis of the firms' growth patterns and structural strengths and weaknesses is also included.

The second chapter examines the rural small firms' multifarious roles. This includes their economic, developmental, psychological, sociological and political functions. This discussion is presented with the view to underlining the vital roles that this sector of the industry is playing within the economy of the country.

The last of these chapters, the final section of Part Two of the report, elucidates the development and performance of the firms. The chapter therefore highlights the various statistical analyses of the variables hypothesised to have some bearing on the development and level of performance of the firms.

In the final part, comprising the last chapter of the report, the various conclusions and generalizations based on the findings of this study are presented. The section concludes with an evaluative analysis of the future of the rural small-firm sector within the economy of this country, and also suggestions for further fruitful research.

The appendices include the various questionaires used in the study, a brief note on the CoSIRA organisation, and a full list of references made in the report.

Chapter Notes:

1. See bibliography.
2. See bibliography.
3. The term 'rural areas' as used in this report is defined on page *20*.
4. A town in Malaysia.
5. Organisers or Small Industries Organisers are the field officers of CoSIRA. They are based in the respective regional offices of the Agency.
6. Report of the Census of Small Industries in Rural Area, CoSIRA (1968).

# CHAPTER TWO

# METHODOLOGY AND RESEARCH DESIGN

## I Fieldwork Methodology

### A Attachment with CoSIRA:

As part of the requirements of the IHD programme, an attachment with a suitable firm or other organisation is required. CoSIRA was therefore deliberately and appropriately selected in view of the similarities of functions between this agency and MARA, the Malaysian body with which the writer is employed. Furthermore, through CoSIRA, it would be possible and convenient to study the small-firm sector in the rural areas, as the agency has contacts with many such firms throughout the country, through their advisory and credit service activities.

The attachment commenced in October 1970, and field visits occurred until the end of 1972. The first part of the period was spent familiarising oneself with the activities of the agency, through studying their various departmental files, records and reports, as well as interviewing a cross-section of the personnel in the various divisions of the agency's headquarters in London.

A significant part of the attachment period itself was spent in the field. Five different counties came within the scope of the survey, and they were selected because of their proximity to one or other of the two bases - London and subsequently Birmingham - at which the writer was located.

These counties were:

1) Sussex
2) Warwickshire
3) Shropshire
4) Staffordshire
5) Cheshire

(the last three, 3 - 5, are within the territory of one CoSIRA Organiser.)

For each of the areas, 1, 2 and the combined 3 - 5, the CoSIRA Organiser was based in a regional office, invariably centrally located: Lewes for Sussex, Leamington Spa for Warwickshire and Market Drayton for the Shropshire-Cheshire-Staffordshire areas. It was from these centres that the field study was planned and conducted. The attachment to these areas was consecutive; starting with Sussex and ending with the three combined counties. However, follow-up visits to different areas were also made during attachment to a particular centre. At the same time, periodic visits to CoSIRA's head office occurred, especially to discuss various aspects of the progress of the research with the Industrial Supervisor.

In all three cases, the local or area attachment with the Organiser began with a period of familiarisation, achieved through the Organiser's briefing with respect to his area and modus operandi, and subsequently through a general study of the local records and reports. Following this, a reconnaissance visit to several firms was undertaken, accompanied by the

Organiser or his assistant. The purpose of this preliminary survey was to augment the briefing and reports with a view to obtaining a general and fair view of the small firms in the area, and of the work of CoSIRA there.

At the end of this familiarisation period a fairly extensive discussion occurred with the Organiser and his assistant, for the specific purpose of facilitating the planning of subsequent field visits and local research. Another discussion in depth was always held at the end of the local attachment.

B The Selection of Firms for Study:

A full list of the firms with which the local CoSIRA Organiser has contact was obtained, and the selection was made from the firms listed. The choice was partly random and partly based on judgment sampling. The latter approach was considered necessary because the population of successful and non-successful firms was unknown. As the study is particularly geared to an understanding of the pattern of development, including the performance, of the rural small firms it was considered imperative that the firms in the final samples should include those over a representative range of performances.

The judgment sampling was based on evaluative oral assessments by the Organiser of all the firms in his register, facilitated further by the study of a random selection of files of the firms in the Organiser's office. The impression formed during the initial reconnaissance visits was also used to set guide lines. Certain characteristics pertaining to performance attributable to a firm - e.g. winning awards, effective building programmes and good financial returns as recorded in the files on the one hand, and irregular or backlog of loan payments, unimpressive financial returns and other such assessment as recorded by CoSIRA advisers on the other hand - were among the guide lines used to facilitate judgment sampling. In other cases, firms with particular developmental attributes were also included so as to ensure as wide a representation of types in the final sample as possible. In the latter case for example, firms that had changed hands through outright purchase or family succession, or were formed as 'spin-off' operations, and firms which were established by ex-employees who were made redundant, were included in the samples.

Once a firm was selected for inclusion in the survey a personal contact by telephone was made, the writer briefly being introduced and the objects of the exercise explained. Where the principals were agreeable, an appointment for a visit was then made. Only a minimal number of firms refused to be included in the survey. All subsequent visits were made without any CoSIRA personnel being present.

C The Interviews:

In almost all cases, visits to firms were made at least twice; the first was essentially to establish rapport, to survey the work premises and generally to obtain an overall impression, while the second was devoted to interviewing in depth. During the first meeting, a request was made in each case for permission to study the firm's financial accounts. In cases where this was permitted, the examination was effected at the end of the second visit. However, there were several firms where a third or even a fourth visit became necessary, especially for the purpose of inspecting the financial accounts.

Wherever possible, in cases of multiple owners, simultaneous interviews with the partners were conducted or, as the general case, the most senior manager or the principal who accepted responsibility for speaking on behalf of the partners, was interviewed.

The depth interviews were found to take two or three hours, on the average. When an interview could not be completed within this period, or when the respondent began to show signs of reluctance to spend more time, the interview was terminated, and a fresh appointment made to complete the study of the firm. In this way co-operation, and hence the wealth or accuracy of data, could be maintained, because when a respondent felt that too much of his time was being taken at any time, his responses were apt to be either brief or superficial.

The response and co-operation given by the principals were, on the whole, considered to be fair and, as far as one could judge, the replies were honest and sincere. There were, however, several occasions when questions had to be reframed, or answers rechecked by cross-references or indirect questioning. Generally, the writer's foreign background worked to advantage as, in almost all cases, the principals became more co-operative and hospitable after knowing the writer's origin and the value to his country of the study being conducted. In fact, several respondents went to great lengths to ensure that the writer got all the information required, while a few even invited him to their homes, where the interviews were continued under relaxed conditions, away from the pressures of work and possible interuptions from the shop-floor or through telephone calls.

Only one case of lukewarm co-operation was met, presumably arising out of a misplaced suspicion on the principal's part. After the writer mentioned that Malaysia was also trying to start new enterprises such as the one he was operating, there ensued a sudden change of response, and abrupt replies became more frequent. Obviously he suspected that the writer was attempting to 'spy' on his techniques and he was not having this occur in his firm. Naturally, the writer was never able to obtain financial data from him about his firm, but had to rely on those that were available in Company House. Unfortunately, in this case, the returns in the House were inadequate.

This incident proved to be an exception; nonetheless it became a lesson which helped the writer in subsequent approaches to other firms, particularly when introducing the relevance of the study to Malaysia. There was another difficulty experienced, but in this case it was the result of the bad time which a firm was experiencing, and the owner avoided later meetings concerning financial details. The writer learned later that the firm had to cease trading because of mounting debts. Obviously, the principal did not want the writer to know of his bad fortune, but unfortunately was unwilling to be honest about it. Again, for this firm the writer had to rely on the data obtained up to then, supplemented by information obtained through CoSIRA and from Company House.

D Use of Checklists:

In order to ease interview sessions and facilitate the collation of data, it was decided right from the start that a checklist questionnaire was desirable. A decision had to be made as to the type of checklist to be adopted, of which there are basically three types suitable for a survey of this kind, viz:

1) Open-ended or free-answers.

2) Two-way or dichotomous answers.

3) Multiple choice answers.

Each of the above has its merits and demerits which are considered below.

1) Free-answer question: This technique has a number of fairly obvious advantages; the individual for example, is little influenced and thus a wide variety of responses is elicited.

The information obtained often provides a good background for interpreting answers to other questions. These open-ended questions may be used to solicit suggestions or obtain elaborations and evaluations. They give the individual a chance to express the concerns which are uppermost in his mind, which may lead to an awareness of the need to ask certain other questions which were hitherto thought unnecessary.

There are, however, a number of disadvantages in using this form of questioning which, from many points of view, outweigh the advantages. Responses may range widely in value, as well as content. Another problem is that some respondents will neglect to state their most pertinent observations, simply because they seem so obvious to them.

The most serious handicap of using the open-ended form is the difficulty or near-impossibility of coding or classifying the responses into meaningful categories upon which statistical analyses can be made, and conclusions derived therefrom. Few people will use the same words to express the same idea, and the job of grading or categorising becomes formidable.

In the case where the respondent has to answer the questions directly on paper, the open-ended type would only invite the non-co-operation of the respondent, as a 20 or 30 questioned check-list requiring written responses becomes too time-consuming to be acceptable by him. In the case of the present survey, as it was planned to have a check-list to be personally answered by the principals of the small firms, the open-ended variety therefore had to be avoided from the start.

2) Dichotomous type: At the other extreme to the open-ended type, is the two-way variety. The dichotomous question, as it is sometimes called, is intended to suggest two alternative answers and, strictly speaking, there is no possibility of a middle ground answer. Sometimes a "don't know" response is included as a third alternative. But this then does not make it into a truly dichotomous question.

The two-way question forces the respondent into a difficult position: if he does not entirely agree with a statement then he is forced to suppress this small disagreement or disagree completely. This type of check-list is also at the other extreme in terms of ease of recording and tabulation of data. In general, however, it was considered that this approach was not suitable for the survey and therefore was never used.

3) Multiple-choice questions: This method really is mid-way between the two approaches above. The merits and demerits of this technique also come mid-way between the two earlier types. This method makes possible questions with more than two responses or alternatives. It also allows gradations or responses, beyond the 'either - or' degrees. Recording and classification of data are likewise more manageable than for the open-ended type.

However, in this study, the decision to resort to the multiple-choice variety was arrived at after trying out the open-ended type. A pilot open-ended check-list was devised, based on available questionnaires found in various references and those used by the Small Business Centre. Various additional questions were also included to cover particular issues required for the current investigation.

This check-list was then used for a sample of firms, but more as a 'dummy run' to test the suitability of the technique, and to test the relevance and phraseology of the questions incorporated. It was soon evident that the anticipated problems of an open-ended check-list became a reality. Not only did interview-time tend to be rather long, but the recording and subsequent classification of data became formidable. Nonetheless, the open-ended check-list was used over 12 firms, and all possible responses were noted. These responses were then used as the basis for the multiple-choice check-list devised subsequently. In this way, while proving the unsuitability of the open-ended list through actual application, the dummy run also yielded responses to questions which otherwise might have not been included in the multiple-choice questionnaire.

The final check-list was then constructed, and from then on it was used as a basis for all subsequent interviews. A sample check-list format is appended (Appendix I).

E Supplementary Questionnaire:

As a device to ensure not only correct recording during the interview sessions, but to check the consistency of responses, a shorter check-list/questionnaire was also constructed. Instead of being used for the interview, this multiple-choice questionnaire was completed by each of the respondents. Apart from a few key-questions that were repeated, additional questions were included to cover areas pertaining to the attitudes of the respondents.

This brief questionnaire was either completed at the end of the final interview, or left with the respondents with stamped-addressed envelopes. In the case of the latter, the respondents generally completed the forms at leisure and returned them to the writer by post. In some cases, they were personally collected from the firms on pre-arranged dates or, in a few cases, to counteract persistent failure on the part of the respondents to return them.

The resort to this second check-list (a copy is appended - Appendix II) was made with a view to getting direct responses from the principals on key issues, especially in cases where the responses would reflect their attitudes and personal values.

F Assessment of Principal's Traits:

The possibility of using a psychological paper-and-pencil personality and motivation tests, e.g. the Eyesenck Personality Inventory tests, was at first considered.

However, it soon became evident that the rural small businessmen were strongly averse to any such attempt to evaluate their personal attributes. A few reacted against it as an intrusion of their privacy and, in fact, the writer lost them as potential respondents in the survey, even when such tests were no longer being used.

Furthermore, from the writer's initial experience in the field, a paper-and-pencil test, or other such tests, would not only be too time-consuming in view of his limited sojourn in this country, but also would be impracticable unless the test could be administered in an environment away from the work place where, as indicated earlier, frequent interruptions would negate the effectiveness of these tests. Therefore, in order to ensure maximum co-operation from respondents, and on practical grounds, the administration of any psychological test had to be avoided.

G Financial Statements:

The reaction to requests made by the writer for examining the firms' accounts was mixed. Generally, the principals were reluctant to divulge any information on their financial position. Out of the 50 firms finally included in the analysis, 16 of their principals either refused outright, or failed repeatedly to keep their promise to provide the data, although they had initially consented to do so. The remainder co-operated, but this co-operation ranged from full disclosure of all their accounts to only restricted disclosure of limited items.

In order to compensate for these inadequacies, the files and records of the firms in Company House were examined. However, these records were limited - they were either out-of-date or only contained the accounts of the first two or three years since the disclosure provision became mandatory.[2] Nonetheless, the data obtained in some cases helped to fill some of the gaps.

Finally, in cases of firms which had made application for credit assistance from CoSIRA, their financial statements were made available to the agency, and hence were recorded in the files maintained by CoSIRA. In most cases, however, only the three-year accounts preceeding the date of the loan applications were filed, as this was the stipulation adhered to by the Loan-approving authority. On the whole, it was found that this source was more productive than that of Company House and, therefore, the data thereby obtained contributed towards closing the above-mentioned gap.

In the final analysis of the 50 firms, the writer succeeded in collecting sufficient financial data for 43. The remaining seven firms' accounts were either unobtainable from any of the available sources or were totally inadequate.

H Observation:

Data collection also occured by observation, both by direct and participant methods. In the case of the former, general assessments of office and works conditions were recorded. In addition, the writer accompanied CoSIRA advisory officers in the field, to observe their consultancy sessions with the principals of the firms. These sessions gave not only valuable insights into the modus operandi of the agency's counselling techniques, but also a deeper understanding of the specific problems being encountered by the firms observed. In several cases, it was also possible to gauge the attitudes of these principals towards a new technique being imparted.

Another valuable field of observation, where the writer also participated, was his presence at the Area Small Industries Committee meetings, in the three areas covered in the study. In almost all these meetings, the writer participated in the discussion of the problems of small firms and consultancy work. As in these committees the small firms were also represented by several of the owner-managers, their views provided yet another glimpse of the small businessmen's outlook. In cases where the principals of the firms covered in the study were members of these committees, the meetings provided excellent opportunities to see them in action discussing the various issues - their view-points throwing further light on their personalities.

Apart from the above, the writer also made four observation-visits to exhibitions, or shows where the sampled firms participated. These provided the opportunity of seeing the owner-managers in yet another context.

I Other methods of gathering data:

1) Other subjects interviewed: Apart from the principals of the firms, data for the study were also obtained through interviewing CoSIRA personnel, both in the field and in the various departments of the agency's head office in London. The field officers, especially the Organisers in the various counties and areas, proved to be the most rewarding source of information. Their proximity to the rural small firms, and to the latter's problems, made them very knowledgeable in this field.

In addition, seven members of the Area Small Industries Committees were also interviewed to obtain their opinion on the problems of the rural small firms, and also to obtain their views on the role and work of CoSIRA.

2) Postal Survey: Based on the belief that the CoSIRA Organisers were valuable sources of information, it was decided that more than the three Organisers of the areas covered in the field-study should be interviewed. However, only three others could be interviewed directly, owing to time limitation. Therefore, as an alternative to direct interview, their opinion was obtained through a postal survey (Appendix III). Specifically, the questionnaire used was directed at ascertaining the various aspects of the developments of the firms in their own areas. At the same time, in order to supplement and check the data obtained in the performance analysis of the sample firms, the questionnaire also incorporated evaluative questions. For this purpose, each of the

organisers was asked to select three firms in his area which he considered to be the most successful, and another three non-successful firms. Various attributes of these firms were then asked for in the questionnaire. Of the 11 organisers contacted nine returned their completed questionnaires.

3) Files and records: These proved to be fairly productive, especially as counterchecks. As CoSIRA maintained a file on each of the firms with which it associated, it was possible therefrom to study not only the types of assistance that had been extended to the sample firms, but also to verify some of the data obtained from the principals in the interviews.

4) Literature survey: All titles that gave leads to the various facets covered in the study were traced and the literature obtained. Thus, books, indexes of periodicals, library bibliographies, abstracts of publications and similar sources were all used in this exercise.

5) External visits: In order to get as balanced a picture of small firms as possible, visits were made to other institutions dealing with them, e.g. the Confederation of British Industries, British Institute of Management, The British Productivity Centres, and Industrial Liaison Offices. In these places several of their relevant personnel were interviewed.

6) Other activities: A visit to Japan and the U.S.A. was also undertaken during the period, and in both countries

agencies dealing with small firms were visited. In addition, visits were also made to a few small firms in these two countries. The agencies covered were:

Japan: Small and Medium Enterprises Agency.

Small Business Promotion Corporation.

Small Business Finance Corporation.

Tokyo Public Experiment and Research Institute (for small and medium businesses)

U.S.A.: The Small Business Administration Offices in Hawaii, Los Angeles, Denver, Washington and New York.

Department of Planning and Economic Development (Small Business Credit Finance Division) Honolulu.

Denver Coalition Venture (A private agency assisting small businesses of the minorities).

Apart from these visits, the writer's own experience with small firms in Malaysia, through his career in MARA prior to his present sojourn in the United Kingdom, and during a short field trip undertaken while on home leave in January 1972, also provided another source of comparative data.

J Problems Encountered:

In a study of this nature various practical problems became inevitable, but in devising means of overcoming them it was possible to make the study more fruitful.

The problem of obtaining the co-operation of the principals has been mentioned earlier. In order to ensure the best rapport, all appointments were made to suit the principals' time and, in the case where a principal had to terminate or cancel an interview prematurely because of sudden business duties, a fresh meeting was always arranged.

The method of leaving the check-list with the respondents after the depth interviews and asking for them to be returned by post was, unfortunately, not a sound process. Although the majority did return them, about 29 per cent failed to do so, despite reminders.

Although the writer's foreign background facilitated rapport considerably, there were occasions where the respondents' responses had to be doubly checked. Some principals had treated the writer as a potential contact for markets in Malaysia, and therefore tended to respond to questions in the context of customer-seller relationships, e.g. by submitting a healthier picture of the firm than was the fact. Therefore the writer had always to be cognizant of this possible bias, and was often forced to rephrase questions or countercheck responses at different intervals.

Another problem arose from the writer's own training. While the study required proficient knowledge of several disciplines, especially financial management and accountancy, the writer's sociological training was of limited use in analysing the performance of the firms. Therefore, through the good offices of the Director of the Small Business Centre, the writer was permitted to attend a series of short courses on the various aspects of small-business management, which were given by the Centre.

## II Quantitative Analysis of Data:

### A Basic Analysis:

In order to elucidate three facets of this study and to verify the various hypotheses, all the data obtained through the methods described earlier, were processed. Generally, the various sources of information yielded three categories of data, viz.

1) descriptive,
2) statistical, and
3) financial.

With respect to (1), they were classified and catalogued under subject headings, using index cards for easy reference. This information became one of the principal bases of all subsequent elucidations. The statistical data, including those derived from the interviews and questionnaire returns, were processed and tabulated in terms of several parameters, and were used to support the relevant descriptive analysis and conclusions.

The financial data, however, became the basis of ascertaining not only the financial structure of the firms, but especially their quality of performance relative to each other. Therefore, these data assumed critical importance in the study and their analysis was undertaken in this context. As indicated earlier, only 43 firms in the sample made their financial information available. Because the firms had different financial year-ends, it was decided that where the financial year ended on or before 30th March it was taken as the account of the previous calendar year, and when after that date as of that calendar year.

As a whole, however, the most complete returns were for the years 1966 to 1970 inclusive, and it was therefore decided that for practical reasons, only firms having at least three years' records within this period would be included in the performance-ranking analysis. Forty firms qualified for inclusion, the remaining three whose financial data were also available were not considered because their accounts were sparse and outside this period. However, the information obtained about the three firms, and that of the other seven whose financial information was completely unobtainable, was only used for general analysis outside the ranking study.

The choice of the period for study was therefore not arrived at by any other reasons than that of practicability. Perhaps the preponderance of accounts in this period, which covered the three years preceeding the data of the study, was because these represented the most recent. Most of these principals of the rural small firms did not keep their accounts in a readily available place. This was especially true for accounts of periods beyond the most recent years. In several cases, even for the previous year's account, the principals only succeeded in presenting them after a fair amount of 'digging and searching'.

Where disagreement was found in financial information obtained from more than one source, i.e. direct, Company House or CoSIRA, the direct data were accepted. In instances where the direct data were not available, those obtained through CoSIRA were used, as it was felt that these being compiled by the CoSIRA Accountant direct from the original represented a truer picture than those lodged at Company House. In cases of the latter, it is well known that many small firms submitted their accounts there most reluctantly for fear of disclosing their state of affairs to their competitors, and, therefore, these accounts might not have been reliable or complete.

In the two instances where the principal owned or controlled more than one firm, the accounts of the individual firms were consolidated and the firms were treated as one venture. This was done on the assumption that, although each of the firms had separate annual accounts, in reality they constituted one business.

Once the above considerations had been applied, the financial data were then analysed in terms of the following parameters:

1. Direct and computed values:
   a) Sales turnover
   b) Total assets
   c) Net assets
   d) Liquid assets
   e) Total costs of sales
   f) Net profit before tax (see below)
   g) Total added value

2. Ratios and percentages

   a) Return on sales or profit margin

   b) Return on net assets

   c) Return on total assets

   d) Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

   e) Liquidity ratio = $\frac{\text{Liquid assets}}{\text{Current liabilities}}$

   f) Sales to fixed assets = $\frac{\text{Sales turnover}}{\text{Fixed assets}}$

   g) Sales to debtor = $\frac{\text{Sales turnover}}{\text{Accounts Receivable}}$

   h) Sales to net assets = $\frac{\text{Sales turnover}}{\text{Net assets}}$

   i) Cash ratios = $\frac{\text{Sales turnover}}{\text{Cash}}$ and $\frac{\text{Current assets}}{\text{Cash}}$

   j) Debtor to current assets = $\frac{\text{Accounts Receivable}}{\text{Current assets}}$

   k) Material/Labour as a percentage of Sales Cost =

$$\frac{\text{Material or labour costs}}{\text{Total costs of sales}} \times 100$$

The listed values, however, were not all obtainable for all the firms and for all the years in the period to be studied. Nonetheless, in each case, the majority of the firms provided sufficient data to enable the computation of key values for the performance analysis.

B Ranking of Firms:

As indicated, only 40 firms were analysed to ascertain their relative performance ranking. From the start it was decided that, in order to arrive at a fair indicator of overall performance, the firms must be evaluated according to their showing in terms of both growth and profitability. Growth in this context would reflect the progress of each firm in terms of its physical output, scale of activities, assets, investments and profit figures; while profitability would indicate the firm's achievement in relation to the amount of capital employed.

A composite ranking analysis incorporating growth and profitability elements, therefore, would present a more complete picture than a measure which considered only one of the two elements. However, for such a composite ranking to be applicable and acceptable, there must be high consistency between the two constituent indicators. Thus with a view to obtaining the most comprehensive performance ranking, various parameters which reflected growth and profitability severally were computed, and rankings based on these values were subsequently constructed.

It would be desirable that all possible parameters of growth and profitability were included in constructing the performance ranking. However, for practical purposes, and especially with a view to arriving at the most consistent ranking values, in terms of degree of correlation, only those parameters which correlated highly with each other were finally used for the construction. The composite overall performance ranking was therefore arrived at through the following stages:

1) Ranking of the 40 firms for each of the parameters of growth and profitability.

2) A single ranking for each of growth and profitability, by averaging the rankings of the respective parameters, was then computed.
3) Finally based on the two rankings, an overall performance ranking was constructed, again through obtaining the average ranking of each of the firms.

This method of arriving at the performance ranking was based on the nature of the data obtained in this study, and after surveying techniques used in other studies. Although it would have been preferable to use a more sophisticated method, for example as used by Matthews, the divergence in the type of data obtained in the two studies negated the use of his method. Matthews constructed his overall ranking through the average rankings of the firms in the various parameters. However, in his case, he reduced the element of variability of age by computing the values in terms of years of operation rather than calendar years. He was able to do this with his sample (16 firms) because all of them were founded during the period 1955 - 1969, and he had obtained the accounts of the firms in consequence from their first year of operation. In the present study, as indicated, the writer was able to obtain accounts only for the period 1965 - 1970, and the ages of the firms differed considerably.

Apart from that of Matthews, other studies referred to and upon which the present technique was based included Epstein (1931), Stekler (1963), Fox (1963), Singh and

Whittington (1968), Bates (1969), Allen (1970), Boswell (1971) and Tamari (1972). In many respects, their techniques and findings were germane to the present analysis.

Growth Ranking: Parameters which reflected growth factors were used in this analysis. Three yardsticks of growth which were used by Allen and Boswell in their studies were also adopted here, viz:

a) Sales turnover,

b) Net profit before tax, and

c) Net assets.

Net profit in this analysis was taken to mean profit before deducting Directors' fees and remunerations. The inclusion of these elements was made in order to yield a more consistent comparison of the actual performances and profit of different firms. Tamari in his analysis has also underlined the necessity of treating profit inclusive of Directors' salaries.

Tamari reckoned that in small firms the distinction between the private affairs of the owner-managers and the firm was not always clear. Current disbursements might be accounted as drawings or as earnings, since an element might validly be regarded as equivalent to dividends paid or a return on capital. He suggested that, as a result of this, the net profit figure shown in a small firm's profit-and-loss account might correspond more closely to the profit after dividends appearing in the appropriation account in larger firms. Moreover, the size of the 'dividend' element in such disbursements was subjective and varied widely among these firms.

Therefore, the difficulty of separating the actual element of Directors' fees, salaries or remuneration made their inclusion in the consideration more suitable.

For each of the above three parameters, the returns of each of the firms in one year were compared with the next and subsequently with those of the following years. In each case the percentage change, up or down, was computed. This simple relative rate-of-change over the years covered by the study was considered to reflect the growth pattern of the firms. Then, the average of the annual rate of change for each firm was computed to arrive at the overall growth of the firm in the period. The firms were then ranked according to the values of their average rates of annual change. Allen, for inter-firm comparison purposes, also used a somewhat similar technique in ascertaining the growth of his sample of firms.

The three separate rankings obtained in this way were then compared and their correlation rates ascertained by using Spearman's rank correlation[3] of $r = 1 - \frac{6\Sigma D^2}{n^3 - n}$ .

It was found that there was high agreement between them, for example

- between sales turnover ranking and Net Profit ranking, $r = 0.65$ and $p = < 0.01$ (i.e. this was significant at less than one per cent of confidence.)
- between sales turnover ranking and net assets ranging $r = 0.69$ and $p = < 0.01$, and

- between Net Profit ranking and net assets ranking $r = 0.56$ and $p = 0.01$.

In view of this high consistency, the construction of a combined growth ranking was confidently undertaken. This composite growth ranking was obtained by taking the simple average of the ranks of each of the firms as assessed by the three growth criteria. It was then compared with the three growth-parameter rankings and its correlation with the latter were:

with sales turnover ranking $r = 0.82$ and $p = < 0.01$
with net profit ranking $r = 0.88$ and $p = < 0.01$, and
with net assets ranking $r = 0.89$ and $p = < 0.01$.

Profitability ranking: As indicated earlier, profitability is an indicator of the appropriateness or success of investment and is therefore an important index of performance. It has a direct relationship with growth - in one respect profitability can be used as an index of the ability of firms to grow, because retained earnings in most instances are the most important source of funds from which a firm can expand.

In order to arrive at this indicator, the principal profitability ratio for each of the firms was computed. Following Fox, Stekler, Boswell, Matthews and Tamari, the following ratios were used:

a) profit margin or return on sales,
b) return on net assets or invested capital, and
c) return on total assets.

Profit margin: When considering profitability, it is sometimes claimed that this company or that company made a 10 per cent margin on sales. This refers to the difference between the selling value and the cost of sales and is not a reliable indicator of profitability because it is not related to the capital employed in the business. It is nevertheless a most important ratio and taken with the other two ratios can indicate the performance of the firms in terms of their profit margins on sales. Fox even regarded this ratio as an important indicator of general profitability although Tamari reckoned that it suffered from the considerable influence exerted on it by differences between different industries e.g. in their production methods.

Margin on sales, therefore, is the net profit before interest and taxes expressed as a percentage of sales

i.e. $\frac{\text{Net Profit}}{\text{Sales}} \times 100$

Return on net assets: Some of the earlier studies however prefered net worth or equity instead of net assets (e.g. Tamari, Fox). However, following Steindl (1945), Epstein, Stekler and Boswell, net assets was used in this study. This decision was principally based on the following grounds:

a) to mitigate inflationary effects: profits are expressed in current money values whilst net worth is usually a historical figure and thus insensitive to price changes.

b) the size of a firm's net worth is dependent upon its choice of financing methods. The larger the proportion of assets that have been obtained through borrowing, the smaller will be net worth and the larger will be the rate of return calculated from a given level of profits after payment of interest on loans. Therefore, these variations may introduce bias in the results.

Therefore, return on net assets was computed by expressing profit before tax as a percentage of net fixed assets plus current assets i.e. $\frac{\text{Net Profit}}{\text{Net Assets}} \times 100$

Return on total assets: This was simply arrived at by calculating the percentage of the net profit in relation to the total capital, including all borrowings employed in the business. Thus, $\frac{\text{Net profit}}{\text{Total Assets}} \times 100$

The three ratios above were computed for each of the firms and for each of the years in the period of study. The simple average of the ratios for the period, for each of the firms, was then obtained. The 40 firms were then ranked according to these average values and these three rankings were then compared. Their correlation values were:-

- Return-on-net-assets ranking and total-assets ranking, $r = 0.87$ and $p = < 0.01$,
- Return-on-net-assets ranking and sales-margin ranking, $r = 0.70$ and $p = < 0.01$ and
- Return-on-total-assets ranking and sales-margin raking, $r = 0.91$ and $p = < 0.01$.

The composite performance ranking was then computed, again by taking the simple average ranks for each of the firms as evaluated by each of the above ratio-rankings. This composite performance ranking was then compared with each of the ratio rankings. The correlation of the former were:

with return-on-assets ranking $r = 0.93$ and $p = < 0.01$

return-on-total-assets ranking $r = 0.97$ and $p = < 0.01$ and

profit-margin ranking $r = 0.91$ and $p = < 0.01$.

Finally the two composite rankings, growth and profitability were compared and it was found that there was a fairly high correlation between them, r being 0.51 and $p = < 0.01$.

The overall performance ranking: Based on the high agreement between growth and profitability, perhaps unexpected, the writer felt confident in constructing an overall performance ranking upon which most of the subsequent analysis on the relative performance of the firms was to be based. Again the simple average ranking for each firm, obtained through the composite-growth ranking and composite-profitability ranking, were calculated. Where there was a tie, the one which showed a better ranking in profitability was given precedance, as it was considered profitability was the more important consideration.

The overall-performance ranking was then compared with all previous rankings constructed. Finally, the internal correlation between all the various rankings that have been developed was also computed. These are summarised in Table 2-1.

TABLE 2-1

RANK CORRELATIONS OF THE
DIFFERENT RANKING METHODS

| | Methods | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Overall Performance Ranking | - | 0.84 | 0.86 | 0.57 | 0.69 | 0.84 | 0.71 | 0.80 | 0.86 |
| 2 | Composite Growth | | - | 0.51 | 0.82 | 0.88 | 0.89 | 0.29 | 0.43 | 0.50 |
| 3 | Composite Profitability | | | - | 0.16 | 0.37 | 0.52 | 0.91 | 0.93 | 0.97 |
| 4 | Annual Change in turnover | | | | - | 0.65 | 0.69 | 0.27 | 0.12 | 0.19 |
| 5 | Annual Change in net profit | | | | | - | 0.56 | 0.21 | 0.40 | 0.38 |
| 6 | Annual change in net assets | | | | | | - | 0.34 | 0.49 | 0.55 |
| 7 | Profit Margin | | | | | | | - | 0.76 | 0.91 |
| 8 | Return on net assets | | | | | | | | - | 0.87 |
| 9 | Return on total assets | | | | | | | | | - |

C Tabulation:

The various rankings of each of the 40 firms, as calculated by the different parameters, are tabulated in Table 2-2, with the overall-performance ranking as the base. The ranking in terms of overall performance was then classified into median and quartiles, in order to group them into classes or categories of performance. There were therefore three categories of firms by this reckoning viz. the upper-quartile grouping comprising the firms first to tenth in ranking, the median group, comprising the firms eleventh to thirtieth; and the lower-quartile group, representing the bottom ten - i.e. from thirty-first to fortieth in ranking. In terms of relative performance within the sample, the first category is alternatively referred to as the 'most successful' group, the second as the 'average' and the third as the 'least successful'.

Appendix V shows the overall performance ranking in terms of three categories, and against these ranks are arranged the responses or values for the various main variables which were central to the verification of the hypotheses in this study. This tabulation served to facilitate subsequent quantitative analysis.

In the performance analysis, the total responses for each variable, or sub-variables, were tallied for the relevant categories of performance. The percentage-distribution of the total firms having each variable or sub-variable over the three categories were calculated and entered in the respective tables. A perfect percentage-distribution for

TABLE 2-2

THE RANKINGS OF FIRMS IN THE SAMPLE USING THE DIFFERENT METHODS

| RANKING METHODS | FIRMS IN SAMPLE | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AB | AM | E | C | R | AL | X | B | V | O | A | AF | J | W | AC | T | Z | AS | AH | M | S | L | N | D | AD | G | K | AG | AE | H | I | F | Y | P | AJ | AP | AA | U | Q | AK |
| OVERALL PERFORMANCE RANKING | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 |
| RANKING BY ANNUAL CHANGE IN TURNOVER | 6 | 3 | 2 | 4 | 5 | 1 | 14 | na | 19 | 8 | 7 | 9 | 26 | 23 | na | na | 13 | 20 | 28 | 25 | 12 | 22 | 18 | 15 | 11 | 17 | 30 | 10 | 21 | na | na | na | 27 | na | 24 | 15 | 31 | na | 29 | 32 |
| RANKING BY ANNUAL CHANGE IN NET PROFIT | 6 | 7 | 14 | 2 | 5 | 1 | 33 | na | 16 | 19 | 4 | 12 | 24 | 25 | 13 | 17 | 11 | 23 | 9 | 26 | 10 | 22 | 3 | 20 | 8 | 21 | 32 | 18 | 15 | 34 | na | 28 | 30 | 29 | 27 | 35 | 37 | 31 | 36 | 38 |
| RANKING BY ANNUAL CHANGE IN NET ASSETS | 2 | 1 | 3 | 5 | 8 | 4 | 12 | 15 | 11 | 25 | 6 | 10 | 21 | 20 | 28 | 19 | 14 | 13 | 9 | 33 | 16 | 22 | 28 | 17 | 7 | 27 | 18 | 24 | 34 | 31 | 32 | 23 | 35 | 30 | 36 | 26 | 39 | 37 | 29 | 40 |
| COMPOSITE GROWTH RANKING | 4 | 3 | 7 | 2 | 6 | 1 | 20 | 12 | 13 | 17 | 5 | 9 | 27 | 25 | 22 | 18 | 10 | 19 | 14 | 31 | 11 | 24 | 21 | 15 | 8 | 23 | 30 | 16 | 26 | 37 | 36 | 29 | 34 | 33 | 32 | 28 | 39 | 38 | 35 | 40 |
| PROFIT MARGIN RANKING | 2 | 1 | 13 | 14 | 6 | 15 | 4 | na | 19 | 12 | 24 | 18 | 9 | 3 | 8 | 5 | 21 | 10 | 23 | 11 | 26 | 7 | 20 | 22 | 32 | 16 | 17 | 34 | 31 | 28 | na | na | 25 | na | 21 | 30 | 33 | na | 29 | 35 |
| RANKING BY RETURN ON NET ASSETS | 2 | 6 | 3 | 8 | 14 | 12 | 13 | | 10 | 9 | 16 | na | 1 | 11 | 7 | 17 | 25 | 18 | 21 | 4 | 29 | 22 | 15 | 27 | 28 | 19 | 5 | 37 | 23 | 20 | 24 | 26 | 31 | 33 | 30 | 34 | 36 | 35 | 32 | 38 |
| RANKING BY RETURN ON TOTAL ASSETS | 2 | 3 | 5 | 11 | 7 | 22 | 1 | na | 8 | 9 | 21 | 18 | 4 | 6 | 12 | 16 | 14 | 15 | 24 | 10 | 23 | 13 | 17 | 28 | 34 | 21 | 19 | 36 | 31 | 25 | 27 | 35 | 30 | 26 | 32 | 33 | 38 | 37 | 29 | 39 |
| COMPOSITE PROFITABILITY RANKING | 1 | 2 | 6 | 11 | 8 | 17 | 4 | 15 | 12 | 10 | 22 | 19 | 3 | 5 | 9 | 13 | 21 | 16 | 23 | 7 | 27 | 15 | 18 | 26 | 34 | 20 | 14 | 36 | 28 | 24 | 25 | 33 | 29 | 30 | 31 | 35 | 37 | 38 | 32 | 39 |

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the three categories of performance in the analysis of each sub-sample of firms would display a ratio of 25:50:25. Any departure from this pattern would reflect the trends of performance of the firms in the sub-sample - the greater the departure the more significant the possible trend.

These various analyses show that, while many of the variables or sub-variables involved a sizeable proportion of the total sampled firms, others only included small groups of firms. However, for the benefit of future researchers, the writer has included in this report analyses of various sectors of characteristics or attributes even when the size of the sub-sample was too small to permit of any statistical significance.

However, for a more powerful and scientific analysis, the various variables were correlated to the overall performance ranking of the firms to ascertain their relationship. Basically the Spearman rank correlation was used to calculate the correlation value of each variable, in terms of its association with the performance ranking.

First, each variable was tested against the total 40 ranked firms and an overall correlation value was obtained. Then, using the same formula only the top ten were tested against the bottom ten, thereby eliminating the variability of the middle 20 firms. The latter test therefore attempted to ascertain the relationship of a variable between successful and non-successful performance ranking, excluding the average firms.

In many cases, as one would expect, variables which did not return a high and acceptable correlation in the overall ranking, generally showed better values when only the top ten firms were compared with the bottom ten.

For the analysis, in order to ascertain the potency of the relationship of a variable and the ranking, its correlation value was tested to ascertain its significance and the probability of the hypotheses being true or otherwise. The Student t-test formula was used for this purpose and the probability value was checked in the standard table. Any variable with a probability value of less than five per cent was accepted as being significantly related to the performance ranking of the firms. However, those variables whose correlation values were more than five per cent, but not exceeding ten per cent, were only accepted as having some possible affect on the ranking; while variables showing correlation values in excess of ten per cent were rejected as having insignificant effect on the ranking.

Indirect sample: As the indirect sample had no financial data available no similar ranking and analysis was possible. However, the firms were classified in terms of two categories of performance: 'most successful' versus 'least successful', the latter including closures. Trend analysis was achieved by simple percentage-analysis of the various variables and, in possible cases, tetrachoric correlation tests were used as Spearman rank correlation was not applicable.

Generally, in this study, the elucidation of the three facets of the rural small firms, their structure, functions and development, as well as the verification of the various hypotheses, were achieved by descriptive as well as by statistical analysis of the data gathered from all sources. However, the procedural route, or methodology, of this study is not confined to any single analytical body or model. Since the desired result was the understanding of the characteristics of the rural small firms, and the factors that affect their development, a practical approach seemed acceptable. Thus, this simple straight-forward and realistic approach is felt appropriate for the present exercise. The use of a rigid model for this study was considered to have the probable effect of forcing the analysis of the sector into a set of environmental factors which, in fact, do not exist in the sector. A methodology that would simply elucidate and verify the various facets of the study was therefore relied upon.

Despite the diverse industries included in the sample, no analysis by industries was carried out, because the sample was too small to yield significant results. Therefore, the factors analysed were taken for the rural small-firm sector as a whole, and the conclusions derived therefrom must be considered in this light. The intent of this study is therefore fairly clear-cut; to examine the nature of the sector and ascertain the internal and environmental factors affecting it, in the hope that such knowledge will suggest policies which might provide increase the prospects of survival and improved performance of the rural small firms.

Chapter Notes:

1. A total of 96 firms were covered in the survey but finally only 50 were used in the analysis, these being those whose co-operation was maintained throughout the study and, therefore, adequate data were obtainable.

2. The Disclosure Provisions of the Companies Act came into operation only in 1967. The Act makes the annual submission of the audited accounts of all limited companies, to the Registrar of Companies, mandatory.

3. The notation in the formula refers to:
   $r$ = correlation value.
   $\Sigma$ = the sum of.
   $D^2$ = the square of the difference between the ranking positions of each firm.
   $n$ = number of firms involved in the analysis.

e.g.

| Firm: | A | B | C | D | E | etc. |
|---|---|---|---|---|---|---|
| Rank I | 1 | 2 | 3 | 4 | 5 | |
| Rank II | 4 | 1 | 2 | 5 | 3 | |
| D | -3 | 1 | 1 | -1 | 2 | |
| $D^2$ | 9 | 1 | 1 | 1 | 4 | |

$$D^2 \quad 9 = 1 + 1 + 1 + 4 = 16$$

$$r = 1 \frac{6\Sigma D^2}{n^3 - n} = 1 - \frac{6x16}{5^3-5} = 1 - \frac{96}{120} = 1 - 0.8 = 0.20$$

In order to obtain the probability rate (p), the student t-test formula was used viz. $t = r\sqrt{\frac{n-2}{1-r^2}}$ . The resulting value, t was then checked in the standard t-distribution table which gives the probability rate. Therefore for the above, $t = 1.32$ and $p = 0.10-0.20$.

# PART II

## The Investigation and Findings

This section embodies the details of the investigation and findings of the study to test the hypotheses listed in the previous part, as well as to elucidate the three facets the study was designed to investigate viz, the structure, functions and development of the rural small firms. These elucidations will be supported by statistical evidence, both descriptive and analytical.

A: The Population:

As indicated earlier, the population of the firms for the study comprised the rural firms which were defined as such by the Council for Small Industries of Rural Areas, and which were in direct contact with the agency through its Credit, Advisory and other services. The geographical boundary of this population however, was limited to the firms within the counties of Sussex, Warwickshire, Shropshire, Cheshire and Staffordshire.

According to 1970/71 returns of the organisers in these areas, they had on their register the following number of firms:

| | | | |
|---|---|---|---|
| i) | Sussex | : | 230 |
| ii) | Warwickshire | : | 240 |
| iii) | Shropshire | : | 437 |
| iv) | Cheshire | : | |
| v) | Staffordshire | : | |
| | Total | = | 907 |

B: The Sample:

The analyses in this part and the conclusions in the final section have been based mainly on the sample of 50 firms selected from the population above. The breakdown of this sample in terms of the geographical area is:

| | | | |
|---|---|---|---|
| i) | Sussex | : | 15 |
| ii) | Warwickshire | : | 15 |
| iii) | Cheshire | : | |
| iv) | Shropshire | : | 20 |
| v) | Staffordshire | : | |
| | | | 50 |

C:The Indirect Sample:

Apart from the direct sample above, some analyses, especially for supplementary and/or comparative purposes, have also been based on a group of firms reached indirectly through the other area organisers, via the post. This postal or indirect sample consisted of 54 firms, 27 being classified as successful and another 27 as non-successful, i.e. three of each category from nine different organisers' areas.

In the analysis, the direct sample will be referred to as the sample; while when the indirect sample is referred to, it will be defined as such.

# CHAPTER THREE

## THE STRUCTURE OF THE RURAL SMALL FIRMS

Despite the differing activities and geographical locations of the firms in the samples, the study reveals several common denominators in terms of their demographical and structural features. It is these more or less common characteristics that make the rural small firms distinct from the larger firms in the economy.

## I Distribution of the Rural Small Firms

### A Geographical Distribution:

The small firms covered in the study were located in the defined 'rural areas' although, within these areas, they could be located anywhere between the isolation of the farm to the middle of a township having a population of not more than 10,000. Generally, the location can be classified in three different zones: village or farm (on its own), within township area, or in a rural industrial cluster or estate. Table 3-1 shows the distribution of the 50 firms in the direct sample, according to these zones.

Thus, the majority of the firms (52 per cent) were located in, or at the periphery of, a rural township. This preponderance has been attributed mainly to the availability of premises for industrial purposes. As Table 3-2 reveals, one of the prime reasons for the choice of the firms' premises was this availability factor.

TABLE 3-1

THE LOCATION OF THE FIRMS IN THE SAMPLES

| Types of Location | Ranked Firms | Unranked Firms | Indirect Sample | Total | |
|---|---|---|---|---|---|
| | N=40 | N=10 | N=54 | No. | % |
| Isolated in farms/village | 11 | 3 | n.a.* | 14 | 28 |
| In industrial cluster/estate | 7 | 3 | n.a. | 10 | 20 |
| Within rural township | 22 | 4 | n.a. | 26 | 52 |
| | 40 | 10 | - | 50 | 100 |

* n.a. - not available.

Another factor that has contributed to the preference for the rural township has been that the anticipated environmental influence in a township tended to generate more commercial and industrial activities than a village. As most of these towns covered in the survey also embrace larger firms, it was expected that there would have been some 'spin-off' effects from the latter. In fact, 24 per cent of the sample firms have been started by people previously employed in the larger firms in or near the area, who started the same or similar trades on their own.

Finally, the preponderance of firms in townships is not totally unexpected, as it is more logical to regard these areas as the natural birth-place for industrial units such as those in the sample, rather than those in villages or farms. While the industrial estate would be more suitable, its availability and price make it more the domain of somewhat larger, medium and large-sized firms.

Twenty-eight per cent of the firms were established in the 'middle of nowhere', i.e. in non-industrial and non-commercial areas. Eight of the firms were located on their own in a farming environment; the remaining six were located in villages, but still in individual units of their own. Generally, firms of this category have been started originally on a very small scale and, in the context of the environment, in an unobstrusive manner.

Since their inception, however, natural growth has gradually made their physical presence more obvious and, in fact, in two cases they have aroused the objections of the villagers.

In terms of buildings, the village-based firms were housed, at least in the initial stages, in any of the following types of premises:

i) within the principal's own house compound, e.g. garage.
ii) converted farm buildings e.g. barn or farm workshop.
iii) converted village 'smithy' or 'farriery' - in these cases the firms were often engaged initially in the farrier trades.
iv) in industrial or commercial purpose-built premises rented or constructed by the principals or their predecessors.

As a result of some of these firms evolving from minor enterprises or part-time ventures, their growth often not being anticipated by the principals in the first instance, the firms have literally 'sprung up overnight' in unorthodox premises. One of the firms, which started as the principal's 'hobby-horse' has now developed into a small firm employing 13 people on the principal's farm, two-and-a-half miles away from the village road. This firm, (Firm AQ), has developed completely from the demands for the owner's invention, a rather revolutionary plough which filled a gap in many farmers' equipment.

Case: Mr. Issac[1], a young farmer, has like others, always tried to adapt his farming implements to meet particular needs that often arose. Out of these technical improvisations he developed a special device, for use as a 'linkage' on farm tractors. This item met the needs of many tractor users and soon friends began to persuade him to make this device for them. He had meanwhile taken a patent and also contacted a firm manufacturing tractors and mowers. The firm, seing the potential of Mr. Isaac's device, decided to produce it under licence. Mr. Isaac continued his own improvisation and technical hobby work. Because the soil on which he had to use his tractor was heavy, it presented a problem which he overcame by developing a special plough. Again, this innovation attracted first his immediate neighbours and, later, other farmers with similar problems. The demand for this innovation, which he later patented, became of commercial potential. The same firm which was producing his linkage was interested, but because Mr. Isaac felt that he had not benefited fully from his previous arrangement, he decided to manufacture his plough on a small scale.

After he was persuaded to enter his product for The Royal Show and won the prize for the best new agricultural implement, his firm kept on growing to cope with the nation-wide demand. He has extended the former farm workshop and, latterly, has constructed a new building, still on the farm.

The remaining 20 per cent of the sample firms were located in rural industrial sites or estates. It is interesting to note that all but one of these firms in this category were young firms. Even this one exception, which was more than 50 years old, actually moved into a rural industrial estate in 1970.

It is expected that more and more new firms will in future be sited in such localities. This is attributed to the increasing development of such estates throughout the country, especially to meet rural industrial needs, and to mitigate environmentalist objections to firms being located in the countryside.

The ten firms in this category were on eight different estates, one in Sussex, three in Warwickshire and four in Staffordshire-Cheshire-Shropshire. These estates, however, were not all with premises designed for industrial purposes in the first instance. There were three types of estates found in the study:

i) converted disused buildings e.g. military, colliery and airfield premises.

ii) estates specially constructed by private or public developers.

iii) unplanned estates i.e. cluster of firms located in a common area, over time, but now controlled within an industrial estate set-up.

The premises in the estates therefore ranged from sub-standard buildings to excellent prefabricated or specially-designed constructions. However, as most of the developers either sold the properties outright or leased them to the firms, the owner-managers were able to renovate and improve the buildings. In fact, three of the firms have, since moving into an estate, rebuilt their premises. Only one firm on one of the estates had to rent his premises, as the developer did not intend to sell his property outright.

Generally, there was about 50:50 ratio of principals who did not, to those who did, own the buildings in which their firms operated. Some of the reasons given by the principals for not owning the premises were:-

i) Lack of capital and inability or unwillingness to borrow the necessary funds.

ii) Reluctance to invest available funds in fixed property, thereby reducing much-needed working capital.

iii) Personal reasons - in these cases where the rented premises were owned by major shareholders or some other members of their families. The reasons most commonly mentioned for these were:

a) Often saved taxes by paying the owner more in rentals than the cost of owning the buildings.

b) Provided a more-or-less protected income for an individual associated with the firm, e.g. co-owner.

c) To diversify the family investment, thereby, spreading the risk.

Generally, for all three locations, the respondents have indicated different reasons for the choice of premises. These are summaried in Table 3-2. It is clear that a high percentage of them had chosen their sites for personal reasons which were not entirely based on economics.

TABLE 3-2

REASONS GIVEN BY RESPONDENTS FOR THEIR CHOICE OF BUSINESS PREMISES

(DIRECT SAMPLE)

(Multiple Responses)

| Reasons for Choice | Ranked Sample | Unranked Sample | TOTAL | |
|---|---|---|---|---|
| | | | No. | % |
| Availability or vacancy | 30 | 5 | 35 | 70 |
| Nearness to home | 11 | 3 | 14 | 28 |
| Familiarity with neighbourhood | 5 | 0 | 5 | 10 |
| Availability of business for sale | 4 | 2 | 6 | 12 |

B Size Distribution:

Table 3-3 shows the size distribution in terms of employment, for both the samples. It is seen that a high percentage, 61 per cent, of the firms had not more than 20 employees. Only two per cent had more than 100 employees. This preponderance of firms in the lower size-classes is typical of the firms with which CoSIRA is associated. The Agency's Census of Small Industries in Rural Areas, quoted earlier, states that the average number of employees per firm, in the survey, was about five.

Finally, Table 3-4 shows the size distribution in terms of sales turnover, for both the samples. It is seen that about half of the firms were in the lower size-bands (100 or less).

C Distribution by Principal Activities:

Table 3-5A shows the principal activities of the firms of the direct and of the indirect sample.

In the combined samples of 104 firms, category A, i.e. manufacturing products, is the main activity, 3.85 per cent of the total. Wood, plastics and rubber is seen to be the next largest category with 16.3 per cent of the total. The next size-group was the mechanical-processing category, which included machining, grinding, pressing etc., and this comprised 13.5 per cent of the combined sample.

The product-manufacturing group included firms producing both durable and non-durable items - mainly the former.

TABLE 3-3

SIZE DISTRIBUTION OF FIRMS IN BOTH SAMPLES
(IN TERMS OF EMPLOYMENT)

| Number of Employees | DIRECT SAMPLE | | INDIRECT SAMPLE | | TOTAL | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| 10 and less | 19 | 38 | 17 | 31.4 | 36 | 34.6 |
| 11 - 20 | 16 | 32 | 11 | 20.4 | 27 | 26.0 |
| 21 - 30 | 8 | 16 | 11 | 20.4 | 19 | 18.3 |
| 31 - 40 | 2 | 4 | 6 | 11.1 | 8 | 7.7 |
| 41 - 50 | 1 | 2 | 4 | 7.5 | 6 | 4.8 |
| Over 50 | 4 | 8 | 5 | 9.2 | 9 | 8.6 |
| | 50 | 100 | 54 | 100 | 104 | 100 |

TABLE 3-4

SIZE OF DISTRIBUTION OF FIRMS IN BOTH SAMPLES (IN TERMS OF SALES TURNOVER)

| Sales Turnover £'000 | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Less than 20 | 7 | 14 | 6 | 11.1 | 13 | 12.5 |
| 21 - 40 | 7 | 14 | 10 | 18.5 | 17 | 16.9 |
| 41 - 60 | 8 | 16 | 2 | 3.7 | 10 | 9.6 |
| 61 - 80 | 4 | 8 | 7 | 13.0 | 11 | 10.6 |
| 81 - 100 | 2 | 4 | 3 | 5.6 | 5 | 4.8 |
| 101 - 120 | 3 | 6 | 2 | 3.7 | 5 | 4.8 |
| 121 - 140 | 2 | 4 | 2 | 3.7 | 4 | 3.9 |
| 141 - 160 | 3 | 6 | 2 | 3.7 | 5 | 4.8 |
| 161 - 180 | 1 | 2 | 3 | 5.6 | 4 | 3.9 |
| 181 - 200 | 0 | 0 | 2 | 3.7 | 2 | 1.9 |
| Over 200 | 6 | 12 | 5 | 9.2 | 11 | 10.6 |
| Not available | 7 | 14 | 10 | 18.5 | 17 | 16.3 |
| | 50 | 100 | 54 | 100 | 104 | 100 |

TABLE 3-5A

PRINCIPAL ACTIVITIES OF THE FIRMS
(BOTH SAMPLES)

| Types of Activities | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Product Manufacturing | 19 | 38 | 21 | 38.9 | 40 | 38.5 |
| Metal Fabricators | 5 | 10 | 2 | 3.7 | 7 | 6.7 |
| Building trades/ Construction | 6 | 12 | 4 | 7.4 | 10 | 9.6 |
| Electrical and Electronics | 4 | 8 | 3 | 5.6 | 7 | 6.7 |
| Mechanical (e.g. machining, press-work) etc. | 7 | 14 | 7 | 13.0 | 14 | 13.5 |
| Jig and Tool Makers | 1 | 2 | 0 | 0 | 1 | 1.0 |
| Wood, Plastics and Rubber | 5 | 10 | 12 | 22.2 | 17 | 16.3 |
| Others | 3 | 6 | 5 | 9.2 | 8 | 7.4 |
| | 50 | 100 | 54 | 100 | 104 | 100 |

The durable products ranged from needles to farm machinery. Table 3-5B indicates a breakdown of the sample firms into the product types. The table, however, categorises the output of the non-manufacturing firms into 'products' based on their constituents - e.g. stone, clay or plastics - or in terms of its industrial use - e.g. parts and components and identifiable, directly marketable, consumer goods.

Table 3-6 on the other hand shows the breakdown of the sample firms into their roles, in terms of their functions vis-a-vis the larger firms. In this case, however, some of the firms performed multiple roles, e.g. a firm could be both a consumer of a larger firm's products and a competitor of other larger firms. (A more detailed discussion of these roles is given in the following chapter).

Finally, the firms are categorised in terms of their material content as a percentage of total expenditure, as shown in Table 3-7.

TABLE 3-5B

PRODUCT-TYPES OF THE DIRECT-SAMPLED FIRMS

| Types of Products Produced | No. of Firms | Percentage |
|---|---|---|
| Fabricated metals and metal products | 13 | 26 |
| Components, parts and tools | 13 | 26 |
| Wood products | 6 | 12 |
| Stone, Clay, Plastics | 9 | 18 |
| Machinery equipment | 6 | 12 |
| Miscellaneous | 3 | 6 |
| | 50 | 100 |

TABLE 3-6

BUSINESS ROLES OF THE FIRMS IN THE SAMPLE
(MULTIPLE RESPONSES)

| Roles vis-a-vis Larger Firms | Number | Percentage |
|---|---|---|
| Competition | 29 | 58 |
| Satellites | 14 | 28 |
| Specialist | 25 | 50 |
| Jobbers | 26 | 52 |
| Marketeer | 23 | 46 |
| Customer/Consumer | 40 | 80 |

TABLE 3-7

DISTRIBUTION OF DIRECT-SAMPLED FIRMS
IN TERMS OF MATERIAL COSTS AS
PERCENTAGE OF TOTAL EXPENDITURE

| Percentage of Material costs | Firms* (Number) | % |
|---|---|---|
| Less than 30 | 5 | 12.5 |
| 30 - 40 | 3 | 7.5 |
| 41 - 50 | 1 | 2.5 |
| 51 - 60 | 7 | 17.5 |
| 61 - 70 | 5 | 12.5 |
| 71 - 80 | 3 | 7.5 |
| Over 80 | 6 | 15.0 |
| Not available | 10 | 25.0 |
| | 40 | 100 |

*Only the 40 ranked firms are included as the data for the remaining 10 firms are not available.

## II The Development of the Firms

### A The Origins of the Firms:

The firms in the samples have been founded by the principals for different reasons, and as the results of varying factors. Table 3-8 indicates some of the nature of origins of the 50 firms in the direct sample. The tabulation shows that some of these firms were premeditated ventures whilst other were not initially intended to become industrial enterprises.

The last category it includes firms which were started as side-line activities or hobbies, and these accounted for ~~twelve~~ ten per cent. of the total. Among the part-time ventures were some firms which were started merely to supplement the income of principals who were gainfully employed elsewhere. In other cases, the principals did not undertake the running of the firms full-time, because they were unprepared to risk their future prospects by quitting a steady job and depending solely on an uncertain enterprise. In many of these firms, however the principals had underestimated the potential of their new ventures. Therefore, virtually all these part-time starters had to quit their jobs sooner than they had planned.

Of the remaining firms, 24 per cent were established as a result of 'spin-off' effects from the larger firms in the area. Gibbons and Watkins (1970) defines a spin-off company as one which occurs when an entreprenuer 'leaves

TABLE 3-8

CIRCUMSTANCES OF ORIGIN OF THE FIRMS
(DIRECT SAMPLE)

(Multiple Responses)

| Nature of Origin* | Number | Percentage |
|---|---|---|
| Bought over | 6 | 12 |
| Spin-off firms | 12 | 24 |
| Evolved from hobby | 5 | 10 |
| Evolved from part-time | 6 | 12 |
| Developed from craft-based | 13 | 26 |
| Premeditated development | 26 | 52 |

his company or research establishment and sets up his own business - normally in a related activity'. Therefore the employing firms were the nursery beds for the new entreprenuers. In these cases, the most usual way to start a new establishment was for a man who had been working in the local firm to gather one or two of his work-mates and break away. Many new products which eventually commanded a wide market were first produced on a very small scale by these 'break-away' or 'spin-offs' from existing firms. Generally, the more new establishments an area has, the greater would the chances be for such developments to occur, and the better would be their prospects.

In the sample, several cases of break-aways or spin-offs were observed, especially in the area adjacent to the West Midlands industrial belt.

≠ Case: Mr. Rivers was a senior apprentice at a firm which was then undergoing rapid expansion. By the time he had completed his apprenticeship, he saw his employing firm enjoying an expanding market. He realised that there was considerable scope in the field of activity in which the firm was engaged - this being steel fabrication and construction. He therefore learnt the trade and acquired the basic skills, while employed by the firm, for undertaking a similar venture. When he felt confident, two years later in 1965, he left the firm with the full blessing and backing of his employers, to start out on his own.

Within the two samples of the study, apart from the spin-off firms, it was observed that many became industrial undertakings as the result of growth from one-man craft activities, which might or might not be commercially oriented in the first place. These small beginnings became the bases for their eventual industrial firms. Thus, from farriers, several of the firms in the sample have developed into component-producing firms, and steel fabricators.

In terms of the industries into which each of the sampled firms entered, they can be broken into the following categories:

1. New firms entering existing industries: In this case, the firms were established to do something similar to what was already being done, and thus their prospects depended on an expanding demand for their products, or the ability to take custom away from existing firms. Many such firms are therefore more 'imitators' than innovators. In the sample, for example, several firms had started in component-producing industries, and here their start and hence survival was dependent on their being able to win a steady custom, usually from one or two larger firms.

   In other instances, these firms had to make changes in their products in order to survive. Thus Firm D, starting as a gauge-manufacturer, later ventured into a different market with its innovations in presses and industrial guillotines.

2. New Firms and new industries: In the sample, at least five firms started on the impetus of new industrial

development. The best example of such cases is Firm AD, which began during the early days of the vinyl industrial expansion. The firm was able to exploit the many opportunities offered in such an infant industry and has thus succeeded to grow at an accelerated pace - the firm now employing more than 100 persons.

3. New firms with new ideas: Firms in this category have started by innovating, bringing in either fresh techniques in production or administration. The firms were therefore able to introduce products or services which met current needs or, in other cases, improved upon existing products/services. Thus, in the sample, Firm G with its flail mowers, Firm AQ with its reversible ploughs and Firm I with its material-handling equipment, were some of the firms which had started in this manner.

In the above cases, and others like them, success came because one man saw what others failed to see. Therefore, they produced something which the community needed, or which fulfilled known but still unsatisfied needs, or they improved upon existing goods and service in a market that had apparently been well served. In the case of Firm AQ it was, in effect, an innovation of an implement which the community did not know it needed. Hitherto, the farmers were content to use conventional tractors for all kinds of soil, until the advantages of the innovation with respects to certain soils was established.

4. New firms with new methods for old industries: In this category were firms which had entered established industries but with new ideas upon which its survival and success hinged. Firm X brought a fresh technique in pottery, and Firm AO, found new applications for polymer products, - these were two of the firms in the samples which came into this category. In the former case, the firm had literally reshaped traditional products to meet the needs of a changed world.

5. New firms with Imported Ideas: Several firms in the sample had started to use ideas practised or seen elsewhere. One firm made its mark in the polymer business by using methods that the principal saw while he was abroad. Although this technique has since been adapted by his competitors, when he started he was able to enter the industry with this competitive advantage.

B Motives for Starting Business:

Table 3-9 summarises the reasons for going into business as quoted by the principals of the two samples.

The most frequently quoted reason was the need for independence. Sixty per cent of the respondents viewed their business as the means by which they could manifest their freedom and assert their independence. A majority of these respondents, however, have also given other

TABLE 3-9

RESPONDENTS' STATED REASONS FOR GOING INTO BUSINESS (MULTIPLE RESPONSES)

| Stated Reasons | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| To make money | 20 | 40 | 38 | 70.4 | 58 | 55.8 |
| Security against or results of unemployment | 12 | 24 | 5 | 9.3 | 17 | 16.4 |
| To enhance prestige/ status | 6 | 12 | 13 | 24.1 | 19 | 18.3 |
| To create craft/ product | 12 | 24 | 23 | 12.6 | 35 | 33.7 |
| To continue family business | 12 | 24 | 8 | 14.8 | 20 | 19.2 |
| Frustration as employee in another business | 14 | 28 | 10 | 18.5 | 24 | 23.1 |
| Need for independence | 34 | 68 | 28 | 51.9 | 62 | 59.6 |
| Source of livelihood | 12 | 24 | 8 | 14.8 | 20 | 19.2 |

subsidiary or additional motives. Only seventeen per cent. singled out this need for independence as the sole motivating factor. +

Golby and Johns (1972) also found this as the prime motive among their respondents. They reported widespread feeling among them that running one's own business provided infinitely more personal satisfaction than working for somebody else, largely because of the independence which this offered. This feeling was found to be strong, and was often closely associated with dislike - even resentment - of working in a subordinate position.

Related therefore to this independence need was an element of resentment and frustration when working for someone else. Twenty-three per cent of the principals of the present study quoted this as one of their motives. Some of the causes of this frustration, which prompted them to break away and start on their own, were:-

i) promotion chances blocked or thwarted.
ii) inability to get ideas accepted or implemented by the 'boss'.
iii) incompatability with immediate superiors.
iv) lack of job satisfaction.

It is interesting to note that, although starting a business is to be viewed as an economic undertaking, yet only 56 per cent of the 104 respondents included 'making money' as one of their motives. One would expect economic gain to be the principal goal of businessmen. Obviously, to these small rural businessmen there were other factors in life which were worth more than money.

Golby and Johns likewise, found that financial reward was not of paramount importance. Almost their entire sample agreed that, while a reasonable return for effort was expected, financial reward was only a secondary reason for running a small business.

In this modern industrial era, when craft is being superceded by mass production and standardised products, it is interesting to note that, in the samples, 34 per cent of the principals started their enterprises as means of perpetuating or promoting crafts. Unfortunately, as mentioned earlier, many of these firms have over the years developed and, by demand and evolution, have branched into non-craft activities. Despite this, there was still a small percentage of the firms which, while giving way to modern developments, had retained the essence of their crafts. In these cases, the firms had improved their techniques or modernised their products, but still preserved traditional qualities.

Related to this motivation was the desire to develop ideas or to make products. A number of respondents claimed that their essential reason for liking the control of a small business was the freedom that it gave them to develop their own ideas. To some, the satisfaction derived from creating products or designs was more important than a steadier income as an employee.

The economic condition of the last decade has had its impact in providing yet another motive for starting rural small firms. The widespread unemployment, resulting from retrenchment and redundancies had, amongst other consequences, produced a group of men who had been forced to resort to self-employment as a means of livelihood. Thus 17 out of the 104 respondents had established their firms as an alternative to unemployment - actual or expected. It is possible that this reason has been quite potent in the last few years when the ranks of unemployed have not only been widespread but have included personnel of the upper echelon of management. The latter would be expected to include many with an abundance of talent, skill, and initiative who, to overcome the 'misfortune' of unemployment, have started businesses.

Case: One of the firms was started by a team of three who were made redundant from the same firm. It was located in an industrial estate. The partners were all skilled electronic technicians who based their business undertaking in this field, utilising their combined redundancy payments as capital. Their initial success included overseas orders, yet the firm was approaching expansion with extreme caution. Undoubtedly, the owners wanted to be on the safe side and not risk their business and jeopardise their source of income by failure through too rapid an expansion.

Case: In another case, the firm was started as a result of a growing feeling of insecurity of the principal, while he was employed in a large electrical firm which was not doing too well. He forestalled redundancy by quitting and joining forces with an old college friend. In this instance, starting on one's own was an insurance and a move to hedge both against the embarrassment and the consequence of actual unemployment.

Mayer and Goldstein in their 1961 study also found among their respondents the need to 'escape from unemployment, actual or expected' as a key motivating factor for starting a business, and other studies (e.g. Matthews) confirm this factor.

Status-seeking individuals have, since time immemorial, used business as an avenue for climbing to the top. Of the combined samples, 18.3 per cent have established their firms with the aim of enhancing their prestige and status in society. These respondents included some who had had a deprived childhood, but several came from formerly wealthy families which had since lost wealth and status and therefore have sought, through a business venture, to regain their previous social standing.

The remaining groups of principals had given various other reasons for starting their business: 19.2 per cent viewed their businesses as a source of livelihood rather than as rationally organised, profit-oriented ventures. A few started because they simply failed to find suitable employment elsewhere.

C Age Structure of the Firm and Infancy Years:

Table 3-10 gives a breakdown of the ages of the firms at the time of the survey. As will be seen, the majority of the firms (55 per cent ) in the combined samples were relatively young, less than ten years old, and only nine firms (19 per cent ) were over forty years old. The oldest firm in the sample was more than 50 years old; this was a small bicycle-manufacturing firm employing about 35 workers. The oldest in the indirect sample was over a century old; a firm making decorative wrought-iron goods.

Other studies, such as Davies and Kelly (1972) have revealed that the small-firm sector was in a constant state of flux with birth, growth, decline and death of firms occuring all the time - the age of the firm is an important indicator of this process. In the present sample, there were four firms which were liquidated during the period of the study. In the indirect sample, there were six firms in the ~~non~~ least -successful category, which had been or were about to be liquidated at the time of the survey was undertaken.

In all these liquidations, the firms were less than ten years old - the majority being less than five years old. This seemed to corroborate the Mayer and Goldstein study which suggested that the most unstable period facing the small firms, in which the attrition rate were expected to be highest, was in their infancy years. It is in

TABLE 3-10

AGE DISTRIBUTION OF FIRMS IN BOTH SAMPLES

| Age in years | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| 10 and below | 19 | 38 | 38 | 70.3 | 57 | 54.8 |
| 11 - 20 | 16 | 32 | 7 | 13.0 | 23 | 22.1 |
| 21 - 30 | 8 | 16 | 5 | 9.3 | 13 | 12.6 |
| 31 - 40 | 2 | 4 | 0 | 0 | 2 | 1.9 |
| 41 - 50 | 1 | 2 | 1 | 1.8 | 2 | 1.9 |
| Over 50 | 4 | 8 | 3 | 5.6 | 7 | 6.7 |
| | 50 | 100 | 54 | 100 | 104 | 100 |

these vulnerable years, therefore, that the rural small firms have to overcome their main hazards against survival.

Apart from the high attrition rate in the early years, the small firms in the two samples also exhibited other unstable characteristics. During this period, the firms - while trying to find their individual grooves in the industrial spectrum - often had to make various adjustments to survive.

Changes frequently made by the small firms, as evidenced by the sample firms, were in terms of locality and premises. (Table 3-11) In the former, this nomadism was the result of various factors:

i) the circumstances of the start of the firms, e.g. tentative fashion, or part-time undertaking.

ii) poor choice of initial location and/or premises, because of inexperience.

iii) undercapitalisation at the start, preventing the use of a more suitable location and premises, which invariably would have required more money.

iv) Orders outrunning production capacity, and physical expansion on the same site not being feasible owing to limited space or planning regulations.

v) the need to acquire the benefits of locating premises within an industrial estate.

Often the changes that the firms had to effect involved only the premises, with or without the necessity

TABLE 3-11

TYPES OF CHANGES EXPERIENCED BY THE DIRECT-SAMPLE FIRMS
(Multiple Responses)

| Area of Changes | Number | Percentage |
|---|---|---|
| Changes in premises | 33 | 66 |
| Changes in locality | 25 | 50 |
| Changes in products | 8 | 16 |
| Changes in ownership | 19 | 38 |

of relocation. There were three types of premises change which had occurred among the firms in the sample:

i) Change from 'temporary' accommodation to yet other 'temporary' premises - this change made necessary when the physical expansion in the initial base became impossible, or because the lease of the first premises was not renewable. Therefore, in such cases the firms concerned had to undergo at least one more move.

ii) Change from 'temporary' premises to an industrial building, resulting in a change in locality. The greatest distance of relocation that was effected within the sample studied was about 48 miles.

iii) Change from the original base to other premises more permanent but adjacent to the existing building, which was demolished, abandoned or continued in use as an annexe.

In the sample, 66 per cent of the firms had to make at least one change in accommodation; whilst 50 per cent of these firms had to effect relocation.

≠ Case: One firm, (Firm M), which started in 1965 as a part-time venture occupied an old building next to the home of the principal. The firm had to move twice before settling in the present unit within a rural industrial estate. However, because the firm had expanded faster than they had anticipated, it was faced with another prospect of relocation. The firm was not able to extend the present premises because they were rented and the developers were against such development. Thus, during the study, the principal was negotiating for the purchase of land on which to construct the firm's own buildings.

Another indication of instability in the early years was change effected in the business base. Changes in products at this period manifested the search by a firm for a financially-viable base for the business. In the firms studied, sixteen per cent of them had changed their products within the five years of inception. It is agreed, however, that some of these changes could be viewed as informal or formal Research and Development efforts.

These adaptations were partly the results of lack of planning before the start of the business operation. Table 5-23 shows that only about half of the sample firms had made planning efforts before they were established. In most of the cases, therefore, the effects of the unplanned ventures meant that unanticipated problems made adjustments necessary.

III The Men who Owned the Firms

Like the firms in the samples, the men who established and owned them also displayed many common attributes or characteristics. An analysis of these common features might perhaps give a picture of the typical owner-manager of the rural small firm, at least for those of the sample if not for the total population.

A Sex:

All the respondents except one were male. The only lady owner-manager succeeded her husband after the latter's sudden death about five years after the establishment of the firm. She had made an effective manager of herself, and was supported by her managerial staff in both the production and administration functions of the business.

B Age of Owners at the Start of Business:

Table 3-12 shows the breakdown of the ages of the principals of the two samples at the time when they established their firms or when they assumed ownership of their firms. The respondents had begun their enterprises at almost every age level; in fact, two of them started their businesses at the age of 16. Although this was exceptional, it underlined the fact that age did not seem to have any significant bearing on going into business.

TABLE 3-12

THE AGE OF THE PRINCIPALS AT THE START OF THE BUSINESS

| Age in Years | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Below 20 | 0 | 0 | 2 | 3.7 | 2 | 1.9 |
| 20 - 25 | 4 | 8 | 7 | 12.9 | 11 | 10.6 |
| 26 - 30 | 10 | 20 | 15 | 27.8 | 25 | 24.0 |
| 31 - 35 | 15 | 30 | 12 | 22.2 | 27 | 25.9 |
| 36 - 40 | 9 | 18 | 5 | 9.3 | 14 | 13.5 |
| 41 - 45 | 9 | 18 | 8 | 14.8 | 17 | 16.4 |
| 46 - 50 | 2 | 4 | 0 | 0 | 2 | 1.9 |
| Over 50 | 1 | 2 | 5 | 9.3 | 6 | 5.8 |
| | 50 | 100 | 54 | 100 | 104 | 100 |

There were also late starters: six principals established their firms when they were more than 50. The latest starter in the direct sample was a principal aged 51, while in the indirect sample was one who was fifty-three years old at the start. These late starters had begun their businesses late, in order to continue in useful employment after their retirement.

The next 'senior' age bracket, over 40 but not exceeding 50, had 19 starters (18 per cent ). Within this age group were included men who had served some years in senior executive positions in other, mainly larger, firms. At least two out of the 50 principals in the sample had had previous business-ownership experience. Both had sold their earlier business and started anew, though in different lines. Another two succeeded their fathers at this age level, and both came from outside the firms at the time of succession. The first took over the business because of the father's death; the second, however, came in just a couple of years before the father retired.

However, it was the age range of 26 - 35 which seemed to be the 'most conducive' age level for starting a business-ownership career, if the incidence within the samples of this age bracket is to be taken as an indication. In this group there were 25 principals from the sample and 27 from the indirect sample - making a total of 50 per cent of the combined samples.

Within this ten-year age bracket, the second half i.e. between 31 and 35, produced 27 respondents representing just over half the total for this age bracket. Thus this can be regarded, at least for the two samples, to be the 'most productive' five year age-range for yielding business starters.

Perhaps it should be expected that this age level is the most prolific in this context, since it is at this age normally that one still has much of the zest and vigour of youth but has had an opportunity to acquire some experience and a little capital.

The samples also show that, within the age bracket of 26 - 35 many had not only completed their education and training, but some had also completed a tenure of service in the armed forces and were therefore ready to embark upon a fresh career. In the case of the ex-servicemen, business-ownership became an attractive proposition because they preferred an alternative to a regimented life and most of them had gratuity payments which could be used as capital. The sample also revealed that, at this age level, many of them had married and started families. Therefore, it is reasonable to assume that this would have served as a motivating force.

C. Current Age:

Table 3-13 on the other hand shows the current ages of the principals at the time of the study. The bulk of the

TABLE 3-13

THE AGE OF THE PRINCIPALS AT THE TIME OF RESEARCH

| Current Age in years | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Below 30 | 1 | 2 | 7 | 13.0 | 8 | 7.7 |
| 31 - 35 | 10 | 20 | 7 | 13.0 | 17 | 16.3 |
| 36 - 40 | 7 | 14 | 13 | 24.1 | 20 | 19.2 |
| 41 - 45 | 11 | 22 | 8 | 14.8 | 19 | 18.3 |
| 46 - 50 | 15 | 30 | 6 | 11.1 | 21 | 20.2 |
| Over 50 | 6 | 12 | 13 | 24.0 | 19 | 18.3 |
| | 50 | 100 | 54 | 100 | 104 | 100 |

respondents in the two samples were over 40 years old, comprising 57 per cent of the total. The approximate average age for the two samples was 42 years old. Lewis (1958) found the average age was 49 while Oxenfeldt's was 54. Mayer and Goldstein found the bulk of the principals in their study to be between 30 and 40 years of age, whilst Hoad and Rosko found the range between 30 and 50.

D Educational Background:

Table 3-14 shows the educational background of both the samples. The distribution seemed to support other findings from other studies (Hoad and Rosko, Fox and Davis et al) that small businessmen have come from people of varying levels of educational attainment.

A high percentage of the respondents, ~~41~~ 39.4 per cent, have had secondary school education or its equivalent. On the other hand, 19 per cent of them have only elementary education or less. In fact, there was one principal in the direct sample and two in the indirect who indicated that they did not have any formal schooling.

Technical education, one would expect, would produce a high percentage of entreprenuers. In the samples, however, there were only 27 respondents, i.e. 26 per cent, with this type of educational background.

Tertiary education seemed to provide the poorest yield of entreprenuers. Only 13 or 12.5 per cent of the

TABLE 3-14

THE EDUCATIONAL BACKGROUNDS OF THE PRINCIPALS

| Level of Education | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Elementary or equivalent | 6 | 12 | 14 | 25.9 | 20 | 19.2 |
| Seconday/High or equivalent | 22 | 44 | 19 | 35.2 | 41 | 39.4 |
| Technical College or equivalent | 14 | 28 | 13 | 24.1 | 27 | 26.0 |
| University or equivalent | 7 | 14 | 6 | 11.1 | 13 | 12.5 |
| No formal education | 1 | 2 | 2 | 3.7 | 3 | 1.9 |
| | 50 | 100 | 54 | 100 | 104 | 100 |
| Principals having Apprenticeship Training | 30 | 60 | 17 | 31.5 | 47 | 45.2 |

total respondents have had the benefit of a university education. The highest-trained principal was the owner-manager of a polymer firm who had a doctorate in this field. Another, the principal of an agricultural equipment firm, had a Master's degree in agricultural engineering. The low number of principals with tertiary education seemed to bear out the findings of American Studies - Lewis (1960) and Marting (1959).

Many of the principals had also undergone apprenticeship training. Of the 104, about 45 per cent. had completed some forms of apprenticeship in one of the trades. Of these more than half of them had only the maximum of a secondary education (Table 3-15), and therefore, apprenticeship training was undertaken by them to acquire or supplement their technical skills. Thus, apprenticeship appeared to be the most prolific producer of entreprenuers, at least for the samples in this study. This seemed to suggest that the acquisition of trade skills seemed to stimulate individuals into business ownership.

Comparing this breakdown of principals' educational and training attainments with the findings of other studies, it was observed that in the latter there was also a broad distribution of principals in the various levels of education. Lewis compared the education of nine groups of businessmen as studied by different researchers. He found that while the businessmen were on the average better educated than the adult male

TABLE 3-15

APPRENTICESHIP-TRAINED PRINCIPALS
IN TERMS OF THEIR EDUCATIONAL BACKGROUNDS
(DIRECT SAMPLE ONLY)

| Type of Education | Number with Apprenticeship | Percentage |
|---|---|---|
| Elementary or equivalent | 6 | 12 |
| Secondary/High or equivalent | 15 | 30 |
| Technical College or equivalent | 6 | 12 |
| University | 3 | 6 |
| No formal education | 0 | 0 |
| | 30 | 60 |

population as a whole, there was a preponderence from the middle tiers of education. Collins, Moore and associates, (1966) on the other hand, found from their sample that there was almost an even distribution of entreprenuers from the different levels of education, with high school[3] as the single biggest group yielding twenty-five per cent. and 'less than high school' the lowest with 17 per cent. Deeks (1970) found in his sample of furniture and timber businessmen that the secondary-grammar educated constituted the biggest group, with 25 per cent of the total.

E. Working Experience:

The majority of the principals in the study have had a varied occupational background, in terms of both field and level of employment, as indicated by Table 3-16. In many cases, and for more than 50 per cent of the combined samples, the principals had experience in at least two areas of employment, while some had experience in more. The analysis in the table shows that a big percentage (almost 78.8 per cent) of the respondents in the two samples had had production experience. This analysis seemed to tally with the training background, discussed earlier, where it was indicated that a high preponderance of principals had apprenticeship and/or technical training.

TABLE 3-16

FIELDS OF WORKING EXPERIENCE
OF THE PRINCIPALS
(MULTIPLE RESPONSES)

| Field of Experience | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Production | 27 | 54 | 45 | 83.3 | 82 | 78.8 |
| Sales/Marketing | 12 | 24 | 10 | 18.5 | 22 | 21.2 |
| Finance and Accounting | 1 | 2 | 4 | 7.4 | 5 | 4.8 |
| Administration | 23 | 46 | 4 | 7.4 | 27 | 26.0 |
| No working experience | 3 | 6 | 3 | 5.6 | 6 | 11.1 |

These data seemed to indicate that employment in the production sector was more likely to produce potential entreprenuers. This is perhaps logical in that the ability to 'make' or 'produce' something, or the possession of a relevant skill or craft, could become the base of a manufacturing business venture. Once one had acquired the skill of production, the next important skill recognised as necessary for the business undertaking was the marketing or selling of the production output.

The table also shows that 24 per cent. of the direct and 18.5 per cent of the indirect samples had sales or marketing experience. This type of working background has been quoted as the main inspiration of many of the principals entering their own business, often the result of perceiving an opening or unfulfilled needs in the market. Such 'discoveries' had prompted them to take the necessary steps in this direction. In some cases, this had necessitated the acquisition of additional skills to equip themselves for the venture whilst, in other cases, it had necessitated the accumulation of savings for initial capital, or the 'scouting around' for potential partners or assistants to give financial or skilled support. One of the best examples of the development of a firm through such initial perception in the market, was the case of Firm AG.

≠ Case: Mr. Twist had been a technical sales representative for a garden-equipment manufacturer. In his rounds he made it a habit to call not only upon the buyers (city dwellers and town councils) of his firm's products, but also upon the operators in the field themselves. He wanted to obtain direct feed-back information on the performance of the equipment, from the actual users, so that he could report back to his 'boss'.

Through these reconnaisance visits, Mr. Twist found out that most of the council workers using this type of equipment, had experienced difficulties in the clearing or trimming of overhanging hedges, branches of trees, slopes, and watery areas. Mr. Twist's technical training and background gave him the concept of 'movable' equipment attached by a flexible arm to a tractor. He discussed this potential innovation with his boss who proved less than enthusiastic. Realising the practicality of the 'gadget' and aware of the virtually unfilled need in the field, Mr. Twist decided to undertake the production on his own. He quit his job, borrowed some money, and so was born his innovation which he prepared for the market. Within a few years, his sales turnover had exceeded half a million pounds per annum.

Apart from production and sales backgrounds, general managerial and administrative experience also produced a fair crop of entreprenuers: 46 per cent of the sample and 7.4 per cent of the indirect sample had this type of occupational experience. On the other hand, finance and accounting fields, from the samples, seemed to be the least likely to produce entreprenuers. Only one respondent in the direct and four in the indirect samples had either finance or accounting experience.

Finally, within the sample, at least six respondents, three from each sample, had had no working experience prior to the assumption of the business-ownership career. They came into the business direct after completing their education or training. Of the three in the sample, two succeeded their fathers and the third ventured into business on his own immediately after completing his apprenticeship.

Another facet of the working experience of the principals in the samples was the level of employment that they attained in terms of the working stratification. It was found that a high percentage of these owner-managers had either supervisory or managerial experience. In the indirect sample, 37 per cent had supervisory and 28 per cent. had managerial experience; whereas, in the direct sample 62 per cent had either a supervisory or a managerial experience.

The supervisory or management experience had been acquired in the production, distribution or administrative functions of their employing firms. From this point of view, therefore, at least 64 per cent of the combined samples had some experience of supervising or managing people, and this could prove useful in their business ownership careers.

Another type of occupational experience which was observed to be quite common among the principals of the sample, was in the armed forces. Of the 50 principals, 42 had had at least three or four years of service in one of the military units. Some of them have attained senior rank and had thereby acquired additional or alternative managerial experience. Many indicated that they had also served in an overseas posting.

Related to these occupational experiences and attainment were the principals' assessments of the 'opportunity costs' of their business ownership. In response to the question, 'what do you consider you gave up in terms of career opportunities when you began your business?', most indicated that their sacrifice was only substantial at the beginning. In relation to their contemporary business situation, few considered that they had given up a better career or higher financial rewards than they had obtained through the business ownership. Only ten principals in the sample indicated that they had actually lost on both counts by venturing on their own. Of these three implied that they would not have undertaken the projects had they known of the consequences, but the fact that they were already 'in it' forced them to 'stick it to the end'. The rest considered the benefits of independence compensated for their losses.

Table 3-17 shows the types of career appointments that the principals in the sample had to give up when they began their businesses. However, as indicated, many of the respondents considered that their current situation justified their decision to take the entrepreneurial step.

Table 3-18 summarises the type of 'demands' that the principals considered were made upon them in managing one's own business instead of being in employment. It is interesting to note that 58 per cent of the respondents stressed 'reduced leisure' as one of their losses. Indeed,

TABLE 3-17

TYPE OF CAREER GIVEN UP BY THE PRINCIPALS AT THE START OF BUSINESS (DIRECT SAMPLE ONLY)

| Type of Career | Ranked Firms | Unranked Firms | Total | % |
|---|---|---|---|---|
| Executive position in larger company | 11 | 2 | 13 | 26 |
| Executive position in small company | 3 | 3 | 6 | 12 |
| Supervisory position | 11 | 1 | 12 | 24 |
| Skilled employee | 7 | 0 | 7 | 14 |
| None | 8 | 4 | 12 | 24 |
| | 40 | 10 | 50 | 100 |

TABLE 3-18

THE DEMANDS OF BUSINESS OWNERSHIP
AS PERCEIVED BY THE PRINCIPALS
(MULTIPLE RESPONSES)

| Effects of business ownership on the self | Ranked Firms | Unranked Firms | Total | % |
|---|---|---|---|---|
| Reduced leisure | 22 | 7 | 29 | 58 |
| Restricted family life | 11 | 1 | 12 | 24 |
| Lower income | 7 | 3 | 10 | 20 |
| Extreme demand on one's ability | 25 | 6 | 31 | 62 |

this was amply supported by observation in the field - the principals on average worked longer hours than they would have done as employees. Twenty-four ~~Twelve~~ per cent mentioned 'restricted family life' as a result of the burden of running one's own business. As expected, because of the principals' background and initial circumstances, most of them found that the complexities of running the business had demanded the most of their abilities.

F. Parental and Family Background:

Table 3-19 sums up the different parental background of the principals in the sample. (No comparable data for the indirect sample were obtained.)

Of the five groups of background listed in the tabulation, "craftsman/technician" parents provided the single biggest group of principals, being 36 per cent of sample. This figure corresponds somewhat to the preponderance of principals coming from production/technical occupational background, as discussed earlier. This fact seemed to be in line with general findings on inter-generational occupational mobility.

Business or commercial parents produced 24 per cent. of the principals in the sample. In this case, it suggests that the business environment in which the children grew up had influenced their latter career. This group of principals included those who came into business-ownership through the succession channel, taking over their parents' businesses.

TABLE 3-19

THE PARENTAL BACKGROUNDS OF THE PRINCIPALS

| Father's Occupation | Direct Sample | Indirect Sample | Total | % |
|---|---|---|---|---|
| Business or Commercial | 12 | n.a.* | 12 | 24 |
| Professional | 9 | n.a. | 9 | 18 |
| Farming/Agricultural | 8 | n.a. | 8 | 16 |
| Government/Armed Service | 3 | n.a. | 3 | 6 |
| Craftsman/Technician | 18 | n.a. | 18 | 36 |
| | 50 | | 50 | 100 |

* n.a. = not available.

Taking the two groups of parents together, i.e. business and technical, they produced a total of 60 per cent of the principals in the sample. In either case, there was an apparent link between the father's career and the business itself: in the former they were in the field of business already, and in the latter they had the skills or the trades needed within a manufacturing business. Thus this direct or indirect business environment, provided by the parents' career, had indeed rubbed off onto the offspring, and this served to germinate their inclination for a career in business.

Of the remaining respondents, 18 per cent had parents who were in a profession (e.g. accountant, engineering or education) and another 16 per cent had parents who were farmers or in agricultural employment. Finally, only six per cent of the respondents had parents who were working in the government or military service. To this extent therefore, for this sample at least, these fields seemed to be the least likely sources of entrepreneurs. The childhood and adolescent environment provided through the family may have had a bearing on the later career of the principals involved in the study.

The above findings on the principals' backgrounds are in agreement with the findings of other studies. Both the studies of Collins and associates and that of Warner et all (1952) showed that small-business parents, in each case, produced the single biggest group of business entrepreneurs.

In the former study, 25 per cent of their sample had fathers who were owners of small businesses, while in the later study 17 per cent of the respondents in their sample came from a similar background. As in the present study, both studies also found that a high percentage of their principals had fathers who were semi-skilled or skilled workers.

G. Family Circumstances and Involvement:

Of the respondents in the sample, all but six were married at the start of their business-ownership career. Of the married principals, all but seven had at least one child then; 28 per cent of the principals had two children each and the rest had three or more children.

Another aspect pertaining to the family, and a common feature in the rural small firms as evidenced by the samples, was the involvement of members of the principals' families in the business, either as shareholders or employees. Wives figured prominently in many of these firms, their participation ranged from part-time bookkeeper to full-time shop-floor activities, and from sleeping shareholders to working managers. Twenty-eight per cent. of the respondents' wives were so involved, with a third of them working full-time.

The other members of the family found participating in the sampled firms were the principals' children, siblings and other immediate family members. This family participation is reflected in the figures in Table 5-8. It shows that ten per cent of the firms had the principals' children and 18 per cent had their siblings working in the firms. The table also shows that 58 per cent of the firms in the direct sample had at least one other family member having a share in the business.

## IV The Ownership and Management Structure

### A Ownership Patterns:

Proprietorial control - a feature largely absent from the quoted company sector - was almost universal in the case of the rural small firms in the sample. The types of ownership for both the direct and indirect samples are given in Table 3-20.

Virtually all the firms were private companies of which the ownership was highly concentrated; being under the legal control of one shareholder or a small group of shareholders. In fact, no firm had more than eight shareholders, the average being three.

Apart from the number of shareholders, an important aspect to be considered was the number of active owners - i.e. working shareholders. These active, as opposed to sleeping or inactive, shareholders really controlled the running of the firms and, in general, determined the direction of their development. In the sample, 30 per cent of the firms had only one active owner, 50 per cent had two while 12 per cent had three active owners.

The smallness of the number of active owners showed the high concentration of ownership in the small firms. Thus to a large extent, management and ownership were coincident in these firms. Analysis of the origins of small firms in the sample showed that these enterprises were very much the product of personal thought and effort.

TABLE 3-20

OWNERSHIP PATTERNS OF THE FIRMS

| Types of Ownership | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Family not limited | 6 | 12 | 3 | 5.6 | 9 | 8.6 |
| Family and limited | 21 | 42 | 22 | 40.7 | 43 | 41.4 |
| Partnership not limited | 0 | 0 | 6 | 11.1 | 6 | 5.8 |
| Partnership and limited | 12 | 24 | 6 | 11.1 | 18 | 17.3 |
| Sole proprietorship not limited | 1 | 2 | 11 | 20.4 | 12 | 11.5 |
| Sole proprietorship and limited | 10 | 20 | 6 | 11.1 | 16 | 15.4 |
| | 50 | 100 | 50 | 100 | 104 | 100 |

Even in the shared-ownership firms, the origin could, in many cases, be traced to one man - invariably the key personality and the accepted leader of the group.

Sometimes the main reason for starting alone was the simple fact that no one else was available to share the burden. In other cases, the principals were loath to admit partners. The feeling of being one's own boss was greatly valued.

From the various responses, it was difficult really to ascertain the merits and demerits of such one-man undertakings with respect to partnerships. Miller said in reference to this aspect that 'One can only assume from commonsense principles that a complementary and congenial partnership must have advantages over a struggle by one person, but so it has over dual - or multiple - control divided by conflicts'. Indeed, several respondents have indicated their difficulties in operating in incompatible partnerships, which in many cases had to be split up.

A similarly high concentration of ownership has also been found by Davies and Kelly. In their sample they found that 39.4 per cent of the small limited liability companies were under the legal control of one shareholder who owned at least 50 per cent of the shares. In another 46.3 per cent two shareholders have controlling interest, and in only 0.5 per cent were there more than ten shareholders necessary to form a majority interest. Their survey also found that, within the small-firm population, the larger the firm the greater the minimum number of shareholders that form a controlling interest. This was also the finding in the present study.

Davies and Kelly also analysed the number of the working shareholders in their firms. In their case, 20.8 per cent. had one working shareholder, 45.9 had two and 29.9 per cent had between three and five.

Of the total sampled firms, all but 26 per cent were limited liability companies. A much lower figure for the non-incorporated companies was also evident in Davies and Kelly's sample. In their case, only 2.3 per cent of their firms were unlimited companies. Unlike their sample, where there were at least 0.4 per cent public companies, no such firms were included in the present study.

Another feature of the sampled firms' ownership pattern was a close identification of each firm with a family. Table 3-20 shows that 50 per cent of the total firms in both the samples were family firms, in that the majority interest was controlled by a single family in each case. If we include one-man owned firms as also being controlled by one family - i.e. the principal's - then the total would increase to 76 per cent. Such close identification with one family was also reported in the sample of firms of other studies, particularly Deeks (1970) and Davies and Kelly. The Bolton Report (1972:49) stated

"This tendency is most marked in the relatively small firms but even the vast majority of the larger firms also appear to be family firms".

In such enterprises, two types of social systems - that of the family and of the business - were observed to be closely interwoven. This virtual duality has been seen to create various problems of adjustment, especially in meeting changes. If the business were to make the necessary adjustment in response to a changing environment, related adjustments need to be made within the family circle. It does not follow that the kinds of adjustment which are good for the business necessarily are good for the family. In consequence, the possibility of conflicting interests must be very real indeed.

Apart from the possibility of conflicting interests between the family and the enterprise as a whole, the family firms were also observed to have other inherent weaknesses:

i) lack of discipline exerted over profits and performance in all parts of the organisation.

ii) a failure to adapt quickly to meet new marketing challenges.

iii) nepotism exists unchecked.

The ownership table also showed that firms which were owned jointly by two or three principals represented 23 per cent. of the combined total. In many cases, it was observed that such partnership was contracted among men who had previously worked in the same firms.

B Changes in Ownership:

Table 3-21 shows that 38 per cent of the sampled firms had experienced changes in ownership. These changes were caused by one of the following factors:

1. Succession - 18 per cent of the firms have passed to second or latter generations, since their inception. (A more detailed discussion on this aspect of change is given in the following paragraphs.)

2. Purchase of firms by new owners: In the sample, this was caused either by retirement of the original owner without any successor, or by financial difficulties necessitating the selling of the firm.

3. Broken partnership: This was seen to be caused by partnership incompatibility and the retirement or death of one of the partners. Broken partnerships arising out of the former occurred in several cases in the sample. In fact, many principals reported experiencing difficult periods of adjustment between partners, especially in the infancy years, but managed to stave off the parting of the ways. It was when partnership was built on a fragile relationship, e.g. acquaintance, or introduction through a mutual friend that personality differences often undermined the tie and perhaps culminated in dissolution.

TABLE 3-21

CHANGES IN OWNERSHIP EXPERIENCED BY THE DIRECT-SAMPLED FIRMS

| Change/None | Number | Percentage |
|---|---|---|
| No Change | 31 | 62 |
| Firms experiencing changes | 19 | 38 |
| Succession | 9 | 18 |
| Broken partnership | 4 | 8 |
| Bought over | 6 | 12 |
| Working shareholders changes | | |
| Increase | 9 | 18 |
| Decrease | 15 | 30 |

In terms of the number of working shareholders, the sampled firms were observed to have also experienced some changes, both increases and decreases: 30 per cent of the firms had less active owners than in their initial years, whilst 18 per cent. had increased the number of shareholders who were working in the firms. No significant general trend was observed in these changes.

C Succession of Ownership:

Succession of ownership in the case studies had been due to either the deaths or retirement of the founders. In six cases they were the result of the former, and in the remaining three were because the founders had to retire due to ill-health. Of the 50 firms in the sample, only six (12 per cent.) had clearly thought out the question of succession. In these firms, the 'heir-apparent' had been nominated and given an increasing share in the running of the business. Of these, four were the sons of the founders, one the brother, and the other was foreman in the firm. In the last case, the principal having no children of his own had nominated the foreman, who has been with him since he came into the business, and whom he has regarded as a member of his family, to manage the business after him.

The rest of the firms in the sample, however, had not been clear when asked about this question. Most answered 'don't know' or 'haven't thought about it yet'. This vague consideration given to the problem of succession was therefore one feature common among the rural small-firms in the study. Concerned with the immediate pressures of to-day's problems, they tended to devote a minimum of time and consideration to the future management requirement of their companies. The small businessmen's unstated assumption seemed to be that the problem of finding top management replacement could be handled on the spot, without any thinking ahead or planning for this event.

Kaplan (1948) has summed up this shortcoming when he said, "Small enterprises as a class have notoriously neglected to ensure the continuity of their establishments as going concerns when the original owner is no longer able to carry on ....... We are concerned with the problem of training understudies to take over when the innovator of the small business retires or dies" (115).

He went on to stress that the small enterpriser has often been an individual who made up in ambition and resourcefulness what he lacked in formal education. "The man sees himself as the business and so, typically, the self-made entreprenuer has run his business as though he was expecting to live forever. He has been loath to share his authority, to build up assistants to the status of co-managers." Often because many of these entreprenuers have had relatively limited education, and having experienced the consequences of this deprivation, they have encouraged their children to seek higher education and to go into the professions rather than into apprenticeship in their own industries. Thus, when the question of succession has to be determined, the children might not be inclined or oriented towards a career in small-business management or in ownership. In fact, in the sample, in at least one firm where the son was forced to take over owing to his father's premature death, there has been the problem of the reluctant successor heading the firm. The successor, now the principal, throughout the interview showed this relative lack of inclination. It appeared that the succession was an inescapable burden and the duties were chores which he could do without. In fact, he has been planning either to sell the firm, or as his Accountant has advised, to engage a full-time executive to manage the firm.

Kaplan postulated that, when firms do not prepare for succession, two results could follow:

1. When the original owner has lost his youthful zest, the business would settle into a static condition without anyone in a position to challenge unprogressive policies and provide new life to the management.
2. When the successful proprietor was ready to retire, none of the employees had been placed in a situation where he could become part-owner or even where he could readily assume executive direction. With the death of the founder, other members of the family seldom have the knowledge how to put in the right type of manager or how to assume control of the business themselves.

With regard to the first of the above consequences, at least four firms in the present study were experiencing low achievement because of diffidence in leadership resulting from this cause. Boswell, in reference to this factor, has stressed the effects of what he refers to as management fatigue and gerontocracy, as one of the main causes of low success among older firms in his sample.

As a result of this inability, or unwillingness to prepare a successor, it was observed that some of the firms in the sample were run by men past the retiring age. In some cases, the senior principals clung to their appointment, and were 'marking time' and did not seem able or willing to state exactly when they would release the reins. In at least one case, the son told the writer that the father had changed his mind about retirement so often that he was considering leaving the firm to start on his own.

As indicated, however, the majority of the firms were simply ignorant of, or apathetic to, the importance of succession and management continuity in business. Therefore, it is imperative that guidance and business extension services emphasise to the small businessmen the importance of preparing for succession before the event arises.

D. Management Organisation:

As indicated previously, the control of the rural small firms, as revealed within the samples of this study, was concentrated in the hands of the owner or of a very small group of owners. This universal synonymity of ownership and management is in fact the basic organisational characteristic of this sector of industry.

Apart from managing the firms, the principals of the sample firms also undertook several other functions, some even doing shop-floor work. Table 3-22 shows the breakdown of the respondents' main activities. It is clear that in these small firms very few (26 per cent) of the owners were concentrating on one, or a maximum of two, functions. Thus, the often-quoted description of 'wearing many hats', in reference to small firm owner-managers, was amply demonstrated. Twenty per cent of the respondents had to perform all the duties while 60 per cent had to undertake at least four fields of duties.

Table 3-23 shows the actual fields of activity undertaken: 22 per cent of the principals were directly involved in production by working on the shop-floor themselves. Selling seemed to be the major field of concentration, where 88 per cent of the principals were directly involved. This high percentage underlined perhaps the recognition of the importance of marketing and selling

TABLE 3-22

THE NUMBER OF FIELDS OF DUTIES
UNDERTAKEN BY THE PRINCIPALS
(DIRECT SAMPLE)

| Number of Fields | Number of Principals | % |
|---|---|---|
| Two fields and less | 13 | 26 |
| Three fields | 10 | 20 |
| Four fields | 8 | 16 |
| Five fields | 19 | 24 |
| Six fields and more (All) | 10 | 20 |
| | 50 | 100 |

TABLE 3-23

PRINCIPALS' FIELDS OF DUTIES
(DIRECT SAMPLE)
(Multiple Responses)

| Fields of Activities | Responses | % |
|---|---|---|
| Selling | 44 | 88 |
| Financial or commercial | 37 | 74 |
| Office/Personnel | 40 | 80 |
| Production Planning | 27 | 54 |
| Actual Shop Floor | 11 | 22 |
| Design and Development | 34 | 68 |
| All Duties | 8 | 16 |

efforts to these firms. In fact, this was often quoted as one of the essential features of the small firms; the proximity of consumer/clients to the owners of the firms. This is where the virtues of personalised service extolled by small-firm protagonists has its roots - the clients are served directly by the wielder of the power.

General management, which includes personnel and office management, were fields in which 80 per cent of the respondents were involved, whilst 74 per cent of the total also managed the financial and commercial aspects of the business. The high figures for these fields underlined yet again the importance that small firm proprietors attached to the general administration and financial aspects of their business, and in these fields they delegated little.

It was perhaps important to note that 68 per cent of the respondents saw their role to include design and development. Although this is a fairly high figure, yet one would expect that entreprenuers would attach greater importance to this facet of the firm. Many of the firms, however, either engaged professional men to undertake this function or they placed relatively less importance on this aspect of their businesses.

The majority of the sample firms employed few professional or specialist staff. Only 46 per cent of the firms had at least one specialist on the payrolls.

However, in the indirect sample 74 per cent of the firms employed at least one such specialist. Table 3-24 shows the types of specialists employed by firms in both samples. As most of the principals in the sample undertook selling or marketing activities themselves, only 28 per cent of the firms employed sales or marketing personnel at the managerial level. However, in the indirect sample, 37 per cent of the firms had managerial personnel in this field of duties.

It will be seen that 49 per cent of the firms in the two samples had members of their staff designated as works, production, or technical managers.

These high figures for both production and sales emphasise the importance attached to these two functions by the principals of the rural small firms in the samples. In fact, in the interviews, many of the respondents indicated that for small firms to succeed they would have to place prime attention on the production and sales functions because, as one of them put it, "If you can produce what you can sell, and sell what you can produce then the problem is over".

Among the other specialists employed were full-time accountants, engineers and export managers. While only ten per cent of the sample had a full-time accountant on their staff, 22 per cent of the indirect sample had such personnel. Likewise, a bigger percentage of the indirect sample were credited with having engineers on their staff,

TABLE 3-24

SPECIALIST STAFF EMPLOYED IN THE FIRMS
(Multiple Responses)

| Types of Specialist Personnel | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| General Manager | 3 | 6 | 2 | 3.7 | 5 | 4.8 |
| Sales/Marketing Manager | 14 | 28 | 20 | 37.0 | 34 | 33.0 |
| Production/Works Manager | 19 | 38 | 32 | 59.3 | 51 | 49.0 |
| Export Manager | 2 | 4 | 0 | 0 | 2 | 1.9 |
| Accountant | 5 | 10 | 12 | 22.2 | 17 | 16.4 |
| Engineer | 3 | 6 | 27 | 50.0 | 30 | 28.9 |

this being 50 per cent of the firms, whereas only six per cent of the direct sample employed similar personnel.

However, although in the returns many firms were listed as having on their staff such specialists, it must be emphasised that in many cases these specialists were partners or working directors of the firms. Nonetheless, it was significant that these partners were assigned special duties and performed these functions as specialists.

Apart from these specialists, many of the firms also employed 'lesser specialists' such as foremen and book-keepers, the latter being either full or part-time. In fact, 71 per cent of the indirect sample employed either full or part-time bookkeepers.

Yet despite these specialised functions, it was not to be assumed that these 'professionals' were undertaking only these specialised activities or were exclusively given these responsibilities as one finds in a large firm. In the small firms, such as those in the samples, the specialists, and even the principals' partners/associates were expected and in fact often had to, undertake other duties as the need arose, or as directed by 'the boss'. These occasions were varied and often unpredictable. (One works manager said, "I even had to be a debt collector at times".)

Generally, therefore, despite the presence of these specialists, the organisation of functions in the small firms was relatively diffused, with no clear-cut demarcation of responsibilities among the management staff.

'Full delegation of responsibility' was also a foreign concept to most of the firms in the sample, and so was the practice of management by exception. Delegation of function by the principals had never been clear-cut and, except in three firms, there had never been any job descriptions for members of the staff. Often 'the boss' did not bother about delegation and many principals were observed even to give instructions directly to operators on the shop-floor without going through the foremen or works manager.

In the small firms, it was observed that, the work-place had a pseudo-family atmosphere, with no semblance of the practices advocated in management text books. The quasi-omnipotence of the boss had to be accepted and often his words were final. The chief executives of small firms in the sample, often implied the belief that they could handle all problems as they arose, and that there was very little need for any formal type of control or planning.

Just as there were no written job descriptions, organisational charts were also absent in most of the firms in the sample. Only three firms visited produced some form of hierachical and horizontal division of functions and, even here, the principals admitted that these existed more on paper than in practice.

All of the respondents stressed that not only was it impracticable for small firms to organise with clear-cut division of function supported by formalised structure, but they claimed it to be unnecessary as well as unsuitable for firms 'where employees were treated as members of the family'. One respondent of a firm with 35 employees said,

"I think flexibility is better for our type of firm. It is easier to shift workers according to the need and conditions of works. Once you have a job description, I cannot ask Joe, the driver, to help in the works when I am forced to meet an urgent dateline."

The only clear-cut division of function, as well as physical separation, observed in most of these firms was between the production function and the office function. In most of the firms, the offices were managed by non-production staff, either by the principals themselves - often supported by members of their families - or by paid employees; including typists or bookkeepers.

Thus, informality on the one hand and rigidity on the other, were the two essential features of the management organisation of the small firms in the sample. Lack of delegation often arose not so much from unwillingness to part with the controlling power as from inability to effect it. Either they were unskilled in the art of delegation or they misunderstood its implications. They might insist upon having their suggestions, their instructions, and their ways of doing things accepted by their subordinates who were therefore reduced to being mere carriers-out of the principals' whims. In other cases, however, the principals were adjudged not to trust their subordinates. They did not want to place anyone else in a position of any importance in the firms.

E. Wage Payment System:

Table 3-25 shows the wage-payment systems adopted by the firms in the sample. It is interesting to note that a high percentage (52 per cent ) of the firms paid flat rates. The other group, almost half of them, provided some form of bonus payment: 32 per cent in terms of time bonus and 18 per cent in output and profit bonuses.

In some cases the firms adopted multiple systems: i.e. different methods for different categories of workers - e.g., contract pricing for 'out-workers' and bonus system for the others. In two cases, the firms also provided a straight piecework scheme for some part-time employees undertaking batches of work.

Although no statistics are available, the impression gained during the study was that the general level of wages paid in the sample firms were, on the average, more-or-less competitive with larger firms, though generally they were a little lower. There were, however, at least 12 per cent of the firms who claimed that their wage level was higher than comparable firms or even than the larger competitors.

TABLE 3-25

WAGE PAYMENT SYSTEM PRACTISED BY THE FIRMS
(Multiple Responses)

| Method of Payment | Direct | Indirect | % |
|---|---|---|---|
| Straight piecework | 2 | n.a.* | 4 |
| Flat rate | 26 | n.a. | 52 |
| Flat + Time Bonus | 16 | n.a. | 32 |
| Flat + Output/profit bonus | 9 | n.a. | 18 |
| Contract Pricing | 3 | n.a. | 6 |

* n.a. = not available.

## V The Financial Structure:

An analysis of the annual financial statements of the firms in the sample, coupled with interview responses on financial aspects of their firms, revealed that these firms have many common factors in their financial structures.

### A. Capitalisation:

Like many other small firms, the principals in the sample started the business with modest capital outlay. Table 3-26 shows the size of initial finance invested by the respective principals of the 50 firms.

Almost half of the total firms (48 per cent) started the business with a shoe-string budget of less than £500-00 and an additional ten per cent had between £500-00 and £1,000-00. Thus, a total of 58 per cent of the direct sample could be said to have started with the barest minimum. In most cases, the sum involved represented the capital investment for some second-hand equipment plus purchases of initial material.

It was from this meagre start that they have grown to their present level. In the initial weeks or months, these principals lived on minimal drawings. Several respondents in fact did not take any money from the business for the initial period, living on domestic sources, including savings or on a wife's earnings from working

TABLE 3-26

SIZE OF INITIAL CAPITAL OF FIRMS IN THE DIRECT SAMPLE

| Size in £ | Number of Firms | % |
|---|---|---|
| 0 - 500 | 24 | 48 |
| 501 - 1000 | 5 | 10 |
| 1001 - 1500 | 3 | 6 |
| 1501 - 2000 | 2 | 4 |
| 2001 - 2500 | 3 | 6 |
| 2501 - 3000 | 1 | 2 |
| 3001 - 3500 | 1 | 2 |
| Over 3500* | 11 | 22 |
| | 50 | 100 |

* This ranged from £5,000 (2) to £30,000 (1)

elsewhere. Twelve per cent of the respondents worked part-time in the business while retaining their other employment, so as not to depend on the business as their means of livelihood.

In the upper bracket, 22 per cent of the firms started with a capital of more than £3,500-00. The size ranged from £~~4~~5,000-00 to £30,000-00: three firms started with £20,000-00. The last-mentioned included two owners who bought existing business and therefore the sums represented the purchase price and other initial expenses spent in re-establishing the business in accord with their own plans of action. The principal of the third firm obtained his capital by selling his former business. The new firm he established was a highly specialised precision-engineering undertaking, and he therefore required a substantial investment in expensive machinery. Furthermore, he used part of the sum to pay for the lease of the building in a disused colliery, and for the necessary renovation work.

Raising capital for investment, through the sale of another business owned previously, had also been resorted to by four other respondents. Thus, ten per cent of the principals in the sample were able to start fairly well-endowed although, in one case, the sum raised was reduced somewhat as he had to share the proceeds of the sale of the family business with his siblings.

The most popular means of raising initial finance, however, had been personal and immediate sources. Fifty-eight pe cent of the principals relied entirely on their own or their partners' savings, gratuities, or redundancy payments. However, many had to supplement these sums by other means, especially such as borrowing from friends and relatives. These means were used by 48 per cent of the total firms. Among the 58 per cent, however, were at least three principals who categorically refused to depend on friends' or family loans; and especially from the latter. One respondent said:

"I would rather struggle than borrow from my relatives. To depend on them is certain to complicate matters and may hurt our relationship and my business."

It is interesting to note that 12 per cent of the firms managed to raise funds through a bank to start their business. One had an overdraft of £250-00 for the purchase of his equipment and he claimed that that was the entire sum with which, in seven years, he built his present £130,000-00 per annum business.

However, the bank became an increasingly important source of finance once the business had got off the ground, (Table 3-27). The most popular short-term financing is, of course through the overdraft facilities of the bank. In fact 82 per cent regularly availed themselves of this source; whilst 20 per cent of the sample also relied on the bank for medium and long-term loans.

TABLE 3-27

SOURCES OF FINANCE USED BY THE FIRMS IN THE DIRECT SAMPLE
(Multiple Responses)

| Sources | Initial Finance | | Current Finance | |
|---|---|---|---|---|
| | No. | % | No. | % |
| Family and friends | 24 | 48 | 31 | 62 |
| Personal/Partners | 25 | 50 | | |
| Gratuity payments | 4 | 8 | 0 | 0 |
| Bank Loans | 6 | 12 | 41 | 82 |
| Sale of property of former business | 5 | 10 | 0 | 0 |
| Government Credit Agencies | 0 | 0 | 24 | 48 |
| Financial Institutions | 0 | 0 | 7 | 14 |
| Shares and Debentures | 0 | 0 | 4 | 8 |
| Ploughed in profit | - | - | 45 | 90 |

Yet, as the table shows, family and personal sources continued to be prominent. Many of the Annual Financial Statements revealed that the directors of the firms had lent additional capital sums to their firms. In the sample, 62 per cent of the firms showed that they received additional growth-finance through this means.

The development of a firm over a period usually requires the injection of finance, the amount depending on circumstances. The firms in the sample obtained their finances from the following sources:

i) current earning of the firms.

ii) sales of assets which were not required for current operation.

iii) outside lenders or suppliers of risk capital.

In the first case, retained profits had been utilised to finance growth. Several firms, however, raised additional funds through the sale of unused stock.

The forms of outside finance which were used by the firms in the sample can be divided into three categories:

1) Short-term borrowings used and repaid during a short period. This, of course, did not remove the problem of longer-term financing. The strategies used for short-term financing included:

   a) postponement of tax payment.

   b) securing overdraft, as discussed earlier.

   c) hire purchase finance.

   d) directors' loans, as quoted earlier.

   e) trade credit.

2) Medium and long-term borrowing, e.g. from Mortgage or the issue of Debentures. The former was utilised fairly extensively by the firms in the sample, especially in raising loans from CoSIRA, or by using firms' assets as collateral securities. Forty-eight per cent of the firms had borrowed from CoSIRA at least once; and 14 per cent had also raised medium- and long-term loans from other institutions, such as ICFC and Development Corporations. Only eight per cent of the firms raised capital through the issue of Debentures.

3) The addition of share capital: Finally, of course, many of the firms also invested additional capital to finance growth; either by increasing the share capital of existing shareholders or by allowing investment by new members.

The sampled firms had raised additional finance either to tide them over their day-to-day difficulties or to finance further growth. These new funds were utilised,

a) as working capital.
b) to purchase fixed assets (56 per cent of sample).
c) for the renovation or extension of existing premises or the erection of new buildings. (Thirty-six per cent of the firms in the sample utilised borrowings in this way (see Table 3-28).

TABLE 3-28

TYPES OF LOANS RAISED BY THE FIRMS IN THE DIRECT SAMPLE

| Types of Loans | Number of Firms Borrowing | % |
|---|---|---|
| Building loan | 18 | 36 |
| Equipment loan | 27 | 54 |
| Working Capital loan | 28 | 56 |

B. Assets Structure:

The asset structure of the firms, i.e. the distribution of investment between the various types of assets, is largely determined by the industry in which they operate. As the sample was a 'mixed bag', the following analysis must be viewed with this in mind.

1. Fixed Assets: The fixed assets of the 36 firms whose financial data for 1970 were made available (Table 3-29) were approximately one-third of the total assets. Thus, the firms in the sample invested only a small percentage of their total capital in fixed assets. This figure corresponded to the sample of firms of Tamari (1972) where the non-manufacturing firm's fixed assets figure was 33 per cent and the manufacturing was 36 per cent Tamari also compared his figures with the equivalent for quoted companies. The latter was 46 per cent.

Although no analysis was made between the different size-groups within the sample of the present study, this not being practicable because the sample was much smaller than Tamari's, it appeared that the ratio of fixed assets to total assets did not vary appreciably between the different-sized firms in the sample.

In terms of percentage turnover of assets, however, the combined financial data shows that the value is 18 per cent, which again approximates to the returns for Tamari's sample which were 21 per cent for manufacturing and 13 per

TABLE 3-29

COMBINED FINANCIAL STATEMENT
OF THE SAMPLED FIRMS
(1970 only)

| | | £ |
|---|---|---|
| Sales turnover | = | 5,565,500 |
| Net profit before Directors' Fees | = | 494,300 |
| Net profit after Directors' Fees | = | 268,500 |
| Fixed Assets total | = | 974,151 |
| **Current Assets:** | | |
| Stock and Work-in-Progress | = | 766,980 |
| Debtors | = | 1,142,809 |
| Cash-in-hand and bank | = | 56,096 |
| Other current assets | = | 31,122 |
| TOTAL CURRENT ASSETS | = | 1,997,007 |
| **Current Liabilities** | | |
| Bank overdraft | = | 437,008 |
| Creditors | = | 1,156,114 |
| Other liabilities | = | 226,889 |
| TOTAL CURRENT LIABILITIES | = | 1,820,011 |
| Total assets | | 2,971,158 |
| Net assets | | 1,151,147 |

| | |
|---|---|
| Current ratio | = 1.09 times |
| Liquidity ratio | = 0.65 times |
| Stock: Current assets | = 0.38 |
| Stock: Current liabilities | = 0.42 |
| Fixed assets: total assets | = 0.32 |
| Debtors: creditors | = 0.98 |
| Fixed assets of percentage of turnover | = 19 per cent. |

* Only 36 of the 40 ranked firms are included in this tabulation, as the data of the remaining four were incomplete.

cent for non-manufacturing (average, 17 per cent ). Tamari stated, "Related to turnover of the firms, the proportion of fixed assets remains virtually constant in all size groups (at 20-23 per cent in 1968)" (19).

When sales:fixed assets ratio was analysed, it showed that the annual average for the 36 firms was 8.6 (Table 3-30). Seventy-three per cent of the firms had a ratio of less than 10, only three firms showed higher ratio - 15·1: these firms being in service-type industries and therefore, with low fixed capital investment.

2. Current Assets: The combined current assets represented 67 per cent. of the total assets of the 36 firms. Debtors formed the biggest single item, this being 57 per cent of the total current assets, while stocks were 38 per cent of the total.

Table 3-31 shows the stock:current assets ratio of the 36 firms compared with the analysis of Tamari's sample. These percentages also compare well, with Tamari's returning 33 per cent for manufacturing and 38.5 per cent for non-manufacturing. On the other hand, column B in the table, compares the stock : turnover percentage of this sample with Tamari's. The 36 firms showed a figure of 14 per cent compared with his values of 15 per cent for manufacturing and ten per cent for non-manufacturing. Tamari's sample showed that there was an increase in the percentage of stock to current assets and to turnover

TABLE 3-30

AVERAGE RATIO OF SALES TO FIXED ASSETS OF THE SAMPLED FIRMS 1965 - 1970

| Year | Average Ratio |
|---|---|
| 1965 | 8.2 |
| 1966 | 9.6 |
| 1967 | 8.3 |
| 1968 | 8.7 |
| 1969 | 7.8 |
| 1970 | 8.8 |
| Average | 8.6 |

TABLE 3-31

STOCK IN RELATION TO CURRENT ASSETS AND TURNOVER - PRESENT STUDY AND TAMARI'S (1968)

| | Stock: Current assets percentage | Stock - turnover percentage |
|---|---|---|
| Present Study (1970) | 38 | 14 |
| Tamari's (1968) | | |
| Manufacturing | 33 | 15 |
| Non-manufacturing | 38.5 | 10 |

Reference: M. Tamari : A Postal Questionnaire Survey of Small Firms (1972)

with an increase in size of firms, although similar results could not be compared in the present study.

3. Trade Debtors: "There is a tendency to relate trade credit given by a firm with trade credit received by it, on the assumption that the firm passes on to its customers, in some automatic way, the credit it receives from its suppliers. However, there is no basis for this assumption either in theory or in fact." (Tamari : 21). Tamari's earlier studies (1970) have shown that the firms receiving much trade credit were not necessarily those granting much trade credit and conversely. Despite this, it is still useful to discuss the creditor and debtor position together.

The 36 firms analysed for 1970 financial returns, received more credit than they gave to their customers. Debtor : creditor ratio for these firms were 0.98 or 98 per cent. This was the opposite of the case of the firms in Tamari's study for year 1968; in this case both the manufacturing and non-manufacturing firms were net givers of credit.

Table 3-32 compares the various debtor ratios for the 36 firms with that obtained by Tamari. In both cases, debtor to sales and debtor to current assets, the present study returned higher percentages than did Tamari's, though in both cases the differences were not significantly large.

TABLE 3-32

DEBTOR RATIO : DIRECT SAMPLE
COMPARED TO TAMARI'S STUDY
DIRECT SAMPLE ONLY

| | Debtor to sale | Debtor to current assets | Debtor as % of creditors |
|---|---|---|---|
| Present Study (1970) | 21% | 57% | 98% |
| Tamari's (1968) | | | |
| Manufacturing | 18% | 46% | n.a. |
| Non-manufacturing | 10% | 40% | n.a. |

Reference: M. Tamari : A Postal Questionnaire Survey of Small Firms (1972)

4. Cash-in-hand and Cash-in-banks: The sampled firms seemingly attached relatively less importance to this matter, as more than 50 per cent of the 36 firms had either no 'cash-in-hand or bank' or, at the maximum, retained £100-00 in 1970. Yet a firm has to manage its income and expenditure in such a way that it has sufficient cash on hand to meet its obligations, both for repayment of debts and to meet its current costs. The low figure of the combined total showing only three per cent of current assets, possibly indicates the perpetual shortage of funds faced by the small firms in the sample. Therefore, because funds held in the form of cash do not earn profits, most of the firms, for the purpose of expediency, kept this sum to the barest minimum. One respondent when asked about this low retained cash, replies:

"We have to use every penny we have got. We have to juggle finances a great deal - we small businessmen have got to be good at juggling to survive."

Table 3-33 shows that, for the firms in the sample, the ratio of cash to sales is much lower than Tamari's firms. When cash was compared with bank credit, it was observed that the firms in the sample were net users of funds rather than net suppliers, as was the case of Tamari's firms.

TABLE 3-33

CASH RATIO : PRESENT STUDY (DIRECT SAMPLE) COMPARED TO TAMARI'S

| | Cash to Sales | Cash to Current Assets | Cash to Bank Credit |
|---|---|---|---|
| Present Study | 1% | 3% | 11% |
| Tamari's | 4% | n.a.* | 92% |

* n.a. = not available.

Reference: M. Tamari : A Postal Questionnaire Survey of Small Firms (1972)

C. Liability Structure:

The combined liabilities of the 36 firms represented 61 per cent of the total asset value, and 91 per cent of current assets. The liabilities consisted of 63 per cent of creditors, 24 per cent of bank overdraft, and the remaining 13 per cent of other liabilities - including taxation and other short term loans.

Table 3-34 shows the ratio of the firms' debts to total assets. It reveals that a high percentage of the sampled firms had a high ratio - in fact perhaps higher than average. Of the 40 firms, more than 50 per cent were incurring an average annual debt of more than 45 per cent of total assets. Most of these represented trade-creditors, confirming the high usage of this methodto finance the business.

On the other hand Table 3-35 shows the average sales : debtor ratio of the firms in the sample. The average is seen to be six times, which was lower than that reflected in the Bolton survey, which was 15 times for manufacturing and eight for non-manufacturing.

Solvency: The solvency of the firms in the sample was fairly average with the current ratio being 1.09 and a liquidity ratio of 0.65.

Generally, therefore, the financial structure of the sampled firms, at least for the 36 firms whose financial

TABLE 3-34

DEBT AS PERCENTAGE OF TOTAL ASSETS

| Size of Debt | Number | Percentage |
|---|---|---|
| 0 - 15 per cent | 1 | 2.5 |
| 16 - 30 per cent | 1 | 2.5 |
| 31 - 45 per cent | 8 | 80.0 |
| 46 - 60 per cent | 12 | 30.0 |
| 61 - 75 per cent | 7 | 17.5 |
| 76 - 90 per cent | 9 | 22.5 |
| Over 90 per cent | 2 | 5.0 |
| | 40 | 100 |

TABLE 3-35

AVERAGE SALES : DEBTOR RATIO
DIRECT SAMPLE

| Year | Ratios | |
|---|---|---|
| 1965 | 9.75 | |
| 1966 | 6.22 | |
| 1967 | 5.73 | |
| 1968 | 5.7 | |
| 1969 | 6.39 | |
| 1970 | 5.09 | |
| Average | 5.50 | |
| Bolton Study | Manufacturing | 15.0 |
| | Nonmanufacturing | 8.0 |

information for 1970 was available, showed remarkable consistency with those of Tamari's sample in 1972.

## VI Accounting Structure

### A Formal Accounting in the Sampled Firms:

Formal accounting played a minor role in the operation of the small firms in the sample studied. However, general accounting records were fairly adequate for tax and reporting requirements, but cost-accounting methods and procedures were very little developed within these firms.

The major reasons for this relatively minor role played by accounting in a small business were:-

1. Most of the principals were skilled engineers, or experienced shop-floor men, while others were former salesmen or a combination of these. They therefore knew and could perform the major functions of running the business. Only one principal in the sample had any experience in accounting and finance. Therefore, the lack of formalised accounting could be attributed to their previous limited or negligible experience in this field.
2. Generally, when asked about accounting, the consensus of opinion was that a full cost-accounting system would be too complicated for their needs and too expensive for them to afford.
3. Furthermore, detailed accounting and cost-control features were not considered necessary, because the principals could participate so actively and directly

in both production and sales operations. Transactions were few and often involved small numbers of people. The fact that the principals generally supervised or observed operations closely enabled them to guide the workers without having to resort to financial-control and cost reports.

All the firms in the sample retained professional accountants to prepare their annual accounts, as required by the law. Only five firms in the direct sample, and 12 in the indirect sample, engaged a full-time accountant. It was in these firms that more elaborate accounting procedures were maintained.

Book-keeping, however, was fairly well maintained, most (66 per cent ) of the firms in the sample employing either part-time or full-time bookkeepers. A single-entry system was widely used, although several have adopted the double-entry system. CoSIRA travelling accountants, in the areas covered in the study, all gave credit to the small firms in the sample, which they considered to have kept a fairly good standard of records. Many of these firms, however, have had the benefit of CoSIRA book-keeping instruction service (see Table 3-42).

B. Cost Accounting:

Virtually all of the firms not having integrated cost-accounting indicated that they developed their estimated costs for pricing purposes from past actual costs or from 'guesstimates' based upon their experience. Table 3-36a shows the various methods adopted for this purpose. Thus, the majority of them observed 'labour and materials used' as the basis for their calculation : with 26 per cent of them adding a predetermined percentage for overhead and profit on top of this base. However, when asked how they arrived at the percentage figure, the answer ranged from formal or informal calculation, to 'inspired guessing', backed by their intimate knowledge of the work, acquired over the years. Table 3-36b shows the method used by the indirect sample.

Through the services of CoSIRA's accountants, a total of 44 per cent of the firms in the sample have adopted standard costing, and computed their material cost, plus either machine-hour rate or labour-hour rate, for their pricing.

It was, however, difficult to determine accurately the nature and extent of cost-accounting used. Since quite a number of the firms were job - or contract - shops, it might seem reasonable to assume that they would compile reasonably accurate costs for each job as a means of determining the profit or loss on each job, and as a basis for estimating costs and quoting prices for similar jobs in the future.

Generally, it was possible to differentiate between the firms which had adopted CoSIRA-taught standard costing techniques and those which based their method on 'sheer

TABLE 3-36a

PRICING METHODS PRACTISED BY THE FIRMS

a) Direct Sample:

| | Responses | Percentage |
|---|---|---|
| Material + machine hour rate | 5 | 10 |
| Material + labour hour rate | 17 | 34 |
| Material + percentage added | 13 | 26 |
| Fixed externally | 8 | 16 |
| Guesstimate | 7 | 14 |
| | 50 | 100 |

TABLE 3-36b

b) Indirect Sample:* (Multiple Responses)

| | | |
|---|---|---|
| Follow price leader | 2 | 3.7 |
| Rough estimate + profit mark-up | 8 | 14.8 |
| Seek pre-determined rate of return | 5 | 9.3 |
| Actual calculation of cost | 22 | 40.7 |
| Guesstimate | 9 | 16.7 |
| Fixed externally | 20 | 37.04 |
| Negotiated pricing | 19 | 35.2 |

* The different divisions of methods in the two samples have been the results of changes in methodology in the field.

guesstimating'. In the indirect sample, 41 per cent had adopted CoSIRA's method, as compared with only 34 per cent in the direct sample.

The seeming lack of more highly-developed cost-accounting among the firms in the sample did not stem from a lack of concern about cost, cost control and pricing. To the principals, pricing was determined not by any scientific method but rather by three basic tenets:

1) reference to costs of similar work done in the past.
2) accumulated experience of the estimator, the more experience the safer he would be.
3) the level of business that the firm needed to keep the plant going.

Despite their confidence based on past experience, and the apparent survival of their firms, the principals have on several occasions been proved wrong in their quotations. They have admitted that they have misquoted or miscalculated on some occasions, and did not make any profit in the process, yet they rationalised these as inadvertant, rather than as the failure of their system.

In two firms which were practising 'material plus labour plus percentage added' method, CoSIRA accounting advisors revealed the pitfalls of the existing system through standard costing analysis. During the counselling sessions, which the writer observed, the advisor meticulously demonstrated the merits and demerits of the existing system and the standard-costing system. Although the analysis showed that, as a whole, the existing costing and pricing practice yielded more or less surplus returns for their products or jobs, yet many of these were so haphazard - some having only a modicum of profit, others a considerable surplus, - that they ranged from giving assets away to charging too much. On top of these variances, several of the jobs, which the principals reckoned by their system to be on the positive side, were shown to be losing money through underestimating.

In these two cases, however, only one firm was converted to the new system which, on the whole, resulted in an overall competitive pricing for their products. The other firm adamantly stuck to its method, using the past as testimony as well as justification for the choice. The fact that the firms had made a success with the old system seemed to the proprietor to justify no change which might upset his structure.

Therefore, it was noted and confirmed by the respondents that, when their business was at capacity and orders abundant, they would deliberately price themselves out of the market. They would not reject orders outright, but quoted a higher-than-average price as an indirect way of refusal. But, when a quieter spell was being experienced or anticipated, the principals would often quote lower-than-average prices to attract orders; thereby keeping the plant going and the work-force employed. At times, the prices quoted would be low, with little or any margin for profit, yet they were convinced that change was not needed.

In the sample studied, at least two firms made the sliding scale a standard practice in regulating their work load. They received their orders mainly from the government, and therefore wished to appear on every contract being offered. They would maintain a competitive pricing when they wanted to bid for the job seriously, while their scale ~~slid~~ extended upward when they just wanted to appear on the bidding list. They felt that if they did not submit their bids for every contract offered they might be by-passed for future work.

On the whole, therefore, it could be assumed that the present costing methods and practices appeared to be fairly adequate for these small firms which were definitely too preoccupied with the 'juggling' of the day-to-day operations, in consequence of which a more complicated and demanding system might dislocate their tight-rope endeavours. Despite their non-formalised and simplified costing and accounting systems, on average they have managed to survive. Some even succeeded, indicating that they have been remarkably adept at avoiding major losses from errors of pricing.

These informal practices might be tolerable as long as the organisation is small. As a business grows, however, and more responsibility for its operation is delegated to others, it is expected that the owner-managers would find that they were not getting the information, which hitherto was at their finger tips, necessary for intelligent and effective management decisions. From this stage onwards the principals would need a more formal system to facilitate, as well as to cope with, growth.

C. Sales Forecasting and Budgeting:

This was one area in which the principals of the firms in the sample were extremely passive. This underlined one of the basic features of the firms in the study - their widespread practice of short-range, informal planning of operations. Only three firms claimed they prepared a written sales forecast, or budget. Of the remaining firms, their forecasting was confined to target figures for the following year; the current-year's target was based on the previous-year's attainment.

Through the interviews, it was possible to gauge an explanation for the lack of formal sales-forecasting among these firms:

1. The unpredictability of the sales - the principals all contended that a formal forecasting and budgeting system was impracticable because the sources and volume of their sales were often uncertain and irregular. Their response varied from stressing the "uncertainty of tommorrow" to "impossibility of forecasting the future".

2. The direct control of sales - the sales function in most of these firms was the responsibility of one man, often the principal himself. In firms where more than

one man managed the sales, the sales personnel was not more than three people in any of the firms. The supervision and control of sales were therefore relatively easy and negated the need of any formal system.

3. The absence of a large sales force: related to the above is that, in the sampled firms, there was virtually none which had a large number of salesmen, the presence of whom make sales forecasting imperative for the fixing of quotas and commission.

4. Lack of personnel trained in forecasting: most, if not all, the firms in the sample had no personnel trained or orientated to undertake the forecasting function. The principals were already 'wearing too many hats' as it was, and to burden them more with this relatively complicated operation would not only be too time-consuming, but would require a skill which they might not possess. To employ specialist staff to perform this function would be financially prohibitive for most of the firms.

While sales forecasting is an estimate of the final results of the sales efforts, a budget provides the planning, coordination and control guide lines to reach the forecast targets, through the effective manipulation of all resources available within the firm. In this area, the firms in the sample were guilty of neglect. Just as they abhorred forecasting, they appeared to abhor planning, budgeting and setting objectives.

Most of the reasons put forward for this neglect were related to those offered for the lack of sales forecasting. Most of the respondents again reiterated that, like forecasting, budgeting was only for the big firms. The fact that many of them were more concerned with meeting commitments and juggling the immediate finances, made long-range forecasting and budgeting meaningless. In fact, very few of them were really convinced that long-range planning was worthwhile.

Another common reason for the lack of forecasting and planning was their fear to share the secrets of their operation with anyone else. Typically, the small businessman was a loner, who started on his own and kept his ideas, plans and intentions to himself. To people like him, therefore, putting plans and intentions on paper was tantamount to sharing them with others, and this he tended to detest.

But the most difficult task was to convince these principals of the need and the possibility of these operations. To them, the future was so unpredictable, with so many variables to be reckoned with, that any planning would be impracticable. Related to this was their lack of confidence in undertaking any effective planning, lest they made an error and exposed themselves to ridicule. Thus, with these sampled firms, fears and ignorance seemed to be the roots of the prejudice against any formal budgeting forecasting and planning.

Nonetheless, it would be wrong to conclude that the firms such as those in this study did not do any planning at all. What they lacked in formal practices, they replaced with an informal, rule-of-thumb system. In fact, almost all decisions that the principals undertook for their businesses involved the reckoning of the consequences. This in effect, was planning and forecasting, if in a crude, informal, and totally unsystematic manner. Some even went a step further and tried to base their decisions on known data such as the annual financial statements (see Table 5-30).

## VII Marketing Structure:

### A. Types of Markets:

Rural small firms, as exemplified by those in the samples of the study, do not lag behind in entering export markets. In fact, of the 50 in the direct sample, only 12 per cent of them were restricted to the local scene and orientated to the local market. These were mainly firms which were engaged in providing goods and services for the agricultural sector, including the building of farm premises in the neighbourhood. (See Table 3-37).

Of the rest, more than half (56 per cent ) of the firms were concerned with the export market, either directly or indirectly through making or manufacturing parts and components that went to make finished products for export. The direct exporting firms, which represented 32 per cent of the total, achieved their objective on their own or through agents.

At least six firms in the sample maintained direct contact with their customers in other countries. The principals made regular sales visits to these areas, thereby ensuring the growth of overseas sales. The remaining direct-exporting firms rarely made such foreign visits, but relied instead on established export-import agencies.

Apart from local and external markets, a sizeable proportion (32 per cent ) of the firms in the samples directed their products to the national market.

TABLE 3-37

THE TYPES OF MARKET TO WHICH THE DIRECT-SAMPLE FIRMS ARE ORIENTATED

| Nature of the Market | Ranked Firms | Unranked Firms | Total | % |
|---|---|---|---|---|
| Local market only | 4 | 2 | 6 | 12 |
| National market | 10 | 6 | 16 | 32 |
| Include indirect export | 10 | 2 | 12 | 24 |
| Include direct export | 16 | 0 | 16 | 32 |
| TOTAL | 40 | 10 | 50 | 100 |

B. Origin of Products:

The development of the key products for the firms in the sample had been initiated and stimulated as a result of varying circumstances and in different places. Table 3-38 summarises the origin of products/services upon which the firms' activities were based. Thus for 26 per cent of them, the idea for their business basis was developed while the principals were in employment. Such ideas were reported to emanate from experience in the employing firm, or from formal or informal feedback information provided by the customers of the employer.

For 20 per cent of the firms, the idea for their business basis came through contacts in the field. The best example was Twist Engineering (Firm AG), discussed earlier. Likewise, the idea for the "tree-pulling' equipment currently being developed by Firm F, was originated during the principal's holiday-cum-business trip to South Africa.

≠ Case: Mr. Beach was in South Africa to visit old fiends he had known when he was working there as Area Manager for a large firm based in England. It was during a social visit to a friend who was in charge of a plantation clearing scheme that Mr. Beach saw the rather laborious manner in which the work was undertaken. When he commented upon this, his friend off-handedly remarked, "All right you try to do something better".

Mr. Beach indeed saw that a machine could replace the manual work, and if he could develop such an equipment there might be sale potential for orchard-clearing in England, as well as in other countries. He began to discuss the concept with his friend and, during the flight home, Mr. Beach sketched his prototype. Within a month, this was developed and tested in an orchard, with outstanding success. The equipment was so revolutionary that it was featured in the B.B.C's 'Tommorrow's World'. Needless to say orders have poured in.

TABLE 3-38

ORIGIN OF THE BUSINESS BASES OF THE DIRECT-SAMPLED FIRMS

Multiple Responses

| Nature of Origin | Number | Percentages |
|---|---|---|
| While working for another firm | 13 | 26 |
| Contact in the field | 10 | 20 |
| Invention or innovation | 7 | 14 |
| Adaptation of other firms' products | 12 | 24 |
| Bought over existing companies | 6 | 12 |
| Others | 11 | 22 |

Apart from such developments, a large percentage of the firms (24 per cent ) based their business on adaptation or modification of existing products.

Lawyer (1963) also analysed his sampled firms in terms of the origin of their products. As in the present study, a significant proportion of his firms developed their products while the principal was working for another firm. These two results seemed to reinforce the observation made earlier regarding the 'spin-off' effects as the basis of starting business.

C. Sales Organisation:

Most of the firms in the sample had a simple line-type sales organisation. This function was largely the responsibility of the owner-managers of the firms, as illustrated by Table 3-23. The tabulation shows that 88 per cent of the principals concerned themselves with sales duties. In many of the firms, the principals were supported by additional sales personnel, either salesmen or sales managers. Table 3-24 in fact revealed that 28 per cent of the firms in the direct and 37 per cent of the firms in the indirect samples employed specialist personnel to undertake or assist in the sales function.

Indeed, the above points seemed to emphasise the important of the sales function in these firms. This intense preoccupation with the sales function was partly attributable to the fact that the sales had been the major work-experience of these principals, and partly due to the principals' general desire to establish direct contact with the market; thereby enabling them to be kept informed of the development there.

This preponderance of the principals' time on sales has also been found in other studies - e.g. Lawyer, and Fox. The latter study disclosed that in nine out of ten successful small manufacturing firms in their sample, the owner-managers or senior executives devoted considerable time to marketing activities.

As indicated above, some firms in the present study also employed salesmen to assist management in fulfilling the sales task. Generally, it was observed that the personnel for this function were recruited from among the sales staff with which the principals had had previous contact. The organisation of salesmen's activities was also, like other facets of the rural small firms, informal and uncomplicated.

D. Channels of Distribution:

The firms in the sample used several methods to promote and effect the sales and distribution of their products and/or services. The most common and popular was of course the direct-to-user method, where the firms contacted and delivered their production output to the consumers directly without any intermediaries. The resort to this direct-to-user method has more importance for firms selling goods requiring extensive servicing. The start of this sytem in each case could be initiated by either the firms or the 'users' though, in most cases, they were initiated by the firms through direct face-to-face visits.

In some cases, however, sales have been made to customers with whom the firms had had no personal contact. At least three firms claimed that they had never gone out to solicit sales except in the first six months of their trading. If any visits were made, these were mainly confined to after-sales service or courtesy calls. These firms had therefore thrived on their claimed reputation, and orders came to the firms, in two cases virtually up to the maximum capacity, without any sales efforts.

Another channel of distribution depended on by some of the firms was the use of dealers and manufacturers' agents. However, only 12 per cent of the firms used these, though all except two firms also used other means. The two firms had found their agents to be most effective, and, in fact, gave them the credit for the growth of their sales. This reliance on the sales agents was defended on the following grounds:

1) a substitute for maintaining one's own sales force otherwise had to be organised. This was deemed to be more expensive and difficult to manage.

2) agents normally maintained their own sales outlets and distribution channels which were nation-wide.

Therefore, through them, the firms were able to reach a wider market. In some cases the agents also had overseas contacts.

3) at least the two firms which relied completely on the agents claimed that their agents possessed the technical know-how in the trade, and this was made available to the firms. This facility was therefore an additional benefit which accrued to the firms, and justified the use of agents.

4) for the rural firms, often remote from the market, the use of agents had been seen as, not only a means to make the distant market within reach, but also a means of reducing sales expenditure.

One of the two firms which completely relied on agents had, within five years of the firm's inception, succeeded in expanding its sales nation-wide and recently has also broken into the European market - all through the work of its agent:

≠ Case: This firm (Firm O) specialised in making lamp shades out of specially treated plastic materials. The principal started using a lighting agent purely by chance. This happened during the first lighting exhibition the firm participated in. Its exhibits were regarded as innovative and attracted a lot of sales - and the attention of a lighting agent, who offered to undertake sales of the firm's products. Previously, the firm had relied completely on retail and wholesale outlets, with limited success. The principal was therefore keen to try this alternative channel, and within three months the sales figures increased; principally as a result of distribution and promotion by the agent.

Apart from the above channels, the sampled firms had also tried to increase their sales through various promotional strategies, as summarised in Table 3-39. However, unlike larger firms, only 24 per cent of the sample ever resorted to advertising (see Table 3-40). Such media advertising was, however, mostly localised and irregular. Another 14 per cent of the firms replaced or supplemented the direct contact or advertising by using 'mail shots'. However, none of the respondents was able to ascertain the productivity of their promotional costs, for either advertising or 'mail shots'.

A promotional technique, which had been used by 22 per cent of the firms, was participation in trade fairs or industrial exhibitions, local and international. Most of these exhibitions had been facilitated through the assistance of CoSIRA, which organised 'common stands or pavilions' for its small firms. At least four of the firms in the sample participated in overseas exhibitions. However, of the 11 respondents resorting to this method only seven of them repeated this promotional strategy, in consequence of benefits obtained.

In order to maintain and expand their markets, the firms had resorted to ordinary and mundane strategies, with few resorting to aggresive policies. Likewise few, if any at all, ever conducted any formal market research upon which to base their marketing strategies. The intuitive judgement and foresight of the principals appeared to be the basis of their market planning rather than any formal or systematic methods.

TABLE 3-39

METHODS ADOPTED BY THE FIRMS TO OBTAIN NEW BUSINESS ORDERS (DIRECT SAMPLE)

(Multiple Responses)

| | Responses: | Percentage |
|---|---|---|
| Satisfaction to existing customers | 35 | 70 |
| Reputation in trade | 36 | 72 |
| Trade contacts | 21 | 42 |
| Advertising | 12 | 24 |
| Use of salesmen | 10 | 20 |
| Mail-shots | 7 | 14 |
| Use of agents | 6 | 12 |
| Exhibitions and fairs | 11 | 22 |

TABLE 3-40

FREQUENCY OF ADVERTISING (DIRECT SAMPLE)

| | | |
|---|---|---|
| Regularly | 2 | 4 |
| Sometimes only | 23 | 46 |
| Never advertised | 25 | 50 |

E. Product and Market Developments:

Very few of the firms in the study ever conducted formal research and development within the firm, or used outside research agencies. Only one firm used university facilities to undertake research into a new product that the firm was trying to perfect.

However, many of the firms had continuously added and modified or improved their product lines in a very informal and unorganised way. Many of the non-product firms had at one time or other been trying to develop products which could be marketed. These firms believed that the best way to succeed in business was to branch out into the market with a product that met a current need, rather than continue in their servicing or component-jobbing activities. Thus one firm had developed a car anti-theft device, another a 'mini-jeep toy' and yet another a special steel-cutting saw, but all have yet to hit the market in a big way. Nonetheless, despite these failures, the small firms continue to improve and improvise and innovate, hoping to do well one day. And it is through such efforts that the market is continuously endowed with newer and better products.

F. Competition:

Generally, most of the firms were aware who their competitors were, but were not able or bothered to study their rivals' strategies with a view to gaining advantage over them. They relied heavily on their firms' quality and service to win the market, rather than on resorting to aggresive competition.

Table 3-41 shows the main bases of competition for the firms in the sample. Thus 58 per cent banked on the quality of their products and services to achieve their goal. And, in such small firms, they put extra emphasis on the standard of work and on ensuring the satisfaction of their clients. This was regarded as important, because they were always aware that a withdrawal of an order by a client could prove disastrous to them.

Another basis of competition was service provided. And here, as already mentioned elsewhere in this report, the small firms in the study had not only assured clients of personal attention but had in many instances provided services which the larger firms could not or would never have provided.

It is these personalised services which make the small firms a potent competitor of the larger firms. Marting (1959), stated, "Executive giant corporations have repeatedly asserted that it is not the big competitor whom they fear; it is the small one. And this is perhaps the most eloquent testimony of all about the importance of small business". Respondents in this study have provided the following reasons for the competitive strength of the small firms:

1) they claimed that they were able to provide better service

TABLE 3-41

COMPETITIVE BASES OF THE FIRMS
(DIRECT SAMPLE)
(Multiple Responses)

| | No. of Firms: | Percentage |
|---|---|---|
| Price | 11 | 22 |
| Service to Customers | 31 | 62 |
| Quality of product/ service | 29 | 58 |
| Technical expertise | 15 | 30 |

and delivery than larger firms. This was especially true with respect to deliveries, or in terms of variation of orders.

2) they were able to quote lower prices because of lower overheads. There were times when they even effected drastic price-cuts in order to keep the firm liquid.

3) personal attention was their hall-mark and this was often accompanied by quality of work.

4) one respondent said, "the finish of work in small firms is always better because we take more pride in what we do ..... since the customer knows us we have to maintain our reputation".

The above bases of competition, as summaries in the tabulation, were also found in other studies, e.g. Lawyer, and Davies and Kelly. In the former study, his sample of firms placed factors in the following order of importance:

a) price
b) quality and accuracy of products
c) promptness of delivery
d) superior design of products
e) credit terms
f) service
g) knowing customers' needs.

## VIII Production and Manpower Structure:

### A Production Organisation:

Like sales, the production function was regarded as an area of prime concern of the principals in the survey. This was because the majority of the respondents (66 per cent ) had a production background. Furthermore, these principals considered this as one factor on which the success of the business also hinged, apart from sales efforts. Thus, 54 per cent of the principals managed the production function themselves and, as indicated earlier, some of them did shop-floor work as well.

Production organisation in the sampled firms was simple and unencumbered with divisional responsibilities and hierarchical functions. The principals reckoned that specialisation of function was not feasible because of lack of personnel. Thus, in these firms there was no separate personnel undertaking the various facets of production, but instead, as they always said, "everybody pitched in".

However, in one respect, most of the firms had at least one hierarchical level in the duties of the foreman who co-ordinated the various jobs on the shop-floor. Unlike the foremen in larger firms, however, those in the firms surveyed were distinguishable by their co-ordinating function rather than clear-cut supervisory responsibility. In most cases, they worked on the jobs together with the workers.

B. Production Control:

There was no observable formal control method practised in the sampled firms. However, all jobs were recorded, each given a job card, and workers clocked the hours spent in undertaking the task. The job cards were then processed by the formen and/or the office staff, for both wage payment and costing purposes. In almost all cases, the principals or the production managers ensured that the target datelines for completion and delivery of orders were met. Only five firms showed any visual representation for production scheduling, and these were displayed in the offices instead of on the shop-floor.

Two firms, however, practised critical-path analysis to schedule their production. Both of them had had the training and experience to use this method while in previous managerial employment. One of the principals adhered to the method meticulously in scheduling a massive order from a large company for its product, which was 'lithographic historical prints':

≠ Case: The firm, (Firm AP) had received a large order from one of the oil companies, who wanted to use the prints as their give-away sales gimmick. The facts that the order was massive, the material for this particular order had to come from Europe and, on top of that, the client wanted staggered deliveries, made the use of critical path analysis vital. At the time when this survey was completed, the writer was informed that the firm had successfully met the requirements of the clients, and a second larger order was forthcoming.

As regards stock control in the sampled firms, this was also conducted most informally. Because many of the firms' production cycle-times were short, they were able to wait orders before stocking materials. In other words, most of the sampled firms produced for orders or sales rather than for inventory.

C. Quality Control:

In most firms no systematic method of quality control was practised. However, most respondents claimed that they put high reliance on the quality of their products/service and therefore they personally undertook this responsibility. Where the principals themselves did not perform this function, a senior executive, inevitably the works manager, undertook it instead. Typically, inspection took place both during processing and after the work was completed.

Two firms, however, where accuracy and precision of products were vital, effected a most scientific and pains-taking inspection, the testing laboratory of the one firm being so sophisticated that it tested precision products for other small firms.

D. Manpower:

For the majority of the firms, the work-force employed came from within the locality. Therefore, the village or township was the catchment area to meet the firm's manpower needs. However, out of the 50 firms, it was found that at least four experienced difficulties in acquiring the right kind of labour from the adjacent villages. Therefore, these firms were forced to recruit labour from further afield and had to provide transportation for the workers, to and from their homes.

Another firm was forced to recruit and transport female workers from a farther village, though there were women in the village who worked in another area. This situation occurred because the firm was located in what appeared to be a middle-class area - the women accordingly were most reluctant to be seen working within their own village.

The employment of female workers occured in over 50 per cent of the firms in the sample. In five firms, including the one mentioned above, over 90 per cent of the work-force was female. Women were, in fact, reported as more suitable than men in processing and aseembly work. In consequence, where such activities predominated, firms often employed female labour.

Although it was not possible to make a statistical survey on the extent of 'nepotism', it was suspected that, in many of the rural small firms, employment of principals 'kith and kin' was quite common. This assumption was based on the responses of principals to a question pertaining to the employment of relatives: 61 per cent of the firms affirmed employing at least one relative within the firm.

One of the essential features of the work-force of the rural small firms, as evidenced by the sample, was the lack of organisation of workers. There was no trade unionism in any of the firms visited. Only two cases had been quoted where the firms had had contact with such activities.

In almost all cases, the principals of small firms did not favour trade-union activities among their employees. In fact, many tried to ascertain the affiliation of potential employees before recruiting them. Most principals justified their prejudice against trade unions either by the stereotyped generalisation that trade unionism was synonymous with industrial unrest and strikes, or the argument that there was no need for a trade union, since the employees were treated as members of their families.

At least three firms had instituted a workers' committee system to buffer against the incursion of trade unionism. The committee, on which the management and employees were represented, undertook to look after the interests and welfare of the workers and also productivity.

Recruitment of workers was also informal and non-systematic. Interviews were often brief, if held at all. Therefore, candidates who were known personally to the principals, directly or through the former's parents, were often preferred. Where necessary, however, especially when 'familiar' candidates were not available, the firms would contact the labour exchange. Rarely did any of the firms in the sample resort to media advertising for recruitment of staff.

There were three cases, however, where CoSIRA services were used in the firms' recruitment exercises. These firms, which were relatively larger, engaged the agency's advisory officers to assist them in conducting the interviews and selection of potential recruits.

As far as promotion of employees was concerned, service rather than merit, loyalty rather than seniority were considered, although 'nepotism' was also reported to be practised. However, in some of the 'more progressive' firms, those which were practising more modern management techniques, they relied more on performance of the employees than any other criteria. Sometimes, however the principals were faced with dilemmas.

When the small firms grew, thus requiring the services of more senior personnel, first at supervisory level, and later at managerial rank, the principals were often faced with the choice of promoting from within or recruiting fresh candidates. However, as indicated by several respondents, it was not always possible to promote those who were considered as loyal workers because, in many cases, these employees proved effective only as workers, and were not equipped, qualified or capable of undertaking higher duties. Yet to recruit from outside, which in effect meant 'putting new employees over the heads of loyal workers" often resulted in the displeasure or even the non-cooperation of these workers.

Several of the principals had admitted that they chose the line of least resistance, and promoted their loyal workers without consideration of their capacity to fulfil the functions. Some felt that this was the only thing they could do, as they felt they owed much to these men for their survival and success, and to by-pass them in promotion would be tantamount to being ungrateful. So these firms were faced with the consequence of their sentimentality - one respondent expressing his problem thus:

"Look, my problem is my foreman, some of his workers are more effective than he is ..... I should not have been so human as to promote loyalty over efficiency."

In terms of manpower training, at least 36 per cent of the firms had made efforts to improve the skills of their workers, through in-service training, either on-the-job, or on evening courses. A large proportion of this group of firms utilised CoSIRA services for this purpose, especially in developing the workers' welding skills.

Apart from this, staff development was unplanned and unencumbered with paper work. Many feared losing their workers to bigger firms, if they were to train them.

IX External Relationship:

The small firms in the sample interacted with a host of other institutions within their environment. In many respects these interactions, both in terms of their direction as well as their manifestation, were quite different from those exhibited by and attributed to the larger firms.

Some of the major units interacted were:

A. the customers

B. the suppliers

C. other smaller firms

D. the large firms

E. the local community

F. public agencies and government departments

G. financial institutions

H. other institutions (e.g. training establishments)

A. With Customers:

The main feature of the relationships with customers, as exhibited by the firms in the sample, has been their personal nature. Whether the clients were other firms, large or small, or direct consumers, these small firms have, in almost all cases, effected their transactions in a most non-bureaucratic manner unencumbered by red tape or formality.

The principals have always prided themselves upon this quality, which they remarked was absent in their larger rivals. Most of the respondents claimed that they have always met customers' needs for variation of orders, sometimes after machines had been set and production scheduled. This personal service was manifested in every facet and stage of the business transacted.

In terms of their customers, the small firms in the sample had the following categories of customers:

1) individual consumers
2) other small firms
3) larger firms
4) public bodies and authorities
5) foreign consumers, i.e. export.

The relationship which was established could be any one, or a combination, of the following types:

a) direct seller-buyer relationship with individual customers.
b) "satellitic" relationship e.g. with larger firms, where the product of the small firm was taken up by one or two major consumers.
c) symbiotic relationship: the small firm and the customer-firm depended on each other, thereby deriving mutual benefits.
d) contractual relationship: where the production of batches of goods or the provision of services had

been tendered out and the small firms, having won the 'order', provided the goods or services according to the tendered and contracted specifications.

The relationship established with 'institutional customers', e.g. firms or public bodies, were normally covered by the buyers or purchasing officers of the institutions. Many of the principals indicated that they endeavoured to establish personal relationship with the personnel concerned, through direct visits. It was this direct contact with the 'buyers' in the government departments, for example, which facilitated the institutional sales of many of the firms in the sample.

B. With Suppliers:

In most cases, the small firms in the sample obtained their supplies of production materials from larger firms. However, where materials were obtainable from smaller firms, this was preferred. The nature of the firms' relationship with the suppliers, although reportedly cordial, could not be equated with that which existed between the firms and their customers. This was to be expected, especially when the suppliers were larger firms. In this case, there was allegedly less personal association and more rigid procedures to adhere to, particularly concerning payment.

Another group of suppliers with whom the sampled firms had to deal was the firms which supplied their tools and equipment. Almost all the firms visited stated that they had bought their new equipment on hire purchase terms.

C. With Other Smaller Firms:

The relationships with other small firms in the areas of the sampled firms has been assessed to be somewhat mixed; ranging from passive to warm. However, in the Shropshire, Cheshire and Staffordshire area, the relationship between many small firms was reportedly closer, in that they had, through the efforts of the CoSIRA Organiser, formed a loose association among themselves. Through this association they have been able to establish social contact with other small businessmen and also to facilitate inter-trading among members. Many respondents have indicated that, even at the annual 'get-together' where they met for a day discussing common problems, often with invited guest speakers, "a lot of business talks" took place to their mutual financial benefit.

This association has also produced various other inter-firm co-operation, including one joint-bid for a large order. There were many other forms of self-help among member-firms which were reported. One example of such inter-aid was when the principal of one small firm, having successfully overcome workers' attempt to unionise the firm, was able to assist another principal who was facing a similar situation. The latter admitted that it was through the association that he was able to learn of the former's experience and success, and to solicit assistance.

In the case of small firms located within industrial estates, it was reported that there was a fair degree of inter-action, some of which was manifested in the form of inter-trading. This relationship among small firms, formalised or otherwise, could yield a beneficial psychological boost to the firms concerned. The fact that they were within the environment of like-firms made them aware of common problems, and they therefore felt 'less lonely' in the struggle to survive. This therapeutic effect of the environment could prove to be one other argument in favour of locating small firms in industrial estates. Perhaps the comment of one respondent on this matter reflects their awareness of the benefit of the estates:

"You know, being next door to fellow strugglers has made me less fidgety. Just to know that I am not alone in this battle helps me in many ways ......."

D. Relationship with Larger Firms:

The relationship between the smaller firms in the sample and the larger-firm suppliers and consumers has been reported to range from complete independence to a state of dominance. In the latter case, these firms have been observed to depend on one or two large customers, as outlets for their products or services, and to a large extent were dictated to in terms of pricing, quality and, sometimes, methods of production.

Generally, however, the small firms' interaction with larger firms resulted in one, or a combination, of the following relationships:

1) competition.
2) peaceful co-existence.
3) mutual aid.

In the first case, the firms were producing the same kinds of goods or services for sale in the same market. Table 3-6 ~~4-1~~ shows that at least 58 per cent of the firms in the direct sample had assumed the role of competitors with the larger firms. Some of the firms had, in fact, made deep inroads into the territory of the large firms. Such a competitive relationship has its functional consequence in industry as a whole, and will be discussed in the next chapter.

In the second type of relationship, the firms were producing different kinds of goods or services for different markets. Thus, in this situation, the large and the small firms were complementary to each other, to provide a more complete service to consumers. Examples of this type of relationship were:

a) markets in which local small industries enjoyed a natural protection derived from their remoteness from big industrial centres. In the sample, several of the firms catering for the local agricultural industry enjoyed such protection.

b) the marketing of high-grade man-made craft products produced by traditional skills. In the sample, at least three firms were engaged thus.

The third type of relationship - mutual aid - occurred when large firms co-operated with the small firms in making the same end-products; i.e. the large firms giving out work to small sub-contracting firms. It was this mutual-aid relationship which reflected the interdependance of large and small firms, despite the existence of the competitive function mentioned above. Therefore, it is a mistake to think of small and large firms as antagonists, in the sense that one tends to wipe out the other. There are both competitive and complementary aspects in their relationships.

The inter-sector complementary relationship probably resulted partly indirectly through the market and partly directly through sub-contracts for the production of components and other supplies. The former was acutally manifested by the division of tasks between the small firms in the sample and their larger counterparts, without any direct arrangement or contract being effected. It occurred by the sheer process of competition sorting out the most suitable roles of each sector. Thus, both large and small firms were continually, formally or informally, making cost comparisons and seeking the particular product lines and operations which their firms found most profitable. Therefore, since small firms are characteristically best at certain kinds of tasks and large ones at other kinds, complementary roles indirectly emerged between the two sectors.

As for being directly complementary, this was evident among the firms in the sample. Many of them established mutual-aid types of relationship with their larger counterparts - one sector systematically using the products of the other, and vice versa. Hence, direct complementarity could be two-directional, small firms using large firms' products and the sub-contracting small firms making components and parts for the larger firms.

There were two types of this direct complementarity relationship observed among the sampled firms:

a) further manufacturing.

b) sub-contracting.

In the first case, the small firms merely assembled the components and parts for larger firms to produce a separate final product. Thus Firm AB in the sample assembled various electronic parts to make control panels and consoles for the motor industry.

In the second type above, there were two varieties observed:

Firstly, the small firms served more than one buyer and had a considerable degree of true independence of action. Therefore these firms could be regarded as independent sub-contractors.

Secondly, the small firms were wholly dependent on one or two customers only, these taking all or nearly all of the former's output; the small firms being extremely dependent upon them. Such small firms could be classified as subordinate or captive subcontractors. It is this second type of firm which is sometimes referred to as a satellite. Thus, these small firms, which were ostensibly and legally independent were in effect subsidiaries of their big customers, from whom stemmed most of the direction and initiative. In these sub-contracting relationships, therefore, the actual function of the small firms' principals was akin to being a manager of a large firm's branch-plant.

NEDC[5] stated that "many small firms live as sub-contractors in the shadow of large firms, sometimes as a specialist function, but often simply providing a reservoir of surplus capacity which the large firms can call on in times of boom and which can be shed in times of recession". (1967:314)

E. With the Local Community:

The relationship that linked the firms in the sample to their local communities was mainly manifested through their respective roles of users and suppliers of manpower and, in some cases, that of the latter as consumers of the firms' products and services.

In two cases, as briefly mentioned earlier, the relationship was antagonistic. Both these firms were located in what the local communities referred to as 'green villages'. The local residents and their Councils had been protesting against the firms' growth which they claimed, in each case, had created an eyesore and a hazard to environmental preservation. In one case, the battle was eventually won by the villagers, who succeeded in forcing the firm to move out to another location.

In the other case, while the firm was still 'staying put', pressure had increased through both the press and official channels, to force the firm to locate itself elsewhere. At the end of the survey, it looked as though the firm would eventually be forced to move to another site. In anticipation of this, the principal had been negotiating for a piece of land, some 12 miles away, in an urban industrial area.

Despite these two cases, the small firms generally had contributed in many ways to the well-being of the communities in which they were located. This role is discussed elsewhere in the report.

F. Public Agencies and Government Departments:

These represent one of the major areas of interaction of the sampled firms. The departments which these firms had to deal with ranged from government bodies and agencies with regulatory powers, such as the Department of Trade, the Department of Employment, Local Planning Authorities; and advisory bodies which include CoSIRA, the British Productivity Association and, until very recently, the Industrial Liaison Service.

One area of interaction which often showed itself in the study, and which impinged upon the development of the firms, was that with the Local Planning Authorities.

All the firms had to deal with a Planning Authority for the purpose of obtaining Planning Permission for modification, extension or the building of premises. In many instances permission was not granted and various bargaining arrangements, rejections and Appeals determined the relationship between the parties.

It was in these interactions that CoSIRA had assumed a significant role. The agency, being more aware of the official procedures and formalities, facilitated by the existence of inter-departmental contact, was able to play an effective intermediary function, to the benefit of the applying firms.

On the whole, however, many of the respondents seemed to perceive their relationship with the Government in somewhat negative tone. They reckoned that, in many ways the Government was not being fair to the small-firm sector. Several respondents were extremely critical of the Government's policies, or lack of policies, pertaining to the small firms. They maintained that there was a prevailing bias in the interest of the larger firms. One way in which this bias was said to manifest itself was in the lack of Government interest in the small firms' problems, an attitude in complete contrast to the anxious concern with the environment for the larger firms.

Golby and Johns reported a similar antagonism to the Government's attitude and policies, by the small firms in their sample. They listed the various taxes and form-filling regulations as some of the roots of these grievances.

The sampled firms in the present study were likewise unanimous in their view that the prevailing taxes were discriminatory. Some small firms thought that they were even penal or confiscatory. Another source of grievance was the Government's regulations pertaining to industrial training, which was again seen to favour the larger firms.

Relationship with CoSIRA: Of course the sampled firms, being selected from CoSIRA - associated firms, have direct and in most cases regular interactions with the agency. These interactions could be in any one or more of the following areas:

1) Local Assistance, (through the Regional Organisers)
2) Credit Services.
3) Technical Services.
4) Advisory Services.

Initial contact was, in all cases, initiated by or directed towards the local Cosira Organisers. These contacts often paved the way for the establishment of further interaction.

It was interesting to note that one of the essential features of this external relationship of the small firms in the sample, was the special relationship forged between the principals and the local CoSIRA Organisers. In many instances, the latter not only served as the front men for CoSIRA, but also played a host of other roles ranging from acting as the local and immediate adviser to the principals to being their personal confidant!

Often, the principals sought to reassure themselves and, in these cases, the organisers frequently only acted as 'good listeners'. The personal "chats", often over the 'phone, somehow had the required therapeutic effect on the principals. The fact that they have somebody to turn to quickly and talk to about their problems, ideas, and plans, seemed to reinforce their confidence and courage. This phenomenon was reflected by the responses of the principals and was observed in their actions.

One principal who had used the agency's services extensively, with clear-cut benefits, said:

"I feel I owe Cosira a lot for my success ..... but the greatest role or strength of Cosira, I think, is its local set-up ..... the Organiser is always at hand to listen to you and to help you."

The principal of another firm, which Cosira helped by providing a loan during a critical phase of its development, and which subsequently utilised the Agency's other services effectively, said

"I had this problem - and such problems always cropped up you know - and I know Cosira can ease it ..... For example, the other day, it was about this brochure I wanted to have for the firm ..... I thought of it, and rang the Organiser, and in this case he gave me a few 'phone numbers and some tips ..... you know, just like that, and that helps."

However, it was through the many services provided by CoSIRA that the small firms in the study had obtained various professional assistance. Table 3-42 shows the type of services utilised by the direct sampled firms.

TABLE 3-42

TYPES OF CoSIRA SERVICES SOLICITED AND OBTAINED BY THE FIRMS
(Multiple Responses)

| Types of Services | Direct Sample | | Indirect Sample | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Bookkeeping | 26 | 52 | 23 | 42.6 | 49 | 47.1 |
| Costing and pricing | 31 | 62 | 22 | 40.7 | 55 | 51.0 |
| Work-study and plant lay-out | 14 | 28 | 15 | 27.8 | 29 | 27.9 |
| Technical advice | 21 | 42 | 17 | 31.5 | 38 | 36.5 |
| Marketing advice | 9 | 18 | 10 | 18.5 | 19 | 18.3 |
| Welding instruction | 11 | 22 | 6 | 11.1 | 17 | 16.4 |
| Exhibition | 9 | 18 | na* | - | 9 | 8.7 |
| Planning Permission | 15 | 30 | na | - | 15 | 14.4 |
| Financial/Credit assistance | 29 | 58 | 35 | 64.8 | 64 | 61.5 |
| Not using any | 4 | 8 | 4 | 7.4 | 8 | 7.7 |

* n.a. = not available.

The most popular service solicited and extended was in the accounting field, i.e. bookkeeping, costing, pricing and estimating.

Financial assistance, through credit services, have a fairly high usage - by 54 per cent of the firms. Only four firms in the study did not use any service from Cosira, following initial contacts with or by the Organiser.

G. Financial Institutions:

The interaction between the firms and the various financial institutions was very restricted and narrow. This was generally limited to contact with the firms' banks. Only three firms had had any dealing with the ICFC.

The firms used their banks fairly extensively, especially for short-term financing. A total of 30 out of the 40 firms, whose financial data were known, had constant overdraft facilities with their banks. Table 3-29, the combined financial statement for 1970 of the 36 firms, shows that these firms together had a total of £437,008-00 of overdraft, representing about 23 per cent of their total liabilities.

The limited reliance of these firms on financial sources other than their banks and CoSIRA, reflected in part the principals' lack of awareness of other facilities available and their inability to make the necessary contact. Furthermore, many of the respondents viewed with apprahension the prospect of depending for their finances on some outside groups whom they perceived to be either "city men", or as a threat to their independence. Rather than incur such risks, some of the small firms had opted to remain small, some have struggled on under their own steam, while a few have succeeded despite the difficulties.

H. Other Institutions:

There was little evidence of contacts with other institutions such as, training institutions, trade associations or private consultancies.

## X Structural and Organisational Strengths of the Rural Small Firms:

The above structural analysis has mapped out the principal characteristics of the firms in the sample. In many respects, the patterns that emerged were fairly consistent with those of other studies, particularly by Deeks, Tamari, Davis and Kelly and Boswell. These various traits and orientations have given the firms both their positive and negative qualities viz a viz the larger firms. In many instances, the principals' responses and assertions have highlighted the strengths and weaknesses of the rural small firms.

### A. Flexibility and Versatility:

Most of the respondents have concurred on the resilience of the rural small firms. This flexibility and versatility, as evidenced by their ease of adaptation which has frequently been necessitated, were definitely considered to be an asset for firms of their size. These small operators often change plans and schedules, according to the dictates of the market, as quickly as the market makes its presence felt. This, in a way, was shown by Firm M which changed its products/activities four times, within two years, almost as soon as the demand for each of the products began to decline.

Such shiftings from one type of product to another were only possible for a small firm such as Firm M, because of its lower fixed overheads. In larger firms, heavy fixed outlays would make them relatively inflexible.

The flexibility and adaptibility of the small firms in meeting changes, has often been facilitated by the fact that small firms, such as those in the sample, employed more generalists than specialists; thereby making it somewhat easier to avoid the application of Parkinson's Law. These generalists could be mobilised to do different duties, as required by the type of activities being undertaken at a particular time. Thus, the employees of the firm quoted above were able to make brushes and then change to fishing rods, and later to dominoe bricks; finally settling to aircraft components. It was the speed and ease of their adaptation to a changing market that ensured their survival, and eventually steered them into the field in which they are doing well to-day.

Another mark of flexibility, often quoted by the principals, is their adaptability in competition, where they have altered their production schedules or modified their prices, or even changed their policies in a way that a larger company would be frightened or unable to do. All these added up to make the small firms agile and, therefore, not prisoners of the market.

Many of the firms in the sample had also no rigid production lines. They could therefore handle development work, 'one-offs' jobs' design and fabrications, machining, finishing, repairs and odd jobs requiring considerable engineering skills, and often an uncommon degree of precision.

Thus, apart from flexibility to change, these firms have versatility on their side. They were able to meet the needs of several different situations, thus piecing together an operation which matched their opportunities.

Another strength akin to flexibility, as demonstrated by the sampled firms, was the simplicity of operation and organisation that made control and decision-making easier and quicker. It was, in fact, this simplicity, apart from the other qualities, that facilitated the effective changes made by firms such as Firm M above.

The Chairman of General Motors,[6] in an indirect tribute to the simplicity and flexibility of the small firms, said "In practically all our activities we seem to suffer from the inertia resulting from our great size. It seems to be hard for us to get action when it comes to a matter of putting our ideas across. There are so many people involved, and it required such a tremendous effort to put something new into effect."

In almost all the firms within the sample, if there was any problem of communicating and communication, it was not within their own organisation. As indicated in Table 3-24 only 46 per cent of the firms had any specialist staff which, in some ways, created an additional level in decision-making thus separating the general workers and the executive. In the other firms, the principals themselves dealt directly with the workers, or at least through one simple level - that of the foreman. Twenty-two per cent of the sampled firms have their principals working on the production line, as well as fulfilling the management function, thus bringing the executive very close to the focal point of production. In another 16 per cent of the firms, the principals undertook all the various functions, and this served to co-ordinate through the owner-managers all the key areas; making control and decision making simple.

In situations such as the above, not only does co-ordination of functions become somewhat easier, but also decisions can be implemented as soon as they are made, without the necessity of referring the matter to other locii of power. In larger business, the problem of co-ordination becomes increasingly difficult and serious. The men at the top have many more people involved in the process of decision-making and ensuring its implementation.

B. Personalised service:

Because of the direct contact between the customers and the management or decision-makers in the small firms of the sample, the latter were able to effect a personalised service. Gross (1967) supported this strength by saying, "Customers prefer to talk with the boss, they believe they can get better treatment when dealing directly with the top executive ..... the wider the gap between top management and local contact, the less certain do customers feel of receiving adequate attention".

Several of the firms which were craft-based catered for clients desiring custom-service and custom-built products.

Thus, the wrought iron-work of Firm W, which were often custom-built, stood out in a world where so many products are made by mass production. This personalised service made it possible to meet the individual needs of consumers, especially those requiring distinction or variety in their products.

The personal touch can have tremendous influence in the market. In industries where product and price differences are minimal this extra touch can well be a vital factor in profitable operation. However, it must be emphasised that these advantages do not necessarily follow automatically from smallness. They must be cultivated industriously if they are to exist. If and when they have been achieved, however, they represent important assets on which the small firms can capitalise, and which can be sold to potential clients as benefits providing the later are willing to pay the proper price for them.

Other facets of this personalised quality provided by the small firms, as evidenced in the sample, have been discussed elsewhere.

C. Workers' Morale:

In to-day's world of industrial unrest and frequent worker-manager disputes, it was heartening to observe that this troubled state had not encroached upon the small firms in the sample. This was attributable principally to the fact that these firms were non-unionised - a situation which may have resulted from the size of the firms rather than have been responsible for avoiding the unrest.

The contentment of the workers could be reflected, among other indices, by the low level of labour turnover experienced by the firms. In answer to the question whether the firms had ever experienced high labour turnover only five out of the 50 firms considered it as moderate, while none replied that it was critical. Although very few workers (12) were interviewed, those which were all preferred to work in small firms: seven of them had previously worked in larger firms.

Edward and Townsend (1965) stressed that, "There appears to be plenty of evidence for the view that, the larger the organisation, the greater the problem of maintaining a sense of 'belonging' and of participating in the fortunes and performance of the organisation. Naturally however it is difficult to prove this statistically."

This seemingly lesser labour turnover in the smaller firms, as a result of, among other reasons, what Edward and Townsend referred to as greater involvement and sense of participation in these firms, has also been found by specific research into this question. Cleland (1955), based on his sample of over 80 plants, concluded that labour turnover was generally lower in the smaller firms of his sample. Likewise Indik (1965) showed that an index of "member participation" derived from quit rates correlated negatively with organisational size in his study of 36 automobile dealerships.

As indicated elsewhere, at least four firms have established committee-systems to ensure the effective management of their employees' welfare. These became necessary when these firms had grown to a size where contact between senior management and workers had become somewhat reduced through the increased size of work-force. Thus, in the small firms, especially in the rural environment, the family-type atmosphere prevailing has contributed in many ways to the fostering of a relatively better 'quality of experience'. Studies by Revans (1938, 1960), Ingham (1963), Indik (1963), Talacchi (1960) Warner and Hollander (1964), and Miller (1967) support this.

D. Innovative Advantage:

Although it has often been said that the larger firms have bigger resources for R & D, yet the small firms, as evidenced by those in this study, have played their part as the seedbed of innovation and invention. Table 5-~~30~~25 shows the number of firms holding patents, five of which have become the principal bases of the firms' activities. The flexibility and greater selectivity of personnel, strong motivation, and the fact that they were younger firms with less vested resistence to radically new ideas, are factors which contributed to the innovating ability of these firms.

One excellent example of extreme flexibility which in the end produced an important innovation, is Firm AE, owned by Mr. Hartmann - an ex prisoner-of-war.

Case ≠ He developed his track-laying equipment (for railways) in a most unorthodox fashion. He worked and reworked on his innovation through 'daily tinkering' and cumulative modifications. He has never clocked his labour input, but now justifies these unrecorded man-hours by the demand for his equipment. In fact, while waiting for the orders to be delivered, his clients have been hiring the firm's prototype and demonstration model. This, according to Mr. Hartmann has more than paid for the man-hours spent in the development work.

The fact that small firms are more motivated to experiment and innovate than large firms has been explained by Gibbons and Watkins (1970:10), "A large well-established corporation is often committed to a product, or a range of products, which is well-defined technologically, and finds itself constrained (by factors such as the need to maintain a good dividend to its shareholders) to change technologies only slowly. In many cases, the entire management structure is oriented towards coping with the day-to-day difficulties of a given technology, and could not easily throw the weight of its expertise behind one which was strikingly different."

Evidence such as that of the above firm and of Firm F, quoted earlier, and of others in the sample, showed that a relatively small business might be as efficient as the larger ones, and often more efficient in product research and in product development. The high quality of a small technical staff, their identification with the company and its future, and their ability to work closely and flexibly with production personnel, can give them the advantage over the more highly-institutionalised approach of the larger firms.

E. Threshold of Opportunities:

One of the most important advantages of the small size has been referred to as the threshold of opportunity. The threshold for a large firm may be quite high, perhaps a turnover of several £ million, and if it cannot see such a market developing within quite a short time, it may not feel the opportunity is worthwhile. But a turnover of considerably less than this can be attractive to the small firm. In the sample, 50 per cent of the firms have an average turnover of less than £50,000-00 and yet they have survived and some have produced a fair return upon the investment made by their owners.

In crossing this threshold of opportunity, the advantage of the small firms would be enhanced if the field of business is new. Thus, while the technique is new and the market outlet not yet known, the small firm may build up a range of know-how that makes its position strong as the market expands. Firms AH, G and AL in the sample, were all in relatively new fields and have now positioned themselves strongly to face competition.

Another advantage of the small firms is the speed at which they are able to respond to growth opportunities. Dynamically changing product patterns open many gaps which the small manufacturers, with speed of decision and implementation, can react to ahead of a large competitor. Thus, small firms are able to initiate new products with major growth potential. This was evidenced by Firm E, where its principal saw a gap in the agricultural field, for clearing orchards and replanting. As has been indicated earlier, his development of the equipment was amazingly quick.

F. Use of Secondary Resources:

Another feature of small firms, which has been discussed earlier and which renders competitive strength, is the ability of the small firms to use discarded resources. These include disused premises, as well as used equipment - in both cases giving these resources longer life than they otherwise would have had. Few of the firms in the sample would have been able to afford the prices of new equipment and premises. Most of them started their business using second-hand equipment which was improved through improvisation. Much of the inventive talent of the new manufacturers was spent in adapting standard machines to non-standard purposes, and in raising the degree of precision of old tools. This was done either by modifying the machine to suit one's needs or by discovering new methods of combining or using machines.

The possibility of using these discarded resources has no doubt facilitated the early start of these firms, and their flexibility in this respect has provided yet another competitive strength for the small firm.

G. Incentive of Ownership:

The strongest point that revealed itself in the study, pertaining to the benefits of smallness in business, was the incentive resulting from owning the firms. In these small firms, the men frequently were the businesses and, as a result, each saw a direct connection between his effort and his material rewards. Thus, perhaps no stronger incentive has been found to good management than that of owning one's own business. This incentive of ownership has no doubt manifested itself in many ways to render many benefits to the small firms and their owners.

H. Rural Location:

As a whole, the respondents in this study have quoted almost equal advantages and disadvantages from rural location. The quality of the environment as a place to work in, ranked highest among the positive factors for such a location. Other advantages mentioned were: lower expenses incurred for premises and labour, and lesser chances of labour being influenced by the industrial disputes that were prevalent in the urban centres.

## XI Structural Weaknesses of the Rural Small Firms

### A. Financial Handicap:

While the small firms have various strengths vis-a-vis larger firms, some other features are disadvantageous. One of the most prevalent handicaps of the small firms, as quoted by the respondents, has been that of financial disadvantage. A significantly high percentage of these respondents have indicated finance as one of the main problem areas. Other studies, e.g. Edward and Townsend, Hollander, Deeks and Davis and Kelly all have found this to be true among their samples of firms.

Most of the small firms in the sample were started on shoestring budgets (Table 3-26) and, therefore, financial problems have been perpetual hazards, at least in the initial years. Most of the principals have reported a continuous struggle to balance income and expenditures. This problem was serious enough in starting the business, but it became acute when expansion plans were under consideration. While giant rivals could float a loan or issue stock with relative ease, the small companies faced great difficulties getting a hearing.

Such a state of affairs has an adverse impact on planning and growth and, in times of stress, it could quickly result in a critical situation. Such firms have difficulties, for example, in staying afloat while waiting for their products to gain consumer acceptance. Furthermore, such firms were unable to offer credit as a selling tool as easily as could large competitors with large financial reserves.

It was because of these pressures that many of the principals were prompted either to start their businesses on a part-time basis or to arrange that their wives or partners worked elsewhere, thus lessening the financial drain upon the firms. As mentioned earlier, 12 per cent of the firms in the sample made this arrangement.

This financial problem persisted as a primary difficulty with the firms when they tried to reduce a financial deficit, or to finance growth, by raising external finance. It is common knowledge that financial institutions are more sympathetic to larger firms' applications if only because the cost of servicing small loans would be uneconomical. Basically, these small firms found it difficult to raise funds on the capital market and thus had to turn either to self-financing or to bank credit. However, in many cases self-financing was not always practicable because of the limited profit margin. On the other hand as far as bank credit was concerned, these small firms suffered from the following handicaps vis-a-vis larger firms:

1) they could not offer the same security.
2) the smallness of their loans caused the banks a higher ratio of administrative costs. These small firms have therefore been less attractive customers to the banks than their bigger counterparts and

this fact often had its repercussion on the terms they could obtain e.g. interest rates were higher.

3) the volume of investment loans to the small firms was apt to fluctuate because financial institutions have a tendency to start cutting their money supply to the smaller firms when the money market becomes tight and to increase it only when the money market becomes easier.

4) generally, many of the principals were not well versed in the various sources of finance and procedures for raising funds other than by traditional means of an overdraft. Furthermore, unlike their larger counterparts, they were not always at their ease in meeting and mixing with bank personnel, a social contact which could have been useful to them.

Apart from these problems, several of the firms had specific difficulties in obtaining risk capital, which therefore narrowed their capacity to launch new products and introduce new processes. Such innovations therefore had to be implemented over longer periods than otherwise would have been, as experienced by Mr. Hartmann of Firm AE.

Furthermore, it was observed that the small firms in the sample also had difficulties in building and maintaining adequate financial reserves; this was reflected by their financial statements. They have explained that the economic climate and the tax structure had worked discriminatingly against firms such as theirs. Against this, most large firms had achieved established positions and their financial requirements for new development were often not dependant on their retained earnings. In a growing firm, financial needs are apt to run ahead of profits being earned and small firms are therefore usually dependent on external sources of capital if their early expansion programmes are to occur. It is here that CoSIRA has been of help, by providing much-needed finance for the rural small firms.

However, the problem of adequate capital is not solely financial; it is also managerial. In the sample, businessmen who were competent managers rarely seemed to have long-term difficulties with finance. Either by virtue of careful planning, or through diligence, they were capable of raising capital from outside sources. Several respondents have claimed that they were able to meet all their financial needs through the banks and other external sources, by meticulously preparing their cases and effectively presenting them to their bankers or to other potential lenders.

The question of problems of finance for small businesses have been studied fairly adequately by various researchers e.g. Bates (1971) and the Economists Advisory Group of the Bolton Committee (1972).

B. Spread of Risks and Risk Bearing:

One of the disadvantages faced by many small firms, though not in any large way affecting the sampled firms, has been the fact that smallness often renders the firms less able to weather changing economic conditions or even major upheavals in the firms' marketing outlets. For example, the recent squeeze has been reported to have placed the small firms in difficulty and a single event such as the Rolls Royce collapse affected at least five firms in the sample, although not to the extent of crippling any of them.

Edward and Townsend (1965) in referring to the disadvantages of smallness vis-a-vis large firms, in terms of ability to spread risks, said - "that the financial advantage which large firm enjoys are intimately connected with the ability of the larger firm to reduce the impact of individual hazards by spreading its risks over a number of ventures." Firms do not usually like to have all their eggs in one basket, and large firms can afford to have more baskets than can a small firm.

Generally, therefore, the small firms are more vulnerable to changes in the environment.

C. Other Disadvantages:

Another disadvantage facing the small firms is their inability to attract a better calibre management and personnel. This is attributed to:

1) the stereotyped thinking among prospective employees that the small firms offer relatively less attractive working conditions compared with those of the larger firms. This notion is justified in that a fair

percentage of the sampled firms, for example, offered lower wages than their larger rivals in the same industry.

2) the relatively constricted opportunities for promotion. The firms being small, there is little scope for promotion and furthermore, when promotion does occur, it is not always based upon objective criteria of merit and ability.

3) larger companies inevitably can offer better training programmes and this tends to attract those men who enter employment with a view to preparing for a career with reasonable prospects of advancement. Venables and Williams (1961) found that smaller firms had fewer training programmes for their employees.

4) the fact that, in the small firms, employees invariably have to perform a much wider range of duties, makes small firms an unattractive proposition for those who wish to become specialists in any area.

XII Growth Structure:

The development of the sampled firms through time has taken many forms. It has involved changes of many kinds: scale, products, markets, techniques, organisation, equipment, physical and personnel resources. This process of change was relatively fast for some firms, slow for others, and relatively smooth for a few.

Through the data obtained in the study, it was observed that the firms achieved growth through various means: often adopting different growth-forms at different times:

A. The most common strategy was concentration on the sales of one product or product line - i.e. growth without diversification.

B. Increasing output through diversification or innovation, by adding new product lines. More than half of the sampled firms had added new lines since their inception. In fact at least three firms have since discarded their original products and concentrated on newly-introduced lines which held prospects of growth.

There were two types of diversification strategies observed. In one, the firm simply added to the existing range of products other products of the same types and geared to the same market. In the other, the firms added completely different types of products geared to different markets, e.g. Firm AE extended from the agricultural market to the machinery goods market.

The innovation and invention of new products have also contributed to expansion and growth of the firms in the sample. Examples of such cases are discussed elsewhere. The introduction of new products served to win new custom, as well as to provide competitive advantage in the market. In several cases in the sample, these innovations had enabled the firm to graduate from a servicing or sub-contracting role, with its limited expansion potential, to product-manufacturing, which had brought in its train growth potential.

Innovations for such firms as Firms F, D and AE in the sample, have taken the form of adding new technologies to meet the same demands, and introducing new technologies to meet new demands. In each case, the effect has been to improve consumer choice and has reflected itself in increased sales, thereby helping in the growth of the innovating firms.

C. Technological improvement : At least 30 per cent of the firms in the sample achieved growth in consequence of improvement in techniques of production; e.g. automation, better workshop lay-out, or other improvement in the flow of production. These improved techniques had in many of the cases become both the indicators and the bases of growth for the firms. In one firm, the introduction of automation in some operations has enabled the firm to increase production by 20 per cent with the same work force.

D. New Equipment/Plant: Although this could be both the cause and the result of growth, it has been observed that firms which had positive goals in their fixed assets programmes achieved greater growth than the others.

E. Managerial Improvement: Growth has also been claimed to result from the infusion of new managers and other skilled personnel. When the firms had expanded their production, and the principals' time had to be spread over an increased volume of activities, the addition of managerial support has enabled the principals to devote their time to key areas of the business. New men also bring fresh ideas: in two firms the employment of works managers had enabled the firms to exploit the ideas which had been initiated earlier but not taken advantage of because of lack of expertise to develop them for the market. Managerial improvement which could facilitate growth has also come through CoSIRA in-service training.

F. Integration and Fusion: Another growth method resorted to by the sampled firms was vertical integration, in each direction. In one case, the firm began to produce the material which was previously bought, thereby embracing earlier processes of production. Thus, Firm AD started to produce, through reclamation of vinyl wastes and disposed vinyl products, vinyl granules for conversion into the various vinyl products in which the firm specialised.

In several other cases, the firms which had hitherto subcontracted their processing, e.g. die-making, plating or painting, had expanded their firms to incorporate these processes.

Yet another method resorted to, by at least two firms in the sample, to achieve growth was fusion. In both cases, the firms merged with another firm; in one case the latter belonged to the same principal, though operating in quite a different field and, in the other, the firms belonged to two friends operating similar activities.

Growth for the sampled firms, however, was not a matter of course: most experienced varying periods of difficulties. However, the majority of the respondents agreed that the first few years of their existence proved to be the most hazardous. This confirmed somewhat the study undertaken by Mayer and Goldstein, where about half of their sampled firms closed within the initial two years. In the present study, five out of the ten firms which closed in the two samples did so within the first two years of establishment.

Apart from the risk of failure in these early years, the firms in the sample were initially most unstable, in terms of their products, premises or location, and ownership structure. Thus, risks of failure and instability seemed to be the main characteristic of the infancy years of these firms.

For the firms that survived and had the potential for growth, it was observed that they experienced a period of accelerated demand and expansion, akin to Rostow's "take-off" stage. This normally followed a major break-through in the market, or innovation. However, among the sampled firms, the "take-off" did not occur in any predictable stage of their development. At least three firms have only achieved their breakthrough after about a decade of existence; each case being the result of significant innovations. Several other firms succeeded in achieving this growth point much earlier in their life, with a few deriving this from successes in the market, including overseas.

In another four cases, the firms had attained what could be termed as rejuvenation or a second 'take-off'. In one case, this was the result of changes in the ownership-control and, in the other, the result of the recruitment of bright lieutenants. The other two take-off firms achieved this renewed growth experience after decline and virtual closure of the firms, marked by a significant retrenchment of the labour fource. The renewed growth in one was attained by meticulous rebuilding, avoiding the errors responsible for the first decline; whilst the second was the result of a chance innovation achieved in the field.

Many of the firms (38 per cent ) could be considered as having passed, or to be near, their peak. They were therefore either reaching their plateaux or had begun a slow decline. These were firms which could not grow further because of the nature of their activities and limited market potential, and they were thereby restricted unless and until fresh ideas or products could rejuvenate the firms. In others, the situation was the result of management fatigue, or simply due to the principals' being uninterested in further growth. In these latter cases, further growth, if it was to occur, could only do so with change of ownership, or the retirement of the present owner from executive responsibilities. Boswell, in his study, has also analysed the rigidities of such old firms which 'got stuck, almost frozen, in their posture of malaise'. He refers to this immobility as 'Congealment'.[7]

Apart from those firms which could not grow further for the above reasons, there were others in the sample, who were so because their owners elected to remain small, despite the existence of potential for growth, and the presence of a substantial demand for their products or services. The reasons put forward by the principals concerned were:

1) The current level of growth has been attained through difficult and arduous years and therefore once they have survived the risks and uncertainties of the infancy years they became reluctant to undertake fresh risks, and to be subjected to another period of uncertainty.
2) There were quite a few of them who were reluctant to lose the family atmosphere that prevailed, if they were

to grow any larger. These principals felt that only in a small firm set-up could they know their workers, and the latter know them. Once the firms grew beyond a certain size, formal organization would displace their existing informal close-knit set-up. They also feared the loss of personal control of the firms, and personal contact with the customers.

3) Some principals were also unwilling to lose direct control because, by necessity, growth would demand division and delegation of functions. They also feared that too fast a growth could easily use up their working capital and when this was gone the banks or financial institutions might get control. Furthermore growth, and the ensuing delegated authorities, would leave him with less time to devote to the plant and production problems, where he reckoned the real work was done.

4) Growth it seemed to them, brought in its train more paper-work and more responsibility into new realms of management functions which they were not trained for. They reckoned they would be forced to become more involved in administrative details and contacts with outside bodies, areas which they generally lacked confidence in. This fear has emanated from their perceived limited personal ability, beyond the skills required for production.

5) Growth might also, to them, necessitate production methods which were reckoned to be a threat to fine

craftsmanship, which some of them had sought to preserve when they started their ventures.

6) Some of them saw growth to involve the expansion of markets into their competitors' domain. Such incursions, especially if in the province of the larger rivals, might attract the attention of the latter who they feared could respond with take-over bids or retaliate with special competitive and punitive measures which could jeopardise their own survival. Furthermore, such growth would necessarily demand an increasing dependance on outside capital. All these were viewed as possible threats to their independence which, as indicated, was one of the prime gratifications that many sought to preserve.

7) There was also a belief that the government would siphon off a significant portion of any increase through tax, and this proved to be a potent disincentive to grow among the sampled firms.

8) Some principals regarded their venture as only a source of livelihood, and thus so long as this was possible without growth, then growth would not become their goal.

9) Finally, there was a widespread prejudice against trade union activities among the sampled firms. And among those firms which were not keen on growth, were those who saw increased size as a sure way to such activities taking roots, within their firms. This was so because they associated trade unionism with firms which were larger than theirs.

Chapter Notes:

1. All names used are fictitious to conceal the identity of the respondents.
2. Discussion on change in ownership is given in a later section.
3. High school in the U.S.A. is equivalent to secondary-grammar in U.K.
4. J. Boswell (1972) pp. 77 ef.
5. N.E.D.C. is National Economic Development Council.
6. As quoted by Edwards R.S. and Townsend H. (1965)
7. J. Boswell (1972) pp. 142 ef.