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Small Business
is
Big Business

NEW ZEALAND
Planning
Council

*Te Kaunihera Whakakaupapa
Mo Aotearoa*

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Small Business
is Big Business
By: Lesley Haines

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A Review of Trends and Policies

by
Lesley Haines

New Zealand Planning Council
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Foreword

Much attention of late has been given to the subject of enterprise in New Zealand society, mostly in relation to building an internationally competitive economy. The New Zealand Porter Project and the recent Enterprise Conference called by the Prime Minister, are obvious cases in point. The current review of government programmes to assist community employment and enterprise also addresses this point.

The New Zealand Planning Council, too, has been active in these areas, concentrating in particular on the implications for employment. There has been the work around the *Fully Employed High Income Society*, the *Tomorrow's Skills* project, and work is underway on workplace adaptability.

The report presented here is part of the Employment Working Group's monitoring of employment trends which began with *Work Today*, 1989 (now out of print), in that instance focusing primarily on the labour force.

In looking in more detail at the business side now, we have chosen to concentrate on self-employment and very small firms because throughout the last decade they have shown growth, both in the number of enterprises and in numbers employed, while larger enterprises have, over the same period, shown a decline on both counts.

We seek here to explore these trends – what do these small enterprises do, who runs them, what is driving them, and what are the implications for the economy and for government policy? In so doing, we have built on the earlier Planning Council publication in this area, *Self-employment and Small Businesses*, 1985.

Businesses cutting a competitive edge in overseas markets will have, in many cases, begun with a self-employed entrepreneur or as a very small enterprise (including the biggest, Fletchers). Without small business, the unemployment and benefit statistics would undoubtedly be worse than they are. A healthy small business sector, in other words, is a vital ingredient of a flourishing and enterprising New Zealand.

Jim Crichton
Convenor
Employment Working Group

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A Definition

The voluntary Royal Society for the Protection of Birds in the United Kingdom with 550 full-time staff has more employees than all but a few New Zealand companies! By comparison with our trading partners, businesses in New Zealand are small. The main reasons for this are our specialisation in primary products, our geographical isolation and our small domestic market.

The Bolton committee (Bolton, 1971) defined a small firm as one which 'has a small share of the market, is managed by its owners, [and] is not part of a larger enterprise.'

For New Zealand, Devlin (1984) used statistical criteria to establish the following characteristics of small business – firms of less than 50 employees in manufacturing, less than 25 in the wholesale and retail sector and 10 in the service sector. This is smaller than most international standards: for example, one American report cited later in this text defines small businesses as those with less than 100 employees, which in New Zealand would mean almost 99% of all enterprises, and half of all employees.

This study, where possible, focuses on the *very* small – defined here as enterprises employing five or fewer people, and including those working alone. In 1987 these accounted for:

- 62% of all manufacturing enterprises
- 78% of all enterprises in the trade, restaurants and hotels sector
- 84% of all those in business and financial services, and
- 82% of those in community, social and personal services.

In employment terms such enterprises accounted for 18% of all employees, and specifically:

- 8% of manufacturing employees
- 30% of those in the trade, restaurants and hotels sector
- 16% of those in financial services
- 12% of those in community, social and personal services, and
- the vast majority of those employed in farming.

A Variety of Forms

Very small enterprises take many forms – from the more traditional and typical independent enterprises to a variety of other forms – franchise holders, dependent contractors, pyramid sellers, cooperatives and ‘community businesses’.

Franchises

Franchises generally pay a royalty or a percentage mark-up for services provided by the franchiser, such as products or advertising. Such businesses are likely to emerge where there are ‘divided economies of scale’; in other words, where there is an opportunity for an owner-operator to combine enthusiasm and personal service with large-scale (often international) marketing and purchasing power, and, in some cases, sources of training. McDonalds is the classic example.

Some take the view that franchisees are not ‘real’ small-business-owners. However, in practice, most franchisees see themselves as small, independent business-owners, and in many cases franchisers are forced to concede a much greater autonomy to franchisees than would be given to a branch manager.

In the 1980s franchises have grown rapidly in areas as diverse as fast food, hardware, petrol stations, hairdressing, sports shops, real estate, radio broadcasting, and even small business advice. However, by comparison with the USA or Australia, franchising is undeveloped in New Zealand and some predict rapid growth in franchising across a wide range of products in the next few years (Pearson, 1990). Many franchisers are multinationals or, as Gary Lloyd, managing director of McDonalds New Zealand, puts it, ‘multilocals’.

Co-operatives

Co-operatives are enterprises which share profits amongst participants. Co-operatives grew tenfold in the UK over the 1975-82 period. Some attract government support, a New Zealand example being the Small Co-operative Enterprises Scheme. The most recent SCOPE report (Department of Internal Affairs, 1990) lists co-operative activities as diverse as birthday cake delivery, collecting agar, demolition, recycling, teaching business skills and tattooing. The 1989 business directory records 247 co-operatives, most in the trade sector. Most are small and likely to remain so. However, a few are large multinational businesses, the NZ Dairy Board for example.

Dependent Contracting

‘Dependent Contracting’ (also referred to in some overseas literature as ‘networking’) occurs when former employees set up businesses on their own and gain the majority of their business from their previous employer. The new entrepreneur is free to engage in other business as well. Such an arrangement may suit a large company in areas of work

which are discrete rather than continuous in nature; and is seen as a way of saving labour costs for the previous employer. Notable New Zealand examples are in local bodies and forestry. It is questionable how much independence such entrepreneurs may achieve: are many, as Curran (1986) noted, 'nothing more than a personalised electronic sweat-shop'? Some may begin in business as dependent contractors but in time become 'independent contractors'.

Pyramid Selling

'Pyramid selling' is illegal in New Zealand but similar network arrangements, selling anything from encyclopedias to cosmetics, do operate. An example is Amway, a very large US corporation, with a distribution network of 1 million people in 20 countries. In New Zealand, distributors generally work part-time. The average Amway distributor's monthly turnover is around \$200; most distributors are women at home; and 40% of sellers drop out each year (O'Hare, 1990). By comparison with the USA, direct selling is undeveloped in New Zealand and over the next few years may become a much bigger part of the small business scene.

Community Businesses

'Community businesses' emerge mainly as a response to deprivation. They are owned and controlled by the local community and their main objectives are job creation, maintenance of existing services (which are often threatened) and community redevelopment. They are non-profit-making although they usually have profit-making subsidiaries. The community business concept originated in Ireland, but Scottish experts Hyndman and Roxburgh (1989) note that they bear close affinity to many long-established iwi organisations in New Zealand. Although small in number, many new community businesses have been established in New Zealand in the past two years and the concept is being promoted by government through the Community Employment Development Unit (CEDU).

The Black Economy

In addition to the contribution of small business to legitimate activities, much of the output produced in 'the black economy' (estimated at 3-15% of GDP) is from small-scale activities. Participants range from 'moonlighters', where workers generally have a job in the formal economy and earn some extra 'on the side', to others who are officially unemployed or not in the labour force. In many cases, exploitation of such opportunities requires capital and contacts, which are less likely to be available to those who are unemployed or not in the labour force. Some of these activities are illegal; others are not declared to the tax authorities but may be otherwise legitimate. They merge into 'do it yourself' and other activities in the unpaid economy. In the UK the imposition of value-added tax (VAT) and increasing non-wage costs have probably pushed more activities into the black economy (Storey, 1987); GST may have had a similar effect in New Zealand.

Despite a proliferation of businesses of various types, most very small businesses tend to take traditional forms: a large number individually owned, many in partnership or operating as (usually) family-owned private companies, with only a few shareholders.

Growth in the 1980s

The last decade has witnessed a startling growth in self-employment and very small businesses of many kinds, and a reversal of the trends of the previous 50 years. From the mid-1920s to the end of the 1970s the number of self-employed grew very slowly. Between 1926 and 1981 there was an increase of only 40%, compared with an increase in the full-time labour force of 144%. However, in the 1980s this trend has reversed.

Figure 1



Note: * labour force equals those working 20+ hours/week plus those unemployed and seeking same

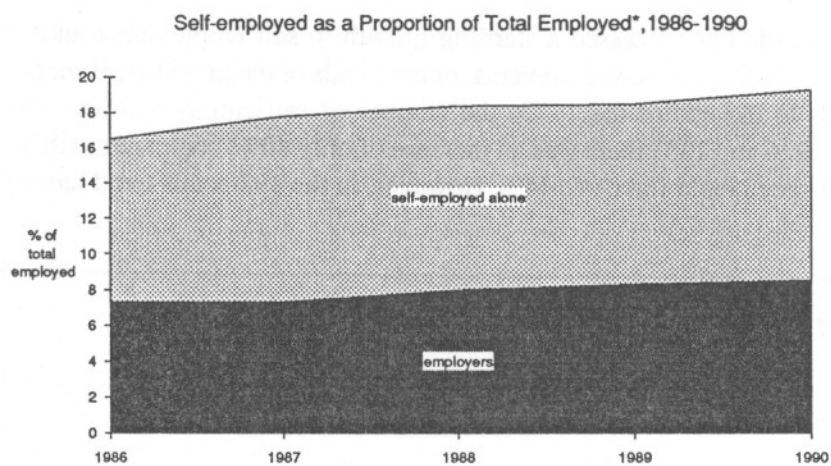
Source: Census

Self-employment increased by 41% in the five years 1981-1986 while total employment grew by only 7% (Census, full-time 1981 definition).² Since 1986 the trend has continued: in March 1990, 19.3% of the actively employed were self-employed, up from 16.2% in March 1986 (Figure 2).³

Over this latter period there has been a big decline in employment overall (by over 65,000) while the number of employers has grown by 10,000. The trend in the number of self-employed without employees is more ambiguous, up from 140,000 in 1986 to a peak of 161,000 in 1987, back to 149,000 in 1989 and 157,000 in 1990.⁴

The number of very small enterprises has grown rapidly while the number of large ones (over 100 employees) has declined. Between 1987 and 1990 the number of very small enterprises increased by over 11,400 (over 10%) whilst the number of enterprises employing 100+ people fell by 84 (6.9%) (see Figure 3).

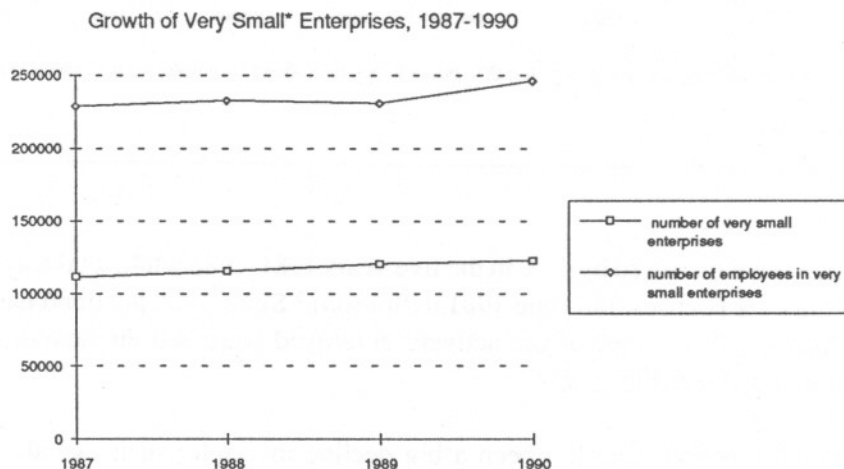
Figure 2



Note: * those gainfully employed 1+ hours/week

Source: Household Labour Force Survey, March quarters

Figure 3



Note: * those with 0-5 employees

Source: Business Directory, 1990

The numbers employed in very small enterprises increased by 17,000 (7.4%), while those in large enterprises fell by over 60,000 or almost 5%. This is consistent with OECD experience where in most (but not all) member countries the employment share of small firms has increased (OECD, 1985).

Reasons for the Growth

Structural Change in the Economy

Structural change in the economy is one underlying factor. Up until the end of the 1920s the number of small businesses grew rapidly. Then through the middle of the century, the growth in importance of the manufacturing sector as employer, and the relative decline of employment in the primary sector – the traditional bastion of self-employment – meant that the proportion of workers in self-employment declined. More recently, the growth of the services sector, where most businesses are smaller than in manufacturing, and the stabilisation of the relative importance of the primary sector as employer, have reversed the decline in self-employment. Within the sectors, of course, there are variations: for example, within the broad sector 'food processing', milling enterprises are becoming larger, but meat-processing plants are shrinking.

OECD (1985) analysis shows that where the employment share of small firms has increased it has been the result of a combination of within and between sector movement. The shift to the services and the increasing importance of small enterprises in all sectors, particularly manufacturing, have both had a part to play. What has caused the within sector movement?

Historical Factors

The Depression of 1929 forced many small firms out of business. In the 1930s the Labour Government turned many activities into large state-owned enterprises and the public sector grew rapidly. During World War II, production planning was centralised and production was licensed; large firms did best out of this. Government policies of the 1950s and 1960s reinforced this growth; the way import licenses were allocated favoured larger firms. The 'Think Big' solution to economic development, epitomised by the major projects of the late 1970s and early 1980s, also favoured larger enterprises.

However, by the end of the 1970s people were starting to realise the problems that big business and little competition could bring: lack of product choice, poor service and high prices. Government chose to deregulate, lessen entry restrictions and lower border protection in order to improve efficiency, thus lessening the advantages that many larger-scale firms had, and providing opportunities for new firms.

Vigorous Monetary Policy

Furthermore, in the 1980s government attempted to lessen the country's high external and fiscal deficits and to control inflation by vigorous monetary policy. This has involved a prolonged contraction of economic activity and has put pressure on large organisations, both public and private, to operate more efficiently. One common response amongst employers to more uncertain economic prospects has been to reduce costs and risk by reducing staff numbers and hiring more part-time, temporary and

contract workers, and also by 'splitting off' and sub-contracting some of the organisation's activities. The result has been declining employment in large firms and growing employment in smaller firms. The data reported in Reference 6 on page 49 is consistent with this as a partial explanation.

Increased Competition

The same trend has occurred elsewhere. As competition from the newly industrialised economies has increased, sub-contracting has proliferated. For example, Benetton clothing is made in a host of small companies and distributed by franchise. As the OECD⁵ notes, '... in the building and clothing trades, and in manufacturing in general, in the services sector and also in the information processing sector there has been an unprecedented growth in "multi-tiered" subcontracting ...' (p. 7). In New Zealand, this has happened extensively in forestry where many previous Forest Service employees are now self-employed contractors, and in communications where a wide range of small companies now sell or install phones, lease PABX, do electrical refits in offices, etc. Devolution in the public sector is also prompting small business contractors to provide services such as primary health care and Access training. The newly created or 'dependent' contractor bears the risk but, as Caire (1989) comments, 'paradoxically, often accepts it freely.'

Some take the view that such sub-contracting is essentially a response to the uncertain economic climate and that as prospects improve sub-contracting will be reduced. However, where major increases of efficiency have been achieved it is difficult to see why they will be reversed.

Economic Recession

Binks and Jennings (cited in Curran, 1986) argue that new small-business formation is strongly influenced by the structure of opportunities in a recession. In a recessionary environment, factors of production become cheaper, prices of second-hand capital equipment, premises, and often labour, fall. New businesses may be able to establish themselves more easily, but, Binks and Jennings argue, such opportunities may undermine existing businesses and have 'a replacement effect only.' However, such a replacement effect may increase competitiveness and in this fashion alone make some contribution to economic rejuvenation.

In addition, the increase in firm closures in depressed economic conditions may create a number of gaps in production which provide opportunities for small firms and would-be entrepreneurs. The business services sector, too, flourishes in times of change and uncertainty – restructuring has meant big growth in opportunities for management and legal consultancy work. Much of this is done by expansion of the larger businesses, but there has also been a big growth of small enterprises.

A Cyclical Element

The work of the Massachusetts Institute of Technology and the Brookings Institution (cited in OECD, 1985) suggests that there is a cyclical element – small firms make a greater contribution to growth in a recession. And other studies have suggested that small-firm contribution to net job-growth is greater in slow-growing or declining industries.

Bollard and Savage's (1990) work supports this view. They note that over the 1987-89 period there has been considerable change in plant and employment numbers. Employment declined in 35 of the 47 sectors they studied; but in 26 of those sectors, *plant* numbers increased. In the others, job losses were associated with less than equivalent decreases in the number of firms.

Plant numbers, they found, were almost equally likely to increase in industries where employment was declining as in industries where employment was increasing. They comment that this probably reflects the nature of the rationalisation process where the closure of a few large plants leads to large cuts in job numbers; meanwhile, smaller newer plants are established, probably with more sophisticated technology and fewer workers. Later, they speculate, as the new entrants become established, more substantial employment will result.

Technological Change

There are other longer-term trends at work as well. In many industries, technological change is enabling small-scale operators to be more competitive. The middle of the 20th century was the era of aerial topdressing, automation and mainframe computers, all of which enhanced the potential efficiency gains in large-scale operations. Automation and, later, computer technology, particularly in manufacturing, but also in finance, transport, communications, electricity, gas and water, and forestry and fishing, offered large-scale enterprises considerable economies of scale. This facilitated the development of multinational companies.

In some sectors, this trend towards larger enterprises is likely to continue, e.g. banking, but more recent technological advances — e.g. photolabs, desktop publishing and CAD/CAM — are increasing the efficiency of small-scale customised production in some activities as well, and giving rise to new opportunities for smaller enterprises. Even in industries where in the near future technological change is likely to increase scale of operation — e.g. clothing manufacture — further innovation may swing the change back the other way, as with photo-processing. In some instances, new small businesses are associated with a reversion to older technologies, e.g. craft and produce markets.

The sheer pace of change in information technology means that many companies need to employ specialist firms to select and install new equipment and provide training.

Niche Marketing

The successful harnessing of technology for mass consumption has also created the demand for more 'positional goods', used by individuals and groups to distinguish themselves from others. Ironically, the very success of the large firm has itself spawned increasing opportunities for small enterprises. Niche markets, offering high-quality specialised products are of growing importance: in such situations, small firms have often recognised the gaps and taken advantage of them. However, traditional mass-producers are now often differentiating their products and entering these niche markets. They may have advantages over smaller producers: lower production costs, and access to more powerful marketing and distribution channels.

The 'Me' Generation

Not unrelated to the growth of niche products has come a change of culture, the rise of the 'me' generation with much greater emphasis on individual achievement and independence, and rejection of a standardised, bureaucratised way of life.

Two-Income Families

The higher incidence today of two-income families has probably also favoured increased self-employment. The presence of one steady income in the household may make it easier for the other partner to take the risk of setting up a business. Household Expenditure and Income Survey data for the New Zealand Planning Council's Income Distribution Group supports this hypothesis. Data from 1986 shows average income from self-employment for single people aged 40-59 at \$1,400 per annum, while average self-employment income for couple households (where the woman was 40-59) was \$4,600, over three times the single-person average. Self-employment is more common in couple households than in single-person households.

Lack of Alternative Employment

Covick (1984) notes that in principle there is no market for self-employed labour, and that the self-employed sell the products of their labour rather than the labour itself. He comments, however, that in some areas it is very difficult to make such a distinction; for example, where services are sold and quantified in units of time. He goes on to argue that the increase in self-employment observed in Australia in the late 1970s and early 1980s may be due to disequilibrium in the labour market – institutional constraints may prevent the labour market from clearing but cannot prevent individuals going outside the labour market to gain income. He believes much of the observed self-employment increase may be a 'discouraged worker' effect, and that when the labour market picks up many such self-employed will once again become employees.

Storey (1982) showed that 20% of new businesses began because of lack of alternative employment; Binks and Jennings (1986, cited in Curran) found that one-half of new businesses in Nottingham had been started for 'negative reasons'. This may not, of

course, imply negative outcomes. Storey found that those who started up for 'negative' reasons and survived long enough to be surveyed were, on average, more likely to place themselves in the positive category than the 'positive' starters.

Rubery (1989), speaking of the UK, argues that the growth of self-employment is not a consequence of the revival of dynamic entrepreneurship, but is predominantly caused by declining full-time employment, an increasing number of women in the labour force, and perhaps an increase in those seeking to evade tax.

In a recessionary climate, more small businesses fail; but on the other hand, as job opportunities decrease, self-employment becomes relatively more attractive. In addition, self-employment generally has more flexibility in terms of hours worked than regular employment and is more easily translated into underemployment. Overall, the OECD (1986) found that the latter effects dominate and in 12 of the 14 countries they tested (the exceptions were Japan and Australia), the ratio of self-employed to total employed fluctuated counter-cyclically. This is not to say that the level of self-employment itself varies counter-cyclically. They note that the coefficient of the observed relationship is small – an increase of 1% in the unemployment rate is associated with a 0.3% increase in the ratio of self to total employment.

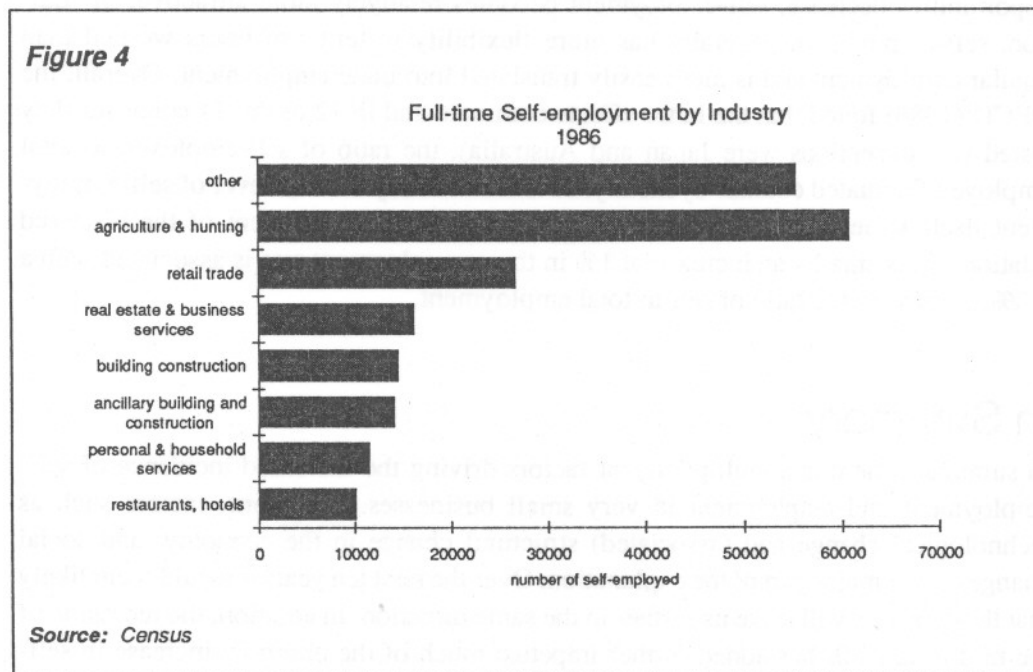
In Summary

In summary, there is a multiplicity of factors driving the increased incidence of self-employment and employment in very small businesses. Long-term factors such as technological change and (associated) structural change in the economy, and social changes, are a major part of the explanation. Over the next ten years it would seem likely that these factors will drive us further in the same direction. In addition, the recession of the mid to late 80s has added further impetus: much of the observed increase in self-employment and very small businesses may have begun for 'negative' reasons – as a response to increasing unemployment and redundancy. The impact of such change may not of course be negative: businesses begun for negative reasons may have positive outcomes; dependent contractors may become less dependent contractors; new small firms operating on smaller overheads and in some cases developing new technology and products may increase competitiveness in the economy and in this fashion contribute to economic rejuvenation.

The Sectoral Pattern

The Overall Position

Self-employment is much more common in some industries than in others. The major self-employed group in New Zealand are farmers, who account for over 30% of all the self-employed. Building and construction and ancillary services account for another 20% (Figure 4).



This rise of self-employment has occurred in all but one sector of the economy (electricity, gas and water, which, apart from gas, remains in public ownership and has not yet been deregulated) and has been weakest in the traditional bastion, the primary sector.

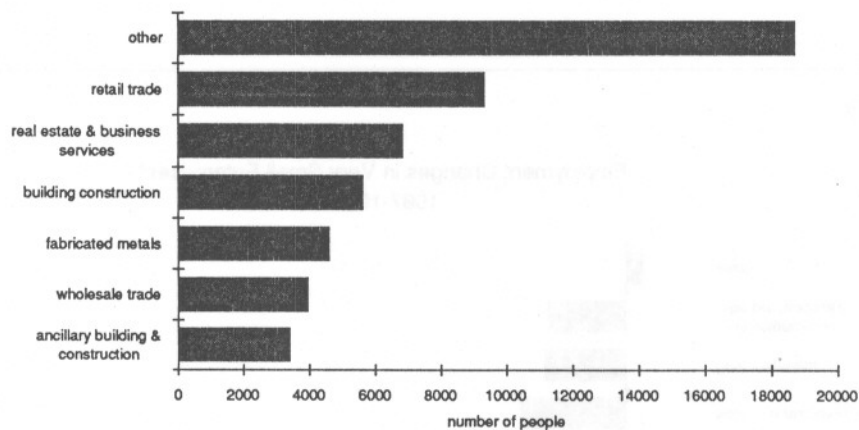
Areas of Biggest Growth

Over the 1981-86 period the biggest absolute growth in full-time self-employment occurred in wholesale and retail trade, real estate and business services, building, construction and ancillaries, and fabricated metals manufacturing (Figure 5). However, a considerable proportion of the growth occurred outside these groups and was widely spread.

In proportionate terms the biggest growth areas, often from very small bases, were communication (up from 30 people to 321), financing (up from 177 to 720), wholesale trade (up from 1700 to 5679), chemicals and chemical products, and insurance.

Figure 5:

Growth of Self-employment by Sector, 1981-1986



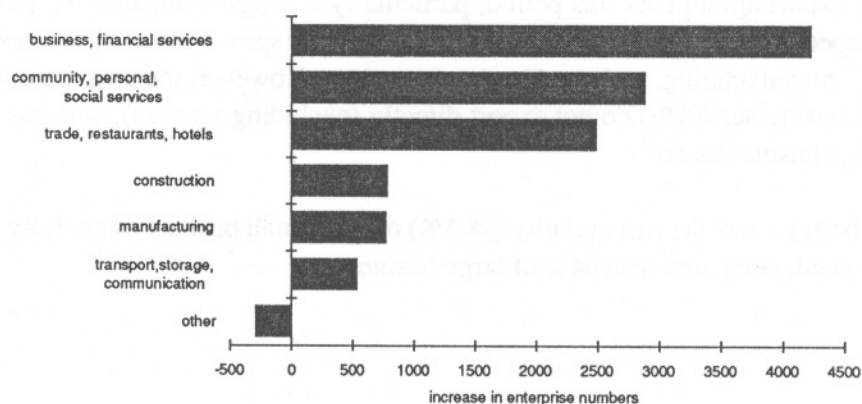
Source: Census — NZPC database

Growth in Very Small Enterprises

Data from the business directory shows that, between 1987 and 1990, increases in the numbers of small enterprises occurred mostly in the business services, community and personal services, and the wholesale and retail trade, restaurants and hotels sectors (Figure 6).

Figure 6

Growth of Very Small Enterprises* by Sector, 1987-1990



Note: *excludes farms, non-trading companies, non-profit organisations, property ownership and self-employed real estate finance and insurance agents; enterprises employing 5 or fewer people

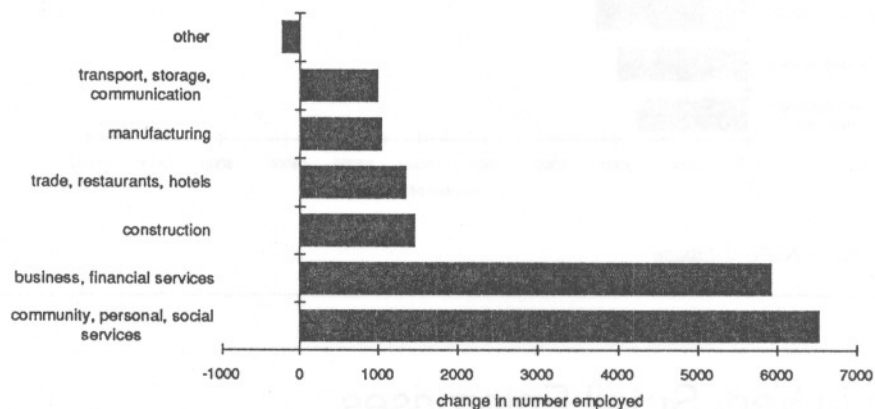
Source: Business Directory

Employment

In employment terms, numbers increased across almost sectors surveyed, but especially in business services and community and personal services, with significant increases in manufacturing, transport and communications, and trade.

Figure 7

Employment Changes in Very Small Enterprises* 1987-1990



Note: Employment in full-time equivalents. Enterprises as per Figure 6

Source: Business Directory

Export Businesses

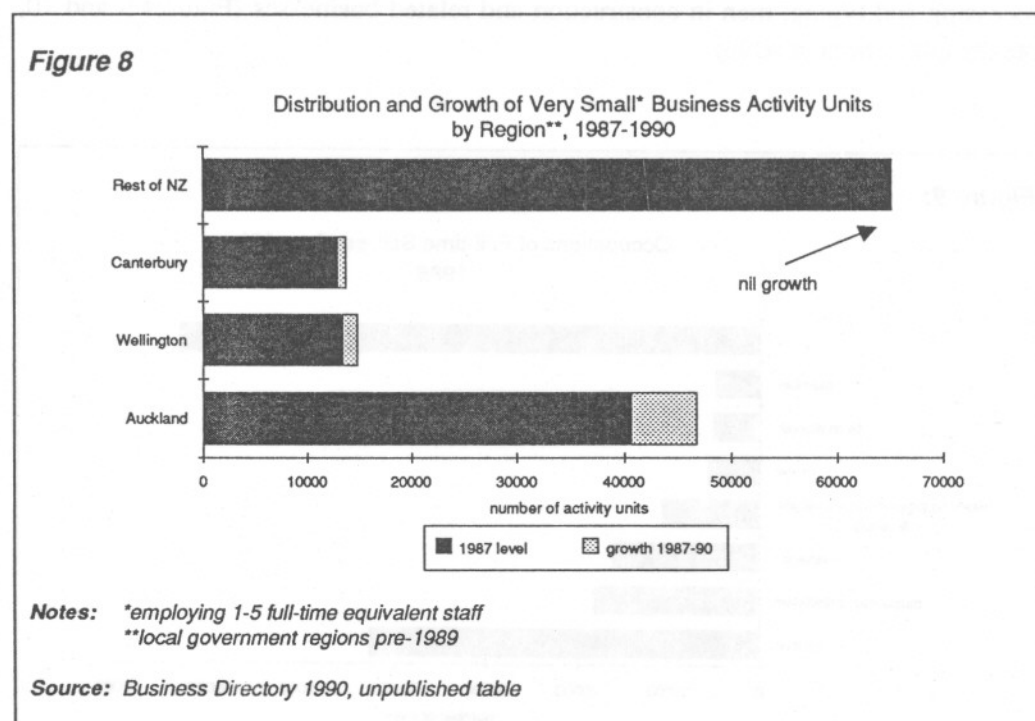
Between 1987 and 1990 there was substantial growth in the number of very small businesses exporting, from 3,100 to 3,600, an increase of 16%. The number of large businesses exporting fell over this period, particularly amongst companies employing 50 or more people. The growth of very small exporters was spread across all sectors, but particularly manufacturing, trade and business services. However, the vast majority of very small businesses (97%) do not export directly (excluding farmers), whereas over 30% of large businesses do.

As would be expected, the vast majority (98.5%) of very small businesses are fully New Zealand-owned, compared with 64% of large businesses.

Small Business By Region

Data on very small enterprises by region is not available. However, there is information on the growth of 'business activity units'⁶ by local government region.

Growth in the number of very small activity-units has been heavily concentrated in the three main metropolitan centres, particularly Auckland, in both absolute and proportionate terms (Figure 8). Proportionate increases were also substantial in Horowhenua (8%) and Nelson Bays (5%), but elsewhere changes were proportionately small and often negative.



The associated employment growth has also been concentrated in Auckland, with Wellington and Horowhenua the only other areas to record growth.

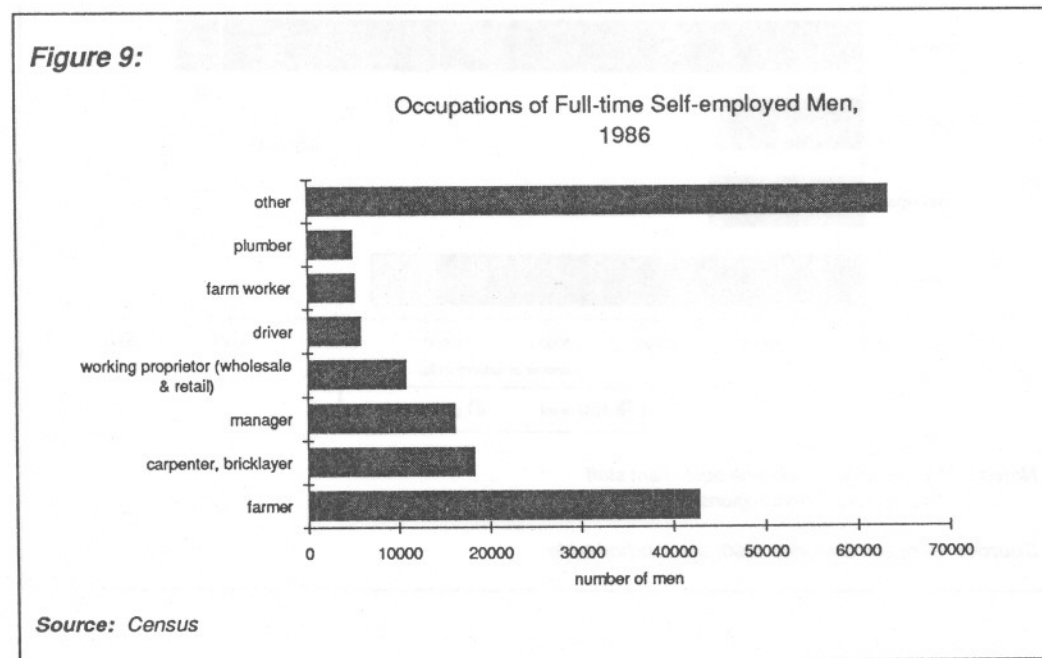
Over 1988-1989 the Wellington region showed an increase in self-employment in every sub-district (averaging 8.6%), while full-time employment declined throughout the region by an average of 3.8% (Bertram, 1990). Overall, 5,300 full-time jobs were lost, whereas the number of self-employed increased by almost 1,800. The main increases in self-employment were in retail trade and restaurants (602), business services (500, especially legal, advertising and miscellaneous business services), community and personal services (346, especially garbage disposal, medical, educational and recreational services) and construction (266). In each of these sectors the number of full-time employees declined.

Small Business By Occupation

Between 1981 and 1986, for both men and women, the number of full-time⁷ self-employed increased while the number of full-time employees decreased. This trend occurred across most occupations: in 60 of the 77 minor-group occupations, the ratio of self-employed to total employment increased.

Occupational Composition

The occupational composition of self-employed women is quite different to that of self-employed men. Women are more often self-employed in service areas such as word-processing and typing; men in construction and related businesses (Figures 9 and 10, note the differences in scale).



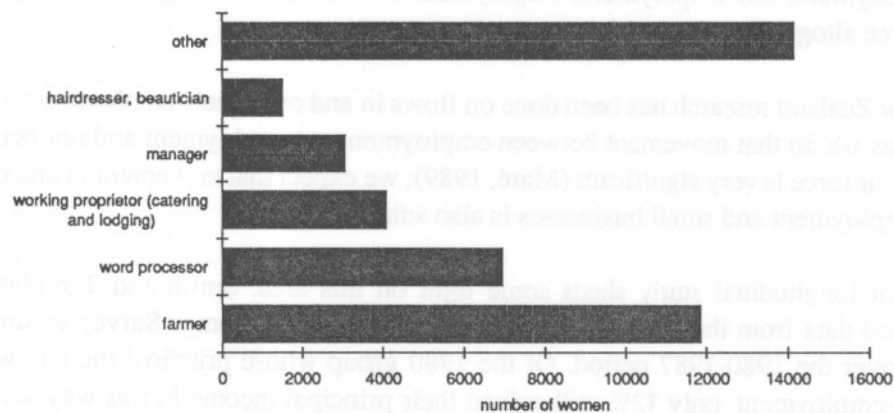
Areas of Growth

The chief occupational areas where self-employment grew over the 1981-86 period were similar for both men and women, except that for men there was a large increase in self-employed architects and engineers, and for women in self-employed working proprietors (wholesale and retail), insurance and real estate salespeople, and sculptors, painters and photographers. The biggest proportionate increases (sometimes from very small bases) were for women – in occupations like clerical supervisors (1300%), economists (1200%), statisticians, mathematicians and systems analysts (800%), computing machine operators (550%) and managers (541%). Male self-employment grew most strongly for managers (507%), book-keepers (314%), farm managers (273%), clerical super-

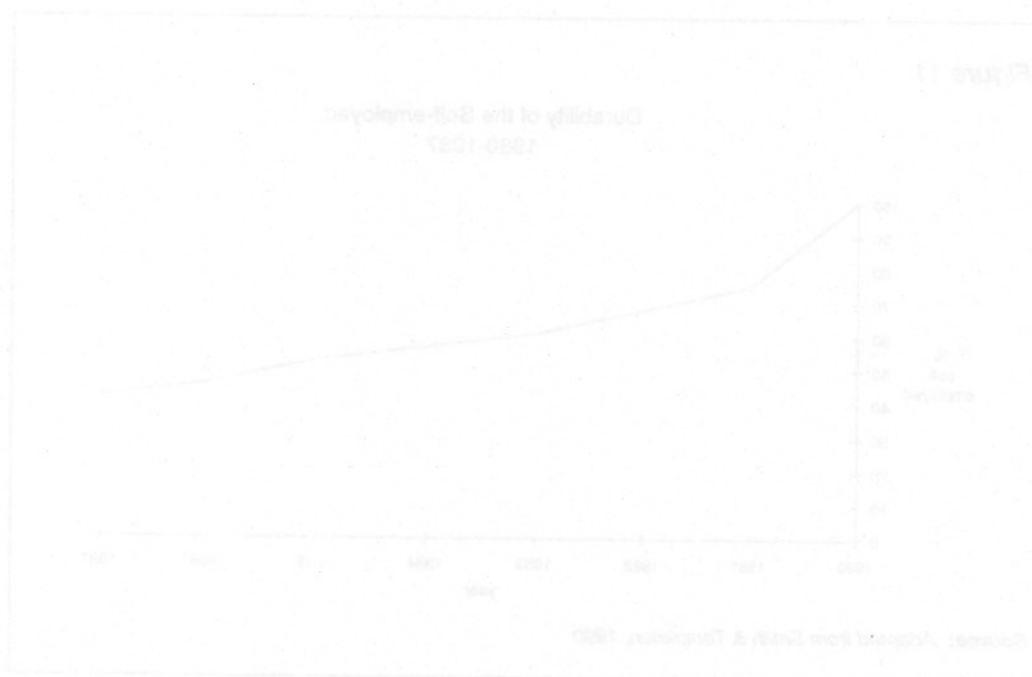
visors (275%) and statisticians, mathematicians and systems analysts (250%).

Figure 10:

**Occupations of Full-time Self-employed Women,
1986**



Source: Census



The Dynamics

Entrances and Exits

The small enterprise population is a constantly changing pool rather than a fixed group. Point-in-time data conceals the very considerable movement of individuals – in and out of unemployment, self-employment, employment of others, and being out of the paid labour force altogether.

Little New Zealand research has been done on flows in and out of self-employment; but knowing as we do that movement between employment, unemployment and not being in the labour force is very significant (Maré, 1989), we expect that movement in and out of self-employment and small businesses is also substantial.

One recent longitudinal study sheds some light on this area. Smith and Templeton (1990) used data from the Department of Statistics Personal Incomes Survey to study incomes over the 1980-1987 period. Of the 1980 group whose principal income was from self-employment, only 42% still gained their principal income in this way seven years later⁸ (Figure 11).

Figure 11



Source: Adapted from Smith & Templeton, 1990

They found that self-employment was, on average, of shorter duration than wage and salary earning status, for both men and women. Self-employed women were less likely than men to remain self-employed, more likely to make the transition to 'other income' (benefits, superannuation, investments), and roughly equally likely to make the transition to other categories.

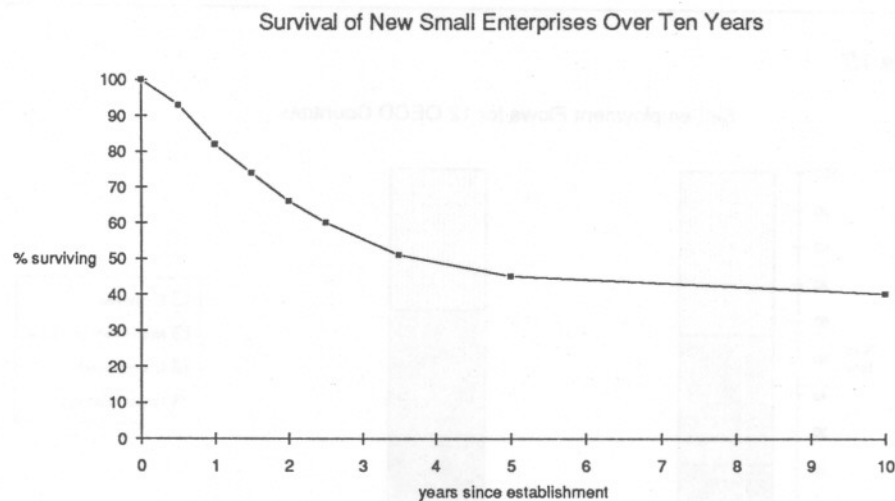
Of the apparent 'new entrants' to self-employment in 1980-87, 30% made a zero or no tax return the previous year (many of these would actually be self-employed reporting losses), 54% were wage and salary earners, 5% had predominantly 'other income' and 10% had 'mixed' income sources.

Of those who seemingly moved out of self-employment, 17% became wage and salary earners, 30% earned income from mixed sources, 26% reported missing or zero income (many of these would still be self-employed) and 25% had other income (the majority presumably retiring).

Mortality Rate

It is well known that small businesses have a high mortality rate; people leave small business for a variety of reasons, financial failure being but one. One survey showed that 10% of businesses were in their first year of operation (Devlin and Le Heron, 1977). Ganguly and Bannock (cited in Curran, 1986), using VAT registrations in the UK, found that over a three year period 46% of the start ups had 'died'. The mortality rate behaves in a rather exponential fashion; declining rapidly at first and easing up over time (Figure 12).

Figure 12



Source: adapted from Ganguly, 1985, cited in Storey et al, 1987

However, the observed data on the 'mortality rate' of small enterprises may overestimate mortality and present a picture of greater turbulence than is actually present. This is because in some cases recorded 'deaths' are:

- geographic transfers (when location is changed but activity, means of production and market are not);

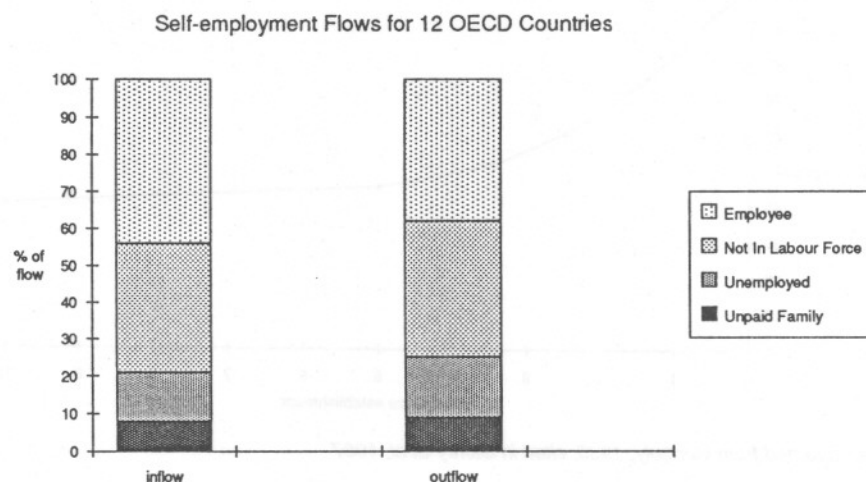
- changes of ownership (where there is a new owner but no change of activity or location); or
- temporary closures (for example, in seasonal activities where trading ceases and later resumes).

The OECD (1989) introduced the concept of the 'economic establishment' as 'a set of means of production whose continuity is not broken by change of location or operator or restored by reactivation.' They cite evidence which suggests that for every 39 actual economic establishment closures, there are 8 changes of operator, 9 transfers of location and 2 reactivations, as well as 42 actual births. This would imply that the mortality rate of 'economic establishments' is around two-thirds of that reported by small-firm studies, and that 'true' birth-rates are lower than those normally reported by a similar proportion.

Labour Force Status

UK Labour Force Survey data for 1983 (reported in Curran, 1986) showed that 6.5% of the self-employed (includes employer) were either unemployed or not in the labour force a year earlier, and another 8.3% were then employees. The vast majority, 85%, were self-employed a year previously. The OECD (1986) reports inflows and outflows from self-employment for several different countries (Figure 13).

Figure 13



Source: Adapted from OECD, 1986, Table 23

In most countries, employees were the major single source of new self-employment, and 'not in the labour force' the major exit (presumably retirement). However, it is somewhat surprising that, overall, the majority of new entrants to self-employment came from those not actively employed (i.e. not in the labour force, unpaid family worker or

unemployed); similarly with those leaving self-employment.

Koike (1980, reported in OECD, 1986) found that, for non-agricultural workers, the probability of becoming self-employed was greater for employees of small firms than large firms. He estimates for Japan that one-third of all employees of small firms will be self-employed at least once in their lifetime.

As Figure 13 shows, people previously unemployed are a small but significant proportion of those entering self-employment. However, the proportion of all unemployed people who become self-employed is very low, ranging from 3.9% (Greece) to 0.0% (Luxembourg) and averaging 1.7%. Almost all of these people become self-employed without employees, and are most likely to set up their businesses in manual occupations, construction, retail and repair services (OECD, 1986).

Barriers to the Unemployed

Boswell and Brown (1990) report alienation as a problem for the unemployed who wish to become self-employed. With little collateral, the unemployed have difficulty raising money from traditional financiers; difficulties with finding out about, in doing the paper work for, and in actually obtaining funding from government assistance schemes; and they note the lack of sources of venture capital. Many of these people have had little experience in dealing with traditional financiers or the public bureaucracy. They recognise their lack of business and management skills, but often lack the time, or cannot release themselves from the demands of the new business, to do the courses. Frequently, the cost of available courses and the level at which they are pitched also present barriers.

Psychological and social isolation is often a problem, especially for those who have been unemployed for some time. Accessing information also presents difficulties, especially for those in isolated rural areas. And, of course, as one spokesperson said,

When you have to live off the profit and make the business grow at the same time as the economy is going down it's very, very hard. (Boswell and Brown, p. 35.)

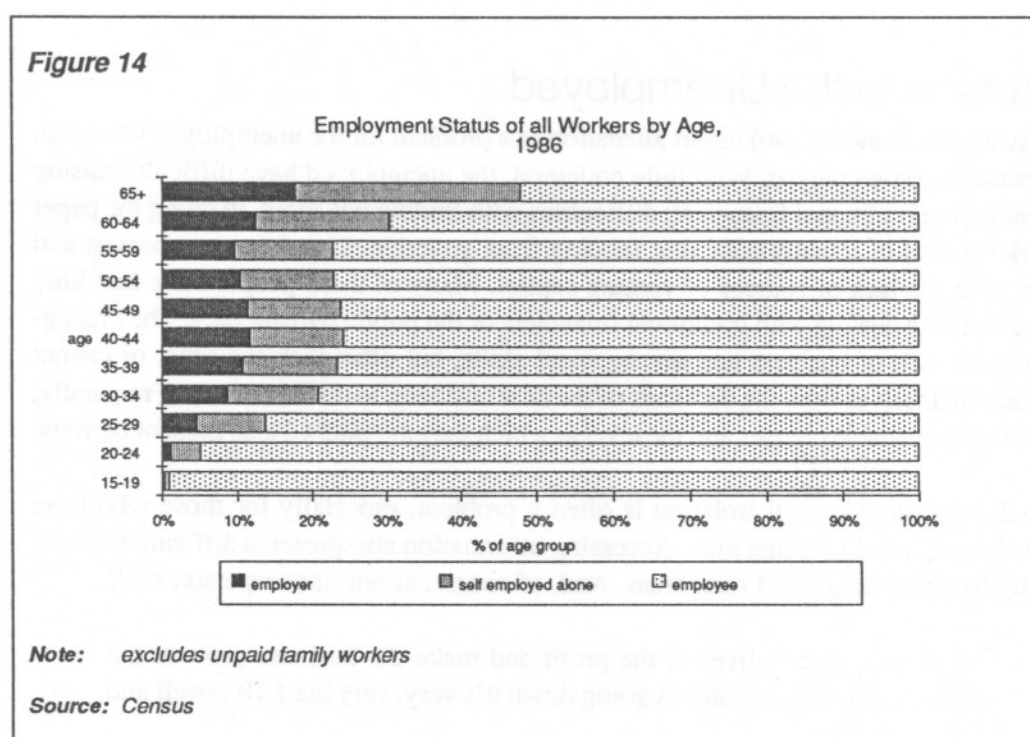
Redundancies

Self-employment is also an alternative for redundant workers. Johnson (1981, cited in OECD, 1986) estimated that 5% of those made redundant go into self-employment and these mostly come from managerial and technical jobs. Lee (1985, in OECD, 1986), in a study of redundant workers at British Steel, found that those who became self-employed were much more likely to have been self-employed previously in their working lives and also to have received higher than average redundancy payments.

Who are the Self-employed?

Young workers are unlikely to be self-employed. The probability of being self-employed rises through the twenties and thirties age-groups and remains steady from 40 until 60. After 60 it increases; employees are more likely to withdraw from the labour force in their sixties than are the self-employed. Wage and salary earners are more likely to be forced into retirement; the self-employed can often wind their paid employment activities down more gradually (Figure 14).

Of all part-time workers 14.4% are self-employed, compared with 17.4% of all workers (HLFS, March 1990).



Gender Differences

Women are less likely to be self-employed than men. Of women in paid employment, 4.3% are employers, compared with 9.5% of men, and 6.4% are self-employed without employees, compared with 12.4% of men.

Men aged over 25 are the most likely to be self-employed: they form nearly three-quarters of all the self-employed in contrast to their 56% share of all employees (Census 1986).

There are some indications of change in these patterns. In the early 1980s the growth in

self-employment was especially strong amongst women. Between 1981 and 1986 the number of female employers increased by 59% (14,052 – 22,352) and self-employed without employees by 72% (17,289 – 29,783). Since 1986 expansion has slowed, although it still totalled over 10% between 1986 and 1990.

However, during the early 1980s male self-employment also grew strongly; and furthermore, the female labour force grew much more rapidly than the male labour force. In fact, the number of women actively employed grew over 9 times as fast as the number of men. From this viewpoint, the growth in the number of self-employed women could be considered disproportionately small.

Immigrants

There are marked differences in the involvement of New Zealand-born and migrant populations in self-employment. As the OECD (1990) notes (p. 2), '... the establishment of immigrants of foreign origin or descent in self-employed activities is a phenomenon as old as immigration itself.' The historian, HR Trevor Roper, cited in OECD (1990), has remarked that within the process of development of capitalism a particularly significant part has been played by the dynamism of successive waves of immigrants, and goes so far as to suggest that 'Weber's well known phrase, "the protestant ethic and the spirit of capitalism", ought perhaps to be amended to "the immigrant ethic and the spirit of capitalism"' (p. 3).

While similar things can be said of some immigrant groups in New Zealand, it is not true of them all. In 1981 when 14% of the New Zealand labour force was self-employed, 22% of continental Europeans and 16% of Asians were in this category. In contrast, only 2.6% of Pacific Islanders were self-employed. These differences are apparent in ethnic origin as well as birth-place. At the 1986 Census, 33% of men of sole Chinese ethnic origin were self-employed, as were 28% of sole Indian, 24% of sole European, and 3.7% of sole Pacific Island origin. Figures for women are in all cases lower but follow the same pattern. Jewish people⁹, well known for their enterprise, record rates of 36% for men in self-employment and 18% for women.

There are a variety of reasons for these differences. Migrants in general probably represent a sub-set of their home population who are keener than most to raise their living standards. For such migrant groups, the ability to reap their own rewards for long working hours outweighs what are usually much more limited opportunities for career development in larger organisations where they may be hindered by racial prejudice, language barriers, and fewer recognised educational qualifications. Many occupy an 'ethnic niche', e.g. craft or food production. As their sons and daughters gain recognised credentials, such patterns may fade.

Home culture is clearly also a factor – individualistic small businesses are key features in most continental European and Asian economies, but are not a traditional form of social and economic organisation in the Pacific Islands. Nevertheless, the high degree of entrepreneurial trading activity undertaken by Pacific Islanders and Maori in many parts of the Pacific last century does indicate that entrepreneurial behaviour, if not individual-

ism, is certainly part of these cultures.

Maori

The tangata whenua are relatively unlikely to be self-employed. But there is evidence of change. From a very small base, Maori self-employment has increased rapidly in the 1980s. Donna Awatere (*Management*, April 1990, p. 29) says, 'There has been unprecedented growth in the Maori business community, in small business ventures particularly ...' Definitional changes have made 1981 and 1986 published data not strictly comparable; however, the data that we do have shows the number of Maori self-employed alone increased 112% for women and 61% for men over this period. In the same period, there was very strong growth in the numbers of Maori female employers (up 52%) and some growth of Maori male employers (12%).

This trend appears to have continued through the remainder of the decade. In 1986, 5.6% of Maori men and 2.4% of Maori women were self-employed alone; in 1990, the corresponding figures were 8.1% and 3.4% (HLFS, March 1990). Similarly for employers, Maori male employers comprised 2.6% of actively employed Maori men in 1986, and 3.2% in 1990 (note possibility of sampling error).

Te Ohu Whakatupu, the Maori section of the Ministry of Women's Affairs, has completed a comparative analysis of statistics for Maori women in business. Their conclusions, reported in the Ministry's newsletter, are that Maori women in business are more likely than other business people to be disadvantaged in their business activities, due to their younger age, lack of education, low earning power, lack of home ownership (for loan collateral), and high domestic and voluntary work responsibilities. (Maori in business are twice as likely as non-Maori to do 10 or more hours of voluntary work per week.)

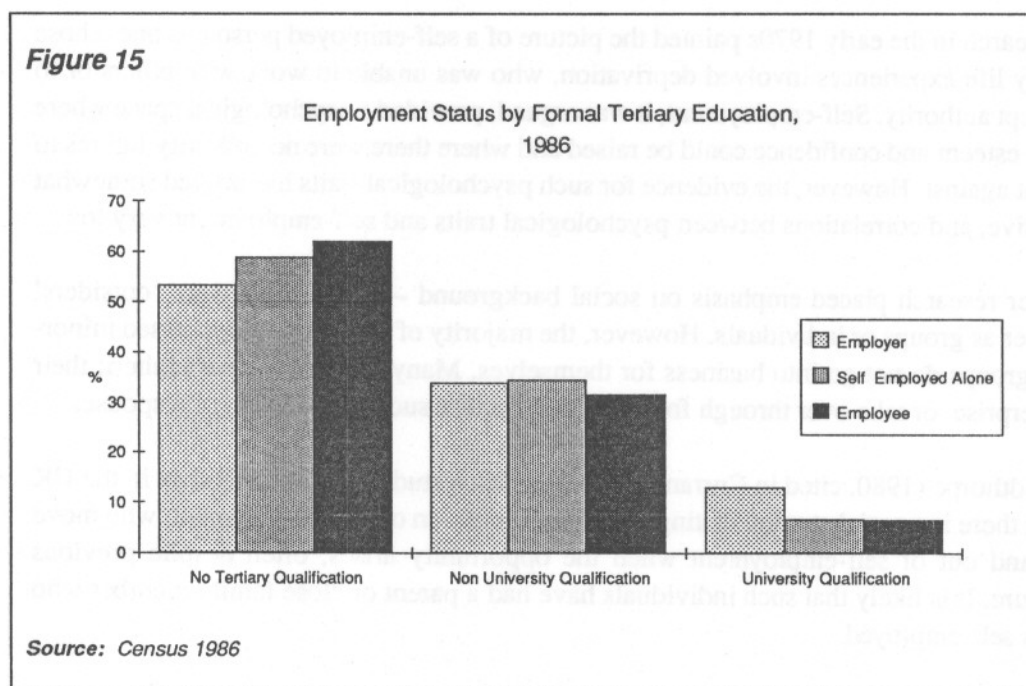
As the report says, this does not necessarily mean that Maori businesswomen are less successful, but it indicates that the path they follow will be more arduous than for others.

As noted on page 21, only a very small proportion, around 2% of the unemployed, move into self-employment. However, Boswell & Brown (1990), on the basis of their research, believe that that figure may be much higher in New Zealand, particularly within Maori communities. They found that Maori often see the establishment of small businesses and co-operatives as a route to greater independence and a means of contributing to the wider social, economic and cultural development of their communities.

Qualifications

Dwyer et al (1985) note that '... in comparison with wage and salary earners a higher proportion of employers have university qualifications or no qualifications. The self-employed on their own have fewer qualifications than both other groups.' 1986 Census data suggests some change in these patterns: employees are those least likely to have a tertiary qualification, followed by the self-employed on their own, then employers. Employers are most likely to have a university qualification, whereas the self-employed are about equally as likely as employees to have a university qualification (Figure 15).

This is a change from the 1981 pattern where the self-employed on their own were the group least likely to have a university qualification, and is probably a reflection of change in the occupational composition of the group.



However, it is the similarities between all three groups which are the most striking, the markedly higher incidence of university graduates amongst employers excepted. The pattern varies a little between men and women: for women, university graduates are most strongly represented amongst the self-employed and are no greater a proportion of employers than they are of employees. The reason for this is the different occupational composition of men and women self-employed alone. Whereas female employers are more likely to work in sales and service occupations, and male employers in professional and managerial areas, women self-employed alone are more likely than their male counterparts to do professional work, and much less likely to work in production, transport and labouring occupations.

One final comment needs to be made about the educational qualifications of the self-employed. As noted earlier, the probability of self-employment rises with age, while the probability of holding educational qualifications declines with age. The fewer qualifications noted by Dwyer will be partially explained by this factor. However, a quick analysis of males aged 40-44 at the last Census still reveals employers as more likely to hold a university qualification, and the self-employed as least likely to hold a tertiary qualification of any kind.

Social/Psychological Characteristics

Research in the early 1970s painted the picture of a self-employed person as one whose early life experiences involved deprivation, who was unable to work with others or to accept authority. Self-employment, it was argued, provided a psychological space where self-esteem and confidence could be raised and where there were no authority figures to fight against. However, the evidence for such psychological traits has proved somewhat elusive, and correlations between psychological traits and self-employment very low.

Later research placed emphasis on social background – people who were ‘outsiders’ either as groups or individuals. However, the majority of members of oppressed minority groups do not go into business for themselves. Many business-owners inherit their enterprise, or take over through forced circumstances such as the death of a spouse.

Goldthorpe (1980, cited in Curran, 1986) found in a study of social mobility in the UK that there is a social stratum distinguished by a tradition of self-employment, who move in and out of self-employment when the opportunity arises, often despite previous failure. It is likely that such individuals have had a parent or close family member who was self-employed.

Payne (1984, reported in OECD, 1986) in a study of 23-year-olds actively employed in the UK found that the self-employed were likely to have a larger inheritance than employees, and (not unassociated) to come from a family with higher socio-economic status.

Characteristics of Women

Mary Welsh (1988) interviewed successful female employers. She speculates that the major reason for the very strong growth of female business-owners in the 1980s is the ‘glass ceiling’ effect where women working in larger organisations have found invisible barriers to further promotion. For such women, self-employment may be an alternative with fewer barriers. Battell (1988) in a study of female business-owners found the ‘glass ceiling’ effect to be a significant factor, particularly amongst women in non-traditional occupations. She also found many women had chosen self-employment because it was more compatible with family responsibilities, and was a way of creating a more flexible, less hierarchical working environment.

Drawing on her New Zealand and United States research, Welsh noted that female employers were mostly in service industries; were likely to be the first-born child, or eldest daughters (although in New Zealand youngest daughters were also very successful); were likely to have had parents who were in business; and tended to have been educated at the ‘school of hard knocks’. They were less likely to be married than their non-employer peers. The sample size was very small and thus at best only indicative, and, with the exception of the last characteristic, seems equally likely to be true of male

employers.

Curran (1986) notes that women in business for themselves are slightly more likely than men to be divorced or separated, and very much more likely to be widowed. He notes that, although small-business-owners are often seen as the archetypal 'economic man', most small businesses are family businesses (Devlin and Le Heron's 1977 survey showed the proportion as 70%). Women are often very much involved providing temporary labour, doing the 'bookwork', as points of contact, etc, and often running the business after the death of their partner.

Women are less likely than men to have previous *formal* experience or qualifications *directly* relevant to their enterprise, and while men are often helped to a considerable extent by women in their own businesses, the reverse is not generally the case (Watkins & Watkins, 1984; Goffee and Scase, 1985: both cited in Curran, 1986).

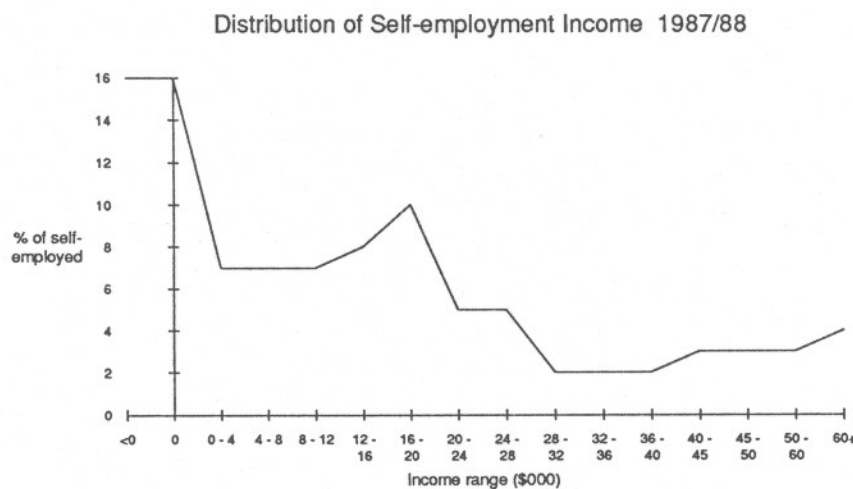


Incomes

Only a small proportion of those under 30 years of age are self-employed; hence, self-employment contributes very little to the average market income received by this group. Of the average market income from all sources earned by people aged between 30 and 64, self-employment income accounts for 13-15%.

According to data from the Household Expenditure and Income Survey, just over 9% of the adult population were engaged in self-employment for all or part of the 1987/88 financial year, compared with 64% who at some time or other were wage and salary earners in that year. About 16% of the self-employed made losses over the period; a similar proportion earned zero incomes. The self-employed who earned positive incomes were spread widely across the earnings range.

Figure 16



Source: Income Distribution Group (1990)

Men

In 1986, full-time self-employed male lawyers, accountants, doctors, dentists and veterinarians reported average total annual incomes of more than \$40,000, with statisticians, mathematicians and systems analysts, business service salespeople, architects and engineers averaging between \$30,000 and \$40,000. These groups together account for around 10% of all full-time self-employed men, whose average income was \$21,000. At the lower end of the scale, glass-formers and potters, farmers, spinners, weavers, shoe and leather-goods makers and cabinet-makers reported incomes averaging below \$16,000. This group accounted for over a quarter of all full-time self-employed men.

Women

Women's income from full-time self-employment averaged two-thirds that of men. In all but three occupations, women's average earnings were (in most cases considerably) lower than men's. The highest-earning occupations for women were the same as for men; though these occupations accounted for only 5% of all women in full-time self-employment (half the rate for men). For women, lowest earners were spinners, weavers, knitters and dyers (mostly knitters), housestaff and teachers (mostly those running childcare businesses and private kindergartens).

Wider Dispersal

Between 1985/86 and 1987/88 there was a large increase in the level of losses accruing to the self-employed, and also a large increase in the proportion of self-employment earners in the top 10% of income earners – self-employment income became much more widely dispersed.

1988/89 data is not available on the same basis, but published HEIS data shows that almost 15% of the full-time self-employed reported earnings of less than \$2000 per annum (includes losses); almost 25% earned less than \$6000; and 19% earned over 36,900. The data thus shows that over the space of one year the self-employed are equally as likely to earn high incomes as wage and salary earners, but are much more likely to earn very low or negative incomes.

Low Income Provisos

However, three points need to be kept in mind. First, self-employment income is the taxable profit/loss of a business and offers greater potential for tax avoidance and evasion than does employee income. Expenditure data suggests that the average spending power of the self-employed may be closer to that of the average employee than taxable-income data indicates. The average weekly expenditure of 'self-employed households' (where the principal employment status of the 'householder' is self-employed) is less than where the householder is an employee, but expenditure patterns turn out to be very similar for all groups of items except housing (Figure 17).

In some cases, self-employed people are likely to treat housing expenditure as a business expenditure. In addition, the adults in self-employed households are, on average, older, and are more likely to be mortgage or rent-free.

Even so, the average 'self-employed household' has a slightly higher number of earners in it. This indicates that the spending power of the self-employed individual is on average still somewhat lower than for individual employees, although not as low as taxable income comparisons suggest.

Second, viewed over a longer period, the relationship between self-employed and employee incomes may change. Self-employment income is likely to be more variable —

Figure 17

**Household Weekly Expenditure by
Principal Employment Status**

| | Wage & salary earner (\$) | Self- employed (\$) |
|------------------------------|--|------------------------------------|
| food | 101 | 99 |
| housing | 156 | 81 |
| household operation | 86 | 83 |
| apparel | 35 | 33 |
| transportation | 110 | 101 |
| other goods | 72 | 69 |
| other services | 94 | 95 |
| Total net expenditure | 654 | 561 |

Source: Household Expenditure and Income Survey, 1987-88

losses may in many instances be counteracted by substantial profits in other income periods. The 1987/88 period was a period of losses – the relationship between wage and salary and self-employed incomes may look different in more buoyant times. Smith and Templeton's (1990) study gives evidence of this variability. They found that the self-employed in 1980/81 were less likely than wage and salary earners in the same income bracket to still be there in 1981/82, less likely to drop out of income-earning altogether, and more likely to move into the bottom bracket from other brackets and into the upper brackets from the lower ones.

Third, as discussed earlier, employment status is not fixed. There is much movement between being self-employed, being an employee and being out of the labour force altogether.

Employees in Small Firms

Evidence from the United States, Europe and Japan (OECD, 1985) shows that as firm size increases so do average hourly wages, although differences are greater in some countries than in others. US and Japanese evidence suggests that the reason for this is partly the greater incidence of part-time work in small firms, and partly because smaller firms employ, in general, younger workers. However, the OECD notes that this is an insufficient explanation. Small/large firm pay differences are accentuated with age, perhaps because of fewer opportunities for skill formation, and less career structure in the smaller firms. Employers in small firms are more inclined to pay on individual performance (Curran, 1986). One study found that pay rates were more widely dispersed in small than in large firms (Scullion and Stark, 1985).

Other Conditions of Employment

Hours

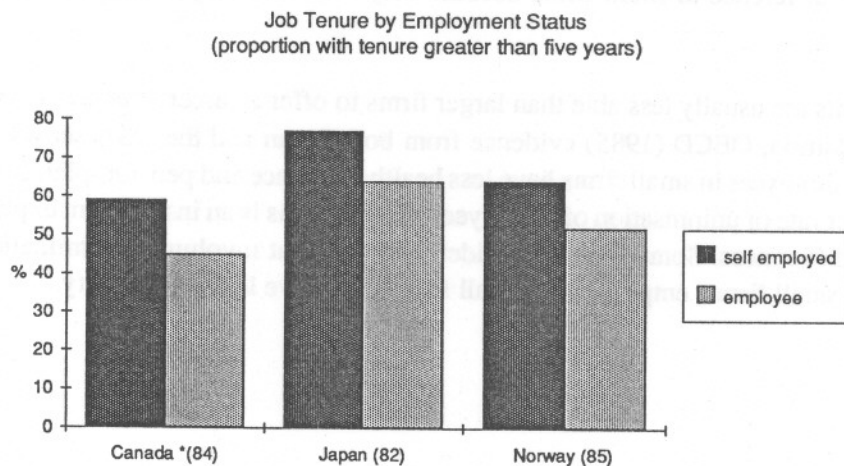
Those who are self-employed work longer hours. 1986 Census data shows that male employers report median weekly working hours of 50-54 hours; self-employed alone, 45-49 hours; and employees, 40-44 hours. The corresponding figures for women are 40-44 hours for employers; and 35-39 hours for both self-employed alone and employees. Devlin (1987) found that the more successful firms were ones whose owners worked less than 40 hours per week, rather than the 60 plus hours commonly reported (there were other associated factors).

Tenure

OECD data indicates that job-tenure is on average longer for the self-employed than for employees (Figure 18). In addition, USA data suggests that the longer job-tenure of the self-employed may be most characteristic of men: 1984 data shows the median job-tenure of the self-employed as 6.8 years for men and 3.9 years for women, compared with employee tenure of 4.9 and 3.6 years respectively (OECD, 1986).

Payne (1984, in OECD, 1986), in a study of young workers in the UK, found that the self-employed reported greater satisfaction with their jobs than their wage and salary counterparts.

Figure 18



Note: *tenure greater than six years

Source: OECD 1986

Employees in Small Firms

Self-employment and employment in very small enterprises may offer more involvement and room for individual initiative and more variety in daily tasks. The Bolton report commented:

In many respects the small firm provides a better environment for the employee than is possible in most large firms. Although physical working conditions may sometimes be inferior in small firms, most people prefer to work in a small group where communication presents fewer problems: the employee in a small firm can more easily see the relation between what he is doing and the objectives and performance of the firm as a whole. Where management is more direct and flexible, working rules can be varied to suit the individuals.

Since the Bolton report was written, many large firms have created similar conditions, largely by devolving authority and establishing smaller operational groups.

Small firms probably also create greater opportunities for conflict; the need to switch roles frequently may be one cause. Also, in smaller firms employees have fewer people to choose friends from, and have less chance of avoiding conflict by avoiding direct interaction. The incidence of strikes is lower in small firms (Daniel and Millward, 1987, cited in Curran, 1986).

Ford (1982) found that employers in small firms were less likely to conform to laws protecting workers' rights. Unfair dismissal is a more common complaint in small firms. Legal floors, such as minimum wages, are argued by some to work against the growth of small firms; however, others argue that the removal of such legislation will make less difference to small firms because they are less likely to comply in the first place.

Small firms are usually less able than larger firms to offer a career structure to employees. In addition, OECD (1985) evidence from both Japan and the USA shows that, in general, employees in small firms have less health insurance and pension-plan coverage. The higher rate of unionisation of employees in large firms is an insufficient explanation of these differences. Some Japanese evidence shows that involuntary terminations are higher in small firms; employees in small firms may have less job security.

Managing the Small Enterprise

The small-business owner or manager's unusually high needs for autonomy and independence often imply a marked reluctance to delegate or to set up well-defined role structures. Often this is somewhat disguised by an atmosphere of informality and openness. Devlin (1987) found that owners seldom delegated, but that the more successful ones tended to have a more democratic management style. In some cases the style is fraternalistic – the employer is a first amongst equals, often leaving management tasks for weekends and evenings. There is often a refusal to plan ahead; and a reluctance to expand (which would usually involve increasing equity finance) for fear of losing control. There is often little quality control or formal marketing – at the same time, formal marketing may not be appropriate. Devlin (1987) found that the more successful small firms were unlikely to have spent money on advertising; they were likely, however, to know the majority of their customers personally.

Independence

The aim is often 'survival plus a fair return' – monetary reward frequently takes second place to a desire for independence. A large proportion of small-business-owners do not want their firms to grow: independence is the key; growth is not always seen as desirable. Most small-enterprise-owners don't have the managerial capacity to cope with growth and are aware of this. The few small enterprises which do grow rapidly are most likely to be in new technology areas.

Gill (1985, cited in Curran, 1986) studied 22 new small enterprises. In their first two years most were 'firebrigading' a constant stream of crises – but after that, owner-managers tended to establish a 'steady state' existence.

Management Education and Advice

The majority of small-business education takes place outside formal learning institutions, the most common form being privately printed materials (witness the plethora of recent New Zealand publications). Research on the content and effectiveness of formal small-business education programmes is very limited. Gill (1985, cited in Curran, 1986) noted that most in his sample found courses helpful, but there had been a limited effect on management performance; most participants needed continuing support. Many owner-managers are highly resistant to 'going on a course'. Devlin (1987) found that most small-business-owners viewed existing advisory services as irrelevant – successful firms were unlikely to have sought such advice.

Curran (1986), in his review of existing research, points to the need for more qualitative research to identify the needs of owner-managers, and for more participant observation. Too often the educational approach is top down. Also, management education is usually based on large rather than small-firm models. The self-employed alone, he notes, are a particularly neglected group.

Devlin and Le Heron (1977) found that accountants, lawyers and bank managers were the main source of advice for small businesses. Cameron (1983) suggests that accountants are well-placed to provide management advice but need to expand beyond their present 'tax factory mentality' which is 'utterly useless in effecting any kind of management control.' In order to change this, he says, accountants need to train clients to know and understand their own figures – one way is to get clients to use their own staff to do the initial data recording – and to assist clients with costing, pricing, budgeting and estate planning. This could require some reorientation of accountancy training, which, like management education, tends to be based on large rather than small-firm models.

Small Firms and the Economy

Small firms may have a special contribution to make to the economy — as employment generators, as innovators, or, by maintaining competitive pressure on larger firms, as enhancers of overall efficiency.

Employment Generation

Small firms have a role to play in generating employment. However, measuring the contribution of small firms to employment growth is difficult — as firms grow or decline they cross whatever size categories are being used and this distorts the picture of the sources of net job-growth. For example, if a firm once employing 25 people retrenches and now employs 15 people, and 'small' was defined as less than 20 employees, then this would show as an increase in small firm employment of 15 and a decrease in larger firm employment of 25. Longitudinal analysis is thus preferable, but the advantages of such an approach are in danger of being negated by data limitations. However, despite differences in overseas studies (predominantly American), there seems little doubt that small enterprises have been important to job growth.

In the 1970s it was widely argued that small firms contributed by far the greater part of net additions to total employment. Birch (cited in Dwyer et al, 1985) estimated that two-thirds of net new jobs in the period 1969-76 could be accounted for by net employment gains in establishments employing 20 or fewer people. Lawrence (1980), in a New Zealand study over the period 1974-79, found that in the chemicals industry small establishments (less than 20 employees) were responsible for over 80% of net new jobs, most coming from net additions of new establishments. In furniture, the increase in employment in small business units was greater than the overall employment increase, and a major component of this increase was the entry of new small firms.

Armington and Odle (1982), working on the basis of firms rather than establishments, found that, between 1978 and 1980, US firms with fewer than 100 employees generated a proportion of net new jobs which roughly corresponded to their share of existing jobs.

They noted the tendency for small businesses to have high net growth-rates in regions where big business is relatively slow-growing, and suggested that small business may provide 'an important moderating influence that can slow or even interrupt the decline of weakening regions and industries.' However, this does not seem to have been the case in New Zealand over the last five years (refer p. 15).

During the 1980s, as has already been discussed, employee numbers dropped while self-employed numbers increased. The number of very small enterprises grew steadily, this sector showing significant net expansion in employment terms.

Although there is considerable disagreement about the finer details, there is no doubt that small firms play an important role in employment creation, and this is likely to be especially true in periods of recession.

Innovation

The great majority of small firms are not technologically innovative, and in general the small-firm sector's output of innovation is less than its share of employment or production (Freeman, 1971).

However, research suggests that some small firms may be more efficient innovators (Rothwell, 1986). It is innovative small firms, developing new products and markets, which show rapid growth in employment and output. An example is the electronics industry where, over the post-war period, all eight major innovations in computer technology have been associated with small firm start-ups, often spin-offs from large companies. Large firms often come in and buy up successful small companies.

Increasing Competitiveness

The presence of small firms may increase competitive pressure on larger firms. However, the essential ingredient seems to be the contestability of the market, regardless of the size of the firms. In some markets, optimal size will be large. In some New Zealand markets, small operators are protected by regulation – e.g. pharmacy ownership regulations. Regulations which do not allow doctors, dentists, lawyers, accountants, etc, to form limited liability companies might also be argued to favour small over large operations, but the growth of very large partnerships, particularly in the accounting area, suggests that the question of small or large scale in these areas is more a reflection of the nature of the business than of the regulatory environment.

What Disadvantages do Small Firms Face?

Do small firms face barriers which prevent them from competing on equal terms with larger firms?

- The small firm may be disadvantaged in entry. For example, a disproportionate amount of a new investor's time must go into establishing a market presence. A larger firm, on the other hand, is less likely to be under-financed and to suffer cash-flow problems, and can cross-subsidise between products. If other markets are contestable, however, an existing firm's ability to cross-subsidise will be limited.
- The costs of compliance with tax laws are likely to be proportionately higher for small firms: larger firms may benefit from economies of scale and established expertise.
- Although small companies may have more opportunities for tax evasion than larger companies, avoidance strategies may be better developed in the latter.
- Small firms may have more difficulty raising finance, but it is probably more a question of collateral than of scale. Firms wishing to borrow only very small amounts may be disadvantaged, since in these cases the financiers' transaction

costs are proportionately higher.

- Small firms in general have less access to specialist advice, particularly on a regular basis.
- Expansion can be more problematic for small firms. Expansion is more likely to go beyond the scope of previous experience – requiring, for example, moving from being self-employed to employer, or from personal control to delegated management by others.

Many of these are 'natural' disadvantages, always to be experienced by smaller firms, and over recent years the small-firm sector has shown growth in spite of them, while larger firms have more typically declined. Is there a case, then, for the amelioration of these disadvantages? After a brief discussion of Devlin's point of view, we return to this question more fully in the section entitled *Comment*.

Central Government Assistance

Devlin (1984) argued that small business (which he defined as excluding agriculture) made a substantial contribution to New Zealand economic activity measured in terms of employment, value-added production, export earnings and social integration, the latter in rural communities particularly. Small business, he said, was 'the third leg of our economic tripod' (p. 2), the others being agriculture and the large-scale energy projects. He then argued that government should devote more resources to small-business development on the basis that '... if two legs of the "economic tripod" are braced by substantial input from public sector resources, should not the third leg also be accorded such strengthening?' Subsequent micro-economic policy, however, has heavily reduced the level of government assistance to both agriculture and the 'think big' projects, and Devlin's tripod argument as a case for evening-up assistance across the board no longer applies. Government has chosen to 'even down' rather than 'even up' assistance.

General Assistance

Last year, New Zealand government assisted enterprises directly to the tune of approximately \$190 million (see Appendix for greater detail). Some of these schemes are directed generally – towards any new or existing business. For example, the previous government established a network of Business Development Centres to act primarily as information brokers – on sources of advice, training and finance available from other government schemes, the private sector, local bodies, etc. Government also subsidises other locally-run advice and information agencies (formerly LEEDS, now LEED, the Local Employment and Enterprise Development Fund) and provides job-placement services free to all employers (although these are primarily designed to assist the unemployed). Information on exports, and educational material on how to improve competitiveness, are also available to all businesses. The Expert Assistance Programme subsidises the cost of expert advice for established small-medium companies who deal in internationally-traded goods.

Targeted Assistance

Other assistance programmes are more narrowly targeted, typically at various disadvantaged groups. Job Plus and the Enterprise Allowance target the long-term registered unemployed and subsidise self-employment or regular employment for a limited term. The programmes originally operated by Internal Affairs (now transferred to the Department of Labour) also target unemployed individuals and groups; as does the Business Development Investigation Grant run by the Ministry of Commerce, and the Group Employment Liaison Scheme (GELS), run by the Department of Labour.

MANA, administered by the Iwi Transition Agency, provides loans for the establishment or expansion of businesses which will benefit Maori. Government funding has also been instrumental in the establishment of the Maori Development Corporation (MDC) which provides loan capital and, through its administration of the Poutama Trust, additional services such as project packaging and management advice.

The Pacific Island Employment Development Scheme provides advice, training and loans for businesses which will benefit Pacific Islanders.

Other schemes were regionally targeted (for example, BOOTSTRAPS and TRAIL BLAZERS, operated by the Department of Labour) but the emphasis has now switched to community self-identification rather than funding being directed to selected depressed regions.

Research

Another set of programmes, managed by the Foundation for Research, Science and Technology, funds scientists to work with businesses to develop and implement new processes and products. However, Robinson et al. (1989) came to the view that these schemes have more to do with developing more positive attitudes towards scientific research than with the development of individual business projects.

Other Expenditure

Some of the initiatives listed above were not designed to assist enterprise but they nevertheless have that effect, usually directly. There are other large items of government expenditure which could arguably be included in this list, notably much expenditure on tertiary education, which at over one billion dollars in 1990/91 dwarfs all the initiatives listed above combined.

Economic Policy

Besides these initiatives are more general economic policies aimed at promoting an environment conducive to business growth. Macro-economic policy has focused on reducing fiscal and external deficits, with a heavy reliance on monetary policy to reduce inflation in the belief that a low-inflationary environment is most conducive to economic growth.

From the early 1970s, micro-economic policy has moved New Zealand towards a more open and competitive economy. Many regulations and subsidies have been removed, and border protection reduced. In addition, government has sought to increase the efficiency of its own operations and to increase the efficiency of the labour market.

National Party policy on small business announced prior to the election (P R Burdon, 17.9.90) had three major elements. The first was to improve the general business environment by both macro and micro measures – fiscal restraint, encouraging research and development, deregulating the labour market (which, it was argued, will help small businesses more than large), removing employers' responsibility for non-work accidents, the abolition of diesel tax, and increasing allowable depreciation rates.

In addition, both supply- and demand-side measures aimed particularly at small businesses were proposed. On the supply side, National planned to introduce a business

information network and a business advice grants scheme; to exempt small business from fortnightly PAYE payments; and to establish a business initiative scheme targeted at the unemployed. On the demand side, National stated its intention to institute a new government purchasing policy which would require successful government contractors to provide a degree of local employment and content.

'National's challenge', said Burdon, 'is to create an environment that enables the individual to open a business and succeed then reinvest profits and employ further staff.'

Since becoming government, National has proceeded in a number of these areas, most notably fiscal restraint and in the labour market with the passing of the Employment Contracts Act. Reviews of employment and small-business assistance have also been conducted, and the programmes have been streamlined and reallocated.

Most enterprise assistance will now be provided by the Department of Labour and the Ministry of Commerce. The Department of Labour will operate two main programmes: the Self Employment Assistance Programme (SEAP), which will be administered by local non-government agencies who will be required to tender for contracts; and the Community Employment Assistance Project (CEAP) which will make grants in response to community application.

Ministry of Commerce programmes will also be delivered on a contract basis. The programmes themselves are largely unchanged, apart from the addition of the new Enterprise Growth Development Scheme.

Local Government Assistance

Local¹⁰ government has become increasingly involved in enterprise assistance over the last few years, primarily in response to deteriorating economic conditions and rising unemployment. Responses vary between communities, and range from the reduction of barriers to business establishment and growth, to programmes of positive assistance. No systematic data has been collected on the range and extent of assistance; what follows is a description of what some local authorities are doing.

Positive Assistance

Positive assistance takes many forms. Much is directed towards people struggling to establish themselves in business; often they have been unemployed or made redundant. For example, some councils provide very small businesses with small shared work-spaces on leases more flexible than those available from the private sector. Others subsidise professional advice and services, or training courses. Some provide limited financial assistance to those who have been unemployed and are setting themselves up in business. Others are assisting with the development of 'community businesses'.

Many of these programmes are joint initiatives; often local authority funding is supplemented by funding from other sources – central government schemes, the private sector, community groups or the assisted individuals themselves.

Business Attraction

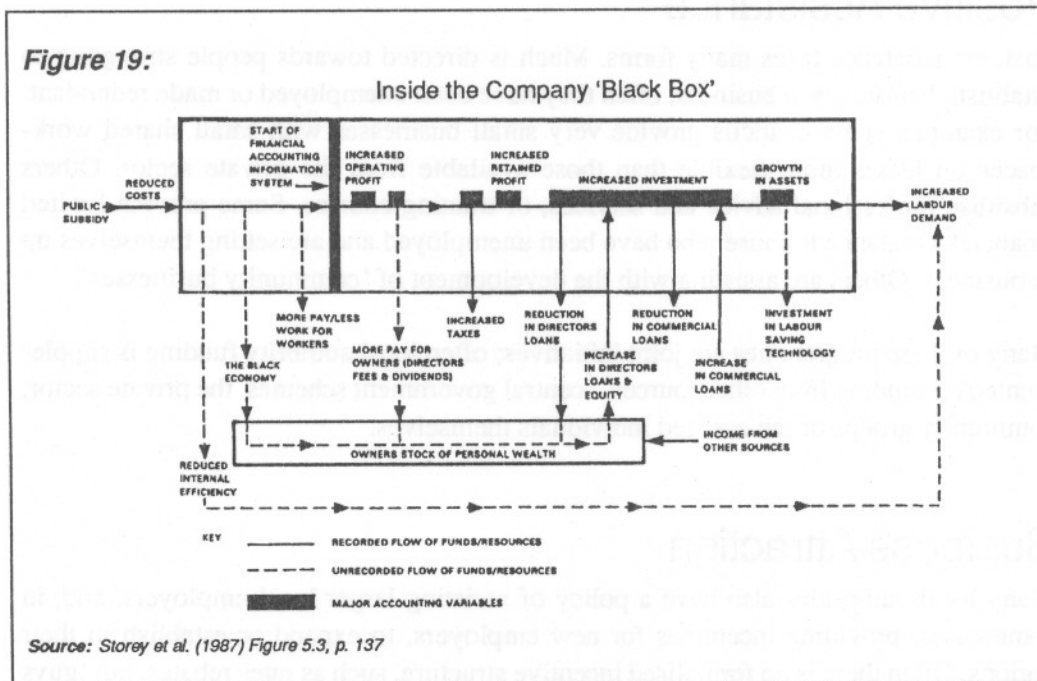
Many local authorities also have a policy of assisting larger local employers, and, in some cases, providing incentives for new employers, to expand or establish in their regions. Often there is no formalised incentive structure, such as rates rebates, but 'guys are helped out'. Many councils have an active policy of marketing their region as a desirable location. One local body assists employers to fill vacancies, contributes towards work-based training, provides incentives for increasing employment, and has a 'hot line' to the mayor for any employer's problems which may be assisted by the council.

Many councils are re-zoning districts as 'enterprise' or 'business' zones to facilitate the development of very small enterprises in primarily residential areas.

Comment

Storey et al. (1987), commenting on UK government policy on small firms, note that much central government assistance is aimed at ameliorating the disadvantages a small firm faces vis-a-vis large firms. This includes such things as reduced form-filling, access to specialist advice, underwriting of finance, skills-for-enterprise courses and enterprise allowances. These are supply-side initiatives which reduce costs and may increase the quality of the product. But the policy-makers, Storey argues, are operating on a 'black box' model that assumes increased trading profit will lead to increased employment.

Figure 19:



As Figure 19 shows, a public subsidy may instead result only in increased income for the owners and existing workers, rather than increased investment, output and employment. Even if additional employment is created, it may only be a product of reduced internal efficiency.

Higher Retained Profit

Indeed, Storey's study of 225 small manufacturing companies showed that the fast-expanding companies were those with higher levels of *retained* profit, not trading profit. Data showed only modest evidence of an association between increased trading profits and employment growth. On this basis, he argues that the most effective government measures to help people 'grow their business' would be those which encouraged profit retention rather than simply reducing costs; or alternatively, those which were directed at that very small group of fast-growing companies. Only a very few small businesses have growth in assets, and even fewer have employment, as overriding objectives. His

study showed 4% of new firms accounted for one-third of net employment growth.

Comparing fast and slower-growing companies, Storey found that the fast growers tended to have lower gross but higher retained profit; were more likely to be owned by directors who were already directors of other companies; were less likely to be family or one-person bands; and tended to start larger and be more professionally managed.

A Redirection of Policy?

In an earlier study of new firms of all sizes over the 1971-77 period, Storey (1982) found that, of the survivors, the five largest employers of skilled labour accounted for just 22% of the total skilled jobs created by the new firms, whereas the five largest employers of unskilled labour employed 60% of the unskilled. In other words, the new small firms (all sectors except retailing were included) tended to employ a proportionately larger share of skilled labour and a relatively small share of unskilled and unemployed labour.

Small firms, he found, were also less likely to carry out research; were more likely to be formed in areas which were already more prosperous; and were more likely to be started up by middle rather than working class people.

On this basis, Storey argues that untargeted assistance designed to increase the formation rate of new small firms, if effective at all, is likely to have the greatest impact, at least initially, on the more prosperous areas, and is unlikely to benefit less fortunate individuals. He therefore advocates a more targeted approach to UK small firms policy – in favour of depressed regions and disadvantaged individuals.

About 20% of New Zealand government enterprise assistance is directed towards the disadvantaged. Such groups report difficulty raising finance; recognise their lack of management, marketing and business skills; and often have little access to business networks.

How Successful are such Initiatives?

Despite the difficulties, Bollard (1988) says, of the unemployed:

Yet the experience of Britain is optimistic: with proper support services a relatively large number of unemployed can successfully make the transition to running small businesses. (P. 113.)

He quotes results of evaluations of the UK Enterprise Allowance Scheme (Allen and Hunn, 1985), which showed that 86% of starters were still trading after 15 months and 61% after three years; a figure consistent with Storey's (1982) result that those who started up for 'negative reasons' and survived long enough to be surveyed were more likely to place themselves in the positive category than the 'positive' starters. This survival rate appears to be similar to those aggregates reported on page 18.¹¹

Summary

A Startling Growth

The last decade has witnessed a startling growth in self-employment and very small businesses of many types. At the same time, the number employed in larger enterprises has fallen substantially.

Many factors are at work. Long-term factors such as technological change and (associated) structural change in the economy, and the increased incidence of two-income families, are major reasons. The recession of the mid to late 1980s added further impetus. Much of the observed increase in self-employment and very small businesses may have had 'negative' causes – as a response to increasing unemployment and redundancy. In the longer-term, continued growth seems likely, although a more expansionary economy would probably limit it.

Location of Growth

The growth of very small enterprises in the late '80s occurred mostly in the services sector – business services, community and personal services, and wholesale and retail trade, restaurants and hotels. Self-employment became more common across all sectors of the economy in the first half of the decade.

Growth in the number of very small businesses appears to have been heavily concentrated in the three largest metropolitan centres, particularly in Auckland. The associated employment growth has also been concentrated in Auckland, with Wellington and Horowhenua the only other areas to record growth.

Nature of the Self-employed

The small enterprise population is a constantly changing pool rather than a fixed group. While two in five self-employed persons are still self-employed seven years later, a half of small enterprises are in existence for less than four years. Overseas research suggests that the majority of new entrants to self-employment come from those not already in paid work; similarly for those leaving. Those classed as unemployed, however, are a small proportion of those entering self-employment.

Young workers are unlikely to be self-employed. Men aged 25 and over form 70% of all the self-employed. Self-employment has grown strongly amongst women in the 1980s, and is more common in some ethnic groups. Maori are relatively unlikely to be self-employed; however, there has been unprecedented growth in the last decade.

Incomes

Although some self-employed people (notably professionals such as lawyers, accountants, architects, etc) have relatively high incomes, a large proportion earn relatively low

taxable incomes. Even so, expenditure data from 1987/88 shows that the average spending power of the self-employed is closer to that of the employee than income data suggests. Self-employment income is also more variable: the 1987/1988 period was one of losses, but the relationship between wage and salary and self-employment incomes may look better in more buoyant economic circumstances. Self-employed people work considerably longer hours on average than employees.

Attitudes to Business

The aim of many small-business owners is 'survival plus a fair return'. Monetary reward frequently takes second place to a desire for independence. A large proportion of small-business-owners do not want their business to grow. The few which do grow are more likely to be in areas of new technology.

Very small firms have played an important role in employment creation over the last decade. However, growth appears to have occurred mainly in areas less severely hit by recession.

In general, the small-firm sector's output of innovation is less than its share of employment. The great majority of small firms are not technologically innovative, but some research suggests that those who are may be more efficient than larger firms.

Barriers

Small firms face barriers which may prevent them from competing on equal terms with larger firms. For example, larger firms may be able to cross-subsidise to enable them to establish a market presence; although, if markets are contestable, the larger firm's ability to cross-subsidise will be limited.

The cost of compliance with tax laws is higher for small firms. And small firms may have more difficulty in raising finance; although it is probably more a question of collateral than of scale. Small firms generally have less access to continuing specialist advice, and expansion can be more problematic.

Nonetheless, despite these disadvantages the small-firm sector shows growth while larger firms have more typically declined.

Government Involvement

Government spends about \$190 million on direct assistance to enterprise. Of this sum, approximately 70% is directed generally towards any new or existing business. A further 20% is more narrowly targeted, towards various disadvantaged groups – the long term unemployed, Maori, Pacific Islanders, depressed communities. A small proportion, about 8%, is targeted at innovative businesses, not necessarily the very small (includes Trade Development Board assistance aimed primarily at exports).

In addition to these direct initiatives, more general economic policies are aimed at promoting an environment conducive to business growth.

Local government has become increasingly involved in enterprise assistance over the last few years. Responses vary between communities: many assist those struggling to establish themselves in new businesses – often the unemployed or those made redundant.

Attitudes to Business

The attitude of many small business owners is 'survival plus a fair return'. Money is viewed as a means to an end, not an end in itself. A large proportion of small business owners do not want their business to grow. The few which do grow are likely to be in areas of new technology.

Very small firms have played an important role in employment creation over the last decade. However, growth appears to have occurred mainly in areas less severely hit by recession.

In general, the small-firm sector's output of innovation is less than its share of employment. The great majority of small firms are not technologically innovative, but some research suggests that those which are may be more efficient than larger firms.

Barriers

Small firms face barriers which may prevent them from competing on equal terms with larger firms. For example, larger firms may be able to cross-subsidise to enable them to establish a market presence, although it is not clear if this is a sustainable strategy. The ability to cross-subsidise is widely limited.

The cost of compliance with tax laws is higher for small firms. And small firms may have more difficulty in raising finance, although it is probably more a question of collateral than of credit. Small firms generally have less access to continuing professional advice, and expansion can be more problematic.

Nonetheless, despite these disadvantages the small-firm sector shows growth while larger firms have more typically declined.

Government involvement

Government spends about £150 million on direct assistance to enterprises. Of this sum, approximately 70% is directed generally towards any new or existing business. A further 30% is more narrowly targeted towards various disadvantaged groups – the long-term unemployed, ethnic minorities, depressed communities. A small proportion, about 5%, is targeted at innovative businesses, not necessarily the very small (includes large R&D expenditure aimed primarily at exports).

Policy Implications

The research reviewed in the latter part of this paper, together with the data presented earlier, sound some cautionary notes for government.

The growth of self-employment and very small business has occurred in depressed economic conditions; however, it appears to have been overwhelmingly concentrated in areas which have been least affected by recession. This is consistent with Storey's (1982) United Kingdom study which found that small firms were more likely to start up in areas which were already more prosperous; and, in addition, were more likely to be started by middle rather than working class people.

General Assistance is Questionable

Policies involving general assistance thus require careful examination. Certainly, the research that is available casts doubt on the effectiveness of such policies. By reducing costs – for example, by the funding of specialist advice or provision of finance at less than market rates of interest – the aim is to help small businesses to grow. Such policies operate on a 'black box' model which assumes that reduced cost implies increased trading profit which implies increased output and employment. However, only a few small-business-owners have growth in assets, and even fewer employment, as over-riding objectives.

Storey's research showed only a modest association between increased trading profit and increased employment. This is because increased trading profit may result only in reduced internal efficiency and/or increased income for the owner of the business. If Storey is right, general policies aimed at assisting people to 'grow your own business' by reducing costs are unlikely to be effective; and, if effective, are more likely to benefit those already advantaged.

Encourage Retained Profit

Only a small proportion of very small firms are fast growers; research suggests that these tend to be firms with higher levels of retained profits, not higher levels of trading profit. Policy to encourage business growth might therefore be more effective if mechanisms can be developed which encourage profit retention rather than cost reduction.

Target the Disadvantaged

UK research suggests that policies directed towards the disadvantaged can be effective. Businesses begun for 'negative' reasons and which survived long enough to be surveyed appear to have been as successful as those initiated for more positive reasons. Such targeted-assistance policies need to be formulated alongside other policies designed to assist disadvantaged groups.

Policies should be Equitable

Government policy as far as possible should be equitable across firms of all sizes. Ensuring contestability of markets, and minimising the business burdens of tax compliance, occupational health and safety regulation and labour law, while ensuring their aims are met, are key requirements. The same is true of local government planning regulation. 'Artificial' disadvantages need to be kept to a minimum.

Education for the Professionals

Education for those professionals most commonly consulted by small business – accountants, bank managers and lawyers – needs to be based on small as well as large-firm models. Most small firms are unlikely to use other advisory services; the bulk of small-business education takes place outside of formal institutions and courses.

A Final Qualification

Very small firms and self-employment are playing an increasing role in the economy. However, as Storey, referring to the UK, comments:

... the small firm sector is a heterogeneous combination of enterprises. It would be unwise to expect this strange collection of bedfellows to reverse the relative decline of the [British] economy in the near future.

References

- 1 Unless otherwise specified the term 'self-employed' includes those self-employed with and without employees. Self-employed without employees are referred to as 'self-employed alone', those with employees as 'employers'.
- 2 Such 'change' is often a result of a change in question wording but there is no evidence of it in this case.
- 3 Part of the reason for this change of composition is the fact that the number of employees fell over this time (by over 65,000). This drop alone would have accounted for an increase in the proportion of workers who are self-employed from 16.5% in 1986 to 18.1% in 1990. The actual increase in the number of self-employed accounts for the other 45% of the ratio increase.
- 4 The sampling error at 6.1% is around 10,000. The trends discerned thus need to be treated cautiously.
- 5 OECD Manpower and Social Affairs Committee, *Self Employment Among Migrants: A Form of Adjustment and/or a driving force of Structural Change?* MAS/WP 2 (90) 6.
- 6 A 'business activity unit' is 'a separate operating unit engaged in New Zealand in one or predominantly one kind of economic activity from a single physical location or base from which work is carried out'. Over the 1987-1990 period, the total number of very small (employing 1-5 people) business activity units grew by about 8,700, while the number of very small enterprises alone grew by over 11,400. As this implies, the number of very small activity units which were part of other economic units actually fell over the period, by over 13% in fact. The number of people employed in very small business units attached to other economic units fell by over 6,000. The data reported on activity-unit growth by region thus understates very small enterprise growth over the period under consideration.
- 7 30+ hours/week.
- 8 Principal income source is that which accounted for more than 80% of total reported income. The sources were categorised as (a) wage and salary, (b) self-employed, (c) other (investments, benefits etc), (d) mixed - no source >80% of total income, and (e) zero or nil return. This causes problems for the self-employed because people may record low, zero or negative incomes from self-employment, still be primarily self-employed, but be classified on this definition as (d) mixed, or (e) nil (approximately a third of the self-employed had zero or negative taxable incomes in the 1987/88 year). The data thus needs to be treated with caution.

9 Those who state Hebrew religion in the Census.

10 Includes regional government.

11 No account was taken of displacement or deadweight effects.

Appendix

Government Enterprise Assistance¹

| Target | Name | Nature | Administered by | Approximate annual expenditure (\$ millions) | | Comment |
|--------------------------------------|---|---|---|--|------------|--|
| | | | | 89/90 | 90/91 | |
| GENERAL - NEW OR EXISTING BUSINESSES | Business Development Centres (ex Regional Development Councils) | Provide first stop information on government business development schemes and other advisors, finance etc | Ministry of Commerce | 2.8 | 3.5-5.0 | |
| | LEEDS (Local Employment and Enterprise Development Scheme | Support for community agencies providing local business advice, training and support for enterprise | Department of Labour (CEDU) | 1.9 | 3.2 (est.) | Tends to emphasise unemployed and those 'not business-wise' (mostly at pre-start-up stage) |
| | Expert Assistance Programme | Subsidises businesses' cost of specialist advice in areas such as marketing, business planning, finance and information systems. Also general appraisal of business needs | Ministry of Commerce (Business Development Centres) | | 4.1 | Targeted at companies dealing in tradeable goods, 5-100 staff, at least 12 months old |

¹Generally excludes administration costs.

| Target | Name | Nature | Administered by | Approximate annual expenditure (\$ millions) | | Comment |
|---------------------------------------|-------------------------------|--|---|--|-------------------|--|
| | | | | 89/90 | 90/91 | |
| | Business Excellence Programme | Assist businesses with potential to make outstanding contributions to growth | Trade Development Board | | 11.0 | Targeted to potentially internationally competitive business |
| | NZES Placement Service | Provides free placement services to employers and job seekers | NZ Employment Service, Department of Labour | 40.7 | 54.6 | Targeted at the unemployed, but of benefit to employers |
| | Job Plus (ex JOS) | Subsidises (for up to 52 weeks) employer hiring unemployed person | Department of Labour (NZ Employment Service) | 54.4 ² | 69.2 ² | Targeted at long-term registered unemployed |
| TECHNOLOGICALLY INNOVATIVE BUSINESSES | Small Firm Research Programme | Subsidises cost of small firms and science institutes working together to develop new processes and products | Foundation for Research, Science, Technology | | 1.4 | Firms with less than about 100 staff |
| | Emerging Technologies | Pays salaries of science, technology, engineering graduates to work on co-operative projects between industry and public research institutions | Ministries of Commerce, Research, Science, Technology | | 1.9 | |

²Includes Enterprise Allowance (see later page).

| Target | Name | Nature | Administered by | Approximate annual expenditure (\$ millions) | | Comment |
|-------------------------------------|---|--|---|--|-------|--|
| | | | | 89/90 | 90/91 | |
| DISADVANTAGED INDIVIDUALS OR GROUPS | Maori Business Technology Scheme | Provides scientific and technical research for new technology and the transfer of existing technology for Maori-owned businesses | Foundation for Research, Science and Technology | | 0.790 | |
| | Pacific Island Business Technology Scheme | Provides scientific and technical research for new or existing Pacific Island-owned businesses in New Zealand | Foundation for Research, Science and Technology | | 0.135 | |
| | New Business Investigation Grant | Subsidises investigation costs to help registered unemployed and redundant people to explore ideas to set up business | Ministry of Commerce | 5.0 | 5.0 | |
| | Enterprise Allowance | Subsidises unemployed persons for up to a year while they establish their own business | Department of Labour (NZ Employment Service) | | | Expenditure included in Job Plus, earlier page |

| Target | Name | Nature | Administered by | Approximate annual expenditure (\$ millions) | | Comment |
|---|---|--|--|--|-------|---|
| | | | | 89/90 | 90/91 | |
| New or existing business which will benefit Maori | SCOPE - Small Co-operative Enterprises Scheme | Advice and financial support to small groups developing a business proposal | Department of Internal Affairs | 1.628 | 1.560 | Increasingly taking a community development focus |
| | Work Development Scheme | Funds co-ordinators to work with community-based groups to develop new sources of employment | Department of Internal Affairs | 1.225 | 1.173 | Primarily a 'community development' scheme |
| | 'Be Your Own Boss' (Pilot) | Business advice, enterprise allowance and a mentor service | Department of Labour | | 1.4 | Emphasis on long-term unemployed wanting to start in business |
| | GELS - group employment liaison | Information, support, advice about employment programmes to unemployed groups | Department of Labour (NZ Employment Service) | 2.1 | 1.8 | |
| | MANA - Mana Enterprises Development Scheme | Loans | Iwi Transition Agency | 9.5 | 9.6 | |
| | Wahine Pakari (Maori women into Business) | Runs seminars and produces information to support Maori women into business | Ministry of Womens' Affairs | | 0.094 | |

| Target | Name | Nature | Administered by | Approximate annual expenditure (\$ millions) | | Comment |
|---|---|---|---|--|-------|---|
| | | | | 89/90 | 90/91 | |
| New or existing businesses which will benefit Pacific Islanders | Pacific Island Employment Development Scheme | Provides advice, training and loans | Pacific Island Employment Development Board | 3.140 | 3.728 | |
| Depressed communities or regions | Trail Blazer Projects | Provide technical assistance and part funding to projects which will lead to new jobs | Department of Labour (CEDU) | | 0.527 | The Labour Department does not believe the Trail Blazer and Bootstraps activities should be considered enterprise assistance at all, as they are not intended to even indirectly assist self-employment |
| | Bootstraps | Support for planning for local economic and employment development | Department of Labour (CEDU) | | 0.370 | |
| | Regional Development Investigation Grant (ex CEIS, SAS) | Subsidises investigations to assist potential and existing business to develop ideas using regional resources | Ministry of Commerce (Business Development Centres) | 12.2 | 12.2 | |
| Accident victims | | Assistance for clients entering self-employment (grant and weekly compensation) | Accident Compensation Corporation | 1.6 | | 1990/91 figures not yet available, but likely to be similar |

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